

Towards Strengthening Shariah Governance: A Conceptual Framework on the Need for External Shariah Audit in Malaysian Islamic Financial Institutions

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Abstract

Shariah audit is a crucial instrument in ensuring that Islamic financial institutions (IFIs) comply with Shariah principles. In Malaysia, Shariah governance has been strengthened through the introduction of the *Shariah Governance Framework* (BNM, 2010) and the *Shariah Governance Policy* (BNM, 2019), which emphasize the roles of Shariah review, risk management, and internal Shariah audit. However, the aspect of external Shariah audit has not yet received adequate attention. The absence of a clear structure, standards, and specific guidelines has raised various issues concerning auditor competency, independence, audit firm transparency, and the overall effectiveness of Shariah compliance mechanisms within IFIs. These challenges undermine public confidence in the integrity of the Islamic financial system and highlight the need to institutionalize external Shariah audit as an independent body. Accordingly, the objective of this study is to conceptually examine the necessity of external Shariah audit for IFIs in Malaysia. This study adopts a conceptual literature review methodology, drawing on previous research related to Shariah governance, internal and external auditing, auditor competency, as well as international standards such as AAOIFI and IFRS. The review yields three key findings. First, external Shariah audit is seen as a complement to internal Shariah audit in providing independent assurance of Shariah compliance. Second, there exists a significant gap in Shariah audit standards and guidelines, necessitating the development of a more systematic framework and professional accreditation for Shariah auditors. Third, effective external Shariah audit has the potential to enhance Muslim customers' confidence, strengthen market reputation, and improve the transparency of IFIs' operations in Malaysia. This study concludes that the implementation of external Shariah audit is a critical

requirement for reinforcing the integrity of Shariah governance. Future research is recommended to adopt empirical approaches whether qualitative, quantitative, or mixed methods to evaluate the direct impact of external Shariah audit on financial performance and public confidence in IFIs.

Keywords: External Shariah Audit, Shariah Governance, Islamic Financial Institutions, Malaysia, Audit Standards

Introduction

The Islamic finance industry in Malaysia has grown rapidly over the past few decades, positioning the country as one of the global leaders in Islamic finance. This development has been supported by a robust legal and regulatory framework, including the implementation of the *Shariah Governance Framework* (2010) and the *Shariah Governance Policy* (2019) by Bank Negara Malaysia (BNM), which emphasize Shariah governance within Islamic financial institutions (IFIs). Shariah governance is not only essential to ensure compliance with Shariah principles but also to preserve integrity, transparency, and public confidence in the operations of IFIs (Mahmad Robbi, 2024; Ishak et al., 2025). Within this context, the Shariah audit function serves as a core mechanism to ensure that compliance is effectively and comprehensively implemented.

However, a review of the literature indicates that the primary focus of Shariah governance in Malaysia remains on internal audit, Shariah review, and Shariah risk management, while discussions on external Shariah audit are still very limited. External Shariah audit, which functions as an independent mechanism, should play a crucial role in enhancing accountability and credibility in the financial reporting and operations of IFIs, much like the role of external audits in the conventional financial system. The lack of discourse on the structure, standards, guidelines, and implementation methods of external Shariah audit has raised various issues and challenges, including questions regarding auditor independence, human resource constraints, and the absence of standardized practices across the industry (Kasim et al., 2009; Yahya, 2018; Rizqiani & Yulianto, 2020).

This article aims to critically examine the necessity of external Shariah audit for IFIs in Malaysia through a literature review. The discussion encompasses the Shariah governance framework, the role of Shariah audit, the need for an independent audit body, the integration of Shariah audit with financial audit, issues of transparency, and the existing gaps in Shariah audit standards. In addition, this article evaluates empirical findings related to Shariah auditing and subsequently identifies research gaps that warrant further exploration. Overall, this study seeks to contribute to the existing body of literature while providing a practical foundation for the formulation of more comprehensive policies, guidelines, and standards for external Shariah audit in Malaysia.

Methodology

This study adopts a qualitative approach in the form of a literature review to examine the issue of the need for external Shariah audit in Islamic financial institutions (IFIs) in Malaysia. This method was chosen because the topic remains relatively new and underexplored, thus requiring an in-depth analysis of the existing body of literature. Secondary data were collected through the review of journal articles, official reports from Bank Negara Malaysia (BNM),

documents from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), international standards, and relevant conference papers.

The selection of literature was carried out purposively based on the following criteria: (i) relevance to the themes of Shariah governance and Shariah audit, (ii) priority given to studies published within the last 15 years, and (iii) significance to the Malaysian context and international comparisons.

The data gathered were analyzed using thematic analysis by categorizing the literature into several key themes, namely: (i) the framework of Shariah governance, (ii) the role of Shariah audit, (iii) the need for external audit as an independent body, (iv) the integration of Shariah and financial audits, (v) transparency issues in audit firms, (vi) the need for standards and guidelines, (vii) empirical findings in Shariah audit, and (viii) the proposed conceptual framework. This approach enabled the analysis to be conducted critically by linking theory, policy, and empirical findings. The synthesis of the analysis subsequently provides an evaluation of the necessity to develop a more comprehensive framework for external Shariah audit in IFIs in Malaysia.

Literature Review

Shariah Governance Framework for IFI

Corporate governance is defined as a framework that outlines the rights and responsibilities of the board of directors, management, shareholders, and other stakeholders, while also providing policies and procedures for decision-making in relation to the company's affairs (Garvey & Swan, 1994). The conventional definition often emphasizes shareholder interests, whereas in reality, managerial decisions also affect employees, depositors, investors, and regulators. Therefore, efficient governance is critical for the stability of the financial industry and the economy at large, as financial institutions play a vital role in channeling funds from savers to economic activities (BCBS, 2015).

Experiences in Africa demonstrate that governance issues such as corruption and weak management undermine the business climate. Sound governance can enhance transparency, safeguard against abuses, and encourage foreign investment (Okeahalam & Akinboade, 2003). Research on bank mergers further highlights the importance of external directors in managing financial issues, while CEOs often negotiate for their own interests (Becher & Campbell, 2004). This indicates that governance plays a decisive role in balancing the interests of shareholders and other stakeholders.

Banking institutions have a distinct governance structure compared to non-financial firms, where governance failures pose greater risks to the economy. The 2007–2008 financial crisis, for instance, exposed weaknesses in bank governance and necessitated massive government bailouts (Adams & Mehran, 2012; Elyasiani & Zhang, 2015; Pathan, 2009). Poor governance in the banking sector has frequently been cited as a major contributing factor to the global financial crisis (Kirkpatrick, 2009). Hence, the stability of the banking system heavily depends on robust regulation and supervision of its institutions.

In the context of Islamic finance, Shariah governance ensures that all activities are conducted in accordance with Shariah principles. Key elements include the role of the Shariah Committee

in providing advice, conducting Shariah audits and reviews, as well as facilitating Shariah implementation in the operations of IFIs (Miskam & Nasrul, 2013). Shariah governance emphasizes accountability, transparency, and fairness in safeguarding the rights of all stakeholders. Failure to comply with Shariah may lead to a loss of confidence among Muslim clients in the institution (Tazilah et al., 2017).

In response, Bank Negara Malaysia (BNM) introduced the *Shariah Governance Framework* (2010) and the *Shariah Governance Policy* (2019), which strengthened the accountability of the board of directors, the Shariah Committee, and internal control functions in managing Shariah non-compliance risks. IFIs are required to implement enterprise-wide Shariah risk management through three core functions: Shariah risk management, Shariah review, and Shariah audit (BNM, 2019). Individuals involved must be competent, ethical, and maintain the confidentiality of internal information. Moreover, the independence of the Shariah Committee must be preserved to ensure that decisions are made objectively (Nawal et al., 2013).

The Role of Shariah Audit in Shariah Governance Framework

Through the auditing process, auditors are given the opportunity to express their opinions based on an honest assessment of whether financial statements and related documents have been prepared in accordance with Shariah norms and principles as well as the relevant accounting standards (Abdul Rahman, 2008). Every part of an IFI is subject to Shariah audit, which is conducted in line with Islamic principles. The existence of this function further strengthens the role of the Shariah Committee of IFIs (Rizqiani & Yulianto, 2020).

An evaluation of the Shariah governance process is conducted to determine whether all operations are carried out in accordance with Shariah. Factors assessed include financial statements, organizational structure, systems, and processes. Public demand for product assurance is significantly addressed through Shariah audit. To fulfil this function, Shariah audits conduct routine evaluations to ensure that internal control systems are systematic and effective, and that operations comply with Shariah.

According to Aziz et al. (2019), Shariah audit can be applied to test values that align with Shariah and does not necessarily reject all methods and procedures employed in conventional auditing. Furthermore, Yahya (2018) suggests that the socio-economic framework and cultural norms of Muslim societies can benefit from auditing methodologies developed within the conventional financial industry. In conventional banks, the objective of auditing is largely materialistic, being confined to policies, procedures, and financial statements.

However, in IFIs, Shariah audit has a broader scope (Kamaruddin & Hanefah, 2018). Any area with potential for Shariah non-compliance must be audited, including information technology, human resources, products, zakat calculation, business operations, financial accounts, as well as policies and procedures (Sultan, 2007). Khalid et al. (2017) argue that there is a strong relationship between the efficiency of each auditee and the overall effectiveness of internal audits.

As defined by the *Shariah Governance Policy Document* (SGPD) 2019, Shariah audit is a function that provides an independent assessment of the quality and effectiveness of an IFI's

internal control, risk management systems, governance processes, as well as the overall compliance of its operations, business, affairs, and activities with Shariah. At a minimum, the role of Shariah audit must include the following:

- (a) developing an audit approach to evaluate the risk profile and vulnerabilities of each auditable area;
- (b) preparing an audit plan for the tasks to be carried out;
- (c) producing transparent and documented audit programmes to guide internal auditors in information gathering, audit techniques, and audit assessment; and
- (d) communicating findings to the Board of Directors and the Shariah Committee through an audit report containing the auditee's feedback and action plan, together with the audit findings and recommendations for corrective measures.

Within IFIs, Shariah audit being part of the broader internal audit function falls under the primary responsibility and accountability of senior officers (BNM, 2019).

External Shariah Audit as Independence Body

The ability to conduct a comprehensive and impartial analysis of management's representations in the financial statements and Islamic operations of IFIs depends on the degree of independence of Shariah auditors. To enhance public confidence and uphold the reputation of the auditing profession as objective and independent, it is crucial that the role of the independent Shariah auditor be regarded as credible (Mohd Haridan et al., 2024). Ultimately, external Shariah audits are conducted for the *maslahah ummah* (public interest) rather than for financial gain alone (Kasim et al., 2009). Shariah auditors are therefore expected to remain sufficiently impartial in evaluating whether IFIs are operating in compliance with Shariah law (Nawal et al., 2009). To be considered truly independent, auditors must not display bias toward the clients being audited.

Maintaining Shariah audit independence while simultaneously fulfilling the need to receive remuneration for services rendered in accordance with the demands of the organization they are associated with creates a significant conflict of interest. When Shariah audits are conducted internally by the institution itself, concerns arise regarding the auditors' competency due to the risk of bias (Kamaruddin & Hanefah, 2017).

True independence encompasses two dimensions: first, the personal independence of the auditor in discharging his or her duties, and second, the perceived independence of the auditing profession as viewed by society. Independence forms the cornerstone of the auditing profession; without it, the auditor's opinions become questionable. Consequently, stakeholders in IFIs emphasize the integrity of Shariah auditors to ensure that they are genuinely independent in expressing their views on Shariah compliance across all aspects of IFIs (Karim & Shetu, 2020).

Internal Shariah audit, which has evolved over time, remains the primary focus of current practice in Malaysia. However, the shortage of qualified human resources is one of the key challenges faced, making the effective implementation of external Shariah audit difficult (Khalid et al., 2018). To provide independent assurance on the effectiveness of Shariah governance implementation within IFIs, the board of directors may appoint any individuals to conduct an external Shariah audit of the institution's operations, businesses, affairs, and

activities. If Bank Negara Malaysia deems it necessary to ensure compliance, under Section 37 of the Islamic Financial Services Act (IFSA), the Bank may require IFIs to appoint any individuals approved to conduct an independent audit on their Shariah compliance (BNM, 2019). Thus, external Shariah auditors represent a crucial component in providing formal and legally recognized assessments of the extent to which Islamic banking adheres to Shariah principles (Masruki et al., 2020).

Integration Shariah and Accounting Base in Audit Firm

Shariah audit has a close relationship with financial audit in terms of quality and effectiveness. Audit quality is defined as the joint market-assessed probability that an auditor will detect weaknesses in a client's accounting system and report such weaknesses (DeAngelo, 1981). The likelihood of detection depends on the auditor's technical capability, the audit processes employed, and the scope of sampling. High-quality audited financial reports can reduce information risk and mitigate problems of information asymmetry, thereby lowering agency costs. Studies on audit quality employ various proxies from both input and output perspectives, emphasizing characteristics such as significance, reliability, objectivity, scope, timeliness, clarity, efficiency, and effectiveness (Yuniarti, 2011).

The International Standard on Quality Control (ISQC) establishes audit firms' obligations with respect to quality control systems for financial statement audits, reviews, and other assurance engagements. These standards are read alongside ethical requirements and guidance issued by the International Auditing and Assurance Standards Board (IAASB), including ISA 220, which addresses quality control for financial statement audits. The policies and procedures governing quality control within an audit firm vary according to the firm's size, operational characteristics, and network affiliation. This indicates the need for consistent quality control standards to ensure transparency and credibility of audit reports.

In the context of Shariah audit, the scope also extends to special assignments requested by the board or the Shariah committee, including the recognition of income and expenses as well as zakat computation (Abdul Rahman, 2008). However, when some IFIs appoint external auditors to conduct Shariah audits of financial statements, issues arise due to the lack of internal expertise to carry out full-scope Shariah audits particularly within Islamic divisions of commercial banks (Nur Laili et al., 2019).

The primary objective of Shariah audit on financial statements is to ensure that no Shariah non-compliance arises in areas such as income recognition, distribution, and purification of income and expenses, including zakat computation (Abdul Rahman, 2008). Therefore, IFIs must ensure that external auditors perform Shariah audits in a systematic manner, guided by internal audit models, to safeguard the compliance of financial statements with Shariah principles.

Transparency of Audit Firm as External Auditor for IFI

Auditing supports stronger corporate governance practices through transparent financial reporting, thereby enhancing the credibility of financial information (Francis et al., 2003). Audit firm disclosures focus on internal control systems and quality assurance (Johl et al., 2021). These disclosure requirements enable clients to assess the governance structures and practices of audit firms and to distinguish them based on quality. Corporate transparency

involves the dissemination of accurate and reliable information regarding performance, financial position, investment opportunities, governance, and risks (Bushman et al., 2004). To maintain this trust, audit firms must be transparent in their internal governance procedures and quality control systems (Deumes et al., 2012), as effective disclosure helps reduce information asymmetry between management and external stakeholders.

Audit quality is considered an integral component of corporate governance. Firms audited by the “Big Four” audit firms such as PWC, EY, KPMG, and Deloitte are generally associated with higher audit quality, given their significant financial stakes and reputational concerns. Failure to maintain industry-accepted quality standards would expose them to greater reputational losses (Mitton, 2002). Moreover, large audit firms are perceived to be more independent of management (DeFond & Jiambalvo, 1993), and empirical research shows a positive correlation between audit firm size and audit quality (Palmrose, 1988).

Audit itself is defined as a systematic process of objectively collecting and evaluating evidence about economic actions and events in order to determine the degree of compliance with established standards and to communicate the results to stakeholders (Messier, 2008). Transparent disclosure and accurate financial reporting can significantly reduce the risk of information asymmetry (Wang et al., 2014).

The inputs and processes that influence audit quality can be better explained through governance disclosures. Transparency reports can serve as a benchmark for comparing audit firms based on the quality of their work (Fu et al., 2015). Disclosures on governance structures, quality control procedures, and legal frameworks provide evidence of an audit firm’s governance strength (IAASB, 2014; IOSCO, 2015). Transparency reports are thus used not only as a form of self-evaluation but also as a means of demonstrating audit quality to the market. Furthermore, transparency acts as a competitive differentiator, creating incentives for audit firms to increase disclosure regarding their internal governance practices.

The role of audit firms as external auditors is critical, as they verify that financial statements are presented fairly, thereby enhancing the effectiveness of corporate governance systems (Cular & Maretic, 2015). External audits help mitigate agency problems when complemented by effective internal controls, internal auditing, and audit committees. The ability of auditors to provide reasonable assurance depends largely on individual auditor characteristics (Sulaiman, 2018). However, constraints such as the lack of in-depth research on Shariah frameworks and the diverse backgrounds of management pose significant challenges for Shariah auditors (Kasim et al., 2013). Despite the difficulty of implementing Shariah audit in a competitive conventional financial system, it remains a systematic process for evaluating compliance of operations, financial and non-financial performance with Shariah principles, while producing practical, timely, and independent reports (Shafii et al., 2014).

The Need for Appropriate External Shariah Audit Standard and Guideline

Yahya et al., (2016) examined the issues arising in Shariah auditing practices in Malaysia. Their study identified three major concerns that need to be addressed: (i) the competency and skills requirements for internal auditors conducting Shariah audits and the lack of clear guidelines to determine the appropriate level of competency; (ii) the absence of a structured Shariah audit framework; and (iii) the perception gap regarding the roles of Shariah audit and Shariah

review, which were reported to be carried out only by the Shariah committee and external auditors.

Subsequently, Yahya (2018) elaborated on the Shariah audit practices currently adopted by Islamic financial institutions (IFIs) in Malaysia. They concluded that the existing processes remain improvable, particularly with regard to the need for standardization of the Shariah audit framework and guidelines in developing Shariah audit programmes. It was strongly recommended that auditors engaged in Shariah auditing should be supported by a robust competency framework.

Kasim and Sanusi (2013) assessed the state of Shariah audit practices in Islamic financial institutions in Malaysia and Indonesia. They concluded that a comprehensive framework for Shariah auditing in IFIs is urgently required since only a small portion of Shariah audit is covered, for instance, by the Shariah audit framework issued by Bank Negara Malaysia (BNM). At present, each IFI develops its own internal policies or, at minimum, its own audit checklist. A major concern moving forward is the pressing need for a holistic Shariah audit system and standard.

Arwani (2018) explored the views of experts directly or indirectly involved in the Shariah compliance and auditing processes in IFIs regarding the necessity of Shariah auditing standards, auditor qualifications, and auditor independence. The findings highlighted the importance of auditor competency and independence, while also offering regulators practical recommendations for amending existing laws on Shariah auditing practices and for developing a professional foundation for the governance of Shariah auditors.

Similarly, Shahar et al. (2018) focused on the issues and challenges in conducting Shariah audits in IFIs as well as potential solutions to ensure that all institutional activities and operations are aligned with Islamic principles. They found that several problems remain unresolved, particularly concerning the need for standardized requirements, auditor independence, and the absence of external Shariah auditors. If left unaddressed, these issues could hinder the effective development of the Islamic banking and finance sector. Thus, it is crucial to establish an integrated auditing standard that covers all aspects of IFI operations. According to Algabry et al. (2020), regulators must provide a comprehensive internal Shariah audit framework that incorporates the essential components of effective Shariah governance. The proposed framework encompasses both internal and external factors, including the structure, processes, and requirements of Shariah auditing.

Meanwhile, Mohammed et al. (2019) examined AAOIFI accounting standards from the perspective of IFIs, which helped to clarify the debate on whether a new set of Islamic accounting standards is necessary. Their findings emphasized the need for specific norms and standards tailored for IFIs within the IFRS framework to assure the public that Shariah-compliant products are validated by the Shariah Advisory Council (SAC).

The central argument of their study is that a separate Islamic accounting standard is not necessary; rather, the alternative should be to integrate Islamic perspectives into the IFRS framework through collaboration between AAOIFI and IASB. Furthermore, Isa et al. (2020) proposed the introduction of professional certification in Shariah audit. They also

recommended that Shariah audit be incorporated into accounting curricula in higher education institutions and that a detailed framework and specific standards for Shariah auditing be developed.

Empirical Review in Shariah Audit

Recent empirical studies have revealed diverse findings regarding the effectiveness of Shariah audit. Saka et al. (2025) examined non-interest Islamic financial institutions in Nigeria using a survey of 35 Shariah auditors from four full-fledged banks and four takaful operators. The PLS-SEM analysis showed that auditor independence and reporting requirements had a significantly positive effect on the effectiveness of internal Shariah audits, while auditor competence was not statistically significant. The study recommended that the appointment of Shariah auditors should comply with AAOIFI guidelines to ensure their qualification, competence, and independence.

In the context of external audits, Khelassi et al. (2024) investigated how external Shariah audits could prevent prohibited earnings and reduce the risk of Shariah non-compliance. Using PLS-SEM, the study found that external Shariah audits had a significant positive impact on both the financial profitability and the level of Shariah compliance of Islamic banks. The study recommended broader implementation of external Shariah audits, supported by standardized regulatory frameworks.

Several studies assessed the impact of Shariah governance on financial performance. Rahim et al. (2023), using data from 16 Islamic banks in Malaysia (2017–2021), found that Shariah risk management and the Shariah committee significantly influenced financial performance (ROA). Similarly, Mahmud et al. (2021) discovered in Nigeria that boards of directors and advisory committees played a substantial role in Shariah governance, while executive management had a negative relationship, suggesting that specific governance elements are more critical to ensuring compliance and institutional performance.

Other research linked Shariah auditing to corporate social responsibility (CSR). Anwarul Islam et al. (2021) revealed that strong support from the Shariah Supervisory Board (SSB) and the Shariah Audit Committee positively correlated with CSR practices in Bangladeshi Islamic banks. Likewise, Islam and Bhuiyan (2021) found that work autonomy, auditor competence, and performance were strongly associated with the effectiveness of Shariah-based internal audits. These findings indicate that Shariah auditing not only ensures compliance but also shapes the ethical and social conduct of Islamic financial institutions.

Challenges related to awareness and auditor qualifications were also highlighted. Isa et al. (2020) reported that while practitioners' awareness of Shariah audit was satisfactory, major issues persisted, including the absence of independent audit reports, the lack of a dedicated Shariah audit framework, and a shortage of qualified auditors. Masruki et al. (2020) found that Malaysian Islamic banks disclosed more information about Shariah committee attributes than about other Shariah control functions, reflecting a heavy reliance on individual credibility rather than systematic mechanisms. Similarly, Neifar et al. (2020) demonstrated that SSB quality had a positive impact on operational risk disclosure in GCC banks, underscoring the SSB's role in enhancing transparency.

In Bangladesh, Karim and Shetu (2020) observed high levels of Shariah non-compliance in annual audits, driven by non-mandatory Shariah guidelines, a lack of qualified Shariah personnel, and the absence of clear punitive measures. In Pakistan, Abbas and Ali (2019) highlighted compliance gaps due to Shariah compliance officers lacking full independence in fatwa-related decision-making. Al Samara et al. (2019) confirmed that external Shariah audits in Jordan had a significant impact on operational effectiveness, including risk assessment, internal controls, and non-compliance evaluation.

Other studies explored capacity building in Shariah auditing. Masruki et al. (2018) found that the financial performance of Malaysian Islamic banks influenced the transparency of Shariah governance, though control functions remained weak. Kamaruddin and Hanefah (2017) evaluated the Shariah Audit Training (SAT) programme and confirmed that it significantly improved participants' competencies. Ahmad and Al-Aidaros (2015) as well as Ab Ghani and Abdul Rahman (2015) highlighted the shortage of expertise and the urgent need to strengthen auditor competency. Shafii et al. (2014), Kasim dan Sanusi (2013), and Yaacob & Donglah (2012) emphasized the importance of specific Shariah audit standards and formal education to produce qualified auditors. Finally, Kasim et al. (2009) identified a substantial gap between actual practices and the ideal expectations in terms of framework, scope, qualifications, and auditor independence within Malaysian IFIs.

Proposed Conceptual Framework

Based on the review of previous studies, the proposed conceptual framework is as follows:

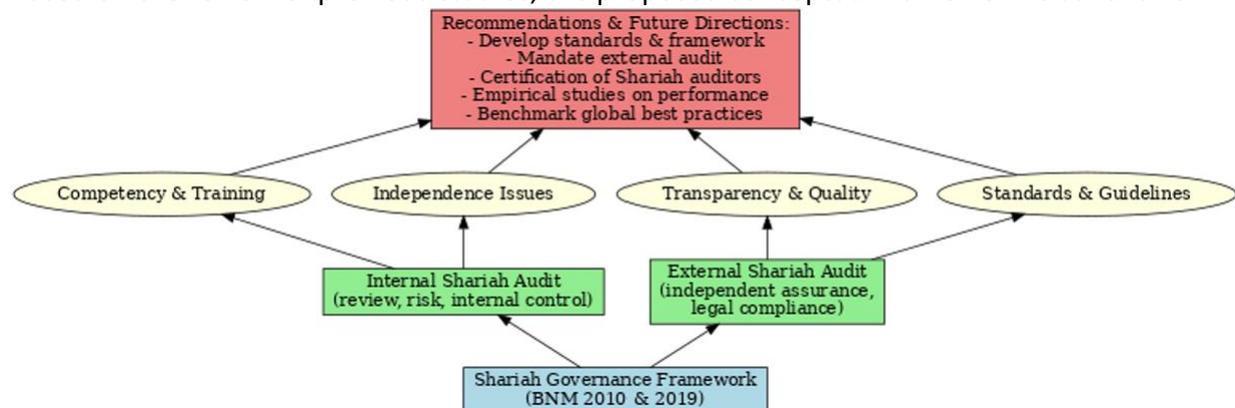


Figure 1: Proposed Conceptual Framework

Source: Compiled by the researcher

This conceptual framework aims to illustrate the relationship between Shariah governance, the role of internal and external Shariah audits, and the critical issues associated with their implementation. Beginning with the foundation of the Shariah Governance Framework (BNM 2010 & 2019), internal Shariah audit plays a significant role through review functions, risk management, and internal controls, while external Shariah audit serves to provide independent assurance on legal compliance and the integrity of IFI operations.

However, the implementation of both functions faces several critical challenges, including a lack of auditor competency and training, independence issues, transparency and quality concerns, and the absence of uniform standards and guidelines. Therefore, to strengthen Shariah audit practices in Malaysia, this framework emphasizes several future directions, such as the development of specific standards and frameworks, making external audits mandatory,

introducing professional certification for Shariah auditors, conducting empirical studies on performance, and adopting global best practices as benchmarks. Through this framework, external Shariah audit is expected to serve as a key mechanism to enhance accountability, transparency, and public confidence in the Islamic financial system in Malaysia.

Conclusion

This study concludes that external Shariah audit is an essential component in strengthening Shariah governance within Islamic financial institutions (IFIs) in Malaysia. The literature review reveals that although internal audit, Shariah review, and risk management have been emphasized by BNM, the role of external Shariah audit has yet to be comprehensively developed. Key issues such as auditor competency, independence, transparency, and the absence of standardized guidelines require urgent attention. Hence, developing a robust framework for external Shariah audit is crucial to safeguard integrity, transparency, and public trust in IFIs.

Future Research

This study is conceptual in nature, focusing on a literature review and theoretical analysis. To strengthen its findings, future research could be conducted empirically using:

1. Qualitative methods: through interviews with Shariah scholars, policymakers, and auditors to gain deeper insights into the real challenges of implementing external Shariah audits.
2. Quantitative methods: by distributing surveys among IFIs to measure perceptions, readiness levels, and the impact of external Shariah audit on financial performance and customer confidence.
3. Mixed methods: combining both qualitative and quantitative analyses to provide a more holistic and comprehensive understanding of the necessity and effectiveness of external Shariah audit in Malaysia.

Through these approaches, future research can not only contribute to theoretical enrichment but also generate more data-driven practical recommendations for policymakers, industry practitioners, and regulators.

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