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Redefining Internal Shariah Auditors Competency, Independence, and Advisory Roles in Indonesia

Sri Sulistyowati[1], Dalila Daud[2*] and Eley Suzana Kasim[2]

[1]*Faculty of Economics and Business, Universitas Islam Sultan Agung, Semarang, Indonesia*
[2]*Faculty of Accountancy, Universiti Teknologi MARA, Negeri Sembilan, Malaysia, and Accounting Research Institute, Universiti Teknologi MARA, Shah Alam, Malaysia*

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ABSTRACT

This study examined the competency, independence, and advisory roles of internal Shariah auditors (ISAs) in Indonesian Islamic banks. Using a qualitative approach, it analysed 14 semi-structured interviews supported by audit charters and Shariah governance regulations. The findings reveal that ISA competency is constrained by uneven certification and limited Shariah-specific training, while auditor independence is weakened by reporting lines to executive management and limited involvement of Shariah Supervisory Boards (SSBs). The expanding advisory role further risks blurring assurance boundaries without clear governance safeguards. The study proposes an integrated competency framework and an independence architecture to strengthen Shariah certification, enhance SSB oversight, and safeguard auditor independence while supporting value-adding advisory roles.

1. INTRODUCTION

Operational Shariah Audit (OSA) has become increasingly important as Islamic banks move beyond basic compliance toward broader governance of operations, technology, and risk management (Abd Rahman et al., 2025; Febrian, 2019; Rizqiani & Yulianto, 2020; Yaacob & Donglah, 2012; Zainal Abidin et al., 2021). This expanded role has exposed three persistent challenges.

[2*]Corresponding author. *E-mail address*: daliladaud@uitm.edu.my

First, ISA competency remains uneven. Auditors are expected to combine risk-based auditing with fiqh muamalah and Maqasid al-Shariah, yet training, certification, and competency development remain fragmented, particularly in emerging areas such as digital auditing, ESG, and data analytics (Abd Rahman et al., 2025; Algabry et al., 2021; Khalid et al., 2021; Shalhoob, 2025). Second, auditor independence is often weakened by administrative ties to executive management and inconsistent safeguards, reducing independence to a symbolic rather than operational principle (Khalid et al., 2024; Zainal Abidin et al., 2021). Third, the growing advisory role of ISAs creates value but may blur the boundary between assurance and consultancy if not supported by clear governance arrangements (Abd Rahman et al., 2025; Jiang et al., 2020; Selim et al., 2014).

Indonesia provides a timely context for examining these challenges. Although POJK 1/2019 and POJK 2/2024 strengthened Shariah governance, implementation remains uneven and a comprehensive OSA framework is still lacking (Faizi & Shuib, 2024; Megawati & Zulkifli, 2025; Otoritas Jasa Keuangan, 2024a, 2024b). Compared with international standards issued by the IIA, AAOIFI, and Malaysia's Shariah Governance Framework 2019 (BNM, 2019), Indonesia has yet to establish comprehensive competency standards and institutional safeguards for Internal Shariah Auditors.

Accordingly, this study examines three interrelated aspects of Operational Shariah Audit in Indonesian Islamic banks: ISA competency, auditor independence, and advisory roles. It contributes by proposing an integrated competency framework combining internal auditing, Shariah expertise, and digital governance capabilities; an independence architecture with clearer governance safeguards; and empirical evidence showing how these elements can narrow the gap between regulatory expectations and operational practice.

2. LITERATURE REVIEW

This study draws on two complementary theoretical perspectives. Agency theory views auditors as independent monitors who protect principals from managerial opportunism (Meckling & Jensen, 1976). In Islamic banks, these agency relationships extend beyond shareholders and management to include regulators, depositors, and society, reinforcing the need for strong auditor independence (Khalid, 2020; Zainal Abidin et al., 2021).

Maqasid al-Shariah provides the normative foundation for ISA competency. Rooted in the work of al-Shatibi and further developed in Islamic finance scholarship (Auda, 2008; Dusuki & Bouheraoua, 2011), it emphasises that auditors should not only ensure procedural compliance but also uphold the higher objectives of Shariah, including justice, transparency, and the protection of wealth, contracts, and trust. Accordingly, ISA competency should integrate technical auditing skills, *fiqh muamalah*, and ethical reasoning (Abd Rahman et al., 2025; Algabry et al., 2021).

Together, these perspectives position ISAs as both governance monitors and guardians of Shariah integrity, providing the theoretical lens for examining competency, independence, and advisory roles within Operational Shariah Audit (OSA).

2.1 From shariah auditing to OSA

Shariah auditing has traditionally focused on compliance, ensuring that products and transactions conformed to Islamic principles. Over time, however, its scope had expanded toward broader assurance functions that covered financial, operational, and IT processes, reinforcing accountability and stakeholder confidence (Febrian, 2019; Haniffa, 2010; Rizqiani & Yulianto, 2020). Despite this evolution, studies across different jurisdictions continued to report shortfalls in Shariah compliance and uneven audit practices (Abdelhakeem Khalid et al., 2021; Akbar et al., 2015; Alamin et al., 2020; Algabry et al., 2021; As-Salafiyah & Rusydiana, 2020; Bhimani, 2020; Puad et al., 2020; Segarawasesa, 2021). More recent research has highlighted similar challenges, particularly the lack of standardized Shariah audit frameworks and persistent competency gaps in emerging markets (Abd Rahman et al., 2025; Akhmetshina et al., 2025; Kamaruddin et al., 2024; Megawati & Zulkifli, 2025).

Conceptually, the idea of performance auditing—long anchored in the "3Es" of efficiency, effectiveness, and economy—is extended in Islamic banking by adding Ethics, producing the "4Es" (Khan, 1998). This extension highlights that operational assurance in Islamic banks must account not only for performance but also for ethical compliance with Shariah principles. Yet, the application of OSA remains inconsistently defined. Institutions differ in how they scope operational reviews, articulate outputs, and translate ethical benchmarks into measurable audit criteria (Abd Rahman et al., 2025; Puad et al., 2020; Saputra et al., 2024; Sulistyowati et al., 2023).

As a result, OSA sits at the intersection of conventional internal audit practices and Shariah governance expectations. It promises to strengthen both compliance credibility and organizational performance but continues to lack standardized frameworks that clarify boundaries, expected outputs, and evaluation methods.

2.2 Competency of Internal Shariah Auditors (ISA)

Internal Shariah Auditors (ISAs) are expected to possess dual literacy by combining conventional audit competencies with Shariah reasoning. This includes risk-based internal auditing and performance assurance alongside knowledge of fiqh muamalah and Maqasid al-Shariah to assess both financial and ethical compliance, with digital auditing and data analytics becoming increasingly important (Abd Rahman et al., 2025; Algabry et al., 2020; Khalid et al., 2021; Martino et al., 2021; Zainal Abidin et al., 2021).

Despite these expectations, prior studies report fragmented training and certification. Banks largely rely on general audit qualifications such as CIA and QIA, while Shariah-specific certifications and integrated training remain limited, leaving ISAs unevenly prepared for the growing complexity of Operational Shariah Audit (OSA) (Abd Rahman et al., 2025; Algabry et al., 2021; Bhimani, 2020; Khalid et al., 2021; Nafti & Kateb, 2026; Zainal Abidin et al., 2021). Although AAOIFI Governance Standard (GS 11) formally recognises internal Shariah audit, it provides limited guidance on competency development, reinforcing the need for integrated competency frameworks that combine audit, Shariah, and technological expertise.

2.3 Independence and reporting lines

The credibility of Operational Shariah Audit (OSA) depends on the independence of Internal Shariah Auditors (ISAs). Although POJK 1/2019 and POJK 2/2024 affirm auditors' authority and reporting to governance bodies, ISAs are often positioned administratively under the President Director, creating structural dependence on executive management (Khalid, 2020; Zainal Abidin et al., 2021).

The Audit Committee (AC) generally serves as the primary oversight body, while the Shariah Supervisory Board (SSB) plays a more limited, largely advisory role (Abd Rahman et al., 2025; Otoritas Jasa Keuangan, 2024a; Zainal Abidin et al., 2021). This imbalance raises concerns that Shariah oversight remains weaker than conventional governance.

International frameworks provide stronger safeguards. The IIA recommends functional reporting to the board or Audit Committee, AAOIFI requires direct ISA engagement with the SSB, and Malaysia's Shariah Governance Framework 2019 mandates dual reporting to both the AC and SSB, supported by conflict-of-interest rules (BNM, 2019). By comparison, Indonesia's framework provides limited operational safeguards for ISA independence.

These gaps highlight the need for clearer dual reporting lines, stronger SSB involvement, and safeguards such as auditor rotation, conflict-of-interest screening, and separation of advisory and assurance roles.

2.4 Advisory roles and independence risks

Internal Shariah Auditors (ISAs) are increasingly expected to act not only as assurance providers but also as advisors who contribute to operational improvement, risk management, and strategic decision-making. This reflects the broader evolution of internal auditing toward value-adding advisory functions (Al-Tamimi, 2021; Jiang et al., 2020; Selim et al., 2014; Shalhoob, 2025).

For ISAs, however, advisory responsibilities create a governance dilemma. Providing recommendations may blur the boundary between independent assurance and management consulting, potentially compromising objectivity and public confidence in Shariah governance (Abd Rahman et al., 2025; Khalid, 2020; Puad et al., 2020). This challenge is particularly evident in Indonesia, where audit charters and regulatory frameworks provide little guidance on advisory boundaries or safeguards.

Prior studies further suggest that ISA practice remains focused on procedural reviews despite growing expectations for consultative support. Without clear role definitions, documentation standards, or conflict-of-interest safeguards, advisory activities risk undermining auditor independence while exposing governance institutions to credibility concerns

2.5 Research gaps

The review of prior studies identified three gaps addressed by this study. First, ISA competency remains underdeveloped. Although previous studies emphasised integrating auditing and Shariah expertise, they provided limited guidance on competency frameworks, structured training, and certification standards (Algabry et al., 2021; Khalid et al., 2021; Martino et al., 2021; Zainal Abidin et al., 2021). Second, independence mechanisms remain weak. Prior research reported ambiguous reporting lines and limited institutional safeguards, while Indonesian regulations provide only broad guidance compared with international frameworks such as the IIA, AAOIFI, and Malaysia's SGF 2019 (Khalid & Sarea, 2021; Otoritas Jasa Keuangan, 2024a; Zainal Abidin et al., 2021). Third, the advisory role of ISAs remains insufficiently defined. Although auditors are increasingly expected to provide consultative support,

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institutional policies rarely distinguish advisory from assurance functions or establish conflict-of-interest safeguards (Al-Tamimi, 2021; Jiang et al., 2020; Selim et al., 2014; Shalhoob, 2025).

To address these gaps, this study proposes two complementary frameworks: a Competency Matrix integrating audit, Shariah, and digital capabilities, and an Independence Architecture clarifying reporting lines and governance safeguards. Their application is examined through evidence from Indonesian Islamic banks, providing practical insights for regulators and practitioners in emerging Islamic finance contexts.

Figure 1 presents the study's conceptual framework, illustrating how ISA competency, governance support, and independence safeguards jointly strengthen credible Operational Shariah Audit while enabling value-adding advisory roles.

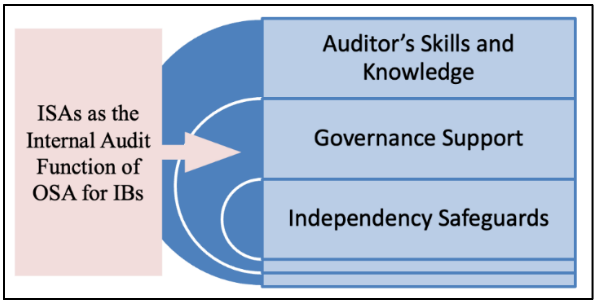

Fig. 1. Internal Shariah Auditors (ISAs) as the internal audit function of Operational Shariah Audit (OSA) for Islamic Banks

Source: Author's elaboration, developed based on literature review

This figure illustrates how Internal Shariah Auditors (ISAs) functioned within the broader framework of Operational Shariah Audit (OSA). Three elements drawn from the literature were central:

(i) Competency – the integration of professional audit skills, Shariah reasoning (fiqh muamalah and Maqasid al-Shariah), and digital capabilities that enabled ISAs to deliver credible assurance.

(ii) Governance support – oversight from the Audit Committee and Shariah Supervisory Board, which provided ISAs with authority, access to information, and institutional backing.

(iii) Independence safeguards – mechanisms such as dual reporting lines, auditor rotation, conflict-of-interest screening, and protocols separating advisory from assurance tasks.

Together, these elements illustrate how ISAs can deliver credible Shariah assurance while balancing advisory responsibilities and independence. Guided by this framework, the study explores how these dimensions are enacted in Indonesian Islamic banks through qualitative evidence from interviews and document analysis. The next section outlines the research methodology.

3. RESEARCH METHODOLOGY

This study employed a qualitative design to investigate the competency and independence of Internal Shariah Auditors (ISAs) in Indonesian Islamic banks. A qualitative approach was suitable because the research aims to capture professional experiences, governance practices, and interpretive meanings that cannot be reduced to numerical measures (Creswell & Poth, 2019). Framed within an interpretivist paradigm, the study adopted hermeneutic phenomenology to understand how auditors and governance actors construct and interpret their roles in practice (Denzin & Lincoln, 2011; Lichtman, 2013).

Data were collected through semi-structured interviews, which balanced thematic consistency with flexibility to probe for deeper insights. This method is well established for generating rich and context-sensitive data (Saunders et al., 2009). An interview guide was designed to cover central issues such as dual competency, certification and training, reporting lines, and mechanisms to preserve independence (Patton, 2014).

Participants were selected using expert purposive sampling, complemented by snowball sampling to expand the pool. This approach ensured inclusion of informants with direct knowledge of ISA practice, including internal auditors, audit committee members, Shariah Supervisory Board (SSB) members, and regulators. Snowballing proved effective given the specialized and relatively small professional community (Miles et al., 2018; Trotter II, 2012). In total, 14 participants contributed: 13 interviews and one written response from the Financial Services Authority (OJK).

Analysis combined hermeneutic interpretation with qualitative content analysis using ATLAS.ti software. Interview transcripts were coded to identify recurring themes and relationships. Following Ricoeur's (1981) hermeneutic cycle, analysis moved iteratively between parts and the whole to uncover both explicit statements and implicit meanings related to ISA competency and independence.

To strengthen validity, the study also reviewed institutional and regulatory documents, including audit charters and updated regulations such as POJK 2/2024 and SEOJK 15/2024. Document analysis provided a complementary perspective, highlighting how formal structures and supervisory expectations shaped ISA roles (Bowen, 2009). Triangulating interview and document evidence enhanced the robustness of findings and aligned with the qualitative aim of capturing complex, context-dependent realities (Patton, 2014).

4. RESULT AND DISCUSSION

4.1 Respondent profile

A total of 14 participants contributed to this study, comprising 13 interviews and one written response from the Financial Services Authority (OJK). As shown in Table 1, ten participants were Internal Auditors (IAs) from four Islamic banks, representing roles from team members to group heads. The remaining participants included an Audit Committee member, a Shariah Supervisory Board (SSB) member, an External Auditor with Shariah audit experience, and a written response from the regulator, providing practitioner, governance, and regulatory perspectives.

The interview data were complemented by institutional documents, including audit charters from Banks A–D, the Audit Committee charter of Bank B, and key regulatory texts (POJK 1/2019; POJK 2/2024; SEOJK 15/2024; BI Regulation 11/33/2009), which were used to triangulate the findings.

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Table 1. Respondent Profile

Institution	Participants	Roles
Full-fledged Islamic banks (Banks A–B)	3	IA Group Head, IA Manager, Internal Auditor
Islamic bank units (Banks C–D)	7	IA Team Heads, Internal Auditors
Governance stakeholders	2	Audit Committee Member, SSB Member
External auditor	1	Shariah Auditor
Regulator (OJK)	1	Regulator (written response)
Total	14	13 interviews + 1 written response

Source: Adapted from qualitative approaches in shariah audit studies (Puad & Shafii, 2019; Nomran et al., 2018; Mishref & Sa'ad, 2024).

To complement the interview data, the study reviewed institutional and regulatory documents. These included the audit charters of Banks A, C, and D, the Audit Committee Charter of Bank B, and four key regulations on ISA competency and independence. The documents analysed are summarised in Table 2.

Table 2. Regulatory Documents Reviewed

No.	Document	Issuing body	Key provisions used in analysis (analytical focus)
1	POJK No. 1/2019	OJK	Internal audit mandate and organisational positioning; minimum governance expectations for internal audit units and reporting arrangements (independence/reporting lines).
2	POJK No. 2/2024	OJK	Shariah governance architecture for BUS/UUS; delineation of Shariah audit responsibilities and DPS (SSB) roles in oversight (SSB involvement/independence safeguards).
3	SEOJK No. 15/SEOJK.03/2024	OJK	Operational guidance for implementing POJK 2/2024, including procedural expectations and supervisory emphasis relevant to Shariah governance implementation (practical compliance/enforcement cues).
4	BI Regulation No. 11/33/PBI/2009	Bank Indonesia	Risk management and governance baseline for Islamic banks; legacy reference informing audit scope and control expectations still cited by some banks (structural governance reference).

Source: Authors' compilation from OJK and Bank Indonesia regulations

4.2 Respondent profile

Interviewees consistently identified professional certification as central to ISA competency and credibility. Several auditors reported that certification was mandatory upon joining the internal audit function — "every person who joins SKAI must immediately take the certification exam" (IA2)—while others described repeated certification cycles to strengthen competence (IA6). However, implementation remained uneven, with budget constraints and management priorities delaying certification in some banks: "we want to pursue certification but management keeps delaying it; we just report it to the Audit Committee" (IA10).

Regulatory expectations reinforced this view. POJK 2/2024 requires executive officers responsible for audit, compliance, and risk management to possess adequate Shariah knowledge (IA3), a position echoed by regulators who argued that "all professions should be certified" (Non-IA2). In practice, however, training remained largely generic, while institutional policies emphasised general certifications (e.g., CIA and QIA) rather than Shariah-specific qualifications such as DSAA. Figure 2 illustrates certification as a regulatory expectation, an institutional practice, and a source of professional credibility, while highlighting the lack of consistent Shariah-specific competency standards.

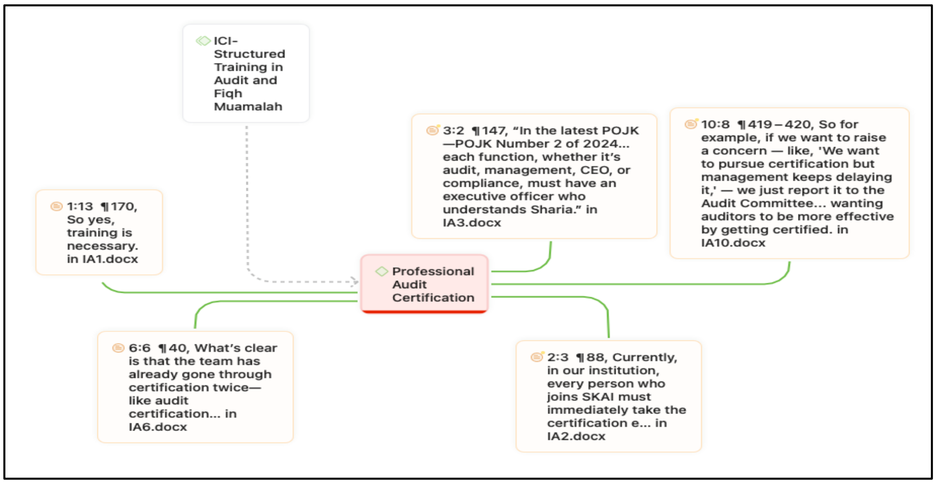

Fig. 2. Visual Network of Professional Audit Certification – IA Perspectives

Source: Authors' Field Data Based on Interview Transcripts – Generated Using ATLAS.Ti

Beyond certification, interviewees emphasised that ISA competence extends beyond a single credential to encompass technical, analytical, communication, and problem-solving skills. As one auditor explained, "Through analysis, we can identify root causes, why something happened, the impact, and potential risks—and give appropriate recommendations" (IA5). Teams often addressed these demands by distributing expertise across operational, financing, and Shariah domains (IA6, IA9). However, regulators and DPS members placed greater emphasis on Shariah interpretation and regulatory literacy (IA7, IA8), revealing a gap between practitioners' reliance on general audit skills and the deeper Shariah competencies expected by governance actors.

Figure 3 illustrates this multidimensional competency framework while also highlighting its weakest dimension: Shariah literacy. Although auditors expressed confidence in their technical and analytical capabilities, many acknowledged limited knowledge of fiqh muamalah and Maqasid al-Shariah. As one participant admitted, "Maqasid Shariah… what is that? No, I haven't heard of it" (IA3). Others noted that staff transferred from conventional divisions required substantial retraining to understand basic Shariah concepts (IA1), while existing expertise remained concentrated among only a few individuals (IA6, IA9).

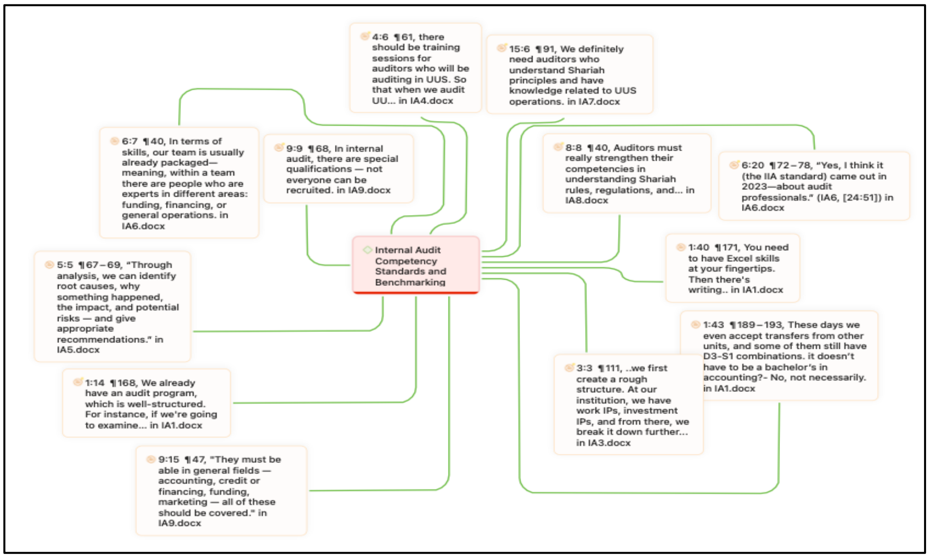

Fig. 3. Visual Network of Internal Audit Competency Standards and Benchmarking – IA Perspectives

Source: Authors' Field Data Based on Interview Transcripts – Generated Using ATLAS.Ti

Viewed through the **Maqasid al-Shariah** lens, these literacy gaps extended beyond technical competence. Without the ability to assess *niyyah* (intention), fairness, and harm–benefit trade-offs, ISAs risked reducing Operational Shariah Audit to procedural compliance rather than advancing the objectives of Shariah. Strengthening competencies in *fiqh muamalah* and Maqasid is therefore essential for credible Shariah assurance, particularly as audits expand into digital and ESG domains where ethical judgement is increasingly important.

This concern was shared by both auditors and oversight actors. As one participant observed, "it's impossible to audit in a Shariah context…. someone unfamiliar with the terminology might be confused" (IA8). Figure 4 illustrates this competency gap, showing that Shariah expertise remained concentrated among a few individuals and relied largely on informal knowledge sharing rather than structured training.

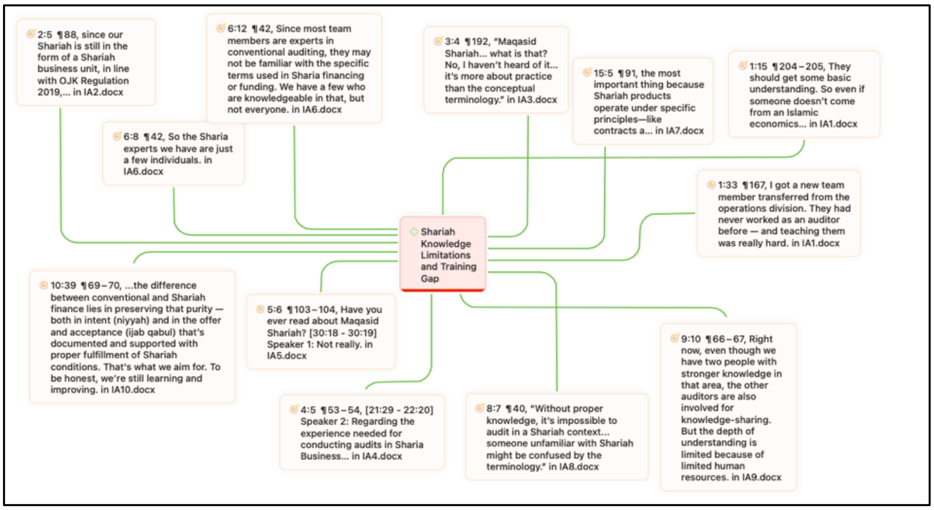

Fig. 3. Visual Network of Shariah Knowledge Limitations and Training Gap – IA Perspectives

Source: Authors' Field Data Based on Interview Transcripts – Generated Using ATLAS.Ti

The absence of structured training and competency benchmarks compounded this problem. Although audit charters referred to professional development, they provided little guidance on Shariah-specific training, leaving auditors responsible for enforcing principles they had not been systematically prepared to interpret. As one participant noted, even fundamental distinctions between conventional and Shariah contracts—such as *niyyah* (intention) and *ijab qabul* (offer and acceptance)—remained part of an ongoing learning process (IA10). These findings reveal a structural contradiction: while Shariah knowledge was universally recognised as essential, it remained insufficiently institutionalised, undermining both the credibility of Operational Shariah Audit and auditors' ability to fulfil their responsibilities effectively.

Beyond strengthening Shariah competency, participants highlighted the need for ISAs to develop capabilities in response to technological and regulatory change. ESG, artificial intelligence (AI), and cybersecurity were consistently identified as emerging competencies for future Shariah auditors. As one participant remarked, "modern auditors need to be skilled in AI and understand ESG… I'd rather hire a cybersecurity expert and teach them audit techniques" (IA10). Another emphasised that Shariah itself must continue evolving alongside digital transformation (IA6). Figure 5 summarises these expectations.

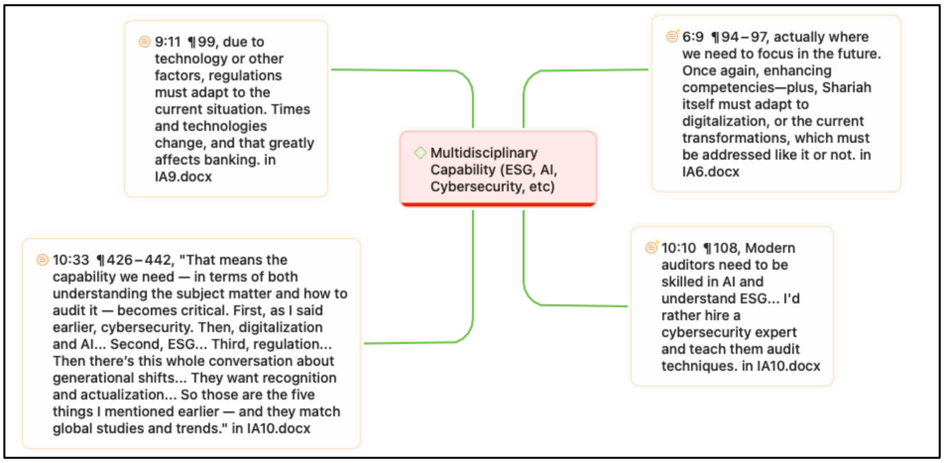

Fig. 4. Visual Network of Multidiscipline Capability (ESG, AI, Cybersecurity, etc) – IA Perspectives

Source: Authors' Field Data based on Interview Transcripts – generated using ATLAS.ti

While Shariah knowledge remained underdeveloped, participants also highlighted the need for new competencies in response to technological and regulatory change. Several auditors stressed that ESG, cybersecurity, and AI were becoming integral to Shariah audit. As one auditor noted, "modern auditors need to be skilled in AI and understand ESG… I'd rather hire a cybersecurity expert and teach them audit techniques" (IA10). Another argued that competency development must address not only digitalization but also how Shariah evolves alongside these transformations (IA6). Figure 5 illustrates these emerging expectations. However, this future-oriented vision contrasted with regulatory and governance perspectives, which continued to emphasize only basic audit and Shariah literacy. The findings therefore suggested a growing expectation gap between practitioners preparing for technology-driven audit environments and institutional frameworks that had yet to adapt.

The risk was twofold. On the one hand, without formal recognition, auditors who pursued these new competencies may find their efforts undervalued, leaving banks unprepared for global compliance and sustainability demands. On the other hand, by ignoring these developments, regulators risk cementing an outdated conception of ISA competence—further widening the regulatory–practice gap already evident in certification and Shariah training.

To consolidate these insights, Table 3 triangulated perspectives from auditors, non-auditors, institutional charters, and regulatory documents. The analysis revealed a fragmented system where certification was valued but inconsistently enforced; Shariah literacy was widely recognized but not systematically developed; and emerging competencies were anticipated by practitioners but absent from formal frameworks.

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Table 3. Triangulation of Competency and Training Dimensions Across Data Sources.

Data Source	Professional Audit Certification	Competency Standards & Benchmarking	Shariah Knowledge Limitations & Training Gap	Multidisciplinary Capability (ESG, AI, etc.)
Internal Auditors (IA)	Certification seen as mandatory in some banks (IA2), though delayed by budget/management in others (IA10). Viewed as both technical and credibility marker.	Emphasized multidimensional skills: technical (Excel), analytical (root cause analysis), and communication (presentations, writing). Team-based distribution of expertise (IA6, IA9).	Admitted lack of fiqh muamalah understanding (IA3), difficulties retraining conventional staff (IA1), and absence of systematic Shariah training.	Called for skills in ESG, AI, cybersecurity; stressed adaptation of Shariah audit to digitalization (IA6, IA10).
Non-Internal Auditors (Non-IA)	Viewed certification as ethical/professional baseline (*"all professions should be certified"* – Non-IA2). Criticized absence of standardized Shariah credentials.	Stressed dual competence (audit + Shariah). Referred to POJK 2/2024 and SEOJK 15/2024 as regulatory anchors (Non-IA3, Non-IA4).	Concern over lack of fiqh competence, even among DPS; noted audits often handled by uncertified generalists (Non-IA1, Non-IA2, Non-IA3).	Not raised. Focus remained on foundational competence and Shariah literacy rather than emerging domains.
Audit Charters (Interviewed Banks)	Certification referenced only generally; no mention of DSAA or Shariah-specific qualifications.	Competency frameworks tied to HR/appraisal; lacked explicit Shariah orientation.	No explicit training in fiqh muamalah; training clauses framed broadly.	Some references to ESG/technology (Bank A, C), but detached from Shariah audit objectives.
Audit Charters (Non-Interviewed Banks)	Similar pattern: conventional certifications (QIA, CIA) mentioned; no Shariah-specific mandates.	Competency standards embedded in group-level policies; no benchmarks for Shariah skills.	No language on Shariah training; reliance on informal or DPS-led knowledge.	One bank referenced ESG/digital audit; others silent. Framed generically, not linked to Shariah oversight.
Regulatory Documents (POJK, SEOJK, BI Reg.)	Competency and professionalism mandated, but no requirement for QIA/CIA/DSAA. Certification left to bank policy.	Encourage alignment with best practices, but no explicit benchmarking requirement for Shariah audit.	Regulations highlight knowledge and governance responsibilities, but no operational enforcement of Shariah training.	General references to adapting to industry developments; no mention of ESG, AI, or interdisciplinary training.

Source**:** Interview data (IA, Non-IA), institutional audit charters, and regulatory documents (POJK 1/2019; POJK 2/2024; SEOJK 15/2024; BI Reg. 11/33/2009).

Triangulation across interviews, audit charters, and regulatory texts revealed a consistent gap between the recognised importance of ISA competency and the institutional arrangements that supported it. Certification was treated as a baseline for professionalism and credibility, yet its enforcement varied across banks and was often contingent on management priorities. Across data sources, Shariah literacy emerged as the most persistent weakness: auditors and oversight actors emphasised the need for fiqh muamalah and Maqasid-oriented understanding, but charters rarely codified Shariah-specific training and instead rely on broad "professional development" clauses. Regulatory documents likewise affirmed competence in principle but provided limited operational guidance on Shariah training, benchmarking, or enforceable certification pathways. Meanwhile, auditors anticipated new demands linked to digitalisation—ESG, AI, and cybersecurity—yet these emerging competencies remained largely absent from formal frameworks. Overall, the evidence pointed to a fragmented competency architecture in which professional capacity was acknowledged rhetorically but not embedded structurally, reinforcing the regulatory–practice gap and leaving ISAs accountable for expanding expectations without consistent institutional support.

4.3 Structural independence and reporting lines

A central concern expressed by internal auditors was how their independence was safeguarded within the organizational hierarchy. Most auditors emphasized that their independence was formally guaranteed by the Internal Audit Charter, which granted authority to examine all units without restriction. In practice, however, this independence was mediated through structural arrangements that place them directly under the President Director. While this positioning provided visibility and access, it also meant that their autonomy was contingent upon management support. Some auditors described this duality—independence was recognized on paper, yet sensitive audits involving senior executives remained difficult to navigate. Figure 6 illustrates the thematic clustering of internal auditors' perspectives on independence safeguards, highlighting their reliance on audit charters and top-level reporting lines.

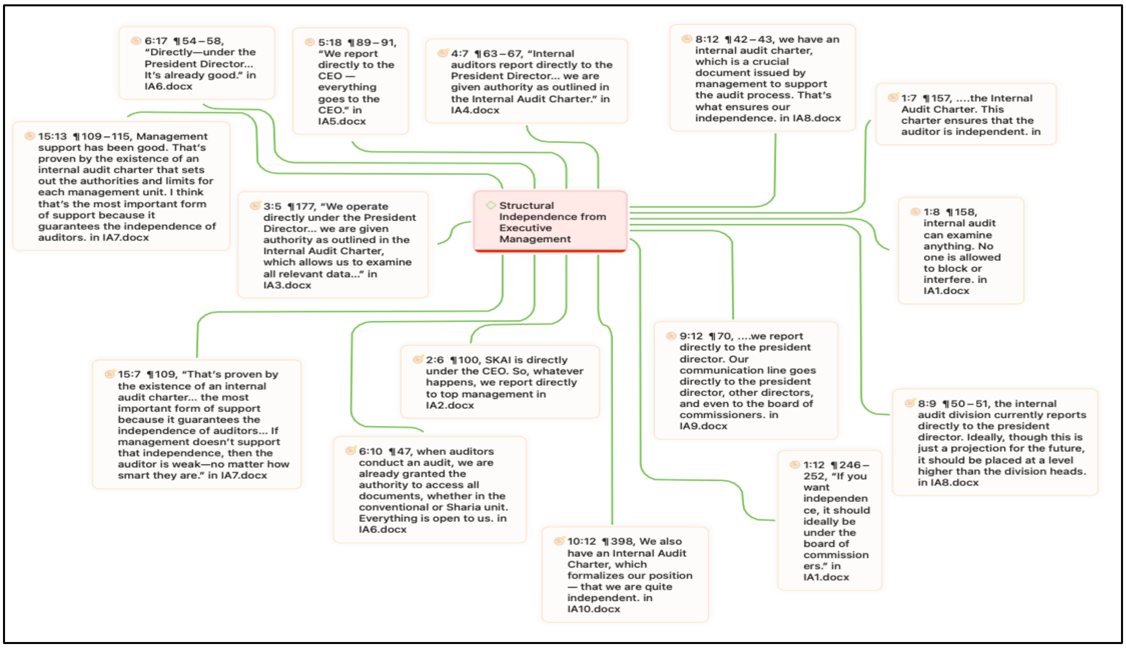

Figure 5 Visual Network of Structural Independence from Executive Management – IA Perspectives

Source: Authors' Field Data based on Interview Transcripts – generated using ATLAS.ti

From outside the internal audit function, concerns were more critical. Non-internal stakeholders argued that as long as internal auditors remain tied to executive management, the principle of independence was compromised. One participant noted, *"It's an issue of independence. There's fear of being dismissed. After* *all, it's management who pays their salary"* (Non-IA2). Another highlighted the structural weakness of relying only on committee oversight, remarking that *"Internal auditors are generally seen as not independent because they report directly to management"* (Non-IA3). These perspectives underscored the persistent gap between regulatory ideals and institutional realities, where independence was often more symbolic than fully safeguarded.

Internal auditors described their reporting practices as broadly aligned with regulatory requirements, with audit results routinely submitted to the Audit Committee and the Board of Commissioners. Several emphasized that these structures provided opportunities for review, feedback, and corrections, particularly in relation to compliance and operational effectiveness. In some cases, reports were also shared with the Shariah Supervisory Board (DPS), though this pathway appeared less consistent and more advisory in nature. Overall, the Audit Committee emerged as the primary touchpoint for governance oversight, while the DPS was rarely positioned as a formal recipient of internal audit outputs. Figure 7 maps these perspectives, showing how internal auditors framed their accountability relationships with oversight bodies.

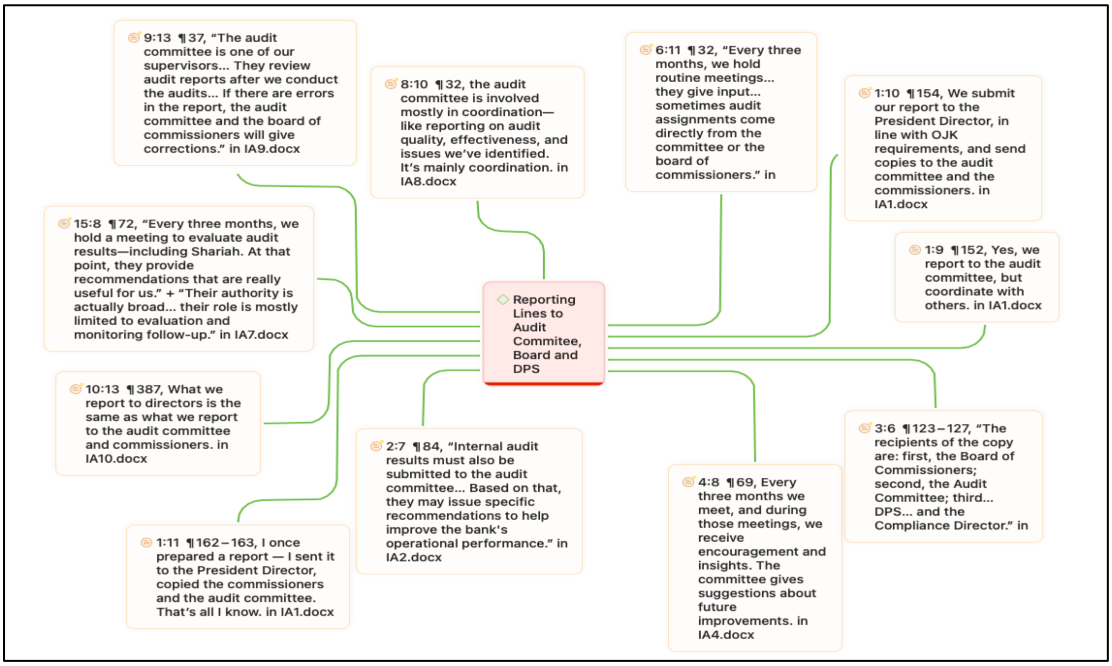

Fig. 6. Visual Network of Reporting Lines to Audit Committee, Board And SSB – IA Perspectives

Source: Authors' Field Data Based on Interview Transcripts – Generated Using ATLAS.Ti

From the perspective of non-internal stakeholders, however, the reporting arrangements revealed structural imbalances. While the Audit Committee was seen as authoritative, the DPS was described as holding only limited power. One participant explained, *"DPS in Indonesia only has the authority to form a Shariah opinion — even though that is preceded by an internal audit. A special audit to assess Shariah compliance... the DPS is usually assisted by internal audit"* (Non-IA2). Another added that *"The audit committee is stronger, while DPS often only receives reports without the ability to enforce them"* (Non-

IA1). These observations suggested that, despite regulatory emphasis on strengthening Shariah governance, institutional practices still marginalized the role of the DPS within audit reporting structures.

The triangulation of interview insights, institutional documents, and regulatory frameworks revealed a consistent pattern: while structural independence and reporting lines were formally acknowledged, they remained constrained in practice. Internal auditors emphasized their reliance on audit charters and direct reporting to the President Director, but non-internal stakeholders questioned whether such arrangements could ever deliver genuine independence. Similarly, while reporting to the Audit Committee was widely institutionalized, the marginalization of the DPS highlighted a regulatory–practice gap, leaving Shariah governance underdeveloped. Table 4 consolidates these insights across data sources.

Table 4. Triangulation Of Structural Independence and Reporting Lines

Data Source	**Structural Independence from Executive Management**	**Reporting Lines to Oversight Bodies**
Internal Auditors (IA)	Independence safeguarded by Internal Audit Charter; direct reporting to President Director ensures access but creates dependence on management support.	Reports routinely submitted to Audit Committee and Board; DPS mentioned inconsistently and often in advisory capacity only.
Non-Internal Auditors (Non-IA)	Independence seen as compromised due to reliance on executive structures and salary dependence; independence on paper but weak in practice.	Audit Committee perceived as stronger oversight body; DPS regarded as symbolic, receiving reports without enforcement power.
Bank Charters (A–D)	Affirm independence but maintain dual reporting to President Director and Audit Committee; no safeguards when auditing senior management.	Audit Committee consistently positioned as primary recipient; no explicit mention of DPS or Shariah-specific reporting.
Regulatory Documents (POJK 1/2019, POJK 2/2024, SEOJK 15/2024, BI 11/33/2009)	Regulations affirm independence and objectivity but stop short of operational safeguards for Shariah auditors; dual reporting lines prescribed without mechanisms to mitigate executive dominance.	DPS acknowledged as recipient of reports (POJK 2/2024; SEOJK 15/2024), but coordination pathways remain vague. Audit Committee retains formal authority, reinforcing conventional governance logic.

Source: Authors' field data (IA and Non-IA interviews), institutional documents (Bank Charters A–D), and regulatory frameworks (POJK 1/2019; POJK 2/2024; SEOJK 15/2024; BI 11/33/2009).

The triangulated findings indicated that in Indonesia, the independence of Internal Shariah Auditors (ISA) was formally acknowledged but substantively fragile. Internal auditors emphasized their reliance on audit charters and direct reporting to the President Director as safeguards, yet this dual placement simultaneously exposes them to management influence. Non-internal stakeholders were more critical, pointing to salary dependence and administrative subordination as evidence that independence is compromised in practice. This reflected a form of "symbolic independence," where institutional documents recognized autonomy but did not protect it in operational reality.

From the Agency-Theory perspective (Meckling & Jensen, 1976), internal audit is a monitoring mechanism intended to reduce information asymmetry and agency costs by enabling principals (boards and oversight committees) to scrutinise managerial actions. The evidence of administrative dependence on executive management suggests that ISAs may face implicit pressure when audits involve senior leaders, weakening their ability to challenge opportunistic behaviour and increasing the risk of "symbolic" rather than substantive independence. In this context, clearer functional reporting and escalation channels, and formalising the DPS/SSB as a co-recipient of ISA reports, would strengthen monitoring effectiveness and enhance the credibility of Shariah governance for wider stakeholders (including depositors and the public).

In Islamic banking, the principal–agent problem extends beyond shareholders to include investment account holders and depositors who rely on credible Shariah assurance. When ISAs remain administratively dependent on executive management, monitoring can be weakened through self-censorship, delayed escalation, or softened findings, thereby increasing agency costs and eroding trust in Shariah governance. Strengthening functional reporting to the Audit Committee and formalising DPS/SSB as a co-recipient with clear escalation rights would reduce information asymmetry and limit managerial opportunism, making ISA monitoring more effective.

Compared with global benchmarks, the gap becomes clearer. The Institute of Internal Auditors (IIA) stipulated in its International Professional Practices Framework (IPPF) that internal audit should report functionally to the board or audit committee, free from managerial interference. Indonesia's dual reporting model (administrative to the President Director, functional to the Audit Committee) falls short of this principle, leaving ISAs vulnerable to executive dominance in day-to-day operations.

Similarly, AAOIFI's Governance Standards emphasize that Shariah audit must retain functional independence and maintain direct engagement with the Shariah Supervisory Board (SSB). Yet in Indonesia, the DPS was rarely positioned as a formal recipient of audit reports, often relegated to a passive advisory role. This marginalization reflected a governance imbalance in which Shariah oversight is structurally subordinated.

Regional comparisons reinforced this point. Malaysia's Shariah Governance Framework (SGF) 2019 explicitly mandated the independence of Shariah auditors by embedding their reporting lines not only to the Audit Committee but also directly to the SSB (Bank Negara Malaysia, 2019). This dual functional reporting enhanced credibility by ensuring that Shariah audit findings were not diluted through conventional oversight pathways. Furthermore, Bank Negara Malaysia required banks to establish clear conflict-of-interest safeguards and competency standards for Shariah auditors — measures not yet institutionalized in Indonesia's regulatory environment.

The analysis of Indonesian bank charters (Banks A–D) mirrors this regulatory–practice gap. While independence was affirmed, none of the charters articulated protections for auditors when audits implicated senior management, nor did they embed DPS into reporting lines. Regulations such as POJK 1/2019 and POJK 2/2024 acknowledged independence and recognized DPS oversight roles, yet stopped short of prescribing how Shariah auditors should be structurally safeguarded.

Taken together, these findings suggested that Indonesia's framework lags behind both global benchmarks (IIA, AAOIFI) and regional comparators (Malaysia SGF 2019; Bank Negara Malaysia, 2019). The Audit Committee continued to dominate oversight, while the DPS remained sidelined. Unless institutional reforms embedded DPS more firmly in reporting lines, reduce ISA dependence on executive management, and adopt safeguards such as rotation and conflict-of-interest rules, independence will remain symbolic rather than substantive. This limited not only the credibility of Shariah audit but also its capacity to contribute meaningfully to Shariah governance in Indonesia's Islamic banking sector.

4.4 Agile role evolution of ISA

An additional finding that emerged from the interviews was the evolving perception of internal Shariah auditors (ISA) as not only compliance checkers but also as strategic partners and advisors within the organization. Some auditors described a shift in their role toward providing insights that supported operational improvement, risk foresight, and business growth. For instance, one participant explained that *"nowadays we position ourselves more as consultants… the expectation is that we can offer improvement—really, we are meant to give value to the company"* (IA6). Others highlighted the importance of flexibility, foresight, and communication, noting that auditors are increasingly expected to function as partners to management rather than as purely independent monitors.

Non-internal stakeholders, however, did not explicitly emphasize this agile transformation. Their focus remained largely on ensuring independence, certification, and structural safeguards. This suggested a gap in expectations: while ISAs themselves were beginning to reimagine their function in a more adaptive and value-adding role, external stakeholders continued to view their credibility primarily through the lens of technical competence and institutional independence.

Document and regulatory analysis reinforced this discrepancy. Neither the audit charters of Banks A–D nor the key regulatory documents (POJK 1/2019; POJK 2/2024; SEOJK 15/2024) made reference to an advisory or consultative role for Shariah auditors. These frameworks remained rooted in traditional assurance and compliance functions, without recognizing the broader advisory contributions that are beginning to emerge in practice.

Taken together, this triangulation highlighted both opportunities and risks. The adaptive, consultative orientation described by internal auditors may enhance the relevance of ISA in an increasingly complex banking environment. However, without safeguards, the blurring of advisory and oversight roles could compromise independence — a concern already voiced by non-internal stakeholders. Thus, while agile role evolution represented a forward-looking shift in ISA practice, it required careful balancing to ensure that the value-adding dimension did not erode the core mandate of independent assurance.

Table 5. Triangulation of Agile Role Evolution of ISA.

Data Source	**Evidence on Agile/Advisory Role**
Internal Auditors (IA)	Some auditors (e.g., IA6, IA8, IA10) described a shift toward consultative and value-adding roles, acting as partners to management and supporting operational improvement.
Non-Internal Auditors (Non-IA)	Did not emphasize agile/advisory functions; focus remained on independence, certification, and safeguards.
Bank Charters (A–D)	No references to advisory or consultative roles; charters define ISA mainly as assurance and compliance functions.

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Data Source	Evidence on Agile/Advisory Role
Regulatory Documents (POJK 1/2019; POJK 2/2024; SEOJK 15/2024)	Silent on ISA’s advisory role; emphasize assurance, independence, and Shariah compliance.

Source: Authors’ field data (IA and Non-IA interviews), institutional documents (Bank Charters A–D), and regulatory frameworks (POJK 1/2019; POJK 2/2024; SEOJK 15/2024).

5. CONCLUSION

This study set out to examine the competency and independence of Internal Shariah Auditors (ISA) in Indonesian Islamic banks, drawing on interviews with key stakeholders, institutional charters, and regulatory documents. Using a qualitative design and triangulation approach, the analysis provided an in-depth view of both the formal frameworks and the lived realities shaping Shariah audit practices.

The findings pointed to three main conclusions. First, while professional certification such as QIA, CIA, or DSAA was widely acknowledged as critical for ISA competence, its enforcement was inconsistent across banks. Structured training in fiqh muamalah remained underdeveloped, leaving auditors reliant on conventional audit expertise rather than Shariah-specific knowledge. At the same time, auditors themselves increasingly recognized the need for multidisciplinary skills in areas such as ESG, cybersecurity, and AI—reflecting an awareness of emerging risks that remains absent in institutional documents and regulatory frameworks.

Second, the independence of ISAs was formally recognized but substantively constrained. Audit charters and regulations emphasized autonomy, yet in practice auditors remained administratively tied to the President Director and functionally to the Audit Committee. While this dual reporting line aligned with regulatory prescriptions, it exposed auditors to managerial influence, particularly when audits involve senior executives. The DPS, though mandated by regulation to oversee Shariah compliance, was largely marginalized in reporting structures, limiting its role to a passive recipient of reports. This reflected a governance imbalance where conventional oversight bodies dominate, while Shariah oversight remains peripheral.

Third, an additional finding revealed that ISAs were beginning to reimagine their roles as consultants and strategic partners to management. By framing their work as value-adding, auditors sought to enhance their relevance within dynamic banking contexts. Yet this agile role evolution was not formally recognized in bank charters or regulations, and it risks blurring the boundary between assurance and advisory functions if not accompanied by stronger safeguards for independence.

Taken together, these findings highlight a persistent regulatory–practice gap. Compared with global benchmarks such as the IIA IPPF and AAOIFI Governance Standards, as well as regional comparators like Malaysia’s Shariah Governance Framework 2019, Indonesia’s arrangements for ISA independence and competency remained underdeveloped. Independence was often symbolic rather than substantive, and Shariah audit competencies were not systematically codified.

This study contributes to the literature by unpacking how competency, independence, and role evolution interact within Shariah audit practice. It underscored the need for reforms that embed Shariah audit certification, strengthen structured training in fiqh muamalah, clarify DPS reporting lines, and codify safeguards against management influence. Future research could expand this agenda by conducting comparative studies with Malaysia or GCC countries, or by quantitatively assessing the effectiveness of ISAs in promoting Shariah governance.

For regulators such as OJK, the findings underlined the urgency of moving beyond principle-based guidelines toward operational safeguards that explicitly protect the independence of Internal Shariah Auditors (ISA). This included clarifying reporting lines to the DPS, mandating Shariah-specific certifications, and instituting safeguards such as conflict-of-interest rules and auditor rotation. For Islamic banks, the study highlighted the importance of institutionalizing structured training in fiqh muamalah alongside conventional audit techniques, and of recognizing the advisory potential of ISAs while carefully preserving their independence. Strengthening these mechanisms will not only enhance the credibility of Shariah governance but also position Indonesian Islamic banks to align more closely with international standards and regional best practices.

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7. CONFLICT OF INTEREST STATEMENT

The authors declare that this research was conducted in the absence of any self-benefits, commercial or financial conflicts, and declare the absence of conflicting interests with any funders.

8. AUTHORS' CONTRIBUTIONS

Sri Sulistyowati: Conceptualisation, methodology, formal analysis, investigation, data curation, and writing original draft. **Dalila Daud**: Supervision, review, writing suggestions and validation. **Eley Suzana Kasim**: review and validation.

9. DECLARATION OF GENERATIVE AI IN THE WRITING PROCESS

During the preparation of this work, the authors used AI language assistance tools in order to improve the readability and language quality of selected sections. After using this tool, the authors reviewed and edited the content as needed and take full responsibility for the content of the publication.

10. DATA AVAILABILITY

The datasets used and/or analysed during the current study are available from the corresponding author on reasonable request.

11. ETHICS STATEMENT

All procedures involving human participants complied with the ethical standards of the 1964 Helsinki Declaration. This study was reviewed and approved by the UiTM Research Ethics Committee (Approval No. REC/11/2023 (PG/MR/461), 5 December 2023). Informed consent was obtained from all participants prior to interview, and data anonymity was strictly maintained throughout the study. Participant identities were anonymised and institutions were coded (Bank A–D) to protect confidentiality.

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