

CHAPTER SEVEN

CONCLUSION

7.1 INTRODUCTION

This chapter summarises each of the previous six chapters and how the three research questions have been answered by this study. The summarization will be based on the first research objectives which is to examine the perceptions of the internal auditors (Shariah auditors), regulators (BNM), Shariah committee, Shariah officers, external auditors and depositors concerning the Shariah audit practices in the Islamic banks in Malaysia. The first objective represents findings in Part A. As mentioned in the previous chapter, the purpose of interviews is to explore the perceptions of the respondents on the practice of Shariah audit in the IFIs specifically regarding framework, scope, processes, reporting and competency.

The following concludes the findings from the analysis of Part B on the Shariah audit performance gap. It answers second research objective which is to determine the existence of expectations-performance gap between internal auditors (Shariah auditors), regulators (BNM), Shariah committee, Shariah officers external auditors and depositors concerning the Shariah audit practices in the Islamic banks in Malaysia.

Next, the third research objective of the research is to identify factors that affect the expectation gap on performance in Shariah audit (i.e.; Shariah audit responsibility and Shariah auditor's performance). It also represents Part C of the research which conclude the factors that affect the expectations gap in Shariah audit practices on Shariah audit responsibility and Shariah auditor's performance.

Following this, discuss the academic and practical contributions of this study. The chapter draws to a conclusion by highlighting the limitations of this study, and offers suggestions and guidelines for future research.

6.2 SUMMARY OF FINDINGS

This study contributes to the industry on the practice of Shariah audit in the Islamic banks. Audit gaps are growing rapidly in Shariah audit practices (Othman and Ameer, 2015; Zakari et al., 2014; Kasim et al., 2009; Sulaiman, 2005). Shariah audit has a key importance, as there is a growing awareness among IFIs that every such institution should contribute towards achieving the objectives of the Maqasid Shariah. There is a need to have regular independent Shariah audits in IFIs as people are now experiencing a movement along a continuum from a society that trusts everything and audits nothing to a society that trusts nothing and audits everything. The concept of Shariah auditing should be extended to the activities relating to among others, the system, the products, the employees, the environment and the society. There is a need to develop a useful Shariah audit framework to ensure the effectiveness of the goals of Shariah compliance in IFIs, which in turn can contribute positively to the ummah.

Systematic studies on the perceptions of internal auditors/Shariah auditors and societies on the overall practice in Shariah audit are nearly non-existent (exceptions include Kasim 2009; 2014) despite its importance to the fruitful implementation of audit and governance in the Islamic banks. This thesis contributes to the research in this area. It explores the gap between what society (i.e. regulators, Shariah committees, Shariah officers, Shariah managers, internal and external auditors and the depositors) expects of the practices of Shariah audit and what can reasonably be expected to accomplish. It is

recognised that the gap exists due to differences in the perceptions of users on the framework, independence, competency, reporting, scope, processes, responsibility and performance in Shariah audit. The audit expectations gap in Shariah audit is an emerging issue that requires the attention of researchers.

Motivated by these problems coupled with a lack of research in this area, this thesis explores the existence of the audit expectations gap in Shariah audit practices in the Islamic banks. To achieve the objectives, this research involved three part in the study. Part A addressed the perceptions of the internal auditors (Shariah auditors), regulators (BNM), Shariah committee, Shariah officers, external auditors and depositors with regard to the Shariah audit practices in the Islamic banks in Malaysia. Kasim et al. (2009), Mulyani & Ibrahim (2008) and Sulaiman (2005) explored, empirically, the gap between “the desired” and “the actual”. The desirable practice may not be similar to the actual practice that takes place. Based on the findings of Kasim et al. (2009) and Mulyani & Ibrahim (2008), the desired practice of Shariah auditing is to conduct externally, but the result shows that the current practice is at the internal level only. Kasim et al. (2009) and Mulyani & Ibrahim (2008) are in line with Wartick and Mahon (1994), Wartick and Wood (1998) and Reichart (2003) which defined expectation gap as inconsistencies between views of ‘what is’ and/or ‘what ought to be. However, Porter (1993) classified this scenario as ‘reasonableness gap’ which was illustrated in Porter’s model on audit expectation-performance gap.

The current framework adopted by IFIs follows standards stipulated by the International Standards for Professional Practice of Internal Auditing (IPPF) issued by the Institute of Internal Audit (IIA) and Guidelines on Minimum Audit Standards for internal auditor of Financial Institutions issued by BNM. The SGF (BNM, 2010) has given the responsibility to perform Shariah audit to the internal audit department, this

will invariably expand the traditional job scope of internal auditors to include Islamic or religious and ethical auditing. Thus, the existing internal audit department will not only act as a key organ of corporate governance where auditors also provide internal consultancy but now it will have to perform Shariah audit to ensure that the operations of the IFIs are Shariah-compliant. Therefore, based on the guideline from the Institute of Internal Auditors Malaysia (IIAM) on the setting up and operation of internal audit departments, this research identifies the reasonableness practice of Shariah audit in the Islamic banks. Since Shariah audit function in the IFIs is attached to the internal audit department (SGF 2010), thus, it is wise to adapt the critical elements in the IIA guidelines on International Standards for the Professional Practice of Internal Auditing (2010) towards setting up and operation of Shariah audit function in the IFIs. The critical elements of Shariah audit practices that require attention are i) framework of Shariah audit ii) processes of Shariah audit iii) scope of Shariah audit iv) reporting of Shariah audit and v) competency and independence of Shariah auditors. To confirm the components of the gap, this research conducted interviews with 11 respondents; Shariah officers, head of Shariah department, Shariah committee, internal auditors and external auditors. Based on the findings the interviewee has given a tremendous input on the practice of Shariah audit function. The inputs received from the interview sessions are converted into survey questionnaires to confirm the existence of expectation gap in Shariah audit.

Part B involves questionnaires to the respondents such as the internal auditors (Shariah auditors), regulators (BNM), Shariah committee, Shariah officers, external auditors and depositors in exploring their perceptions of Shariah audit practices. The purpose of the survey is to gather empirical evidence on the Shariah audit practices. Based on the findings, an expectations gap exists among the respondents on the

framework, independence, competency, reporting, scope, processes, responsibility and auditor's performance.

In Part C, this study determined the factors that significantly impact the performance of Shariah audit specifically on Shariah audit responsibility and Shariah auditor's performance in the Islamic banks. According to Porter and Gowthorpe (2001), when the auditor's performance is better aligned with the expectations of society, the confidence in the auditing profession should gradually be restored, and hence, the criticism and litigation against the auditors will gradually reduce. Thus, by identifying the factors that impact the Shariah audit practices, proper action should be taken to narrow the gap and improve the existing practices. After identifying the significant factors, the study ranked the factors according to the level. The factors are ranked according to how many components of significant level in the theme. Based on the findings, factors that significantly affect the Shariah audit responsibility, and Shariah auditor's performances are competency, which was ranked first, followed by scope, independence, processes, reporting and lastly framework. The detailed aspect of the factors that significantly affect the Shariah audit responsibility, and Shariah auditor's performance are as follows i) competency and scope positively affect Shariah audit responsibility on regulations ii) competency, scope and independence positively affect Shariah audit responsibility on Shariah rulings iii) competency, scope, independence, processes and reporting positively affect Shariah audit responsibility on attestation and assurance iv) competency, scope, independence, processes, reporting and framework positively effect Shariah auditor's performance in Islamic banks.

Table 38: Summarised Research Questions, Methodology and Findings

	Research questions	Method	Findings
1.	What are the perceptions of the internal auditors (Shariah auditors), regulators (BNM), Shariah committee, Shariah officers external auditors and depositors with regard to the Shariah audit practices in the Islamic banks in Malaysia?	PHASE 1: Qualitative method Interview the practitioners on Shariah audit practices.	Attention needed in the following area; Framework, Scope, Independence, Reporting, Processes & Competency in Shariah audit practices. Emphasise more on Shariah audit responsibility and Shariah auditor's performance.
2.	Does the expectations-performance gap exist between internal auditors (Shariah auditors), regulators (BNM), Shariah committee, Shariah officers external auditors and depositors with regard to the Shariah audit practices in the Islamic banks in Malaysia?	PHASE 2: Quantitative method: i) Kruskal-Wallis analysis (Analyse significant differences among respondents) ii) Mann-Whitney U (Specifically analyse significant differences between two groups)	There is existence of expectations-performance gap in Shariah audit; Framework, Scope, Independence, Reporting, Processes, Competency, Responsibility and Shariah auditor's performance.
3.	What are the factors that effect the expectation gap on performance in Shariah audit (i.e., Shariah audit responsibility and Shariah auditor's performance)?	PHASE 3: Quantitative method SEM PLS Analyse factors that contribute to expectation gap in i) Shariah audit responsibility and ii) Shariah auditors performance	Factors affecting the performance in Shariah audit (by-ranking); 1) competency 2) scope 3) independence 4) processes 5) reporting 6) framework

The findings of the study suggested that the audit expectations gap in Shariah audit exists among the respondents. The evidence demonstrates that gaps occurred in all three components; reasonableness gap, performance gap on deficient performance

and deficient standard. Specifically, the gap occurred in the deficient standard component which result of differences in perceptions of the respondents on regulations requirement and Shariah rulings issues such as *'the Shariah audit function shall be performed by internal auditors who have acquired adequate Shariah-related knowledge and training, the audit committee upon consultation with the Shariah Committee shall determine the deliverables of the Shariah audit functions, Shariah auditor should obtain and make references to relevant sources, including the SACs published rulings, the Shariah committee decisions, fatwas, guidelines, the Shariah audit results and the internal Shariah checklist, Shariah audit should cover on Shariah rulings'* and others. The gap that occurred in the deficient performance component was a result of the divergence of perceptions on issues related to the Shariah auditor's performance in the Islamic banks.

7.2.1 Research Question No. 1

In answering the first question of the research that is 'What are the perceptions of the internal auditors (Shariah auditors), regulators (BNM), Shariah committee, Shariah officers external auditors and depositors with regard to the Shariah audit practices in the Islamic banks in Malaysia? To achieve the first objective, this research used a qualitative method to confirm the components of Shariah audit practices. Eleven interviewees were identified during this stage. Among the respondents that participate in the interview sessions are three Shariah officers, two head of Shariah department, one Shariah committee member, three internal auditors and two external auditors. The findings are based on the following components:

i. Framework

Based on the interview with the respondents, they agree that there should be a standard framework that can be followed by all IFIs as a point of reference during performing Shariah audit functions. It can be concluded that the view of respondents on the placement of Shariah audit framework can be divided into three group; i) Shariah audit framework should be different from Shariah review framework, ii) Shariah audit framework should complement the internal audit framework in the Islamic banks and iii) Shariah audit framework should be treated at par with the statutory audit. Based on the interview findings, this research converts the views into questions to test on the significant of the findings and its impact on the Shariah auditor's performance.

ii. Scope

The respondents suggested that the scope of Shariah audit shall extend to cover human resource management, business policies, process and procedures, zakat calculations and payments, contracts and agreements, environmental impact of operations, social contributions, marketing and advertising, income purification, assessment of financial resource management and compliance with the Shariah rulings such as *bakhs* (any voluntary effort to diminish or decrease the value of the product or services being sold) *taifif* (taking in an excess in measure and giving out a short measures) *uqud* (contract), *khiyanah* (embezzlement of funds), *Israf* (the propriety of expenditure), *tanajush* (bidding), speculation and *gharar* (uncertainty).

iii. Competency

In term of competency of the Shariah auditor, this study concludes that in the event of lack of expertise in performing Shariah audit function, the internal auditors of the Islamic banks may invite the Shariah team to be part of the internal audit team to perform the Shariah audit. However, if the person is an experienced staff but no qualification in accounting and Shariah, the banks shall send the staff for Shariah

training. The level of competency of Shariah auditor shall be as follows: i) the criteria shall be determined by each of the Islamic banks, ii) shall be well equipped with accounting and Shariah knowledge, iii) the internal auditors may invite the Shariah team to be part of the internal audit team to perform Shariah audit and iv) if the person is an experienced staff but no qualification in accounting and Shariah, the banks shall send the staff for Shariah training.

iv. Independence

The preceding discussion concludes that the requirement to have Shariah audit function should be attached to the internal audit department. However, the Islamic banks should prepare the resources from now to cater for the future demand for Shariah audits as an independent department as required by the stakeholders

v. Processes

The overall views on the Shariah audit processes from the respondents are i) Shariah audit processes should be separated from Shariah Compliance Manual, ii) Shariah committee and audit committee should involve directly in determining the Shariah audit planning, iii) It is necessary to develop Shariah audit programme that represents the whole procedures in conducting Shariah audit for each auditable area, iv) Shariah auditor should ensure that all new fatwas, rulings and guidance and modifications to existing fatwas are identified and reviewed during Shariah audit practices, v) the Shariah auditor, in consultation with the Shariah committee, shall recommend to the Board Audit Committee the auditable areas when submitting the audit plan vi) The Board Audit Committee shall thereafter determine the deliverables of the Shariah audit function in the IFIs and vii) The Shariah auditing process should be conducted in accordance with the established auditing standards that already exists.

vi. Reporting

The majority of the respondents agree that the Shariah audit function shall communicate results of any assessment or findings arising from the Shariah audit to the Board Audit Committee and Shariah Committee as per the SGF (BNM, 2010). Also, the Shariah audit findings should be reported in the Shariah committee report instead of having a separate Shariah audit report.

7.2.2 Research Question No. 2

In answering the second research question 'Does the expectations-performance gap exist between internal auditors (Shariah auditors), regulators (BNM), Shariah committee, Shariah officers external auditors and depositors with regard to the Shariah audit practices in the Islamic banks in Malaysia? The findings are as follows:

i. Framework

The majority of the respondents agreed that the Shariah audit framework should be different from the Shariah review framework. The findings from the interview sessions are different from the questionnaires. This is because there is an expectation gap among the respondents between the audit and review framework. Also, expectation gaps exist in terms of 'Shariah auditor should audit the findings of Shariah review done by Shariah officers' and 'Professional training and Continuous Professional Development (CPD) in Shariah audit is necessary'.

ii. Scope

In terms of scope of the Shariah audit, it is empirically tested that there is an expectation gap among the respondents. The statements that received different expectations among the respondents include: i) The internal auditors should attest the financial statements of the Islamic banks for Shariah compliance ii) The scope of

Shariah audit is limited as per Shariah Governance Framework only and iii) Human resource management should not be as one of the scopes of Shariah audit. However, despite the expectation gap on the scope of Shariah audit practices, there are areas that received support from the respondents. The respondents agreed that the current practice of Shariah audit should cover the internal control system of an Islamic bank. In terms of financial statement, the scope should include zakat disclosure, profit equalisation reserve, purification of income. Other possible scopes of Shariah audit should cover business policies, contracts and agreements, environment impact of operations, social contribution, marketing and advertising, and assessment of financial resource management. These are the scopes that received agreement among the respondents on Shariah audit practices. Also, from the analysis, the quantitative findings support the qualitative findings.

iii. Competency

It is agreed among the respondents that Shariah auditors should be competent in Shariah, auditing, finance and law. However, statements that received expectation gap in Shariah audit on competency are on the qualification required of Shariah auditors. There is an expectation gap among respondents that a Shariah auditor should be a qualified Muslim accountant. This received different views from the respondents since a Shariah auditor may come from the non-Muslims since they are not required to certified the report, unlike the Shariah committee members. There is also expectation gap regarding Shariah auditor qualification whether should have Shariah and accounting qualification or Shariah qualification is enough to become a Shariah auditor. There is also an expectation gap among the respondents that the Shariah auditor should be the internal auditors of the IFIs.

Competency in Shariah audit is also one of the factors affecting the Shariah audit responsibility and Shariah auditor's performance. Through the SemPLS method, this study manages to find which factor that significantly affect the responsibility and the performance of the Shariah audit. It is empirically evident that competency significantly affect the Shariah audit responsibility and Shariah auditor's performance in the Islamic banks. The greater the competency in Shariah audit, the better the Shariah audit responsibility in terms of regulations, Shariah rulings, attestation and assurance. Also, better competency levels in Shariah audit will increase the Shariah auditor's performance in the Islamic banks since the Shariah auditors are competent to perform the task. This also reduces the expectation gap in Shariah audit among the respondents since the competence level is made known to the public and the coverage is clearly emphasised. In terms of ranking, competency ranks the first among the six factors in the study.

iv. Independence

An expectation gap exists in the independence of Shariah audit practices. Most of the respondents have different views on independence in Shariah audit. Among the statements that received different expectation among the respondents are: A Shariah auditor should be i) independent in the execution of the audit, ii) always thinks of the concept justice in discharging responsibilities and iii) should acting independently without regard to self-interest. To ensure the independence in Shariah audit, the respondents view that the Shariah audit function should not be attached to the internal audit department of an Islamic bank. However, there are also respondents that have a different view and do not agree that the Shariah audit function should be attached to the internal audit department as per SGF (BNM, 2010).

v. Processes

There were different views regarding the process of Shariah audit which creates an alarm for the regulator to illustrate the process to the industry. This is to ensure the gap can be narrowed and a standard of practice exists in terms of processes in Shariah audit. Among the statements that create an audit expectation gap are i) Audit committee should not determine the Shariah audit planning, ii) Shariah audit programme is necessary for evidence purpose, iii) Shariah committees are aware of the income purification issues and disclosed in the Shariah committee report, iv) The bank may appoint or employ external party or person to conduct Shariah audit, v) Shariah audit engagement should be endorsed by the Shariah committee and recommended by the audit committee and last but not least vi) Shariah audit engagement should be approved by the Board. Comparing the qualitative findings, the interviewees view that Shariah audit processes should be separated from the Shariah Compliance Manual regarding the documentations and the standard operating procedures. The Shariah committee and audit committee should be directly involved in determining the Shariah audit planning since each of them have their expertise. For example, the Shariah committee is well versed in Shariah whereas the audit committee has expertise and experience in auditing. Thus, a combination of Shariah committee and audit committee in determining Shariah audit planning will have a better impact on the Shariah audit practices. It is also suggested during interview that it is necessary to develop a Shariah audit programme that represents all the procedures in conducting Shariah audits for each auditable area. By doing this, each operation is subject to be audited which will minimise Shariah risk to the public. It is also suggested that the Shariah auditor should ensure that all new fatwas, rulings and guidance and modifications to existing fatwas are identified and reviewed during Shariah audit practices to ensure the authenticity of the references

during the audit work. The Shariah auditing process should be conducted in accordance with the established auditing standards that already exists. This is to bring relevance and compliance of the auditing function with the globally or nationally accepted standards.

vi. Reporting

Reporting in Shariah audit is important to determine whether to report the findings in the Shariah committee report or to have a separate Shariah audit report. The internal and external auditors do not agree that the findings of Shariah audit be reported in the annual report of the IFI. However, that *'The findings of Shariah audit should be included in the Shariah Committee report'* is agreed by the internal and external auditor as well as the regulators. Based on the qualitative and quantitative findings conducted above it is supported that the Shariah audit findings should be reported in the Shariah committee report instead of having a separate Shariah audit report. The necessity to discuss the users' information requirements with the auditors to make the report effective and meaningful has been highlighted as an important area. The absence of any formal mechanism of communication between the auditors and the users contributes to the audit expectations gap. Some of the auditors have indeed admitted this matter.

vii. Shariah audit responsibility

In this segment, the Shariah audit responsibilities are segregated into three areas, which is regulatory, Shariah rulings and Shariah assurance. Shariah audit responsibilities based on regulatory requirements highlights the responsibilities covered in the SGF (BNM, 2010) on the implementation of Shariah audit function. Even though it is highlighted in the SGF (BNM, 2010) there are expectation gaps among the respondents on the Shariah audit practices. For example, there is an expectation gap that

i) the Shariah audit function shall be performed by internal auditors who have acquired adequate Shariah-related knowledge and training and ii) the audit committee upon consultation with the Shariah committee shall determine the deliverables of the Shariah audit functions. Not all of the respondents agree on the view that the internal auditors should acquire adequate Shariah knowledge and training to perform the Shariah audit function even though this is the requirement highlighted in the SGF (BNM, 2010). Based on the Porter (2010) framework, the expectation gap due to lack of standard and regulatory result in deficient performance on the deficient standard. Therefore, the responsibility in Shariah audit practices should be emphasised by the regulator to narrow the gaps in the industry.

In terms of responsibilities in Shariah rulings there is an expectation gap among the respondents that i) Shariah audit should cover on Shariah rulings such as *bakhs* (any voluntary effort to diminish or decrease the value of the product or services being sold) *tatfif* (taking in an excess in measure and giving out a short measures) *uqud* (contract), *khiyanah* (embezzlement of funds), *Israf* (the propriety of expenditure), *tanajush* (bidding), speculation and *gharar* (uncertainty), ii) Shariah auditor should obtain and make references to relevant sources, including the SACs published rulings, the Shariah committee decisions, fatwas, guidelines, the Shariah audit results and the internal Shariah checklist and iii) Shariah auditor should attest and provide assurance that the Shariah audit conducted have met Shariah objectives and comply with Shariah requirements.

Shariah audit responsibilities on Shariah attestation and assurance received a number of different expectation from the respondents such as i) the Shariah auditor is responsible towards the outside financiers (i.e. capital contributor; *mudharib*) ii) Shariah auditor should have a clear understanding of the business activities of the IFI to allow

for better scoping of an audit exercise, i.e. auditability and relevance of activities; iii) Shariah auditor should develop a comprehensive internal audit program or plan iv) Shariah auditor should provide recommendations on rectification measures taken as well as following-up on the implementation by the IFI. v) Shariah auditor should attest and provide assurance that the Internal Shariah Control System (ISCS) established by the IFIs have met Shariah objectives and comply with Shariah requirements. vi) Shariah auditor should assess the adequacy of Shariah review as a basis to determine the authenticity of Shariah rulings, adoption of Shariah requirements and validity of Shariah-complaint transactions and vii) Shariah auditor should detect fraud related to Shariah.

viii. Shariah auditor's performance

The results reveal that the Shariah committee and the internal auditors find a deficiency in the performance of Shariah auditors in relation to communicating effectively, prescribing remedies in the event of Shariah noncompliance issues, enforcing Shariah legal requirements, acquiring information related to Shariah noncompliance, forming correct judgements and coping with professional rules and Shariah rulings. Thus, more work needs to be done ensuring the Shariah auditor's performance.

7.2.3 Research Question No. 3

The third research question is 'What are the factors that affect the expectation gap on performance in Shariah audit (i.e., Shariah audit responsibility and Shariah auditor's performance)?' The findings are concluded as follows:

Framework in Shariah audit affects the Shariah audit responsibility and Shariah auditor's performance. Using SemPLS, it is empirically evident that framework does

not significantly affect the Shariah audit responsibility on regulations, Shariah rulings, assurance and attestation except for the area of Shariah auditor's performance. This implies that the better the framework, the better the Shariah auditor's performance. Thus, it is important to define clearly the framework and specific practice in Shariah audit since it affects the Shariah auditor's work and performance. Regarding ranking, among the six factors in the study, framework ranks sixth.

Scope of Shariah audit affects the Shariah audit responsibility and Shariah auditor's performance. Using SemPLS, it is empirically evident that scope significantly affects the Shariah audit responsibility and Shariah auditor's performance in the Islamic banks. The wider the scope in Shariah audit the better the Shariah audit responsibility regarding regulations, Shariah rulings and attestation and assurance. The wider the scope of Shariah audit will increase the Shariah auditor's performance in the Islamic banks. This reduces the expectation gap in Shariah audit among the respondents since the scope is made known to the public. In terms of ranking, scope ranks second.

Competency in Shariah audit also affects the Shariah audit responsibility and Shariah auditor's performance. Using SemPLS, it is empirically evident that competency significantly affects the Shariah audit responsibility and Shariah auditor's performance in the Islamic banks. The better the competency level in Shariah audit, the better the responsibility in terms of regulations, Shariah rulings and attestation and assurance. In addition, a better competency level in Shariah audit will increase the Shariah auditor's performance in the Islamic banks. This may reduce the expectation gap in Shariah audit among the respondents since the competency is made known to the public and the requirements are clearly emphasised. Regarding ranking, competency ranks number one.

Independence in Shariah audit affects the Shariah audit responsibility and Shariah auditor's performance. Using SemPLS, it is empirically evident that independence significantly affects the Shariah audit responsibility and Shariah auditor's performance in the Islamic banks. The more independence in Shariah audit, the better the responsibility in terms of regulations, Shariah rulings and attestation and assurance. Independence in Shariah audit may increase the Shariah auditor's performance in the Islamic banks since the Shariah auditors are competent in performing the task. This may also reduce the expectation gap in Shariah audit among the respondents since independence is made known to the public. In terms of ranking, independence ranks number three.

The next factor is processes in Shariah audit. In terms of rank, processes ranks fourth. It is empirically evident that processes significantly affect the Shariah audit responsibility on Shariah assurance and Shariah auditor's performance in the Islamic banks. The better the processes in Shariah audit, the better the responsibility in terms of Shariah assurance. Processes in Shariah audit may increase the Shariah auditor's performance in the Islamic banks if the overall processes and procedures are properly highlighted.

The next factor is reporting in Shariah audit. In terms of rank, reporting ranks number five. It is empirically evident that reporting significantly affects the Shariah auditor's performance in the Islamic banks. The better the reporting in Shariah audit, the better the Shariah auditor's performance in the Islamic banks if the findings of Shariah audit are properly addressed.

The next section offers recommendations, which are formulated based on the findings of this study. These recommendations provide the maximum impact of the Shariah audit practices in the Islamic banks. However, it is not the objective of this

study to provide a detailed guideline on the implementation of the Shariah audit responsibility and Shariah auditor's performance.

7.3 RECOMMENDATIONS

Based on the findings, competency rank the most important factor that contributes to the expectation gap in Shariah audit followed by scope and independence. Thus, it is recommended that the industry adopts the following measures as a tool to improve the Shariah audit practices in the Islamic banks. The internal audit role has a variety of independent professional dimensions, created and approved at board level to meet management governance, risk management, and control needs at all levels in an organisation, and across its supply chains. To minimise expectation gaps in the services it provides, it is important that: i) the purpose, authority, and responsibility of the role of Shariah auditor is clearly established in the Islamic banks, ii) the Shariah audit function is promoted at all levels across the Islamic banks in terms of framework, scope, competency, independence, processes, reporting, responsibility and Shariah auditor's performance, iii) customer perceptions and expectations of the Shariah audit role and responsibility are measured continuously; iv) expectation gaps are identified and monitored.

Among the significant challenge, this thesis found that there is the needs for the regulator (BNM) to introduce a practice that results in better characteristics of Shariah audit practices. This would include actions to address an inadequate framework, misunderstanding of the Shariah auditor's roles and responsibilities, and perceptions of lack of auditor competence and independence. Based on the findings, a more detailed framework outlining the Shariah audit competency, scope and independence for effective Shariah audit practice is needed in the Malaysian context. Thus, specific

criteria for competency, scope and independence in Shariah audit practices are needed as guidance for Shariah auditors to perform their job better. There also must be strong support from regulators and top management that provide sufficient resources to execute Shariah auditor duties and responsibilities and the internal audit department can hire qualified staff and provide continuous training and development. Continuous training and development is crucial so that Shariah auditors would be exposed to current developments in Shariah related matters that leads to the increase of competency and independence level of a Shariah auditor. BNM shall initiate a policy in determining the competency of Shariah auditors that serves as a guideline to the Islamic banks in Malaysia. Even the determination of Shariah auditor's competency has raised various opinions. The actual Shariah audit practices in the industry are not without challenges and problems. Empirical studies found that there is shortage of auditors with knowledge of both Shariah and accounting /auditing knowledge, the need for Shariah audit certification and professional qualification, narrow scope of audit coverage, the need for standardization of Shariah audit framework, issue on independence and self-review threat (Kasim and Sanusi, 2013; Kasim et. al., 2013; Yussof, 2013; Shafii, et.al., 2013; Yaacob, 2012; Yahya and Mahzan, 2012; Abdul Rahman, 2008; Kasim et.al., 2009; Mohamed Ibrahim, 2008). Thus, BNM must specifically address the issue of competency of Shariah auditors by highlighting the requirement of a Shariah auditor must be a person that equipped with Shariah and accounting knowledge. It is also recommended that BNM should establish the formal communication mechanisms such as organising forums and dialogue to obtain feedback from user groups on the conduct of Shariah audit practices in the Islamic Banks. This formal communication channels would allow Shariah auditors to identify users' information needs which in turn would enable them to fulfil their reporting responsibilities more efficiently.

Education may also play a role in addressing the expectations gap in relation to unreasonable/misunderstanding of the gap, which was found in this study. The inability of some respondents to answer questions related to the Shariah audit practices was a result of their lacking knowledge on the area. Therefore, the Ministry of Higher Education should encourage the universities in Malaysia to offer programmes or publicities to generate greater awareness in Shariah audit through the Islamic Finance courses. A study by Pierce and Kilcommins (1996) in the private sector context showed that education contributes to a positive impact on users' understanding of auditor's roles and responsibilities and on audit regulations. At current, one of the public university in Malaysia, Universiti Sains Islam Malaysia (USIM) has embarked on Shariah audit education by issuing Shariah audit subjects to the undergraduates in *Muamalat* administration, corporate administration, Islamic finance, so as to masters accounting and Shariah auditing.

In terms of theory development in Shariah audit, this thesis contributes to the theoretical framework on audit expectation performance gap in Shariah audit. It is important to develop strong theoretical framework in Shariah audit practices to narrow the gap that has been existing in the industries. It is recommended that Porter's model on expectation performance gap in audit can be used as a tool to determine and categorised the expectation performance gap in Shariah audit. It is a challenge to identify the gap that exists in the practice without the knowledge to classify the gap into the related area. Porter's model classify the gap that exists in the audit practices into reasonableness gap and performance gap. By classifying the gaps, action can be taken to narrow the gaps according to the classifications. By using the Porter's model, this research are able to identify gaps that results from reasonableness gap or performance gap in Shariah audit practices. In terms of 'reasonableness gap', this study manage to

explore the gap between what societies (i.e. regulators, Shariah committees, Shariah officers, Shariah managers, internal and external auditors and the depositors) expects on the practices of Shariah audit and what it can reasonably be expected to accomplish. In terms of 'performance gap' this study empirically gather evidence related to Shariah audit practices which results in 'deficient standards' and 'deficient performance'. Thus, it signals, performance gap that arise due to 'deficient standard' is because of inadequate legal and professional standards on the roles and responsibilities of Shariah auditors. It also signal that the performance gap arise due to factors in the environment that do not support effective functioning in auditing.

This research also recommend future study in identifying expectation gap in Shariah audit which involves takaful and Islamic capital market. Malaysian Takaful industry and Islamic capital market is still in the stage of infancy but slowly contributes to the growth in the Islamic finance in Malaysia. According to Ahmad Rizlan (2016), who is also Chief Executive Officer of Etiqa Takaful Bhd, Malaysia's biggest Islamic insurer, that growth prospects in Takaful still remain positive just by the virtue of the fact that the Takaful base is smaller relative to overall insurance industry. Thus, there is a need to identify expectation gap in Shariah audit which involves takaful and Islamic capital market as a future research. This is to improve better practice in Shariah audit that covers various area in the Islamic Finance industry.

7.4 IMPLICATIONS OF THE STUDY

The development of Shariah audit practices is important to complement the Shariah compliance mechanisms that are already in place and practised internally in the IFIs. The outcome of the thesis confirms on the theoretical framework on audit

expectation performance gap in Shariah audit. It also support Chapra (2008) model on Ibn Khaldun's theory on the economic development. According to Chapra (2008) based on the Ibn Khaldun's theory, few parties plays important roles in realizing strong economic development such as role of human being (moral, institutional, psychological, political, social and demographic factors), role of development and justice, role of state, role of wealth and role of trigger mechanism. The role of human being (moral, institutional, psychological, political, social and demographic factors) gives a strong impact in Shariah audit practices. This is empirically proven since competency rank the first among the other factors that contribute to the audit expectation gap in Shariah audit practices. In terms of role of development and justice and role of state, Shariah audit practices in the IFIs can play the role in providing justice to the stakeholders on the overall activities and operations of the IFIs are Shariah compliance. Any matters arising from Shariah non-compliance must be communicated to the stakeholders and actions must be identified to remedy the situations. In such cases, the stakeholders are aware of the situation and will increase the confidence in the activities and operations of the Islamic banks. Shariah audit can be used as a tool for the institutions, which are the Islamic banks and the state to govern and oversee the overall operations to be in compliance with the Shariah. The depositors will be treated equally as the shareholders in terms of the operations of the Islamic banks. In addition, wealth plays important roles in the economic development in the society. In Islamic banking, wealth or income is associated with deposits and investments derived from the customers. Teck Heang Teck Heang et al. (2009) mentioned that the audit expectation gap is harmful to the public, investors and politicians because, in a capitalist economy, the process of wealth creation and political stability depend on heavily upon the confidence in the processes of accountability. Shariah audit plays a major role in mitigating the sources of income and

its distribution in Islamic bank operations. Wealth generated from the activities and operations and the activities in the Islamic banking must undergo auditing function to ensure Shariah compliance.

Given these characteristics as outline by Chapra (2008), the roles involved in realizing strong economic development in a society may also impact the practice of Shariah audit function in the IFIs. Therefore this thesis contributes to the theoretical framework on audit expectation performance gap in Shariah audit. It is important to develop strong theoretical framework in Shariah audit practices to narrow the gap that has been existing in the industries. The theoretical framework outline on audit expectation performance gap in Shariah audit are as follows:

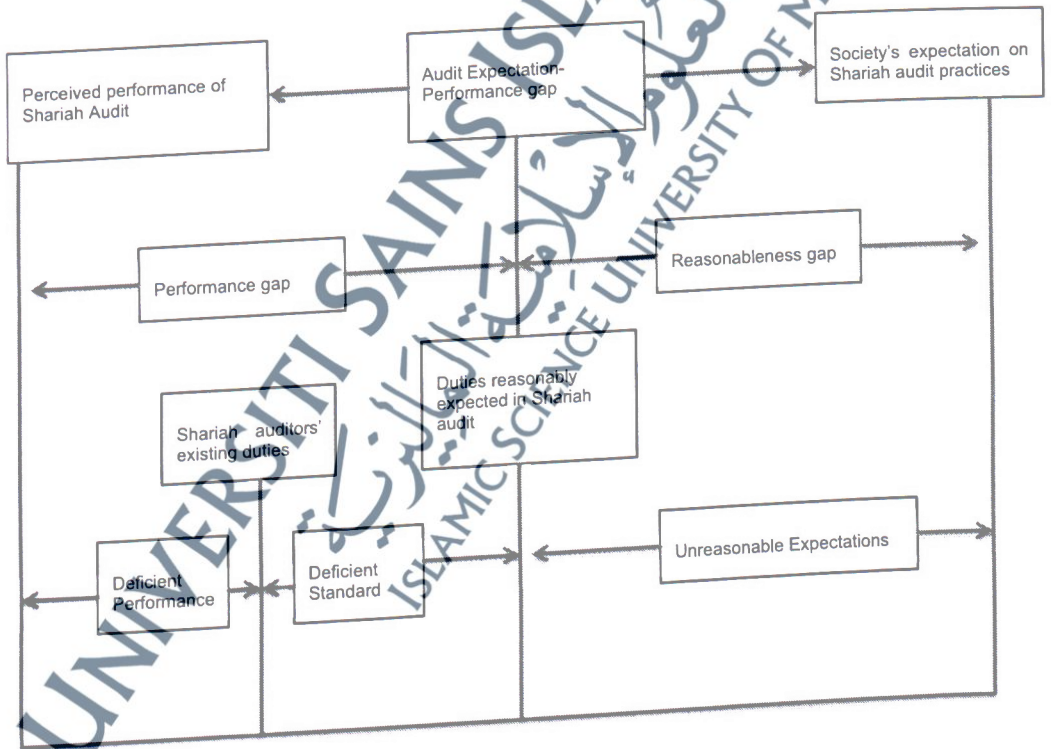


FIGURE 13: THEORETICAL FRAMEWORK AUDIT EXPECTATION PERFORMANCE GAP IN SHARIAH AUDIT

qualification, the need for standardization of Shariah audit framework, issue on independence and self-review threat (Kasim and Sanusi, 2013; Kasim et. al., 2013; Yussof, 2013; Shafii, et.al., 2013; Yaacob, 2012; Yahya and Mahzan, 2012; Abdul Rahman, 2008; Kasim et.al., 2009; Mohamed Ibrahim, 2008). The findings of this research is consistent with the empirical findings. The problems faced in the industry are very much expected because there is no standard Shariah-specific internal audit framework. As a result, the current audit practice is not uniformly performed and some even seems to replicate external auditing, which is restrictively focusing on financial audit. The current SGF by BNM is principle based guidelines with minimum prescriptions on internal Shariah audit practices. This is because the BNM's SGF is tailored for Shariah governance and Shariah audit is only one of the Shariah compliance function necessary for overall functioning of the Shariah governance in IFIs.

Thirdly, the managerial of the IFIs will benefit from this research by minimising its litigation on Shariah noncompliance through narrowing the gap that exists in the Shariah audit practices. Shariah non-compliant is a serious risk factor in Islamic banking and finance. Proper checks and balance on the activities and operations of the IFIs through Shariah audit practices will minimise such losses.

The study makes an original contribution to auditing literature on the audit expectations gap by exploring components of the gap in the Shariah audit practices. Based on the audit expectations gap model introduced by Porter (1993), this study manages to identify the related components of the gap to other audit concepts. The result can serve as a basis for studying the audit expectations gap and/or developing a better understanding of the components of the gap in the Shariah audit practices. In addition to the contribution to the literature, the findings of this research also have implications for auditing practices. In ensuring proper check and balances and transparency in the

operations of IFIs that is Shariah-compliant, the stakeholders will understand more on the needs of having Shariah audit and might urge the regulators to expand the scope of Shariah audit to a wider dimension such as having it as external audit. Shariah audit to be conducted by the external Shariah auditor will increase the assurance and attestation in reporting. Thus, the auditing firms need to prepare and train their auditors from now in fulfilling the demand for external Shariah auditors somewhere in the future. The universities and other institutional in Malaysia must also take the challenge to produce graduates and certified Shariah auditors to cater the future demand globally. In the near future, Malaysia will become one of the hubs producing certified external Shariah auditor together with guides, standards, processes, systems and manuals in conducting Shariah audit.

The results of this study are also useful because it provides evidence of issues that have caused the divergence of perceptions among the respondents such as Shariah committee, internal auditors, external auditors, Shariah officers, depositors and regulators. It was discovered that some issues of the audit expectations gap in Shariah audit practices are not much different from the existing audit. Referring to issues such as competency level, independence, responsibilities, fraud detection and reporting exercise, processes, scope and framework indicates that these are the basic elements to be addressed in the practices to ensure the effectiveness of Shariah audit functions in the Islamic banks.

This study also contributes to new information for the better practice of Shariah auditing in Malaysia. It offers evidence to the industry specifically to Islamic banks on a wider picture of the acceptance and usefulness of the Shariah audit practices as a monitoring mechanism for Shariah compliance, in safeguarding accountability and improving the performance of Islamic banks.

7.5 LIMITATIONS OF THE STUDY

There are numerous limitations associated with this study. The audit expectations gap is a vast topic, and each of the concepts contributing to the gaps can be a dissertation itself. This study aims to address as many possible questions at a broader level, rather than in depth, on the particular audit concepts to give insight to the industry of the present state of the Shariah audit functions and its overall audit process.

From the researcher's experience in this study, through interviews, there is the richness of data that can be gathered during interviews with the Shariah audit experts. However due to time constraints, the respondents are only able to answer questions that seem significant to them. Besides that, given the tight schedule of the respondents this study only covers the main components in Shariah audit practices.

The study also suffers several limitations due to the limited theoretical support on the research framework. Such theories are crucial to confirm various previous studies on the audit expectation gap and may also allow the authors to test the applicability of the theories in the present setting. In addition, the findings may be subject to argument especially on the generalisability of the research, as there is no formal population frame utilised for data collection.

7.6 SUGGESTIONS FOR FUTURE RESEARCH

Several pertinent issues that are worthy of further study have been identified from the findings presented in this thesis. As mentioned earlier, this study employs mixed methods with the aims to explore and determine the existence of the audit expectations gap in the Shariah audit practices. Future studies could emphasise the

factors related to expectation gap in Shariah audits. An experiment method could also investigate issues associated with the audit expectations gap in Shariah audit practices. From the experiment method, the study can compare the effect of education and knowledge before and after Shariah audit practices.

With the current trend towards the harmonisation of auditing standards and guidelines, further research into the usefulness and adequacy of auditing standards and guidelines is worthwhile. Considering that the objective of performance audit is to provide the information on the status of the activity or programme, present auditing standards and guidelines should be examined to ensure that they truly assist in the generation of audit report and audit process. The finding of this study shows that there is a need for more research on the effect of auditing standards and guidelines on the conduct of Shariah audit.

