

CHAPTER FIVE

RESEARCH METHODOLOGY

5.1 INTRODUCTION

This chapter outlines the methodology used in this study. Part A involves the audit expectations gap in the Shariah audit in terms of 'reasonableness gap'. Part B involves the audit expectations gap in the Shariah audit in terms of 'performance gap'. Part C involves factors related to the audit expectations gap in Shariah audit practices. In the first section of the chapter, this study will conduct an interview to support the propositions in the practice of Shariah audit. Later, a series of hypotheses will be developed based on the propositions to test the findings empirically. The following section highlights the hypotheses development on the performance gap in Shariah audit regarding 'deficient standards' and 'deficient performance'. Then, the following two sections discuss the data analysis technique and the statistical analyses used to assess the reliability and validity of the research model.

5.2 MIXED METHODS APPROACH

Bryman (2001) noted that the quantitative approach is characterised by certain 'preoccupations' such as measurement, replicability, causality and generalisations. According to Bryman, the quantitative method is preferable because it maintains the distance between the researcher and participants and thus ensuring the objectivity of data. Furthermore, this approach also allows a replication and generalisation of data and

analysis of cause and effect using a variety of statistical measures (Bryman, 1998; 2001).

The qualitative approach is another commonly recognised form of research method. Researchers, especially in social sciences, observed that quantitative methods were subjected to several limitations and were inadequate to explain and clarify the complexities of a social phenomenon (Allen-Meares and Lane, 1990; Pabjan, 2004; Kittel, 2006). For example, it has been suggested that a quantitative method restricts the focus of the study; it assumes that complete objectivity is possible; and it has been proposed that statistical significance ensures neither valid explanation, causation nor generalisation (Allen-Meares and Lane, 1990). Hammersley (1993) argued that quantitative research 'neglects the uniqueness and particularity of human experience'.

Stern (1980) noted that qualitative research is useful "to explore substantive areas about which little is known or about which much is known to gain vowel understandings". Miles and Huberman (1994) stated that "the qualitative researcher embarks on a voyage of discovery rather than one of verification so that his or her research is likely to stimulate new leads and avenues of research that the quantitative researcher is unlikely hit upon, but which may be used as a basis for further research".

Based on the discussions above this study will adopt the usage of both methods. According to Creswell (2003) mixed methods can best be defined as follows:

Mixed methods research is a research design with philosophical assumptions as well as methods of inquiry. As a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative approaches in many phases in the research process. As a method, it focuses on collecting, analysing, and mixing both quantitative and

qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone.

The interview session will highlight the uniqueness and particularity of human experience which is not being addressed using the quantitative method. Interview method is useful to explore and generate new ideas and issues, and it also captured certain elements such as thoughts, feelings, and intentions that are impossible to be observed or measured using other methods (Patton, 2002). Another advantage relates to the position of participants in the interview. Interviewing provides researchers with an insight into the participant's thoughts, ideas and memories in their words rather than those of the researchers (Reinharz and Davidman, 1992). Later, the experiences of the participant's thoughts, ideas and memories will be confirmed through the questionnaires to analyse the cause and effect using a variety of statistical measures. This study explores how the experts describe what would best the best practices in Shariah audit through the interview session and then use the analysis of the information to develop a survey instrument that is administered later to the Shariah Committee, stakeholders and practitioners of the IFIs. This approach is similar to Tashiro (2002) and Ely (1995).

The selection of mixed method in this research is based on the following reasons:

1. This study is an investigation of components involved in determining the 'reasonableness gap' in Shariah audit practices in the IFIs. This complex issue requires knowledge from people who understand and well versed in Shariah, auditing, governance and regulations in Islamic banks in Malaysia. By using the traditional survey without identifying a group of experts will result in inaccurate

data during the data collection period. Thus, a mixed method answers the study questions more appropriately.

2. In this study, it is crucial to gain expert's responses to determine the main components in the Expectation Gap in Shariah audit practices. An interview with the experts most appropriately confirms the elements of the audit expectation gap in Shariah audit, rather than any individual who may not understand the objective of the research.

5.3 FIRST PHASE: INTERVIEW SESSIONS

In the first phase, this research will involve interview sessions to map out the issues in Shariah audit and to enhance the components of the 'reasonableness gap'. It will involve interviews with the Shariah audit experts. Shariah audit experts identified in this research are individuals with vast knowledge in Shariah audit. It consists of the chief internal auditor of Islamic banks, Shariah Committee, Head of Shariah department and external auditors involved in Shariah audit practices. This research identifies 14 experts in Shariah audit for an interview session. Although there may be a relatively limited number of experts with knowledge about the research questions, the panel size requirements are modest, and it would be practical to solicit up to 10 to 12 interviewees (Okoli and Pawloski, 2004). According to Selltiz et. al (1976), reliability in qualitative research is concerned with the consistency, stability and repeatability of the informant's accounts as well as the investigators' ability to collect and record information accurately. Therefore, the selection of 14 respondents for the interview sessions are reliable if the findings from the interview consistently the same results over repeated testing periods. This requires the researcher to use the same methods and obtained the

same results every time uses the methods on the same or comparable subjects. It further requires that the researcher has developed consistent responses or habits in using the method and scoring or rating its results and that factors related to subjects and testing procedures have been managed to reduce measurement error.

During the interview, the participants are guided by a series of questions developed based on the conceptual framework of the expectations gap in Shariah audit practices. The questions are developed based on the IPPF practices on internal audit guidelines. The overall guided questions for the interview are as follows:

<p>Research question: <i>“What are the perceptions of the regulators (BNM), the practitioners (Shariah committee, Shariah officer, internal and external auditor) and the stakeholders on Shariah audit practices in the IFIs of Malaysia”?</i></p>
<p>1) ‘Where’ to be placed - Framework of Shariah audit</p>
<p>Validation Objective: To determine the model of Shariah audit practices</p>
<ul style="list-style-type: none"> a) Define Shariah audit from your perspectives. b) Do Shariah audit and Shariah review a misunderstood concept? c) Do Shariah audit and the existing audit a misunderstood concept? d) How do the Islamic banks respond to the implementation of Shariah audit functions? e) What are the current issues in Shariah audit practices face by the Islamic banks in Malaysia? f) Shariah audit function should be attached to the internal audit department of an Islamic bank or a standalone (independent) department? g) Do external Shariah audit necessary apart from having it as internal Shariah audit only? h) To what extent the external audit shall support the Shariah audit function in the Islamic bank?
<p>2) ‘What’ to do - Processes in Shariah audit</p>
<p>Validation Objective: To identify the coverage of Shariah audit processes</p>

- a) Should Shariah audit processes be included in the Shariah Compliance Manual of each Islamic bank?
- b) Who shall involve directly in determining the Shariah audit planning? Shariah committee or the audit committee of Islamic banks (or both)?
- c) What should be the key area in developing Shariah audit programmes in the Islamic banks?
- d) What type of evidence shall be collected during the Shariah audit process?
- e) Shall the Shariah auditor include procedures in his examination to ensure that all new fatwas, rulings and guidance and modifications to existing fatwas, are identified and reviewed for each period under examination?

3) 'How' much the department has to do - Audit Scope in Shariah audit

Validation Objective: To explore the extent of the scope of Shariah audit function apart from what has been addressed in the Shariah Governance Framework.

- a) Is the current scope of Shariah audit function highlighted in the SGF sufficient?
- b) In the case of audit of financial statements, shall the internal auditors attest the items presented and disclosed in the financial statements to be compliant with the Shariah requirements?
- c) How is Shariah audit on financial statement wanted by shareholders and management to enhance the credibility of financial statements?
- d) What should be the coverage of Shariah audit of compliance audit on organisational structure, people, and process and information technology applications systems?
- e) What should be the best approach in Shariah audit of internal control system in the Islamic banks?
- f) Shall Shariah auditor audit the findings of the Shariah review carried out by the Shariah officer?
- g) What should be the extension of the scope of audit on Review of the adequacy of the Shariah governance process?
- h) How should be the relationship of Shariah Auditor with the Board of Directors, Management, Shariah Committee and Audit Committee of the Islamic banks to ensure independence in the organisations?

<p>4) ‘When’ Shariah audit have to be reported - Reporting and audit timing</p> <p>Validation Objective: To determine the type of Shariah audit report</p> <p>a) Shall the findings of Shariah audit be reported in the annual report?</p> <p>b) Shall Shariah audit findings be disclosed in a separate Shariah audit report?</p> <p>c) Who will benefit from the disclosure of Shariah audit report?</p>
<p>5) ‘Who’ has to do it - Independence and Competency</p> <p>Validation Objective: To determine the level of competency of a Shariah auditor in Islamic Banks.</p> <p>a) What should be the role of the Shariah auditor?</p> <p>b) How important is the role of the Shariah auditor in the development of Islamic banking and finance?</p> <p>c) What are the possible impacts if Shariah audit becomes a separate unit in the Islamic banks?</p> <p>d) How does the Shariah auditor maintain his/her independence?</p>
<p>a) What are the most preferred criteria of a Shariah auditor?</p> <p>b) What are the necessary skills to enhance the competency of Shariah auditor?</p> <p>c) Do Shariah auditors need to undergo specified training in Islamic banking course?</p>

The idea of soliciting the comments is to obtain feedback from the respondents whether the ‘reasonableness gap’ in Shariah audit practices is verifiable to the industry. The academicians and Shariah committee of an Islamic bank verified the guided interview questions. Two of the respondents acknowledge and verified the importance of the components. Another two respondents gave additional comments to change some of the questions to be in line with industry practices. One respondent commented that the guided interview questions are too general and should be more specific regarding the process and procedures. Due to that, some modifications have been made to the Shariah

audit process in the proposed model. However, this research chooses to start the proposed framework with general views rather than to be specific. Besides validating the components on Shariah audit practices, the inputs gathered during the process of validation are also used for the development of survey questionnaires that will be used in the second phase of the research.

5.4 SECOND PHASE: SURVEY METHOD

After the validation process with the experts, the research proceeds with collecting data using the survey method. There are different methods for data collection identified in the literature, including mail, face-to-face, telephone, electronic mail, and a combination of these methods (Sekaran & Bougie, 2009). The decision to choose a survey method may be based on a number of factors that include sampling, type of population, question form, question content, response rate, costs, and duration of data collection (Cooper & Schindler, 2006). The instrument used in this research will be a mail survey questionnaire. The target respondents will read the questions themselves and mark answers on a questionnaire.

The subjects for questionnaire distribution are the regulators, the Shariah Committee, the practitioners of the IFIs (internal auditors, external auditors and Shariah officers) and the stakeholders. The target population in this study is defined as all individuals in Islamic banks that are aware and related to Shariah audit practices which are the Shariah Committee; the practitioners (internal auditors, external auditors and Shariah officers), the regulators and the stakeholders. The regulators are representative from Jabatan Perbankan, Insurans dan Takaful (JPIT) department and related

departments of BNM are included in the population due to their responsibilities in overseeing the overall operations of Islamic banks.

In addition, the Shariah Committee, the practitioners of the IFIs (internal auditors, external auditors and Shariah officers) and the stakeholders are selected as the sample population of this study because they are the three line of defence as referred by IFSB in its “Guiding Principles of Risk Management for Institutions (other than Insurance institutions) offering only Islamic Financial Services”⁷, in its principle 14 states that: “IFI should have in place adequate systems and controls, including Shariah Board or Advisor, to ensure compliance with Shariah rules and principles”. According to Hanefah et al. (2011), typical examples of the activities of the three lines of defence are as follows:

- i. The business: the day-to-day running of the operation and the front-office (i.e. employee of the banks as the stakeholders)
- ii. Risk and compliance: the continual monitoring of the business such as Shariah review and legal compliance. (i.e. Shariah committee and Shariah officer)
- iii. Audit: the periodic checking of risk and compliance (i.e., internal and external auditor)

The ‘three lines of defence model’ is one approach to safeguarding the internal control framework. In the US, it is the preferred approach of the Financial Services Authority (FSA). The first line of defence describes the controls an organisation has in place to deal with the day-to-day business activities and operations. It is the duty of the line management and business support function in ensuring compliance with laws, regulations, standards, policies and procedures via timely and effective monitoring and management. The first line of defence is also the stage to identify risk, provide control

⁷ Available online at: www.ifsb.org/standard/ifsb1.pdf. Retrieved on 13th July 2009

and action plans for the IFIs to be Shariah compliant. For the purpose of this research, the individuals identified for the first line of defence are the employees of the Islamic banks.

In relation to IFIs' operation, the second line of defence is provided by the Shariah review function. This includes pre-product approval and post-product approval, i.e. during product offering process. The individuals identified in the second line of defence are the Shariah committee and Shariah officers of the Islamic banks.

The third line of defence applied in the IFIs' operation is the exercise of Shariah audit by the internal audit department, required by BNM. Shariah auditors will provide the independent assessment of the state of Shariah compliance in IFIs. Shariah audit reports will be tabled in the Board Audit Committee to notify the Shariah compliance issues and rectification measures taken to address the issues. The individuals identified in the third line of defence are the internal auditors and the external auditors of the Islamic banks. Table 6 summarises the respondents and the reason for their selection:

Table 7: Selection of the respondents of the study

Respondents	Justification
1) Regulators	Policy maker.
2) Stakeholders – depositors of the Islamic banks	Parties that demand for Shariah compliance to be in place for Islamic banks.
3) Shariah Committee	The second line of defence according to IFSB in its Guiding Principles of Risk Management for Institutions (other than Insurance institutions).
4) Shariah Officers	The first line of defence according to IFSB in its Guiding Principles of Risk Management for Institutions (other than Insurance institutions).
5) Internal and External Auditor	The third line of defence according to IFSB in its Guiding Principles of Risk Management for Institutions (other than Insurance institutions).

5.4.1 Population and Sample

The sample is defined as part of the target population, carefully selected to represent the total population (Cooper & Schindler 2006). The process of sampling involves selecting a sufficient number of cases from the target population to make conclusions about the whole population, including the process to determine population, sampling frame, sampling method, sample size, and sample selection (Sekaran, 2000).

The questionnaires are distributed to individuals that directly related to the operations and Shariah compliance in the 22 IFIs in Malaysia. The lists of IFIs are gathered through the BNM website⁸. The target population in this study is defined as all individuals in Islamic banks directly related to Shariah audit practices which is the Shariah Committee; the practitioners (internal auditors, external auditors and Shariah officers) and the stakeholders. Regulators such as officers in Jabatan Perbankan Insurans dan Takaful (JPIT) are included in the population due to their responsibilities in overseeing the overall operations of Islamic banks to be Shariah compliant.

A sampling frame is a list of representative persons in a target population from which the sample may be drawn (McPhail, 2001). The sample unit in this study is the individual, who are directly related to the Shariah audit practices. The final sample of the regulators, Shariah Committee; the practitioners (internal auditors, external auditors and Shariah officers) and the stakeholders is illustrated in Table 8:

⁸ <http://www.bnm.gov.com>

Table 8: Distribution of the Survey Questionnaires

	Subjects	Population	Sample	Sample representative of the population	Questionnaire distribution	Received
1.	Shariah Committee	113	40	16%	40	14
2.	Internal auditors	88	31	12.5%	31	33
3.	External auditors	88	31	12.5%	31	16
4.	Shariah officers & Shariah managers	132	47	18%	47	32
5.	Stakeholders (depositors)	220	78	31%	78	43
6.	Regulators (BNM)	60	21	10%	21	28
	Total	701	248	100%	257	166

According to the Associations of Islamic Banking Institutions Malaysia (AIBIM) website, the total number of Shariah committee in Islamic banks in Malaysia is 103⁹. The total population in this study is 701. Based on the table for Determining Random Sample Size from a Given Population (Krejcie, V, Morgan, & W, 1970; Sekaran & Bougie, 2009), the sample of this study is approximately 248. The percentage of representatives according to group is calculated to avoid bias in sample size between the groups. For example, since the total number of Shariah committees is 103, the percentage of representatives from the population is determined by dividing the number of population in Shariah Committee with the total population of the study ($113/701=16\%$). This shows that out of the total population, 16% represents the Shariah

⁹ As at 30 June 2014

Committee group. Therefore, the sample calculated for Shariah committee group based on Sekaran and Bougie (2009) is 40.

The estimated population for the internal auditors and the external auditors is 88 for each group. The total population of the internal auditors and external auditors of the Islamic banks is unknown to the public since the human resources of each Islamic bank keep the record. However, the human resources department of each Islamic bank has agreed to distribute the questionnaire to the internal auditors and external auditor of their banks. Thus, it is expected that at least four representatives of each Islamic bank internal and external auditors will take part in the survey questions, which arrive at the populations of 88 respondents for each internal and external auditors. These groups represent 12.5% from the total population of the study, which arrives at a sample size of 31 respondents.

The Shariah officers and Shariah managers who will take part in the study should be individuals directly related to the Shariah review and Shariah audit function. The human resources department of each Islamic bank will direct the questionnaire to the Head Department of Shariah in the Islamic bank. The head department of Shariah will distribute it to the Shariah officers in charge of Shariah review and audit. At least one Shariah manager and five Shariah officers are expected to respond from each Islamic bank for a total population of 132 respondents. The Shariah manager and Shariah officers group represents 18% of the total population of the study.

The respondents from the stakeholders consist of the customers of the Islamic banks. Their selection is due to the responsibilities of the Islamic banks to ensure their depositors that the operations of the Islamic banks are Shariah compliant. Also, the customers/depositors should be aware of the Shariah issues in the operations of the Islamic banks. Since it is difficult to determine the exact total population for the Islamic

bank's customers, this research estimates at least ten customers from the 22 Islamic banks will participate in the study for a total population of 220 respondents. The questionnaire was distributed to the Islamic bank customers with the assistance of a support letter from the bank requesting them to participate in this study. Participants were assured of confidentiality and anonymity of their returned questionnaires. Self-administered questionnaires with assistance from the researcher were used to ensure a better response rate. Customers at the bank were given the questionnaires while ere waiting for their turn to be served. An attempt was made to randomise data collection at different times of the day and week. At the end of the data collection period, out of 120 questionnaires distributed, only 43 were collected.

The regulators involved in this study were from the Jabatan Perbankan Insurans & Takaful (JPIT) Department of BNM. The total population of the regulators (JPIT, BNM) is approximately 60 respondents. Based on the sample drawn, the regulators group represents 10% from the total population.

Next, this study summarises the operational variables that involve in this study. It is divided into independent and dependent variables. Tables 9 and 10 highlight the operationalisation of the independent and dependent variables.

Table 9: The Operationalisation of the Independent Variables

NO.	IV	Operational definition	References
H ₁	Framework	Five-point Likert scales –'1' indicates strongly disagree and '5' indicates strongly agree: <i>i.</i> Shariah audit framework should differ from Shariah review framework <i>ii.</i> Shariah auditor should audit the findings of Shariah review done by Shariah officers <i>iii.</i> Professional training and Continuous Professional Development (CPD) in Shariah audit is necessary	-Kasim (2009) -Omar Mustafa Ansari (2009) -Teck Heang and Azham (2008)

		<p>iv. Shariah audit framework should differ from current Statutory audit framework</p> <p>v. The external Shariah audit is necessary to complement the present practices of the Internal Shariah audit to increase the independence in the Islamic banks</p> <p>vi. The review of adequacy on the Shariah governance process should cover the roles, functions and reporting channel of the key organs of the IFIs (i.e. Board of Directors, Management, Shariah Committee & Audit Committee)</p>	
H ₂	Scope	<p>Five-point Likert scales – '1' indicates strongly disagree and '5' indicates strongly agree:</p> <p>i. The internal auditors should attest the financial statements of the Islamic banks for Shariah compliance</p> <p>ii. The scope of Shariah audit is limited as per SGF only</p> <p>iii. Human resource management</p> <p>iv. Shariah audit should cover the internal control system of an Islamic bank.</p> <p>v. Shariah audit on financial statements should include zakat disclosure, Profit Equalisation Reserve, purification of income.</p> <p>vi. Another possible scope of Shariah audit should cover business policies, contracts and agreements, environment impact of operations, social contribution, marketing and advertising, assessment of financial resource management.</p>	<p>-Kasim (2009)</p> <p>-Ahmad and Taylor (2009)</p> <p>-Rizzo (1970)</p> <p>-Gloeck and Jager (1993)</p>
H ₃	Competency	<p>Five-point Likert scales – '1' indicates strongly disagree and '5' indicates strongly agree:</p> <p>i. A qualified accountant</p> <p>ii. Appointed among Muslims only</p> <p>iii. Qualified in Shariah and accounting</p> <p>iv. Qualified in Shariah only</p> <p>v. Fully subscribe to the principles and Shariah rulings upon engagement and execution of the audit task</p> <p>vi. The internal auditors of the IFIs</p> <p>vii. Competent in Shariah, auditing, finance and law</p>	<p>-Kasim (2009)</p> <p>-Ahmad and Taylor (2009)</p> <p>-Rizzo (1970)</p> <p>-Aryee et. al. (1991)</p>
H ₄	Processess	<p>Five-point Likert scales – '1' indicates strongly disagree and '5' indicates strongly agree:</p>	<p>-BNM (2010)</p>

		<p>i. Audit committee should not determine the Shariah audit planning</p> <p>ii. Shariah audit programme is necessary for evidence purpose</p> <p>iii. Shariah auditor should ensure that all new fatwas, rulings and guidance and modifications to existing fatwas are identified and reviewed for each period under examination</p> <p>iv. Shariah committees are aware with the income purification issues and disclosed in the Shariah committee report</p> <p>v. The bank may appoint or employ external party or person to conduct Shariah audit</p> <p>vi. Shariah audit engagement should be endorsed by the Shariah committee</p> <p>vii. Shariah audit engagement should be recommended by the audit committee</p> <p>viii. Shariah audit engagement should be approved by the Board</p> <p>x. Shariah audit processes should be included in the Shariah Compliance Manual of each Islamic bank</p> <p>xi. Shariah committee should involve directly in determining the Shariah audit planning</p>	
H ₅	Reporting	<p>Five-point Likert scales – ‘1’ indicates strongly disagree and ‘5’ indicates strongly agree:</p> <p>i. Shariah audit report should communicated ongoing basis with a monthly report to Shariah committee and quarterly reporting to audit committee</p> <p>ii. Shariah audit report is a formulation of the audit opinion on the degree of assurance of timely and comprehensive adoption or implementation of Shariah principles and rulings</p> <p>iii. The report should include reporting on <i>ihsan, ithar, ta'awun, sabr</i>, <i>syukur</i> and <i>silaturahmi</i></p> <p>iv. The findings of Shariah audit should be reported in the annual report of the IFI.</p> <p>v. Shariah audit findings should be disclosed separately from Shariah Committee report i.e., Shariah audit report</p> <p>vi. The findings of Shariah audit should be included in the Shariah Committee report.</p>	<p>-Beekun and Badawi (2005)</p> <p>-SGF (BNM, 2010)</p>
H ₆	Independent	<p>Five Likert scales. ‘1’ indicates strongly disagree and ‘7’ indicates strongly agree.</p>	<p>-Grais and Pellegrini (2006)</p>

	<p>i. A Shariah auditor should be independent in the execution of the audit</p> <p>ii. A Shariah auditor is a person who always thinks of the concept justice in discharging responsibilities</p> <p>iii. A Shariah auditor should act independently without regard to self-interest</p> <p>iv. Shariah audit function should not be attached to the internal audit department of an Islamic bank.</p>	<p>-Beekun and Badawi (2005)</p> <p>-SGF (BNM)</p> <p>-Hanefah et al. (2011)</p> <p>-SGF (BNM, 2010)</p>
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Table 10: The Operationalisation of the Dependent Variables

NO.	DV	Operational definition	References
H ₁	Performance of Shariah audit responsibility: Regulator	<p>Five-point Likert scales –'1' indicates strongly disagree and '5' indicates strongly agree:</p> <p>i. The Shariah audit function shall be performed by internal auditors who have acquired adequate Shariah-related knowledge and training</p> <p>ii. Shariah audit may be conducted as part of the IFIs thematic audit on specialised areas such as management audit and Anti-Money Laundering Audit (AMLA).</p> <p>iii. Shariah audit on critical areas shall be conducted at least once a year depending on the risk profile of the IFI.</p> <p>iv. The audit committee upon consultation with the Shariah Committee shall determine the deliverables of the Shariah audit functions.</p>	<p>-Goodwin and Seow (2002)</p> <p>-Omar Mustafa Ansari (2009)</p> <p>-Teck Heang and Azham (2008)</p>
H ₂	Performance of Shariah audit responsibility: Shariah rulings	<p>Five-point Likert scales –'1' indicates strongly disagree and '5' indicates strongly agree:</p> <p>i. Shariah audit should cover on Shariah rulings</p> <p>ii. Shariah auditor should obtain and make references to relevant sources</p> <p>iii. Shariah auditor should attest and provide assurance</p>	<p>-Ahmad and Taylor (2009)</p> <p>-Rizzo (1970)</p> <p>-Gloeck and Jager (1993)</p> <p>-Hendrickson (1998)</p>
H ₃	Performance of Shariah audit responsibility: Shariah assurance	<p>Five-point Likert scales –'1' indicates strongly disagree and '5' indicates strongly agree:</p> <p>i. Shariah auditor is responsible towards the outside financiers</p> <p>ii. Shariah auditor should have a clear understanding of the business activities of the IFI</p> <p>iii. Shariah auditor should develop a comprehensive internal audit program or plan</p> <p>iv. Shariah auditor should provide recommendations on rectification</p>	<p>-Ahmad and Taylor (2009)</p> <p>-Rizzo (1970)</p> <p>-Aryee et. al. (1991)</p>

		<p>v. Shariah auditor should attest and provide assurance that the Internal Shariah Control System (ISCS)</p> <p>vi. Shariah auditor should assess the adequacy of Shariah review</p> <p>vii. Shariah auditor should detect fraud related to Shariah</p> <p>viii. Shariah auditor should communicate results of any assessment</p> <p>ix. Shariah auditor should include objectives, scope, personnel assignment, sampling, control and duration in the Shariah audit planning</p>	
H ₄	Shariah Auditor's Performance	<p>Five-point Likert scales – '1' indicates 'poor' and '5' indicates 'excellent':</p> <p>i. auditor's performance as prescribed in the IPPF (Preventing errors, Detecting errors and irregularities, Communicating effectively, Diagnosing problem, Coping with professional rules and Shariah rulings)</p>	-IPPF (2013) -IIA

Based on the table above, the list of hypotheses are as follows:

Second Phase - Part A: Perceptions of respondents on audit expectation gap in Shariah audit practices (independent variable components):

1) **H₁**: There is an expectation gap among the respondents (regulators, Shariah committee, internal auditors, external auditors, Shariah auditors, Shariah officers and the depositors) on the practice of Shariah audit in the Islamic banks.

H_{1a}: There is an expectation gap among the respondents on the framework of Shariah audit in the Islamic banks.

H_{1b}: There is an expectation gap among the respondents on the scope of Shariah audit in the Islamic banks.

H_{1c}: There is an expectation gap among the respondents on the competency of Shariah audit in the Islamic banks.

H_{1d}: There is an expectation gap among the respondents on the processes of Shariah audit in the Islamic banks.

H_{1e}: There is an expectation gap among the respondents on the reporting of Shariah audit in the Islamic banks.

H_{1f}: There is an expectation gap among the respondents on the independence of Shariah audit in the Islamic banks.

Second Phase - Part B: Perceptions of respondents on audit expectation gap on Shariah audit performance (dependent variables):

1) **H₂:** *There is an expectation gap among the respondents (regulators, Shariah committee, internal auditors, external auditors, Shariah auditors, Shariah officers and the depositors) in relation to the Shariah audit responsibility.*

H_{2a}: *There is an expectation gap among the respondents concerning Shariah audit responsibility as prescribed by regulatory BNM.*

H_{2b}: *There is an expectation gap among the respondents concerning Shariah audit responsibility on Shariah rulings (bakhs, tatif, 'uqud, khiyanah, israf, tanajush, speculation and gharar).*

H_{2c}: *There is an expectation gap among the respondents concerning Shariah audit responsibility to attest and provide Shariah assurance in the Islamic Banks.*

2) **H₃:** *There is an expectation gap among the respondents (regulators, Shariah committee, internal auditors, external auditors, Shariah auditors, Shariah officers and the depositors) on Shariah auditor's performance in Islamic banks.*

Third Phase: Factors affecting expectation gap in Shariah audit; Shariah audit responsibility and Shariah auditor's performance in Islamic banks.

1) **H₄:** *Framework is positively related to the Shariah audit responsibility and Shariah auditor's performance in Islamic banks.*

2) **H₅:** *Independence is positively related to the Shariah audit responsibility and Shariah auditor's performance in Islamic banks.*

3) **H₆:** *Competency is positively related to the Shariah audit responsibility and Shariah auditor's performance in Islamic banks.*

4) **H₇:** *Reporting is positively related to the Shariah audit responsibility and Shariah auditor's performance in Islamic banks.*

5) **H₈:** *Scope is positively related to the Shariah audit responsibility and Shariah auditor's performance in Islamic banks.*

6) **H₉:** *Processes is positively related to the Shariah audit responsibility and Shariah auditor's performance in Islamic banks.*

The overall conceptual framework of the thesis is illustrated in the figure below:

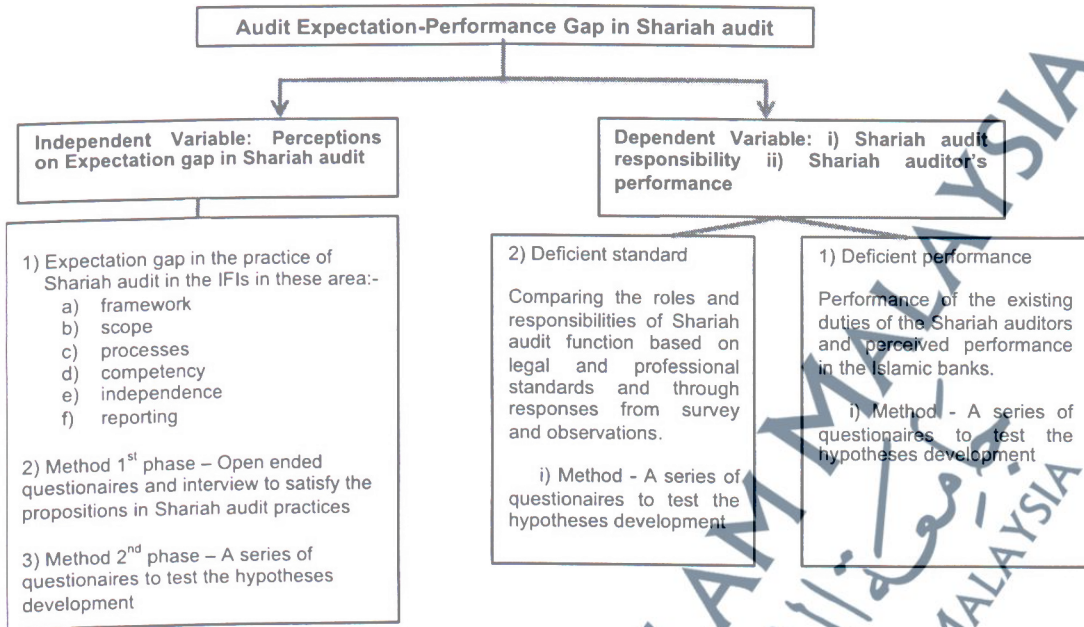


Figure 10: Conceptual framework of Audit Expectation-Performance Gap in Shariah Audit Practices

5.4.2 Selecting a Data Analysis Strategy

The final step is to select the appropriate statistical analysis technique. To do this, the research problem, objectives, characteristics of data and the underlying properties of the statistical techniques are considered (Malhotra, 1999). To meet the purposes of this study, descriptive and inferential analyses will be applied. Descriptive analyses refer to the transformation of raw data into a form that would provide information to describe a set of factors in a situation that will make it easy to understand and interpret (Cooper & Schindler, 2006). This analysis gives meaning to data through frequency distribution, mean, and standard deviation. A cross-tab and chi-square analysis will be an added value to the discussions of findings.

Inferential analysis refers to the cause-effect relationships between variables. Inferential statistics used for this research will be correlations and multiple regression analysis. Correlation analysis will be used to test the existence of relationships between variables being studied. Inferential statistics rely on principles of probability sampling, whereby a researcher uses a random process to select cases from the entire population. Inferential statistics are a precise way to talk about how confident a researcher can be when inferring from the results in a sample of the population (Neuman, 2006). In addition, an exploratory factor analysis will be performed to identify the common items of an underlying dimension, or also called factor (Hair et al., 1998). Through this extraction technique, it was evident which factors should be considered. The higher/lower loading factors will naturally produce higher/lower values.

5.4.3 Statistical Package for the Social Sciences Software (SPSS) data Analysis

The researcher chose SPSS software as a tool to summarise data (e.g. mean, standard deviation, percentiles), determine whether there are significant differences between groups (e.g. t-test, analysis of variance), examine relationships among variables (e.g. correlation, multiple regression) and perform complex data analysis (Aripin, 2004). The measurement research model must be analysed by assessing its reliability and validity. The measurement model shows the relationship between items and constructs. It is defined as the construct and assigns the items to them (Bollen, 1989; Gefen et al., 2000). The second step is the assessment of the structural model where the relationship between constructs will be tested (Fornell and Larcker, 1981). In the first step, the goodness of the measures will be assessed using validity and reliability.

Validity tests how well an instrument that is developed to measure the particular concept it is intended to measure (Sekaran and Bougie, 2010). The validity can be analysed using construct validity, convergent validity, and discriminant validity. The purpose of the reliability analysis is to test how consistently a measuring instrument measures the concept in the study (Sekaran and Bougie, 2010). In this first step, a reflective measure can analyse the validity and reliability of the items. However, for the formative measure, the absolute value of the items weight will be examined (Moreno and Casillas, 2008).

5.4.4 Data Analysis: Introduction to Structural Equation Modelling (SEM)

SEM allows researchers to assess the overall fit of a model as well as test the structural model altogether (Chin, 1998b; Gefen, Straub, & Boudreau, 2000). SEM not only evaluates the hypothesised structural linkages among variables but the linkages that exist between a variable and its respective measures. SEM is a family of multivariate statistical techniques used to examine direct and indirect relationships between one or more independent latent variables (LVs) and one or more dependent LVs (Gefen et al., 2000). SEM is a flexible modelling tool for conducting many multivariate statistical analyses, including regression analysis, path analysis, factor analysis, canonical correlation analysis, and growth curve modelling (Gefen et al., 2000; Urbach & Ahlemann, 2010).

When applying SEM correctly, it offers better advantages over the first generation of analysis techniques (e.g. principal component analysis, factor analysis, or multiple regression) where it allows flexibility for researchers to interplay between theory and data (Chin, 1998a). According to Chin (1998a), SEM allows researchers to:

1) model relationships among multiple predictors and criterion variables; b) construct unobservable LVs; 3) model errors in measurement for observed variables; and 4) statistically test a priori theoretical and measurement assumptions against empirical data.

The two main approaches within SEM are a component-based approach such as partial least square (PLS-SEM) and a covariance-based approach (CB-SEM) (Fornell & Bookstein, 1982; Marcoulides, Chin, & Saunders, 2009; Wetzels, Odekerken-Schroder, & van Oppen, 2009). These two approaches are different regarding the underlying statistical assumptions and the nature of fit statistic they produce (Gefen et al., 2000).

CB-SEM uses the maximum likelihood (ML) function to minimise the differences between the sample covariance and those predicted by the theoretical model. The estimated parameters attempt to reproduce the observed values' covariance matrix. When applying the ML function, the observed variables have to follow a normal distribution and observations must be independent of one another (Chin, 1998b; Hair, Ringle, & Sarstedt, 2011; Urbach & Ahlemann, 2010). On the other hand, PLS-SEM's main objective is to maximise the covariance between the predictor latent variable and the dependent latent variable (Sosik, Kahai, & Piovosio, 2009). PLS uses least square estimation for single and multi-component models and canonical correlation (Chin, 1998b). The PLS approach avoids many of the restrictive assumptions underlying ML techniques and ensures against improper solution and factor indeterminacy (Fornell & Bookstein, 1982).

Within the literature, PLS-SEM is viewed as a method that is less rigorous and not suitable for examining relationships between LVs (Rouse & Corbitt, 2008). Despite all of the critiques, recently PLS-SEM has been applied increasingly in marketing and

other business disciplines (Henseler et al., 2009). Scholars are now accepting the PLS-SEM method as a more robust estimation of the structural model (Henseler et al., 2009). PLS-SEM is also viewed as an alternative method when CB-SEM distributional assumptions cannot be met (Hair et al., 2011). Furthermore, the informational and distributional demand required by CB-SEM is viewed as unrealistic for many fields of inquiry especially in the social sciences (Wold, 1982). Hence, this study agrees with the stance of not viewing both statistical methods as a competitive statistical method; rather, it should be considered a complementary method (Joreskog and Wold, 1982). In deciding which statistical method is suitable to use, this study follows the rules of thumbs proposed by Hair et al. (2011) for selecting between CB-SEM and PLS-SEM.

5.4.5 Rules of Thumb for Selecting CB-SEM or PLS-SEM

Partial least squares (PLS) is used to examine the hypothesised relationships among constructs. As such, software named SmartPLS 2.0 is employed (Ringle et al., 2005). Two reasons are leading to the selection of PLS. First, the current study has a sample size that is lower than that of the threshold of 250 observations (Golicic et al., 2012). The sample size is 237. Therefore, PLS seems appropriate. Second, PLS places minimal restrictions on residual distributions. This explains multivariate normality is not an issue in PLS. Third, PLS is suitable for explaining complex relationships (Shi et al., 2008). The present study model examines complex relationships including a test of the mediating variable for attitude. Thus, the use of PLS is viewed as being appropriate. Fourth, PLS is suitable if a researcher intends to formulate a new research model in predicting behaviours. A study by Golicic et al. (2012) has confirmed this view by asserting that PLS is prediction oriented and attempts to explain variance in newer

theories. Earlier works in Islamic home financing have not attempted to extend PLS in their research frameworks (Abdul-Razak and Abduh, 2012; Tameme and Asutay, 2012; Amin, 2008).

Understanding the assumptions underlying these statistical methods can help the researcher determine which statistical method is appropriate. According to Hair et al. (2011), the selection between CB-SEM and PLS-SEM can be made based on a few factors such as research objective, types of measurement model specification, the modelling of the structural model, data characteristics and model evaluation. These authors suggest five useful rules of thumb, which can be used as a guide when selecting between PLS-SEM and CB-SEM.

First, when selecting between these two methods, the researcher has to identify the objective of conducting the research. CB-SEM is an appropriate method to use if the research objective is to test or confirm a theory. This is because testing a theory requires the ability to show how well a theoretical model fits the observed data (Barclay, Higgins, & Thompson, 1995). According to these authors, CB-SEM is more appropriate for hard modelling where the aim is to minimise the covariance matrix. This has been the strength of CB-SEM. Meanwhile, PLS-SEM is suitable when the research objective is for prediction and theory development. This is also known as soft modelling. In soft modelling, the focus is on identifying the best prediction of relationships between variables and the focus is on maximising the amount of covariance between LVs to increase the model interpretation (Sosik et al., 2009).

Second, the use of CB-SEM is limited to research models that use reflective constructs. Although previous studies have used formative measures within the structural model, they usually lead to identification problems (Henseler et al., 2009). For instance, the use of formative constructs within CB-SEM would create a situation

where the explanation of the covariance of all indicators is not possible (Chin, 1998b). Further, the use of CB-SEM in handling both reflective and formative constructs is relatively complicated (Urbach & Ahlemann, 2010). On the other hand, PLS-SEM can be used to analyse a research model that consists of both reflective and formative constructs (Chin, 1998b). Using PLS allows researchers to use either reflective, formative or the combination of both reflective and formative constructs at the same time.

Third, using CB-SEM, there is a set of assumptions needed to be fulfilled before further analysis can be conducted using CB-SEM software. The assumptions involve the assessment of 1) data multivariate normality, 2) observation independence, and 3) variable metric uniformity (Sosik et al., 2009). Using CB-SEM requires the data to have a normal distribution and a large sample size. If one of the assumptions is violated, CB-SEM results will be highly imprecise (Hair et al., 2011). Whereas, for PLS-SEM it is a more robust approach and can be used to analyse data with non-normality distribution. Using PLS-SEM, data normality is not a demanded aspect because PLS uses calibration mechanisms, which transform any non-normal data into data that adheres to the central limit theorem (Beebe, Pell, & Seasholtz, 1998). Finally, regarding structural model evaluation, the PLS main objective is to test/predict the theoretical model that has been suggested based on the literature and not to test which alternate model fits the data better (Sosik et al., 2009). The residuals on manifest and latent variables are correlated in PLS; thus allowing PLS to “estimate” (Falk & Miller, 1992, p. 10).

Table 11: Summary of the Rule of Thumb in selecting between CB-SEM and PLS-SEM

No.	Criteria to evaluate	CB-SEM	PLS-SEM
1.	Research goal i) predicting key target constructs ii) Theory testing, theory confirmation or comparison of alternative theories iii) Exploratory of an extension of an existing structural theory	/	/
2.	Measurement model specification i) If formative constructs are part of the structural model ii) If error terms require additional specification such as co-variation	/	/
3.	Structural model i) If a structural model is complex ii) If a structural model is non-recursive	/	/
4.	Data characteristics and algorithm i. Data meet distributional assumptions ii. Data did not meet distributional assumptions iii. Small sample size consideration iv. Large sample size consideration v. Non-normal distribution vi. Normal distribution	/	/
5.	Model evaluation i. Use latent variable scores in subsequent analyses ii. Requires global goodness of fit criterion iii. Need to test for measurement model invariance	/	/

*Adapted from: Henseler et al. (2009) and Hair et al. (2011)

Based on the above rules of thumb, this study adopts PLS-SEM as the statistical method to assess the research model. The focus of the analysis in this study does not involve the measuring of model invariance. The focus of this study is prediction factors related to members' continuous knowledge sharing intention. Hence, the use of latent variable (LVs) scores is important to examine the underlying relationship between the LVs. This study uses a large number of LVs and complex modelling of a research model. According to Henseler et al. (2009), PLS is suitable for large complex models with

		<p>i. Audit committee should not determine the Shariah audit planning</p> <p>ii. Shariah audit programme is necessary for evidence purpose</p> <p>iii. Shariah auditor should ensure that all new fatwas, rulings and guidance and modifications to existing fatwas are identified and reviewed for each period under examination</p> <p>iv. Shariah committees are aware with the income purification issues and disclosed in the Shariah committee report</p> <p>v. The bank may appoint or employ external party or person to conduct Shariah audit</p> <p>vi. Shariah audit engagement should be endorsed by the Shariah committee</p> <p>vii. Shariah audit engagement should be recommended by the audit committee</p> <p>viii. Shariah audit engagement should be approved by the Board</p> <p>x. Shariah audit processes should be included in the Shariah Compliance Manual of each Islamic bank</p> <p>xi. Shariah committee should involve directly in determining the Shariah audit planning</p>	
H ₅	Reporting	<p>Five-point Likert scales – '1' indicates strongly disagree and '5' indicates strongly agree:</p> <p>i. Shariah audit report should communicated ongoing basis with a monthly report to Shariah committee and quarterly reporting to audit committee</p> <p>ii. Shariah audit report is a formulation of the audit opinion on the degree of assurance of timely and comprehensive adoption or implementation of Shariah principles and rulings</p> <p>iii. The report should include reporting on <i>ihsan, ithar, ta'awun, sabr</i>, <i>syukur</i> and <i>silaturahmi</i></p> <p>iv. The findings of Shariah audit should be reported in the annual report of the IFI.</p> <p>v. Shariah audit findings should be disclosed separately from Shariah Committee report i.e., Shariah audit report</p> <p>vi. The findings of Shariah audit should be included in the Shariah Committee report.</p>	<p>-Beekun and Badawi (2005)</p> <p>-SGF (BNM, 2010)</p>
H ₆	Independent	<p>Five Likert scales. '1' indicates strongly disagree and '7' indicates strongly agree.</p>	<p>-Grais and Pellegrini (2006)</p>

Table 11: Summary of the Rule of Thumb in selecting between CB-SEM and PLS-SEM

No.	Criteria to evaluate	CB-SEM	PLS-SEM
1.	Research goal i) predicting key target constructs ii) Theory testing, theory confirmation or comparison of alternative theories iii) Exploratory of an extension of an existing structural theory	/	/
2.	Measurement model specification i) If formative constructs are part of the structural model ii) If error terms require additional specification such as co-variation	/	/
3.	Structural model i) If a structural model is complex ii) If a structural model is non-recursive	/	/
4.	Data characteristics and algorithm i. Data meet distributional assumptions ii. Data did not meet distributional assumptions iii. Small sample size consideration iv. Large sample size consideration v. Non-normal distribution vi. Normal distribution	/	/
5.	Model evaluation i. Use latent variable scores in subsequent analyses ii. Requires global goodness of fit criterion iii. Need to test for measurement model invariance	/	/

*Adapted from: Henseler et al. (2009) and Hair et al. (2011)

Based on the above rules of thumb, this study adopts PLS-SEM as the statistical method to assess the research model. The focus of the analysis in this study does not involve the measuring of model invariance. The focus of this study is prediction factors related to members' continuous knowledge sharing intention. Hence, the use of latent variable (LVs) scores is important to examine the underlying relationship between the LVs. This study uses a large number of LVs and complex modelling of a research model. According to Henseler et al. (2009), PLS is suitable for large complex models with

many latent variables. According to Urbach & Ahlemann (2010), large complex model refers to a research model that has 100 constructs and 1,000 indicators. The ability of PLS-SEM to estimate the correlations between the residuals and assess their impacts on the model make this technique the appropriate approach.

5.4.6 Partial Least Square (PLS)

PLS was originated by an econometrician named Herman Wold in the 60s and 70s (Chin, 1998b). PLS is a family of alternating least squares algorithms, which extend principal component and canonical correlation analysis (Henseler et al., 2009). Its path models are usually defined using two sets of linear equations known as the measurement model and structural model (Henseler et al., 2009). The measurement model specifies the relationships between unobserved or latent variables (LV) whereas the outer model specifies the relationships between an LV and its manifest variables. The inner and outer model sometimes also known as the structural and measurement model.

According to Petter et al. (2007), internal consistency is necessary for a reflective construct. Internal reliability measures are required to ensure the measures are reliable. A reflective construct should be uni-dimensional and if any measures are removed; it would not affect the content validity (Petter et al., 2007). On the other hand, formative indicators need not be correlated nor have high internal consistency and any changes in the formative measures will cause variations in the underlying construct (Jarvis et al., 2003). A formative construct causes the latent construct representing different dimensions of it (Gefen et al., 2000). These observed variables are not assumed to be correlated with each other or to represent the same underlying dimension (Chin, 1998).

5.4.6.1 Measurement Model

Based on previous studies, the validation of a reflective measurement model can be established by testing its internal consistency, indicator reliability, convergent validity and discriminant validity (Lewis, Templeton, & Byrd, 2005; Straub, Boudreau, & Gefen, 2004).

a) Construct Validity

Construct validity shows how the results are obtained from the use of such measures in accordance with the theories around which the test is designed (Sekaran and Wax, 2010). This can be evaluated through convergent and discriminant validity. First, it can be seen at the respective loadings and cross loadings to assess if there are problems with any particular items. The cut of value used for loadings at 0.5 as significant (Hair, Black et al. 2010). As such, if any items with a loading of higher than 0.5 on two or more factors, then they will be deemed to be having significant cross-loadings.

b) Convergent Validity

The convergent validity is the degree to which multiple items to measure the same concept is in agreement. As suggested by Hair et al. (2010) the loadings for all items should exceed the recommended value of 0.5. Composite reliability values, which depict the degree to which the construct indicators indicate the latent variable, should exceed the recommended value of 0.7 (Hair et al., 2010). The average variance extracted (AVE) measures the variance captured by the indicators relative to measurement error, and it should be greater than 0.50 to justify using a construct (Barclay et al. 1995). The best AVE should be in the range of 0.511 and 0.912.

c) Discriminant Validity

The discriminant validity of the measures (the degree to which items differentiate among constructs or measure distinct concepts) was assessed by examining the correlations between the measures of potentially overlapping constructs. Items should load more strongly on their constructs in the model, and the average variance shared between each construct and its measures should be greater than the variance shared between the construct and other constructs (Higgins et al., 1999). The correlations for each construct are less than the AVE by the indicators measuring that construct indicating adequate discriminant validity. In total, the measurement model demonstrated the adequate convergent validity and discriminant validity. Using Fornell-Larcker's criterion requires an LV to share more variance with its assigned indicators than with any other LV. Thus, the AVE of each LV should be greater than the LV's highest squares correlation with any other LV. The summary of validity guidelines to assess a reflective measurement model is listed in Table 12.

Table 12: Summaries of Validity Guidelines for Assessing Reflective Measurement Model

	Validity Type	Criterion	Guidelines
1.	Internal consistency	CR	CR > 0.7 (for exploratory study) CR > 0.8 (advance research) CR < 0.6—lack of reliability
2.	Indicator reliability	Indicator loadings	Item's loading > 0.7 and significant at least at the 0.05 level
3.	Convergent validity	AVE	AVE > 0.50
4.	Discriminant validity	Cross loading Fornell and Larcker	Item's loading of each indicator is highest for its designated construct. The square root of the AVE of a construct should be greater than the correlations between the construct and other constructs in the mode

d) Reliability Analysis

The Cronbach's alpha coefficient and composite reliability were used to assess the inter-item consistency of the measurement items. All alpha values are above 0.6 as suggested by Nunnally and Berstein (1994). The alpha value ranged from 0.626 to 0.919 shows that the data is strong and reliable. Interpreted like a Cronbach's alpha for internal consistency reliability estimate, a composite reliability of 0.70 or greater is considered acceptable (Fornell and Larcker 1981).

e) Structural Model

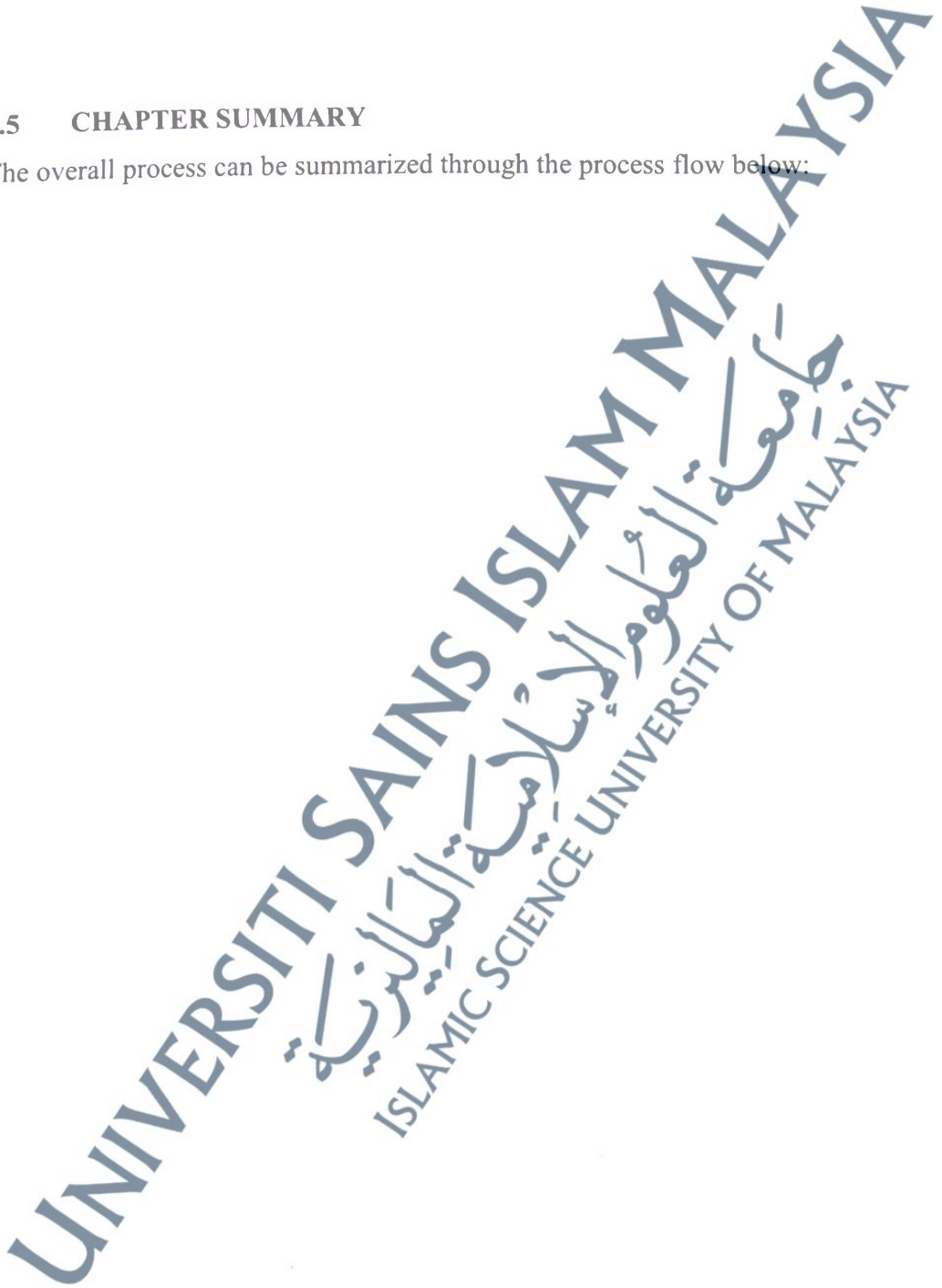
Validating the structural model can help the researcher to evaluate systematically whether the hypotheses expressed by the structural model are supported by the data (Urbach & Ahlemann, 2010). The structural model can only be analysed after the measurement model has been validated successfully. In PLS, a structural model can be evaluated using coefficient of determination (R^2), and path coefficients. The first important criterion for assessing the PLS structural model is to evaluate each endogenous LV's coefficient of determination (R^2). R^2 measures the relationship of an LV's explained variance to its total variance. According to Chin (1998b), a value of R^2 around 0.67 is considered substantial; values around 0.333 are average, and values of 0.19 and lower are considered weak.

By examining the path coefficient value, a researcher is able to know the strength of the relationship between two LVs. To examine the relationship between two LVs, the researcher should check the path coefficients, algebraic sign, magnitude and significance. According to Huber et al. (2007), the path coefficients should exceed

0.100 to account for a certain impact within the model and be significant at least at the 0.05 level of significance.

5.5 CHAPTER SUMMARY

The overall process can be summarized through the process flow below:



1) FIRST PHASE: Reasonableness Gap
(Method: Interview)

Determine reasonableness gap components in Shariah audit practices based on the IIA guidelines on the setting up and operations of Internal audit department and input from interview sessions

2) SECOND PHASE
(Method: Questionnaires-
test the hypotheses)

PART A - Reasonableness gap:
Expectation gap in Shariah audit practices in the IFI in the following area:

- a) framework
- b) scope
- c) processes
- d) competency
- e) independence
- f) reporting

PART B - Performance gap;
i) deficient standard: Shariah audit responsibility on
a) regulations b) Shariah rulings and c) attestation and assurance.

- ii) deficient performance: expected standard of Shariah auditors performance of auditors existing duties and auditors perceived performance.

3) THIRD PHASE:
(Method: SEM-PLS)

Factors (Reasonableness gap components; Framework, Scope, Processes, Competency, Independence and Reporting) affecting audit expectation gap on:

- i) Shariah audit responsibility
- ii) Shariah auditors performnace

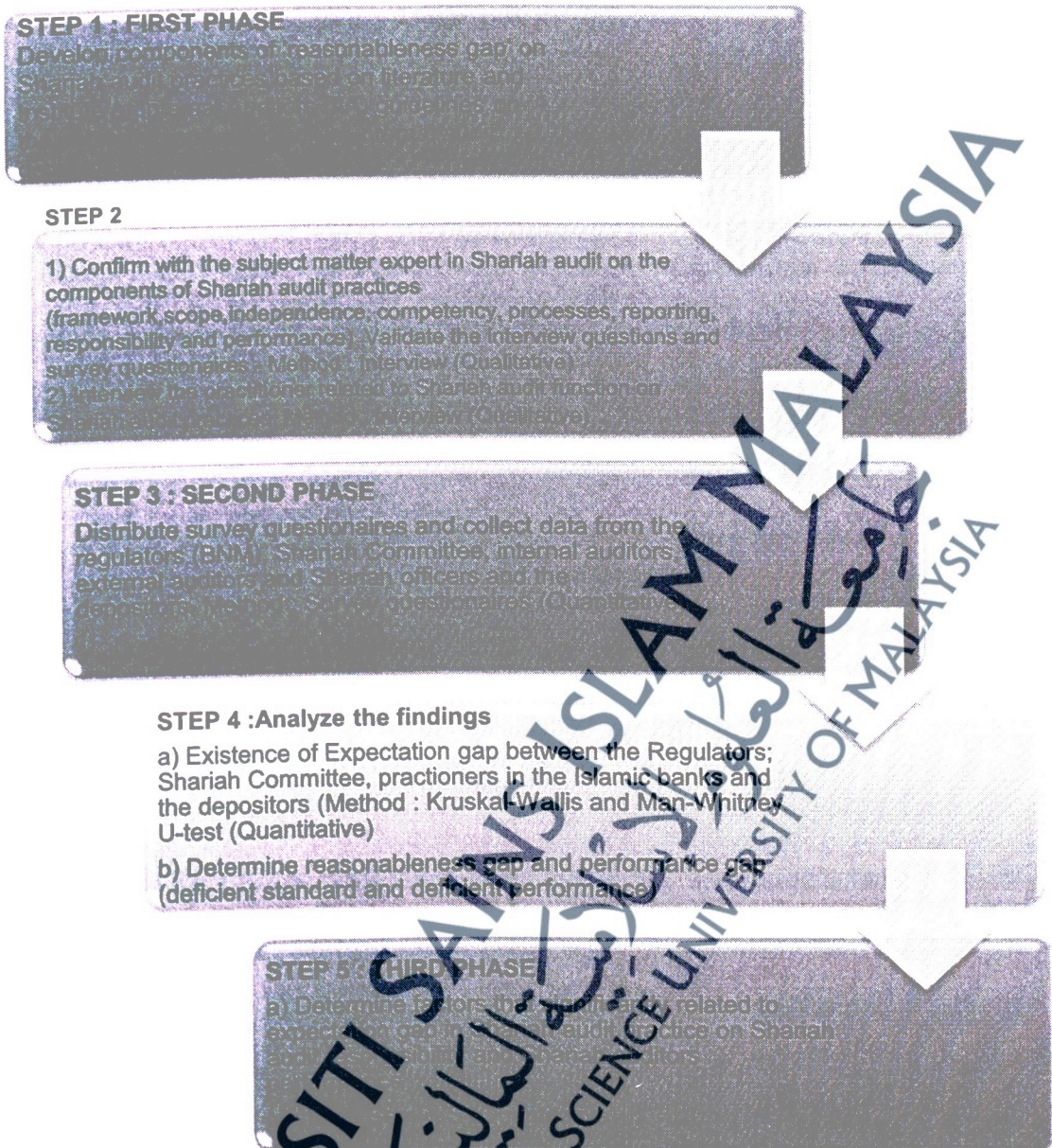


Figure 11: Overall Process of the Research

During the first phase, this study has taken the first step by developing components of 'reasonableness gap' on Shariah audit practices based on literature and Institute of Internal Auditors (IIA) guidelines on the setting up and operation of internal audit departments. The second step of the study involve confirming with the subject matter expert in Shariah audit on the components of Shariah audit practices (framework, scope,

independence, competency, processes, reporting, responsibility and performance) through validating the interview questions and survey questionnaires. The method involve at this stage is qualitative method. The expert that involves at this stage are the practitioners related to Shariah audit function on Shariah audit practices.

During step 3 which also at the second phase of the thesis, this study develop a questionnaires based on the interview feedback and distribute the survey questionnaires to the regulators (BNM), Shariah Committee, internal auditors, external auditors, Shariah officers and the depositors. This is to gain empirical evidence on the existence of expectation gap in Shariah audit practices in the IFIs. Step 4 of the study involve analyzing the findings on the i) Existence of Expectation gap between the Regulators; Shariah Committee, practioners in the Islamic banks and the depositors. (Method : Kruskal-Wallis and Man-Whitney U-test (Quantitative) and ii) Determine reasonableness gap and performance gap (deficient standard and deficient performance)

Step 5 which also the third phase of the thesis involve determining factors that significantly related to expectation gap in Shariah audit practice on Shariah audit responsibility and Shariah auditors performance. The method used at this stage is quantitative on SemPLS.