Does External Shariah Audit (ESA) Matter? Practitioners’ Views from the Islamic Banking Industry

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ABSTRACT

This paper investigates the possibility and feasibility of the Islamic banking industry in Malaysia to hire external Shariah audit (ESA) services in the audit fraternity as one of the Shariah governance mechanisms to strengthen Shariah compliance in the industry. Methodologically, the study employs a qualitative method by utilizing semi-structured interviews with nine (9) key industry players consists of few Shariah auditors, heads of Shariah audit, Shariah committee, and Chief of Shariah officer. Data gathered from the interviews have been transcribed and analyzed using Atlas.ti. The findings from the interview provide interesting mixed views in the sense that both parties have their justifications to support their arguments based on experience and observation. However, considering the current practices by the Islamic banking industry, it could be inferred that the Malaysian Islamic banking industry is not ready to exercise the ESA practices. The future study may consider other views from other relevant parties such as the regulator and external auditor to produce a more solid and robust result.

Keywords: External Shariah Audit, Islamic Banks, Qualitative Method, Shariah Governance