



Exploring Shariah Governance Practices in Islamic Co-Operatives in Malaysia

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ABSTRACT

This study aims to explore the current Shariah governance practices, Shariah function practices and Shariah governance issues and challenges in Islamic co-operatives in Malaysia. For this, a physical town hall session with 64 representatives from 39 Islamic co-operatives was conducted for data collection. The empirical finding indicates that the Shariah Advisory Council (SAC) of the Malaysia Co-operative Societies Commission (SKM) was perceived to play similar roles like the SAC of the Bank Negara Malaysia and the Securities Commission of Malaysia (SC). Besides, management of Islamic co-operatives in Malaysia also see the need to create a Shariah committee at the co-operative level as part of good Shariah governance practices. Moreover, although more than half of the respondents admit that their respective co-operatives are already implementing Shariah governance practices, the implementation of Shariah function such as Shariah review and Shariah audit is still at the initial stage, with more than half of Islamic co-operatives yet to implement this Shariah function. In addition, several issues and challenges have been identified in the implementation of Shariah governance in Islamic co-operatives. This study is expected to contribute to enhancing Shariah governance practices in Islamic co-operatives to ensure better Shariah compliance.

Keywords: Shariah Governance, Shariah Function, Shariah Review, Shariah Audit, Islamic Accounting

JEL Classifications: M41, M42

1. INTRODUCTION

Shariah compliance in Shariah-based institutions in Malaysia started in 1963 with establishment of the Board of Management Hajj Fund or Tabung Haji. Tabung Haji's main objective was to enable Muslims to save early for their Hajj and Umrah. This is followed by the establishment of Bank Islam Malaysia Berhad (BIMB) as the first Islamic bank in Malaysia in 1983, and Takaful Malaysia as the first takaful operator in 1984 (Kamaruddin et al., 2019). In 1997, all public listed companies have undergone Shariah screening methodology to classify their status either as Shariah-compliant company or not under the Islam capital market sector in Malaysia (Ayedh et al., 2019). However, less attention is given to Shariah compliance in the co-operative sector in Malaysia.

In Malaysia, most of Shariah-based co-operatives or known as Islamic co-operatives are carrying out Shariah-based products and services including Islamic micro-financing and *ar-rahmu* activities. The development of Shariah compliance in Islamic co-operatives in Malaysia is driven by especially rapid growth by the financial industry and Islamic banking (Hassan et al., 2018). Since these co-operatives are Islamic in nature, their business activities and financial products must be Shariah compliant.

The main objective of Shariah governance practice is to improve the integrity of Islamic co-operatives and to increase Shariah compliance level. Thus, Islamic co-operatives that run Shariah-based activities are required to apply Shariah governance in their operations. This includes the Shariah compliance responsibility

starting from the cooperative board level, the management and the Shariah officers in developing the environment based on Islamic principles and Shariah-compliant (Samad and Shafii, 2021a). In addition, monitoring and regulations from the authorities of the co-operative sector such as the Malaysia Co-operative Societies Commission (SKM) is seen as important to fulfil the Shariah compliance ecosystem in Islamic co-operatives in Malaysia.

However, there are several issues and challenges identified in the implementation of Shariah governance in Islamic co-operatives. This includes creating functions of the Shariah committee not only at the regulatory level, but also at the individual co-operative level itself. In addition, the absence of other Shariah functions such as Shariah review and Shariah audit was also identified. Moreover, lack of Shariah knowledge and Shariah expertise among these Islamic co-operatives also contribute to the challenges in the implementation of effective Shariah governance practice to guarantee Shariah compliance (Mahmud Sabri et al., 2023a; Salleh et al., 2022).

Based on the above arguments, this study aims to explore the current Shariah governance practices, Shariah function practices and Shariah governance issues and challenges in Islamic co-operatives in Malaysia. Therefore, this study adds to the existing body of knowledge in several aspects. First, this study provides focused empirical findings and discussion especially for Shariah governance practices in Islamic co-operatives. To the best of our knowledge, no study on Shariah governance practices in Islamic co-operatives with empirical findings directly obtained from the Islamic co-operative players itself so far. Second, the findings of this study highlight the trends or patterns in research on the current Shariah governance practices, Shariah function practices and Shariah governance issues and challenges, which are critically needed especially by the regulator in developing the comprehensive Shariah governance framework for Islamic co-operative in Malaysia.

The structure of this paper is as follows. Next section is focused on the background of Islamic co-operatives in Malaysia and Shariah governance practices for Islamic co-operatives. Later, this paper explains the methodology used in this research. Furthermore, this paper presents the research findings and discussion covering the Shariah governance practices, Shariah function practices and Shariah governance issues and challenges. Finally, a summary and implications of the findings are in the conclusion section.

2. LITERATURE REVIEW

2.1. Co-operative Governance

Governance can be referred to as the situations or mechanisms of control and regulation within a particular system, group, or organisation (Leviton-Reid and Fairbairn, 2011). In other words, governance can simply be interpreted as a collective component of administration, policy or regulation (Fukuyama, 2016). Based on the above definition, it is understood that governance plays an important role in upholding the transparency, accountability, integrity and performance of any organisation, including co-operative (Michaud and Audebrand, 2022).

Unlike other business organisations, co-operatives have a unique governance characteristic. Normally, ownership of a business organisation is based on the share owned by the stakeholders. Each stakeholder possesses different levels of ownership based on the number of shares. However, the ownership of co-operatives belongs to the members. In this case, every member of a co-operative has equal ownership regardless of the number of shares they own (Saleh and Hamzah, 2017). In addition, co-operative members have the power to elect the co-operative board members from among themselves.

Meanwhile, the board members will hire the management team to handle the co-operative's daily operation. This unique characteristic then led to co-operative objectives which are to serve their members' interests more than to maximize the profits (Berge et al., 2016). This objective is then being interpreted to the effective provision and delivery of products and services demanded by the members of the co-operative. Therefore, ensuring that the co-operative operation to support its objectives is very vital to have good governance practice in co-operative (Othman et al., 2013).

In terms of theory, governance is believed to be derived from the agency theory (Jensen and Meckling, 1976). Based on the agency theory, the board members are responsible and accountable to the co-operative members. In this case, as co-operative members are the owners of the co-operative, the board members are required to ensure the protection over their assets and deliver the benefits that co-operative members expect from the co-operative's activities and operations (Saleh and Hamzah, 2017; Samad and Shafii, 2019).

However, due to the changes in the co-operative environment and businesses, critiques on the existing agency theory are becoming unable to provide sufficient understanding on many issues related to co-operative governance practices as it is affected by various other institutional factors and local context, which lead to the institutional theory (Yusof, 2016). Nonetheless, it is important for the board members to be responsible and accountable as part to gain trust and have good governance practices.

In addition, co-operative governance is always linked to co-operative performance. In this case, there are several previous studies that argue that co-operative governance has a positive relationship with co-operative performance. Specifically, governance elements such as the board characteristics, the board social/human capital, compliance policy as well as leadership and strategies becoming essential to enhance co-operative performance (Jamaluddin et al., 2023). Meanwhile, another study also claimed that co-operative with smaller boards, experienced the board and the management team as well as adequate training toward the board members enhances co-operative performance (Franken and Cook, 2017). Similarly, there is a significant relationship between the board members' monitoring functions with co-operative performance (Kyazze et al., 2017).

Regardless of the importance of co-operative governance, it is noticed that co-operatives governance is still understudied and misunderstood by the general public (Michaud and Audebrand, 2022). Worst, there are only a few studies on Shariah governance

especially in Islamic co-operative so far (Itam et al., 2016; Salleh et al., 2022; Shah and Sharif, 2018). Therefore, it is important for this study to explore Shariah governance in Islamic co-operatives especially in ensuring Shariah compliance practices.

2.2. Islamic Co-operatives in Malaysia

Islamic co-operative is very similar to a conventional co-operative. However, the main difference between these two co-operative types is the Shariah compliant aspect of the products and services offered to their members. Besides, as part of Islamic organisation, Islamic co-operatives comply with Islamic values such as worship or obedience to Allah and operate based on Islamic teachings or Shariah principles (Kamaruddin and Sofiah, 2020).

In addition, several unique characteristics are identified which can be used to feature Islamic co-operatives. This includes: (i) objectives and policies are in line with Shariah principles; (ii) capital used must be Shariah compliant and agreed by all members; (iii) the management and operation of Islamic cooperatives must comply with Shariah; (iv) profit and loss are based on shares or fees contributed and any non-Shariah compliant income must be purified by channelling it to charity; and (v) involvement of Islamic social finance funds such as zakat, waqf, sadaqah and infaq (Ahamed Elfaki and Che Embi, 2023; Itam et al., 2016).

In the context of Malaysia, the co-operative system in Malaysia should be aligned with the requirements of Islamic law. This is due to the majority of the members in most co-operatives are Muslims either as the co-operative board member or just as a cooperative member. Due to this setting, there were many co-operatives established in Malaysia with Islamic paradigms in places (Samad and Shafii, 2021a).

The administration of co-operatives in Malaysia including Islamic co-operatives is under the jurisdiction of the Malaysia Co-operative Societies Commission (SKM). In this case, the Cooperative Act 1993 (Act 502) was issued by the Malaysian Government to unify co-operative laws throughout Malaysia and came into force on 22 January 1994. Among the roles of SKM is to act as a trustee and to manage any Islamic financing scheme or credit facility established by the Malaysian Government for co-operatives. As the regulator for co-operatives, SKM is also responsible to ensure all co-operatives comply with the Cooperative Act 1993 including to ensure the management of the co-operative is Shariah compliant (SKM, 2023).

In general, co-operatives type in Malaysia can be classified into 9 main functions which are: (i) Banking co-operative; (ii) credit co-operative; (iii) agricultural co-operative; (iv) housing co-operative; (v) industrial co-operative; (vi) consumer co-operative; (vii) construction co-operative; (viii) transportation co-operative; and (ix) services co-operative. Among these co-operatives, both banking and credit co-operatives are the most significant in terms of asset and turnover size, where most Islamic co-operatives operate (SKM, 2022). The details are shown in the following Table 1.

Besides, to cater for the growth of Islamic co-operatives, Angkatan Kerjasama Kebangsaan Malaysia Berhad (ANGKASA) initiated

Table 1: Co-operative statistics in Malaysia 2022

Function	Numbers of Cooperatives	Asset (RM Million)	Turnover (RM Million)
Banking	2	124,878.15	34,263.45
Credit	566	15,878.66	4,217.30
Agricultural	3,451	4,006.06	1,579.23
Housing	308	1,042.99	128.14
Industrial	357	82.79	25.57
Consumer	5,567	2,547.19	1,316.64
Construction	256	121.86	71.67
Transportation	471	389.63	710.02
Services	4,337	10,660.46	3,188.31
Total	15,315	159,607.79	37,895.62

Source: SKM (2022)

the establishment of KOPSYA ANGKASA Berhad, a body that was registered with SKM in July 2011. KOPSYA ANGKASA offers innovative Islamic products featuring financing, deposit and investment to the member co-operatives, under the supervision of its Shariah Advisory Council (SAC). Moreover, the SKM also issued a guideline for Islamic co-operatives to administer Shariah governance which is known as the GP28: Shariah Governance Guidelines in 2015. GP28 provides Shariah compliance guidance that strengthens public confidence in the credibility of the Islamic muamalat system, especially in the co-operative sector.

GP28 consist of Shariah compliance on three main scopes which are: (i) product (function, credit, financing and *al-rahmu*); (ii) the Shariah committee; and (iii) the Shariah governance. However, this guideline is in general, and many details are yet to be listed that are causing difficulty for Islamic co-operatives to follow the guideline. For instance, there are no details on the board members' roles and responsibilities. Besides, GP28 has not stated on how Shariah audit processes are being reported. Moreover, there is no clear form of communication between the Shariah committee and the staff and the board members (Surkery and Yaacob, 2019). This summarised that Shariah governance practices in Islamic co-operatives in Malaysia are yet to be clear even from the regulator's policies and guidelines itself.

2.3. Shariah Governance in Islamic Co-operatives

Currently, there is no specific act that governs Islamic co-operatives. In Islamic banking and finance industry, Islamic financial institutions (IFIs) are governed by a specific act which is the Islamic Financial Services Act (IFSA 2013). It provides specific requirements for the IFIs. The absence of a specific act or regulation for Islamic co-operatives may trigger issues in cases where the current regulation may not in compliance with Shariah principles or may hinder the process of Shariah compliance (Itam et al., 2016).

Based on the Shariah Governance Framework (SGF 2010) and the Shariah Governance Policy Document (SGPD 2019) by the Bank Negara Malaysia (BNM) for IFIs, there are three main aspects that each Islamic co-operative can learn from IFIs on Shariah governance practices. Firstly, Islamic co-operative is required to have an organ or body that is responsible for Shariah governance. The organs include the co-operative board, the management as well as the Shariah committee. Due to the size of co-operatives

which are relatively small compared to IFIs, the establishment of the Shariah committee might be not practical due to high cost. Therefore, by outsourcing the Shariah advisory function from the ANGKASA or other external Shariah advisory companies will be able to support the Shariah committee function in ensuring Shariah compliance in Islamic co-operatives.

Secondly, the SKM as the authority for all co-operatives including Islamic co-operatives must exercise as independent authority to supervise and confirm Shariah compliant aspects in Islamic co-operatives. Through the establishment of the Shariah Management Department under the SKM and related Shariah guidelines for Islamic co-operatives, it can be said that the SKM currently is beginning to exercise their power to monitor and govern including Shariah compliance for Islamic co-operatives in Malaysia.

Thirdly, each Islamic co-operative must establish Shariah functions within their organisation. This includes for Shariah review, Shariah risk management and Shariah audit that will support the ecosystem of Shariah governance itself. These Shariah functions will ensure overall Shariah compliant operations of Islamic cooperatives are achieved. However, it was found that Shariah functions are hard to implement since some aspects are not properly explained from the point of view of Shariah governance, management, and products in the co-operative itself (Shah and Sharif, 2018).

In this case, GP28 is yet to be adequate or comprehensive enough for Shariah functions practice. The irony, a study by Salleh et al. (2022) and Mahmud Sabri et al. (2023a) stressed that Shariah audits must be conducted by Islamic co-operatives since most of them are offering Islamic financing contracts. Besides, they also found that Islamic co-operatives are aware of such needs but lack the manpower and knowledge to conduct Shariah governance practices.

At present, ANGKASA conducts audits on the Islamic products offered by the co-operatives. The audit is conducted on the co-operative that wishes to obtain a Shariah compliant product status. Although GP28 has been issued by the SKM, the implementation is minimal due to its non-mandatory adoption.

At the KOPSYA level, Shariah governance mechanisms are being explored in its Management and Shariah Development Section. As KOPSYA is serving its members with the provision of Shariah compliant products, KOPSYA's model of governance and assurance could serve as the benchmark for other co-operatives to follow suit. As the concerns for Shariah compliance have introduced a new dimension of governance which falls under the corporate governance framework, the governance in Islamic cooperatives would support the members to maintain Shariah governance to comply with Shariah where the rights of the involved parties are protected.

3. METHODOLOGY

This study explored the current Shariah governance practices in Islamic co-operatives in Malaysia covering the existence of Shariah governance practices, Shariah governance responsibilities,

Shariah review and audit implementations and Shariah governance issues and challenges. For this purpose, this study employed 1 town hall session with representatives from Islamic cooperatives. Table 2 summarises the information about these participants.

The participants from various co-operatives portray the diversity of Islamic co-operatives in Malaysia. Firstly, these participants come from different co-operative types with different organisational structures, business and activities based on their respective types. Secondly, participants also have different attributes, especially in terms of gender which could also give more diversified views and opinions regarding Shariah governance practices in Islamic co-operatives in Malaysia. Thirdly, the establishment of these respective Islamic co-operatives are varied across three different regions which give significantly different views based on geographical location of their respective Islamic co-operatives. Based on diversified participants' profiles, it is expected that these participants will be able to give comprehensive views and opinions to answer the objectives of the study.

The town hall session focused on the Shariah audit practices based on survey protocol questions and lasted around 2 h. Survey protocol questions were prepared by focusing on Shariah governance practices in Islamic co-operatives in Malaysia covering the existing Shariah governance practices, Shariah governance responsibilities, Shariah review and audit implementations as well as Shariah governance issues and challenges. These survey protocol questions were adopted from Salleh et al. (2022).

To measure the survey protocol questions, this study employed a multiple-choice question design. In addition, to ensure that every statement was documented, the town hall session was recorded. The session was conducted and completed at the end of May 2023 via a physical approach in Bangi Resort Hotel, Bangi, Malaysia with the support from the Malaysian Co-operative Institute (IKMa).

4. RESULTS AND DISCUSSION

This section discusses the empirical findings on the Shariah governance practices in Islamic co-operatives in Malaysia by three categories, namely (i) Shariah governance practices;

Table 2: Summary of participants' information

Attribute	Summary of participants
Gender	64 participants: <ul style="list-style-type: none"> • 37 Male • 27 Female
Co-operative type	64 participants from 39 Islamic co-operatives: <ul style="list-style-type: none"> • 2 Banking co-operatives • 5 Credit co-operatives • 1 Agricultural co-operative • 12 Consumer co-operatives • 5 Services co-operatives • 2 Regulators
Demographic	39 Islamic co-operatives from 3 regions: <ul style="list-style-type: none"> • 29 Central region (Selangor, Kuala Lumpur and Putrajaya) • 6 South region (Negeri Sembilan, Melaka and Johor) • 4 North region (Perlis, Kedah, Penang and Perak)

(ii) Shariah function practices; and (iii) Shariah governance issues and challenges. The results from the feedback received from 64 participants are as follows.

4.1. Shariah Governance in Islamic Co-operatives

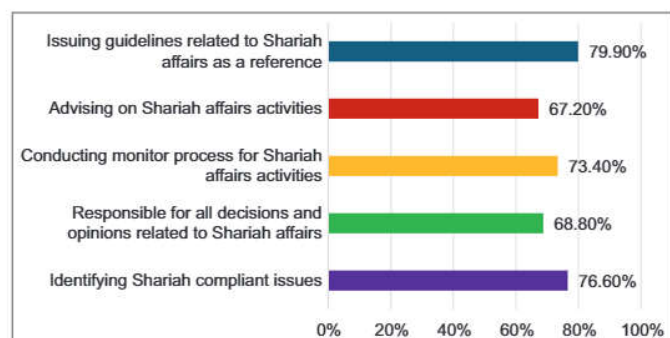
For the first part under the Shariah governance practices, responsibilities of the SKM’s Shariah Advisory Committee, the multiple-choice question was asked consisting of five answer choices, which are: (i) Issuing guidelines related to Shariah affairs as a reference; (ii) advising on Shariah affairs activities; (iii) conducting monitor process for Shariah affairs activities; (iv) responsible for all decisions and opinions related to Shariah affairs; and (v) identifying Shariah compliant issues. The views on the responsibilities of the SKM’s Shariah Advisory Committee is shown in Figure 1.

Based on the feedback, the majority agreed that the responsibilities of the SKM’s Shariah Advisory Committee are similar with the roles and responsibilities of the Shariah Advisory Committee at the BNM and the Securities Commission of Malaysia (SC). This includes issuing guidelines related to Shariah matters as a reference (79.9%), identifying Shariah compliance issues (76.6%), conducting monitor process for Shariah affairs activities (73.4%), responsible for all decisions and opinions related to Shariah affairs (68.8%), and advising on Shariah activities (67.2%).

At present, SKM is in the process of establishing their SAC. Previously, any Shariah matters in Islamic co-operatives will be referred to the SAC of BNM based on the Section 26 of the Co-operative Societies Act 1993 (Amendment 2007). Due to the existing rule, the suitability of the SAC of BNM’s decisions in the context of co-operative business, operations and activities is questionable (Itam et al., 2016). Thus, the decision by SKM to establish their own SAC is the right move to promote Shariah governance practices in Islamic co-operatives.

For the second part regarding the current Shariah governance practices, responsibilities of the Shariah committee at the co-operative level, the multiple-choice question is consist of five answer choices, which are: (i) Reporting Shariah affairs to the cooperative board members; (ii) advising on Shariah affairs activities; (iii) conducting monitor process for Shariah affairs activities; (iv) responsible for all decisions and opinions related to Shariah affairs; and (v) identifying Shariah compliant issues.

Figure 1: Views on the responsibilities of the SKM’s Shariah advisory committee



The views on the responsibilities of the Shariah committee at co-operative level is shown in Figure 2.

Based on Figure 2, most participants agreed that the main responsibility of the Shariah Committee at co-operative level is to identify Shariah compliant issues (81.3%). This is followed by monitoring the process for Shariah affairs activities (75%) and advising on Shariah affairs activities (73.4%). Besides, the Shariah Committee at the co-operative level is also necessary to report all Shariah affairs to the co-operative board members (71.9%) and responsible for all decisions and opinions related to Shariah affairs (65.6%).

The results are in line with the suggestion made by Itam et al. (2016) where the establishment of the Shariah committee is required as a mechanism to ensure Shariah compliance in Islamic co-operatives’ businesses, operations, and activities. Moreover, the Shariah committee members must be competent to perform their duties as the caretaker of the overall Shariah compliant aspects in Islamic co-operatives (Hassan et al., 2018). However, the financial burden faced by small Islamic co-operatives in appointing the Shariah committee is a concern to them. For this, the suggestion is to outsource or having the shared Shariah committee among small Islamic co-operatives may resolve this issue.

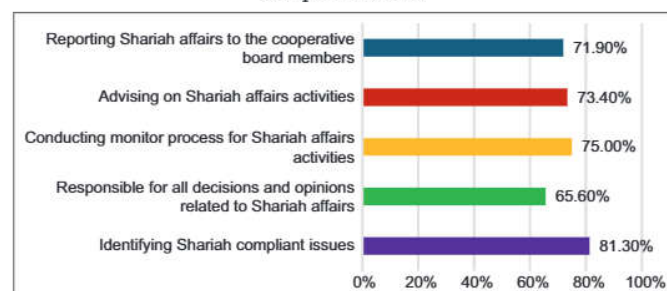
For the current Shariah governance practices in Islamic co-operatives, the question consists of three answers, which are “Yes”, “No” and “Not Sure”. The response on the current Shariah governance practices in Islamic co-operatives is shown in Figure 3.

The finding shows that more than half of the respondents stated that they are currently implementing Shariah governance practice in their respective cooperatives (54.7%). While 20.3% of the respondents said that they are yet to implement Shariah governance in their co-operatives and the remaining 25% are not sure about the implementation of Shariah governance practices in their co-operatives. The finding is similar to previous findings that stated that among the major problem facing by Islamic co-operatives including poor corporate culture and Shariah governance practices (Cheumar et al., 2020).

4.2. Shariah Function Practices in Islamic Co-operatives

For the first part under the Shariah function practices, the question is on the current Shariah review practices in Islamic co-operatives. This question consists of three answers, which are “Yes”, “No” and

Figure 2: Views on the responsibilities of the Shariah committee at co-operative level



“Not Sure.” The response on the current Shariah review practices in Islamic co-operatives is shown in Figure 4.

Based on Figure 4, only 40.6% of the respondents stated that they are currently implementing the Shariah review practices in their respective co-operatives. Nevertheless, only 25% of the respondents stated that they are yet to implement the Shariah review practices in their co-operatives and the remaining 34.4% are not sure about the implementation of the Shariah review practices in their co-operatives.

The finding is in line with the current Shariah governance practices in Islamic co-operatives as highlighted in Figure 3. It is understandable that low Shariah review practices in Islamic co-operatives are probably due to the low understanding, financial and manpower capabilities in conducting Shariah review practices itself. However, the respondents do not deny the importance of implementing the Shariah review function as part of good Shariah governance practices (Samad and Shafii, 2021b).

For the second part under the Shariah function practices, the question is on the current Shariah audit practices in Islamic co-operatives. This question consists of three answers, which are “Yes”, “No” and “Not Sure.” The response on the current Shariah audit practices in Islamic co-operatives is shown in Figure 5.

The finding shows that only 37.5% of the respondents stated that they are currently implementing the Shariah audit practices in their respective co-operatives. Meanwhile, 31.3% of the respondents said that they have yet to implement Shariah audit practices in their co-operatives and the remaining 31.3% of the respondents are not sure about the implementation of Shariah audit practices in their co-operatives.

It is surprising to note that the implementation of Shariah audit practices is lower than the Shariah review process. When asked for justifications, the respondents believed that Shariah review

Figure 3: Current Shariah governance practices in Islamic co-operatives

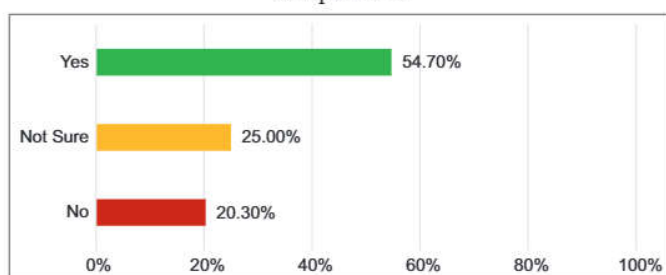
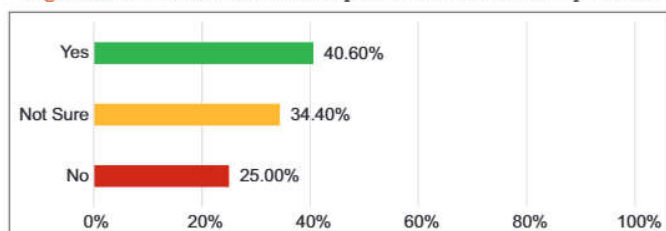


Figure 4: Current Shariah review practices in Islamic co-operatives



function is sufficient, and it also covers Shariah audit function. In addition, the result also may be due to the current status quo where the implementation of both Shariah review and Shariah audit are still in the early stage in Islamic co-operatives in Malaysia (Mahmud Sabri et al., 2023b). Like Shariah review, Shariah audit is also important to be implemented as part of good Shariah governance practices (Kamaruddin et al., 2024).

4.3. Shariah Governance Issues and Challenges in Islamic Co-operatives

For the issues faced in the implementation of Shariah governance in Islamic co-operatives, the multiple-choice question was asked consisting of six answer choices, which are: (i) Unclear internal Shariah reporting channels; (ii) lack of knowledge in Shariah operational issues; (iii); lack of training programs related to Shariah compliant; (iv) difficulty in developing internal Shariah policies; (v) lack of risk-based knowledge for Shariah risk management practices; and (vi) does not know the importance of Shariah audit practices. The responses are shown in Figure 6.

Based on the above Figure 6, most of the respondents agreed that the main issues faced by them in the implementation of Shariah governance practices is lack of knowledge in Shariah operational issues (90.6%). This is followed by lack of training programs related to Shariah compliant (82.8%), difficulty in developing internal Shariah policies (56.3%) and lack of risk-based knowledge for Shariah risk management practices (50%). In addition, there are also issues related to unclear Shariah reporting channels (46.9%). While only 26.6% of the respondents stated that they are not aware about the importance of Shariah audit practices. This finding supporting previous findings where Islamic co-operatives are absence of good governance practices, weak structure and lack of capital that contributes to the weak Shariah governance practices (Hassan and Sanusi, 2019). Nonetheless, the finding

Figure 5: Current Shariah audit practices in Islamic co-operatives

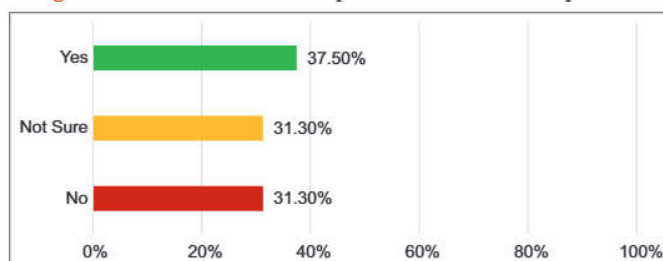


Figure 6: Issues faced in the implementation of Shariah governance practices in Islamic Co-operatives



proves that most of the respondents admit the importance of Shariah governance practices in their respective co-operatives.

Lastly, a question on the reasons for the absence of Shariah governance implementation in Islamic co-operatives was asked consisting of five answer choices, which are: (i) No party to be referred to; (ii) lack of Shariah governance knowledge; (iii) inadequate regulations and guidelines; (iv) not a necessity; and (v) all reasons above. The results are shown in the following Figure 7.

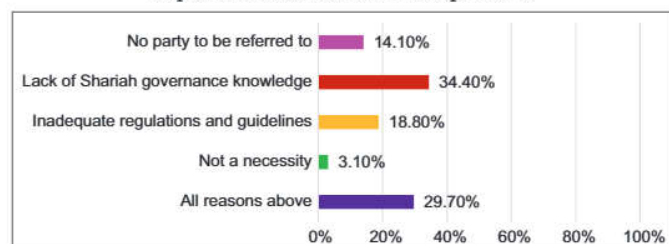
The results indicate that 34.4% of the respondents agreed that the main reasons for the absence of Shariah governance implementation in Islamic co-operatives is due to lack of Shariah governance knowledge. This is followed by inadequate regulations and guidelines (18.8%) and no authority to be referred to for the implementation of Shariah governance (14.1%). Meanwhile, 29.7% of the respondents agreed with all the reasons above. Only 3.1% of the respondents stated that there is not a necessity to implement Shariah governance practices at Islamic co-operatives.

This finding is in line with the previous argument by Itam et al. (2016) where the absence of a specific act or regulation for Islamic co-operatives may trigger issues in cases where the current regulation may not be in compliant with Shariah principles or may hinder the process of Shariah compliant. Besides, the most agreement on the lack of Shariah governance knowledge as one of the main reasons for the absence of Shariah governance is also similar to previous findings by Puspitasari et al. (2023) on Indonesian Islamic co-operatives context.

Apart from the above questions, several other issues and challenges in implementing Shariah governance in Islamic co-operatives were highlighted, including: (i) Diverse practices as some Islamic co-operatives have internal Shariah committees while others outsource depending on the size of Islamic co-operatives; (ii) the issue of limited Shariah scholars available to sit as the Shariah committee in Islamic co-operatives; and (iii) SKM as the regulator still in the process to establish their own Shariah functions.

With regards to Shariah function practices, currently, Shariah functions such as Shariah review and Shariah audit is either performed by a Shariah officer/internal audit or externally appointed Shariah committee/adviser. Besides, the smaller Islamic co-operatives have limited resources, thus there is no segregation of duties among Shariah officers. In addition, there is a limited number of staff with Shariah knowledge. Lastly, they request for a more comprehensive Shariah governance guideline from the SKM.

Figure 7: Reasons for the absence of Shariah governance implementation in Islamic Co-operatives



5. CONCLUSION

Overall, Islamic co-operatives in Malaysia are expecting that the SKM's Shariah Advisory Committee to play a significant roles and responsibilities which is similar to the roles and responsibilities of the Shariah Advisory Committee at the BNM and the SC. Besides, Islamic co-operatives in Malaysia also see the need to create the Shariah committee in every co-operative as part of Shariah governance practices. Although more than half of the respondents admit that their respective co-operatives are already implementing Shariah governance practices, the implementation of Shariah function such as Shariah review and Shariah audit is still at the initial stage, with more than half of Islamic co-operatives yet to have this important Shariah function.

On the other hand, several issues and challenges have been identified in the implementation of Shariah governance in Islamic co-operatives. This includes a lack of knowledge in Shariah operational issues, lack of related Shariah compliant training programs, difficulty in developing internal Shariah policies and lack of risk-based knowledge for Shariah risk management practices. Moreover, internal Shariah reporting channels need to be clarified, and awareness on the importance of Shariah function especially Shariah audit need to be continued.

Therefore, all related parties with Islamic cooperatives especially the authorities like SKM and IKMa are necessary to provide a detailed Shariah governance guideline to assist Islamic co-operatives to implement Shariah governance practices at their respective co-operatives. Apart from that, adequate Shariah compliant training programs also need to be provided to equip Shariah officers in Islamic co-operatives with adequate knowledge and techniques to perform Shariah function activities and processes. Finally, SKM need to monitor and enforce Shariah regulatory compliant toward Islamic co-operatives. This ensures Islamic co-operatives are ready to practice Shariah governance in their operations to guarantee Shariah compliant practices.

This study also has a few limitations. As this study only focused on Shariah governance practices in co-operatives sector in Malaysia, findings from this study could have become more comprehensive if the study was conducted on other Shariah-based sectors including IFIs, Islamic capital market, public Shariah-based as well public trust entities. Besides, future research could be specific on Shariah function practices in-depth such as Shariah review, Shariah risk management as well as Shariah audit. It is hoped that empirical results from this study will benefit future Shariah governance research.

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