

Shari'ah Audit Disclosure in annual reports: A comparison study between Bahrain and Malaysian Islamic Financial Institutions

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Abstract:

Auditing in Islam is not an alien concept after all. It has been practiced since the time of Prophet (PBUH) where he appointed 'the Muhtasib' in the Makkan market. However, the progress of Islamic banking and finance has paved way for its re-establishment once again. The purpose of this paper is to examine the concept, and the desired and actual practice of Shari'ah audit in today's practice. First, this paper analyzes the sacred texts and previous literature to derive the traditional concept of audit and the proposed framework by the previous researchers. Moreover, to compare between Malaysia and Bahrain Shari'ah Auditing we investigate Shari'ah audit report of 15 Malaysian and 15 Bahrain Islamic Financial Institutions (IFIs) for the ended 2017. However, we found that, all IFI's annual reports have disclosed Shari'ah audit reports. Nevertheless, Bahrain IFIs are more transparent than some Malaysian IFIs which did not disclose on earnings realized on Shari'ah non-compliant products or events. The other difference between them is that Bahrain's IFIs disclose more on the obligation of the banks to comply with Shari'ah standards issued by AAOIFI. This is because Bahrain has more experience in executing the Shari'ah Audit compared to Malaysia, which only started in year 2012 systematically. Nonetheless, Shari'ah Governance Framework introduced in 2011 by Bank Negara Malaysia is a great development and suggests that Islamic banking and finance has a bright future in the years to come.

Keywords: Shari'ah audit; Shari'ah audit report; AAOIFI, Shari'ah Governance Framework; Islamic Financial Institutions.

1. INTRODUCTION

The word 'audit' comes from the Latin term 'audire', which means to hear. Even though, the concept of this itself does not restrict to financial auditing nevertheless, this stipulates financial auditing in the minds of common people today (Mohiuddin, 2012). Traditionally, auditing was meant to detect errors and frauds. However, this objective has evolutioned and auditing is expected to ascertain whether the accounts reported, are true and fair.

Financial audit is mandatory for joint stock corporations around the world. This plays as a check or a control measure for the firm to act to the best interest of the shareholders in particular and stake holders in general. However, after the phenomenal success of Islamic banking and finance in the recent past, many researchers have undertaken to investigate on 'Shari'ah auditing' in Islamic financial institutions (IFIs) and its corporate governance.

Shari'ah audit is completely different from conventional audit. Conventional auditing does not find whether IFIs are involved in Riba, Maysir or Gharar (Shafii, Salleh, Hanefah, & Jusoff, 2013). Moreover, there is a growing demand for Islamic products whereby the stake holders are interested in knowing whether IFIs are Shari'ah compliant or not and only Shari'ah audit can evaluate and examine the level Shari'ah compliance (Khir, Gupta, & Shanmugam, 2007).

Even though, the term Shari'ah audit is fairly new to the Muslim world, the concept and philosophy is mentioned in the sacred texts of Islam i.e., the holy Qur'an and the traditions of the holy Prophet (PBUH). Development of Shari'ah compliant products has been the focus in the past and only recently the need of Governance and auditing has aroused for research. However, the most significant standards of Shari'ah audit practiced today are SGF and AAOIFI standards. Hence, the critical analysis of both standards (both in theory and practice) and to ensure whether those standards still have scope for improvement are the problems of this study. Moreover, the study aimed to examine Shari'ah audit disclosure in 2017 annual reports of 30 Bahrain and Malaysian Islamic Banks, and to evaluate the efficiency of AAOIFI and SGF standards.

1.1 Concept of auditing in Islam

It is true that the term 'audit' was not used in the sacred texts of Islam nevertheless, the concept and philosophy is explicit and apparent. Qur'an explains all things and Islam establishes a complete system. Hence, it is the duty of Muslims to investigate the sacred texts to derive concepts and principles to the modern context without compromising the ultimate objective which is the attainment of falah (success) in this world and hereafter. When audit is revisited in the sacred texts, we come to the conclusion that Allah explains the importance of both internal and external auditing. It has also mentioned the importance of evaluating news (information) which we receive.

Allah says, "O you who have believed, if there comes to you a disobedient one with information, investigate,

lest you harm a people out of ignorance and become, over what you have done, regretful (49:6), (Sahih, 2019). The above verse demands the believers to investigate the information brought by the disobedient. If we do not know the people who are giving the information, it is implied that the information should be evaluated before we take decisions based on them. The Qur'an enlightens that if we were to 'swallow the whole chicken' and act upon that information, it will only make us regretful for not investigating the information. This is strong evidence established on the importance of evaluating and investigating auditing. It is also directed generally. Hence, it is the duty of the stake holders of IFIs to audit the firm. Here, stake holders can be represented by the shareholders, creditors, investors, employees, Government and finally the general public. It is the responsibility on the stake holders to fulfill this duty which is conveyed by the divine message. Thus, this is also part of worship for Muslims.

Allah says, "Rather, man, against himself, will be a witness."(75:14), (Sahih, 2019).

In the above verse, Allah says that man will be a witness in the Day of Judgment for all the deeds he did in this world. He will not be able to hide his deeds which he hid in this life. Every person will be a witness against all his deeds. Therefore, "He will say, Oh! I wish I had sent ahead [some good] for my life" (89:24),(Sahih, 2019). He will realize this truth when his records are audited and will consequently regret about his deeds. The above verses show that people will self-audit themselves and will know the results of the records after the audit. Hence, Qur'an also touches about the philosophy of internal audit.

Islam is a faith that is founded in believing in the unseen. It is also implied that Allah will judge all human beings according to their motives and deeds. This establishes the external auditing in Islam. Allah says, "Indeed, from Allah nothing is hidden in the earth nor in the heaven" (3:5) ,(Sahih, 2019). Man cannot hide anything as Allah will audit his records and will judge him. Hence, there will be external auditing too in the hereafter. However, there will be a question as to whether the stakeholders need to audit a firm externally or to leave Allah to audit in the hereafter? This question can be answered in the following verse as Allah says, "You are the best nation produced [as an example] for mankind. You enjoin what is right and forbid what is wrong and believe in Allah..." (3:110) ,(Sahih, 2019). Furthermore, to fulfill this paramount duty, it is important to audit the records of firms in order to establish truth and justice in its operations and to forbid evil if any. In short, Allah has bestowed the responsibility to mankind to establish truth and justice in this world. Moreover, to the successful fulfillment of this duty, both internal and external auditing is necessary.

According to Kasim (2010), auditing dates back to Prophet (PBUH). The role of auditor (Muhtasib) which is to monitor, control and prevent fraudulent exploitations on consumers in the marketplace was established in that time itself. Elsergany (2010), explains that, Prophet (PBUH) appointed the first Muhtasib in Islam, who was Sa'id ibn Sa'id ibn Al-Aas, when Islam grew as a state on its own. He was in charge of the Makkan market. Even `Umar (RA) goes on rounds and played the role of Muhtasib by himself. He prevented fraud and warned against it, and tour the market carrying a stick to warn those who cheat and operate in complete monopoly.

The above traditions were strongly intact in the Muslim kingdoms to ensure free and fair market practices under Islamic Caliphate (Elsargany, 2010).

Therefore, Shari'ah audit is not only injunctions in Islam but also widely implemented concept throughout the history of Islam. Hence, to revive this institution in the same context taking the modern need also into consideration is significant for the upliftment of the Ummah as a whole.

1.2 Shari'ah Audit at Present

The concept of Shari'ah audit is as old as Holy Qur'an; the practice of it was never emphasized at an organizational level or at a systematic process. It was expected at an individual level. However, the need to audit at an organizational level has been understood at present with the advent of IFIs to ensure that all the activities of IFIs are performed according to Shari'ah. Bank Negara Malaysia has issued Shari'ah Governance Framework (SGF) in 2011 to systemize the practice of Shari'ah audit in Malaysia. Furthermore, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has published ASIFI (Auditing Standards for Islamic Financial Institutions) and GSIFI (Governance Standards for Islamic Financial Institutions) standards on Shari'ah audit which is practiced worldwide specially in Bahrain.

2. LITERATURE REVIEW

Numerous literature have been concentrated on the issues of Islamic financial products and its innovation. However, after the industry has been widely accepted around the world, researchers have attempted to evaluate the control measures in IFIs. Moreover, numerous literature can be found in the past two years in this subject. Hence, this section analyses some relevant journal articles in chronological order to understand how the research has taken its course to develop Shari'ah auditing.

Most of the studies before 2011 focused on the issues and challenges of Shari'ah audit. Some examples of those literature is cited below. The dependance of internal audit for Shari'ah compliance assurance is not effective according to Grais & Pellegrini (2006). However, they have proposed an effective framework to assess and assure Shari'ah compliance.

The study conducted by Kasim, Ibrahim, & Sulaiman (2009) explores the gap between the desired and actual practice in Shari'ah auditing. The framework, scope, qualification and independence of Shari'ah auditors in Malaysia were discussed in the study. It is found that Shari'ah audit was not different from conventional audit as there was no clear criterion to assure Shari'ah compliance. Further, the scope of audit is restricted to product compliance. Social and environmental audit is not favoured. The reason for the limitation is cited as the cost increases with the scope and also awareness is needed for broader auditing. It was also found that there is lacking of qualified human resources who have both Shari'ah and accounting qualifications. Moreover, the independence of Shari'ah auditors were questionable. The study concludes that the practice of Shari'ah audit

is not considered as a serious matter and it is highly unstructured in Malaysia.

Shafii, Salleh, & Shahwan (2010) criticised that Malaysia has not imposed external Shari'ah compliance auditing for IFIs. Moreover, the study states that the Shari'ah audit is heavily dependant on the Shari'ah advisors or internal auditors. The lack of Shari'ah audit compliance framework is cited for this weakness. Moreover, the study focuses on management of risks and suggests that these risks should be under the scope of governance framework. This study has also proposed Shari'ah audit framework.

Azmi (2011) explains the Pricewaterhouse Coopers survey findings on Shari'ah audit in Malaysian IFIs. The major findings are staff should be equipped with Shari'ah audit knowledge, the scope of Shari'ah audit needs to be expanded to cover all business operations, Shari'ah scholars should be more involved in Shari'ah audit process, Shari'ah dispute resolution process should be further clarified and finally IT systems should be improved to provide Shari'ah auditors with necessary information to perform effectively.

The latest studies have acknowledged the development of Shari'ah governance framework. However, there is room for development. Nevertheless, this improvement is costly and time consuming. Shafii, Abidin, Salleh, Jusoff, & Kasim (2013) have investigated about Shari'ah audit after Bank Negara Malaysia implementing SGF. The main objective of the paper is to study the Shari'ah audit function post SGF implementation. They have used interviews which is meaningful than questionnaires for in-depth analysis. The finding of the paper was that SGF has added value to the Shari'ah audit function in ensuring the compliance towards the Shari'ah principles. The limitation of this study is that it cannot be generalized to the population as the sample size is fairly small. According to Shafii, Salleh, Hanefah, & Jusoff (2013) human capital development is extremely important to conduct Shari'ah audit effectively. Since, the modern practice of Shari'ah audit commenced recently an inquiry of the independence, competence and quality of Shari'ah auditors should be revisited. This study found that Shari'ah auditors should possess both Shari'ah and strong accounting knowledge. However, the criteria to determine the quality shall be determined by the IFIs at their institutional level.

The study undertaken by Kasim, Sanusi, Muamimah, & Handoyo (2013) compares the current practice of auditing of IFIs in Malaysia and Indonesia. This comparative study is aimed at ascertaining as to whether there is a gap or not in these two countries under study. The objective is attained through survey questionnaire. The major findings of the study is that Malaysian practitioners were satisfied with the existing Shari'ah Governance Framework whereas Indonesian practitioners are looking for proper guidance to carry out their Shari'ah compliance auditing. Hence, the currently used Shari'ah Audit Manual is considered as insufficient by the respondents from Indonesia. The results were further inquired through interviews and the almost all respondents agree the scope should be widened but they do not favour the practice of broader Shari'ah audit as it is costly, lack of expertise and more priority should be given to Shari'ah compliance of products. There is only 20% gap exist in Malaysia whereas 80% in Indonesia. Sample size is a concern for this study. Reserachers conclude that still Shari'ah auditing is evolving would be a major part in the future.

Kasim & Sanusi (2013) has researched on the emerging issues for auditing in IFIs in Malaysia. This is an empirical study whereby given questionnaires to 85 respondents in 21 IFIs. The practitioners do not agree that AAOIFI is used as a criterion yet agree that the local SGF framework is used and it is sufficient to conduct Shari'ah audit. Moreover, majority of the practitioners do not have both Shari'ah and accounting qualifications. The study signifies that there are still unresolved issues in the current SGF and the prominent of them all is the independence and qualifications of Shari'ah auditors. The major criticism of the study was that, there was no mandatory professional governance structure for Shari'ah auditors and that was the suggestion from the authors.

Hamza (2013) analyzed Shari'ah governance framework in two regions namely Gulf Cooperation Council and Malaysia. They are distinct in each. First being decentralized model and the second being the centralized model. He compares the effectiveness and supervision of both models through qualitative analysis. Shari'ah Board and Shari'ah audit should be separated from one another for efficient supervision model. Moreover, Shari'ah Board is appointed and remunerated by the Islamic bank which may lead to the level of independence questionable. He suggests that the appointment and remuneration should be made by an independent body like the Central bank or Government itself. The other challenge for governance framework is that, the divergence of opinion among different school of thought for the same product which results in lack of consistency and difficulty in harmonization of products and financial procedures. His findings favour the Malaysian framework as all the banks are obliged to follow the standards set by BNM. Long term consistency of fatwas are important and to achieve it, centralized model of governance framework similar to Malaysia should be followed.

Despite all this, the study by Alam, Hassan, & Ferdous (2017), their study on Competency of Shari'ah Auditors, they found that most of Shariah auditors occupied in IFIs have no skill and requirement about Shariah audit and Islamic banking, Hence, internal auditors achieve Shari'ah audit in IFIs in the light of Shariah governance framework. This settled by Rammal and Parker (2010), in their study claimed that "in order to fulfill the requirement if the state bank of Pakistan, the individuals who meet the specified must be trained in religious education" and study by Kasim et al. (2009) who stated that there is lack of people who have both Shari'ah and Accounting educations. Moreover, experiences are significant in shaping the vision and mission of IFIs (Yaacob, 2012). Hence, the study by Yaacob and Donglah (2012), in their study argued that "The Shari'ah auditors should be the one with adequate knowledge, capabilities, and independent to carry out the audit".

Khalid, Haron, & Masron (2018), study on competency and effectiveness of internal Shariah audit in Islamic financial institutions, The study utilized normative and theorizing based on the main sources of Islam They found that, Maqasid al-Shariah theory, has been utilized in this research this study illustrated how Maqasid al-Shariah or higher objectives of Islamic law have increasingly taken the attention of increasing numbers of modern Muslim scholars for explaining present concerns. The studies which have been conducted before the issuance of SGF by BNM has been concentrating on the issue of structuring a framework to provide guidance for Shari'ah audit practices. However, post implementation of SGF has significantly impacted this branch of study and stud-

ies post SGF has acknowledged this fact but continued to criticize the practitioners of Shari'ah audit who are not independent and not sufficiently qualified. This gap is yet to be resolved by the existing framework as there is no criterion in recruiting Shari'ah auditors.

Appendix 1 explains the convergence and divergence of Bahrain and Malaysian auditing standards. It gives a snapshot of both standards in all the necessary features and functions. It can be understood that AAOIFI standards were structured from 2000 which means the Islamic banks in Bahrain have been practicing Shari'ah audit for more than a decade whereas Malaysia has structured the framework very recently. However, the Malaysian model is enforceable by law and Bank Negara has full authority in resolving disputes and issuing fatwa. This has made Malaysian model more efficient and consistent compared with Bahrain model as each individual bank can issue fatwa and national Shari'ah board of the Central Bank is independent from the Central Bank.

Moreover, Bank Negara has imposed restriction on Shari'ah scholars to participate more than one institution in the same industry. However, in Bahrain there is no such restriction to the extent that the same Shari'ah scholar can participate in both national Shari'ah board and in the Shari'ah committee of various banks. This can again lead to the conflict of interest. Furthermore, Shari'ah committee can have members from non-Shari'ah background in Malaysia. This will enable the Shari'ah scholars to gain the expertise of professional and will understand more in the practical context. However, at least three out of five should comprise of Shari'ah scholars. On the contrary, Bahrain does not have permission for non-Shari'ah scholars to hold membership in the Shari'ah committee. In addition to this, Malaysia has external Islamic rating agency which makes it more efficient and structured in comparison with Bahrain.

3.METHODOLOGY

For the purpose of the study, the population of this study comprises Islamic Financial Institutes (IFIs) Banks operative with the Shari'ah principles in the Malaysian and Bahrain IFIs. The year 2017 was chosen as most of the banks from both countries had uploaded their annual reports in their websites. Moreover, this study utilized both Quantitative and qualitative method, and secondary data is used. We collect data from 15 of Malaysian and 15 Bahrain Islamic Financial Institutions' (IFIs) in annual report, according to Shari'ah governance framework (SGF) from Bank Negara Malaysia and AAOFI standards. Hence, we utilized the descriptive analysis to analyze the data from 30 Malaysian and Bahrain annual reports for the Year ended 2017 as shown in Table 1.

Table 1:

No	Malaysia	Bahrain
1	Standard Chartered Saudiq Berhad	Kuwait Finance House - Bahrain
2	RHB Islamic Bank Berhad	Kaleji Commercial Bank BSC
3	Public Islamic Bank Berhad	Ithraa Bank BSC
4	OCBC Al-Amin Bank Berhad	Bahrain Islamic Bank BSC
5	Maybank Islamic Berhad	Al-Sabon Bank Bahrain BSC
6	Kuwait Finance House (Malaysia) Berhad	Al-Baraka Islamic Bank BSC
7	HSBC Amanah Malaysia Berhad	Global Banking Corporation, Bahrain BSC
8	Hong Leong Islamic Bank Berhad	CapriNova Investment Bank, Bahrain
9	CIMB Islamic Bank Berhad	Investors Bank, Bahrain
10	Bank Muamalat Malaysia Berhad	Unicorn Investment Bank, Bahrain
11	Bank Islam Malaysia Berhad	Bank Alkhair, Bahrain
12	Asiam Finance Bank Berhad	National Bank of Bahrain, Bahrain
13	AinIslamic Bank Berhad	Arab Banking Corporation, Bahrain
14	Alliance Islamic Bank Berhad	Gulf International Bank, Bahrain
15	Al-Rajhi Banking & Investment Corporation (Malaysia) Berhad	Bahrain Islamic Bank

Source: designed by the researcher.

4.FINDING AND DISCUSSION

For the purpose of the study, we study the implementation of Shari'ah audit by analyzing the annual report for year ended 2017 of 30 Islamic banks in Malaysia and Bahrain (Table 1) for the year ended 2017. Hence, all 30 IFIs in Malaysia and Bahrain have established their own Shari'ah Committee to report on the Bank's activities should the Bank complies with the Shari'ah rules and principles. In the annual report of the IFIs, there is a section; usually taking 1 to 3 pages, allocated for this report and is usually named as "Shari'ah Committee's Report", "Report of Shari'ah Board", "Report of the Shari'ah Supervisory Council" and "Shari'ah Advisory Committee's Report" in the Annual Report. Despite naming with different title, most of the reports are disclosing almost the same issues.

Moreover, we analysed the common issues disclosed in the Shari'ah Audit Report of IFIs in Malaysia and Bahrain. Following, the researchers compare the issues disclosed in the Shari'ah Audit between Malaysia and Bahrain, by comparing which country is more transparency in disclosing their activities to public. Finally, the researchers discuss in detail on the issues revealed by each 30 IFIs in Malaysia and Bahrain. For the year ended 2017, all 15 IFIs in Malaysia disclose on the four common issues shown in Table 2 in their Shari'ah Audit Report.

Table 2: Common issues in Shari'ah Audit Report of IFIs in Malaysia

Issue	Description
1	The transparency of contracts, transactions and dealing entered into by the Banks
2	The Banks' main sources of profit and charging of losses relating to investment are in accordance with the Shari'ah principles
3	The Banks' earnings that have been source from the prohibited activities which have been separated and disposed as charitable causes
4	Calculation, payment and distribution of Zakat

Source: designed by the researcher.

Table 3 shows five common issues reviewed by Shari'ah Committee of Bahrain in their audit report for the year ended 2017, which four out of five issues discussed are similar to Malaysia. The description of each issue will also be discussed in the next section.

Table 3: Common issues in Shari'ah Audit Report of IFIs in Bahrain

Issue	Description
1	The transparency of contracts, transactions and dealing entered into by the Banks
2	The Banks' main sources of profit and charging of losses relating to investment are in accordance with the Shari'ah principles
3	The Banks' earnings that have been source from the prohibited activities which have been separated and disposed as charitable causes
4	Calculation, payment and distribution of Zakat
5	Following Shari'ah standards issued by AAOIFI

Source: designed by the researcher.

By taking the two previous tables, the researchers combined and compared the issues released in the Shari'ah Audit Report in both Malaysia and Bahrain as shown in Table 4. It can be seen in the table that all first four issues, issue 1 to issue 4, are being reviewed in both countries. Whilst, only issue 5 being disclosed in Bahrain's report.

Table 4: Comparison between issues reported in Malaysia and Bahrain

Issues	Malaysia	Bahrain
1	✓	✓
2	✓	✓
3	✓	✓
4	✓	✓
5	x	✓

Source: designed by the researcher.

Subsequent, we will discuss on each and every issues disclosed in the Shari'ah Audit Report in both Malaysia and Bahrain. Firstly, issue 1 argues on the transparency of the Shari'ah Committee in revealing the information of contracts, transactions, and dealing entered into by the Banks to be in accordance with the Shari'ah principles. Next, issue 2 describes on whether the Banks are following the Shari'ah principles in allocating their profit and charging of losses relating to investment accounts.

Following to that, issue 3 in the Shari'ah Audit Report discloses on the Banks' earnings that were realized from sources or by means prohibited by the Shari'ah principles which the incomes include penalty charges, interest received from account opened in foreign conventional banks in which such countries did not offer any Islamic-related in their transactions, income earned from any invalid contracts, disposal of non-acceptable securities, fees income received from use of debit card at certain merchant and commissions from Shari'ah non-compliant activities. The above-mentioned incomes however are being separated and allocated aside to be distributes as charity fund.

Moreover, issue 4 informs on the accountability of the Bank to thoroughly calculate, pay and distribute Zakat to the Zakat receivers. Finally, the last issue, which is issue 5, discusses whether the Banks were committed to the Shari'ah standard issued by the AAOIFI or not. This issue is however only discloses in Bahrain's Shari'ah Audit Report and not discusses in Malaysia Shari'ah Audit reports.

Therefore, we can conclude that the Shari'ah Audit Report in both Malaysia and Bahrain confers almost same issues. However, Bahrain has extra information compared to Malaysia in which the Shari'ah Committee in Bahrain is responsible to ensure the Banks are committed to the Shari'ah standard issued by the AAOIFI.

Appendix 3 demonstrates the disclosure of the above-mentioned issues in the Shari'ah Audit Reporting in Malaysia. From the table, it can be derived that almost all of the four issues were being discussed in the Shari'ah Audit Report of all 15 IFIs in Malaysia. However, there are several cases occurred, which some of the issues were not being disclosed in some of the Banks. The most common issues are issue 3 and issue 4. Five out of 15 Banks in Malaysia did not reveal issue 3 in their Shari'ah Audit Report, while issue 4 was not mentioned in

four Banks. In addition to issue 4, which is disclosure of calculation, payment and distribution of Zakat, all four Banks, despite did not discussed the issue in the Shari'ah Audit Report, the allocation of Zakat however were being calculated in their Financial Statements.

Moreover, from the same table, we could see that mostly all of IFIs in Malaysia discussed the Shari'ah Audit Report in their annual reports. However, there is one Bank, namely Al-Rajhi Banking & Investment Corporation (Malaysia) Berhad, only reported briefly on its operation and did not discussed much on the Bank's compliance to the Shari'ah principles. Instead, there are also several IFIs that disclosed extra information in their report. These included Bank Islam Malaysia Berhad, where the Banks mentioned about the non-Shari'ah compliant events that they involved in and the amount of income realized from it. This information was not discussed in detail by other Banks.

On the other hand, Appendix 4 expresses the disclosure of the five issues in the Shari'ah Audit Report of 15 IFIs in Bahrain. From the table, we can accomplish that all 15 Banks were disclosing all five issues in their annual report. Though, there are three Banks out of sixteen did not discussed on issue 5, which is the responsibility of the Bank to committed to Shari'ah standards issued by AAOIFI. This is however was not a concern as it was eventually mentioned in their Financial Statements that the Banks were following the Shari'ah standard issued by AAOIFI.

Moreover, from the same table, we could see that mostly all of IFIs in Bahrain discussed the Shari'ah Audit Report in a very detail manner. However, there is one Bank, namely Kaleeji Commercial Bank (BSC) did not disclosed on issue 2 which is the distribution of profit and loss relating to investment. Instead, there are also four Banks that disclosed extra information in their report. These included Bank Al-Baraka Islamic Banck, Bank Alkair Bahrain, Arab Banking Corporation Bahrain, and Bahrain Islamic Bank, where four Banks mentioned about the Zakat calculation in it is Shari'ah Reports. This information was not discussed in detail by other Banks.

5.CONCLUSION

This study is attempted to portrait Shari'ah audit in all angles. At first, the concept and philosophy was explained by revisiting the sacred texts of Islam. It was found that Shari'ah audit is not a new concept and the practice of auditing initiated from the time of Prophet (PBUH). However, this concept gained momentum only after the advent of Islamic banks to assure and ensure that all activities of Islamic financial institutions are Shari'ah compliant. A structured framework and criterion is needed to audit the activities. The two dominating Shari'ah audit frameworks are AAOIFI standards and Shari'ah Governance Framework. This study further analysed the two standards in its framework and disclosure.

In the nutshell, it can be conclude that all 30 IFIs in Malaysia and Bahrain are disclosing almost the same issues in their Shari'ah Audit Report. The only difference between both countries is on issue 5, which is the discussion on the duty of the Bank to be complying with the Shari'ah standards issued by Accounting and Auditing Orga-

nization for Islamic Financial Institutions (AAOIFI). This is because the accounting standard followed by Bahrain is AAOIFI. Besides, it can also be conclude that IFIs in Bahrain are more transparence compare to Malaysian IFIs in disclosing the audit report as the report of Bahrain's Shari'ah Audit Report were discuss in a more detailed as compared to Malaysia's report furthermore, out of 15 Bahrain IFIs only three IFIs are not report all Issues compare to Malaysian IFIs out of 15 only four of them disclosed all Issues. We believe that this is due to the fact that Bahrain has more experience in executing the Shari'ah Audit compared to Malaysia, as year 2017 is only the seven year for Malaysia to exercise this Shari'ah Audit Report. Furthermore, the limitation of the study were we only use one year which is 2017 annual reports for compare between Bahrain and Malaysian IFIs therefore, as a future research can use more year and compared between them. Moreover, we only compare between Bahrain and Malaysian IFIs consequently, as a future research can compare between more countries that utilized Shari'ah Governance Standards.

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APPENDIXES

Appendix 1: Comparison between Bahrain and Malaysian Shari'ah Governance Standards

	Bahrain	Malaysia	Source
Standard	AAOIFI standard – Auditing Standards for Islamic Financial Institutions and Governance Standards for Islamic Financial Institutions	Shari'ah Governance Framework	AAOIFI (2010), BNM (2010)
Implementation	from 2000	from 2012	AAOIFI (2010), BNM (2010)
Functions under the Framework	Internal Shari'ah Review Committee and Auditing and Governance Committee	1. Shari'ah research function 2. Shari'ah risk management function 3. Shari'ah review function and 4. Shari'ah audit function	AAOIFI (2010), BNM (2010)
Presence of Shari'ah scholars in more than one Islamic Banks	Yes	No	Hamza (2013)
Authority of Shari'ah Conflict	The national Shari'ah Board in Central Bank	Central Bank	Hamza (2013)
Restriction of national Shari'ah Board to participate in Shari'ah Committee of Islamic Banks	No restrictions	Cannot to Participate	Hamza (2013)
Centralized Shari'ah Supervisory Board	No	Yes	Grais, W., & Pellegrini, M. (2006)
Islamic Rating Agency	No	Yes	Grais, W., & Pellegrini, M. (2006)
Shari'ah Board composition	Atleast three members	Atleast five members	AAOIFI (2010), BNM (2010)
Participation of non-Shari'ah background professionals in the Shari'ah Board	No	Yes, but majority should consist of Shari'ah scholars	AAOIFI (2010), BNM (2010)
Fatwa issuing authority	Shari'ah Board of Islamic Bank	Shari'ah Board of Bank Negara and the Securities Commission only	Hamza (2013)

Source: designed by the researcher.

Appendix 2 Malaysia's IFIs Shari'ah Audit Report

Appendix 2 Malaysia's IFIs Shari'ah Audit Report

No.	Name of IFI	Issue 1	Issue 2	Issue 3	Issue 4	Overall Discussion	Remarks
1	Standard Chartered Saadiq Berhad	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	However, the Bank did not pay and distribute Zakat, which is discussed in Issue 4. This is due to the shareholder of the Bank is a non-Muslim and not required to pay Zakat.
2	RHB Islamic Bank Berhad	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	In addition, the Bank disclosed on its compliance on the products proposed by the Bank.
3	Public Islamic Bank Berhad	✓	✓	×	✓	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank did not disclose on issue 3, which is the earning realized from Shari'ah non-compliance events.
4	OCBC Al-Amin Bank Berhad	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	Though reported as complies with the Shari'ah rulings and principles, the Bank however did not fully conform to issue 1, where the Bank has one non-Shari'ah compliant income. Even though the income had been allocated to charitable causes, the funds are yet to be distributed.
5	Maybank Islamic Berhad	✓	✓	×	✓	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank also informed about its compliance on the new product, business initiative and enhanced processes introduced by the Bank.
6	Kuwait Finance House (Malaysia) Berhad	✓	✓	✓	✓	Generally the Bank complies with the Shari'ah principles.	-
7	HSBC Amanah Malaysia Berhad	✓	✓	✓	×	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank did not disclose on issue 4, which is the report on Zakat. However, there is allocation of Zakat mentioned in the Bank's Financial Statement.
8	Hong Leong Islamic Bank Berhad	✓	✓	×	✓	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank did not disclose on issue 3, which is the earning realized from Shari'ah non-compliance event.
9	CIMB Islamic Bank Berhad	✓	✓	✓	×	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank did not disclose on issue 4, which is the report on Zakat. However, there is allocation of Zakat mentioned in the Bank's Financial Statement.
10	Bank Muamalat Malaysia Berhad	✓	×	×	✓	Generally, the Bank complies with the Shari'ah principles with 2 issues not being discussed in the report.	The Bank briefly reported that the operations of the Bank were conducted in compliance with the Shari'ah principles with some minor remarks, which the Bank is in the midst of refinement to be accordance with the Shari'ah requirements. The bank did not disclosed on Issues 2, and 3 which are make the less disclose of annual report.
11	Bank Islam Malaysia Berhad	✓	×	✓	✓	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank briefly reported that the operations of the Bank were conducted in compliance with the Shari'ah principles. In addition, the Bank also disclosed on the amount of six Shari'ah non-compliant incomes received in its report. The stated incomes were reported to be channel for charity purposes, with list of the receivers were also being mentioned in the report. Additionally, Bank Islam declared that the Bank rectified accordingly on any Shari'ah non-compliance events occurred and it has taken preventive actions to avoid the events from recurrence.

12	Asian Finance Bank Berhad	✓	✓	✓	×	×	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank did not disclose on issue 4, which is the report on Zakat. However, there is allocation of Zakat mentioned in the Bank's Financial Statement.
13	AmIslamic Bank Berhad	✓	✓	×	✓	×	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank did not disclose on issue 3, which is the earning realized from Shari'ah non-compliance events.
14	Alliance Islamic Bank Berhad	✓	✓	×	✓	×	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	The Bank did not disclose on issue 3, which is the earning realized from Shari'ah non-compliance event.
15	Al-Rajhi Banking & Investment Corporation (Malaysia) Berhad	✓	×	×	×	×	Generally, the Bank complies with the Shari'ah principles with 3 issues not being discussed in the report.	The Bank briefly reported that the operations of the Bank were conducted in compliance with the Shari'ah principles with some minor remarks, which the Bank is in the midst of refinement to be accordance with the Shari'ah requirements.

Source: designed by the researcher.

Appendix 3 Bahrain's IFIs Shari'ah Audit Report

No.	Name of IFI	Issue 1	Issue 2	Issue 3	Issue 4	Issue 5	Overall Discussion	Remarks
1	Kuwait Finance House - Bahrain	✓	✓	✓	✓	×	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	Issue 5, which is discussed on the responsibility of the Bank to be committed to Shari'ah standards issued by AAOIFI, was not being disclosed in the Bank's Shari'ah Audit Report. However, the Bank did mention in its Annual Report that the Bank is following the Shari'ah standard issued by AAOIFI.
2	Kaleeji Commercial Bank BSC	✓	×	✓	✓	×	Generally, the Bank complies with the Shari'ah principles with 2 issues not being discussed in the report.	The Bank did not disclosed on issue 2, the distribution of profit and loss relating to investment. Besides, Issue 5, which is discussed on the responsibility of the Bank to be committed to Shari'ah standards issued by AAOIFI, was also not being disclosed in the Bank's Shari'ah Audit Report. However, the Bank did mention in its Annual Report that the Bank is following the Shari'ah standard issued by AAOIFI.
3	Ithmaar Bank BSC	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	-
4	Bahrain Islamic Bank BSC	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	-

5	Al-Salam Bank Bahrain BSC	✓	✓	✓	✓	×	Generally, the Bank complies with the Shari'ah principles with 1 issue not being discussed in the report.	Issue 5, which is discussed on the responsibility of the Bank to be committed to Shari'ah standards issued by AAOIFI, was not being disclosed in the Bank's Shari'ah Audit Report. However, the Bank did mention in its Annual Report that the Bank is following the Shari'ah standard issued by AAOIFI.
6	Al-Baraka Islamic Bank BSC	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	In addition, the Bank included Zakat calculation in its Shari'ah Audit Report.
7	Global Banking Corporation, Bahrain BSC	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	-
8	Capinnova Investment Bank, Bahrain	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	-
9	Investors Bank, Bahrain	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	-
10	Unicom Investment Bank, Bahrain	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	-
11	Bank Alkhair, Bahrain	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	Also, the Bank included Zakat calculation in its Shari'ah Audit Report
12	National Bank of Bahrain, Bahrain	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	-
13	Arab Banking Corporation, Bahrain	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	Moreover, the Bank included Zakat calculation in its Shari'ah Audit Report
14	Gulf International Bank, Bahrain	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	-
15	Bahrain Islamic Bank	✓	✓	✓	✓	✓	Generally, the Bank complies with the Shari'ah principles.	Furthermore, the Bank included Zakat calculation in its Shari'ah Audit Report.

Source: designed by the researcher.