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THE EFFECTIVENESS OF SHARIA AUDIT IN ISLAMIC FINANCIAL INSTITUTION



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Abstract

Sharia audit in Islamic financial institutions plays an important role in ensuring that operations, products, and services offered are in accordance with sharia principles to maintain the integrity, transparency, and accountability of the institution. However, sharia auditors face various challenges in conducting sharia audits, such as technical issues, lack of management support, and the absence of comprehensive sharia auditing standards. This qualitative research aims to describe the effectiveness of sharia audit implementation by analyzing the audit framework and audit work papers at Bank Nagari Syariah Business Unit through a phenomenological approach, with data collected through in – depth interviews with bank leaders. The results showed that the implemented sharia audit framework includes the structure of the sharia supervision organization, the scope of the audit, to reporting and follow – up. Sharia audits are proven to increase customer confidence as they provide assurance that the bank's products and services have undergone strict supervision in accordance with sharia principles. Ongoing monitoring from OJK and regular audits by external auditors help maintain audit quality and effectiveness, creating a robust compliance system that contributes to the stability, accountability and reputation of banks in the Islamic finance industry.

Audit syariah pada lembaga keuangan syariah berperan penting dalam memastikan operasional, produk, dan layanan yang ditawarkan sesuai dengan prinsip-prinsip syariah untuk menjaga integritas, transparansi, dan akuntabilitas lembaga. Namun, auditor syariah menghadapi bermacam tantangan dalam pelaksanaan audit syariah, seperti permasalahan teknis, kurangnya dukungan manajemen, dan belum adanya standar audit syariah yang komprehensif. Penelitian kualitatif ini bertujuan mendeskripsikan efektivitas pelaksanaan audit syariah dengan menganalisis kerangka kerja audit dan kertas kerja audit di Bank Nagari Unit Usaha Syariah melalui pendekatan fenomenologis, dengan data yang dikumpulkan melalui wawancara mendalam kepada pimpinan bank. Hasil penelitian menunjukkan bahwa kerangka kerja audit syariah yang diterapkan mencakup struktur organisasi pengawasan syariah, ruang lingkup audit, hingga pelaporan dan tindak lanjut. Audit syariah terbukti meningkatkan kepercayaan nasabah karena memberikan jaminan bahwa produk dan layanan bank telah melalui pengawasan ketat sesuai prinsip syariah. Pemantauan berkelanjutan dari OJK dan audit rutin oleh auditor eksternal turut menjaga kualitas dan efektivitas audit, menciptakan sistem kepatuhan kokoh yang berkontribusi pada stabilitas, akuntabilitas, dan reputasi bank dalam industri keuangan syariah.

INTRODUCTION

Sharia auditing is a crucial element that not only serves as an assessment of financial performance, but more than that, this audit assesses the compliance of Islamic financial institutions with applicable sharia principles (Muhammad, 2018), and (Tuzzahroh & Laela, 2022). According to the Accounting and Auditing Organization for Islamic Financial Institutions, sharia auditing is an instrument that ensures that Islamic financial institutions operate in accordance with sharia rules, which include transparency, fairness, and protection of all parties involved (AAOIFI, 2020).

The sharia audit process is important to minimize the risk of non – compliance with sharia which can have a negative impact on the institution's sharia governance. (Sani & Abubakar, 2021) asserts that this risk can damage the reputation of Islamic financial institutions and reduce stakeholder confidence, especially investors and customers who expect full compliance with sharia principles. Therefore, according to (Hassan & Haridan, 2019), (Hirsanuddin & Martini, 2023), and (Faizi & Shuib, 2024), good Sharia governance is the foundation for the soundness of Islamic financial institutions . Effective governance



not only promotes accountability and transparency, but also increases stakeholder trust, as outlined by (AAOIFI, 2020) and (Bavaresco et al., 2024).

Within the framework of Sharia agency theory, sharia auditing serves not only as a supervisory tool but also as an effort to build trust and accountability between principals and agents. Safieddine, (2009) stated that agency problems in Islamic financial institutions include separation of ownership and supervision, as well as cash flow and internal control. The lack of flexibility of accounting policies also limits the auditor's objective view (Flesher & Zanzig, 2000). With the support of international standards such as AAOIFI as well as the strengthening of local frameworks, sharia auditing can contribute to the sustainability and competitiveness of Islamic financial institutions in the global market. Principals and agents are expected to have mutual respect, patience, and gratitude, understanding that rewards are not only material but also spiritual blessings. They are also encouraged to avoid despicable traits such as lying, arrogance, and negligence, which are contrary to sharia principles.

Along with the growth of Islamic financial institutions in Indonesia, the urgency to strengthen sharia auditing is increasingly evident. The presence of standards governed by international organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is crucial in ensuring that Islamic financial institutions in Indonesia, and around the world, comply with the rules set (Subardi, 2019). Thus, sharia auditing standards not only ensure these institutions' compliance with sharia principles but also enhance the competitiveness and sustainability of Islamic financial institutions in the global market (Faza' & Badwan, 2024).

In addition to AAOIFI's important role in setting international standards for sharia auditing, local institutions also play a role in developing sharia accounting and sharia auditing frameworks that are relevant to Indonesia's economic and social context. This includes developing local regulations that support the implementation of sharia accounting and sharia auditing as well as strengthening education and research in this area. Academic growth in the field of sharia accounting, including the enhancement of relevant education and research programs, is a significant step towards ensuring that sharia principles can be properly implemented at all levels of the economy, both in the public and private sectors.

Sharia audits play an important role in ensuring the implementation of strong Sharia governance in Islamic financial institutions (Shahar et al., 2018). Despite the importance of these audits, the existing literature shows that there is hardly any comprehensive guiding framework for effective implementation of sharia audit: Kasim et al., (2013), Sani & Abubakar, (2021), and Algabry et al., (2021). This creates serious challenges for sharia auditors in performing their duties efficiently and accurately.

Some of the challenges faced by sharia auditors do not only come from technical aspects, but also involve policy makers and top management in financial institutions, according to Damayanti, (2016), and Arwani, (2018). Inconsistent policies or lack of support from top management can hinder the implementation of sharia audits that are in accordance with sharia principles. In addition, according to Kasim et al., (2013) , the lack of a comprehensive sharia audit framework and standards further complicates the task of sharia auditors. Without clear and complete guidance, auditors often have to work with diverse interpretations, which can create uncertainty in the audit process (Tuzzahroh & Laela, 2022a).

Another significant challenge is the lack of adequate expertise in the field of sharia auditing Risnaeni & Sholeha, (2022) and Ridwanto et al., (2023). This specialized expertise includes an in – depth understanding of sharia law (fiqh muamalah) and the principles of Islamic finance, which differ from conventional auditing. The shortage of human resources

with sufficient technical knowledge in these two areas is a major obstacle to the development of sharia auditing. Not only do sharia auditors need to understand international accounting and auditing standards, but they also need to have strong competencies in applying sharia law and principles to the financial context.

In Islamic financial institutions, including Islamic banking, sharia auditors have a very vital role in supporting the accountability of financial statements and ensuring the fulfillment of sharia aspects. The role of sharia auditors is to ensure that all transactions and fund management in these financial institutions have been carried out in accordance with the principles of sharia (Jusri & Maulidha, 2020). This role includes checking financial products, business contracts, and other operational practices to ensure there are no sharia violations.

However, a major challenge faced in Indonesia is the lack of human resources who have specialized expertise in sharia auditing. Data shows that in 2014, the number of auditors with sharia accounting certification in Indonesia only reached 54 people and there is no separation of duties between the Sharia Supervisory Board (DPS) and sharia auditors so that the independence of sharia auditors is not maintained (Mardiyah & Mardian, 2015). Although this number increased to 97 sharia auditors in 2020, this number is still far from adequate compared to the growing number of Islamic financial institutions, especially Islamic banking. With the number of Islamic banks reaching 189 in 2020, there is an imbalance between the need for competent sharia auditors and the availability of human resources trained in this field (Jusri & Maulidha, 2020). (Fauzi & Supandi, 2019) stated that Indonesia should have great opportunities regarding sharia auditing because Indonesia's population is the largest Muslim population in the world, but the development of sharia auditing in Indonesia has not been sufficient. This is due to the lack of encouragement from the government regarding the provisions of sharia auditing standards, which have not been implemented.

In addition, there are not enough generally accepted sharia audit standards and frameworks, not enough auditors who have the qualifications of sharia auditors, no independent relationship between DPS and sharia auditors because there is no clear separation of duties, and audit processes and procedures that are not as complete as financial statement audits. (Gunawan, 2023) found there are not many professional bodies that issue sharia audit certification specifically, and sharia auditors must be in the hisbah institution which is under the authority of the state and is paid by the state treasury. (Sani & Abubakar, 2021) state that sharia internal audits are more widely carried out than sharia external audits globally. Islamic financial institutions in Indonesia have not yet required annual external sharia audits. So far, it is known that the country of Bahrain has required Islamic Banking to conduct annual sharia external audits (Central Bank Of Bahrain, 2017). This imbalance poses a major problem in Islamic financial supervision and governance. The insufficient number of certified sharia auditors may affect the quality of audits, which in turn impacts the level of accountability and transparency of Islamic financial institutions. If Islamic financial institutions are not properly audited, the risk of non – compliance with sharia principles will increase, which can damage the reputation and public trust in Islamic financial institutions.

West Sumatra as one of the provinces that has a strong history in sharia financial management, as well as the characteristics of its religious society, it is important to conduct research to obtain a clear picture of the extent of the effectiveness of sharia audits in supporting transparency and accountability in various types of Islamic financial institutions in West Sumatra. This study will explore the effectiveness of sharia auditing in one Islamic financial institution, namely Bank Nagari Syariah Business Unit, by measuring and analyzing the audit framework and audit work papers used in Islamic

financial institutions. The addition of audit work paper analysis is a contribution that has not been widely discussed in previous studies.

Given the importance of sharia auditing in maintaining integrity and compliance with sharia principles in the operations of Islamic financial institutions, in-depth and comprehensive research is needed. The challenges faced, such as the limited number of certified sharia auditors, differences in the level of understanding of sharia accounting, and variations in the implementation of sharia governance in various institutions, demand a focused study. The purpose of this study is to look at the description of the framework and working papers of sharia audits and to describe the effectiveness of sharia audits at Bank Nagari Syariah Business Unit.

Sharia audit is a process of systematic examination of the compliance of all activities of Islamic financial institutions with sharia principles which include financial statements, products, use of technological information, operating processes, parties involved in the business activities of Islamic financial institutions, documentation and contracts, policies and procedures and other activities that require compliance with sharia principles (Yaacob, 2012). Sharia audit is considered effective if it is able to ensure compliance with sharia principles. According to (Ghani & Rahim, 2015), the effectiveness of sharia auditing depends on the extent to which sharia control and compliance can be achieved. Meanwhile, (Ghani et al., 2019) stated that the main objective of sharia auditing is to provide assurance that the activities and operations of Islamic financial institutions are in accordance with sharia rules. Khalid et al. (2018) also revealed that an effective internal sharia audit can improve the performance of Islamic financial institutions through financial reports that reflect the quality of the internal sharia audit function. (Ghani & Rahim, 2015) emphasised the importance of the existence of an sharia audit framework as a standard guideline.

When compared to international sharia governance, the current sharia governance structure in Indonesia is still not well organized. Therefore, to enhance the strength of the Islamic financial system in Indonesia, it is important to create an effective sharia governance framework as a sharia supervisory and regulatory tool (Mihajat, 2019). Effective sharia governance is supported by the effectiveness of sharia audits. The effectiveness of sharia audit is supported by comprehensive Islamic audit governance that includes clear roles and responsibilities of auditors, comprehensive audit scope, clear sharia audit plan and guidelines related to procedures for preparing and conducting sharia audits that are presented in detail. (Algabry et al., 2021) and (AAOIFI, 2020) states that the effectiveness of internal audit can be achieved by preparing a comprehensive sharia audit plan and conducting sharia audits accurately.

A number of studies have been conducted that offer insights into the practices, challenges, and opportunities for the development of Islamic auditing in Islamic financial institutions. These studies reveal issues and offer recommendations to improve the quality and effectiveness of Islamic auditing in ensuring compliance with Islamic principles. According to Minarni (2010) in Nurhasanah (2021), an auditor must adhere to AAOIFI audit standards, which encompass five audit standards in LKS: objectives and principles, auditor reports, audit engagement provisions, sharia supervisory institutions, and sharia reviews (Nurhasanah et al., 2021). The findings of research conducted by Fauzi & Supandi (2019) indicate that the prospect for Islamic auditing in Indonesia, a country with a predominantly Muslim population, appears promising. However, the study also points to significant challenges, including a dearth of adequate regulations and frameworks, a shortage of competent and independent Islamic auditors, and an underutilized audit process. Hasan (2019) identified an imbalance in the competence of sharia committee members in Malaysian Islamic banks and the absence of an adequate sharia audit

framework (Hassan & Haridan, 2019). The majority of the shariah audit role is outsourced to the Shariah Audit Department, with findings only approved by the shariah committee. This passive role raises concerns about the committee's independence and weakens the assurance of shariah compliance for stakeholders.

Algabry (2021) revealed that Islamic audits in two Islamic banks in Yemen were conducted differently based on the banks' level of commitment to AAOIFI standards, due to the absence of uniform Islamic audit guidelines. Audits are frequently executed subjectively by Islamic auditors with varying degrees of experience and qualifications, and there is often a blending of functions between the Sharia Supervisory Board (DPS) and internal Islamic auditors, without a clear delineation of duties and responsibilities (Algabry et al., 2021). Another study, conducted by Mulyany (2021), found a discrepancy between the theoretical framework and practical application of sharia auditing. While sharia principles are upheld in theory, the practice is not fully consistent due to a lack of in-depth understanding of sharia and the absence of clear, comprehensive and detailed standards to be applied by sharia auditors (Mulyany et al., 2021). Bouheraoua & Djafri (2022) proposed further development of the sharia audit framework and suggested the adoption of the COSO methodology by Islamic Financial Institutions (LKS). Although the COSO methodology has the potential to be adopted in Islamic audit frameworks, further research is needed to ensure alignment and integration between Islamic audit frameworks and COSO. The application of COSO can serve as a guideline in developing an Islamic audit framework, with a focus on risk management to ensure sharia compliance (Bouheraoua & Djafri, 2022).

Research conducted by Ridwanto et al. (2023) identified the primary challenges confronting sharia auditors in implementing sharia compliance within Islamic financial institutions. These challenges include a shortage of qualified sharia auditors, an absence of sharia audit frameworks and standards, and a lack of educational opportunities for sharia supervisory boards. The proposed solutions to address these challenges involve enhancing auditor quality through training and certification programs, refining Islamic audit frameworks and standards, and establishing specialized educational programs for Islamic supervisory boards. Alam (2023) conducted a study to identify shortcomings in Islamic auditing of Islamic banks in Bangladesh. The study found several issues, including the absence of comprehensive audit guidelines and limited audit coverage (10–20% of total transactions). Shariah supervisory boards only provided general reports without details. The study's recommendations included the development of a more comprehensive audit system, the expansion of audit coverage, the establishment of a Sharia unit with Sharia experts, the use of IT-based audit tools, and the engagement of external Sharia auditors (Alam et al., 2023). Faza' & Badwan (2024) conducted a study that provided a literature review and theoretical and conceptual understanding of Islamic audit compliance in Islamic financial institutions and banks. The research proposes a theoretical framework to evaluate the importance of Islamic audit governance and to identify the basic elements that affect compliance, quality, and effectiveness in Islamic banks and financial institutions in Palestine (Faza' & Badwan, 2024).

METHOD

This type of research is qualitative research with a case study approach at Bank Nagari Syariah Business Unit. As one of the sharia-based financial institutions that plays an important role in supporting the sharia economy in West Sumatra, the performance and compliance of Bank Nagari Syariah Business Unit with sharia principles will have an impact on public trust and the competitiveness of the sharia-based economy in this region so that it becomes a strategic research object to describe the implementation of

sharia audits. This research uses primary data obtained from in – depth interviews with the leader of the sharia business division of PT Bank Nagari, namely Mr Heri Fitrianto, S.P., M.M. The secondary data required are financial statements, sharia audit frameworks, and audit work paper analysis.

(AAOIFI, 2020) states that the effectiveness of sharia audits can be achieved by preparing a comprehensive sharia audit plan and conducting sharia audits accurately. A comprehensive sharia audit plan can be seen in the sharia audit framework, while accurate sharia audit work can be seen from sharia audit work papers. An ideal sharia audit framework helps improve the effectiveness of sharia audits, so to assess the effectiveness of sharia audits, it is necessary to compare the sharia audit framework with sharia audit working papers at each institution.

The sharia audit framework in Islamic Financial Institutions (LKS) is known that there is still no common framework guideline for all LKS, so that to assess the effectiveness of sharia audits in LKS, the sharia audit framework formulated by (Antonio, 2001) is used. (Antonio, 2001) explains the things that must exist in sharia auditing, namely revealing the elements of sharia compliance and the fairness of the presentation of financial statements; assessment of products, both sources of funds and financing; examination of profit distribution; cash basis revenue recognition; accrual basis expense recognition; relationships with depository correspondent banks; revenue recognition with profit sharing; examination of the source and use of zakat; and assessment of transactions containing elements that are not in accordance with sharia.

RESULTS AND DISCUSSION

RESULTS

Sharia Audit Framework

The sharia audit framework in Bank Nagari syariah Business Unit not only ensures compliance with DSN fatwas, MUI, and OJK regulations, but also serves to minimize risks and improve the effectiveness of internal controls. The important role of the Sharia Supervisory Board (DPS), internal, and external auditors in maintaining the quality of financial reporting and product conformity with sharia standards was explained through interviews with bank leaders. The framework is designed to integrate supervision and create a robust and sharia – compliant control system, which includes the organizational structure of sharia supervision, audit scope, implementation procedures, and follow – up and continuous improvement.

Sharia Supervision Organizational Structure

The Sharia Supervisory Board (DPS) of Bank Nagari Sharia Business Unit ensures that all bank operations and products in accordance with sharia provisions, including evaluating and approving new products based on the suitability of the contract with sharia principles. As stated by Heri Fitrianto that, "So far, DPS has made efforts to encourage the consistent application of DSN MUI fatwas in all sharia business units'. Furthermore, the internal audit process has also made an important contribution to the application of sharia principles in ensuring sharia compliance. As described by Heri Fitrianto as follows:

The Internal Syariah Auditor assists the DPS by checking whether the SOPs are in accordance with sharia principles and reports the results to the board of directors for follow-up. External auditors (KAP) registered with OJK are tasked with checking the bank's financial statements for compliance with sharia standards. The collaboration between DPS, internal auditors, external auditors, and regular supervision from OJK creates a complete and sustainable sharia supervision system.

Scope of Sharia Audit

The scope of sharia audit in Bank Nagari Syariah Business Unit is designed to ensure compliance with sharia principles in all bank operations. First, the sharia audit includes an assessment of the suitability of the products and contracts used by the bank. Every new product launched must go through an evaluation from the Sharia Supervisory Board (DPS) to ensure that the contracts used are in accordance with sharia provisions. Furthermore, the audit also focuses on assessing compliance with fatwas and regulations, where auditors ensure that the bank's operational activities, including products and services, are in accordance with the fatwas of the National Sharia Council (DSN – MUI) and regulations set by the Financial Services Authority (OJK). In addition, the scope of the audit includes the examination of financial statements to ensure that they have been presented in accordance with sharia accounting standards. Internal and external auditors work together to assess the fairness of the financial statements and ensure that no violations of sharia principles have occurred.

Heri Fitrianto added that:

Sharia audits also include checking risks and internal controls to ensure everything is running according to sharia rules. If any risks are found, they must be immediately corrected and continuously monitored. With this complete audit, Bank Nagari Sharia Business Unit can ensure that all its activities are in accordance with sharia principles, while remaining transparent and can be trusted by all related parties.

Audit Procedure

Heri Fitrianto explained that, "The sharia audit procedure at Bank Nagari Sharia Business Unit begins with audit preparation which includes a review of financial statements, SOPs, and compliance with the National Sharia Council (DSN) fatwa." This process includes collecting relevant documents and conducting audits by internal auditors who ensure SOPs are implemented according to sharia principles, as well as external auditors who assess financial statements and sharia compliance. Upon completion of the audit, the auditors prepare an audit report that includes findings, analysis and recommendations. The internal auditor prepares a report that is submitted to the Bank's Board of Directors for follow-up. Meanwhile, the Sharia Supervisory Board (DPS) prepares a sharia compliance report submitted to the DSN and OJK, which includes an assessment of the conformity of the bank's products and services with the applicable fatwa. The external auditor (KAP) also prepares a final report that reports the results of the financial audit and sharia compliance to the management and OJK. This audit financial report is a report that will only be issued after going through the necessary revisions and verifications, providing conclusions on the fairness of the financial statements and compliance with sharia standards.

a. Reporting and Follow-up

The reporting and follow-up process in sharia audits at Bank Nagari Syariah Business Unit includes the preparation of reports by internal auditors containing findings, analysis, and recommendations for improvement submitted to the board of directors for follow-up. Heri Fitrianto explained that each element of the sharia supervisory organisational structure carries out the duties and functions of reporting and follow-up as follows:

The Sharia Supervisory Board (DPS) prepares compliance reports submitted to the National Sharia Council (DSN) and the Financial Services Authority (OJK) to ensure compliance of bank products and services with sharia fatwas. External

auditors from the Public Accounting Firm (KAP) report the results of financial and sharia compliance audits to bank management and the OJK. Structured follow-up ensures the implementation of recommendations and continuous improvement, so that the integrity and sharia compliance of the bank is maintained.

b. Monitoring, Evaluation, Review and Continuous Improvement

According to Heri Fitrianto, "Continuous review and improvement is an important aspect of the sharia audit framework at Bank Nagari Sharia Business Unit." Any audit findings that indicate non-conformity with sharia principles must be followed up immediately with SOP revisions, which require approval from the Sharia Supervisory Board (DPS) prior to implementation. In addition, the bank conducts regular training for all employees, including staff in conventional branch offices, to strengthen the understanding of sharia principles. Regular monitoring by OJK and internal parties ensures regulatory compliance and effectiveness of internal controls. With this approach, Bank Nagari sharia unit ensures its operations are sharia-compliant and able to adapt to changes in the Islamic banking industry.

Sharia Audit Working Paper

Sharia audit working papers at Bank Nagari Sharia Business Unit are important documents that record all stages of the audit, findings, and conclusions of the audit, as evidence that the audit has been carried out in accordance with established procedures and as a reference in preparing the audit report. The appointed KAP must have auditors who have in-depth knowledge of sharia, to ensure that financial statements, contracts, and procedures are in accordance with sharia standards. Audit results only convey important information to maintain the bank's reputation.

The sharia audit document includes a detailed list of contracts examined, an analysis of their conformity with DSN fatwas, and an evaluation of compliance with the bank's SOPs. If non-conformities are found, the auditor provides recommendations for improvement and monitors their implementation. For example, in a musyarakah contract, the auditor notes the non-conformity with sharia principles, provides suggestions for improvement, and verifies implementation. Audits also include verifying the use of capital in mudharabah financing and checking the value of goods in rahn contracts to ensure compliance with sharia principles.

Sharia audit working papers are used by the Sharia Supervisory Board (DPS) and OJK to ensure the bank's compliance with regulations and fatwas. If errors are found, OJK provides advice which is recorded and reported to the bank's management for follow-up. At Bank Nagari Syariah Business Unit, the working paper covers audit planning to reporting, ensuring audits are conducted meticulously and helping to improve the bank's compliance with sharia principles.

Sharia Audit Effectiveness

The effectiveness of sharia audits at Bank Nagari Syariah Business Unit can be seen from the cooperation of the existing supervisory structure at the Bank. Supervision is carried out by the Sharia Supervisory Board (DPS). In addition, external auditors of the Public Accounting Firm (KAP) not only audit financial statements but also ensure that banks carry out their operations in accordance with sharia contracts. The appointed KAP must be registered with OJK and the sharia auditor is part of the KAP team. External auditors as auditors of financial statements as well as sharia auditors have been carried out since the last two to three years. Where previously KAP auditors only conducted financial statement audits where whether accounting records related to contracts were in

accordance with Sharia PSAK. Supervision of UUS Bank Nagari Syariah is also carried out by OJK to oversee compliance with sharia provisions and UUS Bank Nagari Syariah.

The external auditor (KAP) conducts an independent audit of the internal auditor's report and prepares a report that will be published. The published report is the final report that has been checked and corrected by KAP, while the full report is not published. Internal audit focuses more on risk management controls and compliance with SOPs and risk management, while DPS ensures that the fatwa of the National Sharia Council (DSN – MUI) is properly implemented.

OJK examines the reports from January to September and the final report is prepared in March after the final examination. OJK also checks compliance with fatwas and SOPs related to sharia principles. KAP refers to the process, contract analysis, and validity of financial figures. If discrepancies are found, the Bank's management is confirmed to assess the process further. The dynamics of sharia contracts have changed, allowing for hybrid contracts such as collateral that combines several contracts. The DPS has an important role in validating new contracts developed by the bank and ensuring they are in accordance with sharia principles. The effectiveness of sharia auditing is supported by a layered supervisory system involving the DPS, KAP, OJK, and internal supervision. Each layer has a specific role and focus, all of which aim to maintain the compliance and fairness of the application of sharia principles in the Bank Nagari Syariah Business Unit.

DISCUSSION

The sharia audit framework at Bank Nagari Sharia Business Unit demonstrates a comprehensive approach in maintaining sharia compliance and strengthening internal control through collaboration between the Sharia Supervisory Board (DPS), internal auditors, external auditors, and supervision from OJK. In this discussion, there are several important points that can be discussed further. The framework is designed to ensure that all bank operations and products comply with sharia principles. This is done through an integrated supervisory organizational structure, an audit scope that includes sharia compliance aspects, and systematic audit procedures. The DPS plays a central role in ensuring that new products comply with Sharia requirements, while internal and external auditors are responsible for assessing compliance with relevant financial standards and SOPs. The effectiveness of sharia audits is measured by reporting, follow-up, and ongoing monitoring. This indicates the importance of synergy between various stakeholders to ensure all recommendations are implemented in a timely manner, thereby preventing compliance risks and improving the quality of internal controls. In addition, regular monitoring by OJK and internal and external audit reports provide additional assurance of consistent compliance. A comprehensive Sharia audit working paper demonstrates the depth of the audit process and analysis required to ensure compliance with Sharia principles. The full documentation of the audit demonstrates transparency and accountability, which helps increase stakeholder confidence in the integrity of the audit process.

Finally, the discussion could highlight the role of external auditors in ensuring more thorough sharia compliance. Layered supervision involving DPS, KAP, and OJK creates a strong oversight mechanism. In sharia auditing, this becomes important to maintain the thorough implementation of sharia principles and encourage continuous improvement in risk management controls in accordance with sharia SOPs. Overall, this sharia audit framework emphasizes a holistic and layered approach in maintaining sharia compliance as well as internal control effectiveness. This systematic approach builds a solid foundation to ensure that all activities of Bank Nagari Syariah Business Unit are in line with sharia values and meet the accountability expectations of all stakeholders. The sharia audit

framework at Bank Nagari is in line with sharia agency theory, which emphasizes the importance of the principles of unity and ihsan in agency relationships in Islamic financial institutions (Ismail, 2013). Each party, including the Sharia Supervisory Board (DPS), internal auditors, and external auditors, work together to ensure compliance with sharia principles in bank operations. DPS plays an important role in ensuring that all products and operational activities of Bank Nagari meet sharia compliance standards, which is a major element in the supervisory structure (Safieddine, 2009).

Sharia agency theory also underlines the shared responsibility between agents and principals to avoid the risk of non-compliance (Jensen & Meckling, 1976). In this regard, the supervisory approach involving DPS, internal auditors, external auditors, and OJK reflects the principles of collaboration and unity, enabling high transparency and accountability in auditing and monitoring. With this layered supervisory structure, potential conflicts of interest are significantly reduced, which is in line with the objective of sharia auditing in maintaining the integrity and accountability of bank operations.

The discussion above is supported by (Ghani & Rahim, 2015) research which confirms that the effectiveness of Islamic auditing is determined by the extent to which sharia control and compliance can be achieved. Research by (Ghani et al., 2019) added that an effective sharia audit can provide assurance of compliance with the activities of Islamic financial institutions, which has a positive impact on the sustainability of their operations. (Kasim et al., 2013) also highlighted that effective Islamic internal audit can improve the performance of institutions through more transparent financial reports. Based on theory and previous studies, Islamic auditing has great potential to improve the governance and accountability of Islamic financial institutions. However, its successful implementation requires a strong framework, competent auditors, and collaboration between principals and agents by upholding Islamic values. With the strengthening of regulation, education, and the use of technology, Islamic auditing can become an important pillar in ensuring the sustainability and competitiveness of Islamic financial institutions at the global level.

CONCLUSION

In conclusion, the results and discussion of sharia audits at Bank Nagari Syariah Business Unit emphasize a comprehensive audit framework designed to ensure compliance with sharia principles, minimize risk, and improve internal control. A multilevel supervisory system involving the Sharia Supervisory Board (DPS), internal and external auditors, and supervision by the Financial Services Authority (OJK) strengthens governance and transparency. The effectiveness of this system is supported by an ongoing monitoring, reporting and follow-up process, which ensures accountability and compliance with sharia standards throughout the bank's operations.

The study is limited to one bank (Bank Nagari Syariah Business Unit), with data predominantly from internal interviews, making it less generalisable and potentially biased. The focus is only on the audit framework without assessing its impact on long-term performance or compliance. Future research should include comparative studies, quantitative methods, and more diverse data sources, including external reports and regulatory assessments.

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