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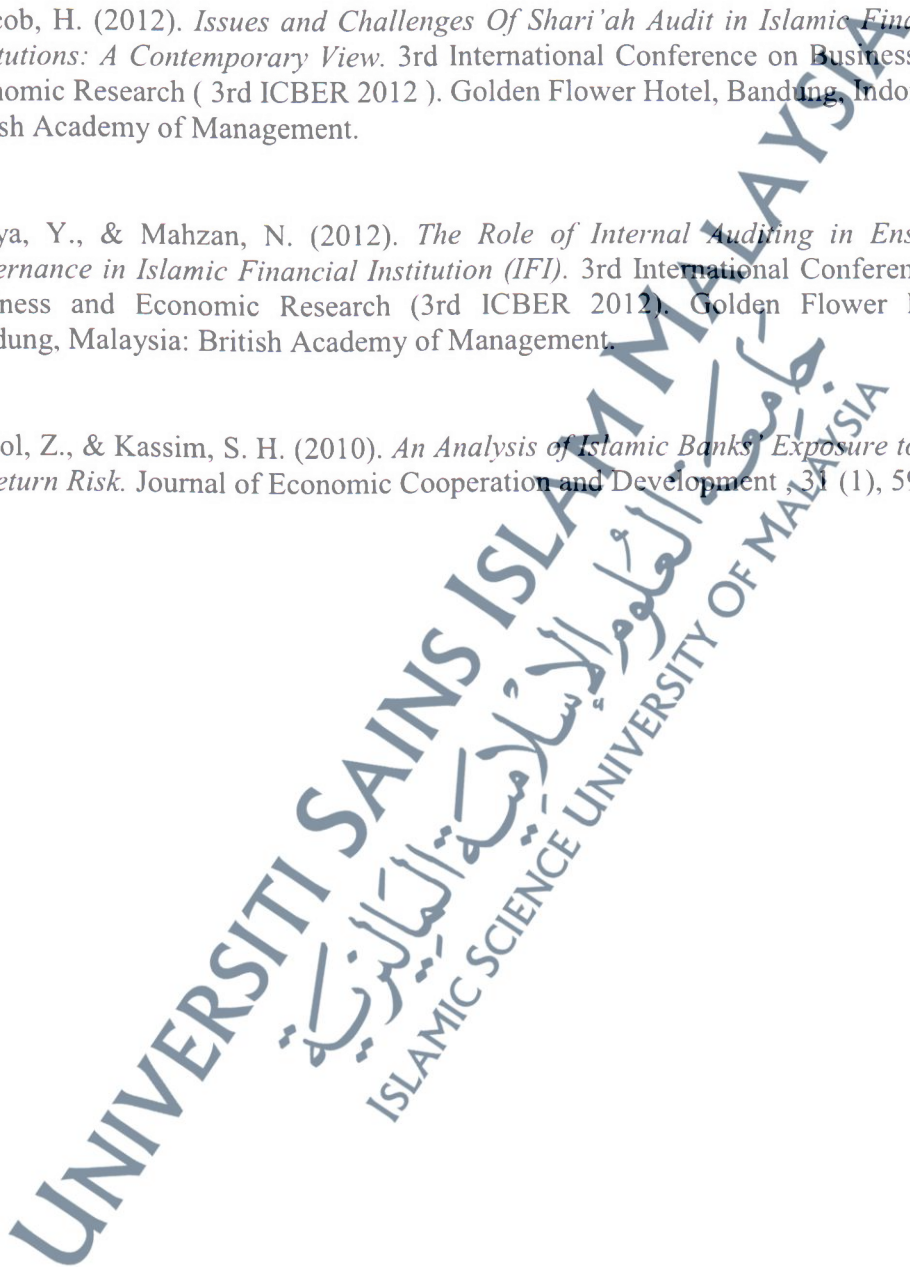
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APPENDICES



SHARIAH AUDIT PRACTICES IN THE IFIs OF MALAYSIA : AN AUDIT EXPECTATION GAP ANALYSIS

PART 1: DEMOGRAPHIC DATA

* Required

Gender *

Male

Female

Age *

Below 30

31-40

41-50

Above 50

What is your designation? *

Shariah Committee

Internal Auditor

External auditor

Stakeholders(i.e. employees, customers)

- Shariah Manager
- Shariah Officer
- Shariah Auditor
- Regulators (BNM)
- Regulators (SC)

Do you have any Legal background? *

- Yes (Please state the level.....)
- No

Do you have any Shariah qualification? *

- Yes (Please state the level
- No

Do you have any auditing/accounting qualification? *

- Yes (Please state the level
- No

Are you involved directly in Shariah audit function? *

- Yes (Please provide the department:
- No

Number of years of experience in Islamic banking. *

- 1-2 years
- 3-5 years
- 6-10 years
- More than 10 years

From your observation and experience, what is the current structure of auditing in the IFI that you are involved with? *

- Conventional auditing framework
- Conventional auditing framework with modifications
- Developing new auditing framework that suits the IFI activities and operations.
- Not aware.

PART II: SHARIAH AUDIT PRACTICES

FRAMEWORK OF SHARIAH AUDIT PRACTICES IN THE ISLAMIC BANKS *

Strongly

Somewhat

Strongly

	disagree	Disagree	agree	Agree	agree
Shariah audit framework should differ from Shariah review framework.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit framework should differ from current Statutory audit framework.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The external Shariah audit is necessary to complement the present practices of the Internal Shariah audit to increase the independence in the Islamic banks.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit function should not be attached to the internal audit department of an Islamic bank.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit function should not be an independent division in the Islamic banks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The current scope of Shariah audit outlined by BNM in Shariah Governance Framework are not sufficient.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The internal auditors should attest the financial statements of the Islamic banks for Shariah	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

compliance.

Shariah audit on financial statements should include zakat disclosure, PER, purification of income)

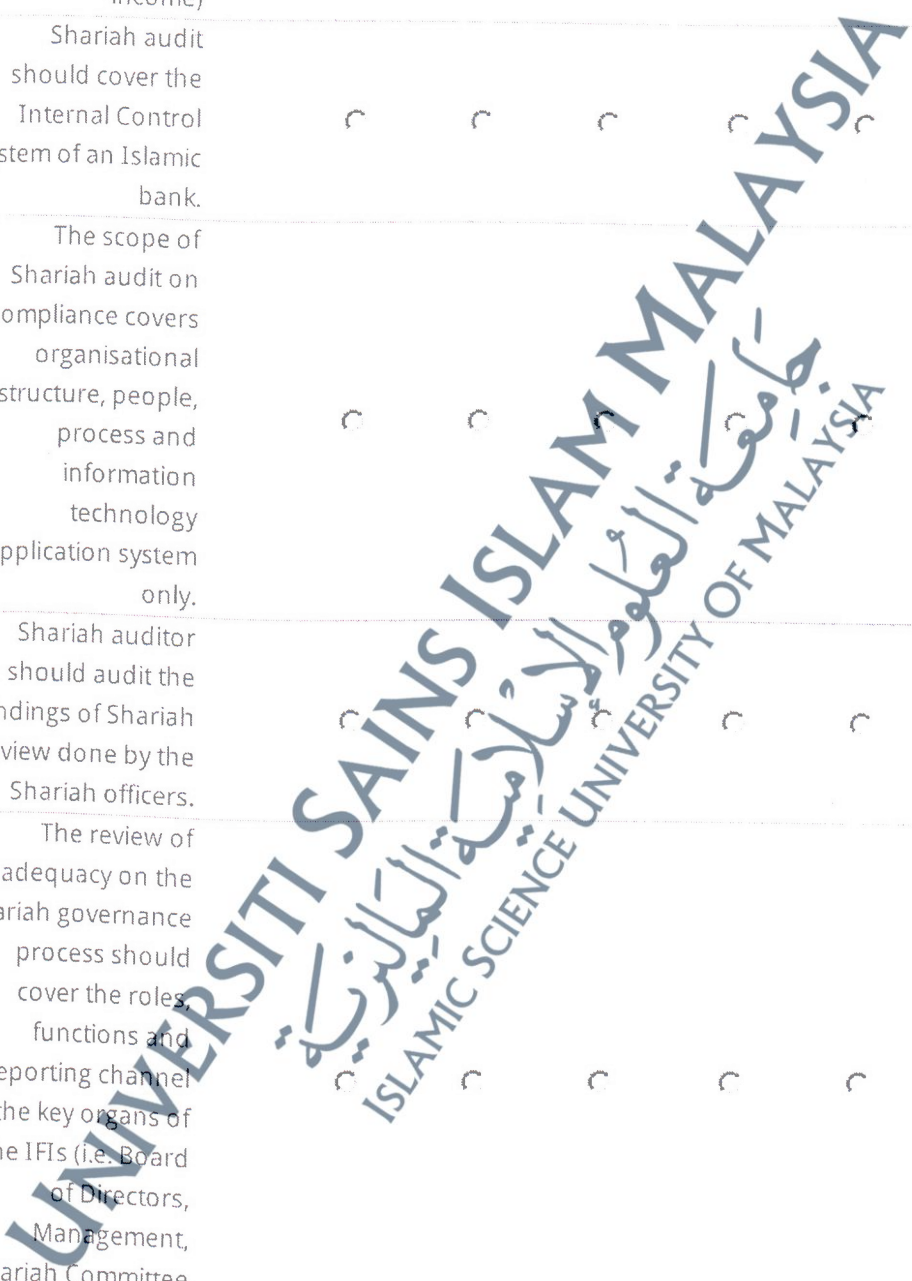
Shariah audit should cover the Internal Control system of an Islamic bank.

The scope of Shariah audit on compliance covers organisational structure, people, process and information technology application system only.

Shariah auditor should audit the findings of Shariah Review done by the Shariah officers.

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)

Professional training and Continuous Professional Development (CPD)



in Shariah audit is necessary.

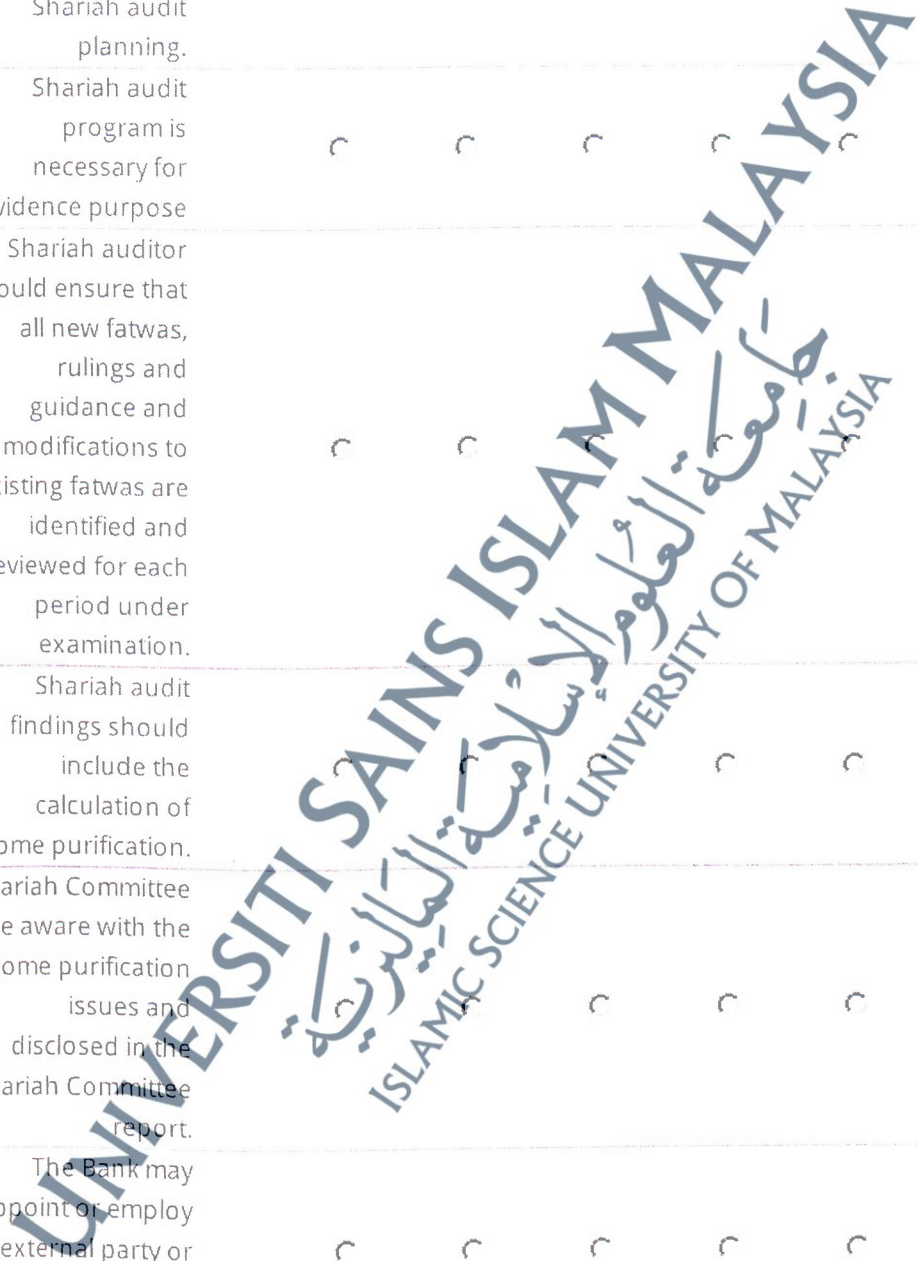
SHARIAH AUDIT SCOPE SHOULD COVER THE FOLLOWING ITEMS: *

	Strongly disagree	Disagree	Somewhat agree	Agree	Strongly agree
Human Resource Management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business policies	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Process and Procedures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Zakat calculation and payment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Contracts and agreements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Environmental impact of operations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Social contribution	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Marketing and advertising	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Income purification	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Assessment of financial resource management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

SHARIAH AUDIT PROCESSES IN THE ISLAMIC BANKS CONSISTS THE FOLLOWING: *

	Strongly disagree	Disagree	Somewhat agree	Agree	Strongly agree
Shariah audit processes should be included in the Shariah compliance manual of each Islamic bank	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah Committee should involve directly in	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

determining the Shariah audit planning	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Audit Committee should not determine the Shariah audit planning.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit program is necessary for evidence purpose	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit findings should include the calculation of income purification.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah Committee are aware with the income purification issues and disclosed in the Shariah Committee report.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The Bank may appoint or employ an external party or person to conduct a Shariah audit.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit engagement should be endorsed by the Shariah committee.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Shariah audit engagement should be recommended by the Audit committee.

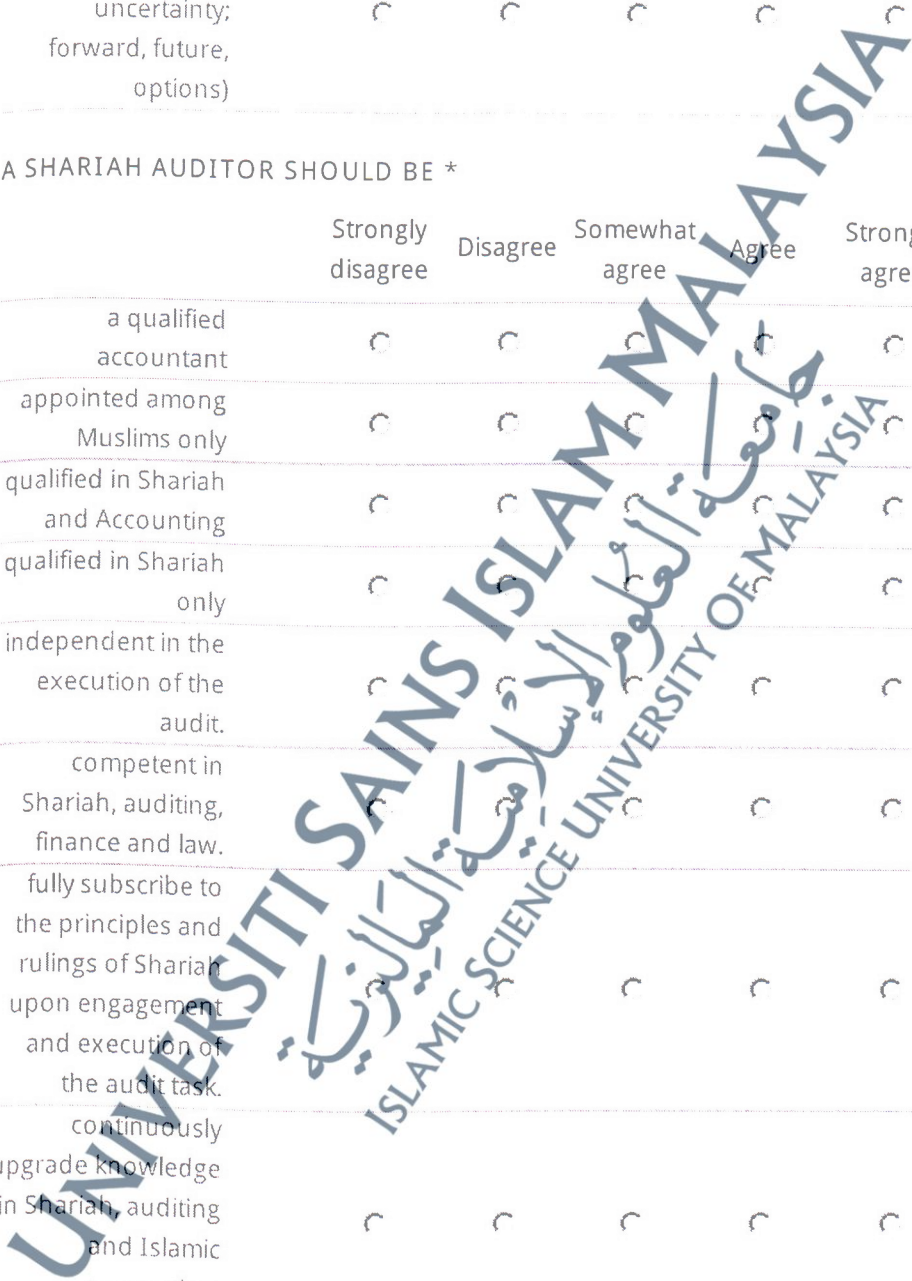
Shariah audit engagement should be approved by the Board.

SHARIAH AUDIT ON COMPLIANCE WITH THE SHARIAH RULINGS SHOULD COVER THE FOLLOWING ITEMS: *

	Strongly disagree	Disagree	Somewhat agree	Agree	Strongly agree
Bakhs (any voluntary effort to diminish or decrease the value of the product or services being sold).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tatfif (taking-in an excess measure and giving-out a short measure).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
'Uqud (contracts towards customers, suppliers, debtors, creditors and the state).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Khiyanah (embezzlements of funds, falsification of accounts, bogus insurance claims, tax evasions, window dressings and misstatement of accounts)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Israf (the propriety of expenditure by an IFI).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Tanajush (bidding up prices in auction by planting a fake	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



	Strongly disagree	Disagree	Somewhat agree	Agree	Strongly agree
bidder).					
Speculation (exchange of money for money).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Gharar (contract that involve uncertainty; forward, future, options)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
A SHARIAH AUDITOR SHOULD BE *					
a qualified accountant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
appointed among Muslims only	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
qualified in Shariah and Accounting	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
qualified in Shariah only	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
independent in the execution of the audit.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
competent in Shariah, auditing, finance and law.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
fully subscribe to the principles and rulings of Shariah upon engagement and execution of the audit task.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
continuously upgrade knowledge in Shariah, auditing and Islamic accounting.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
the internal auditors of the IFIs.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
a person who always thinks of the concept of justice in	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

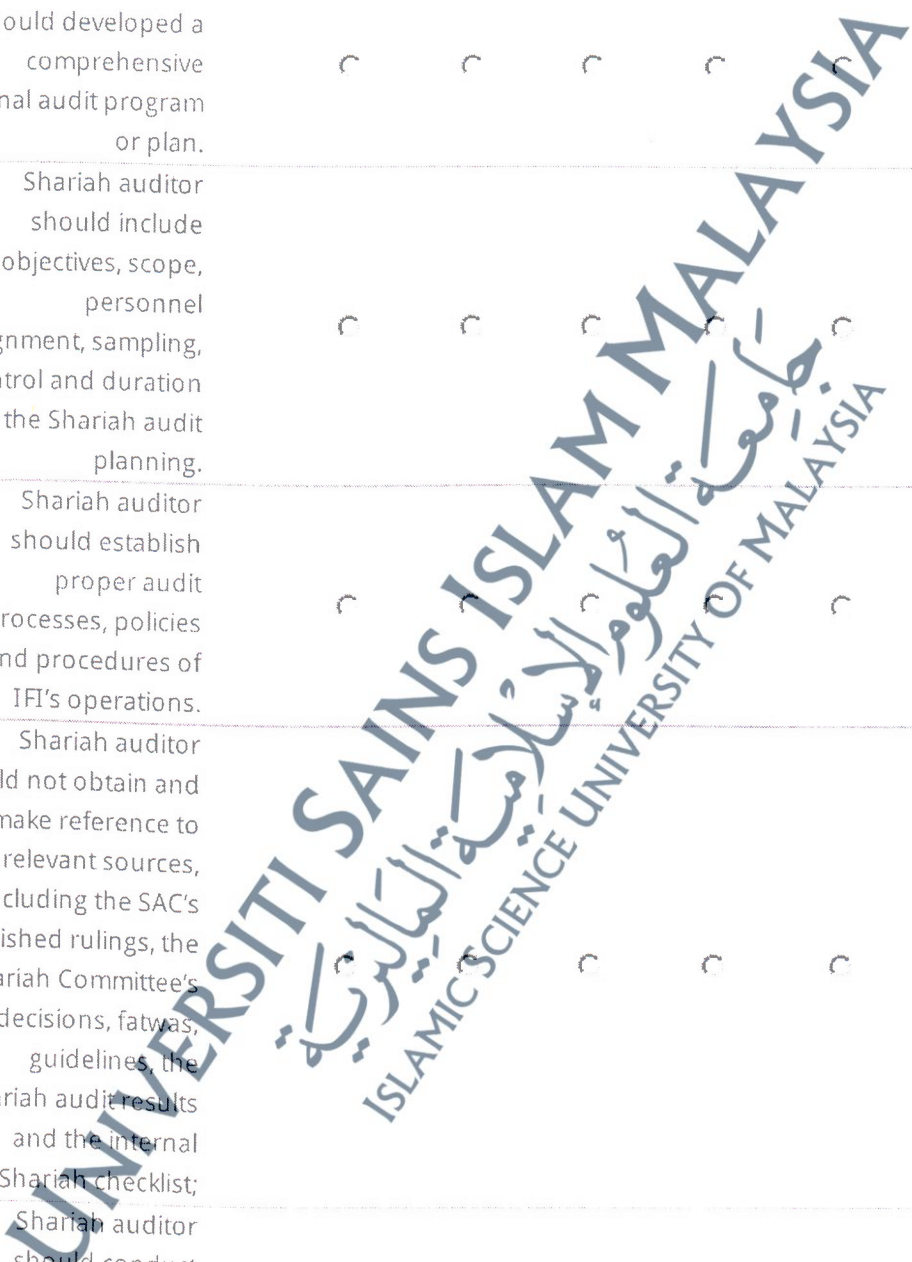


discharging his responsibilities.

RESPONSIBILITIES OF SHARIAH AUDITOR *

	Strongly Disagree	Disagree	Somewhat Agree	Agree	Strongly Agree
The Shariah audit function shall be performed by internal auditors, who have acquired adequate Shariah-related knowledge and training.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit may be conducted as part of the IFI's thematic audit on specialised areas such as management audit and Anti-Money Laundering (AML) audit.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit on critical areas shall be conducted at least once a year depending on the risk profile of the IFI.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The Audit Committee, upon consultation with the Shariah Committee shall determine the deliverables of the Shariah audit function.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah auditor are responsible towards the outside financiers (i.e. capital contributor; mudharib)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah auditor should have a clear understanding on the	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

<p>business activities of the IFI to allow for better scoping of an audit exercise, i.e. auditability and relevance of activities;</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
<p>Shariah auditor should developed a comprehensive internal audit program or plan.</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
<p>Shariah auditor should include objectives, scope, personnel assignment, sampling, control and duration in the Shariah audit planning.</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
<p>Shariah auditor should establish proper audit processes, policies and procedures of IFI's operations.</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
<p>Shariah auditor should not obtain and make reference to relevant sources, including the SAC's published rulings, the Shariah Committee's decisions, fatwas, guidelines, the Shariah audit results and the internal Shariah checklist;</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
<p>Shariah auditor should conduct Shariah audit on a periodical basis.</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	
<p>Shariah auditor should communicate results of any assessment or</p>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	



findings arising from the Shariah audit to the Board Audit Committee and the Shariah Committee;

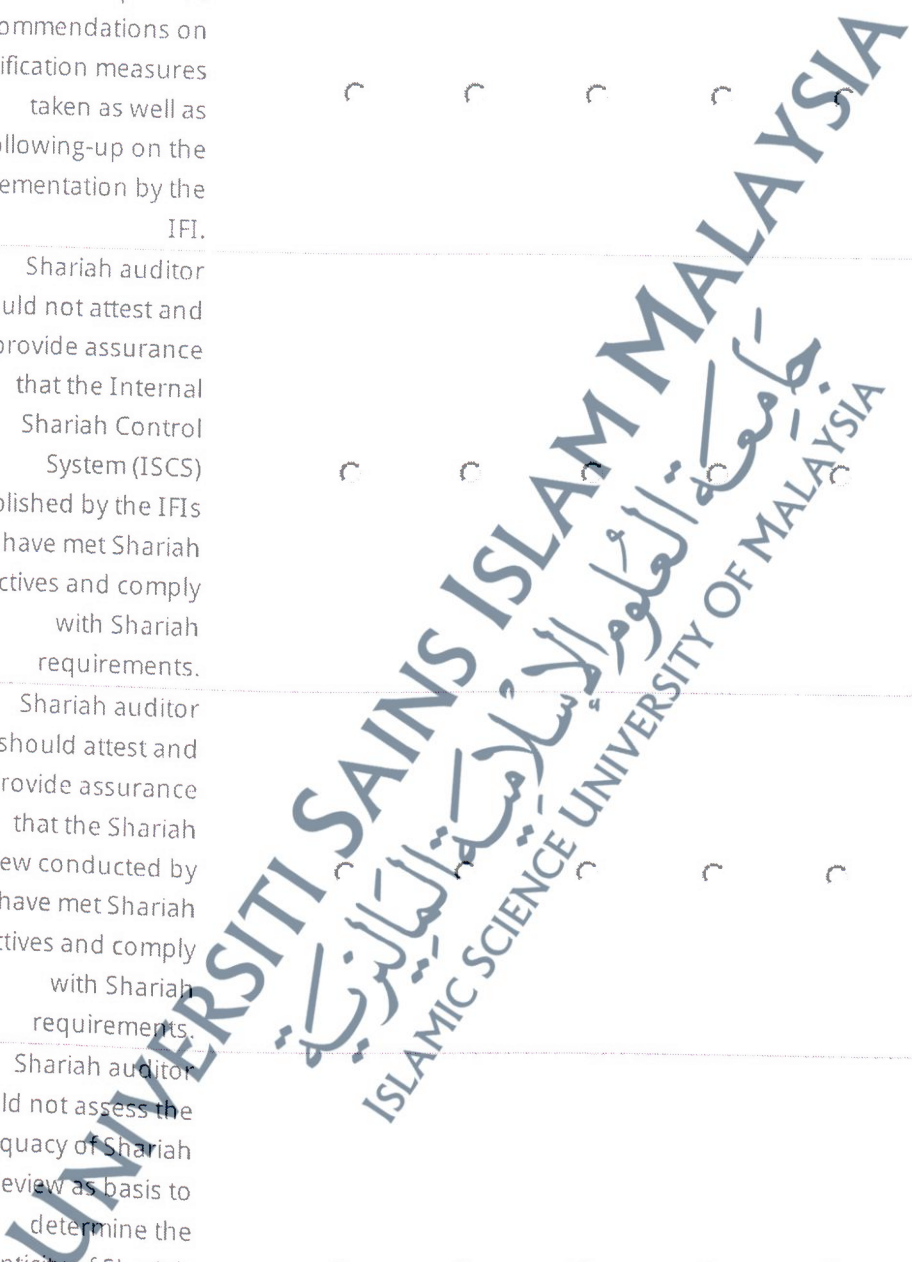
Shariah auditor should provide recommendations on rectification measures taken as well as following-up on the implementation by the IFI.

Shariah auditor should not attest and provide assurance that the Internal Shariah Control System (ISCS) established by the IFIs have met Shariah objectives and comply with Shariah requirements.

Shariah auditor should attest and provide assurance that the Shariah review conducted by IFIs have met Shariah objectives and comply with Shariah requirements.

Shariah auditor should not assess the adequacy of Shariah Review as basis to determine the authenticity of Shariah rulings, adoption of Shariah requirements and validity of Shariah complaint transactions.

Shariah auditor



should not detect
fraud related to
Shariah.

SHARIAH AUDIT REPORT *

Strongly Disagree Disagree Somewhat agree Agree Strongly agree

The Shariah audit reports should be communicated on-going basis with monthly reporting to Shariah committee and quarterly reporting to Audit committee.

Shariah audit report is a formulation of audit opinion on the degree of assurance of timely and comprehensive adoption or implementation of Shariah principles and rulings.

The findings of Shariah audit should not be reported in the annual report of the IFIs.

Shariah audit findings should not be disclosed separately from the Shariah Committee report (i.e. Shariah Audit report)

The findings of Shariah audit should not be

included in the Shariah Committee report of each Islamic bank	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Shariah audit report should include reporting on Ihsan (i.e. amanah (honesty), ithar (sacrifice), ta'awun (cooperation), sabr (patience), shukr (thanksgiving), tawakkul (trust), infaq (spending) and silatur rahm (joining of kinship ties)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

SHARIAH AUDITORS' PERFORMANCE *

This section evaluate the auditors current performance in Shariah audit in the IFIs. Respondents are encourage to evaluate accordingly.

	Poorly	Adequately	Unable to judge	Well	Excellent
Providing a useful service to the stakeholders.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reporting truthfully.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Providing a useful service to the IFIs.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Detecting errors and irregularities pertaining to Shariah.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Acting independently without regard to self-interest	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Communicating effectively	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Prescribing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

remedies in the event of Shariah non-compliance issues.

Preventing errors and irregularities pertaining to Shariah.

Coping with risk and uncertainty in the transactions related to Shariah.

Diagnosing problem.

Predicting the future in the event of Shariah litigation.

Acquiring information related to Shariah non-compliance.

Enforcing Shariah legal requirements.

Forming correct judgments.

Coping with professional rules and Shariah rulings.

Limiting their own legal responsibility

OPEN ENDED QUESTIONS

1) What are the current issues in Shariah audit practices faced by your institution?

2) Do you believe Shariah officers offering help to the internal auditors (assisting in Shariah audit function due to lack of expertise in Shariah area) would impair the independence or perceived independence of auditors? If yes, could you explain how this

could affect the independence?

3) What are the most preferred characteristics of a Shariah auditor?

4) What are the necessary skills for a competent Shariah auditor?

5) What more must be done by IFIs to improve Shariah compliance?

END OF QUESTION. THANK YOU FOR YOUR PARTICIPATION.

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