



***Sharī'ah* Audit Guidelines in Islamic Financial Institutions: A Comparative and Analytical Study**

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Abstract:

Sharī'ah audit is a cornerstone of Islamic Financial Institutions (IFIs), ensuring compliance with Islamic law and maintaining the integrity of Sharī'ah-compliant financial operations. This study examines Sharī'ah audit frameworks through a comparative analysis of six prominent regulatory and standard-setting bodies: the State Bank of Pakistan (SBP), Securities and Exchange Commission of Pakistan (SECP), Bank Negara Malaysia (BNM), Saudi Arabian Monetary Authority (SAMA), Islamic Financial Services Board (IFSB), and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The analysis highlights the unique approaches and commonalities across internal and external Sharī'ah audit processes, emphasizing key themes such as auditor independence, competence, governance structures, and the role of Sharī'ah boards. SBP's prescriptive guidelines focus on detailed compliance mechanisms, while SECP and AAOIFI adopt flexible frameworks tailored to institutional contexts. Governance and oversight are universally reinforced, with Sharī'ah boards playing a critical role in monitoring compliance and advising management. The study underscores the pivotal role of Sharī'ah audits in fostering transparency, accountability, and ethical governance in IFIs. By aligning financial practices with Islamic principles, Sharī'ah audits bolster investor and customer confidence, contributing to the growth and stability of the Islamic financial industry globally and within Pakistan.

Keywords: *Sharī'ah* Audit, Islamic Finance, Audit Effectiveness, Regulatory Frameworks

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Introduction

Islamic banks play a crucial role in the global financial system by offering *Shari'ah*-compliant financial products and services that cater to the needs of Muslim and ethically-conscious investors. Their importance lies in promoting financial inclusion, fostering economic development, and providing a viable alternative to conventional banking, which is particularly significant in regions with substantial Muslim populations. In Pakistan, Islamic banks are essential for accommodating the religious sensitivities of the populace, supporting the government's efforts to enhance financial inclusion, and contributing to the overall economic stability by adhering to risk-sharing principles and ethical banking practices. Their growth in Pakistan reflects a broader global trend towards embracing diverse financial systems that align with ethical and religious values. Assets and deposits of Islamic banking industry stood at PKR 9,235 billion (USD 32.9 billion) and PKR 6,875 billion (USD 24.5 billion), respectively by end of March, 2024. During the last five years (2017-21), the compound annual growth rate of Islamic banking industry's assets and deposits recorded at 22.64% and 28.5%, respectively, indicating a robust growth and potential.⁴

Shari'ah Audit is vital in Islamic banks globally and in Pakistan to ensure compliance with Islamic law, thereby maintaining the integrity and authenticity of *Shari'ah*-compliant financial instruments and services. The need for *Shari'ah* Audit arises from the necessity to provide assurance to stakeholders that the financial operations and transactions adhere strictly to Islamic principles. This audit process is crucial for building and sustaining customer trust, mitigating reputational risk, and fostering accountability and transparency within the Islamic banking system. In Pakistan, *Shari'ah* Audit plays a significant role in supporting the rapid growth of Islamic finance by ensuring that all banking activities conform to *Shari'ah* guidelines, thereby reinforcing confidence among investors and customers who prioritize ethical and religiously compliant financial solutions.

In the dynamic and complex landscape of global financial regulation, various institutions play pivotal roles in ensuring the stability, transparency, and efficiency of financial systems. This comparative analysis focuses on six key regulatory and standard-setting bodies: the State Bank of Pakistan (SBP), the Securities and Exchange Commission of Pakistan (SECP), Bank Negara Malaysia (BNM), the Saudi Arabian Monetary Authority (SAMA), the Islamic Financial Services Board (IFSB), and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)⁵. Each of these entities operates within different national and international contexts, yet they share common goals of fostering sound financial practices and safeguarding the interests of stakeholders.

⁴ Islamic Finance Policy Department State Bank of Pakistan., "Islamic Banking Bulletin," Islamic Banking Department State Bank of Pakistan, 2024, <https://www.sbp.org.pk/ibd/Bulletin/2024/Islamic-Banking-Bulletin-March-2024.pdf>.

⁵ The SBP, established in 1948, functions as Pakistan's central bank, focusing on monetary regulation, inflation control, and financial system stability. Its role includes managing foreign reserves, overseeing the banking sector, and promoting financial inclusion, with a growing emphasis on digital banking and Islamic finance. The SECP, formed in 1999, regulates Pakistan's capital markets and corporate sector, ensuring transparency, investor protection, and corporate governance. The BNM, Malaysia's central bank, founded in 1959, plays a critical role in maintaining financial stability and is a leader in Islamic finance regulation. The SAMA, Saudi Arabia's central bank, established in 1952, is vital to the nation's financial policies and Vision 2030, promoting Islamic banking. The IFSB, an international body, sets global prudential standards for Islamic finance, fostering regulatory consistency. The AAOIFI develops widely adopted standards for Islamic financial institutions, enhancing transparency and governance in the industry.

Literature Review

A body of literature analyzed *Shari'ah* audit and its role in *Shari'ah*-compliant financial instruments and services. Based on past literature, Latifah Algabry et al. (2020)⁶ were of the view that there was a significant difference between traditional audits and *Shari'ah* audits. Traditional audits focused on a materialistic perspective, whereas *Shari'ah* auditing emphasized *Shari'ah* guidelines and Fatwas issued by the *Shari'ah* Board. The study also argued that *Shari'ah* auditing played a vital role in maintaining and monitoring *Shari'ah* objectives. Furthermore, the study explored that external and internal factors, structure, and process requirements had a substantial influence on the effectiveness of internal *Shari'ah* audit.

Ghani et al. (2022) found, using the survey method that the majority of Malaysian Islamic financial institutions had established a practical internal *Shari'ah* audit function, which contributed to the enhancement of *Shari'ah* governance in these IFIs. Using survey data collected through questionnaires, Ahmad et al. (2019) found that auditors' professional knowledge, attitude, and skills had a significant impact on work performance in SMEs in Kuala Lumpur. The study also found that to maintain integrity during audit tasks and to help conduct audits properly, the audit code of ethics could be used as guidance.⁷

Ta and Doan (2022) revealed that independence and management support positively affected internal audit effectiveness in Vietnamese non-financial companies, while competence and work quality were found insignificant.⁸

Islam and Bhuiyan (2021) examined the determinants that influenced the internal *Shari'ah* audit effectiveness by using a survey technique on six Islamic banks of Bangladesh. The study explored that competence, work performance, and auditors' work autonomy had a significant impact on ISA effectiveness. It also found that audit effectiveness increased when *Shari'ah* auditors were fully empowered and able to conduct audits independently, without any internal or external interference.⁹

Shahzad et al. (2021) examined the study of the competency of *Shari'ah* auditor working in the banking institution in Pakistan by using different governance bodies. They were of the view that the External *Shari'ah* Auditors audited in the Islamic Banking Institution did not have adequate knowledge of *Shari'ah* to access the transactions of Islamic banks. They recommended that the SBP might revisit their criteria for appointment of External Auditors including their qualification and competency with the consultation of the accountancy bodies in Pakistan.¹⁰

⁶ Latifah Algabry et al., "Assessing the Effectiveness of Internal *Shari'ah* Audit Structure and Its Practices in Islamic Financial Institutions: A Case Study of Islamic Banks in Yemen," *Asian Journal of Accounting Research* 6, no. 1 (2020): 2–22, <https://doi.org/10.1108/AJAR-04-2019-0025>.

⁷ Nur L. A. Ghani, N. M. Ariffin, and A. R. Abdul Rahim, "Effectiveness of Internal *Shari'ah* Audit Function in Malaysian Islamic Financial," *International Journal of Economics* 30, no. 2 (2022): 311–47.

⁸ Thu Trang Ta and Thanh Nga Doan, "Factors Affecting Internal Audit Effectiveness: Empirical Evidence from Vietnam," *International Journal of Financial Studies* 10, no. 2 (2022), <https://doi.org/10.3390/ijfs10020037>.

⁹ K. M. Anwarul ISLAM and Abul Bashar BHUIYAN, "Determinants of the Effectiveness of Internal Shariah Audit: Evidence from Islamic Banks in Bangladesh," *Journal of Asian Finance, Economics and Business* 8, no. 2 (2021): 223–30, <https://doi.org/10.13106/jafeb.2021.vol8.no2.0223>.

¹⁰ Hafiz Rauf Iqbal Muhammad Asghar Shahzad, Asim Ehsan, Mohammad Ayaz, "The Competency of *Shari'ah* Auditors in Islamic Banking Institutions: An Analytical Study," *COMSATS Journal of Islamic Finance, Center of Islamic Finance* 6, no. 1 (2021): 1–18, <https://doi.org/10.26652/cjif.6202121>.

Through a critical examination of existing literature in both conventional and Islamic finance, Rashid and Ghazi (2021) emphasized the crucial role of audit practitioners in ensuring effective *Sharī'ah* compliance at Islamic banking institutions (IBIs). Auditor competency emerged as a key factor affecting the quality of *Sharī'ah* audits, requiring a unique blend of *Sharī'ah* law, knowledge and traditional assurance skills. The study highlighted the significance of *Sharī'ah* audits in the governance framework of IBIs, as they independently assessed compliance with *Sharī'ah* principles, managed non-compliance risks, and strengthened internal *Sharī'ah* control systems.¹¹

Onay (2021), using data from 187 auditors involved in various private organizations, found that management support, cooperation with external auditors, competence, independence, and participation in risk management had significant impacts on internal audit effectiveness.¹²

Yeboah (2020) argued that the characteristics of internal auditors were a key determinant of audit effectiveness. These characteristics not only helped increase efficiency and effectiveness but also assisted in understanding audit problems. The author further argued that strong relationships among internal and external auditors, the executive chief audit, and senior management were necessary for effective internal auditing.¹³

Alhabshi et al. (2020) assessed the effectiveness of the internal *Sharī'ah* audit (ISA) structure of Yemeni banks by utilizing both primary and secondary data. The authors argued that the *Sharī'ah* audit plan, Audit Charter and audit manual were key factors that helped assess the ISA structure and its practices. They also argued that Yemeni banks depended on qualification and experience instead of other rules and guidelines.¹⁴

Ahmed and Sarea (2019) investigated the dynamic aspects of internal *Sharī'ah* audit effectiveness in Bahrain by collecting data from 52 heads of Internal *Sharī'ah* Audit Departments. Results of the Structural Equation Model showed that work performance and competence of internal *Sharī'ah* auditors positively affected audit effectiveness.¹⁵

Ayub et al. (2019) stated that competency of the *Sharī'ah* board members working in the Islamic Banking Institution in Pakistan was a big challenge. They were of the view that the competency of the *Sharī'ah* board members was a critical issue in the light of the State Bank of Pakistan *Sharī'ah* Governance framework. The *Sharī'ah* Board members played very

¹¹ Abdul Rashid and Muhammad Saarim Ghazi, "Factors Affecting Sharī'ah Audit Quality in Islamic Banking Institutions of Pakistan: A Theoretical Framework," *Islamic Economic Studies* 28, no. 2 (2021): 124–40, <https://doi.org/10.1108/ies-07-2020-0025>.

¹² Ahmet ONAY, "Factors Affecting the Internal Audit Effectiveness: A Research of the Turkish Private Sector Organizations Author Profile:," *Ege Akademik Bakis (Ege Academic Review)*, 2021, 1–15, <https://doi.org/10.21121/eab.873867>.

¹³ Edward Yeboah, "Critical Literature Review on Internal Audit Effectiveness," *Open Journal of Business and Management* 08, no. 05 (2020): 1977–87, <https://doi.org/10.4236/ojbm.2020.85121>.

¹⁴ Latifah Algabry et al., "Conceptual Framework of Internal Sharī'ah Audit Effectiveness Factors in Islamic Banks," *ISRA International Journal of Islamic Finance* 12, no. 2 (July 16, 2020): 171–93, <https://doi.org/10.1108/IJIF-09-2018-0097>.

¹⁵ Azam Abdelhakeem Khalid Ahmed and Adel M. Sarea, "Factors Influencing Internal Shariah Audit Effectiveness: Evidence from Bahrain," *International Journal of Financial Research* 10, no. 6 (2019): 196–210, <https://doi.org/10.5430/ijfr.v10n6p196>.

important roles in the business of the banks; all the transactions and the halal income depended on the opinion of the *Sharī'ah* board member. The qualification of the madaris did not provide sufficient qualification and expertise which were required / needed to be fulfilled by the position of the *Sharī'ah* Board members. They concluded that the madaris should revise their curriculum and include training, orientation and diplomas.¹⁶

Musah et al. (2018), in a study of 25 state-owned enterprises in Ghana, showed that management support was the most significant indicator of internal audit effectiveness. Other indicators such as independence, competence, and audit size also significantly contributed to audit effectiveness.¹⁷

Shahzad et al. (2017) examined the study of the newly implemented *Sharī'ah* Governance framework issued by the SBP and their mechanism and challenges. The study was conducted by survey technique and target audience was knowledgeable person especially they had the knowledge of the *Sharī'ah* Governance framework. They were of the view that the establishment of the *Sharī'ah* board and implementation of the *Sharī'ah* audit was a right step to resolve the issue of the IBI and achieve the objective of the *Sharī'ah* Governance framework.¹⁸

Alam et al. (2017), for Pakistan, revealed that the qualifications of employees/auditors showed a lack of required knowledge regarding *Sharī'ah* audit. The study pointed out that the auditors who performed the duties of *Sharī'ah* auditors had no experience or knowledge of Islamic banking and *Sharī'ah* auditing.¹⁹

Hussain et al. (2012) explored the study of audit committee characteristics and earnings management, through a panel data for 270 Malaysian *Sharī'ah*-compliant companies for the period 2007–2009. The results of the study revealed that the size of the audit committee, accounting expertise, and independent non-executive directors had significant impacts on earnings management.²⁰

In summary, previous studies have explored various aspects of *Sharī'ah* auditing, including awareness, governance, educational needs, and framework development. However, to date, no study has specifically examined the effectiveness of *Sharī'ah* Audit in Islamic Financial Institutions (IFIs) through a comprehensive analysis involving key variables such as competence, independence, internal *Sharī'ah* audit, external *Sharī'ah* audit, Executive management and Board. This research aims to fill that gap by focusing on how these variables contribute to the overall effectiveness of *Sharī'ah* audit practices within IFIs, thereby supporting better governance, enhanced compliance, and increased stakeholder confidence.

¹⁶ Muhammad Ayub et al., “Enhancing the Competence and Effectiveness of *Sharī'ah* Advisory Boards : Case of Islamic Banking Institutions in Pakistan,” *Journal of Islamic Business and Management (JIBM)* 9, no. 1 (2019): 45–66, <https://jibm.org/wp-content/uploads/2019/08/1-2-4.pdf>.

¹⁷ Alhassan Musah, Erasmus Dodzi Gapketor, and Fred Kwesi Anokye, “Determinants of Internal Audit Effectiveness in State-Owned Enterprises (SOEs) in Ghana” 8, no. January (2019): 52–68.

¹⁸ Muhammad Asghar Shahzad, Syed Kashif Saeed, and Asim Ehsan, “*Sharī'ah* Audit and Supervision in *Sharī'ah* Governance Framework: Exploratory Study of Islamic Banks in Pakistan,” *Business & Economic Review* 9, no. 1 (2017): 103–18, <https://doi.org/10.22547/BER/9.1.6>.

¹⁹ Tahir Alam and Taimoor Hassan, “Competency of Shariah Auditors: Issues and Challenges in Pakistan,” *Journal of Internet Banking and Commerce* 22, no. 2 (2017).

²⁰ Hussain Khalifa Hussain Alkdai and Mustafa Mohd Hanefah, “Audit Committee Characteristics and Earnings Management in Malaysian Shariah-Compliant Companies,” *Business & Management Review* 2, no. 2 (2012): 52–61, <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=78392157&site=ehost-live&scope=site>.

COMPARISON OF DIFFERENT GOVERNANCE FRAMEWORK

The governance structure of IFIs varies across different institutions, reflecting differences in regulatory environments, organizational models, and interpretations of *Shari'ah* principles. This section provides a comparative analysis of key governance components namely internal and external *Shari'ah* audit, the independence and competence of *Shari'ah* auditors, and the roles of the Board of Directors, Executive Management, *Shari'ah* Board, Resident *Shari'ah* Board Member, and *Shari'ah* Review mechanisms. By examining these elements across different IFIs, the analysis aims to highlight best practices, identify gaps, and assess the effectiveness of governance structures in ensuring *Shari'ah* compliance and enhancing institutional integrity. Detailed comparisons of these governance framework components are discussed below in Table 1 through Table 09.

INTERNAL SHARI'AH AUDIT	
SBP	<i>"Para 7.2....so as to enable it to discharge its due responsibilities in a proper and timely manner. The IBI shall ensure that staff of ISAU are adequately qualified (preferably having Shari'ah qualification) and trained to perform their duties".²¹</i>
SECP	<i>"Para 28, (f) ...shall strengthen its internal audit department, either by appointing an internal Shari'ah audit resource having relevant qualification".²²</i> <i>"findings are shared with the management and Shari'ah supervisory board or the Shari'ah advisor in respect of all the above items, including irregularities, inadequacy in risk management, governance, and internal controls, which are necessary to avoid Shari'ah non-compliant business transactions; and"²³</i>
BNM	<i>"Para 19.3 ...Principally accountable and responsible for internal audit shall be responsible for Shari'ah audit which forms part of the overall internal audit function in an IFI".²⁴</i>
SAMA	<i>"Para 16(iii)(1)...Internal Shari'ah audit on areas of relative importance shall be conducted at least once a year depending on the risk profile of the bank".²⁵</i>
IFSB	<i>"Para 219 ...An effective and efficient internal audit function constitutes the third line of defense in the system of internal control".²⁶</i>
AAOIFI	<i>"Para 4 (c) (d)...is a function part of the governance organs of an IFI".</i> <i>"Internal Shari'ah auditors are those individuals who perform the activities of the internal Shari'ah audit function".²⁷</i>

Table 1: Internal Shari'ah Audit

Table 1 shows that among the four governance frameworks reviewed, the State Bank of Pakistan (SBP) and Bank Negara Malaysia (BNM) exhibit the most comprehensive and structurally aligned practices for Internal *Shari'ah* Audit (ISA). SBP mandates the creation of a distinct

²¹ SBP, "Shariah Governance Framework for Islamic Banking Institutions," State Bank of Pakistan (Pakistan: Islamic Finance Policy Department, State Bank of Pakistan, 2024), <https://www.sbp.org.pk/ifpd/2024/C8.htm>.

²² SECP, "Shariah Governance Regulations, 2023," Islamic Finance Department, Securities and Exchange Commission of Pakistan, 2023, <https://www.secp.gov.pk/document/shariah-governance-regulations-2023-2/>.

²³ SECP.

²⁴ Bank Negara Malaysia, "Shariah Governance," *Bank Negara Malaysia*, no. BNM/RH/PD 028-100 (2019): 1–22, <https://bnm.gov.my/documents/20124/761679/Shariah+Governance+Policy+Document+2019.pdf>.

²⁵ SAMA, "Shariah Governance Framework for Local Banks Operating in Saudi Arabia," Saudi Arabian Monetary Authority, 2020, <https://www.sama.gov.sa/en-US/Laws/pages/bankingrulesandregulations.aspx>.

²⁶ IFSB, "Revised Guiding Principles On Corporate Governance For Institutions Offering Islamic Financial Services (Banking Segment)," Islamic Financial Services Board (IFSB), 2023, <https://www.ifsb.org/standards-page/>.

²⁷ AAOIFI, *Accounting, Auditing and Governance Standards* (Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain: Accounting and Auditing Organization for Islamic Financial Institutions. P.O.Box 1176, Manama, Bahrain., 2015), www.aoofi.com.

Internal *Sharī'ah* Audit Unit (ISAU) with qualified personnel, detailed audit planning, and full independence from management interference, as outlined in Para 7.2 of its *Sharī'ah* Governance Framework. BNM similarly integrates ISA within the institution's broader internal audit framework while maintaining *Sharī'ah*-specific autonomy and competence requirements. These practices reflect Islamic principles of *amānah* (trustworthiness) and *ihsān* (excellence), as they ensure that *Sharī'ah* compliance is not only embedded but actively verified through a transparent internal structure. In contrast, SECP provides minimal structural guidance beyond the appointment of a *Sharī'ah* resource, and SAMA relies heavily on conventional internal audit mechanisms without *Sharī'ah*-specific auditing distinctions. These limitations dilute the religious integrity of audit processes and reflect a weak alignment with the ethical obligations of Islamic financial supervision.

To address these gaps, SECP and SAMA should institute dedicated internal *Sharī'ah* audit units staffed with *Sharī'ah*-literate professionals, supported by institutionalized training and direct reporting to the audit committee or board. Such reforms would operationalize *amānah* and elevate internal auditing to a level congruent with the principles of Islamic accountability.

EXTERNAL SHARĪ'AH AUDIT	
SBP	<i>"Para 8 (ii) ...responsibility of the external Audit firms to take measures for capacity building of their staff for conducting Sharī'ah audit and provide them with appropriate trainings".²⁸</i>
SECP	<i>"Para 29 ...external Sharī'ah audit for each financial year, which may be undertaken by the existing external auditors or an independent external Sharī'ah auditor".²⁹</i>
BNM	<i>"Para 19.5, 19.6 ...external Sharī'ah audit on the operations, business, affairs and activities of the IFI to provide objective assurance on the effectiveness of Sharī'ah governance implementation within the IFI".</i> <i>"In the event that the Bank deems appropriate for the purposes of compliance with Sharī'ah by an IFI, in line with section 37 of the IFSA, the Bank may require the IFI to appoint any persons as the Bank may approve to conduct an independent audit on Sharī'ah compliance by the IFI".</i> <i>"Section 37 of IFSA. The Bank may require an institution to appoint any person as the Bank may approve, to carry out an audit on Sharī'ah compliance by the institution".³⁰</i>
SAMA	<i>Not included</i>
IFSB	<i>Not included</i>
AAOIFI	<i>"Para 8(d)...External Sharī'ah Audit – is a type of external Sharī'ah audit engagement in which the external Sharī'ah auditor reports on a "statement of compliance with Sharī'ah principles and rules" issued by the management of the IFI".³¹</i>

Table 2: External *Sharī'ah* Audit

In terms of External *Sharī'ah* Audit (ESA), BNM stands out for mandating ESA appointments were deemed necessary by the central bank, with clearly defined scope and regulatory oversight authority. This proactive stance supports the principle of *shahādah* (bearing witness), ensuring that external stakeholders receive independent assurance about the *Sharī'ah* authenticity of financial operations as mentioned in Table 2. The AAOIFI standard ASIFI 6 also provides a robust framework for ESA, emphasizing the qualifications of auditors and the scope of their responsibilities. Conversely, SECP and SAMA lack any enforceable requirement for external

²⁸ SBP, "Shariah Governance Framework for Islamic Banking Institutions."

²⁹ SECP, "Shariah Governance Regulations, 2023."

³⁰ Bank Negara Malaysia, "Shariah Governance."

³¹ AAOIFI, *Accounting, Auditing and Governance Standards*.

Sharī'ah audits, relying instead on internal compliance mechanisms or central bank inspections.³² This absence weakens transparency and fails to fulfill the Qur'anic obligation of truthful testimony and external validation.

It is recommended that both SECP and SAMA introduce mandatory ESA requirements, conducted annually or biennially by certified *Sharī'ah* auditors. This will reinforce institutional credibility and meet both investor expectations and *Sharī'ah* demands for external ethical oversight.

INDEPENDENCE	
SBP	<p><i>"Para 7 (i) 8 ...Every IBI shall have an Internal Sharī'ah Audit Unit (ISAU) which may be a part of the internal audit department or an independent unit, depending on the size of the IBI"</i></p> <p><i>"In order to have an independent assessment of the Sharī'ah governance and compliance environment of an IBI, the scope of external audit of IBIs shall also include an independent and objective assessment of the conformity of IBI's operations with Sharī'ah rules and principles".³³</i></p>
SECP	<i>"Para 29 (3) ...Sharī'ah audit shall include an independent and objective assessment of compliance of operations with the Sharī'ah principles and rules".³⁴</i>
BNM	<i>"Para 19.1...Sharī'ah audit refers to a function that provides an independent assessment on the quality and effectiveness of the IFI's internal control, risk management systems, governance processes as well as the overall compliance of the IFI's operations, business, affairs and activities with Sharī'ah".³⁵</i>
SAMA	<i>"Para 13 ...The Sharī'ah audit function refers to the independent assessment conducted to provide objective assurance in order to add value and improve the degree of compliance in relation to the bank's Islamic operations and activities"</i> ³⁶
IFSB	<p><i>"Para 219, 222(ii) 223 ...It provides independent assurance to the board, SSB, and senior management on the quality and effectiveness of an IIFS's".</i></p> <p><i>"Requiring it to independently assess the effectiveness and efficiency of the internal control, risk management, and governance systems and processes".</i></p> <p><i>"The board and senior management should respect and promote the independence of the internal audit and internal Sharī'ah audit functions".³⁷</i></p>
AAOIFI	<p><i>"Para 10, 15 8(c) ...The internal Sharī'ah Audit functions shall have a quality assurance and improvement assessment mechanism. It is important that this mechanism includes independent assessment by independent team members (either at senior or at peer level)".</i></p> <p><i>"The Internal Sharī'ah Auditors shall be objective in performing their professional responsibilities objectivity includes an independent attitude, which the internal Sharī'ah auditors shall maintain in performing internal Sharī'ah auditors".</i></p>

³² Muhammad Asghar Shahzad and Raees Khan, "External Sharī'ah Auditors in Islamic Banking and Finance Industry :," *The Pakistan Accountant, The Institute of Chartered Accountants of Pakistan*, 2019, <https://doi.org/https://ssrn.com/abstract=3478878>; ESHAA SHAFIQUE, DUR-E- AYMEN, and MUHAMMAD ASGHAR SHAHZAD, "Competency of Shariah Auditors in Islamic Banking Institutions: Challenges and Pragmatic Solution," *International Journal of Islamic Economics and Governance* 3, no. 2 (December 30, 2022): 1–17, <https://doi.org/10.58932/MULD0015>; Ayub et al., "Enhancing the Competence and Effectiveness of Sharī'ah Advisory Boards : Case of Islamic Banking Institutions in Pakistan."

³³ SBP, "Shariah Governance Framework for Islamic Banking Institutions."

³⁴ SECP, "Shariah Governance Regulations, 2023."

³⁵ Bank Negara Malaysia, "Shariah Governance."

³⁶ SAMA, "Shariah Governance Framework for Local Banks Operating in Saudi Arabia."

³⁷ IFSB, "Revised Guiding Principles On Corporate Governance For Institutions Offering Islamic Financial Services (Banking Segment)."

*“External Shari‘ah Audit is an independent assurance engagement to provide reasonable assurance that an IFI complies with the Shari‘ah principles and rules’ applicable to its financial arrangements, contracts and transactions during a specific period based on a specific set of Shari‘ah principles and rules’ contained in the criteria”.*³⁸

Table 3: Independence

Table 3 present that AAOIFI, BNM, and SBP demonstrate robust provisions for auditor independence. AAOIFI mandates direct reporting lines to the board, while BNM advocates dual accountability to both the audit and *Shari‘ah* committees. SBP also emphasizes the separation of audit roles from operational management, safeguarding the ethical mandate of ‘adl (justice) and objective accountability. In contrast, SECP’s framework is notably silent on independence safeguards, leaving audit personnel vulnerable to managerial influence. Without defined protections, auditors may face compromised objectivity or be pressured to dilute findings.

It is strongly recommended that SECP and similar jurisdictions incorporate mandatory reporting to independent board committees, prohibit auditors from simultaneously performing advisory roles, and enforce rotation policies for lead auditors to mitigate familiarity threats. These reforms are both practically implementable and religiously justified as means of upholding truth and justice in Islamic finance.

COMPETENCE

SBP	<i>“Para 7 (i)...Internal Audit Department or ISAU shall have dedicated and adequate staff”.</i> ³⁹
SECP	<i>“Para 28 ...having relevant qualification or expertise in the field of Islamic finance or train at least one of its employees in the internal audit department”.</i> ⁴⁰
BNM	<i>“Para 19.4...auditors who perform the Shari‘ah audit function are qualified to perform internal audit and have the requisite knowledge on Shari‘ah requirements”.</i> ⁴¹
SAMA	<i>“Para 16(iii)(3) ...internal auditors who have acquired adequate Shari‘ah-related knowledge and training. In addition, the internal auditors may engage the expertise of the bank’s Shari‘ah officer in performing the audit, as long as the objectivity of the audit is not compromised”.</i> ⁴²
IFSB	<i>“Para 220...It should have sufficient standing, skills, resources, and authority within the IIFS to enable the auditors to carry out their assignments effectively and objectively”.</i> ⁴³
AAOIFI	<i>“Para 8(d), 34.... External Shari‘ah auditor – is a firm having professional knowledge and competence of auditing and relevant ‘Shari‘ah principles and rules’, duly fulfilling the fit and proper criteria laid down by the respective regulator”.</i> <i>“The Internal Shari‘ah Audit function shall maintain technical competence through continuing education and training primarily in the areas of auditing and Shari‘ah knowledge with a focus on Fiqh Al-Muamalat”.</i> ⁴⁴

Table 4: Competence

³⁸ AAOIFI, *Accounting, Auditing and Governance Standards*.

³⁹ SBP, “Shariah Governance Framework for Islamic Banking Institutions.”

⁴⁰ SECP, “Shariah Governance Regulations, 2023.”

⁴¹ Bank Negara Malaysia, “Shariah Governance.”

⁴² SAMA, “Shariah Governance Framework for Local Banks Operating in Saudi Arabia.”

⁴³ IFSB, “Revised Guiding Principles On Corporate Governance For Institutions Offering Islamic Financial Services (Banking Segment).”

⁴⁴ AAOIFI, *Accounting, Auditing and Governance Standards*.

Auditor competence, particularly in *Sharī'ah* contexts, is best defined and operationalized within AAOIFI and SBP frameworks. AAOIFI emphasizes a dual-disciplinary approach that includes Islamic jurisprudence and modern audit proficiency, while SBP requires IFIs to employ adequately trained and preferably *Sharī'ah*-qualified staff for internal audits. These approaches reflect *‘ilm* (knowledge) and *ihsān* (excellence), both essential to Islamic adjudication. By contrast, SECP and SAMA offer only general qualifications without clearly requiring *Sharī'ah*-specific credentials, creating room for shallow or incorrect interpretations as stated in Table 4.

To rectify this, a national *Sharī'ah* auditor certification program, modeled after AAOIFI's CSAA, should be made mandatory for internal and external *Sharī'ah* auditors. This move would professionalize the field and ensure a baseline of competence consistent with both audit rigor and religious jurisprudence.

BOARD OF DIRECTORS	
SBP	<p><i>"Para 1 (i)(iv) ...The BOD shall be ultimately responsible and accountable for ensuring full conformity of the IBI's operations with Sharī'ah principles".</i></p> <p><i>"The BOD shall meet the SB at least on a half yearly basis to a) have a detailed briefing on the Sharī'ah compliance environment, the issues/weaknesses (if any), and recommendations to improve Sharī'ah compliance environment, and b) ensure timely and effective enforcement of the SB's decisions, fatawa, observations and recommendations".⁴⁵</i></p>
SECP	<i>Not included</i>
BNM	<p><i>"Para 8.1 (a)(b) ...approve policies relating to governance structure and reporting arrangements, Sharī'ah non-compliance risk management and other areas that are material to the effective implementation of Sharī'ah governance within the IFI";</i></p> <p><i>"Oversee the implementation of SAC rulings and decisions or advice of the Sharī'ah committee within all business and functional lines, including any business or risk implications arising from such implementation";⁴⁶</i></p>
SAMA	<p><i>"Para 5(1)(9) ...The board is primarily responsible for the overall Sharī'ah governance framework of the bank and the compliance of its Islamic banking activities with the Sharī'ah principles and rules. The board is also responsible for approving the bank's Sharī'ah governance framework, performing continuous oversight over the effective functioning of the framework, and ensuring that the framework is commensurate with the size, complexity, and nature of the bank's business".</i></p> <p><i>"The mechanism used to supervise the integrity and performance of the committee members shall be disclosed. Moreover, it must be taken into account not to nominate any member who has previously been convicted by a court judgment or of a crime impinging on honor or integrity".⁴⁷</i></p>
IIFSB	<p><i>"Para 36, 39...The board has ultimate responsibility for the IIFS's business strategy and financial soundness, key personnel decisions, internal organization, governance structure and practices, and risk management and compliance obligations".</i></p> <p><i>"The board must clearly define the strategic roles, authorities, and responsibilities of (a) the board of directors, including its committees; (b) SSB; (c) senior management; and (d) other organs of governance, e.g., control</i></p>

⁴⁵ SBP, "Shariah Governance Framework for Islamic Banking Institutions."

⁴⁶ Bank Negara Malaysia, "Shariah Governance."

⁴⁷ SAMA, "Shariah Governance Framework for Local Banks Operating in Saudi Arabia."

	<i>functions such as risk management, compliance, and internal audit. While designing the corporate governance framework”.</i> ⁴⁸
AAOIFI	Not included

Table 5: Board of Directors

The Board of Directors (BOD) plays a foundational role in setting the tone for *Sharī‘ah* governance, with SBP and BNM frameworks explicitly assigning strategic responsibility for ensuring *Sharī‘ah* compliance. SBP mandates biannual joint meetings between the BOD and the *Sharī‘ah* Board and emphasizes the BOD’S duty to approve and monitor *Sharī‘ah*-related policies. BNM’s framework goes a step further by integrating *Sharī‘ah* oversight into enterprise-wide risk governance, emphasizing *mas‘ūliyyah* (responsibility) and *khilāfah* (trusteeship). On the other hand, SECP and SAMA either lack formal requirements for board-level *Sharī‘ah* engagement or treat it as a compliance formality, weakening strategic alignment. The BOD in these systems often lacks the training and ownership needed to question or support *Sharī‘ah* rulings effectively.

It is therefore proposed that both SECP and SAMA institute mandatory *Sharī‘ah* training for board members, define accountability KPIs related to *Sharī‘ah* compliance, and formalize *Sharī‘ah* Board Liaison Committees to ensure that religious values are embedded into strategic governance as expressed in Table 5.

EXECUTIVE MANAGEMENT	
SBP	<i>“Para 2 (ii) ...Every group head and executive shall also be accountable and responsible for implementation of decisions, rulings, fatawa and guidelines given by SB relating to his/her group or functional area. The EM needs to show zero tolerance on Sharī‘ah non-compliance and take appropriate action against employees who have failed to ensure compliance with the Sharī‘ah rules and principles in their respective areas of responsibility. Instances of Sharī‘ah non-compliance shall also have a strong bearing on their performance appraisals, promotions, increments, bonuses, etc.”</i> ⁴⁹
SECP	Not included
BNM	<i>“Para 15.1 (b)(c)(d) ...Implement effective Sharī‘ah governance policies, procedures and practices in accordance with the direction given by the board”</i> <i>“implement the rulings of the SAC and the decision or advice of the Sharī‘ah committee with due regard by the board”;</i> <i>“implement an effective communication policy that supports a sound understanding of Sharī‘ah matters across the IFI”</i> ⁵⁰
SAMA	<i>“Para 6(2)(3) The management shall monitor and implement the Sharī‘ah decisions issued by the committee”</i> <i>“The management shall provide continuous education and training programs to key internal stakeholders, including the board, the Sharī‘ah committee, and the employees related to Sharī‘ah and finance matters. This is to ensure that all departments/units associated with the Sharī‘ah governance framework of the bank are sufficiently exposed to current developments in Sharī‘ah related matters”.</i> ⁵¹
IFSB	<i>“Para 135, 144, 146...Senior management consists of a core group of individuals responsible and accountable to the board for the sound and prudent day-to-day management of the IIFS”.</i>

⁴⁸ IFSB, “Revised Guiding Principles On Corporate Governance For Institutions Offering Islamic Financial Services (Banking Segment).”

⁴⁹ SBP, “Shariah Governance Framework for Islamic Banking Institutions.”

⁵⁰ Bank Negara Malaysia, “Shariah Governance.”

⁵¹ SAMA, “Shariah Governance Framework for Local Banks Operating in Saudi Arabia.”

	<i>“It includes comprehensive and independent risk management, compliance, and audit functions as well as an effective overall system of internal controls. Senior management should recognize and respect the independent duties of the SSB, risk management, compliance, and internal audit functions and should not interfere in their exercise of such duties”.</i>
	<i>“the senior management shall ensure that important organs within an IIFS, such as an SSB, a governance committee, the Sharī‘ah compliance function, and the internal Sharī‘ah audit function, where applicable, are adequately resourced to provide input to the implementation of the IIFS’s risk management framework”.</i> ⁵²
AAOIFI	<i>“Para 14...A clear statement that the management of the Islamic financial institution is responsible for properly complying with Sharī‘ah Rules and Principles”.</i> ⁵³

Table 6: Executive Management

Table 6 indicates that among the governance frameworks reviewed, the State Bank of Pakistan (SBP), Bank Negara Malaysia (BNM), AAOIFI, and the Islamic Financial Services Board (IFSB) present the most robust and *Sharī‘ah*-aligned provisions regarding the role of executive management in implementing *Sharī‘ah* governance. SBP, through Para 2(ii) of its *Sharī‘ah* Governance Framework, clearly states that every group head and executive is responsible for supporting and embedding *Sharī‘ah* compliance across operational activities. BNM, in Paras 15.1(b-d), mandates that executive management must allocate resources, report deficiencies, ensure coordination with the *Sharī‘ah* committee, and institutionalize *Sharī‘ah* governance controls. Similarly, AAOIFI requires public acknowledgment of *Sharī‘ah* responsibilities by management and emphasizes full cooperation with both internal and external *Sharī‘ah* audits. These directives reflect the principles of *amānah* (entrusted responsibility), *mas‘ūliyyah* (accountability), and *taqwā* (God-conscious leadership), which are fundamental to Islamic ethical governance. In contrast, SECP’s framework does not assign any *Sharī‘ah*-related responsibilities to executive management, resulting in a structural gap that isolates religious compliance from day-to-day decision-making. SAMA outlines limited coordination duties for management, but lacks the specificity and enforceability required for effective implementation.

These omissions reduce operational accountability and risk relegating *Sharī‘ah* governance to a peripheral or symbolic role. To remedy this, SECP and SAMA should revise their frameworks to formally define executive-level responsibilities, including resource allocation, performance monitoring, and reporting on *Sharī‘ah* compliance. They should also mandate annual executive declarations of *Sharī‘ah* responsibility and introduce specialized training for senior managers. Such measures would institutionalize *taqwā*-driven leadership and embed *Sharī‘ah* values at the heart of executive decision-making, thereby reinforcing ethical integrity across all levels of governance.

<i>SHARĪ‘AH BOARD</i>	
SBP	<i>“Para 3(b)(vi) ... findings of the reports of Internal Sharī‘ah Audit and Sharī‘ah compliance reviews and complete report of External Sharī‘ah Audit and SBP Sharī‘ah compliance assessment shall be submitted to SB for consideration and prescribing appropriate corrective/enforcement action. The SB shall take up the unresolved issues with management and shall include all significant outstanding issues in its annual report on the Sharī‘ah compliance environment of the IBI. Moreover, the Head of SCD and RSBM shall discuss both the significant and unresolved issues with SBP assessment team during their on-site assessment”.</i> ⁵⁴

⁵² IFSB, “Revised Guiding Principles On Corporate Governance For Institutions Offering Islamic Financial Services (Banking Segment).”

⁵³ AAOIFI, *Accounting, Auditing and Governance Standards*.

⁵⁴ SBP, “Shariah Governance Framework for Islamic Banking Institutions.”

SECP	<p><i>“Para 20 (b) (ii)(iii)(xv) ...A Sharī‘ah supervisory board or the Sharī‘ah advisor, as the case may be shall be responsible”.</i></p> <p><i>“Review and approve all policies and procedures relating to the Sharī‘ah compliant operations”;</i></p> <p><i>“Make recommendations for potential improvements and policy formulation in accordance with Sharī‘ah principles and rules, as well as provide guidance on the process of rectification of identified irregularities”;</i></p> <p><i>“review the reports and observations of the Sharī‘ah compliance function, the internal Sharī‘ah audit function, and the external Sharī‘ah audit and provide advice on such reports and observations”;</i>⁵⁵</p>
BNM	<p><i>“Para 10.3, 10.10, 10.12...The Sharī‘ah committee shall be accountable for the quality, accuracy and soundness of its own decision or advice”.</i></p> <p><i>“A Sharī‘ah committee member must exercise objectivity in coming up with his judgment and be free from associations or circumstances that may impair the exercise of his professional objectivity. In fulfilling his responsibility, a Sharī‘ah committee member must ensure that his judgment in arriving at a Sharī‘ah decision or advice is not affected by his other professional commitments”.</i></p> <p><i>“A Sharī‘ah committee member must ensure consistency in providing his views and must not act in a manner that would undermine the rulings of the SAC or any decisions of the Sharī‘ah committee that they represent”.</i>⁵⁶</p>
SAMA	<p><i>“Para 10(1)(5)(6) ...It shall supervise the compliance of Islamic banking transactions with the Sharī‘ah principles and rules. Sharī‘ah compliance reports and internal Sharī‘ah audit observations should enable the committee to identify issues that require attention and, where appropriate, propose corrective measures”.</i></p> <p><i>“The committee shall assess the compliance and internal Sharī‘ah audit work to ensure compliance with the Sharī‘ah aspects. Such assessment is part of the tasks related to submitting the reports on assessment of Sharī‘ah compliance”.</i></p> <p><i>“The related parties of the bank such as its legal consultant, external auditors, or consultant entities may seek advice from the Sharī‘ah committee on Sharī‘ah matters related to the bank operations, and the committee shall provide the necessary assistance in this regard”.</i>⁵⁷</p>
IFSB	<p><i>“Para 65(i)(iii) ...SSB members should be and remain qualified through a “fit and proper” test, individually and collectively, for their positions”.</i></p> <p><i>“The SSB’s comments and suggestions have been sought and appropriately addressed in establishing and/or reviewing Sharī‘ah Governance Framework of the IIFS”.</i>⁵⁸</p>
AAOIFI	<p><i>“Para 2...A Sharī‘ah supervisory board is an independent body of specialized jurists in Fiqh Al-Mudmalat (Islamic commercial jurisprudence). However, the Sharī‘ah supervisory board may include a member other than those specialized in Fiqh Al-Muamalat, but who should be an expert in the field of Islamic financial institutions and with knowledge of Fiqh Al Muamalat. The Sharī‘ah supervisory board is entrusted with the duty of directing reviewing and supervising the activities of the Islamic financial institution in order to ensure that they are in compliance with Sharī‘ah Rules and Principles. The fatwas, and rulings of the</i></p>

⁵⁵ SECP, “Shariah Governance Regulations, 2023.”

⁵⁶ Bank Negara Malaysia, “Shariah Governance.”

⁵⁷ SAMA, “Shariah Governance Framework for Local Banks Operating in Saudi Arabia.”

⁵⁸ IFSB, “Revised Guiding Principles On Corporate Governance For Institutions Offering Islamic Financial Services (Banking Segment).”

Table 7: Sharī'ah Board

The *Sharī'ah* Supervisory Boards (SSBs) under SBP, BNM, and AAOIFI represent well-defined and empowered bodies. SBP mandates the submission of all *Sharī'ah* audit reports to the SSB and requires regular board meetings, while BNM enforces clauses that ensure the SSB operates with full objectivity and independence. These practices fulfill the requirements of *istiqlāl* (juristic independence) and *shūrā* (consultative governance), thereby safeguarding the theological integrity of financial rulings.⁶⁰ However, SAMA's earlier frameworks lacked operational clarity and enforcement powers for the SSB, and SECP provides no mandatory meeting frequency or reporting pathways as cited in Table 7 above.

These gaps can lead to disconnect between religious guidance and managerial decision-making. To bridge these deficiencies, it is recommended that SECP and SAMA revise their frameworks to enforce mandatory quarterly meetings, transparent documentation of *fatāwa*, and clear delineation of advisory vs. binding authority. Standardizing these aspects would reinforce institutional commitment to *Sharī'ah* authenticity and decisional clarity.⁶¹

RESIDENT SHARĪ'AH BOARD MEMBER	
SBP	"Para 4(i)...Provide explanation/...clarification to management and staff of IBI on products, documents, process flows and on other operational Sharī'ah related matters, in the light of decisions, rulings, fatawa already issued by the SB". ⁶²
SECP	Not included
BNM	Not included
SAMA	Not included
IFSB	Not included
AAOIFI	Not included

Table 8: Resident Sharī'ah Board Member

Table 8 reveals that the Resident *Sharī'ah* Board Member (RSBM) is an innovation exclusively mandated by SBP, requiring IFIs to appoint a full-time *Sharī'ah* scholar embedded within operational teams. This role enables immediate resolution of compliance questions and facilitates real-time alignment with the institution's *Sharī'ah* governance objectives. The presence of a resident scholar actualizes the Islamic principle of *ḥisbah* (moral oversight) and ensures that religious values are not confined to periodic audits but remain active within daily transactions. In contrast, SECP, BNM, and SAMA do not require this role, potentially delaying critical *Sharī'ah* judgments or leading to inconsistent practices.

To close this operational gap, these jurisdictions should consider phased implementation of the RSBM post, particularly for large IFIs, while allowing smaller institutions to assign part-time resident advisors. This would ensure continuous *Sharī'ah* engagement without imposing disproportionate burdens.

SHARĪ'AH REVIEW	
SBP	"Para 5(iii) (a)(b) ...The SCD shall keep a continuous watch on the IBI's Sharī'ah compliance environment and shall ensure that all organs of Sharī'ah Governance including the BOD oversight mechanism, internal Sharī'ah audit, and

⁵⁹ AAOIFI, *Accounting, Auditing and Governance Standards*.

⁶⁰ Muhammad Asghar Shahzad, Shafiqul Hassan, and Hafiz Ghulam Abbas, "The Role of Central Sharī'ah Advisory Board to Enhance Harmonization of Products and Services in Islamic Banking Institutions," *Journal of Ecohumanism* 3, no. 8 (December 28, 2024), <https://doi.org/10.62754/joe.v3i8.5593>.

⁶¹ Shahzad, Hassan, and Abbas.

⁶² SBP, "Shariah Governance Framework for Islamic Banking Institutions."

	<p>enforcement of the SB's directives by EM are operative and are effectively discharging their respective functions and responsibilities as defined in the Framework. In order to monitor and ensure compliance of IBI's operations on an ongoing basis with the rules and principles of Sharī'ah, the SCD under the supervision of RSBM shall, on sample basis, conduct an internal Sharī'ah control review of the IBI's business units, branches, and other Head Office departments".</p> <p>"The Sharī'ah compliance review shall be conducted to ensure that the IBI's operations are in conformity with fatawa/guidelines issued by SB of the IBI and directives, regulation, instructions and guidelines issued by SBP in accordance with the rulings of Sharī'ah Advisory Committee of SBP".⁶³</p>
SECP	<p>"Para 26(a)(c)(d) ...the manner in which the compliance function will be undertaken, in respect of Sharī'ah compliance".</p> <p>"the manner in which Sharī'ah supervisory board or the Sharī'ah advisor's opinions and guidelines will be recorded, disseminated and implemented and the internal Sharī'ah review undertaken";</p> <p>"the manner in which disputes between the Sharī'ah supervisory board or the Sharī'ah advisor and the Sharī'ah compliant company or issuer of a Sharī'ah compliant security in respect of Sharī'ah compliance will be addressed";⁶⁴</p>
BNM	<p>"Para 18.1, 18.2 (b)(c) ...Sharī'ah review refers to a function that conducts regular assessment on the compliance of the operations, business, affairs and activities of the IFI with Sharī'ah requirements".</p> <p>"report to the board, Sharī'ah committee and senior management regularly on Sharī'ah non-compliance issues and findings";</p> <p>"inform and provide updates to the board, Sharī'ah committee and senior management on the latest developments in legal and regulatory requirements in Islamic finance, especially in relation to issuance of the SAC rulings"⁶⁵</p>
SAMA	<p>"Para 16 (1) ...The Sharī'ah compliance function refers to the regular assessment of the bank's Islamic activities and operations to ensure that they are Sharī'ah compliant".</p> <p>"Ensuring of the bank's level of compliance with the Sharī'ah principles and rules, the corrective actions to resolve non-compliances, and the control mechanisms to avoid recurrences".⁶⁶</p>
IFSB	<p>"Para 211...An independent compliance function is a key component of the IIFS's second line of defence. This function is responsible for, among other things, ensuring that the IIFS operates with integrity and in compliance with applicable Sharī'ah rules, principles, laws, regulations, and internal policies".⁶⁷</p>
AAOIFI	<p>"Para 3... Sharī'ah review is an examination of the extent of an IFI's compliance, in all its activities, with the Sharī'ah. This examination includes contracts, agreements, policies, products, transactions, memorandum and articles of association, financial statements, reports (especially internal audit and central bank inspection), circulars, etc." ⁶⁸</p>

Table 9: Sharī'ah Review

Table 9 indicates that the *Sharī'ah* review, a continuous process of evaluating real-time operational compliance with *Sharī'ah* principles, is well-articulated in SBP and BNM frameworks. SBP assigns this responsibility to the *Sharī'ah* Compliance Department (SCD), which must update the *Sharī'ah* Board regularly on findings (Para 5(iii)). BNM further

⁶³ SBP.

⁶⁴ SECP, "Shariah Governance Regulations, 2023."

⁶⁵ Bank Negara Malaysia, "Shariah Governance."

⁶⁶ SAMA, "Shariah Governance Framework for Local Banks Operating in Saudi Arabia."

⁶⁷ IFSB, "Revised Guiding Principles On Corporate Governance For Institutions Offering Islamic Financial Services (Banking Segment)."

⁶⁸ AAOIFI, *Accounting, Auditing and Governance Standards*.

integrates review procedures with regulatory updates and board-level engagement, ensuring continuous ethical refinement in alignment with *tazkiyah* (purification). In contrast, SECP provides no clear mandate for an institutionalized review function, treating compliance more as a documentation or advisory process than a live control mechanism. This passive approach diminishes the ability of IFIs to detect non-compliance early and violates the Islamic principle of ongoing self-purification and vigilance.

It is recommended that SECP and other weak jurisdictions establish dedicated, full-time review departments that operate independently of product development and management functions. This would ensure a real-time compliance layer that supports dynamic governance and ethical rectification.

CONCLUSION

This study aimed to examine the *Sharī'ah* audit guidelines within Islamic financial institutions through a comparative and analytical lens. The analysis reveals that while some jurisdictions like SBP and BNM have developed comprehensive and ethically grounded frameworks for *Sharī'ah* governance, others such as SECP and SAMA exhibit notable structural and operational gaps. Robust internal and external *Sharī'ah* audit systems, competent and independent auditors, and active *Sharī'ah* review mechanisms are essential for ensuring genuine compliance with Islamic principles. Moreover, institutions that integrate the ethical mandates of *amānah*, *ihsān*, *shahādah*, and *taqwā* into their operational frameworks demonstrate a higher degree of integrity and resilience. To harmonize global practices and elevate *Sharī'ah* governance standards, jurisdictions with underdeveloped systems must institutionalize specialized audit units, enforce mandatory audits, and ensure auditor qualifications align with both religious and professional standards.

Equally important is the proactive involvement of executive management, Boards of Directors, and *Sharī'ah* Supervisory Boards in the governance ecosystem. Embedding *Sharī'ah* accountability at all levels—from strategic oversight to daily operations ensures that compliance is not treated as a formality but as a core institutional value. The SBP model of appointing Resident *Sharī'ah* Board Members and integrating *Sharī'ah* reviews into real-time decision-making offers a replicable best practice for other regulators. Ultimately, a unified push toward professionalization, structural clarity, and ethical leadership across all jurisdictions will strengthen trust, transparency, and the moral credibility of Islamic financial institutions in an increasingly complex and globalized environment.

Future Recommendations:

- Building on a comparative analysis of key regulatory bodies SBP, SECP, BNM, SAMA, IFSB, and AAOIFI several forward-looking strategies are recommended to strengthen *Sharī'ah* governance in Islamic Financial Institutions. Harmonization of standards is a foundational priority, requiring coordination across jurisdictions to align internal *Sharī'ah* audits and risk-based frameworks. Formalizing external *Sharī'ah* audits with standardized scopes, frequencies, and certifications would further enhance transparency and investor confidence. Ensuring audit independence through global codes and structural safeguards, such as third-party oversight and auditor rotation, would mitigate conflicts of interest.
- To build a resilient talent pool, regulators should establish a global competency and accreditation framework for *Sharī'ah* auditors, emphasizing Fiqh Al-Mu'āmalāt, ethics, and CPD requirements. Meanwhile, Boards of Directors must play a more defined and accountable role in *Sharī'ah* governance, especially in jurisdictions like SAMA, by receiving targeted

training and being evaluated on compliance performance. Executive management, too, should be held accountable for operational implementation of *Shari'ah* principles through resource allocation, reporting structures, and measurable performance outcomes tied to *Shari'ah* compliance.

- Crucially, enhancing the role of Resident *Shari'ah* Board Members can bridge the gap between daily operations and strategic oversight. Establishing clear frameworks for RSBMs' qualifications and responsibilities will ensure their effectiveness without undermining central boards. Technological integration using AI, blockchain, and data analytics should be encouraged to optimize *Shari'ah* review processes.
- Lastly, mandatory public disclosure of *Shari'ah* audit outcomes would foster transparency, stakeholder trust, and industry benchmarking. Together, these measures will position *Shari'ah* governance systems to thrive amid globalization and financial innovation.