

# A Systematic Literature Review in Shariah Audit

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## KEYWORDS:

Shariah audit, Corporate governance, Islamic financial institutions, Shariah supervisory board, Effectiveness of Shariah Audit

## ABSTRACT

This study aims to present in detail the sharia audit research based on a systematic literature review. From 2013–2023, 40 articles were collected from the Scopus database. This research is seen from a theoretical point of view, geographical distribution, research background, and theme. The results show an increase in Islamic audit research in recent years. Compared to other Islamic countries, most of the research was conducted in specific countries, such as Malaysia. In addition, it has been found that previous studies have not known the antecedents and effects of effective Islamic auditing practices in IPIs, The focus of research on certain theories, such as agency theory, limits the way of research.

## INTRODUCTION

The development of Islamic financial institutions in many countries follows the development of the concept of Islamic audit (SA) in the modern era. Sharia audits are considered part of the Islamic governance framework that distinguishes them from conventional financial institutions (Khatib et al., 2022). Sharia audit (SA) is an assessment of the extent to which Islamic financial institutions (MFIs) follow the principles and rules of Islamic law in all activities, including contracts, risks, and financial statement operations. Sharia audit consists of the diligence of financial institutions following Sharia principles, policies, instructions, and provisions when carrying out activities (Khatib et al., 2022). Shari'ah audit is one of the main components of SG MFI. In addition, this audit is a prerequisite for MFIs to ensure Shari'ah compliance with the overall functioning of MFIs (Khalid et al., 2017)

The sharia audit function was first performed by the Islamic Development Bank in 1975. The institutionalization of the sharia audit function was only carried out in 1976 by the Faisal Islamic Banks of Egypt. The bank complements its operational structure with a Sharia Supervisory Board. Furthermore, Jordan Islamic Banks (1978), Kuwait Finance House (1979), and Bank Islam Malaysia (1983) have also implemented Sharia Supervisory Boards on banks. Improvement of the implementation of the sharia audit function became more comprehensive with the issuance of sharia standards supplemented by technical guidelines by AAOIFI in 1999, IFSB in 2006, and 2009 ((Minaryanti & Mihajat, 2023)

These Shari'ah audits are conducted by Shari'ah auditors following the guidelines and advice of regulators and SSBs. The main purpose of this Shari'ah audit is to confirm a robust and effective internal control process, which strictly follows the Shari'ah (Yaacob & Donglah, 2012). To achieve organizational objectives, internal and external Islamic audits must be conducted effectively. All SG standards that can be applied to MFIs have the same main objective, which is to eliminate the risk of sharia non-compliance. Like a prudential audit, a Shari'ah audit can be internal or external, depending on who is carrying it out.

Shari'ah auditors should have expertise in matters relating to Shari'ah-based financial transactions, Islamic economics and finance, and Fiqh to ensure proper quality of Shari'ah audits. (Shafii et al., 2010) argue that Shari'ah audits should be conducted independently and can be conducted both internally and externally, whereas Shari'ah reviews are assessments by management through Shari'ah department officers. In accordance with the guidelines (GSIFI, No.1), the auditor will be responsible for creating and articulating his views on the financial statements of LKS.

In some countries, all MFIs must perform SA duties. However, there are still differences between actual and expected SA practices. In addition, not much research has been written on SA, its effectiveness, determining factors, and results, although corporate governance in MFIs has attracted a lot of attention in the literature. Some researchers report that there is still limited research on this topic in the literature. Based on a theoretical and critical review of narratives, this study discusses sharia auditing from various aspects.

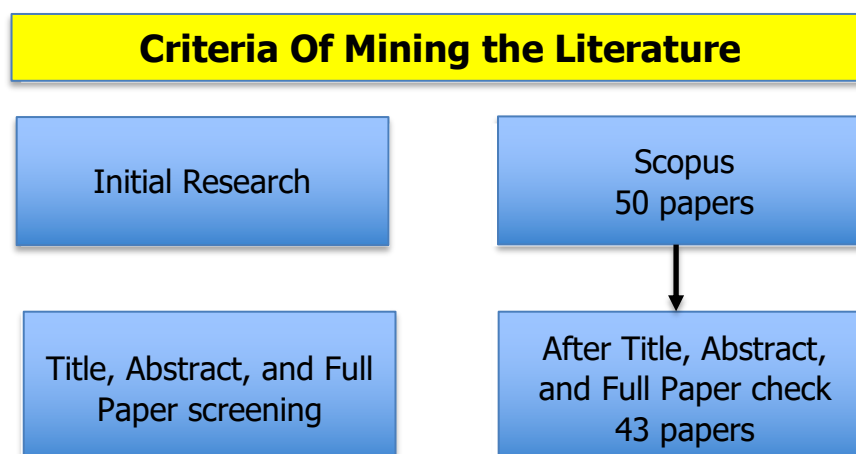
With this background, this study aims to summarize and compile existing research on SA published by the Scopus database. Identifying the main topics, methods, and theories of this research stream is important given the role SA has outlined in the activities of Islamic institutions. Therefore, the contribution of this paper is to fill the gaps in the existing literature by providing a systematic literature review of the existing literature on SA and answering the questions namely: (1) How is the development of sharia audit research from 2013-2023? (2) Where is sharia audit research applied?

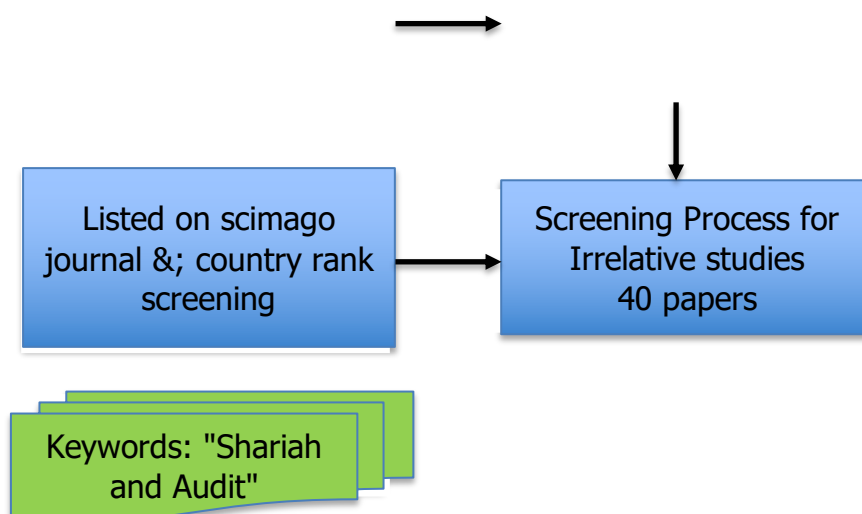
## METHOD

In this study, a systematic literature review was applied to analyze research studies on Sharia Auditing, which included articles published from 2013-2023. The studies studied were obtained from the Scopus database, because Scopus is the most extensive database that includes high-quality research. To gather literature, the author searched for titles, abstracts, and keywords from previous research using specific keyword strings, namely, TITLE-ABS-KEY "Sharia" AND Audit\*). Due to research limitations, the author not only looks at accredited articles indexed Q1, Q2, Q3, Q4, but the author also looks at other international articles. This study designed the review protocol as the definitive guide for the development of a systematic literature review. As shown in Figure 1, an initial sample searches literature across 50 articles from the Scopus database. These documents were then examined based on titles, abstracts, papers in full, and listed in scimago journal & country rank resulting in 40 articles that explicitly discuss sharia auditing as the main structure of the study. These studies are analyzed and evaluated based on theoretical perspectives, geographic distribution, research settings and themes covered.

## RESULTS AND DISCUSSION

The results of the article selection resulted in 40 articles published from 2013-2023. Once an article is selected, the publication trend of each database is identified. Tables 1 and 2 describe 12 publication sources and 21 published article names. Only six articles were Literature Review, 34 others used interview, normative, qualitative, quantitative, and survey methods analyzed to answer research questions.





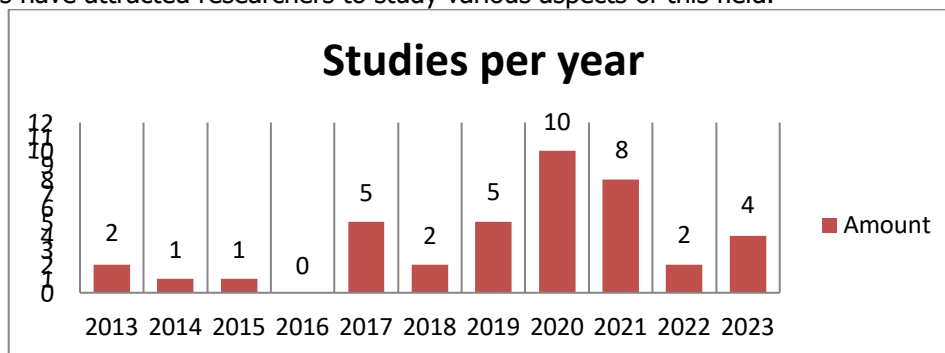
**Figure 1. Flow chart of searching the literature**

Sources	Potentially eligible studies	Selected studies
Emerald Group Publishing Ltd	26	23
Sciedu Press	4	4
Elsevier	2	2
Korea Distribution Science Association (KODISA)	2	2
Serials Publications	2	2
Allied Academies	1	1
Asian Economic and Social Society	1	1
Islamic Bank Training and Research Academy	1	1
King Abdulaziz University Scientific Publishing Center	1	1
Primrose Hall Publishing Group	1	1
University of Idaho Library	1	1
Wiley	1	1

No	Journal Name	Amount
1	Journal of Islamic Accounting and Business Research	8
2	ISRA International Journal of Islamic Finance	5
3	Asian Journal of Accounting Research	4
4	International Journal of Financial Research	4
5	International Journal of Economic Research	2
6	Journal of Asian Finance, Economics and Business	2
7	Academy of Accounting and Financial Studies Journal	1
8	Asian Economic and Financial Review	1

9	Humanities and Social Sciences Reviews	1
10	Humanomics	1
11	International Journal of Innovation, Creativity and Change	1
12	International Journal of Law and Management	1
13	Islamic Economic Studies	1
14	Journal of Applied Accounting Research	1
15	Journal of Financial Reporting and Accounting	1
16	Journal of Islamic Economics, Banking and Finance	1
17	Journal of King Abdulaziz University, Islamic Economics	1
18	Journal of Public Affairs	1
19	Pacific Basin Finance Journal	1
20	Procedia - Social and Behavioral Sciences	1
21	Library Philosophy and Practice	1

**Figure 2** represents annual research trends, showing that the number of studies related to SA fluctuates, reaching its highest level in 2020 with 10 studies compared to 2016 with no studies. Increasing awareness of Islamic products encourages the need to have a strong Financial Services Institution (FSI) to support the rise of Islamic banks in many countries. Financial Services Institutions play an important role in regulating and supervising the activities of Islamic banks to ensure their compliance with Sharia principles and regulations. Sharia compliance standards will loosen as the industry's rapid growth raises concerns. As a result, there are no rules requiring Islamic banking institutions to undergo external audits, which will impact customer interests in addition to other issues such as product disclosure and transparency. Therefore, it can be concluded that the spread of Islamic institutions and the emergence of their importance in capital markets have attracted researchers to study various aspects of this field.



**Figure 2. Yearly research trend**

### Analysis

This section responds to sub-research questions posed in the planning of the review.

#### **Q1: How is the development of sharia audit research from 2013-2023?**

#### ❖ **Theories applied to the literature**

The results of table 3 reveal that only 30 articles are based on theory, while the number of studies that are not based on some or one theoretical foundation is 13 articles. Agency theory is the most widely used theoretical lens in the literature sample (8 times). This theory discusses the relationship between the stakeholders of an organization, namely the owners of the company (shareholders) and managers, where agency problems can occur if the company's managers focus on personal interests rather than the interests of the owners (Binti Kasim et al., 2009). Agency theory argues that the purpose of having an appropriate oversight mechanism is to reduce conflicts of interest between principals and agents (Zamil et al., 2021). The original annual report, which was created based on strong governance practices and in

accordance with sharia principles, will increase stakeholder trust and confidentiality while reducing information discrepancies about the institution's operational responsibilities. In addition, research has shown that agency theory has limitations in certain areas, such as sharia regulation, social responsibility, environmental responsibility, and climate change, among others.

The article also discusses a number of other theories, namely corporate governance theory, Institutional theory, Islamic Accountability theory, Islamic Agency Theory, Islamic corporate governance theory, Learning theory, Legitimacy theory, Maqasid al shariah theory, Shariah audit theory, Shariah governance theory, Signaling theory, Stakeholder theory, Stewardship theory, Theory of effective job performance, Theory of Islamic banking, and Theory of Islamic finance.

**Table 3. Theories applied in the literature**

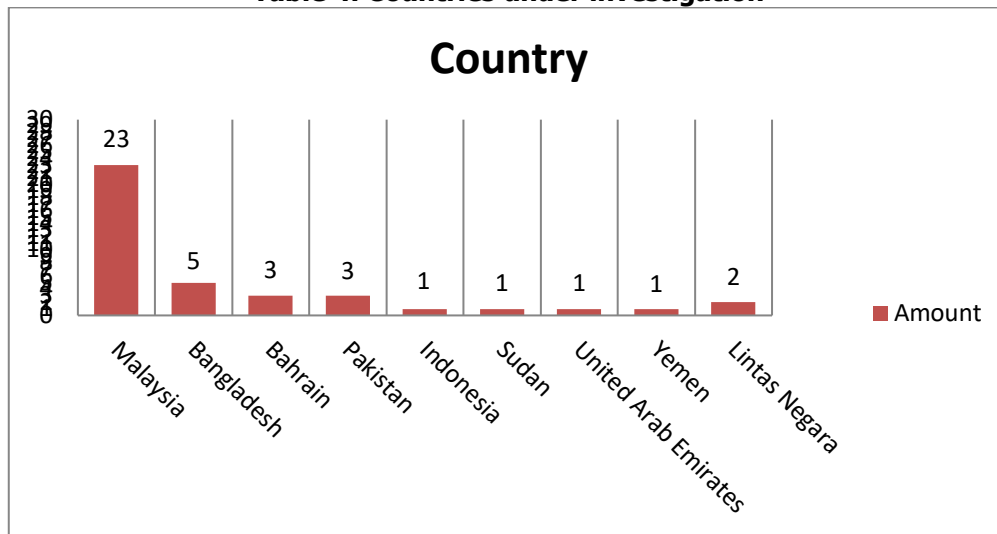
Theory name	2013 - 2015	2016-2018	2019-2021	2022-2023	Total
Agency theory	1	0	3	4	8
Corporate governance theory	1	0	1	0	2
Institutional theory	2	1	1	0	4
Islamic accountability theory	0	0	1	1	2
Islamic agency theory	0	1	2	1	4
Islamic corporate governance theory	0	0	1	0	1
Learning theory	0	0	1	0	1
Legitimacy theory	0	0	1	3	4
Maqasid al shariah theory	1	3	1	1	6
No Theory	0	1	11	1	13
Shariah audit theory	0	0	1	0	1
Shariah governance theory	2	1	1	0	4
Signaling theory	0	0	0	2	2
Stakeholder theory	0	0	2	3	5
Stewardship theory	0	0	0	1	1
Theory of effective job performance	0	0	1	0	1
Theory of islamic banking	1	1	0	0	2
Theory of islamic finance	0	1	0	0	1

#### ❖ Geographical Distribution of Literature

This investigation revealed that Islamic audit literature is distributed in only eight countries in Asia (see Table 4). Malaysia is the most researched context with 23 articles. Institutions in Malaysia have a high commitment to Shariah audits, in line with religious commitments in the country. Therefore, the country is considered a fertile environment for Shariah audit research. In addition, as part of the sharia governance framework, enhanced sharia auditing was introduced by Malaysian regulatory bodies as a mandatory practice for IFIs. Malaysia has a well-established Islamic finance industry, which includes a large number of Islamic financial institutions and Shariah scholars. It provides a conducive environment for research on Shariah auditing practices. Malaysia has a regulatory framework that requires Islamic financial institutions to undergo Shariah audits. These regulatory requirements may also contribute to the prevalence of Shariah audit research in Malaysia. Lastly, Malaysia has a strong academic community interested in Islamic finance and Shariah audit research. The community consists of scholars, researchers, and students who are actively involved in research on Islamic finance and related topics.

The rest of the studies were distributed as follows: Bangladesh 5 articles, Bahrain 3 articles, Pakistan 3 articles, and 1 article each from the countries of Indonesia, Sudan, United Arab Emirates, Yemen. In addition, 2 articles use data from several countries (across countries) namely (UK, Canada, US, Singapore, Australia and Ireland) and MENASA (Middle East, North Africa, and Southeast Asia). Future researchers will have to address this research gap, as Islamic auditing practices may differ from market to market due to the unique culture in each country.

**Table 4. Countries under investigation**



❖ **Methods applied to the literature**

In Table 5, the investigation results show that the survey approach is the most widely used methodology in the research sample with 9 articles (Shafii et al., 2014; T. Alam & Hassan, 2017; Ahmad, 2017; A. A. Khalid et al., 2017; Ahmed, 2019; Kamaruddin & Hanefah, 2022; A. A. Khalid et al., 2021; ISLAM & BHUIYAN, 2021; Islam, 2021), while research using a normative approach is less with 3 articles (Hussan et al., 2013; Najeeb & Ibrahim, 2014; Alahmadi et al., 2017), then Interview 8 articles (Khalid et al., 2018; Alam et al., 2022; Abd Rahman et al., 2020; Yasoa' et al., 2020; Hanefah et al., 2020; Algabry et al., 2021; Alam et al., 2023; Kamaruddin et al., 2023), Literature review 6 articles (Khalid et al., 2018; Omar, 2019; Algabry et al., 2020; Handoko & Mardian, 2021; Khalid & Sarea, 2021; Rashid & Ghazi, 2021), Qualitative 7 articles (Ali, 2019; Khalid, Haron, & Masron, 2018; Ali et al., 2020; Sani & Abubakar, 2020; Bouheraoua & Djafri, 2022; Khatib et al., 2022; Alam, Tabash, et al., 2023), and Quantitative 7 articles (Hanif, 2018; Kasim et al., 2015; Aribi, 2019; A. Khalid, 2019; Hassan & Haridan, 2019; Sulub et al., 2020; Ben Abdallah & Bahloul, 2022).

**Table 5. Methodology applied in the prior studies**

Method	2013 - 2015	2016-2018	2019-2021	2022-2023	Total
Interview	0	0	6	2	8
Literatur review	0	1	5	0	6
Normatif	2	1	0	0	3
Qualitative	0	1	3	3	7
Quantitative	1	1	4	1	7
Survey	1	3	5	0	9

**Q2: Where is sharia audit research applied?**

From table 6 it can be seen that this sharia audit research is widely applied to Islamic banks as many as 19 articles (Ahmad, 2017; Alahmadi et al., 2017; M. K. Alam et al., 2022; Algabry et al., 2020; Ali et al., 2020; Hanif, 2018; A. A. Khalid, 2020; Sulub et al., 2020);(Abd Rahman et al., 2020; Hassan & Haridan, 2019; Yasoa' et al., 2020); (ISLAM & BHUIYAN, 2021);(M. K. Alam, Ahmad, et al., 2023; M. K. Alam, Tabash, et al., 2023; Algabry, 2020; Ben Abdallah & Bahloul, 2022; Islam et al., 2021; A. A. Khalid et al., 2021; A. A. Khalid & Sarea, 2021), Islamic financial institutions (IFIs) 12 articles (Ahmed, 2019; T. Alam & Hassan, 2017; Ali, 2019; Aribi, 2019; Bouheraoua & Djafri, 2022; Hanefah et al., 2020; Hussan et al., 2013; A. A. Khalid et al., 2017; A. A. Khalid, Haron, & Masron, 2018; A. A. Khalid, Haron, Sarea, et al., 2018; Najeeb & Ibrahim,

2014; Sani & Abubakar, 2020), Zakat and waqf institutions 1 article (Kamaruddin et al., 2023), University 5 articles (Handoko & Mardian, 2021; Kamaruddin & Hanefah, 2022; A. Khalid, 2019; Omar, 2019; Shafii et al., 2014), and 3 articles from literature review (uncategory) (Kasim et al., 2015; Khatib et al., 2022; Rashid & Ghazi, 2021). The reason that Sharia audit research is widely applied to Islamic Banks is because Islamic Banks operate based on Sharia principles, which require them to adhere to certain ethical and moral standards. Sharia audits are an important aspect to ensure that Islamic banks operate in accordance with these principles. Islamic banks are subject to Sharia governance, which includes the appointment of Sharia supervisory boards and Sharia auditors. These regulatory requirements may also contribute to the prevalence of Islamic audit research in Islamic banks. Sharia auditing is an important aspect of Islamic banking, as it ensures that Islamic banks operate in accordance with sharia principles and enhances the health and credibility of the Islamic financial industry. Given the importance of Sharia audits, it is natural that research on this topic is conducted in Islamic banks. Finally, there may be a lack of research on Islamic auditing in other types of financial institutions, which may explain why much of the existing research on this topic is focused on Islamic banks.

**Table 6. Respondet**

Respondent	2013 - 2015	2016-2018	2019-2021	2022-2023	Total
Islamic Bank	0	3	13	3	19
Islamic financial institutions (IFIs)	2	4	5	1	12
Zakat and waqf institutions	0	0	0	1	1
University	1	0	4	0	5
Uncategorized	1	0	1	1	3

### Thematic Analysis

In this section, the author investigates the themes discussed in the Sharia Audit (SA) literature. According to previous research, several topics have been researched, with the effectiveness of Islamic audits being the most researched theme. Effective SA can be defined as the extent to which the SA functions achieve its stated objectives to ensure an effective internal control system for sharia compliance as outlined by the Sharia Governance Framework established by Bank Negara Malaysia. This research reveals many factors that can improve the performance and effectiveness of sharia audits in Islamic institutions, including competence (knowledge, skills, and training), independence, qualifications of sharia auditors, characteristics of internal audits, external audits, attributes of audit committees, sharia supervisory boards, top management, and performance (Ahmed and Sarea, 2019; Algabry et al, 2020; Ali and Kasim, 2019; Khalid, 2019; Khalid et al., 2017; Khalid, Haron, and Masron, 2018a; Khalid and Sarea, 2021; Mohd Ali et al., 2018).

Followed by SA's role in internal and external auditors, corporate disclosure, governance mechanisms, board committees, and sharia audit quality. General observations that need to be considered are the need to increase the efficiency and effectiveness of internal sharia auditors in MFIs, and the assertion of external auditors on sharia compliance of MFIs to continue to maintain the trust of ethically aware stakeholders who need assurance for the compliance of their products and operations with sharia, but the implementation of these recommendations is still not visible (Khalid *et al.*, 2017; Shafii and Salleh, 2010).

In this study, several issues received less attention in the Islamic audit literature. Researchers have explored SA in relation to risk (OctavinaEt A/2014; Sani and Abubakar, 2020), Sharia Audit Standardization (Novikova and Kharisova, 2019), the maxim of Islamic law (Abd Rahman c/ 'z/., 2020), company performance (Ajiliand Bouri, 2018; Aslam and Haron, 2020; Darwanto and Chariri, 2019), labor market (Omar, 2019; Shafii cf a/.2014a), cheating (Suryanto and Ridwansyah, 2016), Quality of Service (Tawfik and Bilal, 2020), sharia audit of financial statements (Shafii cf a/, 2014a) and student awareness of SA tKhalid *et al.*)

The literature shows that the level of compliance with social responsibility is related to the level of quality of Islamic audits (Khalid et al., 2018). This finding can be explained by the fact that greater disclosure will be expected if governance and Shariah mechanisms complement each other as more governance mechanisms will strengthen corporate internal controls and provide intensive monitoring packages for companies to reduce opportunistic behavior and information asymmetry. In addition, increasing compliance with the rules and principles of Islamic law in MFIs will reduce the risk of non-compliance (Sani and Abubakar, 2020) and reveal potential risks, both internal and external (Ab Ghani et al., 2019). In addition, the efficiency and independence of sharia auditors also reduce the possibility of fraud in sharia institutions (Sani & Abubakar, 2021) This is reflected positively in the quality of Islamic financial services provided to various clients (Tawfik and Bilal, 2020) and increases the trust of various stakeholders in Islamic institutions.

Along with the development of the Islamic financial industry, an increase in demand for competent Islamic auditors is inevitable. However, SA has not been comprehensively introduced to the potential audit labor market. For example, accounting students show a low level of understanding of the difference between internal SA and conventional auditing (Zuhroh, 2022); Similar findings were reported by Shafii et al (2014a), who stated that despite the low level of understanding of internal SA, accounting students are willing to learn more about internal SA.

## **CONCLUSION**

Sharia audit research continues to evolve over time. However, this study still has limitations. Our research presents a detailed investigation of Islamic audit studies based on a systematic literature review. The results show that in recent years, the number of studies discussing Shariah audits has increased. The majority of research is concentrated in specific countries, such as Malaysia, compared to other Islamic countries. In addition, it has been found that the antecedents and consequences of effective Islamic auditing practices in IPIs, such as auditor independence and quality of disclosure, are still unknown to previous studies. In addition, the focus of research on certain theories, such as agency theory, limits the theoretical interpretation of research results and has limitations in certain areas.

In addition, many banking firms choose to use their current in-house auditors instead of hiring fresh graduates or taking on experienced Islamic auditors from other financial firms. Not only internal auditors, external auditors are also needed to carry out sharia audit activities, where the external auditor provides an independent and objective assessment of the compliance of Islamic financial institutions with Sharia principles. The role of external auditors in ensuring Islamic banks' compliance with Sharia principles is to provide an independent and objective assessment of Shariah compliance, identify and report irregularities or non-compliance, and provide recommendations for improvement.

The findings provide important implications for policymakers and regulators about the effectiveness of audits in Islamic institutions. For practical implications, Islamic institutions need to have sharia auditors with the knowledge, skills, and other attributes required in the context of sharia practice.

Therefore, current policies must be updated by policymakers, regulators, and practitioners to enhance the role of sharia auditors in supporting transparency, governance, and disclosure in sharia institutions. In addition, the study provides analysts with an understanding of the reality of Islamic auditing in Islamic institutions and the role they play in supporting their performance. Thus, analysts can build their expectations based on how effective the auditor's role is in Islamic institutions. To improve the ability of Sharia auditors to achieve audit objectives, we also suggest expanding the scope of professional programs for Sharia auditors. This study had some limitations as the data was collected only from the Scopus database. We recommend that researchers then collect from other databases.



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