



Shariah Audit Compliance in Islamic Financial Institutions in Palestine: A Systematic Literature Review

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Abstract

Shariah audits are required to make sure that Islamic financial institutions adhere to Islamic Shariah standards in their financial and operational activities, and that the goods and services they provide to international financial institutions do not contravene any Islamic laws. The aim of this study is to accomplish its objectives and provide answers to its questions. To accomplish the primary objective of this research, a systematic literature review, content analysis, and descriptive techniques were employed. This study used a systematic literature review methodology to locate, evaluate, and consolidate the extant literature on the analytical topic. This study analyzes the differences in the roles of internal and external auditors between (IFIs) and (IBs), while considering the subject matter of internal Shariah audits and credentials of Shariah auditors. This analysis is conducted through a literature review and examination of the existing literature on Shariah audit compliance and governance. Consequently, the advantages of Shariah compliance audits will be increased, and upcoming legal amendments will be put in place to minimize or eliminate the danger of Shariah's noncompliance. This study provides a literature review and a theoretical and conceptual understanding of Shariah audit compliance in Islamic financial institutions and banks. This study contributes to the body of knowledge by proposing a theoretical framework to evaluate the importance of Shariah audit governance and identifies the basic elements that affect compliance, quality, and effectiveness in Islamic banks and financial institutions in Palestine. Compliance with the Islamic Shariah audit can lead to optimal benefits, and future legislative changes can be implemented to minimize or eliminate the dangers of non-compliance with Shariah.

Keywords: Auditors, Islamic banks, financial institutions, Islamic finance, Shariah compliance audit, Shariah Governance Framework

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1. Introduction

Increasing at a pace of 11% to 17% annually, Islamic Banks (IBs) and Islamic Financial Institutions (IFIs) are outpacing all other industries in terms of growth and are now recognised internationally as a viable and thriving part of the global financial system. Shariah audits are necessary to ensure that the IFIs' products and services do not violate any Islamic laws and to ensure that the IFIs follow the rules of Shariah in both their financial and operational operations. Any organization that promises to provide services that comply with Shariah must ensure that all procedures and actions required for its daily operations accomplish the goal of Islamic law, Maqasid, al-Shariah.

The Palestine Monetary Authority (PMA) a specialized committee of Palestinian Islamic banks, mandated the performance of a Shariah audit function in Islamic financial institutions through the issuance of the Shariah Governance Framework in 2015, which also required Shariah research, review, and risk management. (PMA, 2019; Iriqat & Khalaf, 2018; Khalid et al., 2019). Let us consider the case of Palestine as an example: Systems, goods, personnel, the environment, and society are a few examples of situations in which the idea of Shariah auditing is used. The audit function has been suggested as the best way to achieve this goal (Mohd Ali et al., 2020; Rashid & Ghazi, 2021). A strong monitoring system would increase and maintain the public's trust in

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the sector's operations and activities.

Islamic countries, including Palestine, have two main types of banking system. The first is the conventional banking system, which relies on interest or usury and charges additional interest on top of a loan's principal amount. The second system is the Islamic banking system, which strictly adheres to Islamic principles based on the Qur'an and Hadith. This system differs from the conventional system in that it places special emphasis on sharing earnings and losses. Islamic banking, particularly in the financial sector and with regard to Shariah audit compliance, can be viewed as a progressive expansion of the Islamic economy. It was developed in response to the needs of Muslim bankers and economists who wanted to satisfy many stakeholders' expectations (Iriqat & Khalaf, 2018).

Islamic financial institutions are explicitly created in most Islamic nations to offer alternative financial solutions in compliance with the Shariah standards. They provide several financial solutions that steer clear conventional banking interests. Islamic banks are financial organizations that raise money, invest in it, and use it for further Islamic cooperation and economic expansion. While attempting to best serve the interests of its clients, these tasks include cooperative insurance, establishing zakat, complying with the Shariah audit, and researching the most significant elements affecting it. Zakat is a required Islamic act of charity, in which Muslims give a portion of their money to those in need and the less fortunate (Iriqat & Khalaf, 2018; Khalid, 2019).

According to Khalid et al. (2018), substantial financial transactions are conducted by the Islamic finance industry in both Arab and Western countries. The Islamic Finance Development Index (IFDI) reported a remarkable 17% increase in total assets, reaching approximately US \$4.0 trillion in 2021, indicating significant growth in the industry. Furthermore, the worldwide net income of Islamic financial institutions tripled compared to 2020, demonstrating a significant improvement, particularly for Islamic banks. Notably, there are no specific laws governing Islamic transactions in Palestine, and the PMA does not issue any directives to regulate its operations.

Commercial banks operating in Palestine are mandated by the PMA to adhere to the regulatory capital requirements outlined in Basel III as per Instruction No. 8 of 2018. However, Islamic banks are exempted from this requirement as per the same instructions. Instead, Islamic banks must comply with capital adequacy criteria that align with the standards set by the Board for Islamic Financial Services as per Instruction No. 9 of 2018. This ensures that these banks follow the guidelines established by Islamic financial organizations. It is important to verify that standard contracts produced by Islamic banks comply with Shariah audit requirements and the norms of decency and civility, as outlined by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The AAOIFI Standards prohibit any agreements or contractual clauses that contradict both the standards and tenets of Islamic law, as per Rajgopal et al. (2020), Khalid et al. (2019), and Aliyu et al. (2017).

The PMA issued Resolution No. 15 in 2019, granting the Supreme Shariah Supervisory Board the power to oversee transactions conducted by Islamic banks to ensure that they align with Shariah standards and are provided by banks in Palestine (PMA, 2019). This measure aims to guarantee compliance with the requirements established by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). This decision fully conforms to Article 20 of Law No. 9 of 2010, which governs banks in Palestine and mandates that Islamic banks conduct all their operations in accordance with Islamic Shariah law (Mnif Sellami & Tahari 2017; Hassan & Haridan, 2019; Algabry et al., 2020).

All practices and beliefs that God has prescribed are referred to as adhering to the Shariah. The PMA formed a Shariah Supervisory Board to guarantee the institution's conformity with Islamic Shariah, because these institutions are required to follow its rules (Iriqat & Khalaf, 2018). The Shariah Supervisory Board's experts issue fatwas, which are legal judgments based on the 'Qur'an' and 'Sunnah', the two fundamental sources of Shariah. If there is an Islamic law-based judgement known as a fatwa that forbids engaging in usury, then adhering to this ruling ought to automatically be in line with the objectives of Islamic finance. Among non-profit organizations worldwide that play a crucial role in supporting Islamic financial institutions, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) holds a significant place. Founded in 1991, AAOIFI was headquartered in Bahrain (Raja 2021).

To successfully achieve its objectives, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) established 100 jurisprudential norms that govern Islamic financial operations. Over forty-five Islamic countries, including Palestine, have adopted these guidelines. Given that 90 percent of

Islamic banks and financial institutions worldwide conform to these norms, adhering to them is a crucial component of any Islamic bank's commitment to operate in accordance with Islamic principles. It is important to note that AAOIFI was created to supplement the ((IFRS) by offering an additional framework that bridges the gap between Islamic and conventional financial operations. Primary Islamic standards bodies include the International Islamic Financial Market (IIFM), AAOIFI, and Islamic Shariah audit committees, all of which encourage and influence adherence to Islamic financial practices and principles. As a result, the current edition of AAOIFI (2020) comprises a comprehensive set of 103 standards.

These standards are created and assessed using a meticulous five-stage process that begins with the creation of an agenda, continues with preliminary research and discussion drafts, produces exposure drafts, and ends with the creation of a final edition. This procedure involves the formation of a special committee composed of board members and participation of outside consultants to guarantee inclusivity and expertise. In developing and putting into practice the standards of the (AAOIFI), several steps are followed to assure quality, effectiveness, and conformity to Islamic financial principles (Hassan & Haridan, 2019; El-Halaby et al., 2021).

The Islamic financial industry needs supplementary criteria to control its operations, such as compliance with Islamic Shariah audits, given the different approaches to commercial transactions used by conventional Islamic financial systems and those governed by Shariah. These requirements are taken from the law of transactions, which establishes regulations governing financial transactions. To maintain compatibility and consistency, it is crucial to carefully analyze international norms before developing and adopting Islamic financial rules. The (AAOIFI) rules on Shariah auditing and compliance have not been the subject of many national studies (Raja, 2021).

Isa et al. (2020) investigated the degree of Islamic Shariah auditing compliance among modern Islamic banks in Palestine in relation to the Shariah standard of the (AAOIFI) and the general legal principles governing contracts. The goal of this study is to help the Palestinian Islamic banking sector close the gap between the AAOIFI Shariah standards for Shariah auditing and compliance with those standards, and perhaps even reduce or eliminate those contradictions (El-Halaby & Hussainey, 2016).

The objective of this study is to carry out a comprehensive review of existing literature, with a particular emphasis on the following objectives: assessing the level of adherence and compliance of audit committees with Islamic Shariah auditing principles, which are overseen by the PMA) in accordance with the most recent directives issued by the PMA and the standards set out by the [Standing Board of Palestine \(SBP\) in 2018](#) and the [PMA \(2019\)](#). Exploring the key elements influencing Shariah auditing and its adherence Verifying that Shariah audit committees adhere to the prescribed laws, principles, and principles that, due to laxness or non-compliance, are likely to violate the standards of the (AAOIFI). Then, make changes to guarantee adherence to Islamic principles and pertinent national laws.

This research makes a significant contribution to the field of Islamic banking and finance by addressing the scarcity of specialized legal studies on compliance with Shariah auditing by audit committees, banks, and Islamic financial institutions. Additionally, it provides guidance to Palestinian Islamic banks on how to enhance their practices in accordance with Shariah principles and legal requirements. This study thoroughly analyzed the theoretical and conceptual issues faced by Islamic banks while implementing the requirements of the Accounting and Auditing Organization for Islamic Financial Institutions in the context of Shariah audit compliance. This research identifies significant barriers that obstruct the implementation of these standards, as presented in the following parts of the paper (Pbisgf, 2019; Karim & Shetu, 2020).

The first test examines how compatible the fundamentals of audit compliance specified by national legislation are with Islamic Shariah banking principles. The second issue is how Islamic banks and audit committees should apply and implement Shariah auditing requirements. This technique could put more responsibility on Shariah audit committees, which might be at odds with the fundamental principles of Islamic finance and Shariah auditing, which emphasize fairness and an equitable division of tasks among participants in a financial transaction. This study analyzes the effects and significance of Islamic banks' and audit committees' levels of commitment to Shariah audit compliance.

This study aims to fill the gap in specialized legal research on compliance with Shariah audits and enhance their effectiveness by offering guidance to Palestinian Islamic banks to improve their practices in accordance with the principles of Shariah contained in the Qur'an, the Sunnah, and legal requirements. By doing so, this study provides valuable insights into the fields of Islamic institutions, banking, and finance. Additionally, the challenges faced by Islamic institutions and banks when implementing the requirements of the Accounting and

Auditing Organization for Islamic Financial Institutions in the context of compliance with the Shariah audit and its effectiveness via compliance, as stated in Islamic principles of Shariah, were thoroughly examined in earlier parts of this research paper.

This study highlights the difficulty of Shariah audit compliance, which presents barriers to the efficient application of these standards based on Shariah audit compliance in Islamic banks and institutions. This test determines how well the Shariah principles outlined in national law in accordance with the Qur'an and Sunnah are consistent with the principles of Islamic financial services. The issue is how well Islamic banks and organizations employ Shariah auditing requirements, and how widely they are used. This study analytically evaluated the effect of Shariah audit compliance on the overall dynamics of Islamic banks and organizations. It recommends substitution strategies that closely follow the tenets of Islamic banking.

The study is structured and divided into the following parts: Part 1 outlines the introduction to the study, Part 2 consists of the literature review, Part 3 outlines the research methodology, Part 4 presents the findings and discussion, part 5 is the conclusion and policy implications, and the final Part 6 includes the limitations and recommendations for future research.

2. Literature Review

The Shariah audit has been explored from a variety of angles in the literature, including the determination of the Maqasid al-Shariah auditing process (Rashid et al., 2017), problems and obstacles, and the future of the Shariah audit labor market (Shafii et al., 2014). However, there is little research on Shariah audit quality (Yazid & Suryanto, 2016), which is the only study we can locate, and it only covers a small number of variables. On the other hand, there is a wealth of studies on traditional audit quality.

Based on our review of the literature, we identified eight subcategories related to audit quality and its various elements, including the audit quality conundrum, stakeholder views on audit quality, audit quality frameworks, assessment of audit quality, factors influencing audit quality, Shariah compliance auditing, Shariah enterprise theory, and Shariah compliance audit in Palestine. By reviewing the literature, we gained a better understanding of the subject's conceptual foundations and made informed judgments.

An examination of the pertinent literature demonstrates that there is no universally accepted definition of audit quality. Despite numerous efforts over the past few decades to reach an agreement on how to define and evaluate audit quality, no consensus has been reached (IOSCO, 2010). Due to the uncertainty surrounding audit quality, there are two primary issues: (a) it is challenging to pinpoint the factors that impact audit quality and (b) it is impossible to accurately measure audit quality. Regulators, standard-setting organizations, auditors, and other stakeholders are still debating the issue in an attempt to reach consensus (FRC, 2006; IOSCO, 2010). For example, the International Auditing and Assurance Standards Board has acknowledged that "Audit Performance is a complex subject, and no description or evaluation of it has gained global acceptance" (IAASB, 2014). As a result, the current literature does not include all features of the concept in its definitions (Raak & Thürheimer, 2016).

After reviewing the current literature, we found that various interested parties have established and presented diverse opinions on audit standards. The first is the viewpoint of the general population or consumers, who judge the accuracy of an audit based on how it affects their company's choices and investment decisions (Holt and DeZoort, 2009; Ianniello and Galloppo, 2015). In light of this, it may be said that the standard of the audit is attained if the auditor discloses any substantial misstatement (DeAngelo, 1981).

Auditing is structured work completed through a methodological procedure. Therefore, satisfying an efficient audit plan's requirement is sufficient to achieve high audit quality (Christensen et al., 2015). This viewpoint holds that even if substantial misrepresentation is not discovered throughout the auditing procedure, the standard of excellence is still reached if the auditor correctly follows the audit plan, risk assessment methods, and auditing methods (Al-Khazaleh et al., 2023). Auditors have asserted that audit assignments offer a reasonable degree of confidence based on sufficient audit proof rather than absolute assurance (IAASB, 2019). The third viewpoint is the audit company's point of view. They believe that an audit's integrity can be attained if it can be effectively represented in court against legal action or malpractice claims. According to Franz et al. (1998) lawsuits are indicators of poor audit quality. To prevent adverse results, auditors act more carefully when there is significant danger to lawsuits.

Many people and associations of professionals have developed and put forward various frameworks as an alternative to judge the audit's general quality to overcome the difficulty of describing the quality of audits. In

this context, the Financial Reporting Council (FRC) took the initiative and published a discussion study titled Promoting Audit Quality in 2006. This endeavor started the discussion on the subject, and other approaches have been developed since then. A structure titled The Audit Quality Framework was provided by the FRC itself in 2008 (FRC, 2008).

The International Auditing and Assurance Standard Board published: A Structure for Auditing Quality: Important Features that Develop Conditions for Auditing the Quality (IAASB, 2016-17a, c), which is similar to the aforementioned publications. Various others have provided regulations on audit quality (DeFond and Zhang, 2014).

Contributions, procedure, Output, and Context refer to how the structures have commonly classified the aspects that impact audit quality. The inputs are the qualities auditors possess, such as expertise, competent judgment, and sector expertise. Audit organizing, risk evaluation, collection, review of evidence from the audit, and other steps are all included in the audit procedure.

Auditing findings and data sent to users were considered as the output. Context refers to the circumstances in which the audit is conducted, including regulations or guidelines, audit fees, audit employment, and non-audit fees (Huang et al., 2016; Hassan & Haridan, 2019).

The next topic covered in the available literature is how to assess audit quality. This problem has been the subject of several studies. Nevertheless, no study (Raak & Thürheimer, 2016; Ramamoorti et al., 2017; Rajgopal et al., 2020) offers a definite resolution to this problem. The absence of an expression that is broadly recognized as appropriate is a clear cause of this inadequacy. Consequently, it is impossible to evaluate and assess the precision and effectiveness of an audit without a commonly accepted standard.

As previously noted, assessing audit quality is a difficult task with many facets, both theoretically and practically. Professionals' organizations and individuals constructed their structures by classifying the characteristics of audit quality in terms of components, procedures, outcomes, and contexts. There is a wealth of research on the variables that influence audit quality, whether they affect it either separately or cumulatively.

We discussed a few of the key elements noted in the published work below. A number of research studies that examine the influence of auditors' expertise and knowledge in specific sectors have revealed that they have a favorable relationship with audit quality (Carcello et al., 1992).

One of the causes is that by performing the same job, auditors acquire particular to an industry's ability (Frederick & Libby, 1986), which enhances their performance. Additionally, this expertise improves their capacity to spot errors and fraud (Sarwoko & Agoes, 2014) as well as vulnerabilities in internal controls. An identical principle can be applied to the Shariah auditors. A Shariah auditor cannot evaluate the adequacy, efficacy, and effectiveness of Shariah safeguards at divide and operating divisions without a thorough understanding of the dynamics of Shariah non-compliance risk. Nevertheless, one of the major issues facing the sector is the lack of Shariah auditors and compliance assessment employees (Ali & Kasim, 2019; Rashid & Ghazi, 2021).

Scholars have also discovered a link between auditor expert judgments and audit accuracy. Nevertheless, other studies contend that a variety of prejudices, including the effect of recency, the impact of framing or framing prejudice (Emby & Finley, 1997), and the consequences of dilution (Hoffman & Patton, 1997), might occasionally influence assessment.

Moreover, expertise and innate skepticism may reduce the auditor's prejudice. Some of the key elements that influence the standard of an audit are the auditor's impartiality. Several studies have considered several factors that may have an impact on the auditor's impartiality, including the significance of the customer, the length of service of the auditor, non-audit fees, atypical audit fees (Hribar et al., 2014), and the size and diversity of the auditing market (Huang et al., 2016).

Greater audit fees (Geiger & Blay, 2011) and lower audit fees compared to standard fees (Ettredge et al., 2014) are both viewed as threats to the auditor's impartiality, which may result in subpar audit quality. Many studies have examined the determinants and factors of the audit process, such as risk evaluation and management procedures (Zaiceanu et al., 2015), analytical evaluations and procedures (Glover et al., 2015), sampling audit quality and effectiveness (Hoogduin et al., 2015), and documentation of audit effectiveness. Several studies have been conducted to determine the nature of the relationship between various factors related to regular auditing companies, legitimacy, audit quality, and effectiveness. Furthermore, the Public Company Accounting Oversight Board (PCAOB) (2011) reported that audit firm rotation enhances audit quality and effectiveness. This is because internal and external auditors may form personal relationships with clients or

stakeholders, which can negatively impact audit quality and effectiveness.

The literature review methodology begins by dissecting the scope of the Shariah Compliance Auditing, Syariah Enterprise Theory, and Shariah Compliance Audit in Palestine. It then examines the factors that determine the effectiveness of Shariah Compliance Auditing in Palestine, including cooperation between internal and external auditors, the scope of internal Shariah audits, and the qualifications of Shariah auditors (Manaf, 2014; Algabry et al., 2020). Shariah is the foundation of Islamic financial institutions (IFI).

According to Lahsasna (2011), Shariah is the total sum of Islamic teachings and systems, which was revealed to Prophet Muhammad, peace be upon him, and is recorded in the Quran as well as deducible from the Prophet's divinely guided lifestyle, called the Sunnah. These teachings are comprehensive and complete, regulating not only the relationship between man and Allah (God), but also relationships among people, between man and animals, and the environment. Shariah consists of three matters: *Aqedah* (faith and belief), *Akhlaq* (morality and ethics), and *Fiqh* (law) (Lahsasna, 2011; Ali & Kasim, 2019). Therefore, Shariah covers beliefs and spirituality, ethics, and morals, as well as laws that regulate all aspects of human life and relationships. In other words, Shariah is an Islamic way of life.

According to Khalid et al. (2018), the need for a Shariah audit arises because of the consequences of large corporate scandals, such as Enron and WorldCom. Khalid (2019) further emphasized that Shariah compliance is a crucial aspect of Islamic financial products and services, and any non-compliance can significantly damage the confidence of customers in the industry. Islamic Financial Institutions (IFIs) must prioritize internal audits and enhance the effectiveness of internal Shariah audits in achieving their organizational objectives. However, challenges and issues related to Islamic audit mechanisms exist, particularly in Palestine. Regulatory aspects, the audit process, and human resources are factors that contribute to severe problems in Shariah audits (Pbisgf, 2019).

Shariah audits and conventional company audits have similar functions, but the former focuses more on ensuring compliance of Islamic financial institutions (IFIs) with Shariah principles and requirements (Ali & Kasim, 2019; Ahmed et al., 2019). This is in contrast to conventional financial audits, which are deemed insufficient for meeting the needs of IFI stakeholders, as they do not cover Shariah aspects, as pointed out by Hanif (2019). Shariah audits play a crucial role in maintaining and upholding the integrity of IFIs by adhering to and implementing the Shariah principles.

The significant influence of the Shariah audit on ensuring compliance with Islamic principles and rules in banks are where the Shariah's principles and regulations play a vital role in maintaining and promoting sustainability, particularly in banking operations. However, previous researchers have not conducted comprehensive studies on the factors that affect internal Shariah auditing, particularly in Palestine.

Endaya (2014) primarily focused on identifying the optimal framework for internal audit effectiveness. Additionally, studies by Khalid et al. (2019) explored the connection between internal Shariah audit characteristics and its effectiveness, while Abd Rahman (2020) examined the needs and challenges faced by academicians and practitioners in relation to Shariah audit. Shafii et al. (2014) also conceptualized the duties and rules of shariah auditors and developed an audit framework for Shariah compliance, with a focus on professionalizing shariah auditors.

A handful of studies have concentrated on the Shariah audit practices employed by IFIs, including their scope, competency, operating procedures, and the present framework utilized to conduct a Shariah audit (El-Halaby & Hussainey, 2016; Ahmed & Sarea, 2019; El Halaby et al., 2021). Nevertheless, the elements that affect Shariah compliance auditing among the IFIs in Palestine have not been extensively explored when compared to studies on external and internal audits in conventional banks. This study examines the perspectives of stakeholders who are directly or indirectly involved in the Shariah compliance auditing of IFIs, such as the collaboration between internal and external auditors, the scope of internal Shariah audits, and the qualifications of Shariah auditors.

Shariah audits for compliance involve routine assessments that offer an unbiased evaluation and independent verification aimed at improving the level of compliance with Islamic Financial Institutions' IFI business operations, with the ultimate goal of establishing a robust and reliable internal control system (Yasoa et al., 2020).

According to the Accounting and Auditing Organization for Islamic Financial Institutions AAOIFI, a Shariah audit is an audit attestation for compliance. However, a simple definition cannot fully capture the complexity of a concept (Ali et al., 2018; Ali & Kasim, 2019). The AAOIFI Governance Standard for IFIs No.

3 (GSIFI 3) (El-Halaby & Hussainey, 2016; Mnif Sellami & Tahari, 2017) defines an internal Shariah evaluation as "an autonomous department or part of internal audit that examines and evaluates the extent of compliance with Shariah principles, rulings, and directives provided by the Islamic Financial Institutions IFT's Fatwa and Shariah."

2.1 Shariah Enterprise Theories

Shariah Enterprise Theory (SET) is a theoretical framework that merges enterprise theory with Islamic principles of value. As stated by Novikova and Kharisova (2019), the concept of wealth or value creation extends beyond parties directly involved in or contributing to cooperatives and companies, such as shareholders, creditors, employees, and the government, but also includes other parties who are not directly related to the business operations of the company, or those who provide financial and skills support.

The SET framework is built on the premise that humans act as Khalifat Allah to create and distribute welfare for both humans and the environment. This framework emphasizes fairness in both human beings and the natural world, and benefits all parties involved, including both the vertical (Allah) and horizontal (human and natural environment) aspects. The ultimate goal of SET is to fulfill the purpose of God in creating humans as Khalifat Allah, which is not addressed by existing entity theories (Hassan Haridan, 2019; Sri et al., 2019; Retnasih, 2023). This idea is based on the belief that humans are Khalifat Allah and responsible for generating and disseminating welfare for all people and nature. To be considered *Shariah* compliant, a business must follow Islamic regulations. These regulations are based on the *Qur'an*, the *Sunnah*, and *Ijtihad* (reasoning), which are collectively referred to as 'the *Shariah*'. In modern times, this equates to the decisions and viewpoints of qualified scholars who focus on the investigation and interpretation of Islamic law in contemporary settings (OICU-IOSCO, 2004).

Enterprises that want to be labelled as '*Shariah* compliant' must abide by the limitations set by Islamic law in addition to any secular national legislation that may be in effect where the business is located. Businesses who choose not to be deemed are solely subject to secular national legislation (Suganda & Humaemah, 2023).

The key limitations imposed by the *Shariah* law are described here to illustrate how these limitations could impact and distinguish the target cash holdings of *Shariah*-compliant and non-*Shariah*-compliant enterprises. The first limitation on businesses operating in accordance with *Shariah* relates to routine daily operations. Only acceptable (*halal*) goods and services can be traded by businesses. This prevents the manufacturing of weapons, wine, pork, pornography, and gambling, among other goods and services. Financial services that entail speculation are included in gambling (El-Gamal 2000). Second, the use of interest (*riba*) in fundraising or financing is prohibited for *Shariah*-compliant businesses.

Shariah law prohibits acquiring loans with interest or generating cash through the issuance of interest-bearing financial instruments such as bonds. According to several Islamic scholars and *Shariah* boards, such as AIRajhi Capital, the debt of *Shariah*-compliant businesses should not exceed 33% of the total value of the business's market capitalization during the preceding 12 months. Nevertheless, some *Shariah* boards permit a firm to be considered *Shariah* compliant if the interest income does not exceed 5% of its total revenue.

However, it is essential that cash and interest expenditures do not exceed 30% of an enterprise's market capitalization over the past 12 months. In addition, revenues derived from investments or non-compliant firms are strictly prohibited (Pardiansyah et al., 2023).

Shariah-compliant businesses have access to various unconventional funding options, such as debt-based contracts like '*Murabaha*' and '*Tawarruq*' and trade partnership-based contracts like '*Musharaka*' and '*Mudaraba*'. These contracts are commonly used in Islamic finance, with trade-based contracts comprising the majority of Islamic financial assets. However, trade partnership arrangements are relatively uncommon because of their complexity and high risk, as noted by Suzuki and Uddin (2016).

Despite this, the value of '*Murabaha*' contracts in GCC countries has increased from US\$120 billion in 2006 to over US\$720 billion in 2016, as reported by Alandejani and Asutay (2017). However, it's important to note that *Murabaha* contracts can be more expensive than standard loans due to the additional steps involved in their completion, which raises the cost of debt for businesses that adhere to *Shariah* law, as pointed out by Alandejani and Asutay (2017).

As a result, sukuk is a less desirable way for businesses that adhere to the *Shariah* to raise finance. Risk management is the final challenge that *Shariah*-compliant businesses must overcome. Companies that adhere to the *Shariah* regulations are required to manage and safeguard themselves against various risks, including

those related to liquidity, foreign exchange, interest rates, credit risk, and operational hazards.

However, the majority of risk management tools currently used in traditional financial markets are based on *Riba*, *Maysir*, and *Gharar*, which are prohibited under *Shariah* law for Muslims (Alam, 2017; Ma'ruf & Fikri, 2023). Consequently, companies that comply with *Shariah* regulations often face difficulties in managing their risks and may encounter more challenges than non-compliant companies.

2.2 *Shariah compliance audit in the Palestinian context*

Palestine's financial system, which follows Islamic principles, includes Islamic banks, Takaful operators, Development Financial Institutions, and Islamic capital markets. The PMA oversees the regulation of Islamic banks, Takaful operators, and development financial organizations while also governing the capital market's regulation. Palestine has a two-tier *Shariah* governance system that consists of an internal *Shariah* Committee established in each Islamic Financial Institution (IFI) and a central *Shariah* advisory body at the bank. This structure is essential for ensuring the compliance of Islamic financial institutions with the *Shariah* principles (Alam et al., 2020).

The *Shariah* Advisory Council (SAC) of the Ministry of Awqaf and Religious Affairs was created under Section 42 of the PMA Act 2016. It has established itself as the highest authority for determining Islamic laws for Islamic financial businesses. The SAC's responsibilities include ascertaining relevant Islamic law on financial matters and providing a ruling upon request as well as advising the PMA and the Islamic Financial Institution (IFI) on *Shariah* issues related to their operations, activities, or transactions.

The Guidelines on the Governance of *Shariah* Committee for Islamic Financial Institutions issued in 2015 further outline the duties and responsibilities of the internal *Shariah* Committee in advising the respective IFIs on *Shariah* matters. These guidelines have been updated to reflect new developments in Islamic finance and the increased expectations of IFI's key stakeholders regarding the *Shariah* compliance process (Khalid, 2020).

The PMA in collaboration with the Ministry of Awqaf and Religious Affairs (MARA), formulated a *Shariah* governance framework for Islamic Financial Institutions (IFIs) with the primary objective of strengthening the role of the board, the *Shariah* Committee, and management in matters related to *Shariah*, including enhancing the capabilities of the relevant key organs responsible for executing *Shariah* compliance and research functions. The ultimate aim was to establish a *Shariah*-compliant operating environment (PMA 2019; Puad et al. 2020).

The *Shariah* Governance Framework for International Financial Institutions (IFIs) (hereafter referred to as the *Shariah* Framework) is designed to achieve the following objectives: first, it sets out the expectations of the Primary Market Auction with respect to the *Shariah* governance structures, processes, and arrangements of IFIs to ensure that all their operations and business activities are in accordance with *Shariah* principles; second, it provides comprehensive guidance to the board, *Shariah* Committee, and management of IFIs in discharging their duties in matters related to *Shariah*; and third, it outlines the functions related to *Shariah* review, *Shariah* audit, *Shariah* risk management, and *Shariah* research. Three factors directly or indirectly impact the *Shariah* compliance auditing of IFIs: cooperation between internal and external auditors, the scope of internal *Shariah* audits, and the qualifications of *Shariah* auditors.

2.3 *Interaction between Palestinian internal and external auditors*

Internal and external auditors from traditional financial institutions collaborate to increase audit efficiency and effectiveness. This collaboration is crucial, because internal audits provide an impartial evaluation of risk management, control, and governance systems. As Arwani (2018) highlights, creating a *Shariah* audit framework is essential for achieving *Shariah* compliance goals in IFIs, which can positively impact society or "The Ummah." The external audit function also works with the internal audit function to offer an objective review of the correctness and fairness of financial statements to shareholders. This collaboration allows the internal audit function to contribute to the overall risk assessment by learning about the organization's internal control systems and gathering relevant data, as mentioned by Khalid and Sarea (2021).

The governing body can benefit from a comprehensive understanding of the organization's operations and risks as well as the elimination of potential redundancy in audit jobs through a good working relationship and cooperation between internal and external audit functions (Alqudah et al., 2019; Abd Rahman et al., 2020).

Puad et al. (2020) emphasize the importance of frequent communication between internal auditors and external auditors in areas of mutual interest, as well as close collaboration with management. Internal and

external auditors must communicate well with each other to ensure the effective governance of the organizations they serve. This is supported by [Kheli's \(2023\)](#) study, which highlights the importance of sharing knowledge, viewpoints, and reports to conduct high-quality audits. While previous research has focused primarily on internal and external audit functions in the banking industry, there is a lack of detailed studies on internal *Shariah* audits in Islamic Financial Institutions (IFIs), particularly in the context of Palestinian practice ([Khalid et al., 2018](#); [Algabry et al., 2020](#)).

To avoid unnecessary duplication of effort and to achieve high-quality audits, external and internal auditors must collaborate. [Omar \(2019\)](#) suggests that internal auditors work with external auditors in a coordinated manner, as part of the management function, to enhance the effectiveness of internal audits.

2.4 Palestine's internal Shariah audit's scope

When conducting daily business operations, Islamic Financial Institutions (IFIs) must adhere to all Islamic laws and standards, making the scope or role of internal *Shariah* audits critical. Although the PMA provides various guidelines and policy papers to stakeholders in the industry, many internal *Shariah* auditors and review officers remain unaware of their tasks, as stated by [Ab Ghani et al. \(2019\)](#) and [Yasoa et al. \(2020\)](#). Due to a lack of understanding of these distinctions, it is unclear how to operationalize them ([Ali et al., 2018](#); [Yazkhiruni et al., 2018](#)).

The roles of an internal auditor and an internal *Shariah* auditor differ significantly in the application of Islamic rules and principles, as seen in conventional practices ([Sani & Abubakar, 2020](#); [Rashid & Ghazi, 2021](#)). Internal auditors rely on financial statement analysis and the organization's governance and management controls, whereas internal *Shariah* auditors are responsible for ensuring that all activities, such as transactions, products, policies and procedures, agreements and contracts, financial statements and reports, comply with Islamic standards and principles ([Isa et al., 2020](#); [Yasoa et al., 2020](#)). Traditional auditing methodologies in the financial sector have developed from traditional auditing, which focuses on topics such as socioeconomic infrastructure and Islamic social culture ([Ab Ghani et al., 2019](#); [Yazkhiruni et al., 2018](#)).

Shariah auditing seeks to accomplish objectives comparable to those of traditional financial organizations ([Algabry et al., 2020](#)). The fundamental distinction, however, is whether or not IFIs adhere to national accounting standards and their guiding principles. Internal *Shariah* auditors have a broader range of responsibilities than conventional internal auditors do while performing daily tasks and operations ([Tawfik & Bilal, 2020](#)).

An internal *Shariah* auditor must possess skills and expertise that are primarily focused on the specifics of the business as a whole to provide a view of the current situation regarding conformity with the *Shariah* guidelines and fatwas issued by their *Shariah* committee ([Raja, 2021](#)).

The necessity of performing a *Shariah* audit by internal auditors with comprehensive knowledge of the *Shariah* regulations applicable to Islamic financial institutions is emphasized by the findings of PMA (2019). It is strongly recommended that any data that may be subject to *Shariah* audit risk, including financial statements, policies, and processes, be audited by a certified auditor to ensure accuracy ([Alahmadi et al., 2017](#); [Ab Ghani et al., 2019](#)).

An effective auditing process can be achieved by providing the auditor with sufficient evidence that the business adheres to *Shariah* principles and the fat was issued by its *Shariah* Supervisory Board (SSB). This is crucial for reducing internal or external breaches or risks and for enhancing *Shariah* governance through *Shariah* auditing ([Algabry et al., 2020](#)).

2.5 Palestinian Shariah auditor qualifications

As the Islamic finance sector continues to expand, qualified *Shariah* auditors will increasingly become in demand. To ensure that these auditors can perform their tasks in compliance with the *Shariah* regulations, only competent internal and external auditors with substantial expertise in Islamic finance, *Shariah*, and other relevant subjects should undertake *Shariah* auditing ([Yasoa et al., 2020](#); [Sani & Abubakar, 2020](#)).

According to [Omar \(2019\)](#), a shortage of educated *Shariah* board members can harm *Shariah* governance and erode public trust. Therefore, the expertise of *Shariah* Board participants is crucial for ensuring an effective *Shariah* governance process in IFIs. Additionally, the demand for competent *Shariah* auditor specialists ensures that Islamic banks' operations align with their ultimate objective of fulfilling *Maqasid al-Shariah* and maintaining significance in the eyes of their stakeholders ([Ali et al., 2018](#)).

According to [Shafii et al. \(2014\)](#), professional development programs from reputable organizations such as the Palestinian Association of Certified Public Accountants (PACPA), in-house training, and Shariah-certified courses from reliable entities can increase the visibility of *Shariah* auditors. Universities should include Islamic finance and *Shariah* audit courses in their undergraduate programs to better prepare students for careers as *Shariah* auditors. Increasing the number of qualified and experienced *Shariah* auditors can address the *Shariah* agency problem and promote good governance in Islamic financial institutions, as [Schneider \(2009\)](#) and [Karim and Shetu \(2020\)](#) note. [Khatib et al. \(2022\)](#) emphasize that qualified *Shariah* auditors need a specific set of skills, knowledge, and traits in addition to relevant work experience. To maintain a continuous supply of knowledgeable and qualified *Shariah* auditors and to avoid potential negative consequences for *Shariah*-based commerce, coordinated efforts from the government, industry, and academia are essential, as highlighted by [Khatib et al. \(2022\)](#). To address this issue, collaboration among authorities, the government, *Shariah* experts, and, most importantly, the Muslim community is crucial.

2.6 Identifying the elements that determine the quality of a *Shariah* audit

The study categorizes the elements influencing *Shariah* audits in accordance with the three elements of the Audit Risk framework: risks of inherent, risks of control, and risks of detection.

2.6.1 Risks of inherent

In the context of a *Shariah* audit, there are several facets of inherent danger. The standard of the *Shariah* audit may be impacted by the substance's effectiveness, the good's supervisor's background and expertise, the financial institution's size and age, and other factors. Nevertheless, the quality of the audit topic will ultimately determine all hazards categorized as inherent dangers. The *Shariah* audit's subject matter is encapsulated in the terminology of 'financial arrangements', 'contracts', 'operations', 'measures and procedures', 'accounting and IT systems', 'transaction procedure flows', and related terms ([SBP, 2018](#)).

2.6.2 Risks of control

Controlling risk is a crucial aspect of an audit risk framework. The management team is expected to develop and establish appropriate processes and controls in the form of an Internal *Shariah* Control System (ISCS) in collaboration with the *Shariah* board and other *Shariah* governance framework authorities to foster a strict *Shariah* compliance environment within the bank ([Eriqat & Al-Khazaleh, 2024](#)).

ISCS refers to the policies and practices created, put into place, and upheld by those in the position of oversight, leadership, and other staff in order to give investors a fair level of confidence over the accomplishment of an entity's *Shariah*-related goals. When adequate internal controls to guarantee *Shariah* compliance are not located, it may be misleading to market Islamic financial instruments (IMF 2014).

Operations were performed in conformity with the rules of *Shariah*, according to the ISCS. According to [IAASB \(2019\)](#), ISA-315 offers comprehensive instruction to "*the auditor in acquiring knowledge of many facets of the company and its surroundings to determine the risk of material misrepresentation*". This knowledge gives the auditor the chance to comprehend the entity's operations and dangers connected to insufficient controls. With this knowledge, auditors can choose the best auditing techniques and important processes.

2.6.3 Risks of detection

The third element of the audit risk framework is risk of detection. This idea has several facets. Failure to recognize a major misrepresentation may be related to security participation, audit companies, and auditors ([Faza et al., 2023](#)). The subsequent paragraphs describe the aspects that affect audit quality in relation to the auditor and audit company as audit engagements. One of the crucial elements that impact the *Shariah* audit's effectiveness is the auditor's competence. Understanding *Shariah* law, in addition to conventional security abilities and processes, is a necessary mix of capabilities for evaluating and detecting *Shariah* risk in various financial deals, agreements, and operations ([Mohd Ali et al., 2020](#); [Khalid, 2020](#)). Therefore, *Shariah* auditors cannot fully recognize *Shariah* non-compliance risk, an intricate issue, without a solid foundation in Islamic banking and auditing, as well as in-depth knowledge of the characteristics, risks, and actual limitations of Islamic financial products.

The above discussion demonstrates the effectiveness and quality of *Shariah* auditing in the Islamic context,

revealing that the literature can be divided into eight important areas. The first addresses the puzzle of audit quality and effectiveness, which is a multifaceted concept with no universally agreed-upon definition (Al-Khazaleh et al., 2021). The second section discusses the different viewpoints that have emerged in the absence of a consensus on the definition of audit quality and effectiveness, and it appears that there are four different perspectives regarding the quality and effectiveness of the audit. The first perspective is related to the success of discovering fundamental errors and is called the consequential perspective. The second perspective is related to the process of verifying fundamental and major errors in the audit and its quality. The third perspective is the procedural audit perspective, while the fourth is related to compliance with regulations and best practices, known as the audit compliance perspective. Each of these perspectives offers a unique view of audit quality and effectiveness, which may be considered appropriate. The third area of literature related to audit quality and effectiveness is the audit quality and effectiveness framework presented by various individuals and professional bodies to understand the dimensions of audit quality and its effectiveness. The fourth area in the literature is the expression of previous studies that suggest different methodologies for measuring audit quality, audit effectiveness, and compliance and classifying the factors that affect audit quality as inputs, processes, outputs, and context. The sixth area discusses the importance of compliance with the *Shariah* audit and its benefits. The seventh context deals with *Shariah* theories of Islamic companies, which detail and explain the importance of Islamic *Shariah* theories in auditing and accounting processes. The eighth and final areas deal with the Palestinian context of compliance with Islamic legal scrutiny and its implementation in Islamic institutions in Palestine.

A thorough examination of the literature reveals that despite its tremendous relevance in ensuring rigorous *Shariah* compliance in IBIs, the idea of *Shariah* quality auditing is largely unexplored. For the *Shariah* audit quality, both the description and elements are specified. Consequently, the goal of this study is to offer an approach for defining *Shariah* auditing standards and identifying the variables influencing *Shariah* auditing quality within the framework of the model for audit risk.

Consequently, any inability to comprehend inherent dangers or regulate risks during the planning process will result in the creation of inadequate analytical techniques. The quality of *Shariah* audit assignments will be impacted if any major misstatements go undetected, which would increase the interaction risk. Audit fees, reputation of the audit company, duration of the auditing company, and the size of the company are all factors that affect audit businesses. These are the most important and hotly contested elements in the standards of auditing literature.

Adequate sample size, risk evaluation processes, proper audit techniques, audit proof gathering and review processes, compliance with essential legislative and regulations, and industry standards of excellence are all factors that are ancillary to audit engagements (Karim & Shetu, 2020).

3. Research Design and Methodology

This study is the first to investigate the efficiency of *Shariah* auditing by Islamic institutions and banks in Palestine. It offers realistic advice for best practices to ensure that these transactions comply with laws that must be followed. The degree to which Islamic banks and institutions abide by pertinent legal requirements and *Shariah* principles has not yet been investigated by legal experts (Grais & Pellegrini, 2006). The findings of earlier studies were restricted to a few accounting studies that looked at the extent to which banks and other organizations complied with accounting rules from an accounting perspective.

This study used a systematic literature review methodology to locate, evaluate, and consolidate the extant literature pertaining to the analytical topic (Fink, 2005; Okoli, 2015; Ahmad & Omar, 2016).

To determine the degree of validity of Palestinian Islamic banks' and institutions' compliance with the *Shariah* audit in line with relevant legal norms and *Shariah* principles, this study adopted a comparative descriptive analytical method. To learn from their experiences, this study analyzed various financial reports and publications from Islamic banks and institutions operating in Arab nations (Palestine Islamic Bank, Arab Islamic Bank, Al-Safa Bank, and Jordan Islamic Bank). This study uses AAOIFI's ratings of Islamic banks from a number of periodic reports published by the organization over the previous eight years.

The following steps were included in the research methodology:

Literature assessment: A thorough assessment of the literature was conducted to examine previous research on the degree to which Islamic financial institutions and banks adhere to Islamic law and norms, as well as the *Shariah* Audit. Accounting studies that address contracts in relation to accounting are also located. Data were

gathered from Palestinian Islamic banks, which provided records and reports outlining the degree to which they complied with Shariah audits. To examine the framework and provisions of relevant papers, contracts, and agreement conditions, sources were consulted.

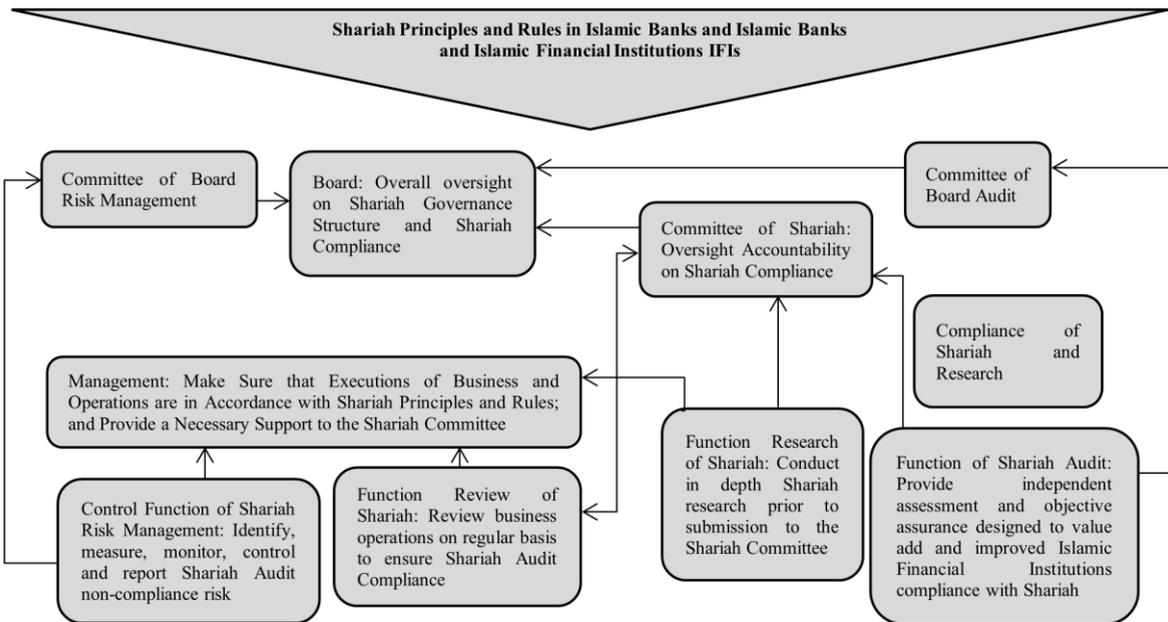
Comparative review: To draw lessons from their experiences and standards of excellence, the data gathered from Palestinian Islamic banks were compared with papers and reports demonstrating the extent to which these institutions complied with the Jordan Islamic Bank's Shariah audits.

The gathered information was used to assess compliance with Islamic principles and the requirements of the Accounting and Auditing Organization for Islamic Financial Institutions for Shariah audits.

Legislative framework assessment: To uncover any discrepancies and difficulties in executing Shariah audit compliance, the pertinent legal framework in Palestine, particularly Courtesy Law, was examined. Practical suggestions were developed based on the research findings to ensure the legitimacy and Shariah audit compliance of banks and Islamic financial institutions in Palestine, in line with Islamic norms and legal requirements.

The findings of the research are presented, highlighting its significance as the first specialist legal study to assess the significance of Shariah auditing compliance by banks and Islamic financial organizations in Palestine. Potential directions for further study in this field were identified, and useful recommendations were highlighted.

Figure 1: Shariah Audit Governance Framework for Islamic Banks and Islamic Financial Institutions IFIs



Source: Authors' own

The Shariah Committee was responsible for overseeing all Shariah-compliant activities on behalf of the multinational financial institutions. They can also be required to perform a *Shariah* audit, in addition to a *Shariah* assessment. At the time, there were no formal rules on Shariah governance in international financial institutions. However, there were substantial improvements in Shariah concerns in international financial institutions after 2011 with the formation of the Social Security Fund.

The Social Security Administration Fund has demonstrated heightened awareness of Shariah by implementing four distinct functions commonly utilized in Islamic finance, as described in Figure 1. These functions comprise the *Shariah* risk management regulation, overseen by the Risk Management Committee of the Board of Directors, and the administrative and *Shariah* review functions, managed by The Shariah Committee.

Furthermore, the administration views the *Shariah* audit function as subordinate to the authority of the committee. Generally, the *Shariah* risk function is executed by collaboration between finance and *Shariah* executives, who are typically undergraduate students specializing in finance or *Shariah*. On the other hand, the *Shariah* audit function is performed by *Shariah* authorities who are undergraduate students specializing in *Shariah* at the IB in question. Currently, IBs' internal auditors are implementing this process without any established criteria for selecting the most qualified expert to serve as the *Shariah* auditor for Islamic Banking institutions.

4. Findings and Discussion

The findings of the study point to a specific issue that prevents the PMA decision from being implemented correctly. Examining the compatibility of Islamic banking principles with the fundamental tenets of the *Shariah* compliance law as forth in national legislation is difficult. A major problem is the legal acceptance of unilateral pledges as legitimate sources of legally enforceable duties.

Since these guarantees are necessary for *Shariah* compliance, Islamic banks and financial institutions may experience difficulties if they do not have any legal standing under *Shariah* compliance legislation. To align this compliance with Islamic banking principles and regulatory standards, this study thoroughly investigates the ramifications of this difference and considers various remedies.

Shariah audits are very important to Islamic financial institutions and companies that follow Islamic principles and rules. The fundamental purpose of a *Shariah* audit is to ensure that an organization's activities, transactions, and operations adhere to Islamic law. Some major arguments in favor of a *Shariah* audit are as follows.

Per Aliyu et al. (2017), Islamic financial institutions, including banks, investment funds, and insurance companies, are required to conduct their operations in accordance with the principles of *Shariah* law. Activities that are forbidden or non-compliant with these principles and rules are prohibited. A *Shariah* audit can help to ensure compliance with the ethical and moral tenets of Islam.

Businesses that adhere to *Shariah* rely significantly on the faith and trust of stakeholders, investors, and clients. These institutions demonstrate their dedication to openness and respect for Islamic values by submitting themselves to periodic *Shariah* audits. As a result, trust increases, and a good reputation is fostered. To find any non-compliance or *Shariah* hazards inside an organization, a *Shariah* audit is essential.

By addressing these risks at an early stage, the major consequences that could result from unintended violations of Islamic principles, such as reputational harm or legal problems, can be avoided.

Islamic financial firms may suffer severe financial repercussions if they violate *Shariah* standards. *Shariah* boards or regulatory authorities may issue penalties or punishments if an institution functions against Islamic law (Awwad & Razia, 2021).

Organizations can avoid these penalties by quickly addressing any noncompliance concerns identified by a *Shariah* audit. Islamic financial services and products need to be verified and authorized by qualified *Shariah* scholars to be regarded as *Shariah* compliant. A *Shariah* audit ensures that an organization's goods and services have received this examination and are compliant with Islamic law. As the global Islamic financial sector continues to expand, there is growing demand for *Shariah*-compliant goods and services.

By obtaining *Shariah* audit certifications, organizations can enhance their market competitiveness and attract a broader clientele, including those who prefer to conduct financial transactions in line with their religious beliefs.

The *Shariah* audit process typically ensures the integrity, compliance, and ethical standards of both Islamic financial institutions (IFIs) and enterprises, as highlighted by Alkhan (2020). By adhering to *Shariah* rules, these organizations not only fulfil their religious obligations but also contribute to the establishment of a robust and trustworthy Islamic financial environment.

5. Conclusion & Recommendations

This research mainly concentrated on the significance of Islamic banks and organizations in Palestine in compliance with the *Shariah* audit. He discussed a significant obstacle these banks and organizations confront in upholding Resolution No. 15/2019 of the PMA, which intends to implement Islamic principles in their dealings. The research brought to light an important discrepancy between these Islamic norms, which are inspired by modern jurisprudential tendencies, and the writings of 'Al-Mujahirah' journal, which adheres to

traditional Hanafi jurisprudence. This discrepancy is apparent in the inconsistency between several compliance laws and the Code's provisions, as well as in the standards set by relevant Islamic financial institutions.

The findings of this study revealed a significant discrepancy between the rules and regulations set by the PMA for banks and Islamic financial institutions in Palestine and the legal standards outlined in the AAOIFI guidelines (El-Halaby et al., 2021). The contractual parties must abide by the regulations and legislation of the PMA, which is based on the Islamic Shariah and its tenets. (AAOIFI) standards and fundamental legal precepts in Palestine must be adhered to by these standards and legislation.

Compliance with Shariah principles is essential for the daily operations of Islamic Financial Institutions (IFIs), as it greatly impacts financial practices that violate Shariah law. Despite this, there are still issues with Shariah compliance auditing, including cooperation between internal and external auditors, scope of internal Shariah audits, and qualifications of Shariah auditors. It is crucial for all parties involved to take action to bridge this gap, as it will significantly affect stakeholders' confidence in the Shariah compliance of IFIs' products and services related to their operations and activities.

Scholars have ignored this field of study despite the fact that the quality of the Shariah audit is incredibly important in maintaining tight compliance conditions at IBIs. Regarding the Shariah auditing standard, the literature is ambiguous. What elements influence Shariah audit quality? Therefore, how can it be accurately quantified? To better comprehend the idea and to lay a solid basis for successful and effective decision-making about internal Shariah oversight systems in IBIs, it is imperative to explore the factors, parameters, and effects of Shariah quality of audits.

This study focuses on reviewing prior literature and emphasizes the importance of an effective Shariah audit in business operations. This ensures that IFIs adhere to the Shariah principles, which ultimately benefits their operations.

To establish a strong and sound framework for IBs and IFIs to carry out Shariah audits, responsible authorities must establish appropriate procedures. Given the growing number of IFIs in Palestine, the Palestinian Association of Certified Public Accountants (PACPA) or the regulatory body overseeing IFIs should take responsibility for developing and implementing a comprehensive and integrated Shariah auditing framework.

In light of these findings, the study suggests that a draft civil code be released in line with modern jurisprudential developments in Islamic jurisprudence. Additionally, the PMA advises ordering banks and Islamic financial institutions to comply with all Shariah audit regulations and norms. To guarantee that financial institutions and Islamic banks adhere to modern Islamic norms, the PMA must examine all Shariah audits of these organizations. All substantive requirements for Islamic banks and financial institutions must be met in line with the rules and regulations established in accordance with prescribed Shariah principles.

Drawing on this conclusion, we can identify several policy implications. First, Islamic Financial Institutions (IFIs) should strive to enhance the existing knowledge base on Shariah audit compliance. This study emphasizes the significance of Shariah compliance auditing in fulfilling the needs of stakeholders. Furthermore, all relevant parties must take steps to bridge the gap that could negatively impact stakeholders' confidence, particularly regarding the Shariah compliance of the products and services provided by IFIs in their operations and activities.

The main aim of this article is to offer comprehensive insights into the extent to which the Accounting and Auditing Organization for Islamic Financial Institutions' regulations and standards are followed during audits of Palestinian Islamic banks and other Islamic establishments, in accordance with Shariah principles. We also examine the difficulties caused by these discrepancies, jurisprudence and the results of the law. Regarding unilateral duties, it's important to be aware of some restrictions that could have an impact on the scope and application of the outcomes: Changing Regulatory Environment: Despite the fact that the study primarily focuses on current guidelines released by the PMA and the requirements of the (AAOIFI), it is crucial to acknowledge the regulatory framework's dynamic character. The potential effect of possible regulatory changes that occur following the completion of the research on the validity and practical value of research outcomes cannot be ruled out. Additionally, we focus on the qualitative technique used in the research, which is mostly used to analyze problems, distinctions, importance, and advantages.

Although this method offers insightful information, it may not fully capture the quantitative range of difficulties experienced by Islamic banks and audit committees or offer a complete statistical picture. The results and revisions can be tailored to the legal framework of prestigious Palestinian Shariah Audit Committees

and Islamic Accounting and Banking Committees, in addition to their degree of application in various countries. When applying these findings to other geographical areas or nations with distinct legal systems and cultural traditions, such as those in the Middle East, caution should be exercised. Time restrictions: Due to time or location restrictions, a thorough examination of all areas of Shariah audit compliance and the difficulties connected with it may also be constrained. Beyond the purpose of this study, an additional thorough investigation may be necessary for certain complicated components. Nevertheless, the present study offers significant theoretical and conceptual insights into compliance areas, challenges, and anticipated improvements in relation to compliance with Islamic Shariah auditing by audit committees, Islamic accounting committees, and Palestinian Islamic banks despite these acknowledged limitations.

6. Limitations and Recommendation of Future Research

Based on our analysis, we propose that future researchers should explore additional factors related to the current study and compare them with previous findings. This will help to develop new concepts and recommendations that align with *Shariah* compliance auditing. By offering a structure, this study aims to discuss the quality of the *Shariah* audit. The structure thoroughly identifies the aspects that may have an impact on the quality of a *Shariah* audit, including those linked to the audit's topic of study, internal *Shariah* oversight, auditors, audit company, and audit participation.

Future research can be conducted such as: How do religious teachings, training, rewards, and advancements affect the judgments and views of *Shariah* auditors? What are the elements that strengthen *Shariah* auditors' professional distrust and discernment in IBIs? How does expert distrust and technical skills in *Shariah* audits communicate with one another? What standards should be used to assess the effectiveness of *Shariah* audit results? Will the standard of the *Shariah* audit project improve as a result of an additional partner's review? What are the ways to improve the *Shariah* audit statements? Does the *Shariah* auditing procedure become overly standardized as a consequence of the AAOIFI requirements? Is the PMA's definition of the scope of the external *Shariah* audit acceptable and adequate?

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