



An Assessment on the Structure of Shariah Audit Function: The Case of Malaysian Takaful Industry

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Abstract

The Islamic financial system's beneficial expansion has resulted in a rise in the number of products and services offered by Islamic financial institutions (IFIs). However, IFIs may have neglected key factors that could have had an impact on the products and services they provide which is 'Shariah compliance'. This circumstance necessitates a system of internal check-and-balance procedures. As one of the components of Shariah governance, the Shariah auditor is responsible for ensuring the efficacy of the internal control system for Shariah compliance. Prior research reveals that the current framework explains very brief on Shariah audit function, thus lead to the various practices by takaful operators which may affect the effectiveness of the Shariah audit process. The aim of this study is to assess the structure of Shariah audit function practiced by Malaysian takaful operators. To this end, semi-structured interviews were conducted involving selected Shariah auditors for every takaful operators in Malaysia. Reflexive thematic analysis influenced by a constructivist perspective was used to analyse data using a combination of inductive and deductive methodologies. Recognizing the model adapted by takaful operators can help in understanding further the execution of the Shariah audit process. At the same time, the commitment of these takaful operators can be observed in providing one of the Shariah compliance functions as required in the Shariah Governance Framework. The study discovered that none of the takaful operators in Malaysia have specific departments or unit for Shariah audit function. This study may provide relevant guidelines especially for policymaker in developing a more comprehensive framework for Shariah audit, and at the same time is useful for takaful industry in enhancing their Shariah audit function.

Keywords: Shariah audit, Takaful, Shariah audit structure, Shariah governance

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1. Introduction

Banking, sukuk, takaful, and Islamic funds are the four primary markets in the global Islamic financial business. Banking and sukuk are the two primary markets that contribute significantly to the Islamic finance industry's growth. Malaysia is often regarded as the world's leader in the development of Islamic finance. Malaysia's Islamic banking industry is always a step ahead of the rest of the globe, whether in terms of research, product creation, regulatory frameworks, or practical activities. Takaful is one of the components of the Islamic financial system, and it was first introduced in Malaysia in 1984, when the first takaful operator, Syarikat Takaful Malaysia Berhad, was established to meet the need of the public for Islamic principles-based protection (Hassan and Hussain, 2013). Takaful is a means of mitigating risk factors by reducing the impact of such mishaps through financial compensation (Abdulkadir et al., 2021).

Even though takaful contributes little to the Islamic finance business in contrast to other industries, the takaful market has garnered considerable attention (Husin, 2019). There is still potential for expansion in the takaful business, particularly in Muslim-majority countries. However, various obstacles have been identified that could stifle the takaful market's expansion. According to Laldin (2008), ensuring more Shariah compliance

is one of the key challenges that must be considered to succeed in the Islamic finance industry. Following this, in 2011, Bank Negara Malaysia established a Shariah governance framework (SGF) (Bank Negara Malaysia, 2011). In general, the phrase "Shariah Governance" refers to the structures and processes that an organization uses to ensure that its business activities are in compliance with Shariah norms and principles (Ismail et al., 2016). The primary aim of Shariah governance is to ensure that the operation, practice, instrument, product, and management of the Islamic financial institutions (IFIs) are following the Shariah principles at all times (Ismail and Hassan, 2016). It is critical to earn stakeholder trust and confidence, as well as to ensure financial stability, in addition to maintaining Shariah compliance. Nonetheless, with the recent adoption of the Shariah Governance Policy Document 2019 by Bank Negara Malaysia (Bank Negara Malaysia, 2019), there have been some changes in the current practice of Shariah governance in Malaysia. This could have several positive implications for the development in Islamic banking and finance (Mohd Asri et al., 2020).

In Shariah governance, IFIs must have a Shariah audit function that is responsible for providing stakeholders with an impartial assessment of whether the organizations have an effective risk and control environment to manage Shariah non-compliance risk. The Shariah auditing guideline is crucial because it provides a distinct added value to IFIs. However, the function of Shariah audit was pronounced very brief in SGF and thus resulted in the different practices by takaful operators particularly on the structure of Shariah audit function (Kassim et al., 2013; Ahmad et al., 2015; Yussof, 2013). Recognizing the structure adapted by takaful operators can help in understanding further the execution of the Shariah audit process. At the same time, the commitment of these takaful operators can be observed in providing one of the Shariah compliance functions as required in the SGF.

From the issues discussed above, the main purpose of this study is to assess the structure of Shariah audit function adapted by Malaysian takaful industry which will answer the following research question i.e., what is the structure of Shariah audit function adapted by Malaysian takaful industry? This study will also analyse the advantages and disadvantages of all the employed structure. This paper is divided into four main sections. Literature review section discusses the takaful and Malaysian takaful industry, Shariah governance, Shariah audit and finally Shariah audit function from Malaysian regulatory perspective. Section three features the discussion on study design and methodology. Section four presents the substantial findings, and the final section contains the concluding comments and recommendations.

2. Literature Review

2.1 Takaful and Malaysian Takaful Industry

Takaful is an Islamic version of the conventional insurance. The concept of guaranteeing each other is applied in a takaful way as all takaful participants agree to contribute a sum of money to provide financial assistance to other participants if the participant encounters unfortunate events (Husin, 2019). Takaful is also known as social and ethical insurance which builds upon the concept of cooperation and mutual assistance, by agreement of a group of participants to support one another against a specific loss collectively (Salman et al., 2019). There are two types of takaful: family takaful and general takaful. General takaful is a way of mitigating the financial losses arising from incidents that causes damage to physical property, legal liability and/or death or accidental body harm. On the other hand, family takaful offers protection and long-term savings. If the participants suffer a tragedy, the beneficiary will receive financial benefits. At the same time, the participants will receive long-term financial savings, because part of the contribution would be added to the savings account.

There are few conceptual differences which distinguish takaful from conventional insurance and this includes joint guarantee, shared responsibility, concept of *al-aqilah* and risk distribution (Hussain and Pasha, 2011). *Al-aqilah* is defined as the collective party that undertakes to pay the *diya* (blood money compensation), in cases other than premeditated murder, without a right of recourse to the murderer for counter-payment. On the same ground, a study by have Sherif and Shaairi (2013) has highlighted the elements of contracts, rights and obligations of the parties, risk ownership, operation, and the nominee status to differentiate takaful and conventional insurance. A takaful contract is based on a *tabarru'* (gift) and *ta'awun* (mutual co-operation) contract, whereas a conventional insurance contract is a sale and purchase contract in which the insured buys the insurer's guarantee or pledge of reimbursement in the event of loss. Takaful varies from other conventional insurance because of the participants' rights and obligations. In conventional insurance, the relationship between the insurer and the insured is merely a business-client relationship, in which the insurer is responsible for compensating the insured in the event of a catastrophe, while the insured is responsible for paying the

premium.

Malaysia leads the takaful industry in the South-east Asian region (Husin, 2019). According to Eldaia et al. (2020), the Malaysian takaful industry, which began in 1984, was developed in three phases based on the Central Bank of Malaysia's Master Plan (Bank Negara Malaysia, 2005). The first phase, from 1982 to 1992, saw the establishment of the takaful industry's infrastructure in Malaysia. The regional cooperation between takaful operators was strengthened in the second phase (1993-2000). The third and final stage of the Financial Sector Master Plan (FSMP) (2001-current) aims to strengthen the legal, Shariah, and regulatory framework, as well as to improve the competency of takaful operators. Malaysia's takaful business has grown into a critical primary hub in the Malaysian economy, supporting Malaysia's status as a global Islamic financial centre. As of May 2021, there are fifteen takaful operators licensed by the Bank Negara Malaysia as illustrated in Table 1.

Table 1: List of Takaful Operators in Malaysia

No.	Takaful Operators	Ownership
1	AIA PUBLIC Takaful Bhd	Foreign
2	AmMetLife Takaful Berhad	Local
3	Etiqa Family Takaful Berhad	Local
4	Etiqa General Takaful Berhad	Local
5	FWD Takaful Berhad	Local
6	Great Eastern Takaful Berhad	Foreign
7	Hong Leong MSIG Takaful Berhad	Local
8	Prudential BSN Takaful Berhad	Local
9	Sun Life Malaysia Takaful Berhad	Local
10	Syarikat Takaful Malaysia Am Berhad	Local
11	Syarikat Takaful Malaysia Keluarga Berhad	Local
12	Takaful Ikhlas Family Berhad	Local
13	Takaful Ikhlas General Berhad	Local
14	Zurich General Takaful Malaysia Berhad	Foreign
15	Zurich Takaful Malaysia Berhad	Foreign

Source: Bank Negara Malaysia (2020)

2.2 Shariah governance and Shariah audit

"Shariah governance" is made up of two words: Shariah and governance. Shariah is an Arabic word that means "Islamic Law," "Islamic Rulings," or "Islamic Way of Life." In Islam, however, Shariah has extremely specific interpretations. Shariah is described as "the route to the watering place" or "the straightway to be followed" in its literal sense, and technically as "the laws that God revealed to Prophet Muhammad (ﷺ) in the Qur'an and Sunnah" in its technical sense. Shariah refers to divine laws that must be followed by all people to succeed in this life and the next. On the same ground, the term governance implies to the act of steering, leading, or directing someone or something (Hilmy and Hassan, 2019).

According to Kamaruddin et al. (2020), the interaction between organisations and their stakeholders, which include employees, creditors, the government, society, and others, is referred to as Shariah governance. Islamic Financial Service Board (IFSB) has defined Shariah governance as "Set of the strategic roles and functions of each organ of governance and mechanisms for balancing the institutions that offering Islamic financial services accountabilities to various stakeholders". As emphasized by Bank Negara Malaysia (BNM), Shariah governance aims to improve the role of the board of directors, the Shariah committee, and the management of a company in executing Shariah compliance and operating with Shariah guidelines.

Under the Shariah Governance Framework (SGF) which was introduced back in 2011, the objectives of the framework are to establish a robust Shariah governance structure of IFIs, to provide a comprehensive guidance to the board, Shariah committee and management of the IFIs in discharging their duties in matters relating to Shariah and to outline the functions relating to Shariah review, Shariah audit, Shariah risk management and Shariah research. The functions as explained in SGF 2011 comprise of Shariah review and audit functions, which will be supported by Shariah risk management control process. It is addressed in SGF Principle 7.7 as: "There shall be a robust Shariah compliance function, comprising review and audit functions, supported by risk management control process and internal research capacity". This statement demonstrates the importance of Shariah auditing in ensuring the proper implementation of Shariah governance among IFIs especially for

takaful industry, which is the focus of this study.

Shariah audit is considered the backbone of business accounting as it is the section that records all industry-related businesses (Khalid et al., 2017). It is also about advising entities on how to achieve their goals by managing risks and improving internal control. A previous study also argued that Shariah audit function may reflect the performance of the institutions (Md. Zain and Shafii, 2018). Commonly, the function of Shariah audit is performed by the internal audit function of the institutions. The objective of Shariah audit is to see and supervise, control and report transactions, that are useful, accurate, timely and fair reports for decision making, according to the rules and laws of Islam. Nonetheless, it is not an easy task to conduct Shariah audit in capitalistic conditions and competitive conventional financial system (Yazid and Suryanto, 2016). On the same ground, SGF (2011) defined Shariah audit as “Periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFI’s business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance” (Section 7.7, page 23).

2.3 Shariah audit function from the Malaysian regulatory perspective

2.3.1 Islamic Financial Services Act (IFSA) 2013

The IFSA 2013 aims to regulate and oversee IFIs, payment systems and other relevant entities. The introduction of the IFSA begins on 30th June 2013, replaces the previous Takaful Act 1984. IFSA 2013 combines both the regulations for Islamic banking as well as takaful. There is also one division in IFSA 2013 which highlights on the specific requirements for Shariah audit as summarized in Table 2.

Table 2: Requirement for audit on Shariah compliance in IFSA 2013

Division 3: Audit on Shariah compliance	Description
Section 37 Appointment of person by institution to conduct audit on Shariah compliance	<p>(1) The Bank may require an institution to appoint any person as the Bank may approve, to carry out an audit on Shariah compliance by the institution.</p> <p>(2) The person appointed under subsection (1) shall have such duties and functions as may be specified by the Bank and shall submit a report to the Bank on the audit carried out pursuant to this section.</p> <p>(3) The remuneration and expenses of the person appointed under subsection (1) relating to any audit on Shariah compliance under this section shall be borne by the institution.</p> <p>(4) A person appointed under subsection (1) shall not be liable for a breach of duty of confidentiality between such person and the institution in respect of matters reported to the Bank pursuant to an audit on Shariah compliance under this section</p>
Section 38 Appointment of person by Bank to conduct audit on Shariah compliance	<p>(1) Without prejudice to section 37, the Bank may appoint for an institution any person to conduct an audit on Shariah compliance:</p> <p>(a) if the institution fails to appoint a person under subsection 37(1);</p> <p>(b) in addition to the person appointed under subsection 37(1); or</p> <p>(c) under any other circumstances as the Bank deems appropriate for the purposes of compliance with Shariah by the institution, and the remuneration and expenses relating to such appointment shall be borne by the institution.</p> <p>(2) The person appointed under subsection (1) shall have such duties and functions as may be specified by the Bank and shall submit a report to the Bank on the audit carried out pursuant to this section.</p> <p>(3) A person appointed under subsection (1) shall not be liable for a breach of duty of confidentiality between such person and the institution in respect of matters reported to the Bank pursuant to an audit on Shariah compliance under this section</p>

Sources: (IFSA, 2013)

2.3.2 Policy document on Shariah governance 2019

The policy document on Shariah governance was introduced on 20th September 2019 and shall be effective starting from 1st April 2020. In relation to the takaful industry, this new policy will supersede a few other policy documents known as Shariah Governance Framework for IFIs issued on 22 October 2010 and Paragraph 13.5 of Financial Reporting for Takaful Operators issued on 2nd February 2018. This policy document aims to further enhance the effectiveness of the implementation of Shariah governance and reinforce a closer integration of Shariah considerations into IFIs' business and risk strategies.

Before the introduction of these policy documents, IFIs must comply with the SGF which was introduced back in 2010. The SGF was found to be an important mechanism in ensuring that IFIs fulfil their roles in accordance with Shariah principles in the interests of depositors, investment account holders, shareholders, and stakeholders (Mohamad et al., 2016). Among the aims of SGF 2011 is to provide a proper regulatory framework for IFIs to operate within the required Shariah framework that will further enhance international investor confidence in the country's rapidly growing Islamic finance industry.

There is a clause specified in the SGF 2011 on this issue which states the following: "The function shall be performed by internal auditors, who have acquired adequate Shariah-related knowledge and training. In addition, the internal auditors may engage the expertise of the IFI's Shariah officers in performing the audit as long the objectivity of the audit is not compromised" (Section 7.8, page 23). Previously, a few studies have proposed that the Shariah audit function is to be performed by external auditor (Shafii et al., 2015; Ahmed, 2017; Arwani, 2018). In fact, AAOIFI and the IFSB, the two international standard-setting bodies of Islamic banks have also included external Shariah audit in their standards (Ahmed, 2017).

SGF 2011 also determined that the function of Shariah auditor should be under the control of the audit and examination committee and Shariah Supervisory Council which means that the auditor should report to the board audit committee and Shariah committee of the institutions. In contrast, the new policy document has established one section for control functions and the Shariah audit function was categorized under this function together with Shariah review function and Shariah management function. These control functions must ensure that there should be an effective management for Shariah non-compliance risk. It also clearly indicates that every IFI must provide sufficient resources for the control functions, including the establishment of a sufficient number of officers with the necessary skills and experience.

Thus, it can be concluded that there were only brief descriptions on Shariah audit function which resulted IFIs to have different practices in determining the structure of their Shariah audit function. Below are the important points that were taken into considerations by takaful operator when setting up Shariah audit function:

1. Independent assessment
2. Qualified to perform internal audit
3. Have the requisite knowledge on Shariah requirements

3. Research Methodology

The purpose of this study is to assess the structure of Shariah audit function adapted by Malaysian takaful industry. Data were gathered through in-depth, face-to-face interviews. Interviews were chosen as the main method of data gathering because they allow for a thorough understanding of the structure of the Shariah audit function. There were fifteen (15) takaful operators in Malaysia and all the takaful operators involved in this study. One auditor was selected to represent each of the takaful operator.

Electronic mail was sent to the respondents to get their consent on the interview session. Interviews were audio-recorded and verbatim transcribed. Reflexive thematic analysis influenced by a constructivist perspective was used to analyse data using a combination of inductive and deductive methodologies. Interviews varied in length from 40 minutes to 1 hour. The interviewees have at least three years of experience as auditors and six years of experience in the takaful industry. Table 3 illustrates details of respondents involved in this study.

Table 3: Details of interviewees

Interviewees	Gender	Highest Qualification	Role	Years of experience in industry	Date of the interview
Respondent 1	Male	Bachelor in accounting	Principal Auditor	11-15years	June 2019
Respondent 2	Female	Master in Islamic Finance Practice	Senior Manager, Shariah Department	11-15years	June 2019
Respondent 3	Male	Bachelor in Accounting and Finance	Senior Manager, Internal Audit	11-15 years	June 2019
Respondent 4	Female	Bachelor in Accounting	Manager, Internal Audit	6-10 years	July 2019
Respondent 5	Female	Bachelor in Accounting and Finance	Manager, Internal Audit	10-15 years	July 2019
Respondent 6	Male	Bachelor in Accounting	Assistant Manager, Internal Audit	6-10 years	July 2019
Respondent 7	Female	Bachelor in Accounting and Finance	Audit Associate	10-15years	August 2019
Respondent 8	Female	Bachelor in Accounting	Audit Associate	10-15 years	June 2019
Respondent 9	Female	Bachelor in Accounting	Audit Associate	10-15 years	August 2019
Respondent 10	Male	Bachelor of Islamic Revealed Knowledge and Heritage in Qur'an and Sunnah Studies	Manager, Internal Audit	6-10 years	July 2019
Respondent 11	Male	Bachelor in Finance	Head of Internal Audit	16-20 years	July 2019
Respondent 12	Male	Bachelor in Accounting	Manager, Internal Audit	6-10 years	July 2019
Respondent 13	Male	Bachelor of Law	Senior Manager Shariah, Legal and Secretarial, Governance & Strategy	6-10 years	July 2019
Respondent 14	Female	Bachelor in Accounting and Finance (specialism in internal audit)	Manager, Internal Audit	11-15 years	June 2019
Respondent 15	Male	Master in Islamic Finance Practice	Manager, Internal Audit	15-20 years	July 2019

Sources: Authors

4. Results and Discussion

The following analysis are provided to answer the main research question (What is the structure of Shariah audit function adapted by Malaysian takaful industry?)

4.1 Structure of Shariah audit function

According to the respond from the participants, none of the takaful operators in Malaysia have specific department or unit for Shariah audit function. However, the majority of takaful operators either appoint one specific Shariah auditor in the internal audit department or embed their Shariah audit function in their internal audit function. This is in line with the structure of Shariah audit function (Deris, 2018) as in Figure 1.

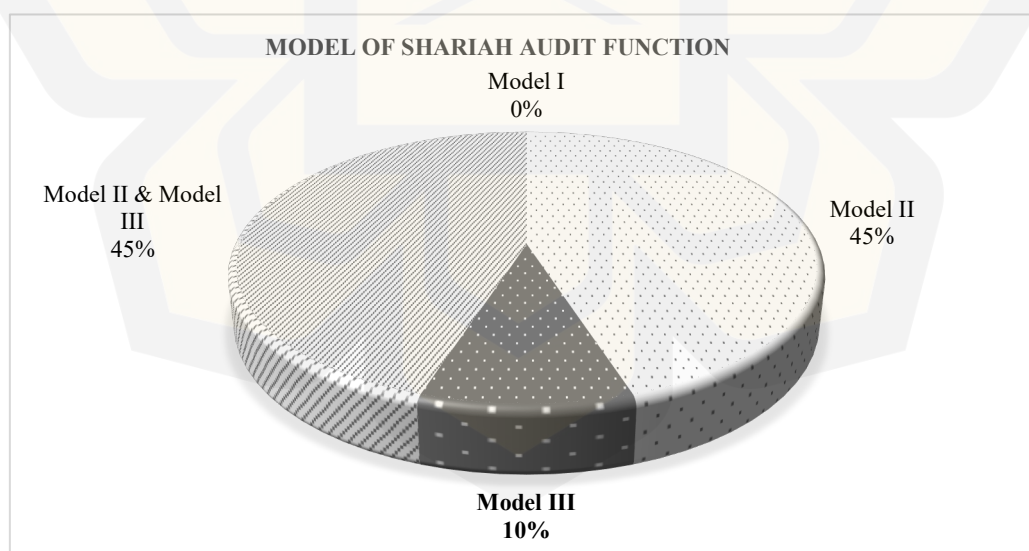
Figure 1: Structure of Shariah audit function in IFI

Model I)Appointment of dedicated shariah auditor
<ul style="list-style-type: none"> • Establishment of specific Shariah audit department or unit
Model II)Hybrid
<ul style="list-style-type: none"> •IFIs do not have any specific Shariah audit department, but appoint specific Shariah auditor(s) in the internal audit department. Usually the auditor will not respond to all audits, just for Shariah audit only. The auditor could also be the reference for the internal audit findings for the audit team and they do not have to refer to the Shariah department.
Model III) Embedded Shariah audit function in internal audit function
<ul style="list-style-type: none"> •IFIs embed a Shariah audit program with a mandatory internal audit and will refer to the Shariah department when they have any Shariah issues.

Sources: Adapted from Deris (2018)

However, there is a slight difference in the findings of the current study as compared to the structure as described by Deris (2018). This is because some of the practices of takaful operators' structure are lying between Model II and Model III which means that the characteristics of the Shariah audit structure come from these two models. The percentage of the adaption of Shariah audit function model based on the categories can be summarized as in Figure 2.

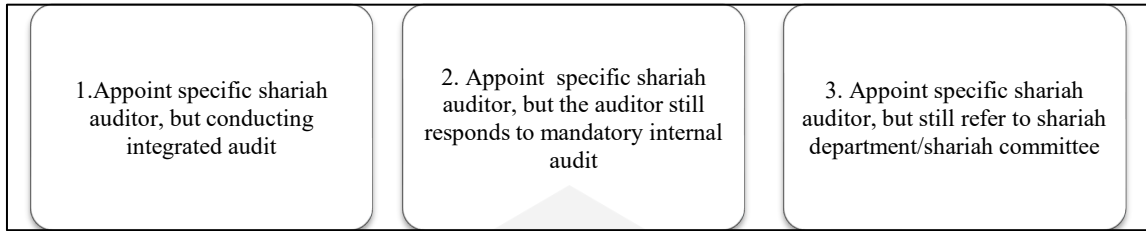
Figure 2: Percentage of takaful operators based on the categories for Shariah audit function model



Sources: Authors

Figure 2 shows that 0% of takaful operators are adapting Model I, 45% are adopting Model II, 10% are adopting Model III and another 45% are adopting Model II and Model III. Adapting Model II and III means that the structure of their Shariah audit function has characteristics from both models. Figure 3 highlights the characteristics of Shariah audit structure of takaful operators which allows it to be categorized under Model II and Model III.

Figure 3: Category of Shariah audit structure resulting from combination of hybrid model and embed all auditors' model



Sources: Authors

Based on the findings, it is notable that the majority of takaful operators appoint one specific auditor to conduct the Shariah audit function based on the statistics which shows that 45% of takaful operators adapted a hybrid model and another 45% adapted a combination of hybrid model and embed all auditors' model. However, commonly, the Shariah auditors appointed are still involved in mandatory audit and have an active engagement with the Shariah department or in some cases with the Shariah committee. There are many reasons behind the adoption of a combination between Model II and Model III. Firstly, this happened because of the issue of competency faced by the takaful industry especially in recruiting talent which have good command in both Shariah knowledge and accounting knowledge.

Based on the background analysis, the education background of the auditors can be categorized into three areas: accounting and finance, Shariah, and others. Majority of the auditors were from the accounting or finance background and only one auditor has Shariah background. In one instance, it happened that the auditor is neither from the accounting nor Shariah background but graduated in the architecture field. Majority of the Shariah auditors also admitted that they themselves are still not qualified to become competent Shariah auditors as they still need to undergo the specific training on Shariah. It is also observed that the takaful operators are very committed in arranging the necessary courses and professional training to enhance the knowledge and competency of its Shariah auditors especially in the Shariah field. This is also one way of solving the issues of talent development in IFIs.

Secondly, another reason why the Shariah audit model is overlapping between Model II and Model III is due to the size of the business. Typically, there will only be two or three persons in the internal audit department due to the size of takaful business, which is relatively small compared to the Islamic banking industry. This main reason makes it impossible for the takaful operator to establish one specific department or unit for the Shariah audit function. Hiring additional staff means that the takaful operator must incur additional cost, which is the main concern for every business.

Thirdly, the structure and nature of the business also become the factors why takaful operators are characterized in Model II and Model III. About 2/3 of takaful operators in Malaysia are not only takaful services providers, but they are also insurance services providers as well. Commonly, a Shariah auditor is placed at the group level as they offer shared services, which means that the auditor is not only conducting Shariah audit for the takaful company, but also for other businesses which consist of any Islamic services. In some cases, there is only one Muslim auditor at the group level, and because of that he/she is appointed as the Shariah auditor, but at the same time must respond to mandatory internal audit. There is also a takaful operator which outsources their internal audit from conventional insurance providers.

Only one out of the eleven takaful operators has not appointed one specific Shariah auditor, but they have a Shariah audit function in the internal audit department. In other words, this takaful operator is the only operator which adapts the embed all auditors' model. The reason for the non-existence of a separate Shariah audit personnel is because the auditors feel that there is an issue of redundancy with the Shariah review function. Besides, the takaful operator offers only Islamic products and services, and this becomes the main reason for integrating the Shariah audit with operational audit. Normally, when the auditor is conducting their operational audit, the auditor will start by doing the review according to the functions of each department and then examines any Shariah issues.

However, there might be ineffectiveness in the Shariah audit process by adapting the embed all auditors model because of unspecified task given to the auditors. One of the factors in ensuring the effectiveness of audit function is resources adequacy which includes having specific skills for specific function (Alzeban and Gwiliam, 2014; Ahmad, 2015; Ofori and Lu, 2018). For example, in auditing IT, takaful operators need auditors with IT skills. The same goes for Shariah audit function which requires someone with Shariah skills, and therefore a takaful operator must at least have one specific person to conduct the Shariah audit function. Therefore, it is important to have the existence of a specific person who is taking charge for the Shariah audit function.

Another possibility that might happen by adapting the embed all auditors model only is they might overlook some of the Shariah issues. This is due to, when conducting the mandatory audit, the auditors are focusing on the operational part. In certain circumstances, the auditor is not competent enough in evaluating the Shariah risk. Due to this, the auditor must have an active engagement with the Shariah department or both functions can work together in ensuring the Shariah audit function is able to achieve its objective. Besides that, the auditor could also engage with the Shariah committee and must ensure the involvement of Shariah committee is not during the reporting stage only.

Although none of the takaful operators have a specific department or unit for Shariah audit, the hybrid model (Model II) serves as the best option. However, this type of hybrid model requires a competency framework to enhance the Shariah audit function as suggested by Mohd Ali et al. (2014). Based on their observations, it is good if the takaful operator can allocate auditor with Shariah background in the internal audit department to oversee the Shariah audit function. Having an integrated background in internal audit rather than having only accounting or finance background would be an added advantage to the Shariah audit function.

The advantage of having an integrated background in internal audit function provides diversification in the risk assessment process. For instance, auditors with Shariah background will detect risks related to Shariah due to their expertise in Shariah whereas the auditor with finance or accounting background normally will be able to detect the risk which is related to business operation. The concept of an integrated background of the auditor can be applied by taking an example from the requirement of having a diversified background of Shariah committee members.

A study by Abdul Rahman and Bukair (2013) argued that the combination of Shariah and other qualifications, in this case accounting or finance qualification, would assist team members to better comprehend not only on Shariah issues, but other related accounting issues. Another finding by Noordin and Kassim (2019) revealed that Islamic banks with a bigger size of Shariah committee whose majority members have an outstanding understanding of Shariah with expert involvement in other relevant knowledge backgrounds such as finance, accounting and economics provide better disclosure of Shariah issues in the IFIs. Therefore, having at least one auditor with Shariah background in the internal audit department is the best solution.

After the discussion on each of type of the model, thus it can be summarized that each of the models has its own advantages and disadvantages. Table 4 shows the advantages and disadvantages of adapting the three types of models of Shariah audit function which are currently adapted by takaful operators.

Table 4: Advantages and disadvantages of adapting hybrid model, embed all auditors model and combination of hybrid model and embedded all auditors' model

Shariah audit model currently adapted	Hybrid model	Embed all auditors model	Combination of hybrid model and embedded all auditors model
Advantages	<ul style="list-style-type: none"> • Cost saving because there is no need to set up a new unit or department • Specification of skills 	<ul style="list-style-type: none"> • Cost saving because there is no need to set up a new unit or department • Efficient use of resources 	<ul style="list-style-type: none"> • Cost saving because there is no need to set up a new unit or department • Specification of skills • Active engagement with Shariah department
Disadvantages	<ul style="list-style-type: none"> • Talent development issues 	<ul style="list-style-type: none"> • No specific person in charge for Shariah audit 	<ul style="list-style-type: none"> • Auditors still have to respond to other audit activities

Sources: Authors

Table 5: Themes, categories and responds relating to the models of Shariah audit function

Themes	Category	Responds
Models of Shariah audit	Hybrid	<p>“I’m the only one who is responsible for Shariah audit and develop Shariah audit manual.” (R1)</p> <p>“I am an audit associate, or a Shariah auditor and my reporting line is to Chief of Internal Auditor.” (R4)</p> <p>“We are at the group level because Islamic business is our portfolio, so whichever part that has Islamic presence we have to cover...and whenever they want to do Shariah audit for takaful, we will integrate with the internal auditor for insurance.” (R7)</p>
	Embed all auditors	<p>“I’m the head operational audit and at the same time, I also cover for Shariah part. We don’t have separate team for Shariah audit. Nobody is doing Shariah audit...” (R5)</p> <p>“We don’t have one specific assignment for Shariah...because at the end of the day it is like in terms of operation we also must check back on Shariah. So, we feel like there is a redundancy. So, we stopped separating Shariah audit and now we incorporate all the Shariah scope and perspective into operational audit...” (R5)</p>
	Combination of hybrid and embed all auditors	<p>“I am in Internal audit for this Takaful Operator and there are only two staff in this department. I will report to Chief of Internal Audit at Group level...I’m doing the internal audit for Takaful operation or whenever we have inadequate resources. However, I’m the one who is responsible for Shariah audit...” (R3)</p> <p>“I am the only Shariah auditor for this organization and occasionally, I have to perform operational audit...” (R9)</p> <p>“We have one Shariah auditor, but now she is not qualified...she is from the architecture background, and she is very interested to join. So, I gave her the opportunity...” (R11)</p> <p>“I am the only person in charge of Shariah audit, and I am also involved with operational audit. I work closely with Shariah officer and Shariah committee...” (R12)</p> <p>“I am the only Muslim in this department, so I am the one who conducted Shariah audit and at the same time conducting operational audit...” (R14)</p> <p>“I am in charge for Shariah audit...but for this organization this function is still new...” (R15)</p>

Sources: Authors

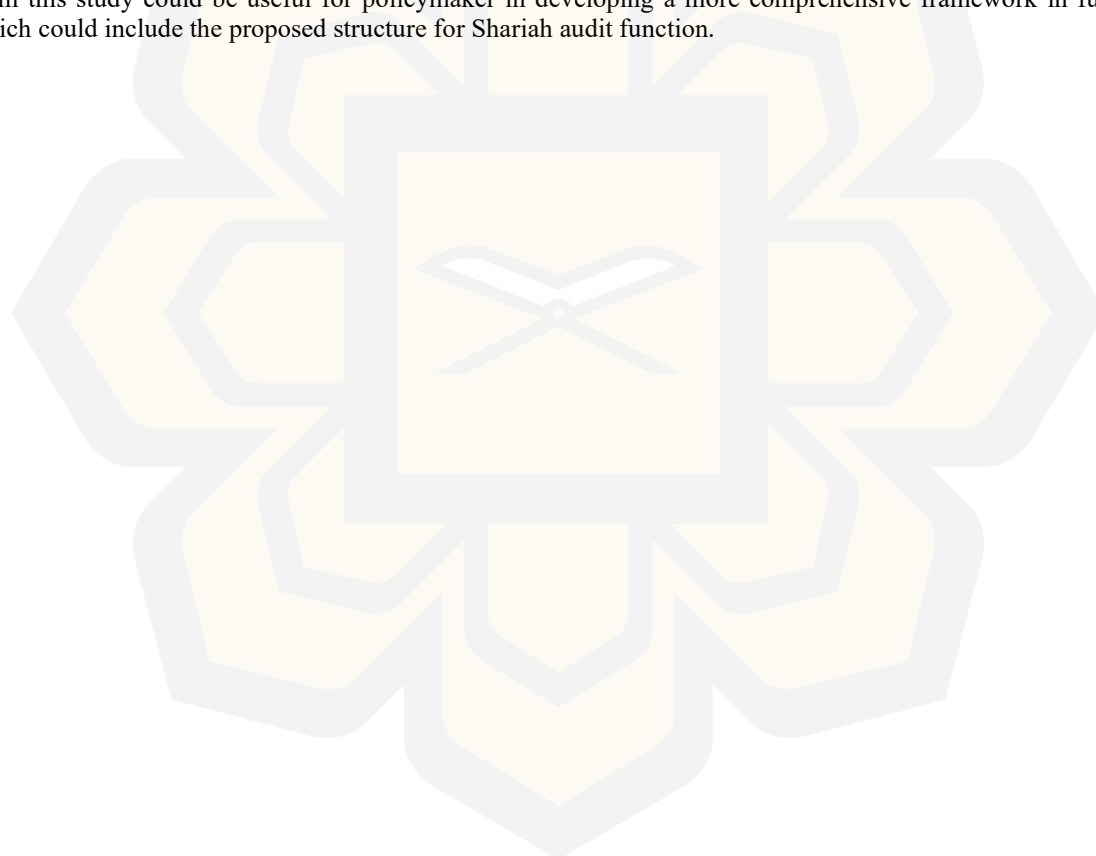
The structure of Shariah audit or model adapted by takaful operators for conducting Shariah audit will affect the effectiveness of Shariah audit function. As recommended by most of the respondents, takaful operators should have one specific auditor which specifically performs the duty of Shariah auditor. As commonly practiced, most IFIs would have the same person conducting mandatory audit while at the same time play a role as a Shariah auditor (Yazkhiruni et al., 2018). As a result, the auditor might not be able to focus on the scope of Shariah while doing the Shariah audit process as normally they would conduct the normal audit together and there is a chance that the auditor might overlook some important issues or at some other time, they might accidentally find the Shariah issues.

To avoid this situation, takaful operators should have one specific auditor which specifically performs the Shariah audit function although the Shariah auditor is placed in internal audit department. A study by Isa et al. (2020) has proved that majority of the practitioners agreed that the presence of an in-house internal audit unit for Shariah audit in IFIs is crucial. It is not deniable that many takaful operators might not be able to provide a separate and specific Shariah audit department to cater for the need of having a Shariah audit function due to the limited resources such as limited budget and limited human resources. Management also does not want to incur high cost in setting up a separate Shariah audit department. As a solution, in the short run, to ensure the function of Shariah audit is effective, one dedicated person should be hired to conduct Shariah audit which still can be placed in internal audit department to avoid takaful operators from incurring so much cost.

5. Conclusion and Recommendation

The findings of the current study highlighted on the structure of Shariah audit function adapted by Malaysian takaful operators. The Shariah audit structure or model adapted by takaful operators for conducting Shariah audit will have an impact on the Shariah audit function's performance. According to most respondents, takaful operators should have one specialized auditor who is only responsible for Shariah auditing. Although the Shariah auditor is positioned in the internal audit department, takaful operators should have one dedicated auditor who performs Shariah audit functions. The findings of the study are important for the industry in enhancing their current Shariah audit practice particularly in determining the structure of their Shariah audit function.

However, when interpreting the outcomes of this study, it is important to keep in mind its limitations. First, this study focusses solely on takaful industry. Another area for further research is to examine Shariah audit function for all types of IFIs which include Islamic banks, which are more advanced in their Shariah audit function. A comparison analysis could also be performed further. A second limitation is that the data collected is based on qualitative evidence gathered through face-to-face interviews, which leaves it vulnerable to biases including memory recall and social desirability bias. The respondents, on the other hand, appeared to be sincere and confident, putting our minds at ease about the interviews' reliability. The implications that can be drawn from this study could be useful for policymaker in developing a more comprehensive framework in future which could include the proposed structure for Shariah audit function.



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