

The Competency of *Sharī'ah* Auditors in Islamic Banking Institutions: An Analytical Study

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Abstract

One of the primary distinctions between conventional and Islamic financial institutions is the *Sharī'ah* compliance in products, services, and operations. In Islamic financial institutions, the products, services and procedures are approved by the *Sharī'ah* board. Besides, the *Sharī'ah* auditor assures that the operations of an Islamic bank are according to Islamic law and fatawa of *Sharī'ah* board. In this regard, the State Bank of Pakistan has required all the Islamic banking institutions to arrange internal and external *Sharī'ah* audit. The *Sharī'ah* audit is facing challenges of professional competence of their human resource. Hence, the objective of this paper is to analyse by using qualitative methods, the qualification and competency of a *Sharī'ah* auditor as envisaged in the existing *Sharī'ah* governance frameworks and standards of different standard setting bodies such as AAOIFI, BNM, SECP and SBP. After detailed analysis of the syllabus of the reputed accountancy organizations, the study concluded that the *Sharī'ah* audit personnels may not have the adequate knowledge of *Sharī'ah* to assess the transactions of Islamic Banks. The study recommended that the accountancy organizations should prepare *Sharī'ah* audit guidelines.

Keywords: Islamic Banking, *Sharī'ah* Audit, Qualification, Competency of *Sharī'ah* Auditors

1. Introduction

Islamic banking is a new phenomenon, which is considered as an alternative to the existing conventional banking system. The interest (*Riba*) is strictly prohibited in Islam and considered a war against Allah (SWT) and his Apostle (PBUH). The contemporary Islamic banking (IB) is a *Sharī'ah* compliant alternative to the conventional banking system (Shahzad & Hameed, 2018) and

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growing at a rapid rate all over the world. During the quarter January to March 2019, an amount of Rs. One hundred thirty-two billion has been recorded as an increase in assets of the IB industry and reached Rs. Two thousand seven hundred ninety billion, which is evidence of the positive growth of IB in Pakistan.(IBD SBP, 2019)

The main difference in Islamic and conventional banking is a fundamental and robust influence on ensuring compliance of its products and services with *Sharī'ah*. (Shahzad & Khan, 2015; Shahzad, Rehman, Saeed, & Ehsan, 2019) In order to ensure *Sharī'ah* compliance in Islamic banks, the State Bank of Pakistan (SBP) issues guidelines from time to time (Shahzad & Rehman, 2017; Shahzad, Saeed, & Ehsan, 2017). "In order to have an independent assessment of the *Sharī'ah* governance and compliance environment of IBIs, the *Sharī'ah* governance framework 2018 bounded all Islamic Banking Institutions (IBIs) to include an independent and objective assessment of the conformity of IBI's operations with *Sharī'ah* rules and principles" (Shahzad & Khan, 2019; State Bank of Pakistan, 2008).

Similarly, the Securities and Exchange Commission of Pakistan (SECP) has also issued *Sharī'ah* Governance Regulations which state that "Every *Sharī'ah* compliant company and company issuing *Sharī'ah* compliant security shall be subjected to external *Sharī'ah* Audit for every financial year which may be undertaken by the existing external auditors or an independent External *Sharī'ah* Auditor (SECP, 2017; Securities and Exchange Commission of Pakistan, 2018) (Chapter VII: 2.1)

Sharī'ah audit is a susceptible job as compared to a financial audit; the *Sharī'ah* auditor must have sufficient qualifications to analyse whether the transactions comply with the *Sharī'ah* rules and principles or not? (Othman et al., 2013; Shahzad & Khan, 2019).

The objective of this paper is to analyse the qualification and competency of a *Sharī'ah* auditors in Pakistan as envisaged in the the SECP and SBP's regulations using qualitative methods. The study has also highlighted the role of Accountancy bodies in the preparation, proper implementation of *Sharī'ah* audit manuals, and capacity building of Audit staff in IB and the Islamic Law of Business.

2. Literature Review:

Islamic finance is a globally emerging industry which is attracting the attention of Muslims as well as non-Muslim countries as a possible substitute for existing interest- based financing (Ayub, Khan, Rashid, Shahzad, & Rehman,

2019). The Islamic banking industry was started in 1977 in Pakistan. “It has a dual attraction for both their customers and depositors”. Firstly, it provides *Shari’ah* compliant financial solutions to them, and secondly, it ensures as many material benefits as are provided by conventional financial institutions. In addition, the other features of the industry are: asset-based financing, sharing profit and loss, resilience to shocks, and supporting financial stability (Ayub *et al.*, 2019).

Ali *et al.* (2015) discussed the competency of *Shari’ah* auditors working in Islamic banks in Malaysia. They argued that there is need for improvement of *Shari’ah* auditors in different capacities. They are of the view that there is still a need for skilled and trained human resources in the IB industry. They proposed a three-dimension model of *Shari’ah* auditors including their knowledge, skills, and other characteristics whereas they failed to explain the other characteristics of the *Shari’ah* auditor and relied only on their knowledge and skills. However, the other two features, i.e., knowledge and skills, are elaborated as training on analytical knowledge and the enhancement of interpersonal skills in the context of identification and solution of problems. It is believed in the study that ensuring these elements would enhance an adequate supply of competent *Shari’ah* auditors to meet the expanding market demand (Ali, Mohamed, & Shahimi, 2015).

Ali *et al.* (2016) extended their studies and focused on knowledge of *Shari’ah* Auditors' competency in IFIs'. They are of the view that knowledge is a primary element in *Shari’ah* Auditors' competency. The sample of studies is divided into four categories, i.e., full-fledged Islamic banks, Islamic windows, subsidiaries, and development FI(s). They concluded that most of the respondents have the knowledge of *Shari’ah*, Islamic bank, and fiqh ul mua'malaat but the knowledge of auditing and accounting is not much. In this regard, they proposed that the IFI's need is to arrange training of existing *Shari’ah* auditors to improve their knowledge and skills (Ali *et al.*, 2015; Ali, Mohamed, Shahimi, & Shafii, 2016; Shafii, Ali, & Kasim, 2014).

Alam *et al.* (2017) examined the issues and challenges of *Shari’ah* auditor's competency working in IFIs in Pakistan. They are of the view that the competency of *Shari’ah* auditors regarding relevant education and experience is still not established. They suggested that knowledge, skill, and other abilities of IFI(s) that can help to increase their performance develop the financial system of Islamic banks of Pakistan. They also opined that *Shari’ah* Auditors working in the IFIs have no relevant qualifications of *Shari’ah* (Alam & Hassan, 2017).

Helal Uddin et al. (2013) argued that the *Sharī'ah* audit is a primary element of the IB industry. There is an essential need to improve the *Sharī'ah* Audit system which can positively contribute to society. They proposed that an independent auditing system may be made with the name of the Islamic Auditing Foundation (IAF). The foundation would provide the training to the Auditors. The IAF auditors should have the knowledge of *Sharī'ah* as well as the knowledge of professionals auditors (Md Helal Uddin, 2013).

Shahzad et al. (2020) in their study investigated the impact of the essential components of *Sharī'ah* governance, i.e., the board of directors, executive management, *Sharī'ah* Supervisory Board, Resident *Sharī'ah* Board Members and *Sharī'ah* Audit using empirical tools. They concluded that all the independent variables are presenting a strong association with a high level of performance of *Sharī'ah* governance in relation to medium level except one variable "*Sharī'ah* review and audit" which is showing negative sign. It finds that *Sharī'ah* governance can be strengthened by enhancing efficiency of the independent variables (Shahzad, Khan, Mansoori, & Ehsan, 2020).

3. Audit and Appointment of an Auditor under the Guidelines of *Sharī'ah* Principles

In this section of the paper, we will discuss the concept of audit in the light of *Sharī'ah*. The purpose of this section is to provide a detailed discussion on two fundamental concepts: first, the concept and importance of auditing in *Sharī'ah* guidelines, second, the detailed guidelines for appointment, responsibilities, and duties of an auditor. This section of the study will give a blueprint for building an analogy to construct guidelines regarding selection criteria, knowledge requirements, responsibilities and duties, and competency of a *Sharī'ah* auditor for IBIs.

3.1 The Concept of Auditing in the light of Qur'ān:

"Then, as for he who is given his record in his right hand, He will be judged with an easy account, and return to his people in happiness" (The Qur'ān, 84:6-9)

"And indeed, [appointed] over you are keepers, Noble and recording; they know whatever you do." (The Qur'ān, 82: 10-12)

"Surely Allah takes account of all things" (The Qur'ān, 4:82)

3.2 Guidelines for Auditing from Sunnah:

The Holy Prophet Mohammad (PBUH) says: when he has been informed about *iḥsān*:

“.....then tell me about IḤSĀN: He said: it is to worship Allah as though you are seeing Him, and while you see Him not you truly, He sees you....” (Sahih al Bukhari, Ḥadīth 4777)

3.3 Responsibilities and Duties of an Auditor in the light of Islamic Teachings:

Responsibilities and duties of an Auditor given in Islamic teachings are discussed below:

Allah SWT says in Qur’ān that;

“Indeed, Allah commands you to render trust to whom they are due and when you judge between people, judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever Hearing and Seeing.” (The Qur’ān, 3:58)

Rendering to the code of ethics for accountants and auditors, auditing is the responsibility or role which is demanded by *Sharī’ah* as a farḍ kifāyah. The term farḍ kifāyah can be explained as a duty or responsibility if performed by an individual, then the whole of the society is relieved from the duty, and if not performed by anyone, then the whole of the society is considered to be sinful.

4. Characteristics and Competency of an Auditor in the Light of Islamic Teachings:

A concept of ḥisbah in the early times of Islamic rule and in later times like the ottoman caliphate properly had the institution of Ḥisbah. The concept of Ḥisbah can be defined as an institution that is responsible for maintaining safekeeping, quality, quantity, and manager of accounts of the business. A person or system who is competent and skilled enough to run an activity with excellent skills and has the ability if someone does wrong may be accountable. The definition of ḥisbah elaborates in detail the responsibilities, characteristics, duties, and competency of an internal auditor and also for an external auditor. The issue of running an activity with skills and enhanced ability is showing similarity with internal *Sharī’ah* auditor of IBI and making someone or some entity accounted for its evil deeds, is a task which is similar to external *Sharī’ah* auditor of IBIs. Based on this principle or institution, below is mentioned a few of the characteristics and features of an auditor in contemporary times:

4.1 Righteousness:

An auditor should be morally upright concerning his duties and responsibilities. In relation to the auditor to be righteous, Qur’ān and Sunnah advocate the

feature of righteousness. In the Holy Qur'an, Allah (SWT) says;

“(Then) He will make your deeds righteous for you, and He will forgive you for your guilty (deeds), and whoever obeys Allah and His Messenger, then he has already triumphed a magnificent triumph.” (The Qur'an, 33: 71)

There is a Saying of the Holy Prophet Muhammad (PBUH) narrated by Abdullah Ibn Masud related to the Prophet (SAW) who used to supplicate,

“Allah, I beg of the guidance of righteousness, chastity, and self-sufficiency” (‘Sahih Muslim’, Ḥadīth 6904)

Therefore, based on the above mentioned attributes derived from Qur'an and Sunnah of Prophet Muhammad (PBUH), an individual who is going to be an auditor should have the feature or attribute of Righteousness in his/her qualities so that he/she may fulfil the duties and responsibilities with up right moral values. In this regard, the research study is considering the attribute of righteousness to be the ultimate feature while selecting *Sharāh* auditor for IBIs.

4.2 Trustworthiness:

The next feature or attribute can be considered as a prerequisite or fundamental feature of an auditor. The trait of trustworthiness is regarded as an essential trait in any right individual, and therefore, an auditor should also have this attribute in his/her moral profile; otherwise, he/she will not be considered fit for the job. Allah (SWT) said in the Holy Qur'an;

“And rely upon the Ever-Living who does not die and exalt [Allah] with His praise. And sufficient is He to be, with the sins of His servants, Acquainted” (The Qur'an, 25: 58)

Allah (SWT), at another place in the Qur'an, said;

“Allah (SWT) is sufficient for him who puts his trust in Him”(The Qur'an, 65:3)

The significance of the attribute can also be taken from the Sunnah of the Prophet Muhammad (PBUH). Hazrat Umar (R) narrated the saying of Muhammad (PBUH) and said that he heard the Prophet (PBUH) saying;

“Were you to put your complete trust in Allah (SWT), He provides for you as He provides for the birds,” (‘Jami at-Tirmidhi, Ḥadīth 2344)

It is worth mentioning that these attributes are related to the moral values of an individual who is going to be the part of the selection criteria of an auditor and other measures or characteristics related to education and knowledge required for an auditor, and skill- sets necessary for an auditor.

4.3 Professional Behaviour:

The next attribute is explicitly related to the job or duty, a person is performing. In order to be considered eligible for a job, one needs to have the trait of professional behaviour towards the duties and responsibilities he/she is given. Islamic guidelines and teachings include ample evidence on the advocacy of professional behaviour in individuals while doing any task or job in order to have the job done with efficiency and state of the art skill- sets. In this respect, the below mentioned two sayings of the Prophet Muhammad (PBUH) are relevant in describing the importance of professional behaviour in the light of Islamic teachings:

“Once the Prophet (PBUH) was sitting with his companions, and they happened to see a young man busy working in the early hours of the morning. The companions watched him and commented on how beneficial it would be if he put his effort into worshipping Allah (S.W.T.) instead. When he heard this, the Holy Prophet (PBUH) said to them: Do not say that! Because if he is working to be independent and self-sufficient, it is in the way of Allah (S.W.T.). Even if he were striving to earn a living in order to support his family, it would still be a noble act. It is only when a person takes pride in his efforts and money that he is working in the way of Shaitan.” (‘Silsalat al-Ḥadīth as-Sahihah’ Vol 7, pp 751)

At another incident, it is said that;

“Allah has decreased excellence for everything, when you kill, do it in the best way, and when you slaughter (an animal for sacrifice), does it in the best way. So, every one of you should sharpen his knife and let the slaughtered animal die comfortably(‘Sahih Muslim’, Ḥadīth 5055)

The value of goodness while performing tasks is the attribute which is being discussed in the saying of Holy Prophet Muhammad (PBUH), and these are considered to be the utmost skill in an individual as mentioned in the last Saying of Prophet (PBUH). Therefore, an auditor should be professionally

skilled and have the traits of goodness keeping in view the values required for completion of a task with efficiency. Hence, the *Sharī'ah* auditor should have the values of goodness and professional behaviour in performing the tasks of examining the modes and financial transactions of Islamic banks while evaluating the *Sharī'ah* compliance of the practices of Islamic banks. The vigilance and efficiency of the job of *Sharī'ah* auditor ensures a proper and due diligent audit of Islamic banks.

4.4 Fairness:

The next attribute, which an auditor must possess is commanded by Allah (SWT) and that is to perform his/her work professionally and reliably. Allah (SWT) said in the Holy Qur'ān that;

“Oh, you who believe! When you contract a debt for a fixed period, write it down” (The Qur'ān, 2:282)

A *Sharī'ah* auditor in this regard should have the attribute of fairness in his/her duties which means while performing audit of an entity, he/she should do it with the utmost fairness, professionalism and reliability.

4.5 Expertise and Competence (*Ihsān*):

Ihsān is usually assumed as undertaking slightly more than the formal requirements whereas, in the true and real sense, Islamic teachings urge its followers to perform their tasks and jobs without any hiatus or lapse and to the finest of their productivity and competency. The Qur'ānic teachings emphasized the believers of Islam to advance control above the universe and to avail the full use of its natural resources.

The analogy from this is that a *Sharī'ah* auditor should have the feature or attribute of *ihsān*, that is to say, that an auditor should be expert in the assigned tasks and duties, and be competent enough to perform these duties with utmost quality and efficiency in order to have no loop-holes in the performed tasks.

4.6 Honesty and Seriousness (*Ikhlas*):

Honesty in performing duties is doing justice with the assigned tasks, and having the attribute of seriousness enhances the attention of the person in a job which lets the job complete with efficiency. The vital point of all features lies in the honesty and seriousness of the person performing any task, and it is due to this reason that one cannot honestly accomplish a task without seriousness and sincerity.

Therefore, a *Sharī'ah* auditor should be committed to the tasks of *Sharī'ah* auditing and should have honesty and seriousness as the utmost and foremost features of his/her personality.

4.7 The Desire for Brilliance:

All the above features mentioned in this section of the research study hold equal importance if compared with each other, and therefore, none of the features may be ignored nor given less importance than the other while judging any auditor. The next category is related to bringing excellence to the tasks to be performed. It is achieved only if the person performing the task holds passion or desire for brilliance or efficiency for completing the tasks. The essential ingredient for excellent performance is the existence of inherent passion within the individuals. Brilliance is not attainable through remarkable administrative plans. Islamic teaching does not advocate only the brilliance as a feature but also inspires its devotion to outclass in the whole task that they perform.

A *Sharī'ah* auditor is supposed to pass through every test and must have all the features mentioned in this section but these are not easily achievable and that is the reason which enhances the importance and significance of the job of the auditor.

4.8 Competent and Skillful:

The auditor must be knowledgeable about the *Sharī'ah* audit. He should have the aptitude to make any finding on any happening state. It is, therefore, necessary that *Sharī'ah* auditor has proper and relevant education, training, and sufficient guidelines of *Sharī'ah* and audit. According to the teachings of Islam, every Muslim jobholder is enjoined to attain knowledge and skills about his/her profession. Islam demands from its followers to work hard and with the utmost skills and competency in order to make the completed task more cherished and beautiful.

4.9 Uprightness:

Islamic values of an individual follower are based on moral grounds while honesty or uprightiness is one of the foremost attributes of this chain. The Prophet Muhammad (PBUH) since his childhood was well-known as '*Saadik*' (truthful) and '*Amin*' (trustworthy). The Prophet (PBUH) said, "*I am sent to explain in detail what honest character is.*" The Qur'an has categorically prohibited the act of dishonesty:

"Oh Ye who believe! Betray not the trust of God and the Apostle, nor misappropriately knowledgeably things entrusted to you" (The Qur'an, 8:27)

4.10 Confidentiality and Discretion:

Confidentiality is one of the significant attributes which an auditor should possess because keeping the confidentiality of the record and information which is disclosed in front of him is the responsibility of the auditor. It is his foremost responsibility to perform his duties and does not take any benefit from the disclosed information nor disclose it at any other place. The feature of confidentiality and discretion can be termed as the foremost and primary attribute of any audit especially the *Sharī'ah* audit. The Holy Qur'ān mentioned that:

“Whether you publish a good deed or conceal it or cover evil with pardon verily Allah both bolt out (sins) and hath power in the judgment of value” (The Qur'ān, 4:149)

5. Importance of *Sharī'ah* Audit in Contemporary Islamic Banks:

Sharī'ah audit in the IB industry assures the stakeholders that all the products and services of Islamic financial institution are compliant with *Sharī'ah* rules and principles. In this way, *Sharī'ah* governance and audit could be traced back to critical paradigms of IFI(s) with regards to accountability and transparency of *Sharī'ah* guidelines in the IB transactions. Thus, *Sharī'ah* compliance and audit would help the *Sharī'ah* auditor to express an opinion that the financial activities carried out by an Islamic financial institution in the IB industry do not violate the *Sharī'ah* governance principles throughout their business operations. (Shahzad & Khan, 2019).

6. State Bank's Criteria for Competence of *Sharī'ah* Auditors

In 2008, the SBP issued guidelines for *Sharī'ah* compliance in IBIs. (State Bank of Pakistan, 2008) the IBI(s) were instructed to implement internal *Sharī'ah* audit.

“To further strengthen the *Sharī'ah* compliance environment in IBIs, the SBP issued the *Sharī'ah* Governance Framework (SGF) in 2015 and all IBIs were instructed to include external *Sharī'ah* audit but the SGF did not specify the qualification or experience of the external *Sharī'ah* auditors. Audit firms which have the workforce of qualified and certified auditors for the financial audit of any entity are given the discretion of managing the external *Sharī'ah* audit, and seemingly SGF 2015 allows financial audit firms to use their ease and discretion while hiring any auditor to ensure that activities and mode of Islamic banks are *Sharī'ah* compliant.

Later in 2018, the SBP revised the *Sharī'ah* governance framework. Besides some other amendments in the *Sharī'ah* governance framework, an explanation was also given regarding the qualification, appointment, and competency of external *Sharī'ah* Audit and guidelines for capacity building of recruiters of external *Sharī'ah* auditors.

“In order to have an independent assessment of the Sharī'ah governance and compliance environment of IBIs, the Sharī'ah governance framework 2018 bounded all IBIs to include an independent and objective assessment of the conformity of IBIs operations with Sharī'ah rules and principles. The audit firms will have to take appropriate measures to build the capacity concerning resources and methodology to conduct the Sharī'ah audit of an IBI. It's the responsibility of the external audit firms to take appropriate measures for capacity building of their staff for conducting Sharī'ah audit by providing them training in IB or by engaging Sharī'ah scholar members in their audit team but the Sharī'ah scholar members must have qualification according to fit and proper criteria (FAPC) prescribed by SBP for the appointment of Sharī'ah Supervisory Board members.” (SBP, 2018)

7. Securities and Exchange Commission of Pakistan's (SECP) Guidelines for the competence of *Sharī'ah* Auditors

The SECP has also issued *Sharī'ah* Governance Regulations which states that, “Every *Sharī'ah* compliant company and company issuing *Sharī'ah* compliant security shall be subjected to external *Sharī'ah* Audit for every financial year which may be undertaken by the existing external auditors or an independent External *Sharī'ah* Auditor. For this purpose, the regulations have referred to the section 247 of the Companies Act¹.

More specifically, the regulations have mentioned that “the audit firm shall preferably have expertise in Islamic finance. The scope of external *Sharī'ah* audit shall include an independent and objective assessment of compliance of operations with the *Sharī'ah*” (Chapter VII: 2.1) (Securities and Exchange Commission of Pakistan, 2018).

¹ According to section 247. Qualification and disqualification of auditors has been discussed as “A person shall not be qualified for appointment as an auditor- (A) in the case of a public company or a private company which is subsidiary of a public company or a private company having paid up capital of three million rupees or more unless such person is a chartered accountant having valid certificate of practice from the Institute of Chartered Accountants of Pakistan or a firm of chartered accountants; and (B) in the case of a company other than specified in clause (a), unless such person, is a chartered accountant or cost and management accountant having valid certificate of practice from the respective institute or a firm of chartered accountants or cost and management accountants, having such criteria as may be specified. (Companies Ordinance 1984)

Keeping in view the discussion and guidelines mentioned by SECP, it can be summarized as, the issue is not addressed with due diligence because referring to guidelines of appointment of an auditor mentioned in section 223 and 247 of companies act for appointment and duties of *Sharī'ah* auditor specifically external *Sharī'ah* auditor is an incorrect analogy. It is because there is a drastic difference between the responsibilities of a financial auditor and *Sharī'ah* auditor which establishes differences in qualification and competency criteria among both types as well. It, therefore, is not appropriate to intermingle financial audits with *Sharī'ah* audits on the basis of a common word of audit in both phrases. It looks that the issue is not adequately addressed by SECP.

8. Accounting and Auditing Organization for Islamic Financial Institution's Qualification Standard for *Sharī'ah* Auditors

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has suggested a solution regarding the qualification of *Sharī'ah* auditor;

“The auditor shall be knowledgeable about *Sharī'ah* Rules and Principles. However, he would not possess the same level of knowledge as that of SSB members, and thus, the auditor shall not be expected to provide an interpretation of these rules and principles”(AAOIFI, 2015; Nawal Kasim, Sheila Nu NuHtay, 2013; Shahzad et al., 2017).

It can be seen that AAOIFI has also addressed the issue with casual nature and does not provide criteria which specifically mention the qualification criteria for *Sharī'ah* auditors and external *Sharī'ah* auditor in specific. Even though, if sticking to the guideline of AAOIFI regarding external *Sharī'ah* auditor, there is an issue i.e. how could be a less qualified person than SSB members, as the auditor is supposed to examine all the aspects of a transaction in the context of *Sharī'ah* guidelines. It is true that an auditor is not supposed to interpret the rules and principles but should have the knowledge and proper acquaintance of interpretations of rules and principles in the context of *Sharī'ah* guidelines. However, it is essential requirement for the job of the audit to have detailed acquaintance and comprehensive knowledge of the interpretations of rules and principles in order to have a broader picture of every mode of financing. It is also an essential requirement for a *Sharī'ah* auditor to have detailed knowledge of financial matters of an IBI in order to analyse a financial transaction and examine its *Sharī'ah* compliance.

Therefore, a financial auditor may partially fulfil the criteria of *Sharī'ah* auditor but lack of *Sharī'ah* knowledge makes him/her inappropriate and unfit for the job. On the other hand, a *Sharī'ah* scholar also partially fulfils the criteria of being fit for *Sharī'ah* audit but due to lack of knowledge of financial accounting and audit makes him/her unfit and unsuitable for the job.

9. *Sharī'ah* Auditors Qualification in Bank Negara Malaysia's *Sharī'ah* Governance Framework

The Bank Negara Malaysia has issued the following guidelines for the auditors:

“The function shall be performed by internal auditors who have acquired adequate *Sharī'ah*-related knowledge and training. In addition, the internal auditors may engage the expertise of the IFI's *Sharī'ah* officers in performing the audit as long as the objectivity of the audit is not compromised”(Bank Negara Malaysia, 2009)

Bank Negara Malaysia has only given the guidelines for internal *Sharī'ah* audit and auditor which is just a minor part of whole *Sharī'ah* audit because of the fact that internal *Sharī'ah* auditor, being employee of the bank, should be more concerned with formalizing the material for external *Sharī'ah* auditor. Even though BNM has also not issued any qualification criteria for internal *Sharī'ah* and didn't discuss external *Sharī'ah* auditor at all.

10. Analysis and Discussion

In the light of above discussion, the nature of the job of an external *Sharī'ah* auditor is compassionate as compared to the financial auditor because in financial audit “the external auditor is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement whether caused by fraud or error”(Shahzad & Khan, 2019) whereas, the External *Sharī'ah* auditor will be responsible for giving an opinion that all the transactions and contracts comply with *Sharī'ah* rules and principles which increase the level of confidence of customers of the bank.

Keeping in view the nature of the job of a *Sharī'ah* auditor, all organizations mentioned above are agreed that the *Sharī'ah* auditors must have sufficient working knowledge of IB.

In the Pakistani perspective, as suggested by the SBP, “the audit firms should hire *Sharī'ah* scholars based on “*Shahadatul Almiya Fil Uloomal Arabia wal Islamia*” or *Takhasus fil Fiqh wal Ifta* or *Sharī'ah* background” (Ayub, 2019; Shahzad, 2016; Shahzad *et al.*, 2019). “However, these *Sharī'ah* scholars do not have adequate knowledge and experience of accounting and auditing

knowledge as per fit and proper criteria (FAPC). On the other hand, the SECP has given a more viable solution of auditors qualified from the Institute of Chartered Accountant of Pakistan (ICAP) or Institute of Cost and Management Accountants (ICMA) of Pakistan. However, realizing the current curricula of reputed Accountancy Institutions which produce certified Accountants and auditors lacks the topics related to Islamic banking and finance.”

Therefore, to strengthen the *Sharī'ah* compliance environment in IB and finance industry and to mitigate the *Sharī'ah* noncompliance risk, it is recommended that the SBP should review the qualification criteria (FAPC) for the *Sharī'ah* auditors, as the *Sharī'ah* scholars do not have adequate knowledge of Accounting and finance while the Auditors have lack of knowledge in *Sharī'ah*.

11. Appointment Criteria for the *Sharī'ah* Auditor in Pakistan

The fit and proper criteria provided by SBP contain the features which are required to hire or select *Sharī'ah* auditor and external *Sharī'ah* auditor². The guidelines are:

In the context of Academic qualification, the FAPC mentions that:

“Shahadat ul Alamiya degree from any recognized board madaris with minimum 70% marks and bachelors degree with a minimum of second class, or, post graduate degree in Kulliyatu Sharī'ah, OR Kulliya Ussuluddin, LLM Sharī'ah with a minimum CGPA of 3 or equivalent from any recognized university” (SBP, 2018).

The other requirements or features to be taken into consideration while hiring or selecting any *Sharī'ah* auditor or external *Sharī'ah* auditor include that the track record of the candidate should be clear in socioeconomic and financial dealings, “solvency and financial integrity, honesty and reputation, conflict of interest, declaration of secrecy as per section 33A of Banking Companies Ordinance 1962”.

12. Propositions and Recommendations for FAPC:

The above-mentioned detailed FAPC should be taken into serious consideration while hiring *Sharī'ah* auditors and external *Sharī'ah* auditors. However, the features of FAPC left a lot of stones unturned while providing features for the hiring procedure of *Sharī'ah* related posts. The academic qualification prescribed in FAPC left a big loophole by uncovering one of the

² The FAPC is guideline for each and every post of shariah related position at Islamic bank but due to limitation of the research study i.e., focused on the selection of shariah auditors and external shariah auditors, therefore, other positions shall not be part of the discussion of this research study.

significant aspects of academic qualification and that is the knowledge of economics, financial accounting and auditing principles. Hence, it creates a severe lacking in *Sharī'ah* auditors and external *Sharī'ah* auditors and, therefore, seriously influences the performance of *Sharī'ah* auditors and also of Islamic banks as a whole.

Similarly, the professional experience of the *Sharī'ah* auditor and external *Sharī'ah* auditor prescribed by FAPC only addresses a few segments required for an eligible candidate for the position of a *Sharī'ah* auditor. The FAPC strongly emphasizes the need for an experienced *Sharī'ah* auditor in fields of Islamic Jurisprudence and fatawa but a short description is mentioned in FAPC of an equally important aspect of professional experience i.e. experience in accounting, auditing, economics, and finance. As a result, the FAPC criteria for *Sharī'ah* auditors and external *Sharī'ah* auditors have significant gaps in terms of education, professional experience and trainings.

Keeping in view the above discussion, the SBP should revisit the qualification and professional competency criteria for the *Sharī'ah* Auditors in consultation with Accountancy bodies, i.e., Institute of Chartered Accountants Pakistan. Secondly, the Accountancy bodies should issue manuals for the *Sharī'ah* audit, as mentioned in the *Sharī'ah* Governance Framework issued by the SBP;

“Institute of Chartered Accountants of Pakistan (ICAP) may develop comprehensive guidelines to conduct external Sharī'ah Audit in consultation with external Audit firms”(SBP, 2018).

Thirdly the Accountancy bodies i.e., ICAP, ICMAP should frame a comprehensive capacity building training or certificate program for the auditors in the field of IB and finance, Islamic Law in collaboration with SBP, SECP and reputed *Sharī'ah* bodies which may be compulsory for the individuals associated with *Sharī'ah* Audit of Islamic banking and finance industry.

13. Conclusion & Recommendations

This study provides an overview of the present circumstances regarding the importance of External *Sharī'ah* Audit in the IB industry and significant challenges related thereto. The main challenge to this industry is the lack of skillful and qualified workforce. *Sharī'ah* audit is a susceptible job. The *Sharī'ah* board's decision about the approval or disapproval of profit depends upon the findings of the *Sharī'ah* auditors. The current curricula of the Accountancy Institutions are not well-suited to the *Sharī'ah* audit. The existing

solution, according to the SGF, is to appoint *Sharī'ah* scholars using the Fit and proper criteria which is also unsuitable for this job. The SBP may revisit the Qualification and professional competency criteria for the external *Sharī'ah* Auditors with the consultation of the Accountancy bodies. The Accountancy bodies should prepare manuals for the *Sharī'ah* audit, and the Accountancy bodies i.e., ICAP, ICMAP should frame a comprehensive capacity building training or certificate program for the auditors in the field of IB and finance, Islamic Law in collaboration with SBP, SECP and reputed *Sharī'ah* bodies which may be compulsory for the individuals associated with *Sharī'ah* Audit of IB and finance industry.

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Annexure 01: Syllabus of Reputed Accountancy Organization

The Institute of Chartered Accountants of Pakistan (ICAP)	Association of Chartered Certified Accountants (ACCA)	Institute of Cost and Management Accountants of Pakistan (ICMA)
Assessment of Fundamental Competencies (AFC)	Knowledge Level	Operational Level
AFC-1 Functional English	F1 Accountant in Business	Level 1
AFC-2 Business Communication	F2 Management Accounting	Fundamentals of Financial Accounting Business Economics Business Communication and Report Writing
AFC-3 Quantitative Methods	F3 Financial Accounting	Level 2
AFC-4 Introduction to Information Technology	Skills Level	Fundamentals of Management Business Mathematics & Statistical Inference Commercial Law
Certificate in Accounting and Finance (CAF)	F4 Corporate and Business Law	Managerial Level
CAF-1 Introduction to Accounting	F5 Performance Management	Fundamentals of Cost & Management Accounting Enterprise Management Management Information Systems
CAF-2 Introduction to Economics and Finance	F6 Taxation	Level 2
CAF-3 Business Law	F7 Financial Reporting (UK or International)	Financial Accounting Management Accounting Corporate Governance, Business Laws & Ethics
CAF-4 Business Management and Behavioural Studies	F8 Audit & Assurance (UK or International)	STRATEGIC LEVEL
CAF-5 Financial Accounting And Reporting I	F9 Financial Management	S1 - Advanced Financial Accounting & Corporate Reporting
CAF-6 Principles of Taxation	Essentials Level	S2 - Audit & Assurance
CAF-7 Financial Accounting and Reporting II	S1B Strategic Business Leader	S3 - Business Taxation
CAF-8 Cost and Management Accounting	SBR Strategic Business Reporting	S4 - Strategic Management Accounting
CAF-9 Audit and Assurance	Options (choose any two from four)	S5 - Strategic Financial Management
Certified Finance and Accounting Professional (CFAF)	P4 Advanced Financial Management	S6 - Strategic Management
CFAP-1 Advanced Accounting and Financial Reporting	P5 Advanced Performance Management	PRACTICAL MODULES
CFAP-2 Corporate Laws	P6 Advanced Taxation	Module - 1
CFAP-3 Business Management and Strategy	P7 Advanced Audit & Assurance (UK or International)	PM1 - ERP Solutions & Audit Procedures
CFAP-4 Business Finance Decisions		PM2 - Management Reporting – IT Office Tools
CFAP-5 Advanced Taxation		PM3 - Banking Operations
CFAP-6 Audit, Assurance and Related Services		Module - 2
Multi-Subject Assessment (MSA)		PM4 - Practical Taxation
MSA-1 Financial Reporting and Assurance Professional Competence		PM5 - Business Laws Application
MSA-2 Management Professional Competence		PM6 - Communication Skills