UNIVERSITI TEKNOLOGI MARA

DEVELOPING A CONCEPTUAL FRAMEWORK FOR OPERATIONAL SHARI'AH AUDIT IN INDONESIAN ISLAMIC BANKS: A QUALITATIVE STUDY

SRI SULISTYOWATI

PhD

August 2026

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SRI SULISTYOWATI

Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Philosophy
(Financial Criminology)

Accounting Research Institute

August 2026

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ABSTRACT

Despite growing recognition of Operational Shari'ah Audit (OSA) as a critical pillar of Shari'ah governance in Islamic banking, its practice in Indonesia remains fragmented, inconsistently defined, and largely modelled on conventional internal audit frameworks that prioritise compliance over value-based governance. OJK regulations provide broad structural arrangements but limited operational clarity, while institutional practices often lack integration of Maqasid al-Shari'ah and Islamic ethical principles. Addressing this gap, this study develops and refines a conceptual framework for effective OSA practice in Indonesian Islamic banks by integrating the 4Es—Economy, Efficiency, Effectiveness, and Ethics—with Maqasid al-Shari'ah and Islamic Agency Theory. A qualitative interpretivist approach informed by hermeneutic phenomenology was adopted, drawing on 14 semi-structured interviews with internal Shari'ah auditors and governance stakeholders, complemented by eight audit charters and five regulatory documents. Data were analysed thematically using ATLAS.ti and triangulated across interview, institutional, and regulatory sources. Four thematic pillars emerged: conceptual clarity, auditor competency and independence, organisational commitment, and regulatory and technological integration. Findings reveal tension between practice-oriented adaptability and oversight-driven standardisation: auditors emphasise corrective outcomes, while regulators stress certification, independence, and safeguards. Audit charters confirm institutional support but remain insufficient in prescribing Shari'ah-specific operational methodologies. Theoretically, this study extends Islamic Agency Theory and Maqasid-based governance by applying spiritual accountability and Shari'ah ethical objectives to audit practice. Practically, the refined framework offers Islamic banks, auditors, SSBs, and regulators a diagnostic tool for strengthening audit scope, methodology, competency, coordination, and digital readiness. Its novelty lies in conceptualising OSA as a distinct, context-sensitive, 4Es-based audit approach grounded in Indonesian Islamic banking evidence.

ACKNOWLEDGEMENT

Firstly, I wish to thank Allah SWT for granting me the strength, patience, and guidance throughout this PhD journey. Without His blessings, I would not have been able to complete this long and challenging task.

My deepest gratitude goes to my supervisors, **Dr. Dalila Daud** and **Associate Professor Dr. Eley Suzana Kasim**, for their invaluable guidance, constructive feedback, and continuous encouragement. Their wisdom, patience, and support have shaped this work and my academic growth.

I would also like to express my sincere appreciation to all the internal auditors, Shari'ah Supervisory Board member, regulators, and other participants who generously shared their time and insights for this study. My thanks also go to the institutions and banks that allowed access to documents and resources essential for my research.

Special thanks are extended to my colleagues and friends at the Accounting Research Institute (ARI), UiTM, especially my GOT 5 family — **Devi Permatasari, Khoirul Fuad, Satria Tri Nanda, Hendri Setiawan,** and **Ahmad Rudi Yulianto** — for the encouragement, laughter, and solidarity we shared throughout this journey.

I am also deeply grateful to my beloved husband, **Trias Usadana**, whose unwavering love, patience, and constant encouragement have been my anchor throughout this journey. To my precious son, **Albirru Ziandru Sadhana**, your smiles, laughter, and simple joys gave me the courage to keep moving forward even in the most difficult times.

Finally, this thesis is dedicated to the loving memory of my late mother, whose vision, prayers, and determination to educate me have been the foundation of this achievement, and to my dear father for his unwavering support and prayers. This piece of victory belongs to both of you. Alhamdulillah.

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LIST OF ABBREVIATIONS

Abbreviations	
3Es	Economy, Efficiency, Effectiveness
4Es	Economy, Efficiency, Effectiveness, Ethics
AAOIFI	Accounting And Auditing Organization For Islamic Financial Institutions
AC	Audit Committee
AI	Artificial Intelligence
ANAO	Australian National Audit Office
ASAE	Australian Standard On Assurance Engagements (E.G., ASAE 3500)
ATLAS.ti	Qualitative Data Analysis Software
AUASB	Auditing And Assurance Standards Board (Australia)
BI	Bank Indonesia
BNM	Bank Negara Malaysia
BSI	Bank Syariah Indonesia
BUS	Bank Umum Syariah
CEO	Chief Executive Officer
CIA	Certified Internal Auditor
DSAA	Shari'ah Audit Certification By DSN–MUI
DSN–MUI	Dewan Syariah Nasional – Majelis Ulama Indonesia
ESG	Environmental, Social, And Governance

FFIB	Full-Fledged Islamic Bank
GAO	Government Accountability Office
GS	Governance Standard (AAOIFI)
GSIFI	Governance Standard For Islamic Financial Institutions (AAOIFI)
HR	Human Resources
IA	Internal Auditor (participant code in interviews)
IAF	Internal Audit Function
IAI	Ikatan Akuntan Indonesia (Indonesian Institute of Accountants)
IAT	Islamic Agency Theory
IB	Islamic Bank(s)
IDI	INTOSAI Development Initiative
IFI	Islamic Financial Institution(s)
IFSA	Islamic Financial Services Act 2013 (Malaysia)
IFSB	Islamic Financial Services Board
IIA	Institute Of Internal Auditors
INTOSAI	International Organization Of Supreme Audit Institutions
IPPF	International Professional Practices Framework
ISSAI	International Standards of Supreme Audit Institutions
ISA	Internal Shari'ah Auditor(s)
IT	Information Technology
KNEKS	Komite Nasional Ekonomi Dan Keuangan Syariah

KNKS	Komite Nasional Keuangan Syariah (former name of KNEKS)
NLP	Natural Language Processing
NPF	Non-Performing Financing
Non-IA	Non-Internal Auditor / Non-Internal Stakeholder (Participant Code In Interviews)
NPM	New Public Management
OA	Operational Auditing
OJK	Otoritas Jasa Keuangan
OSA	Operational Shari'ah Audit
PA	Performance Audit(ing)
PBI	Peraturan Bank Indonesia
POJK	Peraturan Otoritas Jasa Keuangan
PRINSIP	Professionalism, Integrity, Innovation, Leadership (Organisational Values Acronym)
PSAK	Pernyataan Standar Akuntansi Keuangan (Shari'ah Accounting Standards)
QIA	Qualified Internal Auditor
RBA	Risk-Based Auditing / Risk-Based Approach
REC	Research Ethics Committee
SAI	Supreme Audit Institution(s)
SBU	Shari'ah Business Unit
SCG	Shari'ah Corporate Governance
SCI	Shari'ah Compliance Index

SEOJK	Surat Edaran Otoritas Jasa Keuangan
SKAI	Satuan Kerja Audit Intern
SNC	Shari'ah Non-Compliance
SOP	Standard Operating Procedure(s)
SSB	Shari'ah Supervisory Board
UNDP	United Nations Development Programme

CHAPTER 1
INTRODUCTION

1.1 Background of The Study

The growing demand for assurance in Shariʿah compliance—including operational aspects—has led to the emergence of a dedicated audit function known as Shari'ah auditing. Its scope covers financial, operational, and information technology audits (Febrian, 2019). Shari'ah auditors, both external and internal, ensure adherence to Shari'ah standards and regulations (Haniffa, 2010), supporting accountability in financial reporting and operations (Rizqiani & Yulianto, 2020; Yaacob & Donglah, 2012). However, compliance accountability remains a major challenge (Hanif, 2018), with evidence showing that Shari'ah compliance levels in Islamic banks require significant improvement across jurisdictions (Akbar et al., 2015; Alamin et al., 2020; Algabry et al., 2021; As-Salafiyah & Rusydiana, 2020; Khalid et al., 2021; Puad et al., 2020; Segarawasesa, 2021). Governance discussions further suggest that Shari'ah assurance is increasingly expected to move beyond procedural conformity toward value-based accountability and institutional integrity, reflecting broader ethical expectations placed on Islamic financial institutions (Badwan, 2024; Ginena & Hamid, 2015).

To distinguish this approach from conventional operational auditing, this study introduces the term Operational Shari'ah Audit (OSA). While conventional operational audits focus primarily on efficiency, effectiveness, and economy, OSA is proposed to capture an operational auditing approach that is explicitly grounded in Shari'ah governance and ethical accountability. The term is used throughout this dissertation to denote a distinct conceptualisation of operational auditing within Islamic banking, rather than a direct extension of conventional practice.

The Internal Audit Function (IAF) is a core corporate-governance mechanism that enhances organizational efficiency, effectiveness, and economy (3Es) (Martino et al., 2021). In Shari'ah Corporate Governance (SCG), this concept extends to include Islamic ethical norms, forming the "4Es" (Efficiency, Effectiveness, Economy, and Ethics) (Khan, 1998). Within Islamic banks, the Internal Shari'ah Audit (ISA) supports the board and management in maintaining governance controls to achieve these 4Es,

integrating Shari'ah principles into performance audits. In this sense, ethics is not merely an additional criterion but a defining feature that distinguishes Shari'ah-based governance from conventional corporate oversight. Recent literature grounded in Maqasid al-Shari'ah and Islamic ethical perspectives reinforces the view that audit effectiveness in Islamic institutions should be evaluated not only by operational outcomes but also by their contribution to justice, integrity, and public welfare (Ab Ghani & Abdul Rahman, 2015; Mergaliyev et al., 2021; Rafie, 2023). The concept of Operational Shari'ah Audit (OSA) emerges from the adaptation of conventional operational-auditing principles to Shari'ah governance systems, integrating performance evaluation with ethical accountability within Islamic banks.

Despite the growing emphasis on Shari'ah auditing, the operational dimension remains conceptually underdeveloped. Most scholarly discussions treat Shari'ah audit as compliance-oriented, focusing on conformity with fatwas and legal rulings rather than on operational performance (Ab Ghani & Saffa'Shaharuddin, 2023; Al Rieza & Taqiyya, 2023; Alam et al., 2023; Badwan, 2024; Khalid, 2020; Khalid & Sarea, 2021; Puad et al., 2020; Rafie, 2023). This narrow focus has limited the development of a comprehensive understanding of Shari'ah audit practice. In contrast, the operational audit dimension is essential because it assesses how organizational processes and resources are utilized in accordance with Shari'ah principles, including their ethical intent. Therefore, this study argues that Operational Shari'ah Audit (OSA) deserves greater academic and regulatory attention as a complement to compliance auditing, bridging ethical assurance and operational performance evaluation.

Within this context, this study conceptualises Operational Shari'ah Audit (OSA) as the systematic evaluation of operational processes in Islamic banks to ensure alignment with Shari'ah principles while achieving the 4Es. Unlike conventional operational audits, which focus primarily on performance and resource utilisation, or compliance-focused Shari'ah audits, which emphasise adherence to Shari'ah rulings, OSA integrates both dimensions. It is designed to address operational effectiveness and governance quality while embedding Islamic ethical values as core audit criteria. Moreover, OSA reflects the value-added orientation of internal auditing, as it contributes recommendations for improving efficiency, governance, and strategic alignment (Al-Tamimi, 2021; Algabry et al., 2020; IIA, 2017b; Khalid, Haron, & Masron, 2018). By embedding ethical accountability within Shari'ah governance, OSA

provides value not only through assurance but also through organizational improvement and ethical performance enhancement.

The effectiveness of Shari'ah audit in Islamic banks is influenced by a combination of internal and external factors. Internal factors include the competency and independence of internal Shari'ah auditors, organizational commitment to governance, and the clarity of audit concepts and methodologies (Algabry et al., 2021; Khalid et al., 2021). External factors include the regulatory environment, technological infrastructure, and industry standards that guide Shari'ah audit practice (AAOIFI, 2020; Khalid et al., 2017; Vafaei, 2016). Recent evidence also highlights that weaknesses in audit technology integration and digital assurance systems may constrain the effectiveness of operational Shari'ah audits, particularly as banking operations become more complex and data-driven (Ayu et al., 2024). A balanced interaction between these factors is essential to ensure that OSA not only achieves compliance but also delivers value in terms of efficiency, effectiveness, economy, and ethics.

Evidence from various countries shows that many Islamic banks continue to face gaps in achieving full Shari'ah compliance. In Bangladesh, for example, Islamic banks aim to provide Shari'ah-based services, yet full compliance is widely viewed as difficult within interest-based financial systems, with some institutions offering fixed returns under the label of "profit" (Alam et al., 2019). Similar concerns are reported in the Gulf, Malaysia, Pakistan, Sudan, and Indonesia, where Shari'ah Supervisory Board (SSB) reporting and governance practices often fall short of international expectations (Ahmad et al., 2023; Aribi et al., 2019; Jusri & Maulidha, 2020; Mansour, 2019; Muchlis, 2021; Puad et al., 2020; Saqib et al., 2016). These findings highlight the need for stronger Shari'ah governance to ensure that operational practices genuinely reflect Islamic principles and differentiate Islamic from conventional banking. In the Indonesian context, recent regulatory reforms—particularly POJK No. 2/POJK.03/2024 and SEOJK No. 15/SEOJK.03/2024—seek to strengthen Shari'ah governance structures and clarify accountability for Shari'ah compliance assurance (Otoritas Jasa Keuangan, 2024a, 2024b). Nevertheless, regulatory strengthening alone does not automatically resolve operational and ethical challenges, reinforcing the need for effective internal audit mechanisms supported by appropriate Shari'ah expertise.

As part of Shari'ah governance, the ISA—working with the SSB, management, and external auditors—plays a critical role in strengthening oversight (Sulub et al., 2020). Defined by AAOIFI as an independent function providing assurance on

adherence to Shari'ah principles (AAOIFI – GS 11), ISA also contributes value-added services by addressing operational and business risks (Al-Tamimi, 2021). This broader role aligns ISA with the objectives of operational auditing, which evaluates performance and governance quality to enhance the 4Es of Islamic banking operations.

Despite this potential, existing studies indicate that ISA practice often remains focused on compliance checks and procedural reviews (Khalid, 2020; Khalid et al., 2021). Many auditors continue to face difficulties in defining audit scope and outputs in concrete operational terms, particularly when Islamic ethics are expected to be incorporated into performance assessments. Scholars argue that without clear guidance and a structured framework, Shari'ah audit practices—including operational audits—lack consistency and efficiency (Khalid et al., 2021; Puad et al., 2020). Establishing such a framework is therefore critical for clarifying responsibilities, authority, and reporting lines, and for ensuring that Shari'ah principles are effectively operationalised in practice rather than remaining at a symbolic or procedural level (Sani & Abubakar, 2021).

1.2 Motivation for This Work

The motivation for this study arises from the growing regulatory attention to Shari'ah governance in Islamic banking and the continuing challenges in developing consistent and effective Shari'ah audit practices, particularly in Indonesia. Although regulatory frameworks such as POJK No. 1/2019 and POJK No. 2/2024 provide structural guidance for governance and compliance, they have not yet established a unified and operationally coherent framework for Operational Shari'ah Audit (OSA). This regulatory gap, combined with variations in institutional practice, restricts internal Shari'ah auditors from fully integrating the ethical dimensions of the "four Es"—efficiency, effectiveness, economy, and ethics—into operational auditing in a systematic and consistent manner.

While existing literature recognises the vital role of internal Shari'ah audit (ISA) in ensuring compliance, most studies remain largely compliance-oriented, focusing on procedural adherence rather than on the broader potential of ISA to support operational improvement and ethical value creation (Algabry et al., 2020; IIA, 2017b; Khalid, Haron, Sarea, et al., 2018). In practice, operational auditing within Islamic banks can provide value-added assurance by identifying inefficiencies, strengthening ethical

judgement, and enhancing performance across organisational functions (Al-Tamimi, 2021). This perspective aligns with the broader conception of internal auditing as a governance mechanism that contributes not only to regulatory compliance but also to strategic effectiveness and ethical accountability (IIA, 2017b).

In the Indonesian context, however, Shari'ah auditing practice remains fragmented. The absence of specific operational-audit guidelines within Shari'ah governance frameworks has resulted in many Islamic banks relying primarily on financial and compliance audits as proxies for performance evaluation. As noted by (Khalid et al., 2021; Puad et al., 2020), this narrow interpretation constrains auditors' capacity to address broader organisational risks, governance weaknesses, and ethical performance indicators. Moreover, the limited conceptual clarity surrounding OSA—both in academic discourse and professional practice—creates inconsistencies in how internal auditors interpret and operationalise Shari'ah governance expectations (Algabry et al., 2021; Hanif, 2018). These conditions suggest that regulatory compliance alone is insufficient to ensure that Shari'ah principles are meaningfully embedded within day-to-day banking operations.

The regulatory push for stronger Shari'ah governance, together with the increasing complexity of Islamic banking operations, therefore presents both urgency and opportunity for reform. OSA offers a mechanism to operationalise Shari'ah principles more holistically—beyond product-level compliance—by embedding performance evaluation, efficiency considerations, and ethical responsibility into routine organisational processes. However, realising this potential requires bridging conceptual foundations, regulatory expectations, and actual institutional practices, rather than treating operational auditing as a purely technical or procedural exercise.

Accordingly, this research is motivated by the need to conceptualise and institutionalise OSA as an integral component of internal Shari'ah audit practice. It seeks to clarify how operational audits within Islamic banks can be designed to generate value-added and ethically grounded insights while maintaining adherence to Shari'ah principles. By doing so, the study aims to contribute to the development of a more coherent, performance-oriented, and ethically embedded model of Shari'ah audit practice that is responsive to Indonesia's evolving Islamic-finance landscape.

1.3 Problem Statement

In an increasingly competitive banking landscape, Islamic banks (IBs) are expected to transcend product-level Shari'ah compliance and demonstrate holistic excellence through the "4Es": efficiency, effectiveness, economy, and ethics (Khan, 1998). Achieving these goals requires the mobilisation of both intellectual and ethical resources within governance and daily operations (Aslam & Haron, 2021). Ideally, the Internal Shari'ah Audit (ISA) should serve as a core governance mechanism that strengthens accountability while also driving value-added operational performance. However, a persistent gap remains between this governance ideal and prevailing institutional practice.

Despite the growing recognition of Shari'ah audit as integral to governance, current practice remains largely circumscribed by a narrow, compliance-oriented focus. Scholarly discourse and professional standards predominantly emphasise conformity with fatwas and formal legal requirements, offering limited guidance on how Shari'ah governance can be operationalised to evaluate and improve organisational processes and resource utilisation (Khalid et al., 2021; Puad et al., 2020; AAOIFI, 2020). Consequently, Shari'ah auditing in many IBs risks becoming a "check-box" exercise rather than a strategic mechanism for operational improvement and ethical value creation.

This limitation is especially evident in the operational dimension, referred to in this study as Operational Shari'ah Audit (OSA). While the audit effectiveness literature highlights enabling factors such as auditor competence, independence, and organisational support, these determinants have rarely been synthesised into a coherent OSA design within Shari'ah governance (Vafaei, 2016; Alqudah et al., 2023). Specifically, Shari'ah audit literature remains conceptually underdeveloped regarding: (i) how Shari'ah's ethical objectives can be translated into concrete operational audit scope and criteria; and (ii) how performance assessment can be integrated with Shari'ah accountability beyond procedural compliance (Haniffa, 2010; Khalid et al., 2021). Without a dedicated OSA framework, auditors lack a consistent methodology to assess whether operations align simultaneously with Shari'ah ethics and the performance logic embedded in the 4Es.

This deficiency is especially salient in the Indonesian context. Although recent regulatory reforms have strengthened Shari'ah governance structures, guidance for

operational performance assessment within ISA remains scarce. Empirical evidence indicates that public confidence in Indonesian Islamic banking is uneven, and the average Shari'ah Compliance Index (SCI) remains below optimal levels (Muchlis, 2021; Rakhmadi et al., 2022). In practice, Islamic banks rely primarily on Shari'ah accounting standards (PSAK Syariah) and Shari'ah review standards that prioritise compliance verification over systematic performance evaluation. Moreover, existing Shari'ah guidelines are often sector-specific (e.g., for zakat institutions) and are not directly transferable to the operational realities of banking (As-Salafiyah & Rusydiana, 2020). As a result, an integrated, context-sensitive framework that bridges operational auditing with Shari'ah governance is currently missing.

Beyond the regulatory and methodological gaps outlined above, OSA limitations in Indonesia are further compounded by internal institutional challenges that remain insufficiently addressed in existing scholarship. A critical structural imbalance exists within Indonesian Islamic banks, whereby internal audit functions frequently exercise greater operational influence than Shari'ah Supervisory Boards (SSBs), whose authority is constrained by organisational placement, role overlap, and financial dependence on management (Abdelhakeem Khalid et al., 2021; Yaacob & Donglah, 2012). Compounding this, weak coordination among the Audit Committee, SSBs, and internal audit units reduces the enforcement capacity of audit findings and disrupts the accountability chain that effective OSA requires (Hasan, 2021; Tumwebaze et al., 2022).

At the organisational level, the continued embedding of ISA functions within conventional internal audit departments limits Shari'ah-specific specialisation and reinforces a compliance-driven rather than value-driven audit orientation (Khalid & Sarea, 2021; Yaacob & Donglah, 2012). These structural weaknesses are further aggravated by persistent human capital constraints — including insufficient training, limited professional development, and weak institutional recognition of the ISA function — that collectively restrict auditors' capacity to operationalise Shari'ah ethical objectives within routine audit practice (Islam & Bhuiyan, 2021; Kasim et al., 2009). Taken together, these challenges reveal that the OSA gap in Indonesia is not merely a regulatory or conceptual problem, but a deeply institutional one — and it is precisely this dimension that existing frameworks have yet to adequately address.

If this gap remains unaddressed, OSA is likely to remain fragmented and underutilised, limiting the capacity of ISA to support institutional integrity and

continuous improvement. This constrains the ability of IBs to operationalise "ethics" in measurable and auditable ways and weakens the advisory role of internal Shari'ah auditors, who—despite their organisational proximity—are well positioned to contribute strategic operational insights (Jiang et al., 2020). Therefore, there is an urgent need to develop a context-sensitive and ethically grounded conceptual framework for OSA in Indonesia. This study addresses this need by investigating the key enablers and inhibitors of OSA and proposing an integrated framework to ensure that Indonesian Islamic banks achieve a synthesis of operational excellence and Shari'ah-based ethical accountability.

1.4 Research Objectives

The main objective of this study is to develop a conceptual framework for effective Operational Shari'ah Audit (OSA) practice among Islamic Banks in Indonesia. This main objective is further subdivided into three sub objectives as follows:

a) To examine existing OSA practice in Islamic Banks
b) To identify and analyse the internal and external factors that serve as enablers and inhibitors of effective OSA practice within Islamic banks in Indonesia.
c) To propose an integrated framework for OSA within Islamic Banks in Indonesia.

1.5 Research Question

i) What is the current state of OSA in Islamic Banks?
ii) How do internal and external factors serve as enablers and inhibitors of effective OSA practice within Islamic banks in Indonesia?
iii) How can an integrated framework be developed to facilitate effective OSA practice in Islamic Banks in Indonesia?

1.6 Significance of Study

This study makes interrelated theoretical and practical contributions that advance the conceptualisation and institutionalisation of Operational Shari'ah Audit (OSA) as a distinct and value-adding component of Internal Shari'ah Audit (ISA).

Building on the expectation that Islamic banks should pursue the "4Es" of efficiency, effectiveness, economy, and ethics, the study strengthens the basis for integrating operational performance assessment with Shari'ah-based ethical accountability within Shari'ah governance (Khan, 1998; IIA, 2017b).

First, the study clarifies how the operational dimension of Shari'ah auditing is currently understood and practised within Islamic banks. By synthesising insights from the literature, regulatory expectations, and documentary evidence, it establishes an initial conceptual foundation that delineates the emerging boundaries of OSA and highlights areas of inconsistency in its interpretation and application (Puad et al., 2020; Khalid et al., 2021). This baseline supports efforts to move ISA beyond procedural compliance towards more systematic, improvement-oriented assurance.

Second, the study provides evidence-based insight into the enabling and constraining conditions that shape OSA effectiveness. It explains how auditor competence and independence, organisational support, and the wider regulatory environment interact to influence OSA scope, execution, and perceived value (Khalid, Haron, Sarea, et al., 2018; Vafaei, 2016; AAOIFI, 2020). In doing so, the study extends Shari'ah audit scholarship beyond normative prescriptions by grounding the discussion in the practical realities of institutional implementation.

Third, the study proposes an integrated and context-sensitive framework for OSA in Indonesia. Synthesising theoretical foundations, regulatory context, and empirical findings, the framework offers practice-oriented guidance for designing audit scope, criteria, and processes in ways that enhance the role of ISA within Shari'ah governance and continuous improvement (IIA, 2017b; Khan, 1998; Otoritas Jasa Keuangan, 2024a, 2024b). The framework is intended to support greater coherence and comparability of OSA practices across institutions, strengthening accountability while enabling operational and ethical performance enhancement.

Overall, this thesis contributes to the academic literature by delineating OSA's conceptual boundaries and demonstrating its relevance as a governance mechanism linking Shari'ah accountability with operational performance. Practically, the findings provide guidance for Islamic banks seeking to strengthen ISA functions and offer inputs for regulators and standard-setters aiming to develop clearer operational guidance within Shari'ah governance frameworks (AAOIFI, 2020; Khalid et al., 2021; Sani & Abubakar, 2021).

1.7 Limitations

This study acknowledges several limitations that should be considered when interpreting its findings.

First, the study is limited to Islamic banks operating in Indonesia and does not include other Islamic financial institutions such as takaful companies, Islamic cooperatives, or zakat organisations. Consequently, the findings reflect the regulatory, institutional, and governance characteristics of the Indonesian Islamic banking sector and may not be directly transferable to other jurisdictions or Islamic finance sectors.

Second, the study adopts a qualitative hermeneutic phenomenological approach. While this approach provides rich interpretive insights into participants' experiences and institutional practices, the findings are inherently context-dependent and intended for analytical rather than statistical generalisation. Their value lies in providing transferable insights for comparable institutional and regulatory settings. In addition, as with all interpretive research, the findings reflect the co-construction of meaning between participants' accounts and the researcher's interpretive analysis.

Third, the sample of 14 participants—comprising 10 internal auditors and 4 non-internal auditor stakeholders—reflects the purposive and information-rich sampling strategy appropriate to hermeneutic phenomenological inquiry. Nevertheless, the relatively small number of non-internal auditor participants may have limited the breadth of governance perspectives captured, particularly those of regulators, Shari'ah Supervisory Board (SSB) members, and external oversight bodies.

Fourth, data collection was confined to semi-structured interviews and document analysis. Direct observation of audit processes, focus group discussions (FGDs), and access to detailed audit working papers could not be undertaken due to institutional access restrictions and the confidential nature of internal audit activities. Although triangulation across interviews, audit charters, and regulatory documents helped strengthen the credibility of the findings, the absence of observational and documentary evidence from actual audit engagements remains a methodological limitation.

Fifth, the data were collected during a period of regulatory transition in Indonesian Islamic banking. As a result, the full implementation and institutional effects of POJK No. 2/2024 and related SEOJK guidance may not yet have been observable at

the time of data collection. Subsequent regulatory developments may therefore influence operational Shari'ah audit practices in ways not captured in this study.

Finally, the proposed operational Shari'ah audit (OSA) framework was developed through interpretive analysis of participant experiences and documentary evidence. Although the framework provides a theoretically grounded representation of OSA practice within the Indonesian Islamic banking context, its applicability across a wider range of institutions and jurisdictions remains to be examined through further qualitative, mixed-methods, or quantitative studies.

1.8 Assumptions

It is assumed that all participants provided honest and accurate responses based on their professional experience and knowledge. The study also assumes that the selected audit charters and regulatory documents accurately reflect the institutional and regulatory frameworks governing operational Shari'ah audit (OSA) in Indonesia. Furthermore, it is assumed that the researcher's interpretation, informed by a hermeneutic phenomenological approach, faithfully captures the authentic meaning of participants' experiences and the substance of the analysed documents.

1.9 Ethical Committee

Ethical clearance for this study was obtained from the UiTM Ethics Committee (Approval No.: REC/11/2023 (PG/MR/461)) on 2023-12-05. All participants were informed of the research purpose, voluntary nature of participation, and their right to withdraw at any stage without penalty. Written informed consent was obtained from each participant, and confidentiality was maintained through anonymisation of names and institutional identifiers.

1.10 Operational Definitions

The following definitions clarify how key terms are used throughout this thesis. Consistent application of these terms is intended to prevent ambiguity and to ensure that the conceptual boundaries of the study are clearly understood from the outset.

1) **Operational Shari'ah Audit (OSA)** refers to an internal audit engagement that evaluates the economy, efficiency, and effectiveness of processes in Islamic banks while simultaneously assuring that Shari'ah requirements are embedded and operationalised across policies, systems, people, and day-to-day activities (Khalid et al., 2021; Puad et al., 2020). OSA is distinct from product-level Shari'ah review in that it focuses on operational systems and outcomes rather than only on legal form or financial reporting. It is also narrower than the entire Internal Shari'ah Audit (ISA) function. As used in this study, OSA denotes a dual-lens, operations-centred audit that integrates performance evaluation with Shari'ah-based ethical accountability.
2) **Internal Shari'ah Audit (ISA)** refers to the independent assurance function within an Islamic bank that provides systematic evaluation of the institution's adherence to Shari'ah principles across its operations, governance structures, and financial practices (AAOIFI, 2020). As defined by AAOIFI Governance Standard No. 11, ISA operates as a core governance mechanism responsible for providing assurance to the board and management on the adequacy and effectiveness of Shari'ah governance controls. In this study, ISA denotes the broader function within which OSA is situated as its operational dimension.
3) **The 4Es Framework** refers to the four performance dimensions — Economy, Efficiency, Effectiveness, and Ethics — that constitute the evaluative criteria of Operational Shari'ah Audit in this study (Khan, 1998). While conventional operational auditing applies the "3Es" (Economy, Efficiency, Effectiveness), the Shari'ah governance context extends this framework to include Ethics as a fourth, defining dimension. In this study, Ethics is understood not merely as an additional criterion but as the foundational principle that distinguishes Shari'ah-based operational auditing from conventional practice.
4) **Maqasid al-Shari'ah** refers to the higher objectives or purposes of Islamic law, which aim to secure benefit (*maslahah*) and prevent harm (*mafsadah*) in human life (Asutay, 2015; Auda, 2008). As systematised by classical jurists, these objectives are hierarchically structured into three levels: *daruriyyat* (essentials), *hajiyyat* (complementary needs), and *tahsiniyyat* (embellishments). In this study, Maqasid al-Shari'ah serves as the ethical and philosophical foundation against which OSA scope, criteria, and outcomes are evaluated, directing auditors to assess not only procedural compliance but also whether institutional

operations contribute to justice (*ʿadl*), trust (*amanah*), and public welfare (*maslahah*).

5) **Islamic Agency Theory (IAT)** refers to a reframing of conventional agency theory within an Islamic governance context, wherein accountability extends beyond horizontal relationships between principals and agents to include vertical accountability to Allah as the ultimate Principal (Chapra, 1992; Khalid & Sarea, 2021). Under IAT, agents — including internal Shari'ah auditors — are positioned as trustees (*khalifah*) bound by *amanah* (trust) and *taqwa* (God-consciousness). In this study, IAT provides the governance accountability framework that underpins OSA's role as both an evaluative mechanism and a form of institutional moral oversight (*hisbah*).
6) **Shari'ah Corporate Governance (SCG)** refers to the system of governance principles, structures, and processes through which Islamic banks ensure that their operations, decisions, and accountability mechanisms conform to Shari'ah principles and serve the objectives of Islamic finance (Ginena & Hamid, 2015). SCG encompasses the roles of the Shari'ah Supervisory Board (SSB), internal Shari'ah audit, compliance functions, and regulatory oversight as an integrated framework for ethical governance.
7) **Shari'ah Supervisory Board (SSB)** refers to the independent body of qualified Shari'ah scholars appointed by an Islamic bank to oversee and certify the institution's compliance with Shari'ah principles across its products, operations, and governance practices (AAOIFI, 2020; IFSB, 2009). In this study, the SSB is treated as a key governance actor whose relationship with the ISA function forms part of the institutional context shaping OSA practice.
8) **Islamic Banks (IBs)** in this study refers specifically to full-fledged Islamic banks (FFIB) and Shari'ah Business Units (SBU) of conventional banks operating under Indonesia's Islamic banking regulatory framework, as governed by OJK regulations including POJK No. 2/POJK.03/2024. The term is used consistently throughout to denote these institutions and does not extend to other Islamic financial institutions such as takaful companies or zakat organisations.

1.11 Scope of The Study

The scope of this thesis is confined to developing a conceptual framework for effective operational audit practice within Islamic Banks in Indonesia. The research focuses on examining existing OSA practices, identifying enablers and inhibitors, and proposing an integrated framework. Data were collected between December 2023 to November 2024 through interviews with 14 participants and analysis of institutional and regulatory documents relevant to OSA. While conceptual references are drawn from international literature, the empirical component is situated entirely within the Indonesian Islamic banking context.

1.12 Thesis Outline

This dissertation comprises eight chapters, each designed to build a coherent understanding of Operational Shari'ah Audit (OSA) in Islamic banks. Chapter 1 introduces the research, outlining the background, motivation, problem statement, objectives, questions, and significance, while also presenting the study's scope, assumptions, and ethical considerations. Chapter 2 reviews the literature on operational auditing and its adaptation as OSA within Islamic banks. It traces the evolution of operational auditing across sectors, situates OSA as its Islamic banking counterpart, and explains its purpose, scope, and governance relevance. The chapter also highlights the challenges in implementing OSA and identifies key elements necessary for its effective practice, concluding with an initial conceptual framework. Chapter 3 discusses the theoretical underpinnings of the research by elaborating on Maqasid al-Shari'ah and Islamic Agency Theory as the guiding frameworks that support the integration of ethical governance principles into operational audit practices. Chapter 4 provides a critical analysis of relevant regulations, institutional standards, and prior studies, examining both domestic and international developments that inform the construction of the initial conceptual framework for effective OSA implementation.

Chapter 5 explains the research methodology, beginning with the qualitative design and paradigm, followed by details on sampling strategy, data collection, document analysis, data coding, thematic analysis, and strategies to ensure credibility and trustworthiness. Chapter 6 presents the thematic findings derived from interviews and document analyses, structured around the four conceptual pillars: Conceptual

Clarity, ISA Competency and Independence, Organisational Commitment, and Regulatory and Technological Integration. Chapter 7 discusses these findings in light of the theoretical framework, identifying enablers and inhibitors of effective OSA practice, and presents the refined conceptual framework developed through empirical insights and theoretical synthesis. Finally, Chapter 8 concludes the thesis by summarising the findings, discussing implications for regulators, institutions, practitioners, and scholars, and highlighting the study's contributions, limitations, and recommendations for future research.

CHAPTER 2
LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on operational auditing and its adaptation as Operational Shari'ah Audit (OSA) in Islamic banks. It addresses Research Objective 1 by mapping the current state of practice and clarifying how OSA is defined, scoped, and implemented across institutions. The discussion covers: the emergence of OSA from conventional operational audit, key definitions and terminology, the typical scope and methods used in OSA, the roles of governance actors (internal audit, Shari'ah Supervisory Board/SSB, compliance), and the standards and guidance commonly cited in practice. It also synthesises reported challenges and enablers in implementation.

The chapter does not develop a new theory or framework. Instead, it establishes the descriptive and contextual basis needed for the next chapters. Theoretical foundations are examined in Chapter 3, and the critical synthesis leading to the integrated framework is presented in Chapter 4.

In this thesis, Operational Shari'ah Audit (OSA) refers to an internal audit engagement that evaluates the economy, efficiency, and effectiveness of processes in Islamic banks while simultaneously assuring that Shari'ah requirements are embedded and operationalised across policies, systems, people, and day-to-day activities. OSA is therefore broader than product-level Shari'ah review and narrower than the entire Internal Shari'ah Audit (ISA) function: it focuses on operational systems and outcomes rather than only on legal form or financial reporting. Unless stated otherwise, the term OSA is used throughout to denote this dual-lens, operations-centred audit.

2.2 History of Operational Auditing

Operational auditing (OA) has evolved over more than a century, shaped by developments in accounting theory, governance reforms, and demands for greater accountability and performance measurement. Rooted in early 20th-century financial auditing, its initial focus was on verifying the accuracy of records, detecting fraud, and ensuring compliance with applicable regulations (Power, 1997). At this stage, minimal

attention was given to assessing whether organisational objectives were achieved or resources were managed effectively.

Following World War II, particularly in the United States, organisations began adopting management auditing practices to strengthen internal controls and improve decision-making. The U.S. General Accounting Office (GAO) pioneered performance-focused audits in federal agencies, assessing the economy and efficiency of operations (GAO, 1954). This marked a shift from purely financial concerns to a broader evaluation of managerial performance. By the 1960s to 1980s, the principles of Economy, Efficiency, and Effectiveness—collectively known as the 3Es—were formalised as the core evaluative criteria in performance auditing. Supreme Audit Institutions worldwide, coordinated through the International Organisation of Supreme Audit Institutions (INTOSAI), developed guidance and standards emphasising these performance dimensions.

In the 1980s and 1990s, OA principles expanded into the private sector and became integral to internal audit functions. The Institute of Internal Auditors (IIA) championed "value-added auditing," positioning internal auditors not only as compliance enforcers but also as contributors to governance, risk management, and operational improvement (IIA, 1999). Entering the 21st century, OA has evolved into a strategic assurance and advisory function, encompassing assessments of ethical compliance, information systems, strategic alignment, and stakeholder value creation. The global adoption of performance audit standards, together with public sector reforms such as New Public Management (NPM), has reinforced OA's role in promoting transparency, accountability, and continuous improvement (INTOSAI, 2019). Table 2.1 summarises the evoultion of operational auditing.

Table 2.1
Evolution Of Operational Auditing

Year	Source / Institution	Definition Summary	Notes
1954	U.S. GAO (Yellow Book)	Introduced early performance audits to assess economy and efficiency in public programs.	Marked the start of performance auditing in the U.S. federal sector.
1977 / 1995	INTOSAI (Early Guidance)	Introduced the 3Es framework: Economy, Efficiency, and Effectiveness in performance audits.	Early articulation of OA principles by international audit institutions.
1999	IIA – Internal Audit Practice	Defined OA as a systematic review of operations focused on efficiency, effectiveness, and compliance.	Promoted as part of value-added internal auditing.

2017	IIA IPPF Standards (2110)	Emphasized auditors' role in evaluating and improving governance, risk, and control processes.	Not a definition per se, but reflects modern internal audit scope.
2018	GAO – Updated Yellow Book	Defined performance audit as an objective analysis to improve program performance and operations.	Latest U.S. federal performance audit standard.
2019	INTOSAI – ISSAI 300 (Updated)	Defined OA as an independent, objective, reliable examination based on 3Es to identify improvement opportunities.	Most authoritative and current global definition of OA.
2022–2023	AuditBoard / GoCardless (Web)	Described OA as a forward-looking audit evaluating processes for effectiveness, efficiency, and risk control.	Practical interpretations based on standards and business use.
2024	IIA Global – IPPF Update	Defines internal audit's role as evaluating and improving governance, risk management, and control processes, including operational reviews.	Broader framing; OA principles embedded in internal audit scope.
2024	INTOSAI Development Initiative	A systematic, independent examination of government operations focusing on economy, efficiency, and effectiveness, to provide recommendations for improvement and accountability.	Used in IDI training materials for SAIs.
2024	GAO – Yellow Book e-Learning	An independent, objective, and systematic examination of evidence to improve program performance, reduce costs, and support decision-making.	Reaffirms OA as part of performance audit.
2025	Australian National Audit Office (ANAO)	An independent assessment of the economy, efficiency, and effectiveness of government activities, programs, and services.	OA integrated into ANAO's performance audit methodology.

Source: Compiled by the author from GAO (1954, 2018, 2024), INTOSAI (1977, 1995, 2019), IIA (1999, 2017, 2024), AuditBoard (2022), GoCardless (2023), INTOSAI Development Initiative (2024), and Australian National Audit Office (2025).

Over time, professional and institutional definitions of operational auditing (OA) have reflected an expanding scope while consistently highlighting the centrality of the 3Es framework—Economy, Efficiency, and Effectiveness. From the early GAO performance audits in the 1950s to INTOSAI's ISSAI 300 (2019), OA has been described as a systematic and objective examination of operations aimed at improving efficiency, effectiveness, and economy. Recent developments—such as the IIA IPPF 2024 update (IIA, 2024b), the GAO Yellow Book e-learning 2024 (GAO, 2024), the INTOSAI Development Initiative 2024 guidance (INTOSAI, 2025), and the ANAO performance audit methodology 2025 (ANAO, 2025) —further integrate governance, risk management, and control into the conceptualization of OA. Although terminology may vary across contexts, both public sector performance auditing and private sector internal auditing share these foundational principles. Table 2.2 presents a timeline of

notable definitions of operational auditing from key institutions and sources, organized from the earliest to the most current.

Table 2.2
Selected Definitions Of Operational Auditing

Year	Source / Institution	Definition Summary	Notes
1954	U.S. GAO (Yellow Book)	Introduced early performance audits to assess economy and efficiency in public programs.	Marked the start of performance auditing in the U.S. federal sector.
1977 / 1995	INTOSAI (Guidelines)	Introduced the 3Es framework: Economy, Efficiency, and Effectiveness in performance audits.	Early articulation of OA principles by international audit institutions.
1999	IIA – Internal Audit Practice	Defined OA as a systematic review of operations focused on efficiency, effectiveness, and compliance.	Promoted as part of value-added internal auditing.
2017	IIA IPPF Standards (2110)	Emphasised auditors' role in evaluating and improving governance, risk, and control processes.	Not a definition per se, but reflects modern internal audit scope.
2018	GAO – Updated Yellow Book	Defined performance audit as an objective analysis to improve program performance and operations.	Latest U.S. federal performance audit standard.
2019	INTOSAI – ISSAI 300 (Updated)	Defined OA as an independent, objective, reliable examination based on 3Es to identify improvement opportunities.	Most authoritative and current global definition of OA.
2022–2023	AuditBoard / GoCardless (Web)	Described OA as a forward-looking audit evaluating processes for effectiveness, efficiency, and risk control.	Practical interpretations based on standards and business use.

Source: Compiled by the author from GAO (1954, 2018), INTOSAI (1977, 1995, 2019), IIA (1999, 2017), AuditBoard (2022), and GoCardless (2023).

The universality of the 3Es has led to their adoption by global institutions, including INTOSAI, GAO, EUROSAI, the World Bank, and the UNDP (ANAO, 2025; EUROSAI, n.d.; GAO, 2018, 2024; IIA, 2024b; INTOSAI, 1995; UNDP, n.d.). While the core concepts remain stable, interpretations of "economy," "efficiency," and "effectiveness" are adapted to institutional mandates, sectoral priorities, and operational contexts. International frameworks show a high degree of convergence but also reveal contextual nuances in how the 3Es are operationalised in audit practice.

To capture these nuances, the table 2.3 summarises how leading global institutions define and operationalize the 3Es within their performance audit frameworks. The comparison highlights both the shared core principles and contextual distinctions in their application:

Table 2.3
Comparative Definitions Of The 3Es Framework

Institution / Source	Economy	Efficiency	Effectiveness
INTOSAI (ISSAI 300, 2019)	Minimizing resource costs while maintaining quality.	Relationship between outputs and resources used.	Achievement of intended objectives and actual impact.
GAO (USA, 2018)	Acquiring resources at lowest cost with appropriate quality/quantity.	Maximizing output for input or minimizing input for output.	Extent to which goals/objectives are achieved.
EUROSAI	Procuring quality inputs at lowest cost.	Performing activities with optimal input/output ratio.	Meeting planned goals, including societal/policy outcomes.
World Bank / UNDP	Cost-effective procurement while ensuring quality.	Timely and resource-efficient execution of programs.	Achievement of development goals or impact on beneficiaries.
AUASB (Australia)	Acquiring resources at the right cost, time, place, quality, quantity.	Optimal use of resources to maximize output or minimize input.	Assessment of whether organizational objectives and outcomes are achieved.
GAO (USA, 2024 update)	Ensuring cost-effectiveness in acquiring resources with awareness of associated risks.	Optimizing processes to achieve more with the same or fewer resources while maintaining quality.	Achieving intended results and supporting informed decision-making.
IIA IPPF (2024)	Responsible stewardship of resources to preserve and create value.	Optimization of processes and controls to deliver intended outcomes efficiently.	Achieving strategic objectives and strengthening governance and accountability.
ANAO (Australia, 2025)	Procuring and managing resources to deliver quality services at the right cost.	Using resources in ways that maximize productivity and service quality.	Achieving objectives while delivering public value and positive societal outcomes.

Source: Compiled by the author from INTOSAI (2019), GAO (2018, 2024), EUROSAI, World Bank/UNDP, AUASB (Australia), IIA IPPF (2024), and ANAO (2025).

The historical trajectory reviewed above reveals an important limitation that has received relatively limited attention in the operational auditing literature. The evolution of operational auditing has been shaped predominantly by Western, public-sector, and secular governance traditions. The 3Es framework—Economy, Efficiency, and Effectiveness—originated within U.S. federal auditing practice and was subsequently internationalised through institutions such as INTOSAI and the GAO. While this trajectory demonstrates substantial conceptual development, it also reflects an implicit belief that organisational performance can be assessed in largely value-neutral terms.

Such a premise becomes problematic when operational auditing is applied to Islamic banking institutions, where governance objectives extend beyond performance optimisation to encompass ethical accountability grounded in Shari'ah principles. The historical evolution of operational auditing further indicates that ethical considerations remained largely peripheral to mainstream audit frameworks for much of their

development. Even where ethics has been incorporated into contemporary governance and auditing standards, it is typically framed within ESG, stakeholder, or corporate responsibility perspectives rather than as a theologically grounded obligation.

The absence of an ethically anchored fourth dimension—what Khan (1998) identifies as the fourth "E" of Ethics—constitutes a foundational limitation in the historical development of operational auditing. This study addresses that limitation by proposing Operational Shari'ah Audit (OSA) as a distinct and context-sensitive audit approach capable of aligning operational performance assessment with the ethical and governance requirements of Islamic banking institutions.

2.3 Objectives and Scope of Operational Auditing

Operational auditing (OA), often referred to as performance auditing, extends beyond the traditional boundaries of financial and compliance audits. Its primary purpose is to evaluate how effectively an organisation utilises its resources and processes to achieve intended goals. Whereas financial audits focus on the accuracy of financial statements, and compliance audits assess adherence to laws and regulations, OA emphasises performance, efficiency, and strategic alignment.

The objectives of OA are closely tied to organisational improvement. First, operational audits seek to identify inefficiencies, redundancies, or performance gaps across processes and systems, thereby enhancing effectiveness and embedding best practices. Second, OA serves as a diagnostic tool for risk reduction, helping organisations uncover weaknesses in decision-making, resource allocation, or operational controls before they escalate into major problems. Third, OA contributes to accountability and transparency, particularly in the public sector where the responsible use of public resources is central to maintaining public trust and reinforcing governance standards. Fourth, OA examines the alignment of operations with broader strategic objectives, assessing whether resources are deployed in ways that support long-term goals. More recently, operational audits have also expanded to incorporate sustainability and ESG (Environmental, Social, and Governance) dimensions, evaluating whether organisational activities contribute to sustainable outcomes and ethical practices in line with stakeholder expectations.

The scope of OA is deliberately broad and adaptable to institutional needs. It typically includes the evaluation of processes and workflows, management controls,

resource utilisation, programme delivery mechanisms, and organisational outcomes. Unlike financial audits, which are restricted to verifying numerical data, or compliance audits, which concentrate on regulatory adherence, OA investigates the "how" and "why" behind results. This makes OA inherently analytical, forward-looking, and multidimensional. Contemporary OA also reflects the growing influence of digitalisation and data analytics, with auditors increasingly employing big data techniques, continuous auditing tools, and AI-driven analytics to identify anomalies, assess risks, and provide real-time insights.

To achieve these objectives, operational audits combine qualitative and quantitative methodologies. Process observation, benchmarking, stakeholder interviews, and performance data analysis remain widely used, while digital platforms and analytical tools strengthen the capacity to deliver actionable insights. Through this integrative and technology-enabled approach, OA not only provides assurance but also contributes directly to continuous improvement, sustainability, and strategic decision-making.

Operational auditing has been widely conceptualised as a multidimensional process that goes beyond financial accuracy and compliance, focusing instead on performance, efficiency, risk reduction, and accountability. International standards and guidelines highlight its role in enhancing governance, transparency, and strategic alignment, while also incorporating sustainability and digitalisation in modern practices (INTOSAI, 2019; KPMG, 2021). The key objectives and scope of operational auditing can be summarised in Table 2.4.

Table 2.4
Objectives And Scope Of Operational Auditing

Objectives	Explanation	Scope	Areas Covered
Performance Improvement	Identifying inefficiencies, redundancies, and promoting best practices.	Processes & Workflows	Evaluation of operational procedures.
Risk Reduction	Diagnosing weaknesses in decision-making, resource allocation, and controls.	Management Controls	Review of decision-making structures and internal control mechanisms.
Accountability & Transparency	Ensuring responsible use of resources, reinforcing governance and public trust.	Resource Utilisation	Assessment of allocation and efficiency in resource use.
Strategic Alignment	Assessing whether operations and resources support long-term organisational goals.	Programme Delivery	Examination of mechanisms for service or programme implementation.
Sustainability &	Evaluating ethical, social, and	Organisational	Measurement of

Objectives	Explanation	Scope	Areas Covered
ESG Integration	environmental impact of organisational operations.	Outcomes	performance indicators and strategic objectives.
Digitalisation & Data Analytics	Leveraging big data, AI, and continuous audit tools to strengthen risk assessment and provide real-time insights.	Technology-Enabled Audit	Use of digital platforms and analytics to enhance audit scope and insight.

Source: Compiled and adapted from INTOSAI, Institute of Internal Auditors (IIA), and recent operational audit studies.

2.4 Operational Auditing in Different Sectors

Operational auditing, though grounded in a consistent framework of evaluating economy, efficiency, and effectiveness, varies significantly in application, emphasis, and methodology across sectors. These contextual adaptations reflect differences in objectives, governance structures, accountability demands, and regulatory environments. Understanding how operational auditing manifests in various institutional domains is critical for appreciating its strategic relevance and practical utility (INTOSAI, 2019; KPMG, 2021; Morin & Hazgui, 2016).

2.4.1 Public Sector

In the public sector, operational auditing is often referred to as performance auditing and is primarily aimed at promoting accountability, transparency, and value-for-money in the use of public resources. Supreme Audit Institutions (SAIs), such as those governed by INTOSAI, conduct these audits to ensure that government agencies deliver public services effectively and efficiently (INTOSAI, 2019).

Key features of public sector operational auditing include the evaluation of government programs and projects in terms of outcomes and public impact, the assessment of performance-based budgeting systems, and the monitoring of compliance with policy and legal frameworks. Public sector audits often go beyond organizational boundaries to examine societal and policy-level impacts, making effectiveness a particularly critical component (IIA, 2024b; KPMG, 2021).

2.4.2 Private Sector

In the private sector, operational auditing serves as a strategic management tool aimed at improving business performance, risk management, and process optimization. Internal audit functions, especially in large corporations, conduct operational audits to provide management with insights into how well organizational units or business processes are functioning in relation to strategic objectives (IIA, 2024b; KPMG, 2021).

Key areas of focus include process efficiency audits (e.g., supply chain, procurement, production), risk-based audits targeting operational or strategic risks, and performance benchmarking against industry best practices. Unlike the public sector, private sector audits tend to be more results-oriented and profit-driven, emphasizing agility, innovation, and competitive advantage. Many organizations incorporate tools such as Six Sigma, Lean auditing, and advanced data analytics to identify inefficiencies and recommend improvements (Moeller, 2005).

2.4.3 Islamic Finance

In the context of Islamic finance, operational auditing plays a dual role: it must assess organizational performance while ensuring compliance with Shari'ah principles. Given the ethical and religious dimensions of Islamic banking, operational auditing here incorporates both conventional audit methodologies and faith-based governance standards (Karim & Archer, 2013; Mergaliyev et al., 2021).

Unique elements of operational auditing in Islamic financial institutions include the verification of Shari'ah compliance in transactions, evaluation of internal Shari'ah control systems, and the assessment of ethical dimensions such as fairness, transparency, and risk-sharing. This dual-layered audit approach, often coordinated with a Shari'ah Supervisory Board (SSB), ensures that Islamic banks achieve operational efficiency while upholding the Maqasid al-Shari'ah (objectives of Islamic law) such as justice, welfare, and harm prevention (Chapra, 1992; Mergaliyev et al., 2021; Rahman & Haron, 2019; Taufik et al., 2023). Accordingly, auditors are required to possess both technical and Shari'ah-related competencies.

Operational auditing demonstrates diverse applications across institutional contexts, even though it consistently rests on the principles of economy, efficiency, and effectiveness. While public sector audits emphasize accountability and policy

outcomes, private sector audits are oriented toward performance optimization and competitiveness. In contrast, Islamic financial institutions combine both operational effectiveness and compliance with Shari'ah principles, creating a dual-layered audit dimension. These variations illustrate how objectives, governance demands, and accountability frameworks shape the scope and methodology of operational audits in different sectors. The comparative features of operational auditing across these three sectors are summarised in Table 2.5.

Table 2.5
Comparison Of Operational Auditing Across Sectors

Sector	Main Objectives	Key Features of Operational Auditing	References
Public Sector	Accountability, transparency, and value-for-money in the use of public resources	- Performance auditing conducted by Supreme Audit Institutions (SAIs) - Evaluation of government programs and projects in terms of outcomes and public impact - Assessment of performance-based budgeting systems - Monitoring compliance with policy and legal frameworks - Strong focus on effectiveness and policy impact	INTOSAI (2019); Morin & Hazgui (2016); KPMG (2021); IIA (2024)
Private Sector	Business performance optimization, risk management, and competitive advantage	- Process efficiency audits (supply chain, procurement, production) - Risk-based audits targeting operational and strategic risks - Benchmarking against industry best practices - More profit-driven, agile, and innovative - Use of Six Sigma, Lean auditing, and advanced data analytics	IIA (2024); KPMG (2021); Moeller (2005)
Islamic Finance	Operational efficiency alongside Shari'ah compliance	- Dual-layer auditing: organizational performance and Shari'ah compliance - Verification of Shari'ah transactions and internal Shari'ah control systems - Assessment of ethical dimensions: fairness, transparency, risk-sharing - Coordination with Shari'ah Supervisory Board (SSB) - Pursuit of maqasid al-Shari'ah: justice, welfare, harm prevention - Auditors require both technical and Shari'ah-related competence	Karim & Archer (2013); Mergaliyev et al. (2021); Chapra (1992); Rahman & Haron (2019); Taufik, Muhammad, & Nugraheni (2023)

Source: Compiled from multiple references (INTOSAI, KPMG, IIA, Moeller, Karim & Archer, Mergaliyev et al., Chapra, Rahman & Haron, Taufik et al.).

The cross-sectoral comparison above demonstrates that operational auditing is a context-sensitive discipline, adapted within each setting to reflect its distinctive governance requirements and accountability expectations. However, the comparison also reveals an important asymmetry. While operational auditing in the public and private sectors is supported by extensive, detailed, and methodologically mature guidance—including prescriptive standards developed by INTOSAI, the GAO, and the

IIA—methodological guidance for operational auditing within Islamic finance remains comparatively underdeveloped.

Although the literature acknowledges the dual-layered nature of operational auditing in Islamic banks, no widely accepted operational audit methodology currently exists to guide the systematic evaluation of both operational performance and Shari'ah compliance. Existing Shari'ah governance standards, such as AAOIFI GS 11 and IFSB-10, provide important structural and governance guidance but stop short of prescribing how operational effectiveness, efficiency, and ethical accountability should be assessed in an integrated manner.

This methodological asymmetry is not merely a technical deficiency; it reflects a deeper conceptual challenge. While conventional operational auditing frameworks are grounded in assumptions and governance objectives developed within secular organisational contexts, the literature has yet to establish a comprehensive operational audit model explicitly grounded in Islamic governance principles. Consequently, addressing this gap requires more than incremental modifications to existing operational audit frameworks. It requires a conceptually distinct approach that incorporates Shari'ah ethical objectives into audit scope, evaluation criteria, and methodology from the outset. The proposed Operational Shari'ah Audit (OSA) framework is therefore advanced as a response to this unresolved gap in the operational auditing literature.

2.5 From Operational Auditing to Operational Shari’ah Audit in Islamic Banks

Operational auditing (OA) in Islamic banks performs a dual assurance role that distinguishes it from conventional practice. While conventional OA evaluates efficiency, effectiveness, and economy (3Es) of operations (GAO, 2018; INTOSAI, 2019), the Islamic context requires these objectives to be achieved in harmony with Shari’ah principles (AAOIFI, 2017; Hameed, 2008). Accordingly, the audit function in Islamic banks does not merely appraise managerial performance or resource utilisation but also ensures that all activities conform to Islamic ethical norms and governance expectations.

2.5.1 Role and Relevance of Operational Auditing in Islamic Banks

The role of operational auditing in Islamic banks extends beyond its traditional managerial focus to include the ethical and faith-based responsibilities of Shari'ah compliance. It provides dual assurance: confirming that operational goals are achieved efficiently and ethically, and that these goals are consistent with Maqasid al-Shari'ah (the higher objectives of Islamic law) (Karim & Archer, 2013; Yaacob & Donglah, 2012). In this way, OA strengthens accountability not only to shareholders and regulators but also to society and God (Allah SWT).

By identifying performance gaps, weaknesses in internal controls, and non-compliance risks, operational auditing contributes to continuous improvement and institutional credibility (Algabry et al., 2021). Moreover, internal auditors in Islamic banks are expected to deliver value-added insights—offering advisory input that enhances process efficiency, risk management, and ethical decision-making (Al-Tamimi, 2021). This value-creation role reflects the modern orientation of internal auditing as defined by the IIA (2024b), which positions auditors as catalysts for performance improvement rather than mere compliance checkers. When applied within Islamic banking, such audits serve not only to strengthen control systems but also to help management align operational outcomes with Shari'ah values—thus achieving the "4Es" (Efficiency, Effectiveness, Economy, and Ethics) (Khan, 1998).

2.5.2 Integration of Operational Auditing within Shari'ah Governance Systems

Islamic banks operate under a unique Shari'ah governance framework composed of the Shari'ah Supervisory Board (SSB), the Internal Shari'ah Audit (ISA) function, and compliance units. While the SSB issues fatwas and provides guidance on Shari'ah matters, the ISA ensures that these rulings are operationalised through effective controls and auditing mechanisms (Grassa, 2015; Karim & Archer, 2013). Operational auditing principles are thus embedded in Shari'ah governance as a means of translating religious decisions into institutional practice (Malkawi, 2013; Puad & Shafii, 2019).

This integration transforms the internal auditor's role into one that simultaneously supports managerial efficiency and Shari'ah integrity (Alam, Rahman, et al., 2022; Haridan et al., 2018). By assessing how effectively Shari'ah decisions are

implemented within daily operations, auditors ensure that ethical objectives are not lost amid commercial pressures. Thus, the ISA department becomes a strategic partner in governance—linking the spiritual mandate of Shari'ah to the technical demands of modern bank management. Without such integration, compliance risks may emerge and erode stakeholder trust (Alam et al., 2023; Puad & Shafii, 2019).

2.5.3 Emergence and Conceptualisation of Operational Shari'ah Audit (OSA)

Despite growing scholarly interest in Shari'ah auditing, most discussions still treat it narrowly as a compliance-based activity, focused on verifying contractual and procedural adherence to Shari'ah rulings (Khalid, 2020; Khalid & Sarea, 2021; Khalid et al., 2021). This dominant view overlooks the operational and performance dimensions of auditing within Islamic banks. As a result, internal Shari'ah auditors (ISA) are often confined to checklist-style reviews, while their potential to enhance efficiency, effectiveness, and ethical value remains underutilised. To address this conceptual gap, Operational Shari'ah Audit (OSA) is treated in this chapter as a refined audit approach that integrates conventional operational auditing principles with Islamic ethical and governance imperatives.

OSA is defined here as a systematic evaluation of operations in Islamic banks that combines performance-based criteria with explicit Shari'ah accountability. It draws upon the 3Es of operational auditing—economy, efficiency, and effectiveness—while embedding the fourth E, ethics, derived from Islamic principles (Khan, 1998). In this way, OSA extends beyond procedural compliance to become a value-added function, enabling auditors to identify performance improvements, enhance governance quality, and reinforce the ethical credibility of Islamic banking institutions (Algabry et al., 2021; IIA, 2024b).

The conceptual distinction between conventional operational auditing and operational auditing within Islamic banks can be clarified by examining their unique features. Whereas the former concentrates primarily on financial and managerial efficiency, the latter must also ensure that all activities remain aligned with the higher objectives of Shari'ah (Maqasid al-Shari'ah). This dual responsibility requires auditors to demonstrate both technical expertise and religious literacy, bridging the gap between professional audit standards and ethical-spiritual mandates. Table 2.6 summarises the

main differences between operational auditing in conventional and Islamic banking contexts.

Table 2.6
Unique Features Of Operational Auditing In Conventional VS Islamic Banks

Feature	Conventional Banks	Islamic Banks	References
Audit Focus	Performance, efficiency, and risk control.	Performance assessed within Shari'ah-compliant boundaries, ensuring justice, fairness, and transparency in line with Maqasid al-Shari'ah.	Almutairi & Quttainah (2020); Hameed (2008); Isa, Ariffin, & Abidin (2020); Malaya (2016); Mergaliyev et al. (2021)
Governance Structure	Board of Directors and Audit Committee.	Includes Shari'ah Supervisory Board (SSB), requiring coordination between Shari'ah scholars, compliance officers, and auditors.	Mishref & Sa'ad (2024); Nomran, Haron, & Hassan (2018); Noor Aimi Mohd Puad & Shafii (2019)
Audit Criteria	3Es (Economy, Efficiency, Effectiveness).	3Es + Shari'ah objectives, with emphasis on preventing Shari'ah non-compliance risks.	Grassa (2015); Yusoff et al. (2024)
Ethical Consideration	Implicit within governance frameworks.	Explicit through Shari'ah governance; requires dual literacy in auditing standards and fiqh al-muamalat.	Shahid, Khaliq, Ahmed, & Hassan (2022); Yaacob & Donglah (2012)

Source: Compiled from Almutairi & Quttainah (2020); Hameed (2008); Isa et al. (2020); Malaya (2016); Mergaliyev et al. (2021); Mishref & Sa'ad (2024); Nomran et al. (2018); Puad & Shafii (2019); Grassa (2015); Yusoff et al. (2024); Shahid et al. (2022); Yaacob & Donglah (2012).

These distinctions illustrate that operational auditing in Islamic banks transcends technical evaluation to encompass spiritual and ethical accountability. The addition of the SSB and the integration of Shari'ah objectives elevate OSA beyond the conventional scope of internal auditing. Consequently, OSA serves as a bridge between compliance assurance and performance enhancement, enabling Islamic banks to deliver not only efficient and effective operations but also ethical value creation consistent with Maqasid al-Shari'ah.

The conceptualisation of OSA presented in this section represents a meaningful advance beyond compliance-centred interpretations of Shari'ah auditing. However, a critical appraisal of the existing literature suggests that this conceptualisation remains largely aspirational. While scholars consistently advocate for an operational audit approach that integrates performance evaluation with Shari'ah accountability, the literature has yet to produce a validated and empirically grounded framework that clearly specifies how such integration should be designed, implemented, and evaluated in practice.

Several important issues therefore remain unresolved, including the operationalisation of OSA criteria beyond the general invocation of the 4Es, the institutional conditions that enable or constrain effective OSA implementation within Indonesian Islamic banks, and the translation of Maqasid al-Shari'ah into concrete and auditable performance indicators rather than broad normative aspirations. These unresolved issues point to a broader pattern within the literature: although the need for OSA is widely acknowledged, its empirical and methodological foundations remain insufficiently developed.

This limitation is particularly evident in relation to the Indonesian Islamic banking sector. Most existing studies are grounded in Malaysian, Gulf, or more generic Islamic finance contexts, with relatively limited attention given to the specific regulatory, institutional, and governance conditions that shape OSA practice in Indonesia (Algabry et al., 2021; Kasim et al., 2013; Yaacob & Donglah, 2012). As a result, the applicability of existing conceptualisations to the Indonesian context remains uncertain. This contextual gap constitutes a significant limitation in the current body of knowledge and highlights the need for an empirically grounded OSA framework that reflects the realities of Indonesian Islamic banking. It is this gap that provides the primary motivation for the present study.

2.6 The Role of Operational Shari'ah Audit in Strengthening Shari'ah Corporate Governances

Within Islamic financial institutions, corporate governance is inseparable from Shari'ah compliance and ethical accountability. The Internal Shari'ah Audit (ISA) functions as a critical mechanism to uphold these principles, providing assurance that all activities, transactions, and policies conform to Shari'ah requirements(AAOIFI, 2020). The development of Operational Shari'ah Audit (OSA) extends this assurance role further by evaluating how effectively Shari'ah principles are embedded in the daily operations of Islamic banks. In doing so, OSA strengthens Shari'ah corporate governance by linking compliance assurance with performance enhancement.

Internal Shari'ah auditors with sufficient independence and authority are better positioned to deliver timely, accurate, and constructive recommendations across diverse operational areas (Khalid, Haron, & Masron, 2018). Their insights help Islamic banks improve process efficiency, mitigate risk, and maintain ethical integrity. As noted by

Khalid and Sarea (2021), auditor independence and effectiveness are central to Islamic Agency Theory, which reframes accountability as operating on two levels: vertical accountability to Allah (SWT) as the ultimate Principal, and horizontal accountability to human stakeholders including society and shareholders. Figure 2.1 from Khalid and Sarea (2021) illustrates the conceptual relationship between independence and effectiveness in internal Shari'ah audit.

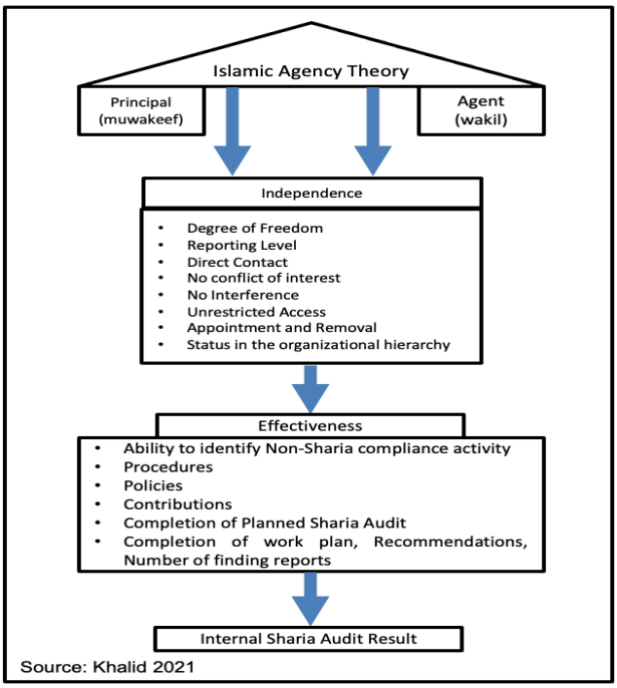


Figure 2.1 Conceptual Framework Of ISA

Source: Khalid (2021)

The effectiveness of ISA—and by extension, OSA—is influenced by both internal and external factors. Algabry et al. (2020) propose that structural design, processes, and environmental requirements determine the success of internal Shari'ah audit. They highlight that Shari'ah governance requires dedicated audit programmes oriented toward ethical and performance assurance rather than mere procedural compliance. Figure 2.2 from Algabry et al. (2020) identifies key determinants of internal Shari'ah audit effectiveness, including auditor competency, organisational support, and regulatory oversight.

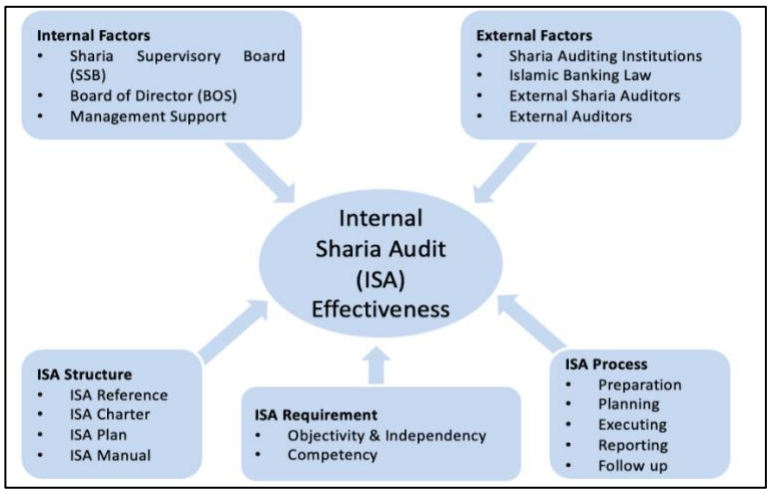


Figure 2.2 Keys Of Internal Shari'ah Audit Effectiveness

Source: Algabry et al. (2020)

Empirical studies further show that effective ISA functions contribute directly to the institutional performance and governance quality of Islamic banks. Can (2020) finds that strong Shari'ah audit functions correlate with reliable financial reporting, while Khalid et al. (2017) regard internal audit as the foundation of sound corporate accounting. Integration between the Shari'ah Supervisory Board (SSB) and ISA enhances governance transparency and reduces compliance risk (Muslim & Mais, 2023; Tashkandi, 2023).

Beyond structural factors, ethical foundations are equally critical. Ayedh et al. (2021) stress the need for a comprehensive Code of Ethics grounded in Shari'ah values to guide corporate behaviour globally. Effective OSA embeds such ethics into audit procedures, ensuring that recommendations promote justice, fairness, and public trust—core elements of Maqasid al-Shari'ah. Studies confirm that Islamic banks with strong internal audit departments are better equipped to detect fraud, prevent reputational risk, and maintain operational integrity (Aribi et al., 2019; Khalid, Haron, Sarea, et al., 2018).

Institutional frameworks also reinforce this view. The Institute of Internal Auditors (IIA) defines internal audit as an independent, objective assurance and consulting activity designed to improve organisational operations (IIA, 2017b). Similarly, Bank Negara Malaysia's Shari'ah Governance Framework (2019) identifies internal Shari'ah audit as a mechanism for ensuring compliance and enhancing governance effectiveness. It mandates that auditors evaluate the adequacy of internal controls and the degree of Shari'ah adherence. Parallel provisions in AAOIFI

Governance Standard 3 (2024) affirm that Shari'ah review may be undertaken by internal auditors provided they possess the requisite competence and independence.

In practice, internal Shari'ah auditors—and by extension, OSA practitioners—perform a broad range of responsibilities:

- assessing the reliability and integrity of financial and operational information,
- ensuring systems comply with policies, regulations, and Shari'ah rulings,
- reviewing resource utilisation and asset management, and
- evaluating whether operations and programmes achieve both strategic and ethical objectives.

Through these roles, OSA moves beyond compliance verification to become a value-added governance tool that fosters transparency, efficiency, and ethical accountability. By combining operational evaluation with moral oversight, OSA strengthens the overall framework of Shari'ah corporate governance, reinforcing stakeholder confidence and supporting the sustainable performance of Islamic banks.

The discussion above indicates a broad consensus regarding the governance potential of OSA. However, this consensus is grounded largely in normative and conceptual reasoning rather than systematic empirical evidence. While existing studies offer valuable insights, they tend to emphasise what OSA ought to achieve rather than how it operates within actual institutional settings. Consequently, the relationship between OSA and governance outcomes—such as reduced compliance risk, enhanced transparency, and stronger accountability—remains more often assumed than empirically demonstrated. Moreover, the literature provides limited insight into the conditions that facilitate or constrain these outcomes, a particularly important omission in the Indonesian context, where institutional capacity, regulatory maturity, and governance practices vary considerably across Islamic banks. This disconnect between the anticipated governance benefits of OSA and the evidence supporting their realisation in practice constitutes a significant limitation in the literature and provides a key rationale for the empirical investigation undertaken in this study.

2.7 Islamic Corporate Governance Components

The early standards issued by the Islamic Financial Services Board (IFSB), namely IFSB-1 (2005) on risk management and IFSB-3 (IFSB, 2006) on corporate governance, laid the foundational principles for ensuring Shari'ah compliance through robust systems, effective internal controls, and the establishment of Shari'ah Supervisory Boards (SSBs). These early guidelines remain conceptually relevant, forming the basis for later frameworks such as IFSB-10 (2009) and IFSB-31 (2021), which expanded governance guidance to include the effectiveness of Shari'ah oversight mechanisms and accountability processes across Islamic financial institutions (IFIs).

Shari'ah governance is defined by IFSB-10 (2009) as a system through which IFIs ensure adherence to Shari'ah principles at every level of operation. It encompasses a set of institutional and organisational arrangements designed to provide independent oversight of Shari'ah compliance. These arrangements include the issuance of rulings and fatwas, dissemination of Shari'ah-related information, and the conduct of internal and annual Shari'ah compliance reviews or audits.

International standard-setting bodies, notably AAOIFI, continue to underscore the importance of strengthening Shari'ah governance. The recently issued AAOIFI GS 1 (2024) and related governance standards are explicitly intended to "enhance public confidence in the Shari'ah compliance of IFIs" and to mitigate reputational risk (AAOIFI, 2024). This orientation is consistent with contemporary scholarship that stresses the importance of transparent, standardised, and credible governance mechanisms in maintaining stakeholder trust (Ben Abdallah & Bahloul, 2023; Elhalaby et al., 2023; Haddad & Souissi, 2022).

The fundamental objective of Shari'ah corporate governance is to ensure that Islamic financial institutions conduct their operations in accordance with the principles of Islamic law (Abd Aziz & Abd Ghadas, 2021; Wasim & Zafar, 2024). To achieve this objective, corporate governance in Islamic banks is typically structured around four interrelated components:

1. Shari'ah Supervisory Board (SSB) – responsible for issuing Shari'ah rulings, advising management, and overseeing compliance.
2. Audit Committee – tasked with reviewing financial reporting processes, assessing internal control systems, and ensuring the integrity of both financial

and Shari'ah-related disclosures.

3. Internal Shari'ah Audit (ISA) Department – providing independent and objective assurance on the adequacy and effectiveness of Shari'ah compliance across operations.
4. Head of Internal Shari'ah Audit (HISA) – responsible for supervising the audit team, ensuring the audit plan aligns with organisational goals and Shari'ah requirements, and reporting outcomes to the Audit Committee and SSB.

These components interact dynamically to form an integrated Shari'ah governance framework. The relationships among them are illustrated in Figure 2.3, adapted from IFSB-3 (2006) and AAOIFI GS 11 (2020), with their relevance reaffirmed in more recent updates such as IFSB-33 (2021) and Bank Negara Malaysia's Shari'ah Governance Framework (BNM, 2019). While subsequent standards have refined operational details, the underlying framework remains a foundational reference that highlights the institutional interdependence of the SSB, Audit Committee, ISA, and management—each of which plays a critical role in sustaining effective Shari'ah governance.

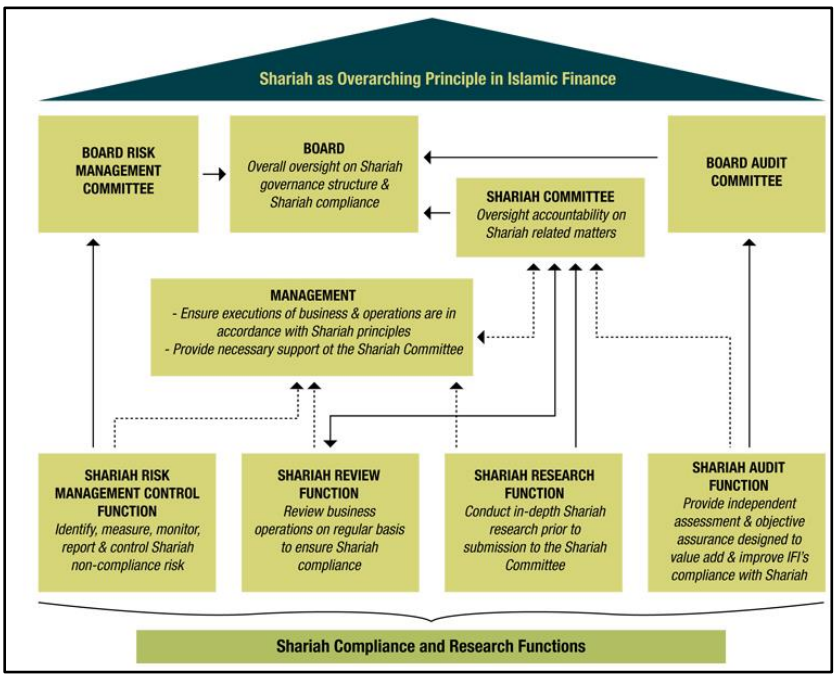


Figure 2.3 Shari'ah Governance Framework for Islamic Financial Institutions

Sources: Adapted from IFSB-3 (2006) and AAOIFI GS 11 (2020), With Relevance Reaffirmed In Later Updates Such As IFSB-33 (2021) And BNM-SGF (2019).

The four-component governance framework described above provides an important structural reference for understanding how Shari'ah oversight is institutionally organised. However, the literature suggests a gap between the formal design of these structures and their practical functioning. While the roles of the SSB, Audit Committee, ISA, and HISA are clearly articulated in international standards, empirical studies indicate that these components do not always operate with the independence, coordination, and expertise required for effective Shari'ah governance (Grassa, 2015; Khalid & Sarea, 2021; Yaacob & Donglah, 2012). In particular, the relationship between the ISA function and the SSB—which is central to effective OSA—remains insufficiently articulated in many institutions. Although the literature acknowledges these governance challenges, it provides limited insight into how they interact to shape OSA practice at the operational level. This limitation highlights the need for empirical investigation into the factors enabling or constraining OSA implementation within a specific institutional context, which this study examines in the Indonesian Islamic banking sector.

2.8 International and Institutional Standards for Operational Audit

Operational audit (OA), sometimes referred to as performance audit (PA), varies in scope depending on whether it is conducted externally by independent audit institutions or internally within organisational audit departments. This section reviews the major international and institutional standards governing OA—particularly in the public sector—and discusses their relevance and limitations in guiding internal operational audits, especially within Islamic financial institutions (IFIs).

The first comprehensive operational audit guideline, known as the Yellow Book, was issued in 1972 by the United States Government Accountability Office (GAO) (McDonough et al., 2024). The most recent edition, published in 2011, includes detailed chapters on fieldwork and reporting for performance and operational audits (GAO, 2011). Similarly, the International Organisation of Supreme Audit Institutions (INTOSAI) (2019) released ISSAI 300 in 2019, a standard that defines the principles of performance auditing and remains a primary reference in public-sector contexts.

The Australian Auditing and Assurance Standards Board (AUASB) issued ASAE 3500 (2008) to guide performance engagements, including audit planning, criteria, and reporting. While this standard offers useful structural guidance, it is less

prescriptive than traditional financial-audit standards. Collectively, these standards are primarily intended for external auditors—Auditors General or Supreme Audit Institutions—rather than for internal auditors. Consequently, their relevance to this study is conceptual, providing background for understanding operational audit objectives rather than direct methodological application.

Within the domain of internal auditing, the most pertinent reference is the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA). The IPPF incorporates elements relevant to OA, particularly in Sections 2100 (Governance), 2200 (Engagement Planning), and 2500 (Monitoring Progress) (IIA, 2017a). However, it lacks a formalised methodology for conducting operational audits, leaving internal auditors with limited procedural guidance. This absence highlights a regulatory gap, especially for practitioners who must design, execute, and report operational audit engagements within their own institutions.

In practice, operational audit criteria are frequently defined by management objectives rather than fixed regulatory standards (Khan, 1998). These criteria may include output targets, cost-efficiency ratios, staff utilisation rates, and planned operating expenditures. Where such benchmarks are unavailable, auditors may consult industry norms or professional experts to develop relevant performance metrics, which are typically discussed and agreed upon with management prior to audit execution.

According to the IPPF, internal auditors are expected to assess operational effectiveness and efficiency, support goal achievement, and improve risk management, controls, and governance processes (IIA, 2017a). Yet, despite multiple references to these objectives, the framework provides no detailed operational audit protocols specifically tailored to internal audit functions.

For Islamic financial institutions, operational auditing requires additional consideration due to the obligation to uphold Shari'ah principles. Standards from the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB)—including GSIFI 2, GSIFI 3, IFSB-3 (2006), and IFSB-10 (2009)—offer governance guidance related to Shari'ah compliance, audit committee responsibilities, and internal control mechanisms. However, none of these standards prescribes a dedicated methodology for conducting operational audits within internal Shari'ah audit departments.

This regulatory gap is particularly significant for Indonesian Islamic banks, which operate between international governance standards that provide structural

guidance and national regulations that offer limited methodological direction, leaving internal Shari'ah auditors without a coherent framework to guide practice. The absence of such guidance is more than a procedural issue; it influences the scope, quality, and consistency of OSA implementation. Table 2.7 addressing this limitation as a central objective of the present study, which seeks to develop an empirically grounded conceptual framework for OSA in the Indonesian context.

Table 2.7
International And Institutional Standards For Operational Audit

Standard / Framework	Issuing Body	Focus Area	Relevance to Internal Audit in Islamic Banks
Yellow Book (2011)	U.S. Government Accountability Office (GAO)	Guidelines for performance/operational auditing (fieldwork, reporting, audit criteria)	Conceptual benchmark for performance audit; less relevant to internal audit in Islamic banks.
ISSAI 300 (2019)	International Organisation of Supreme Audit Institutions (INTOSAI)	Performance audit principles in public sector	Provides methodological guidance, but primarily for supreme audit institutions.
ASAE 3500 (2008)	Auditing and Assurance Standards Board (Australia)	Performance engagements, planning, and reporting	Offers planning and reporting structure but not prescriptive for internal OA.
IPPF (2017)	Institute of Internal Auditors (IIA)	Governance, engagement planning, monitoring progress	Most relevant for internal auditors; still lacks specific OA methodology.
GSIFI 2, GSIFI 3	Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	Governance standards, Shari'ah compliance, internal Shari'ah review	Focused on Shari'ah assurance; does not provide detailed OA framework.
IFSB-10 (2009), IFSB-3 (2006)	Islamic Financial Services Board (IFSB)	Risk management and corporate governance with Shari'ah compliance emphasis	Reinforces governance and compliance expectations, but not detailed OA methodology.

Source: Compiled from GAO (2011), INTOSAI (2019), ASAE (2008), IIA (2017), AAOIFI (2017), and IFSB (2006, 2009).

2.9 Operational Audit Practices in the Indonesian Islamic Banking Context

Operational audit practices in Indonesian Islamic banks have evolved gradually alongside broader developments in Shari'ah governance and internal audit regulation. While Indonesia has issued several regulatory guidelines concerning internal control and Shari'ah compliance, a specific operational audit framework for Islamic banks has

yet to be formally institutionalised. As a result, operational audit practices remain diverse across institutions, depending on organisational policy, auditor competence, and interpretation of governance standards (Khalid et al., 2024; Khalid et al., 2021; Puad et al., 2020).

The Financial Services Authority (OJK) and Bank Indonesia (BI) have both emphasised the importance of strong internal control systems, risk management, and Shari'ah governance as part of Islamic banking supervision (Keuangan, 2019, 2020). Under these frameworks, Islamic banks are required to maintain a dedicated Internal Shari'ah Audit (ISA) function to ensure ongoing compliance with Shari'ah principles. However, existing regulations such as POJK No. 1/POJK.03/2019 on the implementation of Shari'ah governance primarily outline structural responsibilities rather than methodological details for audit execution. Thus, while the ISA is recognised as a governance mechanism, the operational dimension—assessing efficiency, effectiveness, and ethical outcomes—remains underdeveloped (Algabry et al., 2021; Yaacob & Donglah, 2012).

In practice, internal Shari'ah auditors in Indonesian Islamic banks conduct routine compliance checks, reviewing contracts, product structures, and documentation in line with fatwas issued by the National Shari'ah Board (DSN–MUI). These reviews primarily focus on preventing Shari'ah non-compliance risk rather than evaluating operational performance or governance quality (Akbar et al., 2015; Haniffa, 2010). As such, operational audit functions—those related to assessing the economy, efficiency, and effectiveness of activities—are often treated as secondary to compliance verification.

Recent studies have observed that this compliance-centric orientation limits the strategic value of Shari'ah auditing in Indonesian Islamic banks. For example, Puad et al. (2020) found that internal auditors tend to adopt reactive approaches, addressing issues only after breaches occur, rather than proactively assessing performance or ethical alignment. Similarly, Khalid et al. (2021) noted that auditors often lack formal guidance for evaluating operational performance within a Shari'ah-compliant framework. These findings highlight the conceptual and practical gap that the proposed Operational Shari'ah Audit (OSA) seeks to address by bridging operational efficiency and Shari'ah accountability.

Interviews conducted with industry practitioners in Indonesia further confirm these challenges. Internal Shari'ah auditors report that existing audit manuals seldom

differentiate between compliance and operational reviews, resulting in overlapping or unclear responsibilities (Rizqiani & Yulianto, 2020). In some institutions, the ISA department relies heavily on conventional internal audit guidelines, adapting them informally to meet Shari'ah requirements. This ad hoc adaptation indicates a need for a structured framework that incorporates both performance measurement and ethical assessment, consistent with the 4Es framework—Economy, Efficiency, Effectiveness, and Ethics (Khan, 1998). In response to these concerns, efforts to enhance Shari'ah audit quality in Indonesia have begun to gain momentum. The National Committee for Islamic Finance (KNKS, now KNEKS), in collaboration with OJK and DSN–MUI, has proposed strengthening the professional competencies and certification of Shari'ah auditors to ensure consistent audit quality and independence (KNEKS, 2020) .

Despite these advancements, the implementation of a comprehensive OSA framework remains limited by several constraints—namely, the absence of unified national standards, varying interpretations of Shari'ah compliance procedures, and gaps in auditor competency and independence (Algabry et al., 2021; Khalid et al., 2024). These limitations underscore the necessity of establishing an integrated framework that explicitly aligns operational auditing principles with Shari'ah governance requirements.

A critical reading of the Indonesian literature reveals a common limitation: while existing studies effectively diagnose the problem of compliance-centric auditing, they provide limited insight into the institutional, organisational, and regulatory factors that sustain it. Although gaps such as the absence of unified standards, the ad hoc adaptation of conventional frameworks, limited auditor competency, and weak methodological guidance are well documented, the ways in which these factors interact to shape OSA practice at the institutional level remain insufficiently understood. Moreover, the literature relies largely on normative prescription and regulatory analysis, with relatively little attention given to the experiences and perspectives of internal Shari'ah auditors themselves. As a result, understanding of how OSA is interpreted, negotiated, and practised within the everyday realities of Indonesian Islamic banks remains limited. This gap—between documented structural challenges and an empirically grounded understanding of their institutional dynamics—provides the central rationale for the present study's qualitative, interpretivist inquiry.

2.10 Chapter Summary

This chapter reviewed the evolution of operational auditing and its adaptation within Islamic banking, highlighting the extension of the 3Es framework to incorporate Ethics as a fourth dimension within Shari'ah governance. The review suggests that operational auditing remains largely grounded in Western and secular governance traditions, creating tensions when applied to Islamic banking, where performance and ethical accountability are inseparable.

The chapter also identified a significant methodological gap. While public- and private-sector operational auditing is supported by extensive professional guidance, comparable frameworks for Islamic financial institutions remain limited. Existing Shari'ah governance standards provide structural oversight but offer little direction on how operational performance and Shari'ah accountability should be assessed in an integrated manner.

In Indonesia, this gap is compounded by the absence of unified standards, the adaptation of conventional audit frameworks, limited auditor competency, and weak methodological guidance. Existing studies have further relied largely on normative and regulatory analysis, with limited attention to the institutional realities of OSA practice. Collectively, these conceptual, methodological, and contextual gaps highlight the need for an empirically grounded OSA framework for Indonesian Islamic banking. The following chapter develops the theoretical foundations—Maqasid al-Shari'ah and Islamic Agency Theory—that underpin this framework.

CHAPTER 3
THEORETICAL FOUNDATIONS: INTEGRATING MAQASID AL-SHARI'AH AND ISLAMIC AGENCY THEORY

3.1 Introduction

This chapter establishes the theoretical foundation for the proposed OSA framework by integrating *Maqasid al-Shari'ah* and *Islamic Agency Theory*. It argues that Shari'ah auditing should move beyond procedural compliance toward a value-based approach that unites ethical purpose and governance accountability. *Maqasid al-Shari'ah* provides the moral orientation of justice (*ʿadl*), trust (*amanah*), and public welfare (*maslahah*) (Asutay, 2015; Auda, 2008), while *Islamic Agency Theory* redefines accountability by recognising Allah as the ultimate Principal and auditors as trustees (*khalifah*) (Chapra, 1992; Khalid & Sarea, 2021). The synthesis of these paradigms forms the *Maqasid–Agency Operational Audit Framework*, which embeds the ethical dimension within the "4Es"—efficiency, effectiveness, economy, and ethics—as the theoretical basis for subsequent analysis of OSA practice.

3.2 Operational Audit as Value-Based Audit in Islamic Finance

Operational auditing in Islamic finance extends beyond assessing efficiency and compliance; it embodies a value-based orientation grounded in Islamic ethics and governance. Conventional operational audits focus on the "3Es"—efficiency, effectiveness, and economy—but in Shari'ah-compliant institutions, auditing must also uphold ethics as the fourth dimension (Khan, 1998; Rafie, 2023). This value-based perspective transforms auditing into a mechanism for promoting justice (*ʿadl*), accountability (muhasabah), and public benefit (*maslahah*).

Through this lens, internal Shari'ah auditors function as ethical guardians who evaluate whether operations and decisions align with Islamic moral principles as well as performance objectives (Haniffa & Hudaib, 2007; Mergaliyev et al., 2021). Hence, operational auditing in Islamic banks serves not merely as a control system but as a tool for ethical governance, ensuring that institutional conduct contributes to both organizational excellence and Shari'ah-compliant value creation. The theoretical

grounding for this value-based orientation is provided by two complementary frameworks — Maqasid al-Shari'ah and Islamic Agency Theory — whose relevance to operational auditing is examined in the sections that follow.

3.3 Maqasid al-Shari'ah and Its Relevance to Auditing

Maqasid al-Shari'ah (مقاصد الشريعة) refers to the higher objectives or purposes of Islamic law that aim to secure benefit (*maslahah*) and prevent harm (mafsadah) in human life (Asutay, 2015; Auda, 2008). Linguistically, maqasid is the plural of maqsad, meaning purpose or intention, and denotes the wisdom and aims that underlie every divine ruling. In essence, maqasid provides the moral and philosophical foundation of the Shari'ah, ensuring that legal judgments promote justice, mercy, and public welfare while restraining oppression and corruption. Within governance and auditing, it serves as an ethical compass that directs institutions to uphold integrity, transparency, and social responsibility beyond mere legal compliance.

The systematic formulation of Maqasid al-Shari'ah can be traced to classical jurists who articulated its foundational objectives and hierarchical structure within Islamic legal theory. Al-Ghazali (d. 505H/1111CE) identified five essentials (*al-daruriyyat al-khamsah*)—the preservation of religion (*din*), life (*nafs*), intellect (*ʿaql*), lineage (*nasl*), and wealth (*mal*)—as the ultimate aims of divine law (Rasool et al., 2020). Later, al-Shatibi (d. 790H/1388CE) refined these principles, classifying objectives into three categories: daruriyyat (essentials), hajiyyat (needs), and tahsiniyyat (refinements), which together ensure both spiritual and material well-being (Shihan et al., 2023). Contemporary scholars such as al-Qaradawi and Auda reinterpreted maqasid through a systems-based and context-sensitive lens, extending its application to economics, finance, and institutional governance (Hikmah & Yazid, 2025; Sahidin & Rahmadi, 2021).

According to classical and contemporary thought, *Maqasid al-Shari'ah* (objectives of Islamic law) are commonly classified into three levels: *daruriyyat*, *hajiyyat*, and *tahsiniyyat*.

a. Al-Daruriyyat (Essentials)

These are absolutely necessary for the survival and well-being of individuals and society. The loss of any of these leads to chaos (*fasad*). They include:

- Religion (*din*)**:** Protects belief, worship, and religious freedom. In finance, this means ensuring all contracts and operations comply with Shari'ah principles (Rafie, 2023).
- Life (*nafs*)**:** Safeguards human life and well-being. In auditing, it relates to ethical labor practices and risk management that prevent harm or exploitation (Kader, 2021).
- Intellect (*aql*): Promotes knowledge and prohibits anything that impairs reason. Financial institutions should ensure transparency and educate stakeholders for informed decisions (Efunniyi et al., 2024).
- Lineage (*nasl*): Upholds family integrity and moral values. Ethical business practices should support social cohesion, family stability, and intergenerational equity (Sulaeman et al., 2025).
- Wealth (*mal*): Views wealth as a trust to be managed justly and ethically (Hameed M. Bashir, 2002). Audits help ensure compliance with fair contracts and avoidance of riba, gharar, and exploitation.

b. Al-Hajiyyat *(Complementary needs)*

Al-Hajiyyat covers needs that ease hardship and provide flexibility in applying Shari'ah, especially during difficulty. For auditors, this means assessing whether institutional policies are responsive to client needs and uphold compassion alongside legal compliance.

c. Al-Tahsiniyyat (Embellishments)

Al-Tahsiniyyat promotes dignity, refinement, and social ethics through values like modesty and halal practices. Auditors should assess whether institutions reflect these higher ethical and cultural standards beyond basic Shari'ah compliance.

Applied to auditing, *maqasid* transforms the audit process into a holistic moral evaluation. It directs auditors to examine not only whether institutions follow Shari'ah rules but also whether their operations realise the higher objectives of justice (*ʿadl*), trust (*amanah*), and collective benefit (*maslahah*). In doing so, *Maqasid al-Shari'ah* provides the ethical foundation for an operational Shari'ah audit that integrates compliance with value-based accountability.

While the classical and contemporary literature on Maqasid al-Shari'ah provides a rich ethical and philosophical foundation, its application to operational auditing remains largely normative. Existing studies consistently argue that Maqasid should inform audit objectives and criteria, yet offer limited guidance on how its three levels—daruriyyat, hajiyyat, and tahsiniyyat—can be translated into concrete and auditable indicators within Islamic banking operations (Mergaliyev et al., 2021; Puad et al., 2020). As a result, the practical integration of Maqasid into audit methodology remains insufficiently developed. This limitation is particularly relevant in the Indonesian context, where internal Shari'ah auditors require not only ethical direction but also structured mechanisms for embedding Maqasid objectives into routine audit practice. The present study addresses this translational challenge by grounding the OSA framework in empirical evidence drawn from Indonesian Islamic banking institutions. Table 3.1 summarises the three levels of Maqasid al-Shari'ah and their respective applications in Shari'ah auditing.

Table 3.1
Levels Of Maqasid Al-Shari'ah And Their Application In Shari'ah Auditing

Level of Maqasid	Core Objectives	Application in Shari'ah Auditing
Daruriyyat (Essentials)	Preservation of *din*, *nafs*, *ʿaql*, *nasl*, and *mal*	Ensures Shari'ah-compliant operations, fairness, and transparency; prevents exploitation, fraud, and *riba*; safeguards stakeholder rights and institutional integrity.
Hajiyyat (Needs)	Reducing hardship and ensuring flexibility in applying Shari'ah rules	Evaluates whether institutional policies address client welfare and ethical responsiveness, especially during financial distress or uncertainty.
Tahsiniyyat (Refinements)	Promoting *ihsan* (ethical excellence), dignity, and social responsibility	Assesses professionalism, honesty, and moral conduct to ensure organisations uphold Islamic values beyond minimum compliance.

Source: Adapted from al-Ghazali (1111), al-Shatibi (1388), Auda (2008), Rafie (2023), Kader (2021), Efunniyi (2024), and Sulaeman (2025).

3.4 Applying Maqasid al-Shari'ah to Operational Auditing

The application of *Maqasid al-Shari'ah* in operational auditing extends the audit process beyond formal compliance toward a value-based evaluation of ethical performance and social responsibility. It requires auditors to assess not only whether institutional activities conform to Shari'ah principles but also whether they fulfil the higher purposes of Islamic law—justice (*ʿadl*), trust (*amanah*), and public welfare (*maslahah*) (Asutay, 2015; Auda, 2008). In this way, *maqasid* transforms the operational audit into an instrument of ethical governance, ensuring that financial practices promote social equity and organisational integrity.

3.4.1 From Financial Compliance to Ethical Performance

Conventional audits primarily focus on efficiency, profitability, and risk control. However, from a *maqasid* perspective, auditing must evaluate whether operations advance the broader ethical objectives of Islam, such as equity, transparency, and inclusion (Rafie, 2023). An Islamic bank may satisfy regulatory requirements, yet fail to achieve *maslahah* if its services benefit only specific groups or create unjust outcomes. Therefore, auditors are responsible for examining both compliance in form and ethical substance in impact, ensuring that operational results embody the moral spirit of Shari'ah (Alhammadi et al., 2022).

3.4.2 Auditing as a Tool for Maslahah (Public Good)

In Islamic jurisprudence, *maslahah* refers to promoting benefit and preventing harm for the community. Through this lens, auditing serves as a mechanism to safeguard the rights of all stakeholders, including depositors, employees, and society at large. Auditors are expected to identify practices that may cause injustice or imbalance, such as excessive profit-taking, information asymmetry, or hidden costs (Firdaws, 2021). They must also evaluate whether the institution contributes to social objectives—supporting small enterprises, facilitating fair financing, and providing relief to distressed clients (Abd Rahman et al., 2025; Rafie, 2023). Embedding *maslahah* into audit evaluations transforms Islamic banks from entities of compliance into institutions of conscience, reinforcing their ethical and societal mission.

3.4.3 Ethical Evaluation of Contracts and Products

Maqasid al-Shari'ah also redefines how auditors evaluate contracts and financial products. While formal Shari'ah approval ensures structural compliance, it may not guarantee ethical fairness or social justice. Auditors are therefore responsible for examining the *substance* of transactions to ensure that they embody principles of fairness, transparency, and mutual benefit (Dusuki & Bouheraoua, 2011; Taufik et al., 2023). For instance, a *murabaha* contract may technically meet Shari'ah standards but still violate ethical intent if implemented with hidden fees or exploitative terms (Febrian, 2019). Accordingly, operational audits should incorporate qualitative assessments of how products are designed, marketed, and executed (Algabry et al., 2020; Mergaliyev et al., 2021).

In summary, the application of Maqasid al-Shari'ah in operational auditing repositions the auditor as a moral guardian who ensures that institutional operations uphold justice, equity, and public good. By embedding maqasid principles within audit criteria, Islamic banks can align operational excellence with ethical accountability, strengthening their role as agents of maslahah in the broader economy. However, translating these principles into structured audit criteria and evaluation procedures remains a practical challenge that the existing literature has yet to resolve, underscoring the need for an empirically grounded framework that operationalises Maqasid-based auditing within the specific institutional realities of Indonesian Islamic banks.

3.5 Islamic Agency Theory and Accountability

Agency theory explains the relationship between a principal, who delegates authority, and an agent, who acts on their behalf. In its conventional form, it assumes that agents are self-interested and require monitoring to ensure alignment with the principal's objectives (Eisenhardt, 1989; Meckling & Jensen, 1976). Although this framework has shaped modern corporate governance, it reflects a rationalist view that prioritises control, efficiency, and contractual enforcement over moral and ethical considerations (Panda & Leepsa, 2017).

In contrast, Islamic Agency Theory (IAT) reinterprets the principal–agent relationship from a theocentric perspective. It posits that Allah is the ultimate Principal and human beings, including managers and auditors, are His trustees (*khalifah*)

responsible for fulfilling their duties with sincerity (ikhlas), justice (*ʿadl*), and accountability (muhasabah) (Chapra, 1992; Khalid & Sarea, 2021). This dual accountability—horizontal to stakeholders and vertical to Allah—redefines the purpose of organisational behaviour, making ethical conduct a religious obligation rather than merely a professional expectation (Ahmed, 2002; Khir et al., 2008).

Under IAT, accountability extends beyond legal or financial compliance to include moral and spiritual responsibility. Agents are bound by *amanah* (trust) and *taqwa* (God-consciousness), which serve as internal control mechanisms that deter misconduct even in the absence of external monitoring (Beekun & Badawi, 2005; Haniffa & Hudaib, 2007). Thus, the audit function becomes not only a process of verification but also a form of hisbah—institutional moral oversight—designed to uphold justice and prevent wrongdoing (zulm).

This framework positions the internal Shari'ah auditor as both an evaluator and a moral guardian (raqeeb). Their duty is to ensure that organisational operations and governance structures reflect the ethical and spiritual objectives of Shari'ah, aligning performance with both Maqasid al-Shari'ah and divine accountability (Dusuki & Abdullah, 2007; Kamali, 2008). Through this lens, auditing transforms into a moral obligation that promotes transparency, fairness, and trust as integral components of effective governance.

3.5.1 Comparison Between Conventional and Islamic Agency Theory

While both conventional and Islamic Agency Theory (IAT) address the delegation of authority and mechanisms of accountability, they differ fundamentally in their assumptions about human behaviour, purpose, and control. Conventional agency theory views humans as rational, self-interested actors whose behaviour must be aligned through contracts, incentives, and monitoring systems (Eisenhardt, 1989; Meckling & Jensen, 1976). In contrast, IAT assumes that individuals are moral beings endowed with conscience and faith, accountable not only to organisational principals but ultimately to Allah (Chapra, 1992; Khalid & Sarea, 2021).

This spiritual dimension expands the meaning of accountability (*mas'uliyyah*) from purely horizontal to dual—both vertical (to Allah) and horizontal (to stakeholders). It transforms the purpose of governance from profit maximisation to the fulfilment of *Maqasid al-Shari'ah*, including justice (*ʿadl*), social welfare (*maslahah*),

and ethical wealth distribution (Auda, 2008; Hasan, 2010). Incentives are therefore redefined: instead of relying solely on material rewards, agents are motivated by moral integrity (*amanah*) and spiritual consciousness (*taqwa*) (Beekun & Badawi, 2005; Haniffa & Hudaib, 2007). Table 3.2 summarises the key distinctions between conventional and Islamic Agency Theory in the context of Shari'ah governance.

Table 3.2
Comparison Of Conventional Vs. Islamic Agency Theory

Dimension	Conventional Agency Theory	Islamic Agency Theory	References
Principal-Agent Relationship	Principal (shareholders) delegates to Agent (managers), primarily for profit maximization	Allah is the ultimate Principal; humans (managers, auditors) are trustees (*khalifah*) acting with divine accountability	Chapra (1992); (Farook & Lanis, 2007; Meckling & Jensen, 1976); Al-Ghazali (n.d.)
Assumption of Human Nature	Agents are rational, self-interested, and opportunistic	Agents are moral beings, accountable to Allah; driven by *taqwa*, *amanah*, and the pursuit of *falah* (success)	Eisenhardt (1989); Beekun & Badawi (2005); Dusuki & Abdullah (2007)
Accountability	Horizontal accountability to the principal (owner/shareholder)	**Vertical and horizontal** accountability: to Allah (spiritual) and stakeholders (social)	Ahmed (2002); Khir et al. (2008);)
Purpose of Relationship	Aligning agent's behavior with principal's economic goals (mainly profit)	Serving **Maqasid Shari'ah**: promoting justice, social welfare, ethical wealth circulation, and public good (*maslahah*)	Al-Shatibi (n.d.); Auda (2008); Hasan (2010)
Incentive Mechanism	Financial rewards, bonuses, stock options to align interests	**Spiritual incentives** (reward from Allah), moral responsibility, internal *taqwa*, and collective benefit	Umer Chapra (1992); Lewis (2006); Haniffa & Hudaib (2007)
Control Mechanisms	Contracts, audits, monitoring, performance metrics	Shari'ah-based internal auditing, ethical governance, *hisbah*, and sincere intentions (*ikhlas*)	AAOIFI (2020); Dusuki (2006); Asyraf Wajdi Dusuki & Tareq (2007)
View of Wealth	Instrumental; wealth is maximized and distributed to shareholders	**A trust (*amanah*)** from Allah; must be earned and used ethically, respecting rights of all stakeholders	Al-Ghazali (n.d.); Kahf (2003); Mirakhor & Askari (2010)
Ethical Foundation	Minimal; often focused on legal compliance and economic efficiency	Grounded in Islamic ethics: *adl* (justice), *ihsan* (excellence), *sidq* (truthfulness), and *shura* (consultation)	Beekun & Badawi (2005); Iqbal & Mirakhor (2007); Kamali (2008)
Auditor's Role	Independent monitor of agent behavior; ensures contract compliance	**Ethical guardian** (*raqeeb*), advisor (*nasih*), and reformer (*muslih*) promoting ethical and Sharia-aligned conduct	Farook & Farooq (2011); Muhammad & Ismail (2015); Hasan (2020)

Source: Compiled and adapted from Jensen & Meckling (1976), Eisenhardt (1989), Chapra (1992), Beekun & Badawi (2005), Dusuki & Abdullah (2007), Auda (2008), Kamali (2008), Hasan (2010), AAOIFI (2020), and other contemporary works on agency theory and Islamic governance.

3.5.2 How Islamic Agency Theory Reshapes Operational Auditing

Islamic Agency Theory (IAT) provides an ethical and spiritual foundation that redefines the objectives, scope, and values of operational auditing in Shari'ah-compliant institutions. By positioning Allah as the ultimate Principal and human beings as trustees (*khalifah*), IAT elevates auditing from a technical monitoring process into a moral obligation aimed at promoting justice (ʿ*adl*), trust (*amanah*), and public welfare (*maslahah*) (Chapra, 1992; Dusuki & Abdullah, 2007).

First, spiritual accountability reframes the auditor's role. Unlike conventional theory, which emphasises accountability to shareholders or management, IAT demands vertical accountability to Allah alongside horizontal accountability to stakeholders (Ahmed, 2002; Khalid & Sarea, 2021). This dual responsibility obliges auditors to uphold sincerity (ikhlas), truthfulness (sidq), and moral courage, ensuring that audit judgments reflect ethical conviction as well as professional competence.

Second, IAT broadens the scope of operational auditing. Rather than restricting audits to efficiency, risk, or compliance, auditors are tasked with assessing whether institutional operations fulfil Maqasid al-Shari'ah—for example, protecting wealth (mal), advancing fairness in transactions, and contributing to community well-being (Auda, 2008; Hasan, 2010). Through this lens, operational audits become tools for evaluating ethical performance and social impact, aligning governance outcomes with Shari'ah's higher purposes.

Third, IAT introduces the concept of moral contracts. In Islam, ethical obligations extend beyond legal documentation to include moral duties binding before Allah (Beekun & Badawi, 2005; Haniffa & Hudaib, 2007). Auditors must therefore assess not only the formal validity of contracts but also their ethical integrity—ensuring transparency, mutual consent, and equitable risk-sharing. A financing arrangement that appears Shari'ah-compliant in form but causes harm, injustice, or exploitation violates the spirit of divine accountability.

Finally, auditing is conceived as an act of *hisbah*—institutional moral oversight rooted in the Qurʾānic command of amr bi al-maʿrūf wa nahy ʿan al-munkar (enjoining good and forbidding wrong) (Taymiyyah, 1985). Under this principle, auditors act as ethical guardians (raqeeb) and reformers (muslih), entrusted to identify weaknesses not only in controls but also in values, culture, and governance. The audit function thus

contributes to tazkiyah (institutional purification) by continuously aligning organisational practices with Shari'ah-based ethics and public accountability.

Islamic Agency Theory reconceptualises operational auditing as a Shari'ah-grounded, value-driven process that integrates technical assurance with ethical accountability. It complements Maqasid al-Shari'ah by aligning efficiency, effectiveness, and economy with justice, trust, and public welfare in Islamic financial institutions. However, its application to audit design remains underdeveloped, particularly in institutionalising dual accountability—vertical to Allah and horizontal to stakeholders—within routine structures. This gap highlights the need for an integrative framework to operationalise these principles.

3.6 Integrating Maqasid al-Shari'ah and Islamic Agency Theory: The Maqasid–Agency Operational Audit Framework

This section presents the core theoretical contribution of the study—an integrative framework that unites *Maqasid al-Shari'ah* and *Islamic Agency Theory (IAT)* to conceptualise Operational Shari'ah Audit (OSA) as an ethical and value-based governance mechanism. The integration demonstrates how *maqasid* provides the moral orientation of auditing, while IAT supplies the structural logic of accountability. Together, they transform auditing from a compliance exercise into a spiritually anchored process that promotes justice (*ʿadl*), trust (*amanah*), and social welfare (*maslahah*).

3.6.1 The Convergence of Maqasid al-Shari'ah and Islamic Agency Theory

Maqasid al-Shari'ah establishes the ethical objectives of auditing—justice, equity, and the pursuit of public good (Asutay, 2015; Auda, 2008). It ensures that financial governance safeguards the five essentials of faith, life, intellect, lineage, and wealth while advancing ihsan (moral excellence) in institutional conduct.

Conversely, Islamic Agency Theory explains the accountability structure underpinning those objectives. It views Allah as the ultimate Principal and human beings—managers, auditors, and executives—as trustees (*khalifah*) accountable both vertically to Allah and horizontally to stakeholders (Chapra, 1992; Khalid & Sarea,

2021). Accountability thus transcends legal obligation and becomes a form of worship (ʿibadah).

When combined, these two paradigms embed both ethical intent and spiritual responsibility in audit practice. Maqasid defines why auditing must be ethical; Agency Theory defines how accountability is operationalised. Their convergence redefines OSA as a value-driven ethical assurance system that measures not only performance but also moral integrity.

3.6.2 *Hisbah and Amr Maʿrūf Nahi Munkar* as Moral Oversight Principles

The integration of Maqasid and agency accountability is further reinforced through the classical institution of hisbah, which represents organised moral supervision in Islamic governance. Rooted in *amr bi al-maʿrūf wa nahy ʿan al-munkar* (Qur'an 3:104), hisbah institutionalises public accountability and ethical conduct in economic activity (Taymiyyah, 1985). In Islamic financial institutions, its principles align with internal audit functions, where auditors act as moral guardians (*raqeeb*) and reformers (*muslih*) to uphold justice, transparency, and trust (Dusuki & Abdullah, 2007; Hasan, 2020). In this sense, hisbah operationalises maqasid and agency accountability into ethical audit practice, framing auditing as both a governance mechanism and a form of *ʿibadah* and public service.

3.6.3 The Maqasid–Agency Operational Audit Framework

The integrative framework operates through three interrelated stages—inputs, process, and outputs—that link the ethical objectives of Maqasid al-Shari'ah with the accountability structure of Islamic Agency Theory. This structure shows how Islamic financial institutions can translate ethical principles into systematic audit practice, ensuring that operational auditing functions as both compliance and moral accountability.

Inputs consist of Maqasid al-Shari'ah objectives—justice (*ʿadl*), trust (*amanah*), public welfare (*maslahah*), and excellence (*ihsan*)—together with Islamic Agency Theory's accountability principles, which establish vertical responsibility to Allah and horizontal responsibility to stakeholders (Auda, 2008; Chapra, 1992; Khalid & Sarea, 2021). These inputs provide the ethical and spiritual foundation for audit activities.

Process denotes the operational dimension of auditing, where ethical objectives are embedded into audit design and execution. This involves audit planning, the formulation of criteria, and performance evaluation guided by the 4Es—Economy, Efficiency, Effectiveness, and Ethics (Mergaliyev et al., 2021; Tarique et al., 2021). The process stage also integrates *hisbah* and *amr maʿrūf nahi munkar* principles, ensuring that auditors not only verify compliance but also uphold moral governance, transparency, and fairness. In doing so, the audit becomes a tool of continuous improvement and tazkiyah (institutional purification).

Outputs reflect the intended outcomes of ethical operational auditing, including strengthened Shari'ah compliance, improved efficiency, and enhanced maslahah through fair and transparent practices. The framework also aims to minimise Shari'ah non-compliance (SNC) risk and strengthen stakeholder trust by embedding ethical accountability throughout the audit process. Figure 3.1 illustrates this integrative model, showing how inputs from Maqasid al-Shari'ah and Islamic Agency Theory interact through audit processes to produce outcomes that promote justice, trust, and public welfare.

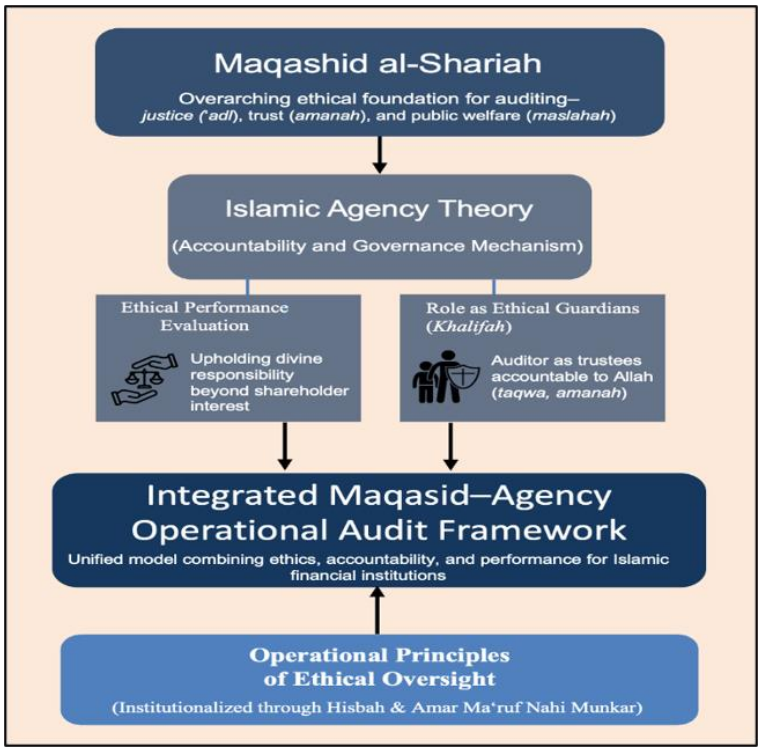


Figure 3.1 Maqasid–Agency Operational Audit Framework: From Ethical Foundations To Audit Outcomes.

Source: Developed by the researcher (2025)

Collectively, these three stages demonstrate that effective OSA integrates both spiritual accountability and ethical performance. The maqasid dimension provides normative direction, while agency principles ensure disciplined governance. When reinforced through *hisbah* and *amr maʿrūf nahi munkar*, the framework transforms auditing into a holistic act of ethical governance—one that not only ensures compliance but also nurtures justice, trust, and institutional integrity in Islamic financial practice.

3.6.4 Summary of the Integrative Perspective

The integration of *Maqasid al-Shari'ah*, *Islamic Agency Theory*, and *Hisbah* produces a coherent model of ethical operational auditing. It merges **ethical purpose**, **spiritual accountability**, and **institutional oversight** to ensure that Islamic banks function as agents of justice and public good. By embedding *amr maʿrūf nahi munkar* within audit governance, the framework transcends compliance auditing and positions OSA as a continuous process of value creation, moral reform, and organisational *tazkiyah* in pursuit of divine accountability.

3.7 Chapter Summary

This chapter established the theoretical foundations of the OSA framework through the integration of Maqasid al-Shari'ah and Islamic Agency Theory. Together, these perspectives conceptualise OSA as a value-driven form of accountability that extends beyond compliance to encompass justice, trust, public welfare, and dual accountability to both Allah and human stakeholders. However, while these theories provide a compelling rationale for value-based auditing, their translation into structured audit criteria and operational procedures remains insufficiently developed, particularly within the Indonesian Islamic banking context. Addressing this gap requires empirical grounding beyond what the theoretical literature can provide. The following chapter therefore develops the four-pillar conceptual framework that links these theoretical foundations with regulatory and institutional realities and guides the empirical inquiry of this study.

CHAPTER 4
CRITICAL REVIEW AND FRAMEWORK DEVELOPMENT

4.1 Introduction

This chapter presents a critical and interpretive review of Operational Shari'ah Audit (OSA) in Islamic banks. It builds on Chapter 2, which identified conceptual and practical gaps, and Chapter 3, which established Maqasid al-Shari'ah and Islamic Agency Theory as the study's theoretical foundation. Drawing from these earlier discussions, this chapter examines how OSA has evolved in practice and how far current applications reflect its ethical and governance ideals.

The analysis proceeds in three parts: a review of global evidence on the theory–practice gap; an assessment of the Indonesian context; and the development of a four-pillar framework—Conceptual Clarity, ISA Competency and Independence, Organizational Commitment, and Regulatory and Technological Integration.

4.2 Critical Review: Global Theory–Practice Gap in OSA

The practice of Operational Shari'ah Audit (OSA) continues to reveal a persistent mismatch between formal standards and real application. Despite guidelines from AAOIFI, IFSB, DSN-MUI, and OJK, audits often lack clear scope, consistent methodology, and reliable documentation (Sulistyowati et al., 2023). Similar findings are reported in other jurisdictions, such as Bangladesh, where Alam et al. (2023) highlight the absence of standardized Shari'ah audit frameworks and wide variation in institutional practices. Collectively, these limitations undermine the consistency and comparability of OSA across institutions and jurisdictions, raising concerns about its effectiveness as a reliable governance mechanism.

The implications for Shari'ah governance are significant. Weak audit implementation reduces stakeholder trust, increases the risk of undetected non-compliance, and restricts opportunities for strategic improvement. Instead of serving as a value-added process, OSA is often reduced to a procedural exercise with limited impact on broader governance objectives.

Empirical studies further illustrate this gap. Evidence from cases such as Bank Nagari Syariah points to missing audit tools and unclear boundaries, while other research documents the compromised independence of Shari'ah Supervisory Boards and insufficient auditor training. Scholars consistently identify four recurring issues: the absence of a standardized framework, ambiguity in audit scope, limited auditor qualifications, and weak independence (Al Amer, 2018; Al Lawati, 2023; Aribi et al., 2019; Arsyianti, 2019; Kasim et al., 2013; Kok et al., 2022; Megawati & Zulkifli, 2025; Muslihun, 2023; Yaacob & Donglah, 2012).

Interpretively, these weaknesses reveal deeper structural and epistemic issues. OSA frameworks remain largely adapted from conventional audit models, emphasizing procedural efficiency over the moral and value-based dimensions central to Shari'ah governance. This dependence on conventional paradigms limits the integration of ethical accountability and Maqasid al-Shari'ah principles within audit practice. The resulting audits measure compliance but rarely evaluate whether institutional behavior reflects justice, transparency, or *maslahah* — the core objectives of Islamic law.

Technological innovation adds both potential and complexity. Tools such as AI, natural language processing, and predictive analytics promise real-time monitoring and improved accuracy, yet adoption remains low due to interpretive bias, limited datasets, and the challenge of encoding diverse jurisprudential rulings (Nawaz, 2025; Shalhoob, 2025). At the regulatory level, initiatives such as AAOIFI's Standard 62 on sukuk structures and FATF-aligned reforms signal moves toward harmonization, but progress remains uneven (AAOIFI, 2025). Countries like Malaysia have advanced more integrated frameworks, while others continue to rely on partial or fragmented measures (Securities Commission Malaysia, 2023).

These observations suggest that the global theory–practice gap is not only procedural but also conceptual and ethical. Without explicit integration of Maqasid al-Shari'ah and Islamic Agency principles, OSA remains detached from its intended role as both an assurance and a moral accountability mechanism. Bridging this gap therefore requires a shift from compliance-based audits toward a Maqasid-driven model that balances operational performance with ethical and spiritual accountability — a principle further developed in the next section through the Indonesian experience.

To summarise these global insights, the Table 4.1 highlights the key dimensions of the theory–practice gap and their implications:

Table 4.1
Global Theory–Practice Gap In OSA

Dimension	Key Issues	Evidence/Studies	Implications
Framework & Scope	Lack of standardized framework; unclear audit boundaries; inconsistent practice	Sulistyowati et al. (2023); Kasim (2009); Rahman (2019)	Inconsistent outcomes; reduced comparability
Auditor Competency	Gaps in Fiqh Muamalah and audit techniques; limited training	Yaacob (2012); GCC/Indonesian studies	Weak audit quality; knowledge asymmetry
Independence	SSBs tied to management remuneration; limited authority	Al Thnaibat et al. (2024)	Compromised objectivity; weaker governance
Organizational Support	Missing tools, poor documentation, limited resources	Case of Bank Nagari Syariah	Superficial audits; reduced credibility
Technology	AI, NLP, analytics show promise but face bias and dataset gaps	Nawaz (2025); Shalhoob (2025)	Low adoption; underutilized innovation
Regulatory Harmonization	AAOIFI Std. 62; FATF-aligned reforms; fragmented across jurisdictions	AAOIFI (2023–25); FATF guidance	Aspirational standards; weak enforcement

Source: Synthesised by the researcher (2025) from the global literature on Shari'ah audit and operational auditing reviewed in this chapter.

4.3 Critical Review: Indonesian Context

In the Indonesian context, OSA practices illustrate a continuing tension between institutional progress and persistent structural and methodological constraints. Recent studies indicate that internal audit functions increasingly address operational risks and incorporate Shari'ah compliance considerations, while improvements in audit documentation, information systems, and auditor competency have contributed to stronger risk management practices (Prasojo et al., 2024; Puspitasari & Handayani, 2020). Nevertheless, these developments have not resolved a more fundamental challenge: the absence of an integrated framework that aligns operational performance with Shari'ah-based ethical accountability. The following discussion examines this challenge through three interrelated dimensions: internal governance dynamics, transparency and coordination practices, and the regulatory environment.

Internal governance dynamics, however, reveal a structural imbalance. Internal audit and compliance units often exercise greater influence than Shari'ah Supervisory Boards (SSBs), whose authority and independence remain limited. Studies highlight that while well-trained and adequately resourced internal audit teams strengthen

compliance reporting, SSB effectiveness is often constrained by organizational placement, overlapping roles, and dependence on management for information and remuneration (Abdelhakeem Khalid et al., 2021; Yaacob & Donglah, 2012). This imbalance weakens the accountability chain envisioned under *Islamic Agency Theory*, in which auditors and SSBs should function as trustees (*khalifah*) rather than subordinates within the corporate hierarchy.

Transparency and disclosure practices also mirror this gap. While active audit committees and internal audit units enhance accountability, weak coordination among governance actors reduces the practical impact of audit findings (Tumwebaze et al., 2022). These coordination issues highlight the absence of an integrated ethical governance culture that aligns day-to-day procedures with *Maqasid al-Shari'ah* objectives.

Regulatory reforms have supported gradual improvement but remain fragmented. The Indonesian Institute of Accountants (IAI) introduced Shari'ah auditor certification, and OJK's POJK 25/2024 and the Islamic Banking Roadmap (2023–2027) strengthen governance structures. Nevertheless, the legal foundations for Shari'ah audit are still weaker than Malaysia's integrated system under IFSA 2013 (Tiara, 2022). This disparity underscores Indonesia's reliance on institutional adaptation rather than a unified regulatory framework.

To summarise the key themes emerging from the Indonesian literature, Table 4.2 outlines the main issues influencing Operational Shari'ah Audit (OSA) implementation, supported by relevant studies and their broader implications for governance and ethical accountability.

Table 4.2
OSA In The Indonesian Context

Focus Area	Key Issues	Evidence/Studies	Implications
Internal Audit & Risk	Shari'ah compliance recognised as a major operational risk; documentation and IT systems remain underdeveloped	Prabowo & Anggraini (2024); Puspitasari (2020); Prasojo (2024)	Better systems and training reduce exposure to Shari'ah risk and strengthen organisational integrity.
Audit vs SSB Role	Internal audit functions often more influential than SSBs; SSB authority and independence limited	Yaacob & Donglah (2012); Khalid & Sarea (2021)	Role imbalance weakens accountability; SSBs risk becoming symbolic rather than ethical overseers.
Governance & Disclosure	Coordination gaps among Audit Committees, Internal Audit, and SSBs hinder	Tumwebaze, 2022	Limited collaboration reduces audit impact and delays ethical governance

Focus Area	Key Issues	Evidence/Studies	Implications
	effective oversight		improvements.
Certification & OJK	OJK's POJK 25/2024 and IAI's auditor certification mark progress, but legal base remains fragmented	IAI; OJK; Tiara (2022)	Regulatory advancement is incremental; a unified framework is needed to institutionalise OSA practice.

Source: Compiled from Literature Review.

Overall, the Indonesian experience shows gradual progress alongside persistent structural and regulatory constraints. While institutional initiatives have strengthened audit capacity and awareness, challenges in independence, coordination, and standardisation remain. These findings highlight the need for a structured framework linking governance practice with the ethical and accountability principles of Maqasid al-Shari'ah and Islamic Agency Theory. The next section develops this framework through four interrelated pillars of OSA effectiveness.

4.4 A Four-Pillar Conceptual Framework for OSA Effectiveness

Building on the global and Indonesian reviews, this section introduces a conceptual framework capturing key factors shaping the effectiveness of Operational Shari'ah Audit (OSA). The framework comprises four interrelated pillars: conceptual clarity, ISA competency and independence, organisational commitment, and regulatory and technological integration. These pillars were derived from a synthesis of literature and regulatory analysis, alongside governance debates on Shari'ah audit. While the first three pillars are consistently reflected in prior studies, the fourth was added following the extended review, reflecting ongoing regulatory reforms and technological change in Islamic banking.

4.4.1 Conceptual Clarity

Conceptual barriers remain a central issue in operational Shari'ah audits. One recurring problem is the ambiguity in defining scope and objectives. While the conventional "3Es" framework—economy, efficiency, and effectiveness—is widely used, in Islamic banking it lacks explicit integration of a fourth dimension: ethics, grounded in Shari'ah principles. This absence weakens the link between operational outcomes and the higher objectives of Islamic law.

Terminology adds further confusion. Terms such as operational audit, performance audit, Shari'ah review, and internal Shari'ah audit are often used interchangeably in both practice and scholarship. Without consistent vocabulary, expectations differ across institutions, producing varied audit outcomes.

Methodological guidance is also limited. Despite numerous governance standards from AAOIFI, IFSB, and national regulators, there is no unified step-by-step approach for conducting OSA. Many institutions fall back on conventional internal audit techniques, which often fail to capture Shari'ah-specific requirements.

Finally, ethical integration remains weak. Shari'ah compliance is often approached as a technical checklist rather than as a value-based process anchored in justice, transparency, and trust. Embedding Maqasid al-Shari'ah as part of the audit objective is critical to ensure that audits address both procedural conformity and broader ethical responsibilities.

The discussion above highlights several conceptual gaps that shape the development of Operational Shari'ah Audit (OSA). These issues are not isolated, but rather interconnected dimensions that affect how OSA is understood and practiced in Islamic banks. To synthesise the literature, Table 4.3 summarises the key dimensions, their main issues, and supporting evidence.

Table 4.3
Conceptual Clarity In OSA

Dimension	Key Issues	Evidence / Studies	Implications
Scope & Objectives	Traditional 3Es (Economy, Efficiency, Effectiveness) framework excludes explicit ethical dimension, limiting evaluation of Maqasid-based outcomes.	Abd. Saif Alnasser & Muhammed (2012); Algabry et al. (2020)	OSA misses ethical accountability and Maqasid-based evaluation.
Terminology	Overlap between terms such as operational audit, performance audit, Shari'ah review, and internal Shari'ah audit (ISA) creates inconsistency.	Khalid (2020); Islam & Bhuiyan (2021)	Confusion in practice; inconsistent interpretation of audit roles and outcomes.
Methodology	Absence of a unified Shari'ah audit methodology, with heavy reliance on conventional audit tools and frameworks.	Algabry et al. (2021); N.A.M. Ali et al. (2020)	Limited ability to capture Shari'ah compliance in operations; reliance on SOPs.
Ethical Integration	Compliance often treated as a checklist, with limited integration of Maqasid values or ethical reasoning in practice.	Khalid, Hussin, et al. (2021); Arwani (2018)	Weakens accountability to Shari'ah principles and reduces the normative value of audits.

Source: Compiled from Abd. Saif Alnasser & Muhammed (2012), Algabry et al. (2020, 2021), N.A.M. Ali et al.

(2020), Khalid (2020), Islam & Bhuiyan (2021), Khalid et al. (2021), and Arwani (2018).

In summary, Conceptual Clarity requires refining audit definitions, harmonizing terminology, establishing practical methodologies, and embedding Maqasid al-Shari'ah into audit objectives. This forms the first pillar of the proposed framework for strengthening OSA effectiveness.

As shown in the table, the literature reveals recurring challenges across four dimensions: scope and objectives, terminology, methodology, and ethical integration. These dimensions consistently point to the absence of a unified conceptual basis for OSA and to the limited incorporation of maqasid-driven values. This synthesis provides a foundation for the subsequent framework development in Section 4.5, where these conceptual gaps are translated into structured pillars for effective OSA practice.

4.4.2 ISA as Internal Audit Function (Institutional Factors)

The Internal Shari'ah Audit (ISA) represents a critical institutional function to safeguard Shari'ah compliance and reinforce governance integrity within Islamic banks. Beyond its technical role in reviewing procedures, ISA carries a broader responsibility as guardian of organizational trust and ethical conduct. The literature highlights that while the importance of ISA is widely recognized, its scope is often reduced to compliance checking, limiting its transformative potential in shaping ethical and value-driven practices (Grassa, 2015).

A recurring theme concerns the competency requirements of Shari'ah auditors. Unlike conventional auditors, ISA professionals must combine technical expertise in auditing with Shari'ah knowledge. However, studies consistently report significant gaps in this dual capability, pointing to the absence of structured certification, uneven training opportunities, and limited professional development platforms (Haridan et al., 2018; Kasim et al., 2009). Without strengthening these competencies, the credibility of ISA remains fragile.

Structural positioning also shapes ISA effectiveness. In many cases, ISA units are embedded within management hierarchies, creating vulnerabilities to conflict of interest and undermining independence. The literature emphasizes that functional autonomy can be improved by reporting directly to the Board or Audit Committee, aligning with international governance practices (Algabry et al., 2021; Ginena &

Hamid, 2015; Nathan Garas, 2012). Still, weak structural safeguards remain a recurring inhibitor in practice.

Finally, institutional support and resources play a decisive role in shaping ISA outcomes. Scholars note that lack of sufficient resources, limited recognition from leadership, and constrained access to information significantly restrict ISA capacity to enforce Shari'ah compliance (Alghamati et al., 2025; Aspiranti et al., 2023; Yaacob & Donglah, 2012). Even with competent auditors, weak organizational backing can render ISA symbolic rather than effective.

Table 4.4 summarises the institutional factors that shape ISA effectiveness as highlighted in the literature.

Table 4.4
Institutional Factors Shaping ISA Effectiveness

Dimension	Key Issues	Evidence / Studies	Implications
Role & Importance	ISA positioned as guardian of Shari'ah compliance and organizational trust, but often reduced to compliance-checking	Abdul-Rahman (2010); Grassa (2015)	Risk of ISA being symbolic rather than transformative in safeguarding ethics and governance
Competency Requirements	Dual expertise in conventional auditing and Shari'ah knowledge remains scarce; lack of structured certification and training	Kasim et al. (2009); Yahya & Mahzan (2012); Haridan et al. (2018)	Skill gaps undermine credibility; highlights urgency of standardized certification and continuous professional development
Structural Positioning & Independence	ISA often embedded under management, compromising independence; reliance on board/audit committee reporting lines to ensure autonomy	Ginena (2014); Garas & Pierce (2010); Othman & Ameer (2022)	Weak structural safeguards expose ISA to conflict of interest and reduce effectiveness
Institutional Support & Resources	Limited resources, recognition, and organizational backing constrain audit enforcement	Yaacob & Donglah (2012); Khan & Noreen (2014)	Without adequate support, even competent auditors fail to enforce meaningful Shari'ah compliance

Source: Developed by the researcher based on literature review

The effectiveness of Internal Shari'ah Audit is shaped not only by technical competencies and independence, but also by the institutional environment that provides authority, resources, and recognition. These factors form the foundation for ISA to function as both a professional assurance mechanism and an ethical guardian. The next section examines broader organisational aspects influencing the integration of Shari'ah audit in Islamic banks.

4.4.3 Organizational Commitment

Organizational commitment represents the institutional foundation that enables the effective implementation of internal Shari'ah audit (ISA). It determines how governance actors, organizational structures, and cultural dynamics interact to support or hinder the independence and authority of the audit function. Literature consistently shows that without sufficient institutional commitment, Shari'ah audit risks becoming symbolic rather than a meaningful mechanism for governance and accountability.

Governance oversight plays a central role in shaping ISA effectiveness. The overlapping responsibilities between the Audit Committee, Shari'ah Supervisory Board (SSB), and compliance units often create coordination gaps. Studies by Hasan (2021) and Shafii et al. (2014) emphasize that such fragmentation weakens accountability and dilutes the authority of Shari'ah audit. Recent evidence also shows that the configuration of Shari'ah governance mechanisms—particularly how Shari'ah supervision is structured and interacts with wider corporate governance—has material implications for institutional outcomes, underscoring the need for clearer role demarcation and stronger collaboration among oversight actors (Abdallah & Bahloul, 2021; Tashkandi, 2023).

The structural design of the audit function is another critical determinant. Many Islamic banks embed ISA within conventional internal audit departments, which limits specialization and risks marginalizing Shari'ah-specific expertise. Prior studies (Yaacob & Donglah, 2012) suggest that while integration with mainstream audit units may strengthen procedural rigor, it often reduces the focus on Shari'ah values and compliance. This tension is consistent with evidence that ISA effectiveness is closely tied to the independence of internal Shari'ah auditors and the need to move beyond minimum compliance toward stronger Shari'ah-oriented objectives (Abd Rahman et al., 2025; Khalid & Sarea, 2021).

Organizational support also affects the scope and quality of ISA implementation. Limited resources, insufficient training budgets, and lack of management recognition remain recurrent challenges (Kasim et al., 2009). Recent empirical evidence shows that ISA effectiveness is significantly influenced by auditors' autonomy, competency, and performance—factors that are typically enabled or constrained by organizational investment and support systems (Islam & Bhuiyan, 2021). In addition, conceptual work on ISA effectiveness emphasizes that institutional

arrangements that strengthen internal Shari'ah auditors' independence and organizational standing are critical to ensure ISA recommendations carry weight and are acted upon (Khalid & Sarea, 2021). Therefore, stronger institutional backing, including continuous capacity building, is essential for sustainable Shari'ah audit practices.

Finally, cultural commitment reflects the softer dimension of institutional support. Research highlights that auditee openness, leadership tone, and the broader ethical climate shape whether ISA functions as a compliance exercise or as a driver of continuous improvement (Khalid, Hussin et al., 2021; Khan & Bhatti, 2008). Where ethical culture is weak, audits tend to be checklist-driven, while stronger cultural alignment can embed Shari'ah values within organizational decision-making. Table 4.5 below summarises these dimensions of organizational commitment that underpin ISA effectiveness.

Table 4.5
Organizational Commitment Factors Influencing ISA Effectiveness

Dimension	Key Issues	Evidence / Studies	Implications
Governance Oversight	Overlap and limited coordination among Audit Committee, Shari'ah Supervisory Board (SSB), and compliance units.	Hasan (2021); Shafii et al. (2014)	Weak accountability and diluted oversight functions.
Structural Design	ISA often embedded in conventional internal audit departments with limited specialization.	Yaacob & Donglah (2012); Ginena (2014); Abd Rahman et al., (2025); Khalid & Sarea (2021)	Reduces Shari'ah-focused expertise and risks marginalizing Shari'ah audit.
Organizational Support	Limited resources, training budgets, and management recognition for ISA.	Kasim et al. (2009); Islam & Bhuiyan (2021); Khalid & Sarea (2021)	Constrains audit coverage and weakens enforcement of findings.
Cultural Commitment	Auditee openness, leadership tone, and ethical climate shape audit effectiveness.	Khalid, Hussin et al. (2021); Khan & Bhatti (2008)	Determines whether ISA is compliance-oriented or contributes to continuous improvement.

Source: Developed by the researcher based on literature review.

Overall, organisational commitment provides the institutional foundation that enables or constrains the effectiveness of Internal Shari'ah Audit. However, the external environment—particularly regulatory frameworks and technological infrastructure—also plays a decisive role. The next section examines how regulatory and technological

integration shapes the practice and evolution of Operational Shari'ah Audit in Islamic banks.

4.4.4 Regulatory and Technological Integration

The effectiveness of operational Shari'ah audit is not determined solely by institutional design and auditor competence. It also relies on the strength of the regulatory environment and the adaptability of technological systems that support Shari'ah governance. The literature highlights two persistent gaps. First, regulatory provisions governing Shari'ah audit in many jurisdictions remain fragmented and largely modeled on conventional internal audit regulations, with limited attention to the specific needs of Islamic banks (Grassa, 2015; Jaradat & Oudat, 2025). Second, technological adoption in audit practice lags behind broader banking digitalisation trends, leaving Shari'ah audit dependent on manual SOPs rather than data-driven systems (Kunhibava et al., 2024; Yaacob & Donglah, 2012).

Regulatory ambiguity has significant consequences. Studies show that while supervisory authorities such as central banks issue general audit requirements, they rarely provide operational guidance on Shari'ah-specific evaluation frameworks (Alam, Islam, et al., 2022; Algabry et al., 2020; Arwani, 2018). This lack of clarity reinforces institutional discretion, creating inconsistency across banks in scope, methodology, and terminology. Parallel to this, the limited integration of technology in Shari'ah audit hampers efficiency and the ability to respond to complex risk exposures in real time. Recent scholarship argues that digital audit platforms, automated sampling, and continuous auditing tools are essential for aligning Shari'ah audit with the evolving digital ecosystem of Islamic finance (Algabry et al., 2021; Kunhibava et al., 2024).

Table 4.6 synthesises key regulatory and technological factors influencing Shari'ah audit practice as identified in the literature.

Table 4.6
Regulatory And Technological Factors Influencing Shari'ah Audit Practice

Dimension	Key Issues	Evidence / Studies	Implications
Regulatory Framework	Shari'ah audit provisions remain fragmented, often embedded within conventional internal audit regulations without specific operational guidance.	Grassa (2015); Jaradat (2025); Kunhibava (2024)	Creates ambiguity, leaving scope and methodology to institutional discretion.

Dimension	Key Issues	Evidence / Studies	Implications
Standardisation & Enforcement	Lack of unified Shari'ah audit standards; reliance on AAOIFI/IFSB guidance is inconsistent across jurisdictions.	Arwani (2018); Algabry et al. (2020)	Inconsistent practices across Islamic banks; weak comparability and accountability.
Technology Adoption	Shari'ah audits still rely on manual SOPs, checklists, and traditional sampling methods.	Yaacob & Donglah (2012); Kunhibava (2024)	Limits efficiency, scalability, and responsiveness to complex operational risks.
Digital Audit Tools	Limited integration of automated analytics, continuous auditing, and digital platforms in Shari'ah audit.	Algabry et al. (2021); Kunhibava (2024	Missed opportunities to enhance timeliness, accuracy, and digital alignment of Shari'ah audit.

Source: Developed by the researcher based on literature review

Recent literature notes that regulatory adaptation often lags the rapid evolution of Islamic finance, creating risks of uneven enforcement and regulatory arbitrage across jurisdictions. This underscores the need for a more responsive, digitally aligned Shari'ah audit framework to ensure consistency and credibility.

While the first three pillars were grounded in established literature, the fourth emerged from this study's interpretive analysis. Participants highlighted technological constraints and regulatory pressures, later reflected in developments such as POJK 2/2024. These insights, supported by recent scholarship, justify Regulatory and Technological Integration as a distinct and dynamic pillar reflecting evolving pressures in OSA and the framework's originality.

Overall, the four pillars provide a structured basis for assessing OSA: conceptual clarity defines scope; ISA competency and independence address professional and structural requirements; and organisational commitment highlights institutional support. The fourth pillar captures regulatory reform and digital transformation, integrating practitioner insights with recent regulatory shifts and leading into the theoretical integration in the next section.

4.5 Proposed Conceptual Framework for Effective OSA

Building on the theoretical foundations discussed in Chapter 3 and the critical synthesis of literature in Chapter 4, this section presents the Framework for Effective Operational Shari'ah Audit (OSA). The framework integrates insights from Maqasid al-Shari'ah and Islamic Agency Theory, which together provide the ethical and governance foundation for operational auditing in Islamic banks. While Maqasid al-

Shari'ah emphasizes justice ('*adl*), trust (*amanah*), and public welfare (*maslahah*), Islamic Agency Theory frames accountability to both stakeholders and Allah (*taqwa*). These ethical underpinnings inform the principles and practice of OSA by ensuring that audit effectiveness extends beyond procedural compliance to encompass spiritual and social accountability.

The framework is structured around four interrelated pillars—conceptual clarity, ISA competency, organizational commitment, and regulatory-technological integration. Each pillar represents a key determinant of OSA effectiveness, derived from recurring themes identified in the global and Indonesian literature. Together, they describe how ethical foundations are operationalized into institutional practices that strengthen governance and accountability within Islamic financial institutions.

As illustrated in Figure 4.3, the ethical foundation derived from Maqasid al-Shari'ah and Islamic Agency Theory underpins the framework for effective OSA. The four pillars collectively contribute to enhanced Shari'ah governance, accountability, and ethical outcomes, ensuring that audit practices align with the higher objectives of Islamic law.

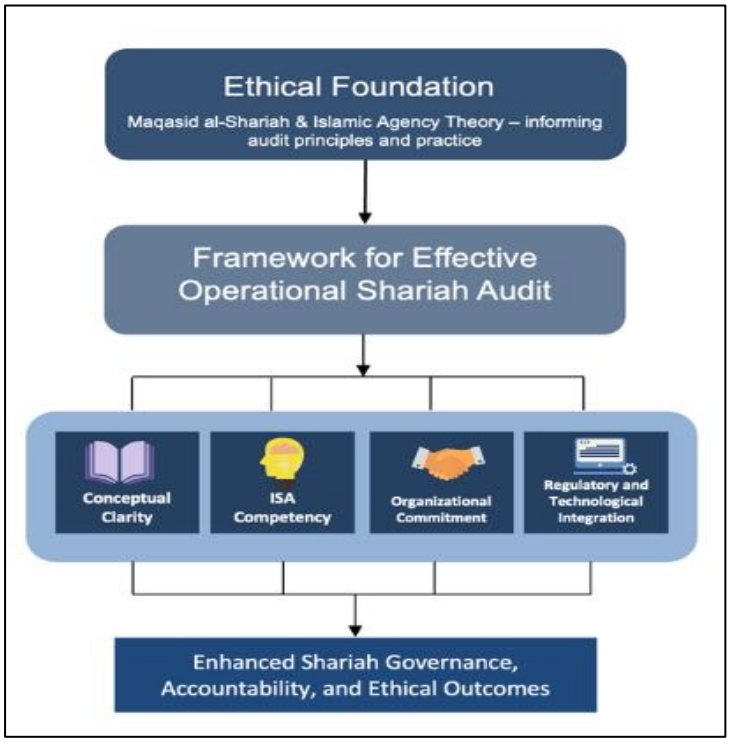


Figure 4.1 Conceptual Framework For Effective Operational Shari'ah Audit (OSA

Source*:* Developed by the researcher (2025), grounded in *Maqasid al-Shari'ah* and *Islamic Agency Theory*.

The proposed framework consolidates the theoretical and practical insights developed throughout this chapter into a coherent model for evaluating and strengthening Operational Shari'ah Audit. By linking ethical foundations to institutional mechanisms, it provides a structured basis for improving audit quality, accountability, and value creation in Islamic banks.

4.6 Chapter Summary

This chapter reviewed the literature and theoretical foundations of operational Shari'ah audit (OSA) in Islamic banks. It traced OSA's evolution from conventional internal audit practices while highlighting persistent issues of unclear definition, limited methodological guidance, and weak institutionalisation.

Four key gaps were identified: (i) lack of conceptual clarity and inconsistent terminology, (ii) constrained ISA competency and independence, (iii) uneven organisational commitment, and (iv) fragmented regulatory and technological integration. To address these, the chapter proposed a four-pillar framework—Conceptual Clarity, ISA Competency and Independence, Organisational Commitment, and Regulatory and Technological Integration—forming the basis for effective, Shari'ah-aligned audit practice.

This framework remains theoretical until tested against practice. The empirical chapters therefore examine how the four pillars operate in Indonesian Islamic banks, identifying enabling and constraining conditions and refining the framework based on practitioner and institutional evidence.

CHAPTER 5
RESEARCH METHODOLOGY

5.1 Introduction

This chapter outlines the research approach adopted in this study. A qualitative design is used to address the exploratory nature of the research questions. Section 5.2 presents the researcher's perspective, followed by the research design (5.4), inquiry strategy (5.3), and research techniques (5.5). Section 5.6 explains data collection procedures, while Section 5.7 discusses data analysis methods and the validity and generalisability of the findings.

5.2 Research Paradigm and Philosophical Underpinning

5.2.1 Interpretivist Paradigm

In qualitative research, paradigms serve as philosophical foundations that inform methodological choices and the nature of knowledge itself. Among various paradigms, including constructivism, pragmatism, positivism, and participatory inquiry (Creswell, 2017), this study adopts the interpretivist paradigm. Interpretivism emphasizes the co-construction of meaning between researcher and participants, acknowledging that human experience is embedded in social, cultural, and institutional contexts (Onwuegbuzie & Leech, 2005; Patton, 2014). This perspective is particularly relevant in fields such as auditing and Shari'ah governance, where values, context, and institutional practice intersect.

The interpretivist paradigm is suitable for this study because it supports an in-depth understanding of how Internal Shari'ah Auditors (ISA) perceive and perform operational auditing (OA) in Islamic banking institutions. As Lincoln and Guba (1982) note, interpretivism enables researchers to explore lived experience rather than seek objective, generalizable truth. This paradigm is inherently flexible and adaptive, allowing inquiry to evolve as the researcher becomes more immersed in participants' experiences (Hossain, 2013; Krauss, 2005).

5.2.2 Justification for Qualitative Inquiry

Qualitative inquiry is appropriate for this study due to the exploratory and under-researched nature of Operational Shari'ah Audit (OSA) practice. Most prior research has focused on conventional internal audit functions in non-Islamic contexts, with little attention paid to how Shari'ah auditing is interpreted and enacted by practitioners. This study seeks to bridge the gap between theoretical constructs and institutional practice, a task that qualitative research is well-positioned to undertake (Hopwood, 2013; Parker, 2008). Through in-depth engagement with participant perspectives and supporting documents, the study aims to uncover embedded meanings and uncover practice-informed insights.

5.2.3 Hermeneutic Phenomenology as Methodology

This study employs hermeneutic phenomenology as its methodological approach, which combines phenomenological attention to lived experience with hermeneutic interpretation. Phenomenology, as described by Creswell (2017), seeks to understand the essence of a phenomenon by exploring how it is experienced by individuals. Hermeneutic phenomenology, however, goes beyond description to emphasize the interpretive nature of understanding. It involves a recursive movement between the parts and the whole, a process known as the hermeneutic circle.

This approach is strongly informed by the work of Paul Ricoeur and Max van Manen. Ricoeur's theory of interpretation emphasizes the fusion of horizons—where the meaning of a text is constructed through the interaction of the interpreter's perspective and the subject's lived narrative (Van Manen, 2023). (Van Manen, 1990, 2023) expands on this by emphasizing the importance of reflection, writing, and engagement with context to uncover the deeper structures of meaning. In this study, their insights provide the foundation for a rigorous and ethically reflexive interpretation of how Operational Shari'ah Audit is enacted by internal Shari'ah auditors

Phenomenology is commonly categorized into two main approaches: psychological phenomenology and hermeneutic phenomenology (Creswell, 2017). The key distinction lies in the role of interpretation. In psychological phenomenology, the researcher seeks to describe the essence of participants' experiences while minimizing personal interpretation. In contrast, hermeneutic phenomenology is inherently

interpretive, requiring the researcher to engage with the text in a reflective and iterative manner—making sense of individual parts in relation to the whole (Chabrak, 2005). This approach allows the researcher to interpret how meaning is constructed within a given context, rather than merely identifying what is commonly experienced.

Hermeneutic phenomenology is particularly suited to this research because it allows the researcher to understand not only what ISAs do, but how they make sense of their roles within the regulatory, ethical, and institutional landscapes of Islamic banking. This perspective is essential for drawing out the complexity of operational audit practices that are grounded in both technical auditing standards and Shari'ah principles. Rather than treating participants' responses as objective data, the researcher interprets them within their context, enabling the emergence of a more nuanced conceptual framework for effective OSA implementation.

This study also draws on the hermeneutic philosophy of Hans-Georg Gadamer, particularly his concept of the 'fusion of horizons,' which refers to the dialogical process by which the researcher's interpretive framework interacts with participants' lived narratives to produce meaning. Gadamer's hermeneutic philosophy, particularly his idea of the *fusion of horizons*, highlights how meaning emerges through dialogue between the interpreter's framework and the subject's lived experience (Gadamer, 1975, 2016). This idea underpins the study's use of the hermeneutic circle, enabling interpretation of how auditors construct meaning within their institutional and religious environments.

To further align the interpretive approach with Islamic accounting and governance, this study references the work of (Kamla et al., 2006), who argue for accounting practices grounded in Islamic ethical values and social accountability. Their work highlights the importance of interpreting financial and auditing practices through the lens of Maqasid al-Shari'ah and socio-spiritual responsibility. This perspective reinforces the suitability of hermeneutic phenomenology in analyzing Operational Shari'ah Audit, where ethical, institutional, and spiritual dimensions intersect in practice.

5.3 Research Design

This study adopts a qualitative research design grounded in hermeneutic phenomenology, aiming to explore how Operational Shari'ah Audit (OSA) is

understood and enacted within the institutional realities of Islamic banks in Indonesia. A qualitative approach was deemed appropriate due to the exploratory nature of the research, the focus on practitioners' lived experiences, and the limited prior literature on Shari'ah-based operational audit practices in the Indonesian context.

As Creswell (2017) outlines, a research design encompasses three components: a philosophical worldview, an inquiry strategy, and research methods. In this study, these are represented respectively by an interpretivist paradigm, a hermeneutic phenomenological strategy, and the use of semi-structured interviews and document analysis. This approach aligns with the aim of capturing meaning as constructed by practitioners within their socio-religious and organizational environments.

The study design unfolds in two interlinked stages. In the first stage, a conceptual framework was developed by reviewing literature on Shari'ah auditing practices, institutional governance, and regulatory standards relevant to Islamic banks. This literature review drew from peer-reviewed academic journals and regulatory sources, identifying conceptual gaps and surfacing underexplored factors influencing OSA.

In the second stage, the initial framework was refined through empirical engagement with practitioners. Semi-structured interviews were conducted with Internal Shari'ah Auditors (ISAs) and key stakeholders to gather context-specific insights into OSA implementation. These interviews were thematically analyzed using an interpretive lens to uncover meaning patterns and surface tensions between theory and practice. The resulting insights were then used to revise and extend the original framework. Document analysis, including audit charters and national Shari'ah governance regulations (e.g. POJK and SEOJK), further enriched the contextual understanding and supported triangulation. Figure 5.1 summarises the research design's two-stage structure—beginning with conceptual development and followed by empirical refinement grounded in practitioner experience.

The two-stage approach reflects the exploratory and interpretive nature of this study, which responds to the absence of a formal Operational Shari'ah Audit (OSA) framework and limited implementation in Indonesia.

In the first stage, a preliminary conceptual framework was developed through an extensive literature review, focusing on both academic research and regulatory documents related to Shari'ah auditing. This review highlighted key challenges faced by practitioners and surfaced conceptual factors that had not yet been integrated into a

unified framework. Given the underdeveloped state of Shari'ah audit literature, the review was broadened to include all accredited scholarly journals in the fields of Islamic finance, auditing, and governance.

In the second stage, the initial framework was refined based on empirical data gathered from practitioners involved in Shari'ah auditing in Indonesia's Islamic banking sector. This phase involved semi-structured interviews and document analysis, enabling contextual interpretation of operational realities.

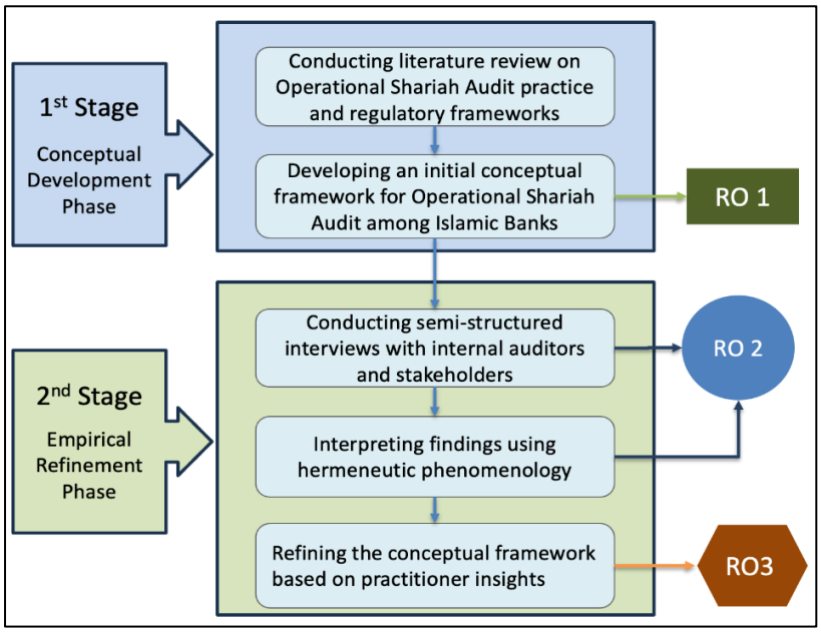


Figure 5.1 Two-Stage Research Design For Framework Development And Refinement

5.4 Population, Sample, and Sampling Technique

5.4.1 Sampling technique

To collect data for this thesis, semi-structured interviews were employed. This method is widely used in qualitative social science research, especially where rich, contextual insights are needed (Hossain, 2013). It allows for open-ended yet guided conversations, enabling researchers to probe deeper into participant responses and clarify ambiguities (King et al., 2018; Saunders et al., 2009). According to (Zikmund et al., 2013), the use of such interviews facilitates adaptive engagement with participants while maintaining structure. An interview guide was used to ensure consistency and

comprehensive coverage across all key themes (Beasley et al., 2009; Patton, 2014), helping to reduce researcher bias and improve reliability (Lillis, 1999).

This study applied a combination of purposive expert sampling and snowball sampling. (Miles et al., 2018) list sixteen sampling strategies appropriate for qualitative designs, and the selected combination here was tailored to meet the thesis's interpretive goals (Trotter II, 2012).

Purposive expert sampling was the primary technique used to identify participants with substantial experience and knowledge of Operational Audit among Islamic Banks. This approach ensures that insights come from individuals directly engaged in the subject under study (Trotter II, 2012). Internal Shari'ah auditors were selected based on their role and experience in conducting or overseeing Operational Audit.

To expand the participant pool, snowball sampling was also used. Given the relatively niche expertise required for this study, initial participants were asked to recommend colleagues with relevant experience (Zikmund et al., 2013). This technique is particularly effective when the target population is small or specialized.

Together, these techniques ensured that the sample was both theoretically relevant and practically grounded, capturing a range of practitioner perspectives necessary for interpreting the practice of Operational Audit among Islamic Banks.

5.4.2 Sample Size

Qualitative studies generally employ small sample sizes, as the emphasis is on depth of understanding rather than generalizability (Creswell, 2017; Hossain, 2013; Malhotra et al., 2004). In phenomenological research, sample size is typically guided by the principle of saturation, the point at which no new themes or insights emerge. According to Lincoln and Guba (1982), saturation is:

The point of redundancy... In purposeful sampling the size of the sample is determined by informational considerations. If the purpose is to maximize information, the sampling is terminated when no new information is forthcoming from new sample units; thus redundancy is the primary criterion. Francis et al. (2010) also define saturation data as

"... no new themes, findings, concepts or problems [being] evident in the data."

Within hermeneutic phenomenology, the focus is interpretive depth rather than representativeness. Dukes (1984) suggests that as few as three to ten participants may be sufficient, while Van Manen (2023) and Smith et al. (2021) emphasize purposeful selection and rich description over sample breadth. Creswell (2017) recommends five to twenty-five participants depending on the scope and complexity of the phenomenon. This study also aligns with the logic of **information power**: fewer participants may be sufficient when the research aim is narrow, interviews are in-depth, theory guides analysis, and participants are information-rich (Malterud et al., 2016).

In this study, participants were drawn from two main groups: internal auditors of Islamic banks and non-internal audit stakeholders. A total of 14 participants were included, consisting of 10 internal Shari'ah auditors and 4 non-auditors. The non-auditor group comprised a member of the Sharia Supervisory Board (SSB), an audit committee representative, an external auditor with Shari'ah audit experience, and a regulator who contributed via written response. While this response was not conducted as an interview, it addressed the same set of guiding questions and contributed valuable regulatory insight. Thematic saturation was reached during the final interviews, as no new significant concepts or themes emerged.

To complement and contextualize the interview data, internal audit charters from multiple Islamic banks were also analyzed. These documents offered insight into the formal structure, mandate, and authority of internal Shari'ah audit functions and provided a basis for triangulating findings.

Based on the above and in alignment with hermeneutic phenomenological principles, the sample size used in this study is deemed methodologically robust and contextually appropriate.

Participants were selected based on the following inclusion criteria:

1. Minimum of two years of experience in their current professional role.
2. Demonstrated understanding of Shari'ah auditing principles and practices.

5.4.3 Population and Sampling Criteria

The population for this study comprises professionals involved in Operational Audit among Islamic Banks in Indonesia. Given the focus on understanding how internal Shari'ah audit is interpreted and practiced within institutional and regulatory contexts, the study specifically targeted individuals with direct experience in or oversight of Shari'ah auditing functions.

Participants were selected based on the following inclusion criteria:

1. Professional experience**:** Individuals must have held their current role for at least two years, ensuring adequate exposure to Shari'ah audit practices and internal audit structures.
2. Substantive engagement: Participants must have been actively involved in Operational Audit or Shari'ah compliance oversight, such as internal Shari'ah auditors, members of Sharia Supervisory Boards (SSB), audit committee members, external auditors with relevant Islamic audit experience, or regulators with oversight of Islamic banking operations.
3. Familiarity with regulatory frameworks: Participants should possess an operational understanding of relevant governance structures and regulatory documents, particularly those issued by OJK and other national or industry bodies.

This purposive focus was aligned with the interpretivist paradigm of the study, which emphasizes selecting information-rich cases that enable the researcher to explore lived experiences in depth. The sampling strategy was designed to capture diverse yet relevant perspectives, facilitating a holistic understanding of how Operational Audit is enacted, perceived, and institutionalized across different types of Islamic banking stakeholders.

5.4.4 Exclusion Criteria

Individuals were excluded from the study if they lacked direct experience with Operational Audit processes or had held their current roles for less than two years.

Additionally, participants who were unable to articulate practical insights into Shari'ah audit implementation—such as administrative staff or those with only peripheral exposure to the audit process—were not considered. This ensured that all included participants could provide rich, experience-based reflections in line with the study's interpretive aims.

5.5 Data Collection

5.5.1 Interview

This study employed semi-structured interviews as the primary method, following guidance from (Durdella, 2019) and (Creswell, 2017). The format kept a common guide for comparability while allowing deeper probes where needed—appropriate for examining lived experiences of Operational Shari'ah Audit (OSA) without drifting from the core objectives (Zikmund et al., 2013). Interviews were conducted face-to-face or online, depending on availability and location.

Given the phenomenological orientation, data saturation determined sample sufficiency—the point where further interviews no longer produced new insights (Creswell & Poth, 2019; Lincoln & Guba, 1982).

All interviews were audio-recorded with informed consent (Creswell, 2017; Patton, 2014). Verbatim capture reduced misinterpretation and enabled repeated, close engagement during analysis, strengthening credibility within a hermeneutic phenomenological approach (Minichiello et al., 2008).

Transcripts were produced in Bahasa Indonesia, reviewed and lightly edited for accuracy, then translated to English paragraph-by-paragraph. AI-assisted tools (Transkip.com; ChatGPT) were used selectively to improve clarity and support translation. The researcher verified context and nuance to preserve meaning and tone throughout.

All quotations were originally in Bahasa Indonesia and have been carefully translated into English by the researcher. While meaning equivalence was maintained, certain cultural and professional nuances may not directly align verbatim.

The analytical framework was originally structured around three pillars: Conceptual Clarity, ISA Competency and Independence, and Organizational Commitment. However, as fieldwork progressed, an extended literature review

(finalised in Chapter 4) highlighted the growing significance of regulatory change and technological adaptation. This prompted the recognition of Regulatory and Technological Integration as a fourth pillar. Importantly, the research instruments themselves were not altered after data collection had begun. Instead, the interviews were analysed within this expanded four-pillar framework. Transparency and traceability were maintained through supporting materials presented in Appendix 3 (network views) and Appendix 4 (quotation reports).

5.5.2 Document Review

In addition to interviews, this study employed document review as a complementary data collection technique to enhance the depth, reliability, and contextual richness of the findings. Document analysis is a qualitative research method involving the systematic interpretation of written materials, often used to corroborate or contextualize interview data (Bowen, 2009; Yin, 2015). This approach allows researchers to examine how institutional norms, roles, and expectations are formally articulated, and to explore how such representations align—or contrast—with actual practice. In this study, document analysis supported both triangulation and hermeneutic interpretation by grounding lived experiences in the policy frameworks that guide them.

The documents reviewed comprised two main categories. The first category included institutional documents such as internal audit charters and, where unavailable, equivalent governance documents (e.g., Audit Committee charters) from both full-fledged Islamic banks (FFIB) and Sharia Bank Unit (SBU). These outlined internal audit functions, reporting lines, scope of authority, roles and responsibilities, and—where applicable—Shari'ah governance provisions. The second category consisted of key regulatory documents forming the legal and procedural basis for operational Shari'ah audits in Indonesia, including relevant OJK and Bank Indonesia regulations.

By reviewing these sources, the researcher identified consistencies and discrepancies between regulatory ideals, institutional structures, and practitioner narratives. Some documents explicitly referenced the integration of Shari'ah principles into internal audit mandates, while others maintained a more conventional audit scope with minimal Shari'ah framing. These textual distinctions were interpreted hermeneutically alongside interview data, allowing for a layered understanding of how

Operational Shari'ah Audit is conceptualized and enacted. A detailed overview of the document sources and their characteristics is presented in Chapter 6.

5.5.3 Observation

Observation is a well-established qualitative data collection method that involves the systematic watching, recording, and interpretation of behaviors, interactions, and events within a natural setting. In qualitative research, particularly within interpretivist and phenomenological traditions, observation is valued for its ability to uncover tacit meanings and unspoken cultural dynamics that may not be accessible through interviews alone (Creswell, 2017; Patton, 2014). It may take the form of participant observation—where the researcher actively engages in the context—or non-participant observation, where the researcher maintains a detached stance to minimize disruption of natural behavior (Yin, 2015).

In the initial design of this study, non-participant observation was proposed as a supplementary strategy to enhance the richness and contextual understanding of how Operational Audit among Islamic Banks is practiced. The intention was to observe interactions among internal auditors, Shari'ah Supervisory Board (SSB) members, and other institutional stakeholders in their routine engagement with Shari'ah audit processes. Such observations, if realized, could have provided valuable insights into institutional dynamics, audit routines, and decision-making processes—thereby complementing data derived from interviews and documents.

However, this observation component could not be implemented due to access restrictions and institutional confidentiality policies. Internal audit activities, Shari'ah board deliberations, and related operational meetings were not open to external observers, particularly given the sensitive nature of auditing and compliance functions. This limitation precluded the possibility of gathering real-time observational data within operational environments.

To address this gap, the study relied more heavily on in-depth interviews and document analysis, including internal audit charters and key regulatory documents issued by the Financial Services Authority (OJK). These texts provided valuable insights into both institutional structures and normative expectations for Shari'ah-compliant audit functions. While the absence of live observation is acknowledged as a limitation, the triangulation of interview narratives with institutional and regulatory

documents helped to preserve methodological rigor and ensure sufficient depth for interpretive analysis.

5.6 Data Analysis Procedures

This study employed a multi-layered qualitative data analysis approach grounded in hermeneutic phenomenology, combining thematic analysis, document coding, and interpretive reasoning to uncover the meaning-making processes of operational Shari'ah audit (OSA) practitioners in Indonesia.

5.6.1 Overview of Analytical Framework

The data analysis in this study was shaped by two interrelated strategies that complemented one another throughout the process. First, a thematic analysis approach was employed, drawing on Braun and Clarke (2023) six-phase model to identify, refine, and interpret recurring patterns within the data. Second, the study was grounded in hermeneutic interpretation, drawing inspiration from the works of Ricoeur (1981) and Van Manen (2023), to explore how internal Shari'ah auditors experience and make sense of their roles within the broader social, religious, and institutional landscape.

Together, these strategies allowed the researcher to move beyond surface-level coding and engage in deeper interpretive reflection—connecting what participants said with how they understood and constructed meaning in context. This dual approach aligns closely with the interpretivist paradigm underpinning the study, which values nuanced, context-sensitive understandings over abstract generalizations.

5.6.2 Thematic Analysis Procedure

The process of thematic analysis in this study followed the six-phase model proposed by (Braun & Clarke, 2006), which provides a systematic yet flexible approach to identifying, analyzing, and interpreting patterns within qualitative data. This method allowed the researcher to engage with the interview transcripts in a structured way, while remaining open to emerging meanings that aligned with the interpretive nature of hermeneutic phenomenology.

5.6.2.1 Familiarization with the Data

The analysis began with repeated readings of the transcribed interviews to gain an in-depth understanding of the content. This phase involved immersing in the narratives, allowing the researcher to connect with both the explicit statements and underlying meanings conveyed by participants. Memos were written during this stage to capture initial reflections, observations, and contextual impressions.

5.6.2.2 Generating Initial Codes

Coding was carried out inductively, allowing the data to speak for itself. Key phrases, recurring concepts, and significant reflections relating to operational audit practices were identified and assigned initial codes. These codes served as analytical anchors for the later development of sub-themes and were continuously revised as new data were reviewed.

5.6.2.3 Searching for Themes

In this study, theme development followed a theory-informed thematic analysis approach. Rather than generating themes entirely inductively from the data, the analysis was guided by four conceptual pillars derived from the literature review and conceptual framework developed in Chapter 4: Conceptual Clarity, ISA Competency and Independence, Organizational Commitment, and Regulatory and Technological Integration.

During coding, data segments were examined and grouped under these predefined thematic categories based on their conceptual relevance. Within each theme, codes were developed to capture recurring ideas, experiences, and interpretive patterns expressed by participants. These codes functioned as sub-themes and reflected both theoretically informed expectations and context-specific insights emerging from the empirical data.

This approach allowed the analysis to remain anchored in the conceptual framework while still accommodating nuanced interpretations grounded in participants' lived experiences. In this way, the thematic structure provided analytical direction without constraining interpretive depth.

5.6.2.4 Reviewing Themes

The predefined themes were reviewed iteratively in relation to the coded data to ensure conceptual coherence and interpretive adequacy. This involved revisiting coded excerpts within each theme to examine their alignment with the thematic intent and to assess whether the grouping accurately reflected participants' meanings.

During this process, codes were refined through comparison across cases, and where necessary, merged, clarified, or reclassified to enhance analytical consistency. The review phase did not seek to redefine the overarching thematic structure but focused on strengthening the internal logic and interpretive clarity of each theme and its associated sub-themes.

The analysis remained iterative and reflexive in nature, involving repeated movement between individual data segments and the broader thematic framework, consistent with the hermeneutic circle. This ensured that interpretation was grounded in the data while remaining theoretically informed.

5.6.2.5 Defining and Naming Themes

As the main themes were established a priori through the conceptual framework, this phase focused on refining and articulating the meaning and analytical boundaries of each theme rather than generating new thematic labels. Each theme was defined in relation to its conceptual foundation and elaborated through a set of empirically grounded sub-themes (codes).

These sub-themes captured specific dimensions of operational Shari'ah audit practice as expressed by participants and were interpreted within the contextual, institutional, and regulatory settings of Islamic banking in Indonesia. Clear definitions were developed for each sub-theme to ensure analytical consistency across data sources.

By grounding theme definitions in both theoretical constructs and empirical narratives, this phase strengthened the interpretive coherence of the analysis and ensured that themes functioned as meaningful analytical lenses rather than descriptive categories.

5.6.2.6 Producing the Report

The final themes served as the organizing structure for Chapter 6 (Findings and Discussion). They were contextualized within the framework of Operational Audit among Islamic Banks and interpreted through a hermeneutic lens. This phase moved beyond thematic description, offering interpretive insight into how meaning is constructed within institutional and Shari'ah-based auditing environments.

5.6.3 Use of ATLAS.ti Software

The data analysis process was supported by ATLAS.ti version 25, a qualitative analysis software used to manage and organize large volumes of textual data systematically. The software enhanced both the efficiency and rigor of the coding process, particularly in handling the integration of interview transcripts and documentary sources. ATLAS.ti 25 enabled the researcher to:

a. Organize and trace codes across multiple interviews and document files in a structured and searchable manner, ensuring thematic consistency.
b. Develop code networks and families, allowing visual mapping of conceptual relationships and hierarchical links between subthemes and broader dimensions.
c. Maintain a transparent audit trail, documenting analytical decisions, reflective memos, and changes made throughout the coding and interpretation process.
d. Triangulate across data sources by importing and analyzing internal audit charters and regulatory documents (e.g., POJK and DSN-MUI guidelines) within the same coding framework used for transcripts.

While the software provided an essential platform for structuring and managing the analysis, interpretive judgment remained entirely researcher-driven. This ensured alignment with the hermeneutic phenomenological approach, where meaning emerges not from automated processes but through active, reflective engagement with the data.

5.6.4 Document Analysis Integration

To complement the interview data, this study also analyzed a range of institutional and regulatory documents, including internal audit charters and Shari'ah governance texts. These included POJK No. 1/2019, POJK No. 2/2024, the related SEOJK guidance, and from Bank Indonesia. All documents were imported into ATLAS.ti 25 and analyzed using the same thematic structure applied to the interview transcripts.

Rather than treating these documents as standalone sources, they were examined in close dialogue with the narrative accounts of participants. This comparative approach served several functions:

a. It allowed for a critical comparison between regulatory expectations and actual field-level practice.
b. It highlighted gaps or misalignments between institutional policy and how operational audit is understood and enacted by internal auditors.
c. It reinforced the credibility of emergent themes by grounding them in both formal texts and practitioner accounts, thus supporting methodological triangulation.

By integrating these formal sources, the study ensured that findings were not only reflective of lived experience but also responsive to the structural and regulatory frameworks shaping those experiences.

5.6.5 Hermeneutic Interpretation

The final layer of analysis involved **hermeneutic interpretation**, informed by the philosophical contributions of Paul Ricoeur and Hans-Georg Gadamer. At this stage, the researcher moved beyond thematic organization to engage in deeper interpretive reflection, attending to how meanings were constructed by participants within their institutional, regulatory, and ethical contexts.

Hermeneutic interpretation in this study was guided by three interrelated principles:

a) Distanciation

Drawing on Ricoeur's notion of distanciation (1981), interview transcripts and documents were treated as texts that could be interpreted beyond the immediate intentions of their authors. This enabled the analysis to situate participant narratives within broader socio-institutional and Shari'ah governance frameworks, extending interpretation from individual accounts to structural and contextual significance.

b) Hermeneutic Circle

The analytical process followed the logic of the hermeneutic circle, involving iterative movement between individual data segments (such as interview excerpts or coded passages) and the broader thematic and conceptual framework. This recursive engagement enabled the researcher to refine interpretations by continuously relating the parts of the data to the whole, and vice versa.

c) Fusion of Horizons

In line with Gadamer's concept of the fusion of horizons (2016), interpretation was understood as a dialogical process between the researcher's theoretical and contextual understanding and the lived experiences articulated by participants. Prior knowledge derived from literature, regulatory familiarity, and professional context informed interpretation, while remaining open to insights emerging from the empirical material.

Throughout this phase, reflexive engagement was maintained through analytical memo writing, which documented interpretive decisions, conceptual linkages, and moments of analytical tension. These memos supported transparency and traceability in the interpretive process, ensuring that meaning construction remained grounded in the data and aligned with the study's hermeneutic phenomenological orientation.

5.6.6 Ensuring Analytical Rigor

To uphold analytical rigor and credibility, the study applied several well-established qualitative strategies:

- Triangulation: Data from interviews, audit charters, and regulatory documents were compared and cross-validated to ensure thematic consistency and depth.
- Member checking: Selected participants were invited to review and respond to preliminary findings and the proposed conceptual framework, ensuring the interpretations resonated with practitioner realities.
- Reflexivity: The researcher engaged in continuous reflection, documenting assumptions, positionality, and interpretive decisions through memo writing. This helped guard against bias and maintained alignment with the philosophical commitments of hermeneutic phenomenology.

Together, these strategies ensured that the findings were both contextually grounded and methodologically trustworthy, reinforcing the interpretive depth of the study.

5.6.7 Codebook and Thematic Structure

In this study, four main themes were adopted from the conceptual framework developed in Chapter 4. These themes—Conceptual Clarity, ISA Competency and Independence, Organizational Commitment, and Regulatory and Technological Integration—reflect key dimensions of effective Operational Shari'ah Audit (OSA) in Islamic banking.

Each theme contains a set of sub-themes (codes), which were developed through both literature review and empirical data. These codes represent specific patterns or ideas raised by participants and are used to organize the data during analysis.

For example, under the theme ISA Competency and Independence, codes include:

- Professional Audit Certification (QIA, CIA, DSAA, etc.),
- Internal Audit Competency Standards and Benchmarking,
- Shari'ah Knowledge Limitations and Training Gaps,
- Multidisciplinary Capability (ESG, AI, etc.),
- Structural Independence from Executive Management, and
- Reporting Lines to Audit Committee or Board.

These codes helped identify statements related to auditor qualifications, internal competency expectations, and structural positioning within the institution. Data segments were coded when participant narratives clearly supported the concept as defined. Where responses only partially reflected the meaning of a code or expressed aspirational ideals without institutional basis, those segments were documented through memo writing but not formally coded. This ensured that the coding process remained consistent and aligned with the analytical purpose of the study. The full list of codes and their supporting quotes is presented in Chapter 6 and further interpreted in Chapter 7.

5.7 Reliability and Validity

The quality and trustworthiness of qualitative research are assessed through the lenses of reliability and validity. Within this study's interpretivist and hermeneutic phenomenological paradigm, multiple strategies were employed to ensure methodological rigor and enhance credibility.

5.7.1 Reliability

In qualitative research, reliability is not understood in terms of statistical replicability but as the dependability and consistency of the research process over time (Yin, 2015). For studies grounded in hermeneutic phenomenology, reliability emphasizes the extent to which analytical procedures are transparent, coherent, and traceable, allowing readers to follow how interpretations were developed.

To ensure this dependability, the present study adopted several interrelated strategies that safeguarded the stability of coding, interpretation, and reporting. These strategies supported both procedural rigor and reflexive awareness, helping to maintain alignment between the data and the meanings constructed through analysis. The key approaches are outlined in Table 5.1 below.

Table 5.1
Reliability Strategies Applied In The Study

Strategy	Description	Purpose/Outcome
Accurate and Verifiable	Interviews transcribed with attention to pauses, emphases, and expressions, then	Ensured fidelity to participants' narratives and minimized

Strategy	Description	Purpose/Outcome
Transcription	verified against audio.	transcription bias.
Retention and Re-engagement with Audio	Audio files archived and revisited during coding and interpretation.	Preserved contextual cues and maintained interpretive integrity.
Structured Audit Trail (ATLAS.ti 25)	Coding, refinements, and analytical decisions documented within software.	Created a transparent, traceable record of analytical development.
Memoing and Cross-Code Validation	Analytical memos written to capture insights and check codes across participants.	Strengthened coding stability, reflexivity, and interpretive coherence.

5.7.2 Validity

In qualitative inquiry, particularly within the interpretivist and hermeneutic phenomenological paradigms, validity refers to the credibility, authenticity, and trustworthiness of interpretations rather than their statistical accuracy (Creswell & Miller, 2000). To establish and strengthen interpretive validity, this study employed several complementary strategies that ensured the findings meaningfully reflected the lived experiences and contextual realities of operational audit in Islamic banks. One important strategy was the deliberate search for disconfirming evidence, where deviant or challenging cases were integrated into the analysis. This practice helped guard against selective perception and analytical overreach, ensuring a balanced and honest representation of participant perspectives (Creswell & Poth, 2019).

Another strategy involved the use of thick and rich descriptions through contextual narratives and verbatim quotations. These accounts captured not only the content but also the texture of participants' experiences, allowing readers to appreciate the institutional, religious, and professional contexts in which Shari'ah audit practices unfold. Such descriptions also enabled readers to make informed judgments about the transferability of findings to other settings (Lincoln & Guba, 1982). Peer debriefing further enhanced interpretive rigor. Regular discussions with the supervisory panel provided opportunities to refine coding strategies, challenge assumptions, and clarify emerging themes, while a peer reviewer with expertise in Shari'ah governance examined part of the coded data to ensure consistency and offer critical insights (Creswell & Miller, 2000). These strategies are aligned with the constructivist paradigm and consistent with validation procedures widely recommended in qualitative research.

In addition, interpretive memos were maintained throughout the analytical process to record dilemmas, positionality, and evolving insights. This reflexive engagement promoted transparency and reflected hermeneutic phenomenology's emphasis on the researcher's role in co-constructing meaning (Van Manen, 2023). Although prolonged field engagement was not feasible due to access constraints, the integration of multiple data sources—including interviews, written responses, regulatory documents, and institutional charters—provided methodological triangulation that compensated for the absence of immersive observation. Collectively, these techniques ensured that the study's interpretations were plausible, coherent, and grounded in multiple perspectives and contextual richness, thereby reinforcing the trustworthiness of the findings. Figure 5.2 below summarises commonly used validity procedures across different paradigmatic assumptions.

Paradigm / Assumption lens	Postpositivist Paradigm	Constructivist Paradigm	Critical Paradigm
Lens of the researcher	Triangulation	Disconfirming Evidence	Researcher reflexivity
Lens of the Study participants	Member Checking	Prolonged Engagement field	Collaboration
Lens of the Reviewers, readers	The audit trail	Thick, rich description	Peer debriefing

Figure 5.2 Validity Procedures Aligned With Paradigm Assumptions

Source: Adapted from Lincoln and Guba (1982), Creswell and Miller (2000), and Van Manen (2023).

5.8 Ethical Considerations

Given the sensitive nature of internal Shari'ah audit practice, ethical considerations were treated as a foundational element of the research design. Ethical clearance was obtained from the UiTM Research Ethics Committee (Approval No.: REC/11/2023 (PG/MR/461)) on 5 December 2023, covering the research design, participant recruitment, data collection instruments, and data management protocols.

Participation was strictly voluntary. Prospective participants received a participant information sheet outlining the research purpose, the nature of their involvement, and their right to withdraw at any stage without penalty. Written informed consent was obtained from every participant before each interview commenced.

To protect participants and their institutions, all identifying information was anonymised during transcription and analysis. Participants were assigned coded identifiers (e.g., IA1, Non-IA1) that conceal both personal identity and institutional affiliation. Institution names appearing in audit charters were redacted or generalised where necessary, and quotations used in this thesis are presented in ways that preserve analytical meaning without compromising participant identity.

All audio recordings, transcripts, and analytical files were stored on password-protected devices and a secure, encrypted cloud storage system accessible only to the researcher. Hard copies of consent forms were kept in a locked storage cabinet, and all data will be retained in accordance with UiTM data retention policy before being securely destroyed. Throughout the research process, the researcher also remained reflexively attentive to the religious and professional values of participants, ensuring that interview framing and interpretation were conducted with cultural and ethical sensitivity.

5.9 Chapter Summary

This chapter outlined the methodology used to examine operational Shari'ah audit (OSA) in Indonesian Islamic banks. It established the interpretivist and qualitative approach and justified hermeneutic phenomenology for exploring the lived experiences of internal Shari'ah auditors and key stakeholders. It also described the two-stage research design, purposive and snowball sampling, and data collection through semi-structured interviews and document analysis of audit charters and regulatory texts.

The chapter further explained thematic coding and triangulation using ATLAS.ti, aligned with the four-pillar framework, as well as trustworthiness strategies including audit trails, reflexive memos, peer debriefing, and triangulation. Overall, it provides the methodological foundation for the thematic findings in Chapter 6.

CHAPTER 6
THEMATIC FINDINGS FROM INTERVIEWS AND DOCUMENT ANALYSIS

6.1 Introduction

This chapter presents thematic findings from interviews, internal audit charters, and regulatory documents on Operational Shari'ah Audit (OSA) in Indonesian Islamic banks. Using a four-pillar framework, it examines conceptual clarity, auditor competency and independence, organisational support, and regulatory and technological constraints. The analysis integrates multiple stakeholder and documentary sources to provide a consolidated account of current OSA practices.

The findings follow the six-phase thematic analysis approach (Braun & Clarke, 2006) and are presented through a structured sequence that integrates interview and documentary data across the four pillars, as shown in Figure 6.1.

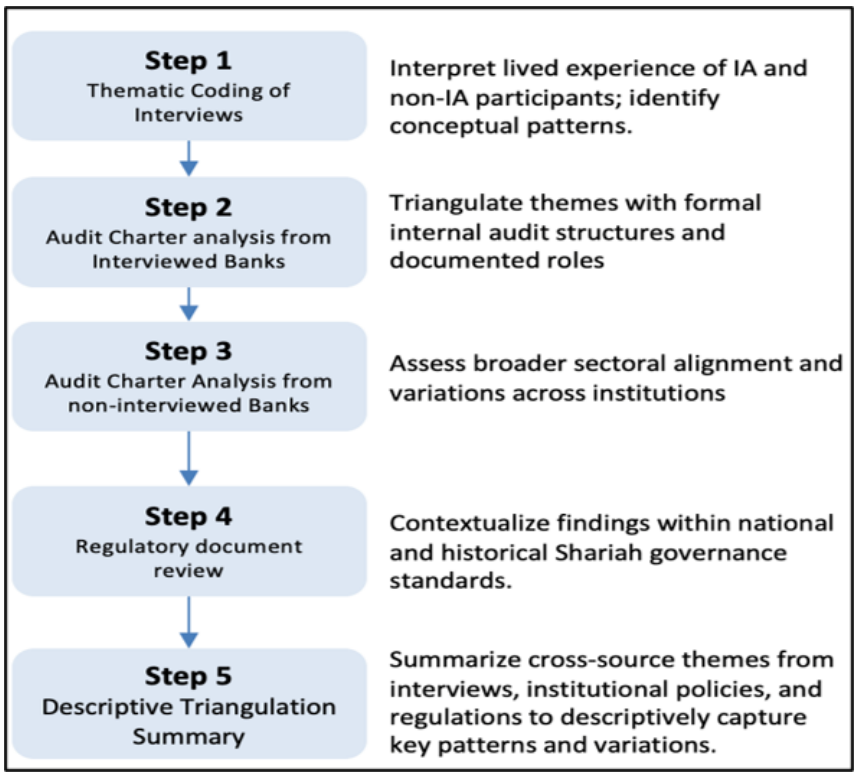


Figure 6.1 Thematic Analysis Stages Of The Study

Source: Developed by the researcher based on the study's data analysis process.

While the five analytical stages were applied to each conceptual theme, the first stage (interview analysis) was conducted separately for internal auditors and non-auditor participants due to their distinct roles and perspectives. Subsequent stages, including document review and cross-case comparison, integrated findings to identify patterns, connections, and differences across data sources. As shown in Figure 6.1, the analysis followed four steps:

1) Thematic Coding of Interviews
   - *Internal Auditor (IA) Perspective:* This part explored how internal auditors see Shari'ah audit in their daily work. It includes their roles, challenges, and ethical concerns.
   - *Non-Internal Auditor (Non-IA) Perspective:* This part looked at how people outside the audit team—such as audit committee members, Shari'ah Supervisory Board (SSB) members, external auditors, and regulators—view operational Shari'ah audit.
2) Audit Charter Analysis
   Internal audit charters from both interviewed and non-interviewed banks were reviewed to examine the formal structure, function, and goals of Shari'ah audit units across institutions.
3) Regulatory Document Review
   National regulations (POJK, SEOJK, and Bank Indonesia guidelines) were analysed to situate findings within the Shari'ah governance framework in Indonesia.
4) Descriptive Triangulation Summary
   Findings from interviews, institutional documents, and regulations were compared to identify key patterns and differences under each theme, while deeper interpretation is reserved for Chapter 7.

The rest of this chapter is organised into four themes based on the framework developed in Chapter 4. As outlined in Chapter 5, the initial analytical structure consisted of three pillars: Conceptual Clarity, ISA Competency and Independence, and Organisational Commitment. Following the extended literature review, a fourth pillar—Regulatory and Technological Integration—was added prior to coding and analysis.

The data collection instruments were not modified post hoc; instead, analysis in Chapters 6 and 7 followed this four-pillar framework, with traceability provided in Appendix 3 (network views) and Appendix 4 (quotation reports). The four themes are:

1. Conceptual Clarity — examines definitions, methodologies, and the role of Islamic ethics and Maqasid al-Shari'ah in Shari'ah audit practices.
2. ISA Competency and Independence — explores auditors' expertise in auditing and Islamic finance, and their capacity for independent judgment.
3. Organizational Commitment — assesses institutional support, including training, teamwork, mandates, and audit culture.
4. Regulatory and Technological Integration — evaluates alignment with national and international standards (e.g., AAOIFI, IFSB) and the role of technology in audit effectiveness.

Sections 6.3.1 to 6.3.4 present each theme in detail, beginning with findings from internal auditors and non-auditor participants, followed by supporting documentary and regulatory evidence. This structure provides a comprehensive account of OSA practice in Indonesian Islamic banks.

Participant quotations are presented in translated form with source details (document code and paragraph) and cross-referenced to Appendix 4. ATLAS.ti network views are compiled in Appendix 3 and referenced throughout the chapter. Network visualisations within the main text are limited to the cross-pillar analysis in Section 6.3.5; all other network views are presented in the appendix only.

6.2 Overview of Data Sources

Fourteen participants were involved in this study: ten internal auditors from four Islamic banks (two full-fledged Islamic banks and two Islamic business units of conventional banks) and four external stakeholders, including a Shari'ah Supervisory Board member, an audit committee member, an external auditor with Shari'ah experience, and a regulator. Participants were selected to capture both operational and oversight perspectives of Shari'ah auditing. Internal auditors represented different hierarchical levels and institutional contexts, while external participants provided governance-related insights on accountability, compliance, and regulatory alignment.

Together, these perspectives inform how operational Shari'ah auditing (OSA) is understood and practiced.

To illustrate the diversity of perspectives and institutional contexts represented in this study, Table 6.1 presents a detailed overview of all research participants, including their roles, institutional affiliations, and data collection formats.

Table 6.1
Detailed Overview Of All Research Participants

Participant ID	Role / Position	Type of Institution	Data Format	Notes
IA-1	IA Manager Area	Full-Fledged Islamic Bank B	Interview	Internal Auditor
IA-2	IA Team Head	Islamic Bank Unit – Bank C	Interview	Internal Auditor
IA-3	Internal Auditor (IA)	Islamic Bank Unit – Bank C	Interview	Internal Auditor
IA-4	IA Group Head	Full-Fledged Islamic Bank A	Interview	Internal Auditor
IA-5	Internal Auditor (IA)	Full-Fledged Islamic Bank B	Interview	Internal Auditor
IA-6	IA Team Head	Islamic Bank Unit – Bank D	Interview	Internal Auditor
IA-7	Internal Auditor (IA)	Islamic Bank Unit – Bank D	Interview	Internal Auditor
IA-8	Internal Auditor (IA)	Islamic Bank Unit – Bank C	Interview	Internal Auditor
IA-9	Internal Auditor (IA)	Islamic Bank Unit – Bank C	Interview	Internal Auditor
IA-10	IA Team Head	Islamic Bank Unit – Bank D	Interview	Internal Auditor
Non-IA1	Audit Committee Member	Islamic Bank	Interview	Non-Internal Auditor
Non-IA2	Shari'ah Supervisory Board (SSB)	Islamic Bank	Interview	Non-Internal Auditor
Non-IA3	External Auditor (Shari'ah focus)	Audit Firm	Interview	Non-Internal Auditor
Non-IA4	Regulator	Financial Services Authority (OJK)	Written Response	Non-Internal Auditor

Source: Compiled by the researcher based on interview data and institutional documents (2023–2024).

As shown in the table, the study involved fourteen participants: ten internal auditors from four Islamic banks (two full-fledged Islamic banks and two Islamic business units of conventional banks) and four non-internal auditors, comprising an audit committee member, a Shari'ah Supervisory Board member, an external auditor with Shari'ah experience, and an OJK regulator (written response). Internal auditors

represented different hierarchical levels, from entry-level staff to managers and team heads, capturing variation in audit practice across organisational roles. Non-internal auditors provided oversight perspectives on governance, compliance, and regulatory alignment. Participant codes were used to maintain anonymity while preserving role identification.

In addition, institutional and regulatory documents were analysed for triangulation, including internal audit charters from FFIB and BUS and an audit committee charter (Bank B), alongside key regulations such as POJK No. 1/2019. These documents outline formal audit structures and expectations, and were compared with interview data to identify alignments and gaps between policy and practice.

Table 6.2 below summarises the types of documents analyzed, their quantities, and their specific relevance to the research objectives. These document sources served not merely as background information but as analytical anchors that complemented and triangulated the themes emerging from interviews.

Table 6.2
Summary Of Document Data Sources

Data Source Type	Description	Quantity	Purpose / Relevance
Interview Transcripts	Internal auditors (FFIB and SBU)	10	Explore lived experience of OSA implementation
Interview Transcripts	Non-internal auditors (committee, SSB, etc.)	3	Offer external perspectives on governance and alignment
Written Response	Regulator	1	Provide policy-level insight and regulatory intent
Institutional Documents	Internal audit charters, ISA manuals, and one Audit Committee charter (as an alternative for Bank B) from both interviewed and non-interviewed banks	8	Examine formal scope and structural positioning of audit functions
Regulatory Documents	POJK, SEOJK, PBI, and guidelines	5	Establish normative framework and identify regulatory–practice gaps

Source: Research data compiled from interview transcripts, institutional documents, and regulatory texts (2023–2024).

In addition to institutional documents from interviewed banks, the study purposively included materials from four other Islamic banks outside the interview sample. This broadened institutional coverage by capturing variation in ownership

structures, institutional maturity, and Shari'ah governance models, enabling more comprehensive comparison of internal audit positioning and terminology across the sector.

One interviewed institution (Bank B, FFIB) did not provide its internal audit charter despite repeated requests. An Audit Committee charter was therefore used as an alternative source, as it outlines relevant oversight roles, reporting lines, and governance provisions for internal audit functions. For SBU cases, separate Shari'ah-specific audit charters were not available; instead, internal audit functions operate under the general charters of their parent conventional banks. Consequently, documents for Bank C and Bank D reflect parent-bank audit structures that do not explicitly distinguish Shari'ah audit roles or terminology. This structural integration is considered in the analysis, particularly in relation to conceptual clarity and audit independence.

Although Islamic banking regulation is currently under OJK, earlier Bank Indonesia regulations continue to inform practice. BI Regulation No. 11/33/PBI/2009 on risk management and governance remains a key reference in internal policies. In addition, POJK No. 55/2016 and POJK No. 12/2023 are discussed in Chapter 7 to provide broader governance and structural context.

Table 6.3 below lists the key regulatory documents reviewed, along with their issuing authorities, descriptions, and relevance to the study's analytical framework.

Table 6.3
Regulatory Documents Reviewed

No.	Document Title	Description	Issuing Body	Relevance
1	POJK No. 1/2019	Regulation on the internal audit function in banks	OJK	Sets structural expectations for internal audit units
2	POJK No. 2/2024	New regulation on Shari'ah governance for FFIB and SBU	OJK	Defines Shari'ah audit responsibilities and SSB duties
3	SEOJK No. 15/SEOJK.03/2024	Technical circular for implementing POJK 2/2024	OJK	Offers operational details to support regulatory compliance
4	BI Regulation No. 11/33/PBI/2009	Regulation on risk management and governance for Islamic banks	Bank Indonesia	Historical and structural reference still used by some institutions

Source: Compiled from official regulatory documents issued by OJK and Bank Indonesia (2009–2024).

The documents in Table 6.3 frame the normative and institutional context of operational Shari'ah audit. While recent OJK regulations provide clearer mandates for

Shari'ah governance and auditing, older Bank Indonesia regulations continue to influence internal control frameworks, particularly in earlier-established institutions. Comparison between these documents and auditor accounts highlights differences between regulatory requirements and actual practice, as well as areas of regulatory ambiguity and institutional adaptation. These documents also outline the legal basis for ethical, procedural, and structural expectations in Shari'ah audit functions.

6.2.1 Interpretive Profiles of Non-Internal auditors

Four external stakeholders participated in this study, representing Shari'ah governance and oversight roles. Although not internal auditors, their perspectives support validation of interview findings and provide comparative insights. Each participant contributes distinct professional and institutional experience, strengthening the triangulation process. The table below summarises their roles, experience, and contributions.

Table 6.4
Profiles Of Non-Internal auditors

Participant	Professional Role	Key Experience	Interpretive Contribution
Non-IA1	Audit Committee Member and Shari'ah Governance Advisor	Audit Committee member at Bank A; former SSB member at Bank XXX ; Treasurer of Dewan Pimpinan Harian; Member of the Sharia Accounting Standards Board (IAI) since 2015; Member of Sharia Practitioners Committee under IAPI; Honorary board member and Fellow of the Islamic Insurance Society	Provides both policy-level and operational insights; supports thematic triangulation in audit governance, POJK interpretation, and Maqasid-oriented approaches; validates perspectives on structural, ethical, and regulatory matters
Non-IA2	Shari'ah Supervisory Board Member and Islamic Finance Lecturer	Over 25 years in Islamic finance; Lecturer in Islamic finance and audit at multiple universities; SSB member at a national Islamic cooperative, a merged microfinance cooperative, and a local Islamic bank; frequent seminar speaker	Offers critical input on ethical foundations of Shari'ah audit; provides dual insight from academia and governance practice; reinforces themes on SSB oversight, audit definition, and ethical clarity
Non-IA3	External Auditor and Academic	External auditor at a public accounting firm with experience in Shari'ah audits; Lecturer in auditing and accounting at a public university	Brings professional insight into alignment and differences between external and internal Shari'ah audit; contributes academic perspectives on standards and ethics; supports triangulation on methodology, compliance integration, and regulatory alignment

Participant	Professional Role	Key Experience	Interpretive Contribution
Non-IA4	Regulator – Otoritas Jasa Keuangan (OJK)	Officer at OJK's Department of Islamic Banking; provided written institutional response to research questions; involved in official OJK publications on Islamic finance	Represents the regulator's official perspective; offers insights on OJK's expectations for Shari'ah and internal audit functions; validates themes on governance structure, SSB roles, and regulatory framework

Source: Research participant profiles compiled from interview transcripts and official written response (2023–2024).

6.2.2 Institutional Profiles of Non-Interviewed Banks for Document Analysis

This study reviewed internal audit charters from four Islamic banks not included in the interview sample, referred to as Bank 1, Bank 2, Bank 3, and Bank 4 to ensure clarity. Selection was based on the availability of audit charter documents, institutional diversity (full-fledged Islamic banks and Sharia Business Units), and relevance in representing different stages of development in Indonesia's Islamic banking sector.

The following profiles in Table 6.5 summarise each bank's type, rationale for inclusion, and analytical contribution, enabling systematic comparison across cases[1].

Table 6.5
Institutional Profiles Of Non-Interviewed Banks For Document Analysis

Bank	Type & Characteristics	Reason for Inclusion	Analytical Contribution
Bank 1	Full-fledged Islamic bank under a major banking group; combines Shari'ah principles with strong digital infrastructure and wide service range.	Established position in a leading group; publicly accessible, well-structured audit charter useful for comparison with interviewed banks.	Shows how internal audit is defined in formal documents, including the use of terms like *audit internal operasional*; enables comparison of language use and function description with interviewed banks.
Bank 2	Full-fledged Islamic bank converted from a conventional entity; smaller asset base; focuses on specific market segments.	Allows observation of whether newly transformed banks adopt standard or flexible audit terminology; publicly available charter	Assesses terminology use in newly transformed banks; offers comparison with other small and mid-sized Islamic institutions.

[1] Bank 1 to Bank 4 refer to four Islamic banks whose internal audit charters—BCA Syariah, Panin Dubai Syariah, Maybank SBU, and Bank Aladin Syariah—were publicly reviewed. These banks were anonymized for consistency across case studies, with documents retrieved from official websites in June 2025.

Bank	Type & Characteristics	Reason for Inclusion	Analytical Contribution
		shows institutional adaptation.	
Bank 3	Sharia Business Unit (SBU) of a large conventional bank; follows parent governance framework while delivering Shari'ah-compliant services.	Represents SBU structures; comparable to interviewed SBU cases (Bank C, Bank D); operates under general charter of parent bank without distinct Shari'ah audit charter.	Provides insight into operational and Shari'ah audit terminology in SBU contexts; supports analysis of regulatory and structural consistency among Islamic banking types.
Bank 4	Fully digital Islamic bank; offers Shari'ah-compliant financial services entirely via digital platforms and mobile apps, no branch network.	Represents tech-driven Islamic banking models; audit charter reflects digital-first institution's approach.	Reveals how digital Islamic banks define audit structure and responsibilities; helps identify whether newer banks prefer innovative or conventional audit language.

Source: Institutional document review of non-interviewed banks' audit charters (2023–2024).

6.3 Thematic Presentation of Findings

The findings are organised according to the four themes from Chapter 4: Conceptual Clarity, ISA Competency and Independence, Organisational Commitment, and Regulatory and Technological Integration. Each theme presents insights from internal auditors, followed by perspectives from other stakeholders (SSB, audit committee, external auditors, and regulators), supported by internal audit charters and regulatory documents.

Section 6.3.5 presents cross-pillar patterns identified through ATLAS.ti analysis, including structural independence, technological limitations, ethical orientation, and regulatory constraints, highlighting interconnections across themes.

This chapter focuses on empirical findings, while deeper interpretation is provided in Chapter 7.

6.3.1 Thematic Analysis of Conceptual Clarity

This section examines the foundational ideas that shape how operational Shari'ah audit (OSA) is understood. Conceptual clarity is essential to ensure that definitions are consistent, that audit practices reflect Islamic values and ethical objectives, and that they respond to the operational realities of each institution. The analysis explores participants' perspectives on the meaning, purpose, and methodology of OSA within their organisations.

Aligned with the first pillar of the conceptual framework in Chapter 4, the findings are organised into three interrelated areas:

- Terminology and Definition – This covers how terms like "operational audit," "Shari'ah audit," and "performance audit" are used or confused in practice.
- Audit Purpose and Ethical Orientation – This relates to how the goal of the audit is defined, and whether ethical principles such as maqasid al-Shari'ah or the 4Es are considered.
- Methodological Structure and Flexibility – This group includes whether formal audit procedures exist, whether they are adapted to local needs, and whether risk-based planning is used.

These areas are interconnected. For example, unclear terminology may influence how an audit's purpose is interpreted or how it is operationalised. Table 6.6 presents the codes used under this pillar, outlining their focus areas.

Table 6.6
List Of Codes Under Conceptual Clarity Pilar

Code Group	Code	Focus Area
Terminology and Definition	Terminological Ambiguity and Standardization Debate	Lack of consistency in audit-related terms and the need for common definitions
	Terminology Preference and Usage	Preferred terms used by participants and how they reflect institutional perspectives
Audit Purpose and Ethical Orientation	Operational Audit Purpose and Scope	How the audit's goals and coverage are defined (compliance, performance, advisory, etc.)
	Alignment with Maqasid al-Shari'ah	Integration of Islamic legal objectives and ethical reasoning
	4Es Including Ethics	Use of the 4Es framework (Effectiveness, Efficiency, Economy, Ethics), especially the ethical dimension
Methodological Structure and Flexibility	Absence of Formal Shari'ah Audit Methodology	Lack of standardized procedures for conducting OSA
	Contextual Audit Method Flexibility	Flexibility in audit design based on function, scale, and institutional characteristics
	Development of Internal Audit Methodology	Efforts to build internal tools and guidance for Shari'ah audit

Code Group	Code	Focus Area
	Activity-Based Structuring within a Risk-Based Audit Approach (RBA)	Use of risk profiling to plan or structure audits across activities or branches

Source: Thematic code structure developed in ATLAS.ti based on interview transcripts and document analysis (2023–2024).

The following sections present findings from internal auditors, non-auditor stakeholders, and institutional documents. Views on OSA varied, ranging from compliance-focused definitions to broader interpretations linked to Islamic ethical objectives. Terminological inconsistencies—such as "Shari'ah audit," "Shari'ah review," and "performance evaluation"—also appear across interviews and documents, alongside limited definitional clarity in both charters and regulations.

Although maqasid al-Shari'ah was mentioned by some participants, explanations of its application in audit procedures were limited. The following sub-sections examine these patterns in detail.

6.3.1.1 Terminology and Definition

Terminology and definition represent a core aspect of conceptual clarity in operational Shari'ah audit (OSA). The data reveal persistent ambiguities and varied preferences across auditors, governance stakeholders, and regulatory documents, which are elaborated in the following sections.

I. Internal Auditor Perspective Towards Terminology and Definition

The findings indicate that the terminology used to describe operational audit in Islamic banks is not uniform. Two prominent aspects appear from the interviews: the lack of standardization and the variation in preferred terms. These issues are reflected through two codes—Terminological Ambiguity and Standardization Debate and Terminology Preference and Usage.

a. Terminological Ambiguity and Standardization Debate

Internal auditors expressed diverse views on whether Shari'ah audit terminology needs to be standardized. Some emphasized that standardization could help reduce confusion and promote clarity, while others stressed that the terminology itself is less important than the purpose of the audit. Some of these views are illustrated in the following quotes:

> ***IA1:*** *"Definitely confusing, ma'am. If possible, it should just be called one thing." (1:29 ¶105–107, IA1.docx, Appendix 4)*
>
> ***IA5:*** *"Not really. It's not confusing, but the terminology feels overly segmented. For instance, a compliance audit focuses only on compliance." (5:7 ¶32, IA5.docx, Appendix 4)*
>
> ***IA6:*** *"As long as in the audit there's no requirement that the terminology must be standardized. It all comes back to the scope of the audit. That will become clear during the audit. Each bank, especially Islamic ones, tends to have their own terminology. There's no standard patent—we just refer to POJK 1/2019." (6:3 ¶28, IA6.docx, Appendix 4)*
>
> ***IA8:*** *"Maybe from an outsider's perspective, yes, it can be confusing. But for me personally, the main thing is that the purpose of the audit is the same. The terminology may vary, but the goal remains the same." (8:4 ¶24–25, IA8.docx, Appendix 4)*
>
> ***IA8:*** *"If we could unify the terminology and have a shared understanding, I think that would be better. That way everyone is on the same page." (8:5 ¶27, IA8.docx, Appendix 4)*
>
> ***IA10:*** *"Well, if we were to standardize it and use the term "operational audit," that might actually be a bit rigid. Because in audit now, we're required to be agile — and being agile means being flexible in looking at space and concepts." (10:18 ¶320, IA10.docx, Appendix 4)*
>
> ***IA10:*** *"So, is it necessary or important to standardize the terminology? In my opinion, no. But if the question is whether the purpose of operational audit still exists — Yes, absolutely. It still exists." (10:19 ¶323–324, IA10.docx, Appendix 4)*

These contrasting perspectives reveal the tension between the drive for institutional clarity through unified terminology and the preference for flexibility that prioritizes the substance and objectives of the audit over labels. The absence of consistent definitions in both regulations and audit charters sustains this ambiguity. The range of these views is further captured in the ATLAS.ti network visualization provided in Appendix 3 (1).

b. Terminology Preference and Usage

Internal auditors expressed diverse preferences regarding how Shari'ah-related audits should be labeled. While some aligned with conventional terminology, others advocated for alternative terms that better captured the scope of Shari'ah business activities. This diversity reflects not only institutional practice but also the structural context SBU and FFIB. The following quotations illustrate these variations:

> ***IA1:*** *"In practice, 'operational audit' is actually the most accurate term. But internally, we just call it an examination — even though we're actually doing a full operational audit." (1:23 ¶103, IA1.docx, Appendix 4)*

> ***IA2:*** *"Since we're still a Shari'ah business unit, when it comes to Shari'ah practices, we usually call the audit 'Shari'ah Business Activity Audit.' This is comprehensive—yes, it covers all Shari'ah-related activities." (2:19 ¶32, IA2.docx, Appendix 4)*

> ***IA4:*** *"In my opinion, the term should be 'activity audit.' Why? Because activity audit encompasses everything. Financing, funding, operational activities—all of them are activities. And in Bank XXXXX, we often call it activity audit." (4:2 ¶20–23, IA4.docx, Appendix 4)*

> ***IA6:*** *"For something comprehensive, I think it's more accurate to call it an activity-based audit. Since we are still an Islamic business unit—not a full-fledged Islamic bank—we're talking about Shari'ah business activities." (6:2 ¶23, IA6.docx, Appendix 4)*

> ***IA10:*** *"We actually don't use that term anymore. Because, as I mentioned earlier, the dimensions have grown so much — we've expanded a lot. But when we declare the purpose of an audit, we usually say one of the main goals is performance..." (10:37 ¶287–289, IA10.docx, Appendix 4)*

These accounts reveal that terminology choices are closely tied to organizational context. For auditors in Shari'ah Business Unit (SBU), the label "Shari'ah Business Activity Audit" or "activity audit" was seen as more fitting because it emphasized the breadth of Shari'ah-related operations. Others, however, continued to adopt the conventional term "operational audit" or moved toward framing the audit in terms of performance outcomes. The variation suggests that terminology is not fixed but evolves according to institutional identity and practical priorities. The range of these preferences is further represented in the ATLAS.ti network visualization in Appendix 3(2).

II. Non-Internal Auditor Perspective Towards Terminology and Definition

For non-internal auditors, the analysis of two related codes—Terminology Ambiguity and Standardization Debate and Terminology Preference and Usage—is presented together because both address the same core issue: the absence of consistent terminology in Shari'ah audit practice. While the first code captures debates on whether standardization is necessary, the second highlights which terms are preferred in practice. Together, these codes illustrate how definitional uncertainty intersects with institutional and regulatory preferences. The following quotations from Non-Internal Auditors illustrate these debates:

> ***Non-IA1:*** *"Colleagues in IAPI too, the proper term should be Shari'ah compliance audit. So, it should be called Shari'ah compliance audit." (11:14 ¶18–19, Non-IA1.docx, Appendix 4)*

> ***Non-IA2:*** *"Yes, only the Shari'ah compliance. So it's not related to the financial audit. Not operational errors. Some call it Murabaha asset. So one is Murabaha inventory. See, it's all different." (12:25 ¶28–29, Non-IA2.docx, Appendix 4)*

> ***Non-IA3:*** *"In that sense, Shari'ah auditing leans more toward compliance auditing. That's the general meaning stock." (13:7 ¶21, Non-IA3.docx, Appendix 4)*

> ***Non-IA3:*** *"It's not just about compliance. It's also about how Shari'ah principles become fully integrated. Including in the reports." (13:8 ¶23, Non-IA3.docx, Appendix 4)*

> ***Non-IA4:*** *"The terms used in Islamic banking for conducting Shari'ah audits follow the POJKs related to 'external review of Shari'ah governance,' with the process scope and outputs as defined in the relevant POJKs." (16:6 ¶24, Non-IA4.docx, Appendix 4)*

These quotes reveal two interrelated dynamics: first, the ambiguity that arises when institutions use multiple overlapping labels such as compliance audit, operational audit, or Shari'ah audit; and second, the tendency of regulators and professional bodies to promote certain terms, such as Shari'ah compliance audit, to establish clarity. However, the tension persists as some participants argue for standardization, while others stress that the terminology itself is less critical than ensuring that Shari'ah principles are substantively integrated into audits. The range of these views captured in the ATLAS.ti network visualization provided in Appendix 3(3).

III. Document Insights of Internal Audit Charters from Interviewed Banks: Terminology and Definition

Analysis of the internal audit charters of Bank A, Bank C, and Bank D, together with the audit committee charter of Bank B, revealed a common pattern: none of the four institutions explicitly defines or codifies operational Shari'ah audit as a distinct audit function. Two interrelated issues emerged from the documentary evidence—terminological ambiguity and institutional preferences in audit nomenclature. These findings closely correspond with the conceptual uncertainties identified in the interview data, indicating a notable divergence between practitioners' understandings of operational Shari'ah audit and its formal representation within institutional governance documents.

a. Terminological Ambiguity and Standardization Debate

The document review confirms that none of the eight reviewed charters explicitly defines operational Shari'ah audit as a distinct audit function. Across both interviewed and non-interviewed banks, the language remains anchored in generic internal audit terms, with no effort to distinguish Shari'ah audit as a unique construct. Table 6.7 presents the terminology observed across all institutions.

Table 6.7
Terminology And Definition In Audit Charters Across All Reviewed Banks

Bank	Type	Charter Terminology	Analysis Finding
Bank A	FFIB	"Audit intern syariah"	Framed by conventional terms (*efisiensi, efektivitas, kepatuhan*) with no Shari'ah dimension
Bank B	FFIB	Audit Committee Charter	Focused on oversight and governance alignment (UU 21/2008, PBI 11/33/2009); no OSA definition
Bank C	SBU	"Audit internal," "audit operasional," "audit kepatuhan"	Generic parent bank charter; no Shari'ah-specific responsibilities
Bank D	SBU	Generic internal audit terms	No reference to Shari'ah audit or principles; identical to conventional audit
Bank 1	FFIB	Conventional audit terminology	No definition of Shari'ah compliance audit; generic language only
Bank 2	FFIB	Internal audit framed as integrity/control unit	Does not distinguish Shari'ah from non-Shari'ah aspects
Bank 3	SBU	"Audit internal," "audit berbasis risiko"	Generic framing without Shari'ah-specific vocabulary
Bank 4	Digital IB	"Audit internal operasional"	Focused on conventional risk/compliance; lacks explicit Shari'ah reference

Source: Internal audit charters of interviewed banks (Bank A, Bank C, Bank D), Audit Committee Charter of Bank B, and internal audit charters of non-interviewed banks (Bank 1–

The findings in Table 6.7 reveal a consistent pattern across all eight institutions. Regardless of whether the institutions operate as full-fledged Islamic banks, Shari'ah Business Units, or digital Islamic banks, none of the reviewed charter documents explicitly defines OSA as a distinct audit function. This documentary evidence corresponds with the interview findings, which indicate that practitioners generally recognised OSA as a distinct audit domain despite the absence of such terminology in formal governance documents.

b. Terminology Preference and Usage

In addition to the lack of definitional clarity, the reviewed charters across both interviewed and non-interviewed banks show varied terminology shaped more by institutional norms than by shared regulatory standards. None of the terms employed explicitly codify Shari'ah-specific dimensions. Table 6.8 summarises the terminology observed across all eight institutions.

Table 6.8
Variations In Audit Terminology Across All Reviewed Banks

Bank	Type	Analysis Based on Code Definition	Analysis Finding
Bank A	FFIB	"Audit intern syariah"	Embedded in general audit language; no link to Shari'ah values or principles
Bank B	FFIB	Governance-oriented terms (oversight, compliance, internal control)	No specific reference to OSA; lacks maqasid or Shari'ah vocabulary
Bank C	SBU	"Audit operasional," "audit unit kerja"	Generic usage; not tied to Shari'ah governance; mirrors conventional audit framing
Bank D	SBU	"Audit internal," "audit investigasi"	Neutral terms; no Shari'ah-related references; identical to conventional audit practice
Bank 1	FFIB	Conventional audit terminology	No definition of Shari'ah compliance audit; generic language only
Bank 2	FFIB	Internal audit framed as integrity/control unit	Does not distinguish Shari'ah from non-Shari'ah aspects
Bank 3	SBU	"Audit internal," "audit berbasis risiko"	Generic framing without Shari'ah-specific vocabulary
Bank 4	Digital IB	"Audit internal operasional"	Focused on conventional risk/compliance; lacks explicit Shari'ah reference

Source: Internal audit charters of interviewed banks (Bank A, Bank C, Bank D), Audit Committee Charter of Bank B, and internal audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

The findings indicate that terminology choices across all eight institutions remain diverse but conventional, with no attempt to establish a distinct Shari'ah audit vocabulary. This pattern is consistent across both interviewed and non-interviewed banks, regardless of institutional type.

IV. Document Insights of Regulation: Terminology and Definition

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how Shari'ah audit terminology is defined and used across the Indonesian regulatory framework. Table 6.9 summarises the key provisions and observed limitations across both codes. Among the reviewed regulations, only limited efforts have been made to define or standardize terminology for Shari’ah audit functions.

Table 6.9
Regulatory Provisions On Shari'ah Audit Terminology And Usage

Regulation	Key Provisions	Terminological Ambiguity and Standardisation	Terminology Preference and Usage
POJK No. 1/2019	Art. 1(5): Internal Audit Function defined as independent unit; Arts. 4–6: Duties cover internal control, risk management, and governance	Uses only *fungsi audit intern*; no definition of "operational audit" or Shari'ah-specific audit type	No Shari'ah-specific terminology introduced
POJK No. 2/2024	Art. 1(9): Defines Shari'ah Compliance Audit; Art. 56(c): Requires IA to perform Shari'ah compliance audit in coordination with SSB	Mandates compliance audits but lacks glossary or operational definition; no distinction from other audit categories	Defines Shari'ah compliance audit but lacks broader taxonomy; scope left to institutions
SEOJK No. 15/2024	Sec. IV(C)(1): Structured IA–SSB communication required; Sec. IV(C)(3): IA must evaluate Shari'ah compliance and report to SSB/management	Provides technical procedures but avoids new terminology; reinforces compliance focus without standard taxonomy	Reinforces coordination and compliance focus; avoids standard terminology
PBI No. 11/33/PBI/2009	Arts. 26–28: Internal audit defined as part of GCG evaluation; no distinction between Shari'ah and conventional audit	Early-stage framework; lacks Shari'ah-specific terminology	No Shari'ah-specific terminology introduced

Source: Regulatory documents (POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, PBI No. 11/33/PBI/2009), researcher's analysis.

The reviewed regulations contain references to internal audit functions, Shari'ah compliance audit activities, governance responsibilities, and coordination with the Shari'ah Supervisory Board (SSB). The terminology used across the four documents varies, and no document provides a comprehensive glossary or standardised classification of Shari'ah audit terminology.

V. Descriptive Triangulation Summary for Terminology and Definition

Triangulation across the four data sources revealed a consistent pattern regarding the terminology and definition of OSA. Table 6.10 presents a descriptive synthesis of these findings. The absence of standardised Shari'ah audit terminology emerged across both institutional and regulatory documents, alongside variations in terminology and interpretation identified in the interview data.

Table 6.10
Descriptive Triangulation For Terminology and Definition

Data Source	Terminological Ambiguity and Standardization Debate	Terminology Preference and Usage
Internal Auditors (IA)	Mixed views; some call for standardization (e.g., IA6, IA8), others prioritize purpose over terms (IA1, IA4)	Terminology varies by institution: 'activity audit,' 'Shari'ah business audit,' 'routine audit'
Non-Internal Auditors (Non-IA)	Regulatory stakeholders (e.g., Non-IA1, Non-IA4) advocate for alignment; highlight confusion across banks	Some prefer AAOIFI-endorsed terms like 'Shari'ah compliance audit'; others raise concern on similar-sounding terms
Audit Charters (Interviewed Banks)	No formal definition of OSA in any charter; reliance on generic audit terms (e.g., efektivitas, audit operasional)	Use of terms like "audit intern syariah", audit operasional without clarity on Shari'ah-specific content
Audit Charters (Non-Interviewed Banks)	No single standard; uses broad terms like audit intern, audit berbasis risiko; unclear Shari'ah distinction	Bank 3 uses audit berbasis risiko; Bank 4 uses audit internal operasional; no mention of maqasid or 4Es
Regulatory Documents	Terms like 'internal Shari'ah audit' used, but no detailed operational definitions; lacks glossary	No explicit use of terms like 'OSA,' 'Shari'ah compliance audit,' or '4Es'; terms are generic and conventional

Source: Researcher's analysis based on interview data (internal and non-internal auditors) and charter review (interviewed and non-interviewed banks)

Taken together, the triangulated findings indicate that terminology relating to OSA remains inconsistent across institutional and regulatory sources. Variations in usage were evident in both the documentary and interview data.

6.3.1.2 Audit Purposes and Ethical Orientatition

Audit purpose and ethical orientation form another key dimension of conceptual clarity in OSA. The findings highlight how auditors and stakeholders connect audit objectives with Islamic values, ranging from efficiency and compliance to broader maqasid-based considerations.

I. Internal Auditor Perspective Towards Audit Purposes and Ethical Orientation

a. Operational Audit Purpose and Scope

Internal auditors described the purpose and scope of operational Shari'ah audits in ways that revealed both common foundations and institutional variations. While all agreed that the primary aim was to assess control, compliance, and operational

soundness, the range of practices extended from thematic and risk-focused reviews to broader examinations of governance and performance. To illustrate these patterns, the following selected quotes highlight the most representative accounts from Internal Auditors:

> *IA1: "Operational audit covers operations, sales, collections, funding, and financing. The core of the work is to test whether controls are running properly. Shari'ah compliance is embedded in this testing process." (1:27 ¶23–28, IA1.docx, Appendix 4)*
>
> *IA2: "Since we are still a Shari'ah business unit, the scope is almost the same as a conventional audit, only smaller. Limited people, limited time — so we focus on what is material." (2:9 ¶16, IA2.docx, Appendix 4)*
>
> *IA3: "Our thematic audits often cover high-risk areas. For example, monitoring non-performing financing or checking outstanding balances. These are priority areas where scope is concentrated." (3:7 ¶35, IA3.docx, Appendix 4)*
>
> *IA4: "There are activity audits and thematic audits. Activity audits are broad, covering all functions, while thematic audits are specific to one focus, like financing or collections. We apply both depending on the audit plan." (4:4 ¶9, IA4.docx, Appendix 4)*
>
> *IA6: "At branch level, the scope is comprehensive — from operations to financing. But in divisions, it is usually thematic, like IT or risk. Since SBU is like a 'mini bank,' we adapt the scope accordingly." (6:5 ¶17, IA6.docx, Appendix 4)*
>
> *IA8: "We don't just look at compliance. The scope also includes evaluating performance — financing quality, funding structure, and even profit trends." (8:2 ¶17–21, IA8.docx, Appendix 4)*
>
> *IA10: "We divide the scope into several dimensions: operations, business activities, governance, risk management, internal control, and Shari'ah governance. All of them must be reviewed." (10:3 ¶58–60, IA10.docx, Appendix 4)*

These selected quotes show how internal auditors conceptualize the scope of operational Shari'ah audit as both comprehensive and adaptive. On one side, auditors

in SBU emphasize scaled-down but risk-oriented reviews due to limited resources. On the other, auditors in full-fledged Islamic banks stress a multidimensional scope covering governance, risk, and Shari'ah integration. Collectively, these perspectives demonstrate that while operational Shari'ah audit aims for a consistent core purpose, its scope evolves according to institutional size, risk profile, and strategic objectives.

The breadth of these insights is further represented in the ATLAS.ti visualization in Appendix 3(4).

b. Alignment with Maqasid al-Shari'ah

Internal auditors highlighted that the effectiveness of operational Shari'ah audit depends not only on technical compliance but also on alignment with the higher objectives of Shari'ah. Their perspectives reveal how OSA is framed as both a governance mechanism and an ethical safeguard, ensuring that banking operations contribute to justice, transparency, and public benefit in line with maqasid principles. The following selected quotes illustrate these views:

> *IA2: "In principle, our role in internal audit is to bring operations back in line with Shari'ah if we find practices that deviate. SKAI coordinates this, and the SSB gives the fatwa. So in the end, our work is to realign the business with Shari'ah principles." (2:27 ¶128, IA2.docx, Appendix 4)*

> *IA4: "For me, Shari'ah audit means checking whether financing really complies with Shari'ah law. We serve the ummah, and the financing contract is our responsibility before Allah SWT. That is the point of Shari'ah audit." (4:12 ¶79, IA4.docx, Appendix 4)*

> *IA10: "The essence of Shari'ah audit lies in intention and contract. In Shari'ah, niyyah and ijab qabul are essential. If the contract is not clean, then compliance is only formal, not real." (10:6 ¶68–70, IA10.docx, Appendix 4)*

> *IA10: "If you compare it with ESG, the maqasid actually matches: people, planet, and profit. The Shari'ah framework already integrates those values. The audit's role is to make sure they are not just slogans but are applied." (10:24 ¶143–146, IA10.docx, Appendix 4)*

> *IA7: "Operational audit for us is accountability — not only to people but*

> *also to Allah. Maqasid Shari'ah reminds us that funds belong to the public, so they must be managed ethically, with justice and trust." (15:11 ¶142–153, IA7.docx, Appendix 4)*

These selected quotes illustrate how internal auditors interpret Maqasid al-Shari'ah as a bridge between technical auditing and spiritual accountability. However, participants differed in the dimensions of maqasid they emphasised. Some auditors associated maqasid primarily with ensuring the validity of contracts, adherence to Shari'ah requirements, and the proper alignment of business activities with religious principles. Others adopted a broader understanding, linking maqasid to public welfare, ethical stewardship, sustainability, and societal benefit. This variation suggests that while auditors share a common commitment to maqasid-oriented auditing, they operationalise that commitment through different points of emphasis. Across these perspectives, OSA is consistently portrayed as extending beyond procedural compliance towards safeguarding the broader ethical and social objectives of Islamic banking. The range of these perspectives is captured in the ATLAS.ti network visualisation provided in Appendix 3(5), which maps the connections between internal auditors' interpretations of Maqasid al-Shari'ah and their implications for OSA practice.

c. 4Es Including Ethics

Internal auditors reflected on how the traditional framework of economy, efficiency, and effectiveness (the 3Es) is not sufficient for Islamic banking. They stressed the necessity of including ethics as a distinct dimension, both to safeguard Shari'ah compliance and to distinguish Islamic auditing from conventional practice. This emphasis demonstrates an evolving understanding that OSA must extend beyond procedural assessment to embody Islamic values. The following selected quotes illustrate these perspectives:

> *IA4: "For us in Shari'ah banking, audit cannot stop at 3E. We have to make sure financing follows Shari'ah law. That is what makes it different from conventional." (4:1 ¶16, IA4.docx, Appendix 4)*

> *IA6: "Usually audits look at economy, efficiency, and effectiveness. But in Shari'ah, we need to be more specific. Ethics is part of the audit dimension*

— you cannot leave it out." (6:1 ¶19, IA6.docx, Appendix 4)

IA8: "The reason why Islamic banks exist is to make sure operations comply with Shari'ah principles. For example, financing contracts must be checked not only for financial soundness but also for their ethical foundation." (8:1 ¶23, IA8.docx, Appendix 4)

IA10: "Audit has evolved — from checking, to consulting, and now to advisory. We even look ahead to forecast risks." (10:1 ¶75–80, IA10.docx, Appendix 4)

IA10: "In practice we still look at the 4Es, but the audit has also expanded into governance, risk ownership, and internal controls. That is how the role has developed." (10:26 ¶170–173, IA10.docx, Appendix 4)

These selected quotes highlight a shared conviction among auditors that ethics represents a defining feature of OSA. Nevertheless, participants differed in how ethics was positioned within the audit framework. Some viewed ethics as an additional dimension complementing the traditional criteria of economy, efficiency, and effectiveness, whereas others regarded ethics as the foundational rationale underpinning Islamic banking operations. Several participants further linked ethical responsibility to the expanding governance and advisory roles of internal auditors, indicating that ethical considerations are increasingly embedded across broader organisational oversight functions. Taken together, these views suggest that ethics is not perceived merely as an additional audit criterion but as a principle shaping the purpose, scope, and responsibilities of OSA. The distribution of these perspectives across participants is illustrated in the ATLAS.ti network visualisation provided in Appendix 3(6), which captures the varying ways in which internal auditors position ethics within the OSA framework.

II. Non-Internal Auditor Perspective Towards Audit Purposes and Ethical Orientation

This section presents insights from non-internal audit stakeholders regarding the purpose and ethical framing of operational Shari'ah audit. Three sub-themes emerged:

Operational Audit Purpose and Scope, *Alignment with Maqasid al-Shari'ah*, and *4Es Including Ethics*.

a. Operational Audit Purpose and Scope

From the perspective of non-internal stakeholders, the purpose and scope of operational Shari'ah audit were often framed in terms of governance oversight, Shari'ah assurance, and institutional accountability. Compared with internal auditors who emphasized risk and performance, these participants highlighted how OSA should serve as a safeguard to ensure both compliance and effective management. The following selected quotes reflect their views:

> *Non-IA1: "Operational audit must demonstrate that Shari'ah banking operations not only comply with regulations but also create value for stakeholders. It should examine whether internal processes are aligned with Islamic governance principles." (11:12 ¶40, Non-IA1.docx, Appendix 4)*
>
> *Non-IA2: "The purpose is not just about checking mistakes. It must assure that Shari'ah contracts are properly implemented, that customers are not misled, and that financing structures are truly compliant." (12:8 ¶19, Non-IA2.docx, Appendix 4)*
>
> *Non-IA3: "In my view, the audit scope has to go beyond financial or operational checks. It must also ask whether the products and practices are really reflecting Shari'ah values." (13:6 ¶22, Non-IA3.docx, Appendix 4)*
>
> *Non-IA4: "When regulators designed the POJK, the intention was to ensure that operational audit contributes to governance effectiveness. The scope is therefore tied to regulatory definitions and expectations." (16:5 ¶28, Non-IA4.docx, Appendix 4)*

These selected quotes show that non-internal stakeholders tend to frame OSA as a mechanism of assurance — both ethical and regulatory — rather than as a purely technical exercise. Their focus on protecting customers, ensuring authentic Shari'ah compliance, and linking audit scope to governance standards reflects an external demand for legitimacy and accountability. Appendix 3(7) presents the ATLAS.ti network view that captures the full spread of perceptions on this issue.

b. Alignment with Maqasid al-Shari'ah

From the perspective of non-internal auditors, Maqasid al-Shari'ah was seen as the ethical foundation of Islamic banking, guiding accountability to both society and God. They emphasized that Shari'ah audits should go beyond compliance to safeguard integrity and ensure financial practices serve broader socio-economic and ethical responsibilities. The following quotes illustrate these views.

> ***Non-IA1:*** *"So, when we talk about maqasid Shari'ah, that aligns with socio-economic accounting…" (11:7 ¶14–17, Non-IA1.docx, Appendix 4)*
>
> ***Non-IA2:*** *"Because of integrity. We work with accountability to God. That's the essence of Shari'ah." (12:16 ¶58, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA3:*** *"...we're not just responsible in human-to-human or business-to-business interactions, but also in our relationship with nature." (13:5 ¶43, Non-IA3.docx, Appendix 4)*

These reflections demonstrate that non-internal auditors also associate OSA closely with Maqasid al-Shari'ah, although their emphases vary. Some participants framed maqasid primarily in terms of accountability to God and personal integrity, while others highlighted socio-economic accountability and environmental responsibility. Unlike several internal auditors who focused on audit implementation and operational compliance, non-internal auditors tended to emphasise the broader societal purposes that Islamic banking is expected to serve. This suggests that governance actors outside the audit function view OSA as contributing to multiple layers of accountability extending beyond institutional compliance to wider social and ethical responsibilities. These divergent yet complementary perspectives are mapped in the ATLAS.ti network visualisation in Appendix 3(8), offering a visual representation of how non-internal auditors connect Maqasid al-Shari'ah to the broader accountability dimensions of OSA.

c. 4Es Including Ethics

Non-internal auditors also recognised the importance of the 4Es framework within operational Shari'ah audit. However, unlike internal auditors who frequently discussed the practical application of ethics within audit activities, non-internal auditors tended to frame the framework in terms of regulatory alignment and its consistency with broader Shari'ah accountability objectives. The following excerpts illustrate these views.

> ***Non-IA4:*** *"In accordance with POJK No. 1/POJK.03/2019, the scope of internal audit activities has been described, which in general aligns with the 4Es principles." (16:4 ¶17, Non-IA4.docx, Appendix 4)*
>
> ***Non-IA1:*** *"Of course, I agree. Because the measure has to be clear, right? So, when we talk about maqasid Shari'ah, that aligns with socio-economic accounting, actually—or social… but it can actually be referred to as Islamic economic accounting, which certainly refers to what you just said earlier(11:7 ¶14–17, Non-IA1.docx, Appendix 4)*
>
> ***Non-IA2:*** *"I agree, that's how it should be, right?" (12:18 ¶19, Non-IA2.docx, Appendix 4)*

These perspectives indicate that non-internal auditors broadly affirm the relevance of the 4Es framework to OSA, although their engagement with the framework differs from that of internal auditors. Whereas internal auditors tended to discuss the 4Es in relation to day-to-day audit implementation, non-internal auditors approached the framework through broader governance and accountability considerations. Non-IA4 explicitly situated the 4Es within the POJK regulatory framework, while Non-IA1 connected its ethical dimension to maqasid principles and the wider objectives of Islamic economic accountability. Although less operationally focused, these perspectives suggest that governance actors outside the internal audit function view the 4Es framework as compatible with both regulatory expectations and the broader accountability objectives underpinning Islamic banking. These governance-oriented engagements with the 4Es framework are visualised in the ATLAS.ti network in Appendix 3(9), reflecting how non-internal auditors situate the framework within broader regulatory and accountability contexts rather than operational audit procedures.

III. Document Insights of Internal Audit Charters: Audit Purposes and Ethical Orientation

A review of internal audit charters from all eight banks — Bank A, Bank B, Bank C, and Bank D (interviewed), and Bank 1, Bank 2, Bank 3, and Bank 4 (non-interviewed) — reveals how operational audit purposes are formally articulated and the extent to which ethical orientation is embedded. Three sub-themes are examined: Operational Audit Purpose and Scope, Alignment with Maqasid al-Shari'ah, and 4Es Including Ethics.

a. Operational Audit Purpose and Scope

Across all eight reviewed charters, audit responsibilities are defined in conventional terms such as efficiency, effectiveness, risk-based focus, and compliance. None explicitly link audit objectives to Shari'ah principles, maqasid, or ethical frameworks. Table 6.14 summarises these observations.

Table 6.11
Operational Audit Purpose And Orientation Across All Reviewed Bank Charters

Bank	Type	Audit Purpose/Orientation	Analysis Finding
Bank A	FFIB	Efficiency, effectiveness, and adherence to controls	No Shari'ah-based objectives or maqasid linkages
Bank B	FFIB	Oversight, governance, and compliance with policies	No definition of OSA; aligned with general supervisory duties
Bank C	SBU	Risk-based and performance-based evaluations, compliance	Compliance framed generically; no explicit Shari'ah dimension
Bank D	SBU	Independent assurance, organisational goals, internal control	Mentions "Islamic principles" only superficially; lacks ethical or maqasid framework
Bank 1	FFIB	Governance, risk management, and internal control	Focus remains conventional; no Shari'ah linkage
Bank 2	FFIB	Efficiency, accuracy, and compliance with policies	No distinction between operational and Shari'ah audits
Bank 3	SBU	Risk-based audit adapted from parent bank	Shari'ah objectives absent; mirrors parent bank model
Bank 4	Digital IB	Evaluation of effectiveness of internal controls	Ethical or Shari'ah targets absent

Source: Internal audit charters of interviewed banks (A–D) and non-interviewed banks (Bank 1–4), researcher's analysis.

The findings indicate that audit purposes across all eight charters remain defined within conventional boundaries of governance, control, and compliance, without articulating Shari'ah-specific objectives. This pattern is consistent across both full-fledged Islamic banks and Shari'ah Business Units, and corresponds with the interview data indicating that formal documents lack explicit Shari'ah articulation.

b. Alignment with Maqasid al-Shari'ah

None of the reviewed charters, whether from interviewed or non-interviewed banks, explicitly reference Maqasid al-Shari'ah as a guiding framework for audit activities. Among the interviewed banks, Bank A refers to Shari'ah primarily in relation to compliance, while Bank B emphasises governance and Good Corporate Governance (GCG) without explicit reference to maqasid or ethical stewardship. Banks C and D likewise contain no references to Maqasid al-Shari'ah or other Islamic ethical constructs. A similar pattern was observed among the non-interviewed banks, including full-fledged Islamic banks, where the reviewed charters did not explicitly articulate a role for internal audit in promoting Shari'ah values beyond compliance-related functions. The triangulated findings indicate that maqasid-related themes emerged in participant accounts but were not explicitly reflected in the institutional governance documents reviewed.

c. 4Es Including Ethics

The 4Es framework—effectiveness, efficiency, economy, and ethics—is not systematically embedded in any of the eight reviewed charters. Where referenced, only effectiveness and efficiency appear, primarily in relation to operational performance and internal controls. No explicit reference to ethics or maqasid-based principles was identified in the reviewed documents. This pattern was consistent across both interviewed and non-interviewed banks and aligned with interview findings that emphasised the importance of ethics and maqasid in OSA practice.

IV. Document Insights of Regulation: Audit Purposes and Ethical Orientation

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how audit purposes and ethical orientation are addressed in the Indonesian regulatory framework. Table 6.12 summarises the key provisions across three codes: Operational Audit Purpose and Scope, Alignment with Maqasid al-Shari'ah, and 4Es Including Ethics.

Table 6.12
Regulatory Provisions On Audit Purposes And Ethical Orientation

Regulation	Key Provisions	Operational Audit Purpose and Scope	Alignment with Maqasid al-Shari'ah	4Es Including Ethics
POJK No. 1/2019	Arts. 4–6, 20(1): SKAI role in internal control, risk management, governance; annual risk-based audit planning	Compliance addressed generally; Shari'ah compliance not a distinct audit objective	No maqasid reference	Efficiency and effectiveness mentioned; ethics not integrated
POJK No. 2/2024	Arts. 50–56: SSB governance; thematic audits for Shari'ah violations	SSB oversight authority provided; Shari'ah audits not classified within operational audit categories	No maqasid reference	Efficiency and effectiveness in governance context; ethics not formalised
SEOJK No. 15/2024	Sec. IV(C): Audit planning incorporates compliance assessment and identified risks	Technical guidance on Shari'ah governance; OSA not redefined with Shari'ah-ethical mandates	No maqasid reference	Transparency and integrity implied; not standardised as audit criteria
PBI No. 11/33/PBI/2009	Arts. 2–5, 29(1)–(2): Internal control standards; risk identification, monitoring, and control	Applies to Islamic business activities; focuses on risk and control	No maqasid reference	Fairness and transparency referenced; not linked to ethics-based audit criteria

Source: Compiled from POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009.

The reviewed regulations address internal audit functions, governance evaluation, and Shari'ah compliance oversight, though Shari'ah audit purposes are not separately defined as a distinct audit category. References to Maqasid al-Shari'ah are not identified in any of the reviewed documents. Elements of the 4Es framework — economy, efficiency, and effectiveness — are partially reflected in governance provisions, while the ethical dimension is not explicitly formalised as an audit criterion.

V. Descriptive Triangulation Summary for Audit Purposes and Ethical Orientation

Triangulation across the four data sources revealed a consistent pattern regarding audit purposes and ethical orientation in OSA. Table 6.13 presents a descriptive synthesis of these findings. While participants described varying views on audit scope and ethical responsibilities, these perspectives were not consistently reflected in institutional or regulatory documents.

Table 6.13
Summary Table: Descriptive Triangulation Of Audit Purpose And Ethical Orientation

Data Source	Operational Audit Purpose and Scope	Alignment with Maqasid al-Shari'ah	4Es Including Ethics
Internal Auditors (IA)	Flexible scope: compliance, advisory, business evaluation, risk coverage	Mostly implicit; some ethical reflections tied to God-consciousness	3Es common; ethics partially understood or internalised
Non-Internal Auditors (Non-IA)	Emphasis on Shari'ah corrective scope and SSB coordination	Explicit support for maqasid reasoning and divine accountability	Calls for ethical audit to align with Shari'ah principles
Audit Charters	General terms; limited Shari'ah framing across both interviewed and non-interviewed banks; no reference to maqasid or 4Es	No mention of maqasid or Islamic values in any reviewed charter	4Es not mentioned; ethical dimension absent
Regulatory Documents	Internal audit and compliance defined; OSA undefined	No reference to maqasid	Efficiency and effectiveness appear; ethics not included

Source**:** Researcher's analysis based on interview data (internal and non-internal auditors), charter review (interviewed and non-interviewed banks) and regulatory documents

Taken together, the triangulated findings indicate differences between participant accounts and documentary sources regarding audit purposes and ethical orientation in OSA. References to maqasid al-Shari'ah and the 4Es framework emerged in interviews but were not evident in institutional charters or regulatory documents.

6.3.1.3 Methodological Structure and Flexibility

This section explores how operational Shari'ah audit methodologies are structured within Islamic banks and the degree of flexibility allowed in their application. While regulatory frameworks and institutional guidelines provide a basic structure, auditors often need to adapt methods to organisational realities, risk profiles, and

resource availability. The balance between formalised procedures and adaptive practices becomes a defining feature of methodological effectiveness.

I. Internal Auditor Perspective Towards Methodological Structure and Flexibility

From the perspective of internal auditors, methodological structure is viewed as essential for ensuring consistency and accountability, yet flexibility is equally important to address contextual challenges. Auditors often rely on conventional frameworks and internal SOPs as a foundation, but adapt them to fit Shari'ah-specific requirements and operational nuances. Their reflections highlight both the strengths and limitations of current practices, showing how auditors navigate between rigid compliance and practical adjustments in implementation.

a. Absence of Formal Shari'ah Audit Methodology

Internal auditors repeatedly underscored the absence of a unified Shari'ah audit methodology, noting that existing practices remain heavily adapted from conventional internal audit frameworks. Instead of a standardized approach, auditors described institution-specific interpretations and incremental adjustments to incorporate Shari'ah elements. The following selected quotes illustrate these perspectives:

> ***IA1:*** *"Yes, there's no universal internal audit methodology." (1:17 ¶137–142, IA1.docx, Appendix 4)*
>
> ***IA3:*** *"In terms of detailed implementation, there is nothing specific — it's interpreted independently by the bank or SKAI." (3:14 ¶101–103, IA3.docx, Appendix 4)*
>
> ***IA10:*** *"So, do I think Shari'ah audits are falling behind in methodology? No — because it depends on the need... the challenge lies more in the development of Shari'ah itself..." (10:22 ¶340–347, IA10.docx, Appendix 4)*

> ***IA10:*** *"So if we're talking about the audit methodology, we still use a risk-based approach… we add Shari'ah-specific components. It's more about layering Shari'ah compliance into each stage." (10:38 ¶30, IA10.docx, Appendix 4)*

These perspectives collectively indicate that the absence of a formalised Shari'ah audit methodology has not resulted in a uniform response across institutions. Rather, auditors have developed varied institutional approaches, drawing on risk-based frameworks and adapting conventional audit structures to incorporate Shari'ah-specific elements. Participants described different ways of addressing methodological limitations, reflecting variations in institutional practices, organisational contexts, and interpretations of Shari'ah audit requirements. IA10 further suggested that some methodological challenges arise from the dynamic and evolving nature of Shari'ah guidance itself, making the development of a universally applicable audit approach difficult. Taken together, these accounts suggest that methodological diversity currently characterises OSA practice across the participating institutions.

This institutional diversity in methodological adaptation is further illustrated in the ATLAS.ti network visualisation in Appendix 3(10), which traces the varied pathways through which auditors navigate the absence of a formalised Shari'ah audit methodology.

b. Contextual Audit Method Flexibility

Internal auditors highlighted that audit methods were not uniformly applied, but instead adapted to each bank's risk profile, operational infrastructure, and organizational priorities. This flexible and context-specific approach allowed them to adjust audit programs in line with emerging risks and available resources, rather than relying on rigid standardized procedures. The following selected comments illustrate how auditors described this adaptive approach in their respective institutions:

> ***IA1:*** *"Auditors usually don't use all of them — there's not enough time, and it would be a waste. They wouldn't match the risk profile anyway." (1:19 ¶144, IA1.docx, Appendix 4)*

> ***IA2:*** *"If last year we already audited certain areas, we look for something new, or perhaps new operational activities introduced...- We also review the BBP (Bank Business Plan)—we look at what business areas are being pursued, and that becomes the basis for determining the scope." (2:15 ¶18, IA2.docx, Appendix 4)*
>
> ***IA5:*** *"...we, the resident auditors, give input to ERAM, and then it gets passed on. That way, they understand what it's like in the field, and it gets incorporated into the methodology." (5:13 ¶46, IA5.docx, 14:19–15:08, Appendix 4)*
>
> ***IA10:*** *"audit methodology is much more flexible. Like I said, we have to be agile. It depends on the infrastructure we have. It depends on the universe we're dealing with." (10:15 ¶336, IA10.docx, Appendix 4)*

These reflections highlight how internal auditors balance methodological consistency with contextual adjustments. Flexibility is not seen as a weakness but as a necessary feature that ensures audit practices remain responsive to institutional needs and evolving operational contexts. The network visualization in Appendix 3(11) illustrates how these perspectives converge on the theme of contextual audit method flexibility.

c. Development of Internal Audit Methodology

In the absence of formalized Shari'ah audit standards, internal auditors described how their institutions were gradually developing internal audit methodologies based on practical experience. These efforts were often incremental and evolved through repeated audit cycles, field findings, and internal review. Although no institution claimed to have a fully established Shari'ah audit framework, there was a shared effort to strengthen internal processes over time.

Some auditors emphasized how audit planning had become more structured, particularly with the involvement of dedicated teams that monitored operational issues and aligned audit priorities with identified risks.

> ***IA5:*** *"we do have a methodology in place, but I think it still needs improvement here and there. Because methodology isn't static, right? As*

time goes on, we realize certain things and say, 'Oh, this should be added.' That's how it goes." (5:12 ¶42, IA5.docx, Appendix 4)

IA7: *"The audit program is prepared by a specific team, but we still provide assistance, because we're the ones in the field. Naturally, we know the developments in cases happening in operational areas, so we provide input based on our audit findings." (15:9 ¶13, IA7.docx, Appendix 4)*

These accounts suggest that methodological development remains an ongoing feature of OSA practice within the participating institutions. Both participants described approaches that respond to practical audit conditions, although they emphasised different mechanisms for improvement. IA5 highlighted the refinement of existing methodologies through continued adjustment and evaluation, whereas IA7 emphasised the incorporation of audit findings into future programme planning. While neither institution claimed to have established a fully formalised Shari'ah audit framework, both accounts point to a similar effort to strengthen methodological consistency and audit effectiveness over time.

Appendix 3(12) provides a visual representation of the interrelationships among the concepts that underpin continuous methodological development in OSA practice.

d. Activity-Based Structuring within a Risk-Based Audit Approach (RBA)

Internal auditors consistently emphasised that Shari'ah audit planning and implementation were anchored in a risk-based approach. Rather than applying uniform coverage, they prioritised audit areas and activities based on assessed risk levels, operational profiles, and available resources. This approach ensured that audit programs addressed the most significant exposures and operational vulnerabilities.

The selected comments below illustrate how auditors described this structured, risk-oriented approach in their respective institutions:

- ***IA1****: "... when you are out there in the job force, it is wonderful to have these 4Es, but the reality is that you only have a certain number of audit resources available to you, you need to focus on the risk." (1:2 ¶83–85, IA1.docx, Appendix 4)*

- ***IA2**: "we identify and determine in advance the key areas of focus. Due to limitations in personnel and time, we set the audit scope based on priority areas of the Shari'ah business to be audited." (2:10 ¶16, IA2.docx, Appendix 4)*

- ***IA3**: "We did sampling at several operational units that had relatively significant impact—determined based on NPF and outstanding balances." (3:15 ¶35, IA3.docx, Appendix 4)*

- ***IA5**: "Every month, we choose a different program for a specific branch, depending on that branch's risk. Since I'm a Resident Auditor and based here, I understand where the weak spots usually are." (5:4 ¶13, IA5.docx, Appendix 4)*

- ***IA10**: "Now in terms of implementation, the audit is more focused on how risks are managed in daily activities, and how controls are applied." (10:4 ¶61, IA10.docx, Appendix 4)*

- ***IA7**: "for Shari'ah audit practice, we usually start by assessing the risk exposure of each activity in the SBU." (15:10 ¶19, IA7.docx, Appendix 4)*

These statements illustrate how activity-based structuring within a risk-based audit approach allows auditors to focus efforts where they matter most. By integrating operational profiling, performance metrics, and control evaluations into their audit planning, internal auditors ensure that limited resources are directed toward areas with the highest potential impact on Shari'ah compliance and operational soundness. The following figure visualises the detail interconnected elements of this structured risk-based approach as described by participants. The related thematic connections are presented in Appendix 3(13).

II. Non-Internal Auditor Perspective Towards Methodological Structure and Flexibility

a. Absence of Formal Shari'ah Audit Methodology

Non-internal auditors often highlighted the lack of a clear and standardised methodology for Shari'ah audit in Indonesia. This gap was seen as a basic problem that makes practices fragmented and heavily dependent on fatwa interpretation. Non-IA2

strongly pointed out that without a framework, it is difficult to know what exactly is being audited, which risks audits becoming inconsistent. By contrast, Non-IA1 took a more practical view, arguing that conventional audit methods can still be applied as long as they are adapted with Shari'ah-specific elements. From a regulatory angle, Non-IA4 referred to POJK No. 1/POJK.03/2019, which sets out the general structure, authority, and ethics for internal audit, but does not give detailed technical guidance for Shari'ah audit execution. The following comments illustrate these perspectives:

> ***Non-IA1:*** *"In my view, we in Shari'ah shouldn't try to reinvent the wheel — trying to redefine what the wheel is. A Shari'ah wheel and a non-Shari'ah wheel aren't different. So, general auditing and Shari'ah auditing don't need to be entirely separate. Sampling methods and others can still be used." (11:28 ¶25, Non-IA1.docx, Appendix 4)*
>
> ***Non-IA2:*** *"Go ahead and ask: is there a Shari'ah audit framework at DSN? There isn't. It's only based on fatwas." (12:10 ¶61, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA2:*** *"we need the framework first. So, what exactly are we auditing? That's the point. So that we don't go off track." (12:15 ¶164, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA4:*** *"POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024 provide further detail on the roles and responsibilities related to internal Shari'ah audits and external reviews of Shari'ah governance. The implementation of external Shari'ah governance reviews will also follow guidelines to be developed by the Indonesian Institute of Public Accountants (IAPI) as the association representing the public accounting profession in Indonesia." (16:13 ¶29, Non-IA4.docx, Appendix 4)*

These reflections highlight that while some non-auditor stakeholders accept the adaptation of conventional audit techniques, most stress the urgent need for a dedicated Shari'ah audit framework. The network visualization in Appendix 3(14) illustrates how these perspectives converge on the theme of the need for a dedicated and standardised Shari'ah audit framework.

b. Contextual Audit Method Flexibility

Similar to Internal Auditor, the Non-internal auditors also viewed Shari'ah audit methodology as flexible, combining general auditing principles with the contextual demands of Shari'ah compliance. Their perspectives varied: some argued that conventional methods remain applicable with Shari'ah-specific adjustments (Non-IA1, Non-IA3), while others emphasised the absence of a dedicated framework and the need for structured guidance (Non-IA2). This flexibility was seen as both an advantage—allowing adaptation to diverse contexts—and a challenge, as it risks creating inconsistency across institutions.

The following comments illustrate how non-internal auditors described this contextual flexibility:

> ***Non-IA1:*** *"… Sampling methods and others can still be used. Operational audit as we know it can still be applied. The difference lies in the scope — we emphasize the Shari'ah context." (11:10 ¶25, Non-IA1.docx, Appendix 4)*

> ***Non-IA2:*** *"I proposed a framework for conducting Shari'ah audits from three angles: operational, accounting, and financing... But if you ask whether DSN has a Shari'ah audit framework — there isn't one. It's only based on fatwas." (12:19 ¶60–61, Non-IA2.docx, Appendix 4)*

> ***Non-IA3:*** *"Because audit itself is general and neutral. Audits can be done for anything — it just depends on how we define what "Shari'ah" means." (13:10 ¶39, Non-IA3.docx, Appendix 4)*

Figure generated using ATLAS.ti provided in in Appendix 3(15) visualises the range of non-internal auditor perspectives on how Shari'ah audit methods can be adapted within institutional contexts while maintaining compliance.

c. Development of Internal Audit Methodology

A non-internal auditor expressed a constructive view on the potential development of internal Shari'ah audit methodologies, particularly as a complement to the Shari'ah Supervisory Board (SSB). In the absence of top-down guidance, they

envisioned an internally driven model where internal auditors could provide structured assistance to SSB through audit processes tailored to Shari'ah objectives. This perspective emphasized the importance of equipping internal audit units with systematic tools, particularly across operational, accounting, and financing areas, to ensure more effective compliance support. One participant notably proposed a practical framework as part of this initiative. The following quotes reflect this proposal:

> *Non-IA2: "I initially wanted to make it a guideline for internal auditors assisting the SSB. Because internal audit helps the SSB." (12:13 ¶111, Non-IA2.docx, Appendix 4)*

> *Non-IA2: "So I offered mine. I had material with a framework for conducting Shari'ah audits from three angles: operational, accounting, and financing." (12:11 ¶60, Non-IA2.docx, Appendix 4)*

These remarks indicate that at least one non-internal auditor has moved beyond identifying methodological gaps to actively proposing a structured response. Non-IA2's account describes a practitioner-initiated framework organised around three audit dimensions—operational, accounting, and financing—developed in the absence of nationally standardised guidance. Notably, this initiative was framed as a complement to the SSB's oversight function, suggesting that some governance actors perceive internal audit as capable of supporting broader Shari'ah supervisory activities. Although this perspective was not expressed by all non-internal participants, it illustrates one example of how practitioners are attempting to adapt existing audit structures to address Shari'ah-specific audit considerations.

The network visualization in Appendix 3(16) illustrates how these perspectives converge on the theme of practitioner-led development of a Shari'ah audit framework.

d. Activity-Based Structuring within a Risk-Based Audit Approach

Unlike internal auditors who frequently emphasized the importance of aligning audit planning with institutional risk profiles and operational activity structures, non-internal auditors did not articulate this concept explicitly. Across all three non-internal

participants (Non-IA1, Non-IA2, and Non-IA3), there was no reference to risk-based structuring nor to the organization of audit plans around core business activities.

While they did express concern over the lack of audit frameworks and called for clearer methodological foundations, their focus remained largely on conceptual gaps, the need for guidance, and the delineation of audit roles — rather than on how audits are planned or prioritized based on risk exposure or business process flows.

This absence suggests a disconnection between strategic audit planning practices and external stakeholder perspectives, particularly among those more aligned with governance, oversight, or regulatory functions. It may also reflect the limited transparency or involvement of non-internal auditors in the operational structuring of internal audit functions, especially in areas such as audit scoping, cycle planning, or risk mapping.

III. Document Insights of Internal Audit Charters: Methodological Structure and Flexibility

A review of audit charters from all eight banks—Bank A, Bank B, Bank C, and Bank D (interviewed), and Bank 1, Bank 2, Bank 3, and Bank 4 (non-interviewed)—identified a consistent pattern across the institutions. The reviewed charters primarily describe audit activities in terms of governance, control, risk management, and compliance, with limited reference to Shari'ah-specific audit approaches. While the charters affirm governance commitments and refer to Shari'ah audit obligations, none provide detailed frameworks or guidance tailored to Shari'ah compliance requirements. Four sub-themes are presented below.

a. Absence of Formal Shari'ah Audit Methodology

Across all eight reviewed charters, no explicit statements on a dedicated Shari'ah audit methodology were identified. Among interviewed banks, Bank A refers to SOPs and BPPs as audit manuals without clarifying their relevance to Shari'ah auditing, while Bank B emphasises oversight and GCG compliance without Shari'ah-specific procedures. Bank C uses generic work programs and compliance assessments, and Bank D follows its parent bank's conventional framework without modification. A similar

pattern was observed among non-interviewed banks: Bank 1 mentions audit procedures and SOPs without distinguishing between conventional and Islamic operations, Bank 2 does not define Shari'ah auditing within its framework despite operating as a full-fledged Islamic bank, and Banks 3 and 4 adopt audit logic inherited from their conventional parent banks.

Collectively, these omissions indicate that none of the eight banks has formally articulated how Shari'ah compliance is operationalised within an audit framework. The patterns observed across the charters are consistent: audit tools and procedures are primarily based on conventional audit frameworks, while Shari'ah-specific audit procedures are not explicitly documented. This pattern is evident across both full-fledged Islamic banks and Shari'ah Business Units. The absence of a documented Shari'ah audit methodology in the reviewed charters was also consistent with interview findings, in which participants discussed the relevance of Shari'ah-specific audit approaches that were not evident in the institutional documents reviewed.

b. Contextual Audit Method Flexibility

While formal guidance is lacking, indicators of contextual flexibility are present across the reviewed charters, though none explicitly contextualise such flexibility for Shari'ah audit. Table 6.14 summarises these observations across all eight institutions.

Table 6.14
Flexibility Of Audit Methods Across All Reviewed Bank Charters

Bank	Type	Reference in Charter	Observed Limitation
Bank A	FFIB	Audit procedures adjustable based on risk-based considerations	No link to Shari'ah audit context
Bank B	FFIB	Oversight scope adjustable in line with governance priorities and regulatory requirements	Flexibility not contextualised for Shari'ah-related audits
Bank C	SBU	Audit scope adaptable according to performance or institutional needs	Responsiveness implied but not Shari'ah-specific
Bank D	SBU	Scheduling and scope adjustment mechanisms outlined	Embedded in conventional internal audit rhythm
Bank 1	FFIB	Adjustment to audit activities based on business processes and risk conditions	Flexibility not linked to Shari'ah-specific risks
Bank 2	FFIB	Annual audit plans informed by business dynamics	No integration of Shari'ah or ethical indicators
Bank 3	SBU	Operates under inherited audit templates from	Limited scope for Shari'ah-

Bank	Type	Reference in Charter	Observed Limitation
		parent bank	specific adaptation
Bank 4	Digital IB	Follows group or parent governance templates	No localised procedures for Shari'ah governance

Source: Internal audit charters of interviewed banks (A–D) and non-interviewed banks (Bank 1–4), researcher's analysis.

The reviewed charters illustrate a degree of procedural flexibility across all eight institutions, but none provide clarity on how such adaptability would operate in a Shari'ah context.

c. Development of Internal Audit Methodology

There is limited evidence across the eight reviewed charters of formal efforts to develop Shari'ah-specific audit methodologies. Among the interviewed banks, Bank A and Bank C refer to quality improvement mechanisms such as periodic evaluations and audit result reviews, although these are described in general audit terms. Bank B includes provisions for performance evaluation and oversight reviews within a broader governance framework, while Bank D follows group-wide templates inherited from its parent bank. Among the non-interviewed banks, Bank 2 includes a general quality assurance mechanism without reference to Shari'ah-specific methodological development, while Banks 1 and 3 contain review and evaluation provisions focused on existing audit processes. Taken together, the reviewed charters provide limited evidence of formal mechanisms for developing Shari'ah-specific audit methodologies.

d. Activity-Based Structuring within Risk-Based Audit (RBA)

Risk-based principles are referenced across the reviewed charters; however, none explicitly clarify how these principles apply to Shari'ah-specific business activities, products, or contracts. Table 6.15 summarises these observations.

Table 6.15
Audit Purpose And Risk-Based Orientation Across All Reviewed Bank Charters

Bank	Type	Reference in Charter	Observed Limitation
Bank A	FFIB	Audit procedures adjustable based on risk-based considerations	No Shari'ah dimension in risk framing

Bank	Type	Reference in Charter	Observed Limitation
Bank B	FFIB	Oversight scope adjustable in line with governance priorities	Risk framing remains in general governance terms
Bank C	SBU	Audit scope adaptable according to performance or institutional needs	No integration of Shari'ah-specific risks
Bank D	SBU	Scheduling and scope adjustment mechanisms outlined	Conventional risk framing; no Islamic finance dimension
Bank 1	FFIB	Detailed description of risk-based prioritisation	Entirely framed as conventional banking function
Bank 2	FFIB	Reference to risk factors in determining audit scope	Generic; no Shari'ah dimension
Bank 3	SBU	Strategic and operational risk focus	No integration of Islamic contracts or fatwa compliance
Bank 4	Digital IB	Strategic and operational risk focus	Absence of Shari'ah-specific controls

Source: Internal audit charters of interviewed banks (A–D) and non-interviewed banks (Bank 1–4), researcher's analysis.

In summary, across all eight institutions, risk-based audit principles are present in the reviewed charters but are consistently framed in conventional terms, with no reference to Shari'ah-specific risks, Islamic contract types, or fatwa compliance considerations.

IV. Document Insights of Regulation: Methodological Structure and Flexibility

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how methodological structure and flexibility in Shari'ah audit are addressed in the Indonesian regulatory framework. Table 6.16 summarises the key provisions across four codes: Absence of Formal Shari'ah Audit Methodology, Contextual Audit Method Flexibility, Development of Internal Audit Methodology, and Activity-Based Structuring within RBA.

Table 6.16
Regulatory Provisions On Methodological Structure And Flexibility In Shari'ah Audit

Regulation	Key Provisions	Observation for Shari'ah Audit Methodology
POJK No. 1/2019 (Arts. 4–6, 20(1)–(2))	Defines SKAI duties; requires annual risk-based audit planning;	No Shari'ah-specific methodology prescribed; conventional audit framework

Regulation	Key Provisions	Observation for Shari'ah Audit Methodology
	compliance with laws and policies	applies; activity-based structuring enabled but without Shari'ah risk indicators
POJK No. 2/2024 (Arts. 50–56)	Expands governance for FFIB and SBU; SSB may request thematic audits for Shari'ah violations	Oversight responsibilities outlined; no operational steps or methodological standards for Shari'ah audit defined
SEOJK No. 15/2024 (Part II; Part IV, C.1 & 3)	SSB reporting templates provided; audit planning to incorporate compliance results and risks	Technical guidance on compliance reporting; no structured Shari'ah audit methodology or risk-profiling parameters specified
PBI No. 11/33/PBI/2009 (Arts. 2–5, 29(1)–(2))	Internal control standards: risk identification, monitoring, and control; product-level compliance requirements	Generic internal control basis; no Shari'ah-specific audit methodology or risk framework provided

Source: Compiled from POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009.

The reviewed regulations establish the mandate for Shari'ah audit and link it to governance responsibilities, but do not prescribe a dedicated methodology for operational Shari'ah audit. Provisions for risk-based audit planning and contextual flexibility are present, though these are described in general terms without Shari'ah-specific procedural guidance. The development of Shari'ah audit methodologies and the structuring of activity-based audit approaches are not addressed in any of the reviewed regulatory documents.

V. Descriptive Triangulation Summary for Methodological Structure and Flexibility

Triangulation across the four data sources revealed a consistent pattern regarding methodological structure and flexibility in OSA. Table 6.17 presents a descriptive synthesis of these findings. Across all sources, the absence of a formalised Shari'ah audit methodology emerged as a recurring observation, alongside evidence of contextual flexibility in audit implementation.

Table 6.17
Triangulation Insights For Methodological Structure And Flexibility

Data Source	Absence of Formal Shari'ah Audit Methodology	Contextual Audit Method Flexibility	Development of Internal Audit Methodology	Activity-Based Structuring within RBA
Internal Auditors	Acknowledged across banks; rely on	Strong adaptation based on risk,	Emerging efforts; experience-driven and	Risk-based audit widely used;

Data Source	Absence of Formal Shari'ah Audit Methodology	Contextual Audit Method Flexibility	Development of Internal Audit Methodology	Activity-Based Structuring within RBA
(IA)	conventional models and internal interpretation (IA1, IA3, IA4, IA10)	infrastructure, and team coordination (IA2, IA3, IA4, IA5, IA6, IA10)	undocumented (IA5, IA7)	activity structuring tied to risk profiles (IA2, IA3, IA4, IA6, IA10)
Non-Internal Auditors (Non-IA)	Confirmed absence; framework expected at DSN level; current practice fatwa-based (Non-IA2)	General audit tools can be adapted to Shari'ah context (Non-IA1, Non-IA3)	Conceptual model proposed to support SSB (Non-IA2)	Not discussed explicitly by participants
Audit Charters	No dedicated Shari'ah audit methodology identified across any of the eight reviewed charters; conventional audit terms and procedures dominate	Indications of procedural flexibility present across all institutions; none explicitly contextualised for Shari'ah audit	Quality assurance and evaluation mechanisms present but framed in conventional governance terms; no evidence of Shari'ah-specific methodology development	Generic RBA logic applied across all institutions; no Shari'ah-specific risk or activity structuring identified
Regulatory Documents	Mandate Shari'ah audits but provide no procedural guidance (POJK 1/2019, 2/2024, SEOJK 15/2024, PBI 11/33/2009)	Allow flexible implementation; methods left to bank discretion	No regulatory support for methodology building; internal innovation left optional	No structured model for Shari'ah-specific risk/activity mapping

Source: Compiled from interview transcripts, audit charters (including Audit Committee Charter of Bank B), and regulatory documents (2019–2024).

Taken together, the triangulated findings indicate that no formalised Shari'ah audit methodology was evident across the data sources reviewed. Instead, audit practices were described as being implemented through institution-specific approaches and existing audit frameworks. This pattern was consistent across all four data sources and will be further examined in Chapter 7.

6.3.1.4 Additional Findings Related to Conceptual Clarity

In addition to the primary themes identified under Conceptual Clarity, several additional findings emerged from participant narratives that were not captured within the initial analytical framework. Although participants described different institutional contexts and terminology, the excerpts below illustrate recurring issues and experiences related to the implementation of Shari'ah audit in Indonesian Islamic banking institutions.

a. Audit Method Based on Conventional Frameworks

In the execution of Shari'ah operational audits, several participants reported relying on conventional internal audit methodologies. Rather than applying a separate Shari'ah audit framework, participants generally described adapting existing audit approaches to incorporate Shari'ah requirements.

> *IA8: "…"As we continue to function within an Islamic Business Unit, the methodologies employed are traditional. As we function under a unified framework, we continue to employ traditional audit methodologies; the practices in use remain internal auditing." (08:14–08:29, IA8.docx, Appendix 4)*
>
> *IA2: "…Shari'ah operational audits fundamentally rely on traditional internal audit methodologies." (10:05–10:12, IA2.docx, Appendix 4)*
>
> *Non-IA1: "…It is unnecessary to establish an entirely new audit framework. The Shari'ah framework can be incorporated into traditional audit practices." (13:44–13:57, Non-IA1.docx, Appendix 4)*

The findings suggest limited evidence of distinct Shari'ah audit methodologies in practice. Across the interviews, Shari'ah audit was more commonly described as an adaptation of existing internal audit frameworks than as a separate audit model.

b. Use of Manual Tools and SOP-based Structuring

In the absence of specific national guidelines for Shari'ah audit, participants described relying on institutional SOPs, internal manuals, and annual audit plans as the primary references for audit activities. Audit procedures were generally based on internal documents such as the RKAT, BPP, and risk-based audit plans approved by management, with each bank applying its own operational guidance.

> *IA2: "We've also developed our own BPP—Company Guidelines Book—which governs the technical execution of audits, from preparation, initial reporting, sampling, audit findings, and delegation of reports to various parties, including follow-up procedures." (09:27–09:41, IA2.docx, Appendix*

4)

IA2: "The audit plan has to be included in the Annual Audit Work Plan (RKAT), which is approved by the board of directors. This serves as the audit guideline that must be followed by SKAI." (09:42–09:54, IA2.docx, Appendix 4)

IA4: "So actually, in terms of scope, it's already covered by POJK... the technical parts are the responsibility of each bank." (07:33–07:41, IA4.docx, Appendix 4)

IA9: "Activity audits aim to ensure that performance aligns with the BBP, the bank's business plan, and the general policies set by the board of directors." (06:15–06:24, IA9.docx, Appendix 4)

The findings indicate that Shari'ah audit activities are commonly conducted using internally developed procedures and audit frameworks. Across the interviews, participants referred more frequently to institutional guidelines and audit plans than to a distinct Shari'ah audit methodology.

c. Corrective and Preventive Recommendations as Audit Value

Several participants described operational Shari'ah audits as generating recommendations and follow-up actions aimed at improving organisational performance. In addition to identifying audit findings, participants referred to efficiency, effectiveness, governance, and risk management as areas addressed through the audit process.

IA2: *"The end result is an Audit Report (LHA), which contains identified issues, recommendations, and follow-up actions ..... - with the goal of enhancing overall Shari'ah operational performance as expected by the company." (18:4 ¶20, IA2.docx, Appendix 4)*

IA2: *"The report or result we aim for is performance improvement, both in terms of efficiency and effectiveness, in achieving the company's stated objectives." (18:5 ¶22, IA2.docx, Appendix 4)*

The findings indicate that participants viewed operational Shari'ah audits as producing recommendations and follow-up actions intended to support organisational improvement. Across the interviews, audit outcomes were discussed not only in relation to the identification of compliance issues but also in terms of enhancing efficiency, effectiveness, governance practices, and risk management processes. Participants frequently referred to the role of audit reports in communicating findings and recommendations, with the expectation that these would contribute to ongoing improvements in organisational performance and operational practices.

d. Terminological Flexibility and Institutional Tolerance

Variations in terminology were commonly reported by participants in relation to operational Shari'ah audits. Despite differences in the terms used across institutions, participants generally viewed these variations as not affecting the conduct or objectives of the audit process. The following statements illustrate these perspectives.

> *IA4: "But in terms of whether it's confusing or not, I don't think so. Why? Because in my view, these are just terms. Whether it's operational or activity-based, it's actually the same thing. Because operational refers to operations in what field? What area? To me, they're almost the same. It's just that I personally lean toward 'activity' because it covers everything. But essentially, between conventional and Sharia, I think it's almost the same" (13:8 ¶41, IA4.docx, Appendix 4)*

> *IA6: "As long as there's no requirement in the audit that the terminology must be standardized, it all comes down to the scope of the audit. That will become clear during the audit. (13:6 ¶26, IA6.docx, Appendix 4)*

> *IA9: "The terminology can vary because auditors in corporations and government use different terms. Government auditors might call it a performance audit, while in corporations – private or otherwise – they use general audit, activity audit, and so on. But the essence is the same – it's just different names." (13:9 ¶22, IA9.docx, Appendix 4)*

The findings show that participants generally regarded differences in audit terminology as acceptable within current practice. Although they used different

explanations, all three participants indicated that variations in terms such as operational audit, activity audit, performance audit, or general audit did not create significant difficulties in understanding the audit process. IA4 emphasised the similarity between operational and activity-based audits, noting that the distinction was primarily a matter of terminology. IA6 linked the issue to audit scope, suggesting that the meaning of an audit becomes clear through its objectives and implementation rather than through standardised labels. Similarly, IA9 explained that different sectors often use different audit terms while referring to comparable audit activities. Across these accounts, participants consistently described the substance, scope, and objectives of the audit as more important than the specific terminology used to describe it.

e. Evolving Scope of Operational Audit and Governance-Centric Assessment

While the majority of participants underscored compliance and operational efficiency as the central focus of sharia audits, one informant noted the broadening of the audit scope to encompass a more strategic evaluation aligned with institutional governance. While the majority of participants underscored compliance and operational efficiency as the central focus of Shari'ah audits, one participant described a broader understanding of audit scope that extended to governance assessment and risk management evaluation.

> *IA10 explains: "So what exactly is being tested in an operational audit? It's things like: is the governance structure in place? Is it being implemented effectively? Effectiveness, efficiency, all that – those are the conclusions. But what we test is the capacity to perform, how well risks are managed, and how governance is carried out. (17:10 ¶33, IA10.docx, Appendix 4)*

This account indicates that one participant described audit scope as extending beyond procedural compliance to include evaluation of governance structures and risk management capacity.

Across the additional findings under this pillar, Shari'ah audit practices were described by participants as largely dependent on conventional methodologies and internal SOPs, with some participants noting efforts to enhance audit value through corrective recommendations and performance-oriented reporting. A visual network

generated using ATLAS.ti in Appendix 3(17) presents a thematic summary of insights related to additional findings under the Conceptual Clarity pillar.

6.3.2 Thematic Analysis of ISA Competency and Independence

This section analyses the second pillar of the framework, focusing on the professional competency and structural independence of Internal Shari'ah Auditors (ISA). Both dimensions are essential to ensure that audits are conducted with technical expertise, Shari'ah literacy, and institutional autonomy.

Findings are drawn from interviews with auditors (IA), non-auditor stakeholders (Non-IA), and institutional documents such as audit charters and regulations. The discussion is organised into two sub-themes: (1) Structured Training in Audit Techniques and Fiqh Muamalah, which addresses certification, Shari'ah knowledge gaps, and multidisciplinary skills; and (2) Structural Independence and Reporting Lines, which considers safeguards against management influence and reporting to oversight bodies. An additional finding, Agile Role Evolution of ISA, highlights the growing advisory role of auditors. Table 6.18 presents the summary of codes and focus areas for this pillar.

Table 6.18
Sub-Themes, Codes, And Focus Areas For ISA Competency And Independence

Sub-Themes	Code	Focus Area
Structured Training in Audit Techniques and Fiqh Muamalah	Professional Audit Certification (QIA, CIA, DSAA, etc.)	Formal qualifications required for ISA roles, encouraged or mandated institutionally
	Internal Audit Competency Standards and Benchmarking	Internal competency matrices and skill benchmarks aligned with audit and Islamic values
	Shari'ah Knowledge Limitations and Training Gaps	Gaps in fiqh muamalah knowledge, lack of structured Shari'ah training
	Multidisciplinary Capability (ESG, AI, etc.)	Expansion of auditor roles into emerging areas such as ESG and cybersecurity
Structural Independence and Reporting Lines	Structural Independence from Executive Management	Safeguards ensuring audit objectivity and separation from operational control
	Reporting Lines to Audit Committee or Board	Formal structures that enhance ISA independence and oversight

Source: Thematic code structure developed in ATLAS.ti based on interview transcripts and document analysis (2023–2024).

By examining these dimensions, the section highlights both the readiness of internal audit units to fulfil their Shari'ah oversight mandate and the systemic supports or limitations they encounter. The following sub-sections present detailed thematic narratives for each code, supported by direct participant quotes and document-based insights.

6.3.2.1 Structured Training in Audit Techniques and Fiqh Muamalah

This section highlights the importance of structured training as a foundation for strengthening both technical audit capabilities and Shari'ah literacy. Beyond the mastery of audit techniques, auditors also need consistent exposure to fiqh muamalah to ensure that operational audits align with Islamic principles.

I. Internal Auditor Perspective Towards Structured Training in Audit Techniques and Fiqh Muamalah

From the viewpoint of internal auditors, structured training remains a critical but unevenly addressed need. While technical training is more established, systematic programs in fiqh muamalah are still limited. These perspectives illustrate how training gaps affect confidence and consistency in applying Shari'ah principles during audit practices.

a. Professional Audit Certification (QIA, CIA, DSAA, etc)

Internal Shari'ah auditors generally acknowledged professional certification as a key marker of competence and institutional credibility. Certifications such as QIA, CIA, or DSAA were seen not only as technical credentials but also as signals of readiness and professionalism. Despite this recognition, implementation varied: some banks enforced certification strictly, while others struggled with resource and management support.

> *IA2: "Currently, in our institution, every person who joins SKAI must immediately take the certification exam, and they must pass. This pertains to*

certification as a Qualified Internal Auditor—starting from the basic level, advanced, up to managerial." (11:21 ¶19, IA2.docx, Appendix 4)

IA10: "Our request — like, wanting auditors to be more effective by getting certified — will be voiced by the commissioners." (21:12 ¶41, IA10.docx, Appendix 4)

The ATLAS.ti visualization in Appendix 3(18) illustrates the broader perspectives shared by participants on certification, including both institutional enforcement and practical challenges.

b. Internal Audit Competency Standards and Benchmarking

Internal auditors recognized that audit competency involves a balance between technical expertise, analytical capability, and communication skills. While some emphasized structured institutional programs and reference manuals, others highlighted the importance of personal abilities such as problem analysis, presentation, and writing. These perspectives suggest that competency development in SKAI is multidimensional, shaped by both organizational support and individual initiative. The following selected quotations from internal auditors illustrate the diverse range of competencies required in practice, encompassing technical, analytical, and teamwork-related skills:

IA1: *"You need to have Excel skills at your fingertips… you need good writing skills. Communication is also key. You must be able to prepare PowerPoint slides, because after each audit you have to present the findings in an exit meeting." (1:40 ¶171, IA1.docx, Appendix 4)*

IA4: *"There should be training sessions for auditors who will be auditing in SBU. So that when we audit SBU, we already have the necessary competencies." (4:6 ¶61, IA4.docx, Appendix 4)*

IA5: *"Through analysis, we can identify root causes, why something happened, the impact, and potential risks — and give appropriate recommendations." (5:5 [20:14–20:49], IA5.docx, Appendix 4)*

IA6: *"Yes, correct. Our profession also refers to IIA standards." (6:20 [24:51–25:19], IA6.docx, Appendix 4)*

> ***IA8:*** *"The most important thing is upgrading the auditors' competencies… They need to be trained on regulations related to Islamic banking… as it expands, its operations will become more complex. We need to anticipate that." (8:18 [18:39–19:33], IA8.docx, Appendix 4)*

> ***IA9:*** *"The required skills and experience should be diverse… at least one member or auditor who specifically has competence in Sharia." (9:15 ¶47, IA9.docx, Appendix 4)*

These accounts collectively indicate that audit competency in OSA is multidimensional, encompassing technical skills, analytical capability, and communication proficiency, with development shaped by both institutional support and individual initiative. Appendix 3(19) provides a visual representation of how participants' accounts collectively highlight the competency challenges associated with both audit capability and Shari'ah knowledge.

c. Sharia Knowledge Limitations and Training Gaps

Limited Sharia knowledge and a training gap emerged as one of the main obstacles in the practice of Sharia operational audits. Auditors highlighted how the non-Sharia backgrounds of most team members made the adaptation process difficult, and that training support was still inadequate. The following selected quotations from internal auditors illustrate the challenges posed by limited Shari'ah knowledge and the training gap in practice.

> ***IA1:*** *"I got a new team member transferred from the operations division. They had never worked as an auditor before — and teaching them was really hard." (1:33 ¶167, IA1.docx, Appendix 4)*

> ***IA3:*** *"Maqasid Shari'ah… what is that? No, I haven't heard of it… it's more about practice than the conceptual terminology." (3:4 ¶192, IA3.docx, Appendix 4)*

> ***IA6:*** *"Since most team members are experts in conventional auditing, they may not be familiar with the specific terms used in Sharia financing or funding. We have a few who are knowledgeable in that, but not everyone." (6:12 ¶42, IA6.docx, Appendix 4)*

> ***IA8:*** *"Without proper knowledge, it's impossible to audit in a Shari'ah context... someone unfamiliar with Shari'ah might be confused by the terminology." (8:7 ¶40, IA8.docx, Appendix 4)*

> ***IA9:*** *"It would be even better if there were a special team — a dedicated Sharia audit team. Right now, even though we have two people with stronger knowledge in that area, the other auditors are also involved for knowledge-sharing. But the depth of understanding is limited because of limited human resources." (9:20 ¶66–67, IA9.docx, Appendix 4)*

These accounts collectively point to a multi-layered competency challenge facing practitioners of OSA. IA1 highlighted the difficulty of integrating staff transferred from non-audit backgrounds, suggesting that audit-specific skills cannot be assumed among all team members. IA3's account further indicates that unfamiliarity with the concept of Maqasid al-Shari'ah exists even among practising auditors, suggesting that gaps in Shari'ah-related knowledge extend beyond technical audit skills to broader Islamic finance literacy. IA6 and IA8 identified the predominance of conventional audit expertise within teams as a constraint on the development of Shari'ah-specific audit practices, while IA9 noted that knowledge-sharing mechanisms remain limited by resource constraints. Taken together, these perspectives suggest that competency challenges within OSA encompass both audit capability and Shari'ah-related knowledge. The findings indicate that effective OSA practice requires a combination of technical audit expertise and sufficient understanding of Islamic finance principles, including Maqasid al-Shari'ah.

The network visualization in Appendix 3(20) illustrates how these perspectives converge on the theme of dual competency requirements in OSA practice, encompassing both technical audit expertise and Shari'ah-related knowledge.

d. Multidisciplinary Capability (ESG, AI, etc)

Internal auditors increasingly highlighted the need for broader competencies that extend beyond traditional Shari'ah knowledge and audit techniques. Skills in areas such as cybersecurity, ESG, and artificial intelligence were seen as crucial, not only for technical assurance but also to address the ethical and legal risks facing Islamic banks.

This reflects a growing awareness that Shari'ah audit must adapt to the dynamic global environment. The following quotes illustrate this shift in competency expectations:

> *IA6: "actually where we need to focus in the future. Once again, enhancing competencies—plus, Shari'ah itself must adapt to digitalization, or the current transformations, which must be addressed like it or not." (6:9 ¶94–97, IA6.docx, Appendix 4)*
>
> *IA9: "due to technology or other factors, regulations must adapt to the current situation. Times and technologies change, and that greatly affects banking." (9:11 ¶99, IA9.docx, Appendix 4)*
>
> *IA10: "Modern auditors need to be skilled in AI and understand ESG… I'd rather hire a cybersecurity expert and teach them audit techniques." (10:10 ¶108, IA10.docx, Appendix 4)*
>
> *IA10: "That means the capability we need — in terms of both understanding the subject matter and how to audit it — becomes critical. First, as I said earlier, cybersecurity. Then, digitalization and AI… Second, ESG… Third, regulation... Then there's this whole conversation about generational shifts... They want recognition and actualization... So those are the five things I mentioned earlier — and they match global studies and trends." (10:33 ¶426–442, IA10.docx, Appendix 4)*

These perspectives indicate that internal auditors are increasingly aware of competency demands that extend beyond traditional Shari'ah knowledge and audit techniques. IA6 and IA9 situated this within the context of regulatory and technological change, noting that the evolving landscape of Islamic banking requires auditors to respond to new categories of risk. IA10 elaborated further by identifying specific domains, including cybersecurity, digitalisation, artificial intelligence, ESG, and regulatory developments, as areas for competency development. Taken together, these accounts suggest that effective OSA is increasingly associated with a broader range of competencies that extend beyond conventional audit and Shari'ah expertise.

The network visualization in Appendix 3(21) illustrates how these perspectives converge on the theme of emerging competency requirements in OSA practice, particularly in response to technological and regulatory developments.

II. Non-Internal Auditor Perspective Towards Structured Training in Audit Techniques and Fiqh Muamalah

Non-internal auditors also emphasized the importance of professional certification in shaping Shari'ah audit competence. Certifications such as QIA, CIA, and DSAA were viewed as not only benchmarks of technical proficiency but also as signals of credibility and institutional trust. From their perspective, structured training supported by recognized credentials helps ensure that Shari'ah auditors can meet both regulatory expectations and the evolving demands of Islamic banking.

I. Professional Audit Certification (QIA, CIA, DSAA, etc)

From the perspective of non-internal auditors, certification is regarded as a crucial basis for ensuring both credibility and effectiveness in Shari'ah audit. They stressed that it is not just a symbolic title, but an essential marker of readiness that blends audit competence with fiqh muamalah knowledge. Without such standardized qualifications, the authority of Shari'ah auditors can be questioned, and the reliability of their oversight may be compromised.

The following quotes illustrate how non-internal auditors framed professional certification as both a necessity and a challenge in practice:

> ***Non-IA2:*** *"All professions should be certified." (12:1 [12:11], Non-IA2.docx, Appendix 4)*
>
> ***Non-IA2:*** *"Nowadays, everything requires training and certification. DSN certification is just the first stage." (12:2 [14:38], Non-IA2.docx, Appendix 4)*
>
> ***Non-IA3:*** *"Islamic banks generally require auditors to hold certifications or at least have completed relevant training. However, in practice, many still lack a deep understanding of these principles." (13:15 [11:18], Non-IA3.docx, Appendix 4)*

These perspectives indicate that non-internal auditors broadly regard professional certification as a necessary condition for credible Shari'ah audit practice.

While Non-IA2 emphasised certification as a professional norm and a foundation for competency development, Non-IA3 highlighted limitations in relying on formal credentials alone. Despite these differences in emphasis, both participants converged on the view that certification should be complemented by a deeper understanding of Shari'ah-related principles and their practical application within audit activities.

Appendix 3(22) provides a visual representation of how participants' accounts link professional certification with broader competency requirements in Shari'ah audit practice.

b. Internal Audit Competency Standards and Benchmarking

From the perspective of non-internal auditors, the issue of competency standards in Shari'ah internal audit is viewed as a matter of both professional qualification and regulatory enforcement. They emphasised that without strong technical and Shari'ah knowledge, the credibility of internal auditors may be undermined. At the same time, regulations are increasingly prescribing clearer requirements for auditor capacity and leadership roles within Shari'ah audit functions. The following quotes illustrate these concerns.

> *Non-IA2: "This isn't just about audit. Audit isn't just about competency either. How can you audit if you're not really qualified?" (12:3 ¶227, Non-IA2.docx, Appendix 4)*

> *Non-IA3: "...must first have a solid understanding of auditing principles. Specifically for internal auditors in Islamic banks, it is equally important to understand Shari'ah principles. That's the basic requirement." (13:2 ¶118, Non-IA3.docx, Appendix 4)*

> *Non-IA4: "The regulation requires the internal audit function to be supported by adequate resources, methodology, tools, and audit techniques. Specifically for Shari'ah internal audits, POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024 regulate the competency requirements for heads of Shari'ah internal audit functions." (16:1 ¶42, Non-IA4.docx, Appendix 4)*

These perspectives indicate that non-internal auditors viewed audit competency as encompassing both technical qualifications and Shari'ah-specific knowledge.

Participants referenced regulatory expectations alongside broader concerns about institutional readiness and the ethical dimensions of audit responsibilities. The network visualization in Appendix 3(23) illustrates how these perspectives converge on the theme of integrated competency requirements for Shari'ah audit practitioners.

c. Sharia Knowledge Limitations and Training Gaps

Non-internal auditors pointed to persistent gaps in Shari'ah-specific knowledge among both internal auditors and members of the Shari'ah Supervisory Board (SSB). These shortcomings were seen as limiting the credibility and depth of Shari'ah audits, particularly when auditors lacked certification or relied mainly on operational perspectives. The following quotes reflect these concerns:

> ***Non-IA1:*** *"This is still very lacking in Shari'ah banks. Usually, people are those who typically perform general audits — conventional audits of all kinds. The language used is vague … So, this really demands upgrading — upgrading of public accountants or accountants in general, including internal audit." (11:1 ¶42, Non-IA1.docx, Appendix 4)*
>
> ***Non-IA2:*** *"There are many people who become SSB without certification. They do audits based on what they think." (12:4 ¶227, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA2:*** *"Internal audit usually only covers operational audits. But internal audit doesn't yet include Shari'ah compliance audits … they're not authorized to issue opinions. They can only report audit findings." (12:5 ¶30, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA3:*** *"…in practice, many still lack a deep understanding of these principles." (13:1 ¶118, Non-IA3.docx, Appendix 4)*

These reflections suggest that institutional dependence on generalist auditors and uncertified SSB members has weakened the consistency and integration of Shari'ah governance within audit practice. Appendix 3(23) provides a visual representation of how these factors collectively influence the effectiveness of Shari'ah governance and audit integration.

d. Multidisciplinary Capability (ESG, AI, etc)

No references to multidisciplinary competencies—such as ESG, cybersecurity, or artificial intelligence—were made by non-internal participants. These themes were exclusively raised by internal auditors, as discussed under the Internal Auditor Perspective sub-section, point (d). While this absence does not imply disregard, non-internal participants tended to emphasise more immediate institutional concerns: the need for structured training, credible certification, and stronger grounding in Shari'ah principles. Their perspectives focused on whether current audit practices reflect sufficient knowledge, consistency, and ethical standards, rather than on emerging technical domains. These differences in emphasis reflect the distinct professional positions and institutional responsibilities of each participant group, with internal auditors more attuned to future-oriented competency demands and non-internal auditors more focused on foundational Shari'ah audit capacity.

III. Document Insights of Internal Audit Charters: Structured Training in Audit Techniques and Fiqh Muamalah

A review of internal audit charters from all eight banks—Bank A, Bank B, Bank C, and Bank D (interviewed), and Bank 1, Bank 2, Bank 3, and Bank 4 (non-interviewed)—identified a consistent pattern regarding auditor training and competency development. While most charters emphasise professional qualifications and technical audit competence, explicit provisions relating to structured training in Shari'ah audit and fiqh muamalah were limited across the reviewed institutions. Four sub-themes are examined below.

a. Professional Audit Certification (QIA, CIA, DSAA, etc.)

Across all eight reviewed charters, professional certification is positioned as an institutional expectation, though explicit references to Shari'ah-specific qualifications are absent. Among interviewed banks, Bank A specifies QIA and CIA as benchmarks, Bank B outlines general expertise requirements without linking these to formal audit credentials, and Banks C and D refer broadly to recognised certifications without

Islamic finance specificity. Among non-interviewed banks, Bank 1 references CIA and CPA within conventional audit standards, Bank 2 lacks clarity on certification requirements, Bank 3 aligns certification to conventional risk-based audit models, and Bank 4 orients certification toward technology-driven audits. Table 6.19 summarises these provisions across all eight institutions.

Table 6.19
Professional Certification Requirements Across All Reviewed Bank Charters

Bank	Type	Reference in Charter	Observed Limitation
Bank A	FFIB	Requires QIA/CIA certification or equivalent	No Shari'ah-specific credential referenced
Bank B	FFIB	General expertise in accounting, finance, or Shari'ah banking required	No audit-specific or Shari'ah audit certification
Bank C	SBU	Refers to "recognised audit certifications"	Broad reference; not linked to Islamic finance context
Bank D	SBU	Professional certification recognised by industry	Generic framing; no Shari'ah audit qualifications
Bank 1	FFIB	Requires CIA/CPA certification	Framed within conventional audit standards; no Shari'ah credential
Bank 2	FFIB	No explicit certification requirement stated	Auditor qualifications remain implicit and generic
Bank 3	SBU	Certification aligned to risk-based audit under parent bank framework	Linked to conventional models; Shari'ah qualifications absent
Bank 4	Digital IB	Professional qualification and digital audit training referenced	Oriented toward technology; no Islamic audit certification

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

The reviewed documents indicate that professional qualifications are valued across all eight institutions; however, none of the charters explicitly reference Shari'ah-specific credentials such as DSAA. This pattern is consistent across both interviewed and non-interviewed banks.

b. Internal Audit Competency Standards and Benchmarking

Competency frameworks across all eight reviewed charters are described in general terms and are primarily linked to internal HR requirements or group-level audit policies. No explicit references to Shari'ah-specific competency benchmarks or Islamic values were identified in the reviewed documents. Table 6.20 summarises these observations.

Table 6.20
Competency Frameworks Across All Reviewed Bank Charters

Bank	Type	Reference in Charter	Observed Limitation
Bank A	FFIB	Competency evaluation included in performance appraisal	No distinction between conventional and Shari'ah audit skills
Bank B	FFIB	Expertise in accounting, finance, or Shari'ah banking required	No competency framework for internal audit; not linked to Shari'ah benchmarks
Bank C	SBU	Competency requirements embedded in parent bank audit policy	Generic risk-based audit proficiency; no Shari'ah orientation
Bank D	SBU	Group-level competency policy governs internal audit	Focus on regulatory compliance; no Shari'ah values integration
Bank 1	FFIB	Auditor qualification and performance appraisal referenced	Competency framework framed generically; no Shari'ah skills articulated
Bank 2	FFIB	Emphasis on governance and compliance proficiency	Conventional audit domains; no Shari'ah competency benchmarks
Bank 3	SBU	Competency follows parent bank's risk-based audit model	Standards mirror conventional practices; no Shari'ah knowledge orientation
Bank 4	Digital IB	Group-level policy with technology-driven audit references	Linked to digital audit methods; no Shari'ah values integration

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across all eight institutions, competency standards are framed within conventional audit parameters, with no explicit reference to Shari'ah-specific skills or Islamic governance benchmarks.

c. Shari'ah Knowledge Limitations and Training Gaps

None of the eight reviewed charters contain explicit provisions for structured training in fiqh muamalah or Shari'ah governance. Among the interviewed banks, training provisions focus on audit methodologies, risk management, and regulatory updates, without dedicated references to Islamic jurisprudence. Bank B's Audit Committee Charter contains no Shari'ah-specific training provisions, while Banks C and D follow training priorities established at the group level. Among the non-interviewed banks, Banks 1 and 2 refer to ongoing training in general terms, whereas Banks 3 and 4 contain no references to Shari'ah-related training. Across the reviewed institutions, explicit references to structured training in fiqh muamalah or Shari'ah governance were not evident in the charter documents.

d. Multidisciplinary Capability (ESG, AI, etc.)

Recognition of emerging audit domains such as ESG, cybersecurity, and data analytics is uneven across the eight reviewed charters. Table 6.21 summarises these provisions.

Table 6.21
Provisions On Emerging Audit Domains Across All Reviewed Bank Charters

Bank	Type	Provisions in Charter	Limitation
Bank A	FFIB	Includes ESG, cybersecurity, and data analytics in audit scope	No explicit Shari'ah linkage
Bank B	FFIB	Focus on conventional governance oversight and compliance	No mention of ESG, AI, or multidisciplinary domains
Bank C	SBU	References ESG and technology under group policy	Detached from Shari'ah audit objectives
Bank D	SBU	Notes technology-driven audit methods	No coverage of ESG or other domains
Bank 1	FFIB	Provisions for ESG and data analytics in general audit terms	No contextualisation for Islamic finance
Bank 2	FFIB	Brief reference to technology in audit work	No broader multidisciplinary competency framework
Bank 3	SBU	No reference to emerging audit domains	Narrow interpretation of audit capability requirements
Bank 4	Digital IB	No reference to emerging audit domains	Narrow interpretation of audit capability requirements

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

The reviewed charters indicate that while some institutions reference emerging audit domains, these are framed within general audit practice rather than linked to Shari'ah-specific oversight. This pattern is consistent across both interviewed and non-interviewed banks.

IV. Document Insights Regulation: Structured Training in Audit Techniques and Fiqh Muamalah

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how structured training and competency development for Shari'ah auditors are addressed in the Indonesian regulatory framework. Table 6.22 summarises the key provisions across four codes: Professional Audit Certification, Internal Audit Competency Standards and

Benchmarking, Shari'ah Knowledge Limitations and Training Gaps, and Multidisciplinary Capability.

Table 6.22
Regulatory Provisions On Structured Training And Competency Development

Regulation	Key Provisions	Observation Across All Codes
POJK No. 1/2019	Requires adequate knowledge and skills; continuous professional development; adherence to IIA Standards	No mandatory certification (QIA/CIA/DSAA); no benchmarking requirement; no Shari'ah/fiqh muamalah content specified; no reference to ESG, AI, or emerging disciplines
POJK No. 2/2024	Assigns Shari'ah compliance responsibilities to SSB and management; governance structures must ensure competent personnel	No specific Shari'ah audit certification required; no mandated benchmarking; no formal training obligations for auditors; no multidisciplinary training requirements
SEOJK No. 15/2024	Encourages training and competency alignment with Shari'ah compliance; suggests consideration of best practices	No DSAA or equivalent certification mandated; no systematic benchmarking; no minimum hours or content standards for Shari'ah training; ESG and AI not identified as training requirements
PBI No. 11/33/PBI/2009	Links governance quality to competency, integrity, and accountability; governance responsive to technology and market changes	No explicit certification requirement; no benchmarking with Islamic peers; no operational guidance on Shari'ah auditor expertise; multidisciplinary training not operationalised

Source: Compiled from POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009.

The reviewed regulations consistently reference auditor competency, professional development, and Shari'ah governance responsibilities. However, explicit requirements for professional certification, Shari'ah-specific training content, competency benchmarking, or multidisciplinary capability development are not prescribed in any of the reviewed documents. Training and certification arrangements are described in general terms, with specific requirements left to institutional discretion.

V. Descriptive Triangulation Summary for Structured Training in Audit Techniques and Fiqh Muamalah

Triangulation across the four data sources revealed a consistent pattern regarding structured training and competency development in OSA. Table 6.23 presents a descriptive synthesis of these findings. While participants and regulatory documents highlighted the importance of professional certification and Shari'ah-specific competency, these elements were not consistently reflected in the institutional charters reviewed.

Table 6.23
Triangulation Of Competency And Training Requirements Across Data Sources

Data Source	Professional Audit Certification	Internal Audit Competency Standards & Benchmarking	Shari'ah Knowledge Limitations & Training Gap	Multidisciplinary Capability (ESG, AI, etc.)
Internal Auditors (IA)	Certification required in some banks; onboarding or delayed due to support gaps (IA2, IA10)	Standards embedded in HR/appraisal systems; regulations referenced (IA4, IA6)	Some ISAs reported limited Shari'ah understanding in early stages	Raised importance of AI, ESG, cyber audit (IA4, IA6)
Non-Internal Auditors (Non-IA)	Emphasised certification as professional and ethical baseline (Non-IA2, Non-IA3)	Called for clear qualification standards; referred to POJK 2/2024 (Non-IA4)	Expressed concern over limited fiqh competence, including among SSB (Non-IA1, Non-IA2, Non-IA4)	Not discussed
Audit Charters	No Shari'ah-specific certification referenced across any of the eight reviewed charters; general professional qualifications required	No Shari'ah competency benchmarks identified; conventional or group-level frameworks applied	No structured training in fiqh muamalah or Shari'ah governance referenced	Emerging domains not referenced in any reviewed charter
Regulatory Documents	DSAA certification acknowledged (SEOJK 15/2024)	POJK 2/2024 outlines competency criteria for Shari'ah auditors	Regulations highlight knowledge requirement but lack operational enforcement guidance	No requirement stated

Source: Interview data (IA, Non-IA), institutional audit charters, and regulatory documents (POJK 2/2024; SEOJK 15/2024).

Taken together, the triangulated findings indicate that professional certification and Shari'ah-specific competency requirements were referenced in participant accounts and regulatory documents but were not consistently reflected in the institutional charters reviewed. References to structured training in fiqh muamalah and multidisciplinary competencies were limited in the documentary sources examined.

6.3.2.2 Structural Independence and Reporting Lines

The structural independence of internal Shari'ah auditors is a central concern in ensuring credible oversight within Islamic banks. While regulations prescribe reporting lines to the Board of Commissioners and Audit Committee, institutional practices often blur these boundaries, creating potential tensions between formal authority and managerial influence. This section explores how structural arrangements, reporting

mechanisms, and governance safeguards are perceived and implemented across different sources of data.

I. Internal Auditor Perspective Towards Structural Independence and Reporting Lines

Internal auditors expressed mixed views on their structural independence, noting that while reporting lines generally align with regulatory expectations, practical challenges remain in balancing accountability to boards, audit committees, and management. These tensions illustrate the gap between formal safeguards and the realities of institutional practice.

I. Structural Independence from Executive Management

The perspectives of internal auditors reveal a consistent emphasis on structural independence as a core prerequisite for effective audit execution. Across institutions, this independence is framed through formal reporting lines, authority provisions in the Internal Audit Charter, and top management support. The structural positioning of the internal audit function—often directly under the President Director or CEO—is viewed as essential in safeguarding the auditor's ability to operate without interference. Internal auditors emphasised that their independence is safeguarded primarily through the Internal Audit Charter and direct reporting lines to the president director, as reflected in the following selected quotes.

> ***IA1:*** *"The Internal Audit Charter… ensures that the auditor is independent … If you want independence, it should ideally be under the board of commissioners … Internal audit can examine anything. No one is allowed to block or interfere." (1:7–1:12, IA1.docx, Appendix 4)*

> ***IA7:*** *"That's proven by the existence of an internal audit charter… If management doesn't support that independence, then the auditor is weak—no matter how smart they are." (15:7 ¶109, IA7.docx, Appendix 4)*

> ***IA9:*** *"…we report directly to the president director. Our communication line goes directly to the president director, other directors, and even to the board of commissioners." (9:12 ¶70, IA9.docx, Appendix 4)*

These excerpts illustrate how internal auditors frame their structural independence through formal charters and reporting lines. The complete set of linked quotations is represented in the network visualization generated using ATLAS.ti, which is included in Appendix 3(24).

b. Reporting Lines to Audit Committee or Board

Internal auditors described clear reporting lines to the Audit Committee, Board of Commissioners, and, in some cases, the Sharia Supervisory Board (SSB). These structures were generally framed as part of compliance with OJK requirements and institutional governance frameworks. The frequency of interactions varied across banks, with some following a quarterly cycle and others reporting as needed, often tied to specific audit assignments or strategic reviews. Coordination with these governance bodies served both evaluative and advisory functions, allowing auditors to receive feedback, corrections, and strategic input for improvement. The following excerpts illustrate how internal auditors described their reporting lines to these governance:

> ***IA2:*** *"Internal audit results must also be submitted to the audit committee—not just to management. The audit committee receives the reports for further review and interpretation. Based on that, they may issue specific recommendations to help improve the bank's operational performance." (2:7 ¶84, IA2.docx, Appendix 4)*

> ***IA3:*** *"The recipients of the copy are: first, the Board of Commissioners; second, the Audit Committee; third—SSB … and the Compliance Director." (3:6 ¶123–127, IA3.docx, Appendix 4)*

> ***IA9:*** *"The audit committee is one of our supervisors… They review audit reports after we conduct the audits… If there are errors in the report, the audit committee and the board of commissioners will give corrections." (9:13 ¶37, IA9.docx, Appendix 4)*

Overall, the reporting arrangements reflect a combination of statutory compliance and practical coordination, with the Audit Committee serving as a central governance touchpoint for feedback and oversight. The involvement of SSB was mentioned less frequently, suggesting that their role in audit reporting may be less embedded compared to other governance bodies.

Network visualization generated using ATLAS.ti in Appendix 3(25) illustrates how reporting lines to the Audit Committee, Board of Commissioners, and, in some cases, the SSB are structured within the interviewed banks.

II. Non-Internal Auditor Perspective Towards Structural Independence and Reporting Lines

a. Structural Independence from Executive Management

Non-internal auditors expressed serious concerns regarding the structural placement of internal auditors—particularly internal Shari'ah auditors (ISAs)—within the management hierarchy. A common view was that as long as audit functions remain under executive control, the principle of independence becomes compromised in both perception and practice. Their remarks illustrate how structural dependence can undermine both the credibility and effectiveness of the audit function:

> ***Non-IA1:*** *"Actually, what supports the internal audit function is the commissioners — because the committee alone, especially its members, cannot fully act." (11:2 ¶40, Non-IA1.docx, Appendix 4)*
>
> ***Non-IA2:*** *"It's an issue of independence. There's fear of being dismissed. After all, it's management who pays their salary." (12:6 ¶32, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA3:*** *"Internal auditors are generally seen as not independent because they report directly to management." (13:3 ¶81, Non-IA3.docx, Appendix 4)*

Further reinforcing this view, Non-IA4 referred to existing regulations such as POJK No. 1/POJK.03/2019:

> ***Non-IA4:*** *"POJK No. 1/POJK.03/2019 generally regulates the professional ethics of internal audit, where internal auditors must act independently and objectively in performing their audit tasks and functions according to applicable standards." (16:2 ¶52, Non-IA4.docx, Appendix 4)*

Although the regulation sets normative expectations for independence and objectivity, participants described practical limitations in how these principles are applied within existing institutional arrangements.

A Visual network synthesizes insights from non-internal participants regarding the structural independence of internal auditors provided in Appendix 3(26) It highlights concerns about financial dependence, weak institutional safeguards, and the gap between regulatory ideals and actual reporting arrangements in Islamic banks.

b. Reporting Lines to Audit Committee or Board

Non-internal auditors described the interconnected reporting lines between the Audit Committee, Board of Commissioners, and the Sharia Supervisory Board (SSB/SSB), revealing how formal structures and functional practices intersect in shaping Shari'ah oversight. Thematically, these perspectives point to a recurring concern about overlapping roles and structural vulnerabilities that may affect independence. The following excerpts illustrate these perspectives:

> ***Non-IA2:*** *"SSB in Indonesia only has the authority to form a Shari'ah opinion — even though that is preceded by an internal audit. A special audit to assess Shari'ah compliance. For that task, the SSB is usually assisted by internal audit." (12:21 ¶22, Non-IA2.docx, Appendix 4)*

> ***Non-IA3:*** *"Well yes, the SSB is similar to an internal auditor, right? … Internal auditors are generally seen as not independent because they report directly to management." (13:14 ¶76–81, Non-IA3.docx, Appendix 4)*

Collectively, these accounts indicate that SSB holds formal authority to issue Shari'ah opinions yet relies on internal auditors for identifying compliance issues, and that both bodies face comparable structural constraints in relation to executive

management. ATLAS.ti network in Appendix 3(27) presents the network visualization of these relationships as captured from non-internal auditor interviews.

III. Document Insights of Internal Audit Charters: Structural Independence and Reporting Lines

A review of internal audit charters from all eight banks — Bank A, Bank B, Bank C, and Bank D (interviewed), and Bank 1, Bank 2, Bank 3, and Bank 4 (non-interviewed) — identifies how structural independence and reporting lines are described in formal governance documents. Across the reviewed charters, two recurring themes are observed: (1) structural independence from executive management, and (2) reporting lines to governance bodies.

a. Structural Independence from Executive Management

Across the eight reviewed internal audit charters, references to internal audit independence are present in all documents, although the level of detail varies. Table 6.24 presents a summary of these observations.

Table 6.24
Structural Independence From Executive Management Across All Reviewed Bank Charters

Bank	Type	Analysis Based on Code Definition	Analysis Finding
Bank A	FFIB	States internal audit operates independently with authority to examine all units	Administrative reporting tied to President Director; no mechanisms to shield auditors from executive influence
Bank B	FFIB	Audit Committee Charter grants organisational independence through direct access to committee	Functional oversight by Audit Committee; daily reporting still under President Director; no Shari'ah audit safeguards
Bank C	SBU	Charter positions SKAI under Directorate of Compliance and Risk Management	Placement within executive branch; no mention of protections in audits involving senior management
Bank D	SBU	Charter emphasises independence of internal audit function	Dual reporting maintained; no elaboration on how independence is safeguarded in sensitive contexts
Bank 1	FFIB	Functional reporting to Audit Committee; administrative to President Director	No mechanism for handling conflicts involving executive decisions
Bank 2	FFIB	Basic references to audit roles and independence	No specification of structural protections; independence remains nominally stated
Bank 3	SBU	Follows parent company's audit	Conventional practice adopted; no

Bank	Type	Analysis Based on Code Definition	Analysis Finding
		framework	differentiation for Shari'ah-related functions
Bank 4	Digital IB	Coordination with risk/compliance division mentioned	No safeguard language; independence not assured when auditing operational leaders

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across the reviewed charters, internal audit independence is generally stated as a formal principle. In several documents, internal audit is described as having authority to examine organizational units and access audit information. Administrative or functional reporting arrangements are also mentioned, commonly involving executive management such as the President Director, Audit Committee, or both.

References to specific safeguards or detailed procedural mechanisms related to auditor independence are not explicitly described in the reviewed charters. In addition, references to Shari'ah-specific audit arrangements are not present in the examined documents.

b. Reporting Lines to Audit Committee or Board

All eight reviewed internal audit charters describe reporting lines to governance bodies, primarily the Audit Committee or the Board of Commissioners/Directors. Table 6.25 summarises these observations.

Table 6.25
Audit Committee Oversight And SSB Linkages In Interviewed Bank Charters

Bank	Type	Analysis Based on Code Definition	Analysis Finding
Bank A	FFIB	Audit Committee evaluates performance and reviews audit results	No mechanism to link results to SSB; SSB not mentioned
Bank B	FFIB	Audit Committee Charter positions committee as primary recipient of audit reports	No differentiation for Shari'ah audit matters; SSB absent
Bank C	SBU	Parent bank charter positions Audit Committee as recipient of audit reports	No differentiation between conventional and Shari'ah audit reporting; SSB not referenced
Bank D	SBU	Audit results submitted to Board of Directors and Audit Committee	No clause for Shari'ah reporting or SSB coordination
Bank 1	FFIB	Reporting line stated to Audit Committee	Oversight confirmed; SSB not referenced; no Shari'ah-specific pathway
Bank 2	FFIB	Reporting line to Audit Committee noted	Supervision framed generically; no Shari'ah-specific pathway
Bank 3	SBU	Follows parent bank reporting structure	Oversight remains conventional; SSB

Bank	Type	Analysis Based on Code Definition	Analysis Finding
			absent
Bank 4	Digital IB	Reporting line directed to Board of Commissioners/Audit Committee	Generic reporting; Shari'ah compliance audit not identified as distinct domain

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across the reviewed charters, the Audit Committee is commonly identified as a key recipient of internal audit reports. In some cases, reporting is also directed to the Board of Directors or Board of Commissioners depending on the institutional structure.

None of the reviewed documents explicitly state reporting lines to the Shari'ah Supervisory Board. References to differentiated reporting structures for Shari'ah-related audit functions are also not present in the examined charters.

Across the reviewed internal audit charters, internal audit functions are consistently positioned within formal governance structures, with reporting lines primarily directed to Audit Committees and/or Boards. References to Shari'ah Supervisory Board reporting or Shari'ah-specific reporting pathways are not explicitly included in the examined documents.

IV. Document Insights of Regulation: Structural Independence and Reporting Lines

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how structural independence and reporting lines for internal Shari'ah auditors are addressed in the Indonesian regulatory framework. Table 6.26 summarises the key provisions across two codes: Structural Independence from Executive Management and Reporting Lines to Audit Committee or Board.

Table 6.26
Regulatory Provisions On Structural Independence And Reporting Lines

Regulation	Key Provisions	Structural Independence from Executive Management	Reporting Lines to Audit Committee or Board
POJK No. 1/2019	Arts. 8–10: Dual reporting — functional to Audit Committee, administrative to President Director; independence and objectivity	No procedure for cases implicating executive management; no specific reference to internal Shari'ah auditors	Audit Committee oversight of audit plans and results; no mention of SSB role in audit reporting

Regulation	Key Provisions	Structural Independence from Executive Management	Reporting Lines to Audit Committee or Board
	required		
POJK No. 2/2024	Arts. 33–34, 50–55: Defines audit function; strengthens SSB oversight of Shari'ah compliance; SSB as information recipient	No clarity on how Shari'ah auditors maintain functional independence from executive management	SSB oversight role strengthened; no clarity on engagement between internal Shari'ah auditors and SSB
SEOJK No. 15/2024	Part IV: Reporting and documentation standards for SSB; technical governance guidance	No mechanisms specified to protect Shari'ah auditors from management influence	Reports and reporting frequency to SSB specified; SSB role in audit coordination not addressed
PBI No. 11/33/PBI/2009	Arts. 2–5: Governance and risk management principles for FFIB/SBU; SSB recognised as governance actor	No structural safeguards for Shari'ah auditor independence outlined	SSB not linked to internal audit process in governance provisions

Source: Compiled from POJK No. 1/2019; POJK No. 2/2024; SEOJK No. 15/2024; PBI No. 11/33/2009.

The reviewed regulations formally recognise internal audit independence and establish reporting lines to the Audit Committee. References to structural safeguards for Shari'ah-specific audit independence and to formal coordination mechanisms between internal Shari'ah auditors and the SSB are not explicitly addressed in any of the reviewed documents.

V. Descriptive Triangulation Summary for Structural Independence and Reporting Lines

Triangulation across the four data sources identifies how structural independence and reporting lines are represented in OSA. Table 6.27 presents a descriptive synthesis of these findings. Across the data sources, references to audit independence and reporting arrangements are present, with variations in how these are described across institutional documents, interview data, and regulatory texts.

Table 6.27
Descriptive Triangulation Of Structural Independence And Reporting Lines

Data Source	Structural Independence from Executive Management	Reporting Lines to Oversight Bodies
Internal Auditors (IA)	Administrative reporting to management; functional links to Audit Committee; perceived pressure in sensitive audits	Coordination with Audit Committee common; SSB role mostly informal or advisory

Data Source	Structural Independence from Executive Management	Reporting Lines to Oversight Bodies
Non-Internal Auditors (Non-IA)	Questioned independence due to salary and reporting lines; emphasised need for commissioner oversight	SSB seen as limited in practice; Audit Committee perceived as stronger oversight actor
Audit Charters	Dual reporting structures present across all reviewed charters; independence referenced but without detailed safeguards or Shari'ah-specific provisions	Audit Committee consistently identified as primary oversight recipient; SSB absent from all reviewed documents
Regulatory Documents	POJK supports dual reporting lines but lacks operational detail; Shari'ah auditors not addressed directly	SSB defined as recipient; audit coordination structures undefined; practical guidance limited

Source: Interview data (IA, Non-IA), institutional audit charters, and regulatory documents (POJK 2/2024; SEOJK 15/2024).

Across the four data sources, audit independence and reporting lines are consistently referenced in formal terms. However, structural provisions specifically addressing Shari'ah audit independence and SSB reporting pathways are not consistently identified across the documentary sources reviewed.

6.3.2.3 Additional Findings Related to ISA Competency and Independence

One additional finding emerging from participant interviews relates to how some internal Shari'ah auditors described their roles within the organisation. Although this issue was not included in the initial analytical framework, it was raised by several participants during the interviews.

Several internal auditors reported responsibilities that extended beyond compliance monitoring and issue identification. Participants referred to activities such as providing recommendations, supporting organisational improvement, responding to emerging risks, and engaging with management through consultative interactions. IA6 described auditors as acting as consultants who provide suggestions for improvement, while IA8 referred to auditors as partners supporting operational and business activities. Participants also highlighted the need to respond to changing business conditions, regulatory developments, and evolving risk areas.

The findings indicate that some participants described audit roles in ways that extended beyond compliance-related activities. Across the interviews, references were made to advisory activities, organisational improvement, risk awareness, and communication with management. However, these views were not expressed

consistently across all participants, suggesting variation in how audit roles are understood and performed across institutions.

6.3.3 Thematic Analysis of Organizational Commitments

This section examines the third pillar of the conceptual framework, which focuses on the organisational environment, structural arrangements, and behavioural factors that shape the effectiveness of Operational Shari'ah Audit (OSA). Organisational commitment refers to both the cultural–behavioural dimensions—such as the internalisation of values and the quality of cooperation between auditors and auditees—and the structural–organisational dimensions, which include governance oversight, audit team configuration, and the institution's adaptability in supporting audit work.

The analysis draws on perspectives from internal auditors (IA), non-auditor stakeholders (Non-IA), and document review, including audit charters and relevant regulations. These sources reveal how commitment from the organisation, both in principle and in practice, can strengthen or weaken the operationalisation of Shari'ah audit. While some institutions demonstrate strong governance oversight and responsive support, others show structural gaps, limited coordination, or insufficient cultural integration of Shari'ah audit values.

The discussion is organised into two code groups. The first, OC–Cultural–Behavioral Commitment, covers the internalisation of organisational values and culture, and the dynamics of auditor–auditee cooperation. The second, OC–Structural–Organizational Commitment, comprises governance oversight, ideal organisational structure and specialised teams, and organisational support with adaptability in audit structure. An OC–Additional Findings section is included at the end to present inductively derived insights beyond the initial framework, such as ISA Role in High-Risk Financing and Weak Structural Safeguards for SSB. Table 6.28 summarises the sub-themes, codes, focus areas, and definitions under this pillar.

Table 6.28
Sub-Themes, Codes, And Focus Areas For Organizational Commitments

Code Group	Code	Focus Area	Definition
OC–Cultural–Behavioral	Internalization of Organizational Values	Awareness, discipline, internal control,	Organisational norms and behaviours that support

Code Group	Code	Focus Area	Definition
Commitment	and Culture	leadership behaviour	effective internal audit practices
	Auditor–Auditee Cooperation	Communication, relationship dynamics, openness to audit findings	The quality of interaction, mutual respect, and responsiveness between auditors and management
OC–Structural–Organizational Commitment	Governance Oversight: Audit Committee, SSB, and Compliance	Supervisory role of governance actors (AC, SSB/SSB, compliance)	How governance structures ensure independence and accountability in Shari'ah audit
	Ideal Organizational Structure and Specialized Team	Structural clarity, audit team placement, role specialisation	Preferred audit structure to support independence, efficiency, and Shari'ah alignment
	Organizational Support and Audit Structure Adaptability	Institutional responsiveness to field conditions and evolving needs	Flexibility and support from the organisation to strengthen audit effectiveness in practice

Source: Thematic code structure developed in ATLAS.ti based on interview transcripts and document analysis (2023–2024).

By examining these dimensions, this section highlights how organisational culture, governance structures, and management support interact to shape the overall effectiveness of Shari'ah audit functions. The following sub-sections present thematic narratives for each code, supported by direct quotes and documentary evidence, before concluding with the additional findings.

6.3.3.1 Cultural Behavioral Commitment

I. Internal Auditor Perspective Towards Cultural Behavioral Commitment

a. Internalization of Organizational Values in Institutional Culture

Internal auditors emphasised that organisational culture plays a central role in shaping how audits are carried out in practice. Their reflections show that values are not merely formal statements but need to be embedded in daily routines and behaviours. Some referred to the explicit articulation of cultural principles within their institutions, others stressed integrity as the foundation for objectivity, while a few highlighted the need to move beyond a narrow watchdog mentality toward a culture that adds value through openness and service. The following excerpts illustrate these perspectives:

> ***IA2:*** *"…professionalism, integrity, innovation, and leadership — professionalism means we must be responsible and committed. Integrity means we must be honest. Innovation implies we must always seek development and generate ideas. And leadership means we must be able to influence others in order to achieve the company's goals…" (2:26 ¶120, IA2.docx, Appendix 4)*

> ***IA9:*** *"If we as auditors don't have good integrity, we won't be able to objectively assess any issue... our duty is to the company, not individual interests." (9:21 ¶76–77, IA9.docx, Appendix 4)*

> ***IA10:*** *"That kind of mindset should shape our culture. Not a watchdog culture — where we think we're always right — but a service delivery mindset. And if we provide services, we must be ready to receive input, criticism, and complaints … That's the general idea of the kind of culture we aim to develop — and that's the culture that should already be shifting by now." (10:32 ¶535–547, IA10.docx, Appendix 4)*

Together, these accounts highlight that the internalisation of organisational values is understood both as a formal framework and as a lived practice. While institutional slogans and principles set the tone, auditors see integrity and openness to change as essential for sustaining a culture that supports effective Shari'ah audit. The complete set of quotations supporting this code is provided in Appendix 3(28).

b. Auditor–Auditee Cooperation

Internal auditors consistently emphasised that cooperation with auditees is a key factor in achieving effective audit outcomes. They acknowledged that the relationship can be dynamic, with occasional resistance or differing perspectives, yet underscored that communication, trust, and a partnership approach enable audits to generate constructive results. Good cooperation was described as preventing conflict, fostering openness, and ensuring that findings translate into improvements. The following excerpts illustrate these perspectives:

> ***IA1:*** *"Sometimes if the findings are too trivial, it's seen as nitpicking. But if the findings are too sharp, there's resistance too… [there must be] a good relationship between auditor and auditee." (1:45 ¶227–234, IA1.docx, Appendix 4)*
>
> ***IA2:*** *"With good communication, follow-up actions can be resolved together—both auditor and auditee reach a mutual agreement on the findings and follow-up so that the problem doesn't reoccur." (2:24 ¶112, IA2.docx, Appendix 4)*
>
> ***IA3:*** *"We often have discussions—maybe the auditor and auditee have different perspectives… But thankfully, there has never been a crash or conflict." (3:19 ¶159–169, IA3.docx, Appendix 4)*
>
> ***IA4:*** *"SKAI or audit is a partner to operations. Not an enforcer, but a partner. Why? Because it drives improvement." (4:19 ¶58, IA4.docx, Appendix 4)*
>
> ***IA7:*** *"If communication with the auditee is poor, there's a big risk of misunderstanding… good communication with the auditee is essential, because the audit report could become the basis for many decisions." (15:14 ¶119–124, IA7.docx, Appendix 4)*
>
> ***IA9:*** *"That's why we communicate… If we don't speak properly, they won't open up about the problems. So yes, good interaction is a must." (9:19 ¶59, IA9.docx, Appendix 4)*

Taken together, these perspectives highlight that cooperation between auditors and auditees is built on communication, professional respect, and positioning audit as a partner function rather than a punitive one. This cooperation is seen as vital for building trust, reducing resistance, and ensuring that findings support meaningful improvements. These perspectives are illustrated in the network visualization generated using ATLAS.ti, which is provided in Appendix 3(29).

II. Non- Internal Auditor Perspective Towards Cultural Behavioral Commitment

a. Internalization of Sharia Values in Institutional Culture

Non-internal auditors also provided perspectives on how organizational values and culture are internalised in Shari'ah banking. Their reflections highlighted historical constraints, the need for an ethical and trust-based mindset, and the role of regulation in shaping governance culture. The following excerpts illustrate these views:

> ***Non-IA1:*** *"Most Shari'ah banks… originated from conventional banks. So the Shari'ah culture was separate from the mainstream business culture… The Shari'ah culture hasn't yet penetrated the personnel within the company." (11:20 ¶54–55, Non-IA1.docx, Appendix 4)*
>
> ***Non-IA3:*** *"For Shari'ah auditor, I think the mindset needs to be open and based on trust… You should think of them as partners who help make things better and follow Shari'ah." (13:16 ¶116, Non-IA3.docx, Appendix 4)*
>
> ***Non-IA4:*** *"In general, a company culture that can facilitate effective internal audit is one that follows the good governance principles mentioned in those regulations." (16:10 ¶58, Non-IA4.docx, Appendix 4)*

Together, these perspectives suggest that while regulatory frameworks provide an essential normative foundation, the deeper challenge lies in embedding Shari'ah culture across institutions and fostering an open, trust-based ethos among auditors. The network visualization generated using ATLAS.ti in Appendix 3(30) illustrates the range of stakeholder perspectives on this code, with additional quotations included.

b. Auditor–Auditee Cooperation

Non-internal auditors emphasised that effective cooperation between auditors and auditees is essential for ensuring accurate audit outcomes, especially in the context of Shari'ah compliance. Their perspectives highlighted three recurring elements: the mediating role of the Shari'ah Supervisory Board (SSB), the authority to enforce

corrective action, and the regulatory framework that underpins professional ethics. The following excerpts illustrate these views:

> ***Non-IA1:*** *".. Shari'ah Supervisory Board. That board should serve as a mediator. In Shari'ah banks, it is an affiliated party — so it acts like an internal jury. Internal audit is part of the institution, so is management, so is the Board of Commissioners." (11:27 ¶49, Non-IA1.docx, Appendix 4)*
>
> ***Non-IA2:*** *"If we determine something is not Shari'ah-compliant, we can ask for the product to be revised. If it's not revised, we can ask for it to be discontinued…" (12:24 ¶23, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA4:*** *"POJK No. 1/POJK.03/2019 generally regulates the professional ethics of internal audit, where internal auditors must act independently and objectively in performing their audit tasks and functions according to applicable standards." (16:11 ¶52, Non-IA4.docx, Appendix 4)*

Together, these perspectives show that non-internal auditors frame cooperation not only as a matter of good communication but also as a function of governance structures, enforcement authority, and regulatory compliance. The network visualization generated using ATLAS.ti summarises these perspectives provided in Appendix 3(31).

III. Document Insights of Internal Audit Charters: Cultural Behavioral Commitment

A review of internal audit charters from all eight banks — Bank A, Bank B, Bank C, and Bank D (interviewed), and Bank 1, Bank 2, Bank 3, and Bank 4 (non-interviewed) — examines how cultural behavioural commitment is formally articulated in governance documents. Two sub-themes are examined: Internalization of Shari'ah Values in Institutional Culture and Auditor–Auditee Cooperation.

a. Internalization of Sharia Values in Institutional Culture

Across all eight reviewed charters, references to Shari'ah values in institutional culture are limited. Most documents emphasise general ethical and professional principles, while explicit references to Shari'ah-based cultural norms are either absent or implicit. Table 6.29 summarises these observations.

Table 6.29
Internalization Of Sharia Values Across All Reviewed Bank Charters

Bank	Type	Analysis Based on Code Definition	Analysis Finding
Bank A	FFIB	Ethical conduct and professional standards outlined	Integrity and objectivity emphasised; Shari'ah values remain implicit within governance framing
Bank B	FFIB	References UU No. 21/2008 and PBI No. 11/33/2009; requires member with Shari'ah banking expertise	Integrity and akhlak referenced; indirect support for Shari'ah cultural embedding
Bank C	SBU	Charter derived from parent conventional bank	Ethical and professional standards emphasised; Shari'ah values not separately articulated
Bank D	SBU	Charter from parent conventional bank	Integrity and professionalism noted; no explicit Shari'ah-specific cultural norms
Bank 1	FFIB	Integrity, objectivity, and professionalism emphasised	Values align with Shari'ah ethics but no direct reference to Shari'ah-specific norms
Bank 2	FFIB	Compliance role and auditor conduct defined	Honesty and independence noted; Shari'ah adherence mentioned only in compliance terms
Bank 3	SBU	References compliance with Shari'ah principles alongside regulations	Shari'ah integration treated as rule adherence rather than institutional cultural practice
Bank 4	Digital IB	Adaptability, innovation, and customer focus emphasised	Efficiency and risk central to audit charter; Shari'ah values not explicitly articulated

Source: Internal audit charters of interviewed banks (A–D), udit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across the eight reviewed internal audit charters, explicit references to Shari'ah values within institutional culture are limited. Most documents refer to general ethical, professional, and governance principles, while Shari'ah-related references are either not explicitly stated or are embedded within broader compliance or ethical frameworks.

Shari'ah-related references, where present, are generally associated with compliance requirements or regulatory adherence rather than being separately articulated as cultural or institutional values. One audit committee charter includes references to Shari'ah banking expertise and ethical conduct within governance requirements.

b. Auditor–Auditee Cooperation

Across the eight reviewed charters, cooperation between auditors and auditees is referenced through provisions on communication, reporting, and follow-up monitoring. Table 6.30 summarises these observations.

Table 6.30
Auditor–Auditee Cooperation Across All Reviewed Bank Charters

Bank	Type	Analysis Based on Code Definition	Analysis Finding
Bank A	FFIB	Assurance and consulting roles with constructive communication highlighted	Cooperation implied through transparency in objectives, scope, findings, and follow-up actions
Bank B	FFIB	Audit Committee Charter describes oversight and coordination responsibilities	Cooperation addressed indirectly through monitoring of follow-up actions
Bank C	SBU	Objectivity and professional conduct emphasised	Cooperation implied through communication of recommendations; no Shari'ah-specific clauses
Bank D	SBU	Professionalism and integrity in engagement emphasised	Auditees given opportunity to respond to findings; constructive cooperation implied
Bank 1	FFIB	Auditor granted full authority over examination and reporting	Reporting line clear; no detail on auditee engagement during the process
Bank 2	FFIB	Audit procedures and follow-up mechanisms outlined	Processes framed in procedural terms; no provision for collaborative discussions
Bank 3	SBU	Procedural follow-up mechanisms established; access rights safeguarded	No emphasis on dialogue or building mutual understanding with auditees
Bank 4	Digital IB	Oversight and risk management prioritised	No explicit mechanisms for cooperative interaction or feedback loops with auditees

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across the eight reviewed internal audit charters, cooperation between auditors and auditees is described through references to communication processes, reporting procedures, and follow-up monitoring mechanisms. In several documents, auditees are described as having opportunities to respond to audit findings or recommendations.

Explicit procedural frameworks for structured auditor–auditee engagement are not described in the reviewed charters. References to Shari'ah-specific cooperation mechanisms are also not present in the examined documents.

IV. Document Insights of Regulation: Cultural Behavioral Commitment

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how cultural behavioural commitment in Shari'ah audit is addressed in the Indonesian regulatory framework. Table 6.31 summarises the key provisions across two codes: Internalization of Shari'ah Values in Institutional Culture and Auditor–Auditee Cooperation.

Table 6.31
Regulatory Provisions On Cultural Behavioural Commitment

Regulation	Key Provisions	Internalization of Shari'ah Values in Institutional Culture	Auditor–Auditee Cooperation
POJK No. 1/2019	Arts. 4–9: SKAI integrity and independence; full access to data and personnel; reporting to BOD, BOC, and AC	No guidance on integration of Shari'ah values into institutional culture	No mechanisms for two-way communication or joint problem-solving with auditees
POJK No. 2/2024	Arts. 33–37, 50–55: Duties of BOD, BOC, and SSB in ensuring Shari'ah compliance; prompt handling of audit findings	No strategies for cultural reinforcement of Shari'ah norms	No provisions for management–auditor engagement beyond formal reporting
SEOJK No. 15/2024	Part IV: Templates for reporting and Shari'ah assessment; policy integration encouraged	Methods for daily cultural internalization not prescribed	No guidance on collaboration in implementing follow-up actions
PBI No. 11/33/PBI/2009	Arts. 2–6: Fairness, transparency, accountability in FFIB/SBU activities	Limited to governance and product-level compliance; no cultural embedding requirements	No instructions for fostering cooperative auditor–auditee relationships

Source: Compiled from POJK No. 1/2019; POJK No. 2/2024; SEOJK No. 15/2024; PBI No. 11/33/2009.

The reviewed regulations address governance obligations, auditor independence, and Shari'ah compliance responsibilities. Explicit provisions for embedding Shari'ah values into institutional culture and for formalising cooperative engagement between auditors and auditees are not identified in any of the reviewed documents.

V. Descriptive Triangulation Summary for Cultural Behavioral Commitment

Triangulation across the four data sources describes how cultural behavioural commitment is represented in OSA. Table 6.32 presents a descriptive synthesis of these

findings. References to the internalization of Shari'ah values and auditor–auditee cooperation are present across the data sources, with differences in how these themes are described in interview data, audit charters, and regulatory documents.

Table 6.32
Descriptive Triangulation Summary For Cultural Behavioral Commitment

Data Source	Internalization of Shari'ah Values in Institutional Culture	Auditor–Auditee Cooperation
Internal Auditors (IA)	Stressed as foundational; emphasis on value-based ethics, institutional culture, and leadership role (IA2, IA3, IA5, IA10)	Generally positive; cooperation framed as respectful and improvement-focused, with structured dialogue (IA2, IA4, IA6, IA7, IA10)
Non-Internal Auditors (Non-IA)	Identified as an area of concern; viewed as insufficiently embedded in some institutions (Non-IA1, Non-IA4)	SSB role highlighted in bridging Shari'ah gaps; not framed in terms of technical audit cooperation (Non-IA1, Non-IA2)
Audit Charters	No explicit references to Shari'ah values or ethical culture integration identified across any of the eight reviewed charters	No articulation of cooperation norms or guidance for auditor–auditee interaction in any reviewed charter
Regulatory Documents	Ethical references present in general terms (POJK 1/2019); no specific guidance on cultural embedding	Professional conduct mandated (POJK 1/2019); cooperation mechanisms not addressed

Source: Interview data (IA, Non-IA), institutional audit charters, and regulatory documents (POJK 2/2024; SEOJK 15/2024).

Taken together, the triangulated findings indicate that cultural behavioural commitment was discussed substantively in interview accounts but is not explicitly referenced in the reviewed institutional charters. References to Shari'ah value internalization and auditor–auditee cooperation mechanisms were largely absent from the documentary sources examined.

6.3.3.2 Structural Organizational Commitment

I. Internal Auditor Perspective Towards Structural Organizational Commitment

a. Governance Oversight: Audit Committee, SSB, and Compliance

Internal auditors consistently highlighted the enabling role of governance actors—particularly the Audit Committee, Board of Commissioners, and the Shari'ah Supervisory Board (SSB)—in safeguarding internal Shari'ah audit independence and facilitating follow-up actions. While these bodies do not hold direct executive authority,

their oversight, policy input, and communication channels were seen as critical to audit effectiveness. The selected quotes below illustrate how these governance structures provide both formal and informal support to ensure the integrity and operational relevance of Shari'ah audit functions.

> ***IA6:*** *"Since the committee's role is more of an oversight function, whenever something seems off, they'll usually give input to us. In fact, sometimes audit assignments come directly from the committee or the board of commissioners." (6:14 ¶36–37, [14:24–15:19], IA6.docx, Appendix 4)*
>
> ***IA7:*** *"Their authority is actually broad. But within our audit scope, their role is mostly limited to evaluation and improvement of the audit process, and monitoring the follow-up on audit recommendations." (15:12 ¶73–89, [16:36–19:00], IA7.docx, Appendix 4)*
>
> ***IA2:*** *"Because our audit reports, besides being submitted to the audit committee, are also submitted to the Shari'ah Supervisory Board (SSB). In Islamic banks, the SSB is responsible for monitoring operations, especially regarding Shari'ah principles. So, our reports are also sent to the SSB for review and evaluation, and they may provide input accordingly." (2:27 ¶128, IA2.docx, Appendix 4)*
>
> ***IA9:*** *"That function lies with the board of commissioners. For the audit committee, we send reports to them. For example, if they have any inputs or suspicious information from operational units that they know of before we've had a chance to track it, they would provide us with that information. But the placement of internal audit — that seems to fall under the authority of the board of commissioners." (9:14 ¶38–45, [12:20–13:22], IA9.docx, Appendix 4)*

These perspectives illustrate how the Audit Committee, Board of Commissioners, and the Shari'ah Supervisory Board (SSB) act as governance enablers, strengthening accountability and supporting Shari'ah audit implementation through oversight and structured reporting lines. The network visualization generated using ATLAS.ti, provided in Appendix 3(32) summarises internal auditors' views on these governance roles and shows how these non-executive bodies play a crucial role in safeguarding audit independence, ensuring follow-up on findings, and maintaining Shari'ah compliance.

b. Ideal Organizational Structure and Specialized Team

Several internal auditors emphasized the importance of structural clarity and specialization in supporting an effective Shari'ah audit process. Their statements revealed how institutional placement and team configuration influence not only the auditor's independence but also the operational feasibility of conducting Shari'ah-focused reviews.

> ***IA1:*** *"If we want true independence, it should ideally be under the board of commissioners…" (1:12 ¶246–252, IA1.docx, Appendix 4)*
>
> ***IA9:*** *"…it would be even better if there were a special team — a dedicated Sharia audit team." (9:20 ¶66–67, IA9.docx, Appendix 4)*
>
> ***IA7:*** *"Ideally, audit should be one level above the division… It would be better if the SKAI structure had dedicated teams for different audit tracks—for example, a special audit team for Shari'ah, a team for credit activities, and so on." (15:15 ¶127–136, IA7.docx, Appendix 4)*

These insights collectively highlight internal auditors' concerns with ensuring structural clarity, independence, and expertise in organizing audit functions. While some institutions have begun forming specialized Shari'ah audit units, challenges remain in aligning team competence, placement, and authority to optimize audit implementation. The network in Appendix 3(33) illustrates how participants linked structural ideals with actual institutional practices and reform paths.

c. Organizational Support and Audit Structure Adaptability

Internal auditors described how flexible audit structures and strong management backing are essential for Shari'ah audit implementation. Although audits are still largely conducted by generalist teams, the combination of institutional mandates and executive support enables smooth execution, consistent scheduling, and occasional expansion into specialized areas. The selected quotes below highlight how internal auditors perceive management commitment and structural adaptability as pivotal in sustaining Shari'ah audit implementation. These perspectives show that while audits often rely on generalist

structures, strong institutional mandates and leadership backing enable consistent execution and the ability to address specialized areas when needed.

> ***IA2:*** *"Typically, in the first semester, we focus on branch operational audits. In the second semester, we audit specialized activities—such as Shari'ah, treasury, or divisional areas like DPK, HC, or credit. It's all divided accordingly… If more resources are available, we'd consider expanding staff or structure to allow deeper coverage." (2:33 ¶116, IA2.docx, Appendix 4)*

> ***IA4:*** *"So management support is essential and required… If it's not approved by the directors or management, then we can't carry out the audit." (4:18 ¶56, IA4.docx, Appendix 4)*

> ***IA9:*** *"Management support has been good, and it is indeed very important. Without management support — especially internal support from the Head of SKAI and top management, the board of directors — it wouldn't work." (9:16 ¶49–51, IA9.docx, Appendix 4)*

These perspectives illustrate that structural adaptability is not only a matter of technical planning but also hinges on how effectively leadership and internal teams coordinate to facilitate audits. Even within generalist frameworks, strong institutional and managerial support bridges resource constraints and sustains audit effectiveness. Network visualization in Appendix 3(34) illustrates the links between management commitment, team collaboration, and flexible structures in enabling Shari'ah audit implementation.

II. Non-Internal Auditor Perspective Towards Structural Organizational Commitment

a. Governance Oversight: Audit Committee, SSB, and Compliance

Non-internal auditors highlighted that governance oversight in Shari'ah auditing involves both practical challenges and regulatory frameworks. While practitioners underlined gaps in independence and accountability, regulatory voices emphasised that

the structures and responsibilities of governance actors are already defined by formal rules. The following selected excerpts illustrate these perspectives:

> *Non-IA1: "In Islamic financial institutions, thankfully SSB is mandatory. SSB should serve as a mediator, because unlike internal audit and the board of commissioners — who are part of the institution — SSB is an affiliated party. That institutional separation gives it a more neutral role." (11:17 ¶49, Non-IA1.docx, Appendix 4)*

> *Non-IA2: "Who audits the SSB? I said, well, here no one does... SSB is part of the DSN. So it's the DSN that should be auditing us. But right now it only requires reporting — and that's not an operational audit. What we're talking about here is a Shari'ah audit — meaning an audit of Shari'ah compliance." (12:26 ¶24–26, Non-IA2.docx, Appendix 4)*

> *Non-IA4: "In general, the duties and authorities of the Board of Directors, Board of Commissioners, and the Shari'ah Supervisory Board in conducting internal audits have been regulated in POJK No. 1/POJK.03/2019 and POJK No. 17/2023. Further details, including the support from the Board of Directors, Commissioners, and Shari'ah Supervisory Board for internal Shari'ah audits, are elaborated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024." (16:7 ¶47, Non-IA4.docx, Appendix 4)*

Taken together, these perspectives reveal a contrast between regulation and practice. Regulators affirm that governance oversight is already well-structured in POJK and SEOJK, whereas practitioners highlight unresolved issues such as weak SSB independence and the absence of clear mechanisms to audit the SSB itself. The network visualization generated using ATLAS.ti, provided in Appendix 3(35) summarises the range of these perspectives.

b. Ideal Organizational Structure and Specialized Team

Non-internal auditors reinforced the need for structural reforms and specialized arrangements to ensure the effectiveness and legitimacy of Shari'ah audits. Their statements revealed both normative expectations and critical assessments of existing institutional setups, particularly concerning the capacity, independence, and

configuration of Shari'ah oversight mechanisms. The subsequent chosen excerpts exemplify these viewpoints.

> ***Non-IA1:*** *"…we call Sharia Combined Assurance — which means the internal audit aspect also aligns with compliance in many matters, especially Sharia compliance, since Bank A is currently a fully Sharia-compliant bank and the largest of its kind." (11:21 ¶5, Non-IA1.docx, Appendix 4).*

> ***Non-IA2:*** *"There should be a separate body — an independent institution. In Malaysia, that's ISLA." (12:28 ¶31, Non-IA2.docx, Appendix 4)*

> ***Non-IA4:*** *"Organizational structure and good governance principles to support effective internal audit practices are mandated in POJK No. 1/POJK.03/2019 and POJK No. 17/2023." (16:12 ¶57, Non-IA4.docx, Appendix 4)*

Collectively, these viewpoints promote a more organized and professionally endorsed Shari'ah audit framework. They advocate for more explicit institutional requirements, enhanced technical proficiency inside the SSB, and independent assurance procedures that surpass existing internal audit frameworks. Appendix 3(36) features a network visualization that systematically illustrates how external stakeholders perceive the optimal composition, positioning, and responsibility of Shari'ah audit teams in the governance of Islamic banking.

c. Organizational Support and Audit Structure Adaptability

Non-internal auditors emphasized that effective Shari'ah audit requires not only regulatory backing but also the ability of institutions to adapt structures and processes in response to evolving needs. Their views linked adaptability to regulatory readiness, procedural clarity, and the integration of Shari'ah culture into broader organizational practices.

> ***Non-IA1:*** *"So the Shari'ah culture was separate from the mainstream business culture of banking or finance. This is where we need deliberate efforts. First, formulate the corporate culture so that it becomes a Shari'ah-based culture. Once that's attempted, we can proceed." (11:25 ¶54, Non-*

IA1.docx, Appendix 4)

> ***Non-IA2:*** *"…That's fine, but it was unstructured. So what we need is a checklist. That kind of checklist should be made systematic so it can be considered Sharia compliant. I initially wanted to make it a guideline for internal auditors assisting the SSB… we teach them how to do it—check this, check that… then pass your findings to the SSB." (12:30 ¶111–114, Non-IA2.docx, Appendix 4)*

> ***Non-IA4:*** *"Organizational structure and good governance principles to support effective internal audit practices are mandated in POJK No. 1/POJK.03/2019 and POJK No. 17/2023. For Shari'ah internal audit, this is further regulated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024." (16:8 ¶57, Non-IA4.docx, Appendix 4)*

Taken together, these statements illustrate how non-internal actors view adaptability as a combination of codified regulatory frameworks, operational tools, and cultural alignment. For them, sustaining effective Shari'ah audit requires not only compliance with formal standards but also the ability to integrate Shari'ah principles into the organization's structural and cultural fabric. These perspectives presented in Appendix 3(37) a network visualization that highlighting how regulatory, procedural, and cultural dimensions intersect in shaping organizational adaptability for Shari'ah audit.

III. Document Insights of Internal Audit Charters: Structural Organizational Commitment

A review of internal audit charters from all eight banks — Bank A, Bank B, Bank C, and Bank D (interviewed), and Bank 1, Bank 2, Bank 3, and Bank 4 (non-interviewed) — examines how structural organisational commitment is formally articulated in governance documents. Three sub-themes are examined: Governance Oversight, Ideal Organisational Structure and Specialised Team, and Organisational Support and Audit Structure Adaptability.

a. Governance Oversight: Audit Committee, SSB, and Compliance

Across all eight reviewed charters, governance oversight is consistently established through the Audit Committee, with functional reporting to the Board of Commissioners or Directors. Table 6.33 summarises these observations.

Table 6.33
Governance Oversight Across All Reviewed Bank Charters

Bank	Type	Relevant Provision	Analysis Finding
Bank A	FFIB	IA reports functionally to Board via AC; AC reviews plans, reports, and follow-up; coordination with compliance stated	No explicit SSB provision; Shari'ah oversight not formalized
Bank B	FFIB	AC Charter references UU 21/2008 and PBI 11/33/2009; requires one member with Shari'ah banking expertise	Indirect Shari'ah link via expertise requirement; no direct SSB coordination
Bank C	SBU	Parent bank charter: IA reports to President Director, functionally to Board via AC	No explicit SSB reference; compliance implied under general adherence
Bank D	SBU	Parent bank charter: IA reports to Board via AC; AC reviews activities and monitors recommendations	No explicit SSB reference; compliance framed broadly
Bank 1	FFIB	IA reports administratively to President Director and functionally to Board via AC; AC reviews plans, results, and follow-up	Oversight well-defined; no explicit SSB linkage
Bank 2	FFIB	IA reports administratively to President Director and functionally to Board via AC; AC reviews audit plans and resources	Shari'ah identity noted in preamble; no operational SSB linkage
Bank 3	SBU	IA reports to President Director and functionally to Board via AC; AC oversees implementation and follow-up	Compliance unit mentioned; Shari'ah oversight absent
Bank 4	Digital IB	IA reports administratively to President Director and functionally to Board via AC; AC approves plans and oversees corrective actions	Shari'ah-based foundation referenced; no direct SSB engagement

Source: Internal audit charters of interviewed banks (A–D) and Audit Committee Charter of Bank B, Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4),researcher's analysis.

Across the eight reviewed internal audit charters, governance oversight is described through reporting relationships involving the Audit Committee and functional reporting to the Board of Commissioners or Directors. In several documents, coordination with compliance functions is also mentioned. Explicit provisions for Shari'ah Supervisory Board (SSB) coordination or Shari'ah-specific oversight arrangements are not present in the reviewed documents.

b. Ideal Organizational Structure and Specialized Team

All eight reviewed charters establish a dual reporting structure for internal audit — administratively to the President Director and functionally to the Board via the Audit Committee. Table 6.34 summarises these observations.

Table 6.34
Organizational Structure Of Internal Audit Across All Reviewed Bank Charters

Bank	Type	Relevant Provision	Analysis Finding
Bank A	FFIB	IA reports administratively to President Director and functionally to Board via AC	Structure aligns with governance standards; no Shari'ah-specific adjustment
Bank B	FFIB	AC oversees IA resources and capabilities; functions as governance reference	Oversight formalised; structure not tailored for Shari'ah audit
Bank C	SBU	Parent bank charter: IA under President Director with functional accountability to Board via AC	Conventional structure; no provision for Shari'ah dimension
Bank D	SBU	Parent bank charter: IA reports to President Director (administrative) and Board via AC (functional)	Independence stated; no Shari'ah-specific framing
Bank 1	FFIB	IA reports administratively to President Director and functionally to Board via AC; full access to information granted	No specialised Shari'ah audit team; responsibilities integrated into general IA scope
Bank 2	FFIB	IA reports administratively to President Director and functionally to Board via AC; independence and resources emphasised	No provision for dedicated Shari'ah audit team
Bank 3	SBU	IA charter from parent bank; reports to President Director administratively and to Board via AC functionally	No dedicated Shari'ah audit positions
Bank 4	Digital IB	IA reports administratively to President Director and functionally to Board via AC; access rights and cooperation mandated	No separate Shari'ah audit team; responsibilities embedded in general IA mandate

Source: Internal audit charters of interviewed banks (A–D) and Audit Committee Charter of Bank B, Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across all eight reviewed internal audit charters, a dual reporting structure is described, with administrative reporting to the President Director and functional reporting to the Board through the Audit Committee.

References to dedicated Shari'ah audit teams or Shari'ah-specific organisational structures are not included in any of the reviewed documents. In all cases, internal audit responsibilities are described within a general audit function rather than as a separate specialised Shari'ah audit unit.

c. Organizational Support and Audit Structure Adaptability

All eight reviewed charters affirm organisational support for internal audit, including authority to access records, personnel, and facilities. Table 6.35 summarises these observations.

Table 6.35
Organizational Support And Audit Structure Adaptability Across All Reviewed Bank Charters

Bank	Type	Relevant Provision	Analysis Finding
Bank A	FFIB	Full access to information, personnel, and operational areas; cooperation from all units mandated	Provisions are generic; no Shari'ah-specific adaptability mechanisms
Bank B	FFIB	AC can request information and clarifications; requires member with Shari'ah banking expertise	Governance-level support; no operational guidance for Shari'ah-specific adaptability
Bank C	SBU	Coordination with control units; right to request management support	Generic support provisions; adaptability for Shari'ah audit not formalised
Bank D	SBU	Cooperation from all units; management must assist during audits	Support recognised; no codified Shari'ah-specific adaptability measures
Bank 1	FFIB	Cooperation from all units mandated; unrestricted access to records and personnel	Supportive provisions are generic; no Shari'ah-specific adaptability mechanisms
Bank 2	FFIB	Access to all data and explanations authorised; management must facilitate audit activities	Strong support granted; no operational guidance for Shari'ah adaptability
Bank 3	SBU	Collaboration with control units; right to request management assistance	General flexibility acknowledged; no dedicated Shari'ah adaptability measures
Bank 4	Digital IB	All units must assist IA; authority to request data and information	Cooperation ensured; adaptability to Shari'ah audit needs not formalised

Source: Internal audit charters of interviewed banks (A–D) and Audit Committee Charter of Bank B, Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across the eight reviewed internal audit charters, organisational support for internal audit is described through provisions granting access to records, personnel, and operational information, as well as requiring cooperation from audited units.

Explicit provisions for Shari'ah-specific adaptability within internal audit structures are not present in the reviewed documents.

IV. Document Insights of Regulation: Structural Organizational Commitment

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how structural

organisational commitment in Shari'ah audit is addressed in the Indonesian regulatory framework. Table 6.36 summarises the key provisions across three codes: Governance Oversight, Ideal Organisational Structure and Specialised Team, and Organisational Support and Audit Structure Adaptability.

Table 6.36
Regulatory Provisions On Structural Organisational Commitment

Regulation	Key Provisions	Observation Across All Codes
POJK No. 1/2019	Arts. 4–6, 8–10: Audit Committee approves audit plans; internal audit must be independent and adequately resourced; risk-based adaptability required	No coordination mechanisms between AC and SSB; no mandate for Shari'ah-specific audit units; no Shari'ah-specific adaptability provisions
POJK No. 2/2024	Arts. 50–55: SSB monitors Shari'ah compliance and gives recommendations; governance ensures Shari'ah compliance with continuous oversight	SSB advisory role only; not integrated into audit oversight workflow; no structural model for Shari'ah audit integration; adaptability to Shari'ah needs not specified
SEOJK No. 15/2024	Part IV: Reporting formats for Shari'ah compliance; capability enhancement encouraged; internal processes to align with Shari'ah compliance	Joint oversight with AC not operationalised; team formation left to institutional policy; no structural adaptability mechanisms defined
PBI No. 11/33/PBI/2009	Arts. 27–29: BOC oversees compliance and audit effectiveness; audit function must match bank size; governance responsive to operational changes	No SSB coordination protocols; no reference to specialised Shari'ah audit teams; no operational guidance for Shari'ah-specific structural adjustments

Source: Compiled from POJK No. 1/2019; POJK No. 2/2024; SEOJK No. 15/2024; PBI No. 11/33/2009.

The reviewed regulations establish governance oversight structures, auditor independence requirements, and resource provisions for internal audit. Explicit provisions for SSB coordination in audit oversight, dedicated Shari'ah audit team structures, and formal adaptability mechanisms for Shari'ah-specific audit needs are not identified in any of the reviewed documents.

V. Descriptive Triangulation Summary for Structural Organizational Commitment

Triangulation across the four data sources examines how structural organisational commitment is represented in OSA. Table 6.37 presents a descriptive synthesis of these findings. Across the data sources, Audit Committee oversight is referenced in all four sources, while references to Shari'ah Supervisory Board (SSB)

coordination, specialised Shari'ah audit teams, and structural adaptability appear with varying levels of detail across interview data, audit charters, and regulatory documents.

Table 6.37
Descriptive Triangulation Summary – Structural Organizational Commitment

Data Source	Governance Oversight: AC, SSB, and Compliance	Ideal Organisational Structure and Specialised Team	Organisational Support and Audit Structure Adaptability
Internal Auditors (IA)	Structured AC coordination reported; direct SSB interaction described as limited and often mediated through unit heads (IA2, IA6)	Views varied; some called for direct Board reporting (IA1), others for dedicated Shari'ah audit teams (IA9); past decentralisation attempts noted (IA2)	Management support described as important enabler; flexibility in audit focus reported based on resources and risk priorities (IA2, IA3, IA4, IA5)
Non-Internal Auditors (Non-IA)	SSB structural independence concerns raised due to management-linked remuneration (Non-IA3); SSB reliance on management explanations noted (Non-IA2)	No direct proposals for specialised teams; independence concerns suggest need for clearer structural arrangements	No explicit insights on adaptability; governance concerns suggest responsiveness may be constrained
Audit Charters	Audit Committee oversight consistently described across all eight reviewed charters; no SSB coordination mechanisms or Shari'ah-specific oversight provisions identified	All reviewed charters describe internal audit placement within governance structures; references to dedicated Shari'ah audit teams absent from all eight documents	No provisions for adaptive audit structures or Shari'ah-specific resource flexibility identified in any of the eight reviewed charters
Regulatory Documents	POJK 1/2019 assigns Audit Committee to review internal audit performance; no SSB–audit coordination mandate (POJK 1/2019, SEOJK 15/2024)	General governance guidance provided; no explicit requirement for specialised Shari'ah audit teams	No regulatory clauses on structural adaptability; flexibility left to institutional policy

Source: Interview data (IA, Non-IA), institutional audit charters, and regulatory documents (POJK 2/2024; SEOJK 15/2024).

Across the four data sources, Audit Committee oversight is consistently referenced in interview data, audit charters, and regulatory documents. References to Shari'ah Supervisory Board (SSB) coordination, specialised Shari'ah audit teams, and structural adaptability are present in interview accounts, while such references are not included in the reviewed audit charters and are not explicitly detailed in the regulatory documents examined.

6.3.3.3 Additional Findings Related to Structural Organizational Commitment

In addition to the primary themes explored under Organizational Commitment, several additional findings emerged from participant narratives. These findings provide further insights into the implementation of operational Shari'ah audits across Islamic banking institutions in Indonesia.

a. ISA Role in High-Risk Financing

Some internal auditors highlighted the importance of focusing audit activities on areas of elevated risk, particularly non-performing financing (NPF) and financing-related operations. Participants also referred to the need to ensure that business activities continue to meet agreed targets, including Shari'ah compliance requirements.

> *IA6: "In the past few years, most of the concerns have been in the financing area… This affects our NPL—non-performing loan—in Sharia terms, NPF."*
>
> *IA3: "Our biggest challenge going forward is how we can ensure that key functions continue to meet the agreed-upon targets—especially Shari'ah compliance."*

The findings indicate that audit attention is commonly directed toward areas of heightened financial risk, particularly financing activities and non-performing financing, alongside the assessment of Shari'ah compliance.

b. Bank Business Plan (BBP) Integration

Several participants explained that audit planning and scope are developed with reference to the bank's Business Plan (BBP). Areas identified as organisational priorities are considered when determining audit coverage and focus.

> *IA2: "We also review the BBP—look at what business areas are being pursued, and that becomes the basis for determining the scope."*
>
> *IA2: "The scope must align with the BBP. For example, if the BBP states the*

focus this year is on restructuring or recovery of written-off assets, then our audit must align with that."

These accounts indicate that audit scope and planning are developed with reference to the bank's annual business plan, and that audit priorities are influenced by the institution's operational objectives.

c. Weak Structural Safeguards for SSB

Several non-internal auditors raised issues relating to the independence of the Shari'ah Supervisory Board (SSB). Participants compared Indonesia with Malaysia and referred to differences in oversight arrangements and SSB remuneration.

Non-IA3: "In Malaysia, the SSB—or Shari'ah Supervisory Council—is reportedly accountable to ISLA… But in Indonesia, there's no independent body that examines or audits the SSB."

Non-IA2: "SSB should be on par with the commissioners. Ideally, that's the position. But in practice, no. Because they're paid. That's the issue."

These accounts indicate that participants viewed oversight and remuneration arrangements as factors related to SSB independence

d. Impact of SBU Transition on Audit Structure

One participant discussed the implications of transitioning from a Shari'ah Business Unit (SBU) to a full-fledged Islamic bank. The participant indicated that audit activities would become fully focused on Shari'ah operations across all functions, including IT.

IA4: "For the audit process, no. Because this is about the establishment of the SBU itself… Once it's independent, then it definitely changes… Once it's fully operating as a Shari'ah bank, fully focused on Shari'ah, then all activities will follow suit, including IT."

This account indicates that the transition to a full-fledged Islamic bank would be accompanied by changes in audit scope and focus.

e. Ethical Culture for Effective Shari'ah Audit

Several internal auditors highlighted the importance of integrity and ethical conduct in audit practice. Participants linked ethical behaviour with objectivity and the ability to perform audit responsibilities without personal influence.

> *IA5: "We need to achieve the company's targets, but in a proper and ethical way."*
>
> *IA9: "If we as auditors don't have good integrity, we won't be able to objectively assess any issue… our duty is to the company, not individual interests."*

These accounts indicate that participants regarded integrity and ethical conduct as important elements of audit practice alongside technical competence.

These additional findings provide further insights into OSA practice across the participating institutions. A network visualization generated using ATLAS.ti in Appendix 3(38) presents a thematic summary of these findings.

6.3.4 Thematic Analysis of Regulatory and Technological Integration

This section examines how operational Shari'ah audit (OSA) interacts with the regulatory framework and technological capabilities of Islamic banks in Indonesia. As noted in Chapter 5 (Interview section), the interview guide was built on a three-pillar proposal; before coding and analysis, the extended literature review finalised in Chapter 4 established Regulatory and Technological Integration as a fourth pillar**.** The analysis below applies that four-pillar frame to the interview transcripts, institutional documents, and regulatory texts. Regulatory and technological factors shape not only the scope and quality of Shari'ah audits but also their operational feasibility and long-term adaptability. The findings show how compliance requirements, institutional coordination, and digital readiness jointly influence the effectiveness of OSA.

Aligned with the expanded conceptual framework, the analysis is organised into two main code groups:

- Regulatory Alignment and Institutional Interface – covering how internal audit teams coordinate with Shari'ah Supervisory Boards (SSB), and the extent to which OSA is grounded in applicable laws and regulations.
- Digitalisation Landscape in Shari'ah Audit Practice – addressing current levels of system integration, the challenges of adopting digital audit tools, and the readiness of institutions to transition from manual to technology-assisted audit processes.

These areas are closely connected. For example, regulatory clarity can drive investment in audit technology, while technological constraints can limit the ability to meet regulatory expectations efficiently. Conversely, lack of system integration or skill readiness can slow the institutionalisation of regulatory requirements.

The analysis revealed a range of perspectives among participants. Some viewed the regulatory framework as clear and sufficient for guiding OSA, while others pointed to gaps in coordination with SSB or limitations in how regulations address digital audit practices. In terms of technology, an auditors acknowledged the benefits of digital tools but cited barriers such as infrastructure constraints, fragmented systems, and skill shortages. One Bank has begun experimenting with continuous monitoring, yet widespread adoption remains limited. Table 3.38 presents the codes applied under this pillar, outlining their focus areas.

Table 6.38
Codes Under Pillar 4: Regulatory And Technological Integration

Sub-Theme	Final Code	Focus Area	Rationale
1. Regulatory Alignment and Institutional Interface	Institutional Coordination with SSB/SSB	Regulatory communication, role clarity, and interface with SSB/SSB	Emphasizes the importance of coordination between internal auditors and the Shari'ah Supervisory Board (SSB), ensuring collaborative compliance oversight.
	Regulatory Basis: POJK 1/2019 and 2/2024	Legal and regulatory foundation governing operational Shari'ah audit	Anchors OSA practices within the national regulatory framework that defines legal obligations for Islamic banks in Indonesia.
2. Digitalization Landscape in	Manual Audit Execution and	Current use of manual tools, low system	Highlights the prevailing limitations in audit execution,

Sub-Theme	Final Code	Focus Area	Rationale
Shari'ah Audit Practice	Limited System Integration	integration, and operational limitations	including heavy reliance on manual procedures and fragmented digital infrastructure.
	Digitalization Challenges in ISA Practice	Obstacles in adopting audit technology, infrastructure, and readiness gaps	Reflects real-world challenges in adopting digital tools due to institutional readiness, skill limitations, and infrastructure constraints.
	Use of Technology and Continuous Monitoring	Emerging trends of real-time auditing and digital audit possibilities	Captures the early signs of innovation and potential for continuous, real-time auditing, despite limited adoption in current practice.

Source: Thematic code structure developed in ATLAS.ti based on interview transcripts and document analysis (2023–2024).

The subsequent sections present insights from internal auditors, non-auditor stakeholders, and institutional documents. While some institutions demonstrate strong regulatory alignment and gradual technological progress, others remain constrained by procedural inefficiencies and outdated audit systems. These differences underline the importance of integrating both regulatory compliance and technological innovation to strengthen Shari'ah audit effectiveness. The following sub-sections examine these issues in detail.

6.3.4.1 Regulatory Alignment and Institutional Interface

I. Internal Auditor Perspective Towards Regulatory Alignment and Institutional Interface

a. Institutional Coordination with SSB/SSB

Internal auditors described varying patterns of coordination with the Sharia Supervisory Board (SSB/SSB), reflecting differences in institutional arrangements, communication frequency, and the scope of SSB involvement. While some reported regular and structured engagement, others highlighted limited or indirect contact, often mediated by audit team leaders or management. The degree of interaction appeared to influence both the effectiveness of Sharia compliance oversight and the timeliness of issue resolution. Some quotations that exemplify this understanding are as follows:

> ***IA6:*** *"The role of the SSB hasn't been very optimal yet… maybe the head of SKAI often coordinates with the SSB, but we—meaning the audit team leaders—rarely have direct communication. With the audit committee or DECOM, we have routine quarterly meetings. But not so with the SSB—it's rare for the team leaders to meet them." (6:21 ¶79–84, IA6.docx, Appendix 4)*
>
> ***IA10:*** *"Even before the regulation, our communication with the SSB was the same as with the commissioners. The frequency of communication was relaxed — we had regular meetings every three months with the SSB… The support is strong — particularly on matters of Shari'ah. They're very supportive." (10:31 ¶556–568, IA10.docx, Appendix 4)*
>
> ***IA7:*** *"As supervisors, they want to understand what exactly they're supervising. Naturally, their extended arm is internal audit… We share our audit findings with them. Those updates give them insight into how the Shari'ah Unit is performing. We do hold regular meetings… We conduct evaluations regularly." (15:17 ¶169–175, IA7.docx, Appendix 4)*

These accounts illustrate how coordination with SSB can range from frequent, structured collaboration to minimal, indirect engagement. In banks where meetings are scheduled and evaluations are jointly conducted, SSB input appears more integrated into the audit process. Conversely, limited direct contact — as reported by some auditors — may weaken the operational link between Sharia compliance supervision and day-to-day audit activities. Such variation underscores the absence of a uniform institutional standard for SSB–auditor coordination, leaving practices to be shaped largely by internal governance preferences and resource availability. The network visualization generated using ATLAS.ti in Appendix 3(39) summarises the range of views expressed on this code, including those not quoted above.

b. Regulatory Basis

Internal auditors described a strong reliance on existing OJK regulations as the primary basis for Shari'ah audit implementation, with POJK No. 1/2019 frequently cited as the foundational reference. While some auditors acknowledged the emergence of newer regulations in 2024, their operational impact was seen as limited, with many institutions continuing to follow earlier regulatory frameworks. The accounts reveal

both awareness of the regulatory environment and a tendency to adapt institutional guidelines, such as internal audit charters and company manuals, to comply with these mandates. This is reflected in the following statements from internal auditors.

> ***IA1:*** *"Yes, POJK No. 1 of 2019. The core idea is this: internal audit in commercial banks — including Islamic banks — is mandatory. As for the audit program itself, it must at least comply with professional standards. There must also be something called an internal audit charter — which clearly outlines everything. So yes, POJK definitely supports this, and it's mandatory because the supervision function depends on it." (1:47 ¶270, IA1.docx, Appendix 4)*

> ***IA2:*** *"As for the rules, POJK No. 1 of 2019 has been issued. It covers everything—conventional banks, Islamic banks, and Islamic banks with a Shari'ah business unit. So OJK has considered that and included several guidelines or policies that must be followed by banks on a national scale." (2:28 ¶134–140, IA2.docx, Appendix 4)*

> ***IA5:*** *"OJK Regulation Number One is more about the general function of internal audit, including in conventional banks. But OJK Regulation Number Two of 2024 focuses more on Sharia governance — Sharia audit in Islamic Commercial Banks." (5:21 ¶117, IA5.docx, Appendix 4)*

> ***IA10:*** *"In 2024 there was a strong acceleration in the issuance of new regulations specifically on Shari'ah governance for Islamic banking… Under the new POJK, one of the most crucial changes is the SSB function. The SSB is no longer just a DSN representative — they are now treated like commissioners. So, they must pass a fit-and-proper test and understand risk management and so on." (10:29 ¶36–41, IA10.docx, Appendix 4)*

These statements show that while regulatory updates—such as POJK No. 2/2024—are acknowledged, the institutional anchor for audit methodology and governance remains POJK No. 1/2019. The persistence of older regulatory references reflects both the stability and inertia within the regulatory alignment process. Internal auditors often bridge these mandates with internal manuals and procedural documents, ensuring compliance but not necessarily advancing toward a distinct Shari'ah audit framework. The network visualization produced with ATLAS.ti in Appendix 3(40)

encapsulates the diverse perspectives articulated regarding this code, including some not previously cited.

II. Non-Internal Auditor Perspective Towards Regulatory Alignment and Institutional Interface

a. Institutional Coordination with SSB/SSB

Non-internal auditors described the coordination between internal auditors and the Sharia Supervisory Board (SSB) as an essential mechanism for ensuring Sharia compliance, particularly in addressing audit findings and forming formal Sharia opinions. Their accounts emphasized both procedural collaboration and the regulatory framework that underpins SSB involvement in the audit process. The following perspectives from non-internal auditors further illustrate this dynamic:

> ***Non-IA1:*** *"…in our role as Audit Committee members, we ensure that audit findings — internal or external — that relate to Sharia aspects are also communicated to the Sharia Supervisory Board. The Sharia Supervisory Board, in turn, coordinates with internal audit and compliance — especially Sharia compliance." (11:16 ¶10, Non-IA1.docx, Appendix 4)*
>
> ***Non-IA2:*** *"SSB in Indonesia only has the authority to form a Shari'ah opinion — even though that is preceded by an internal audit. A special audit to assess Shari'ah compliance. For that task, the SSB is usually assisted by internal audit." (12:23 ¶22, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA2:*** *"They assist us in identifying Shari'ah violations in the institution. Once those are presented to us, then we issue the opinion… There should be a separate body — an independent institution. In Malaysia, that's ISLA." (12:27 ¶31, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA4:*** *"…the support from the Board of Directors, Commissioners, and Shari'ah Supervisory Board for internal Shari'ah audits, are elaborated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024." (16:16 ¶47, Non-IA4.docx, Appendix 4)*

These insights portray SSB as both a recipient of audit findings and a decision-making authority in Shari'ah compliance matters. While their opinions provide formal clarity, the reliance on internal audit support highlights a deeply interlinked relationship. This arrangement is reinforced by regulatory provisions that formally recognize SSB's role, underscoring the collaborative nature of their engagement with auditors. The network visualization generated with ATLAS.ti in Appendix 3(41) incorporates the various perspectives expressed concerning this code, including those not previously referenced.

b. Regulatory Basis

Non-internal auditors highlighted the regulatory positioning of the SSB as the formal authority responsible for Shari'ah audits in Indonesia, as well as the procedural and governance structures that frame their role. Their accounts also pointed to recent regulatory elaborations that strengthen institutional support for internal Shari'ah audit functions. The preceding points are further exemplified by the subsequent statements from non-internal auditors:

> ***Non-IA2:*** *"According to regulations in Indonesia, it's the SSB. But SSB only goes as far as issuing a Shari'ah opinion. Even though that can be used as a recommendation by the DSN." (12:22 ¶22, Non-IA2.docx, Appendix 4)*
>
> ***Non-IA3:*** *"OJK has issued a guideline on the reporting that SSB must conduct... because in order to prepare the report, they need to carry out a series of assessments, right?" (13:13 ¶60–63, Non-IA3.docx, Appendix 4)*
>
> ***Non-IA4:*** *"Organizational structure and good governance principles to support effective internal audit practices are mandated in POJK No. 1/POJK.03/2019 and POJK No. 17/2023. For Shari'ah internal audit, this is further regulated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024." (16:8 ¶57, Non-IA4.docx, Appendix 4)*

These perspectives reinforce the centrality of SSB in Indonesia's Shari'ah audit framework, supported by formal regulatory mandates and elaborated governance roles. While such regulations clarify responsibilities and reporting requirements, they also

highlight the dependency on SSB's capacity to conduct comprehensive assessments, with implications for the operational synergy between SSB and internal auditors.

The network visualization generated using ATLAS.ti summarises the range of views expressed on this code provided in Appendix 3(42).

III. Document Insights of Internal Audit Charters from Interviewed Banks: Regulatory Alignment and Institutional Interface

A review of internal audit charters from all eight banks examines how regulatory alignment and institutional coordination with the Shari'ah Supervisory Board are formally articulated. Two sub-themes are examined: Institutional Coordination with SSB and Regulatory Basis.

a. Institutional Coordination with SSB/SSB

Across the eight reviewed charters, explicit references to SSB coordination vary considerably. Table 6.39 summarises these observations.

Table 6.39
Institutional Coordination With SSB Across All Reviewed Bank Charters

Bank	Type	SSB Reference in Charter	Analysis Finding
Bank A	FFIB	Explicit; regular information exchange with SSB mandated for Shari'ah compliance review	SSB coordination formally recognised in audit mandate
Bank B	FFIB	Audit Committee Charter: facilitates communication between IA, compliance, and SSB	SSB linkage present via AC; no direct IA-SSB reporting pathway
Bank C	SBU	No explicit SSB mention; "relevant supervisory bodies" referenced	SSB role implied; not specifically identified
Bank D	SBU	No explicit SSB mention; general governance references only	SSB absent from formal audit mandate
Bank 1	FFIB	"Relevant governance and oversight bodies" referenced; SSB not named	SSB engagement left to institutional interpretation
Bank 2	FFIB	No direct SSB mention; covered under general cooperation with supervisory authorities	SSB interaction not formally specified
Bank 3	SBU	Conventional parent bank charter; governance actors referenced generically	No Shari'ah-specific governance body identified
Bank 4	Digital IB	General references to oversight bodies; no SSB specification	SSB provisions absent; likely addressed in separate policies

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across the reviewed charters, explicit SSB coordination provisions are present in only two institutions — Bank A and, indirectly, Bank B through its Audit Committee Charter. The remaining six charters reference governance and oversight bodies in general terms without specifically identifying the SSB.

b. Regulatory Basis

Across all eight reviewed charters, regulatory compliance is consistently acknowledged, though the specificity of references varies. Table 6.40 summarises these observations.

Table 6.40
Regulatory Basis Across All Reviewed Bank Charters

Bank	Type	Regulatory Reference in Charter	Analysis Finding
Bank A	FFIB	OJK regulations referenced; Shari'ah governance rules acknowledged but not named specifically	No specific POJK/SEOJK provisions cited for Shari'ah audit
Bank B	FFIB	Audit Committee Charter cites OJK provisions for oversight responsibilities	No specific Shari'ah audit regulations named
Bank C	SBU	"Prevailing laws and supervisory authority requirements" referenced	Generic regulatory language; Shari'ah-specific provisions absent
Bank D	SBU	Standard banking compliance language from parent bank	No Shari'ah-specific regulatory references
Bank 1	FFIB	OJK, Bank Indonesia, and other authorities cited	General regulatory terms; no Shari'ah audit provisions specified
Bank 2	FFIB	OJK named as key regulator; compliance embedded in banking operations framework	No POJK/SEOJK provisions for Shari'ah audit referenced
Bank 3	SBU	"All applicable laws and supervisory requirements" referenced	Generic framing; Shari'ah obligations not separately addressed
Bank 4	Digital IB	Adherence to relevant regulations required; conventional and Shari'ah provisions not distinguished	Shari'ah audit regulations not explicitly integrated

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

Across all eight institutions, regulatory compliance is described as a core internal audit responsibility. Explicit references to Shari'ah-specific regulatory provisions such as POJK or SEOJK are not consistently integrated into the reviewed charter documents.

IV. Document Insights of Regulation: Regulatory Alignment and Institutional Interface

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how regulatory alignment and institutional interface in Shari'ah audit are addressed in the Indonesian regulatory framework. Table 6.41 summarises the key provisions across two codes: Institutional Coordination with SSB and Regulatory Basis.

Table 6.41
Regulatory Provisions on Regulatory Alignment And Institutional Interface

Regulation	Key Provisions	Institutional Coordination with SSB	Regulatory Basis
POJK No. 1/2019	Arts. 2–3, 6, 11: Internal audit must coordinate with relevant bodies including SSB; defines responsibilities for all banks	No detail on procedures or scope of SSB coordination	No Shari'ah-specific audit methodology; uniform framework applied
POJK No. 2/2024	Arts. 50–55, 67–69: SSB provides advice, recommendations, and oversight; internal control systems to ensure compliance	SSB not formally integrated into audit workflow	Shari'ah oversight recognised; no distinct operational audit standard
SEOJK No. 15/2024	Part III & IV, Annex II: Formats, schedules, and follow-up for SSB compliance reports; governance and evaluation criteria	No real-time or joint operational coordination models	No detail on integrating Shari'ah governance into audit methodology
PBI No. 11/33/PBI/2009	Arts. 27–29, 45–46: SSB must align with internal controls; compliance and control responsibilities for Islamic banks	Coordination principle noted; no clear protocols	No prescribed internal audit methods for Shari'ah compliance

Source: Compiled from POJK No. 1/2019; POJK No. 2/2024; SEOJK No. 15/2024; PBI No. 11/33/2009.

The reviewed regulations formally recognise SSB as part of Shari'ah compliance oversight and establish the legal basis for internal audit obligations in Islamic banks. Explicit operational coordination mechanisms between SSB and internal audit, and detailed methodological standards for Shari'ah audit, are not prescribed in any of the reviewed documents.

V. Descriptive Triangulation Summary for Regulatory Alignment and Institutional Interface

Triangulation across the four data sources examines how regulatory alignment and institutional coordination with the SSB are represented in OSA. Table 6.42 presents a descriptive synthesis of these findings. References to SSB coordination and regulatory basis are present across all four sources, with differences in the level of detail and specificity observed across interview data, audit charters, and regulatory documents.

Table 6.42
Descriptive Triangulation Summary – Regulatory Alignment And Institutional Interface

Data Source	Institutional Coordination with SSB	Regulatory Basis
Internal Auditors (IA)	Mixed practices described: from regular meetings and technical collaboration to limited, indirect communication (IA1, IA4, IA5, IA6, IA7, IA8)	POJK 1/2019 cited as core foundation; POJK 2/2024 acknowledged by some, with limited perceived change in practice (IA1, IA2, IA5, IA7, IA10)
Non-Internal Auditors (Non-IA)	SSB's reliance on internal audit for identifying Shari'ah violations noted; regulatory recognition of SSB roles referenced (Non-IA1, Non-IA2, Non-IA4)	SSB authority under regulations confirmed; OJK guidelines for compliance assessments referenced (Non-IA2, Non-IA3)
Audit Charters	Bank A explicitly references SSB coordination; Bank B's AC Charter assigns SSB liaison functions; remaining six charters reference governance bodies in general terms without specifically identifying SSB	Bank A and Bank B reference OJK regulations; remaining six charters use general compliance language without Shari'ah-specific regulatory provisions
Regulatory Documents	POJK 1/2019, POJK 2/2024, SEOJK 15/2024, PBI 11/33/2009 recognise SSB oversight; detailed operational coordination requirements not prescribed	Four core regulations provide legal basis for Shari'ah governance and internal audit; distinct operational Shari'ah audit standards not articulated

Source: Data compiled from interviews with internal and non-internal auditors, audit charters of interviewed and non-interviewed banks, and relevant regulatory documents (POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, PBI No. 11/33/2009).

Taken together, the triangulated findings indicate that SSB coordination and regulatory alignment are referenced across all four data sources. More detailed provisions for SSB coordination are identified in interview accounts and selected audit charters, while explicit Shari'ah-specific regulatory standards are not present in any of the reviewed institutional documents.

6.3.4.2 Digitalization Landscape in Sharia Audit Practice

I. Internal Auditor Perspective Towards Digitalization Landscape in Sharia Audit Practice

a. Manual Audit Execution and Limited System Integration

Several IA provided insights on the extent of reliance on manual processes in Shari'ah audit execution and the degree to which systems and technology have been integrated into their work. Internal auditors described a notable divide between banks that still depend on basic office applications and those that have begun adopting continuous audit practices supported by data analytics. These differences reflect both the pace of digital adoption and the level of institutional investment in audit technology.

The perspectives below illustrate these operational realities as described by internal auditors:

> ***IA1:*** *"…because our reports are still done manually, in Excel." (1:34 ¶170, IA1.docx, Appendix 4)*
>
> ***IA1:*** *"…at the very least, you must be proficient with Microsoft Office — especially since everything we do is still manual." (1:41 ¶172, IA1.docx, Appendix 4)*
>
> ***IA10:*** *"…that's the CACM model — Continuous Audit and Continuous Monitoring — and it's implemented using digital tools and data analytics. In this setup, we auditors don't do much manual work… we feed it into the system, and it generates anomaly reports automatically." (10:41 ¶179–181, IA10.docx, Appendix 4)*

These accounts show a clear divide between auditors working in technology-enabled environments and those relying on manual, spreadsheet-based processes. While some institutions have adopted continuous audit systems to reduce repetitive work and improve anomaly detection, others remain constrained by legacy methods, reflecting uneven system integration across the sector.

The network visualization generated using ATLAS.ti summarises the range of views expressed on this code, including those not quoted above provided in Appendix 3(43).

b. Digitalization Challenges in ISA Practice

Several internal auditors indirectly reflected on their views regarding the challenges faced by internal Shari'ah audit in adapting to digitalization. Their accounts reveal practical, technological, and regulatory hurdles that shape how audits are conducted in a fully or partially digital environment. The perspectives below illustrate these challenges as described by internal auditors:

> ***IA1:*** *"We used software, yes — but from what I understand, it wasn't very applicable to our current situation. So that's probably why it's no longer used now." (1:42 ¶178, IA1.docx, Appendix 4)*
>
> ***IA6:*** *"That's actually where we need to focus in the future. Once again, enhancing competencies—plus, Shari'ah itself must adapt to digitalization, or the current transformations, which must be addressed like it or not." (6:9 ¶94–97, IA6.docx, Appendix 4)*
>
> ***IA9:*** *"If there are changes, especially due to technology or other factors, regulations must adapt to the current situation. Times and technologies change, and that greatly affects banking. Banking is all about trust — if the regulations are outdated and don't keep up, it can reduce public confidence." (9:25 ¶99, IA9.docx, Appendix 4)*
>
> ***IA10:*** *"Invoices, receipts — all of that are no longer available in hard copy. So the audit objects we're reviewing are all digital documents now — and digital documents are not easy to verify. How do you cross-reference when everything is also digital? … In terms of verification, the way we test, the breadth of coverage — which used to be sampling, is now population-based. And it must be supported by the right technology. So it's already shifted significantly." (10:34 ¶446–457, IA10.docx, Appendix 4)*

These statements highlight how digital transformation not only changes the tools and formats of audit work but also requires auditors to adapt verification methods,

expand coverage, and address gaps in regulatory responsiveness. The interplay between technological readiness and regulatory adaptation emerges as a central factor in ensuring effective Shari'ah audit practice in a digital context. The ATLAS.ti-generated network view in Appendix 3(44) visualises the broader range of participant insights related to this code.

c. Use of Technology and Continuous Monitoring

Although this aspect was not part of the initial interview framework, one participant provided a direct example of how technology is applied in real-time Shari'ah audit processes. The account demonstrates the use of the Continuous Audit and Continuous Monitoring (CACM) model, integrating digital tools and data analytics to increase audit responsiveness and coverage. The perspective below illustrates this practice:

> *IA10: "Now, it's done in real-time — almost daily. That's the CACM model — Continuous Audit and Continuous Monitoring — and it's implemented using digital tools and data analytics." (10:40 ¶179, IA10.docx, Appendix 4)*

This example reflects how digital technology can transform the audit process from periodic reviews to near real-time oversight, allowing auditors to detect anomalies promptly and reduce reliance on traditional sampling methods. The integration of CACM also signals a shift toward data-driven decision-making in Shari'ah audit practices, which may improve both efficiency and accuracy if adequately supported by institutional resources. The ATLAS.ti network in Appendix 3(45) shows next reflects further insights on this code, complementing the examples discussed above.

II. Non-Internal Auditor Perspective Towards Digitalization Landscape in Sharia Audit Practice

a. Manual Audit Execution and Limited System Integration

No explicit insights on this aspect were provided by non-internal auditors during the interviews.

b. Digitalization Challenges in ISA Practice

Although this aspect was not part of the structured interview questions, one non-internal auditor noted the fully digital nature of current audit objects and the role of governance oversight in ensuring proper monitoring and resolution of emerging issues.

> *Non-IA1: "...nowadays everything is digital. Take for instance the incident that Bank A experienced — it was the responsibility of the Audit Committee to continuously monitor on behalf of the board of commissioners how it had been resolved or anticipated, including further developments." (10:15 ¶8, IA1.docx, Appendix 4)*

This perspective underscores the governance responsibility to adapt oversight mechanisms to a fully digital operational environment. It also illustrates how technological changes in audit objects require proactive monitoring and continuous follow-up to maintain assurance quality and stakeholder confidence. The subsequent ATLAS.ti network visualisation in Appendix 3 presents additional viewpoints related to this code that are not included in the quotations above.

c. Use of Technology and Continuous Monitoring

No explicit insights on this aspect were provided by non-internal auditors during the interviews.

III. Document Insights of Internal Audit Charters: Digitalization Landscape in Sharia Audit Practice

A review of internal audit charters from all eight banks examines how digitalisation in Shari'ah audit practice is addressed in formal governance documents. Three sub-themes are examined: Manual Audit Execution and Limited System Integration, Digitalisation Challenges in ISA Practice, and Use of Technology and Continuous Monitoring.

a. Manual Audit Execution and Limited System Integration

The reviewed internal audit charters describe audit execution through planning, fieldwork, reporting, and follow-up activities. References to integrated digital systems, workflow automation, or data analytics tools are not explicitly included in the examined documents. Table 6.43 summarises these observations.

Table 6.43
Audit Execution References Across All Reviewed Bank Charters

Bank	Type	Reference in Charter	Analysis Finding
Bank A	FFIB	Standard audit stages: planning, fieldwork, reporting, follow-up per internal policies	No reference to integrated audit systems; manual execution implied
Bank B	FFIB	AC Charter: oversight of audit plans and report review	No indication of technology use in audit execution
Bank C	SBU	Parent bank charter: adherence to internal controls and risk-based methodology	No reference to digital workflow or system integration
Bank D	SBU	Parent bank charter: compliance and risk-based audit planning	No reference to digital audit processes
Bank 1	FFIB	Sequential audit stages: planning, fieldwork, reporting	No reference to workflow automation or audit software
Bank 2	FFIB	Adherence to internal controls and applicable regulations	Technology use in audit execution not indicated
Bank 3	SBU	Parent bank charter: compliance and governance structures	No reference to system integration or digital platforms
Bank 4	Digital IB	Governance and compliance provisions per parent bank	No reference to digital audit execution despite digital banking orientation

Source: Internal audit charters of interviewed banks (A–D), Audit Committee Charter of Bank B, and audit charters of non-interviewed banks (Bank 1–4), researcher's analysis.

The reviewed charters consistently describe audit activities through established audit processes and governance arrangements. References to digital tools, workflow

automation, system integration, or technology-enabled audit execution are not explicitly included in any of the examined documents.

b. Digitalisation Challenges in ISA Practice

None of the reviewed charters contain explicit provisions addressing digitalisation-related challenges in Shari'ah audit practice. Audit governance, compliance, and reporting arrangements are described without reference to digital transformation, digital audit methodologies, verification approaches, or resource requirements associated with digitalisation.

c. Use of Technology and Continuous Monitoring

None of the reviewed charters contain provisions related to the use of technology or continuous monitoring in audit execution. Internal audit responsibilities, including planning, execution, reporting, and follow-up activities, are described without reference to real-time monitoring tools, automated data analytics, or other technology-enabled audit processes.

IV. Document Insights of Regulation: Digitalization Landscape in Sharia Audit Practice

A review of key regulatory documents — POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/PBI/2009 — examines how digitalisation in Shari'ah audit practice is addressed in the Indonesian regulatory framework. Table 6.44 summarises the key provisions across three codes: Manual Audit Execution and Limited System Integration, Digitalisation Challenges in ISA Practice, and Use of Technology and Continuous Monitoring.

Table 6.44
Regulatory Provisions On Digitalisation In Shari'ah Audit Practice

Regulation	Key Provisions	Observation Across All Codes
POJK No. 1/2019	Arts. 2–3, 11: Internal audit responsibilities and independence for	No specification on manual vs technology-enabled methods; no digital record

Regulation	Key Provisions	Observation Across All Codes
	all banks; effectiveness of internal control systems	verification or e-audit requirements; no real-time monitoring prescription
POJK No. 2/2024	Arts. 50–55, 67–69: Shari'ah governance and compliance; SSB oversight positioning	No mandate for digitalisation of audit processes; SSB oversight not adapted to digital banking operations; no continuous monitoring provisions
SEOJK No. 15/2024	Part IV: Compliance monitoring and reporting guidance; formats, schedules, and follow-up for evaluations	No requirements for integrated audit systems; silent on adjustments for digital audit objects; no mandate for technological tools for continuous oversight
PBI No. 11/33/PBI/2009	Arts. 27–29, 45–46: Effective internal control; compliance through governance; BoC and SSB oversight roles	Choice of audit tools left to institutional discretion; no provisions on digital transformation impact; no specification of continuous monitoring frameworks

Source: Compiled from POJK No. 1/2019; POJK No. 2/2024; SEOJK No. 15/2024; PBI No. 11/33/2009.

The reviewed regulations address internal audit obligations, governance structures, and compliance monitoring requirements without prescribing specific technological approaches. References to digital audit execution, digitalisation challenges, continuous monitoring, or technology-enabled audit methods are not identified in any of the reviewed regulatory documents.

V. Descriptive Triangulation Summary for Digitalization Landscape in Sharia Audit Practice

Triangulation across the four data sources examines how digitalisation in Shari'ah audit practice is represented in OSA. References to digitalisation challenges, technology use, and system integration are identified in interview data, audit charters, and regulatory documents, although the level of detail varies across sources. Table 6.45 presents a descriptive synthesis of these findings.

Table 6.45
Descriptive Triangulation Summary - Digitalization Landscape In Sharia Audit Practice

Data Source	Digitalisation Challenges in ISA Practice	Use of Technology and Continuous Monitoring	Manual Audit Execution and Limited System Integration
Internal Auditors (IA)	Challenges in verifying digital-only documents; regulatory adaptation needs noted; software limitations identified (IA1, IA6, IA9, IA10)	CACM model with digital tools and data analytics described (IA10)	Continued reliance on manual tools; fragmented systems; SOP-driven, non-automated workflows (IA3, IA4, IA5, IA8)
Non-Internal	Increasing AC oversight role	No explicit reference	No explicit reference

Data Source	Digitalisation Challenges in ISA Practice	Use of Technology and Continuous Monitoring	Manual Audit Execution and Limited System Integration
Auditors (Non-IA)	in digital-era risks noted (Non-IA1)		
Audit Charters	None of the eight reviewed charters explicitly address digitalisation challenges; provisions remain generic regarding audit scope and methods	References to specific technology tools or continuous monitoring absent from all eight reviewed charters; one charter references "appropriate tools" in general terms	All eight reviewed charters describe audit execution in procedural terms; no reference to automation or system integration identified
Regulatory Documents	POJK 1/2019, POJK 2/2024 require risk-based methods but no explicit digital adaptation guidance; SEOJK 15/2024 mentions technology in general terms	Continuous monitoring not mandated; technology references remain broad	No regulatory provisions address system integration or automation of audit execution

Source: Interview data (IA, Non-IA), institutional audit charters, and regulatory documents (POJK 2/2024; SEOJK 15/2024).

Across the four data sources, references to digitalisation-related themes are described in different ways. Interview data include references to digitalisation challenges, technology use, continuous monitoring, and system integration within audit activities. Audit charter documents contain limited references to these themes and do not explicitly describe digitalisation-related audit practices, technology-enabled monitoring, or system integration. Regulatory documents include general references to technology and risk-based approaches but do not provide detailed provisions relating to digitalisation in Shari'ah audit practice.

References to technology use, continuous monitoring, and digitalisation-related audit challenges are present in interview accounts, while explicit references to these themes are not included in the reviewed charter documents and are only broadly addressed in the regulatory documents examined.

6.3.4.3 Additional Findings Related to Regulatory and Technological Integration

Several additional findings related to Regulatory and Technological Integration emerged from the interviews and document analysis. These findings are organised into four areas: Call for Standardised Shari'ah Audit Regulation, Institutional Constraints in Shari'ah Implementation, Public Misperception and Literacy Gap, and Regulatory and Institutional Inhibitors.

a. Call for Standardized Sharia Audit Regulation

One participant highlighted the need for more explicit regulatory guidance on Shari'ah audit practices. The participant suggested that greater standardisation could help provide clearer direction for the conduct of Shari'ah audits across Islamic banks.

> *IA5: "So I think there needs to be more regulations from the regulators—like how Sharia audits should ideally be conducted by Islamic banks… everything — A to Z, including audits — can be standardized just like for conventional banks."*

This account indicates support for more standardised regulatory guidance in the implementation of Shari'ah audits.

b. Institutional Constraints in Shari'ah Implementation

Some participants referred to institutional factors affecting the implementation of Shari'ah principles in banking operations. These included the role of Shari'ah Business Units (SBUs), product development, customer demand, and organisational performance targets.

> *IA5: "Some Islamic banks, in practice, only complement the conventional bank's business model. This affects how far we can implement Shari'ah principles in financing products, especially when customer demand is low for more complex contracts."*

> *IA9: "Our SBU aims to become a full-fledged Sharia bank… But as of 2024, we haven't met those goals. NPF is still high and not yet well-managed."*

These constraints indicate that participants associated the implementation of Shari'ah principles with a range of institutional and operational considerations.

c. Public Misperception and Literacy Gap

Several participants referred to public understanding of Islamic banking when discussing the implementation of Shari'ah principles. Participants noted that Islamic banking is often perceived as similar to conventional banking and also referred to limitations in public familiarity with Shari'ah-compliant products and practices.

> *IA5: "Islamic banks are basically the same – just with a different name."*
>
> *IA2: "In principle, Shari'ah must be followed. But it's difficult when customer understanding is not up to date... the public still sees Islamic banking as being the same as conventional banks—just with different terminology."*
>
> *IA2: "The growth of Shari'ah banking is still slow... Is it because of a lack of public understanding?" "*
>
> *IA4: "The issue is also with the public not being ready. They are unfamiliar with sales systems that support full Shari'ah compliance. Those support processes are not widely available yet."*

These accounts indicate that some participants perceived public understanding and familiarity with Islamic banking as factors related to the adoption of Shari'ah-compliant products and services.

d. Regulatory and Institutional Inhibitors

Several participants referred to regulatory and institutional factors when discussing the implementation of Shari'ah banking and audit practices. The issues raised included core capital requirements, the application of Shari'ah principles in banking operations, the use of accounting and governance standards, regulatory expectations, and the need for greater standardisation.

> *IA4: "...in 2023 a regulation was issued that required a certain percentage of core capital. That's what makes it burdensome for those trying to establish independent SBU."*

IA8: "Based on Shari'ah principles, if a customer's business incurs a loss, there should be no profit... But as a bank, we still have to provide returns to those who entrust us with their funds."

Non-IA3: "IAI is actually ahead (compared to AAOIFI)—they've issued a standard on waqf... but it's still mostly used only in Indonesia."

Non-IA3: "The OJK still mandates Fiqh scholars, but hasn't gone beyond that... The reports follow an audit-like structure, tho not in depth."

IA9: "Some banks are labeled 'Sharia,' but in practice they operate like conventional banks."

IA6: "So I think there needs to be more regulations from the regulators — like how Sharia audits should ideally be conducted by Islamic banks... everything — A to Z, including audits — can be standardized just like for conventional banks."

These accounts indicate that participants associated the implementation of Shari'ah banking and audit practices with a range of regulatory and institutional considerations. Across the interviews, references were made to regulatory requirements, operational practices, professional standards, and institutional arrangements.

These additional findings relate to regulatory, institutional, and operational aspects of OSA practice. A network visualization generated using ATLAS.ti in Appendix 3(46) presents a thematic summary of these findings.

6.3.5 Cross-Pillar Patterns Emerging from ATLAS.ti Analysis

Although the findings have been presented under four analytical pillars, several themes appeared across multiple areas. Issues such as structural independence, technological limitations, ethical considerations, and regulatory factors were discussed in different contexts and linked to various aspects of OSA practice.

6.3.5.1 Structural Independence Across Organisational and Regulatory Contexts

Structural independence emerged across several analytical pillars, particularly in relation to auditor independence, organisational arrangements, and regulatory

requirements. Participants referred to reporting lines, governance oversight, and regulatory provisions when discussing the roles of internal Shari'ah auditors and the Shari'ah Supervisory Board (SSB).

> *IA1: "We submit our report to the President Director, in line with OJK requirements, and send copies to the audit committee and the commissioners." (1:10 ¶154, IA1.docx, Appendix 4)*

> *Non-IA2: "If we determine something is not Shari'ah-compliant, we can ask for the product to be revised. If it's not revised, we can ask for it to be discontinued." (12:24 ¶23, Non-IA2.docx, Appendix 4)*

These perspectives. indicate that structural independence was discussed in relation to reporting arrangements, governance oversight, and regulatory requirements across multiple aspects of OSA practice.

The following network visual generated using ATLAS.ti illustrates how governance oversight (Organisational Commitment) intersects with reporting line arrangements (ISA Competency and Independence) and regulatory mandates (Regulatory and Technological Integration).

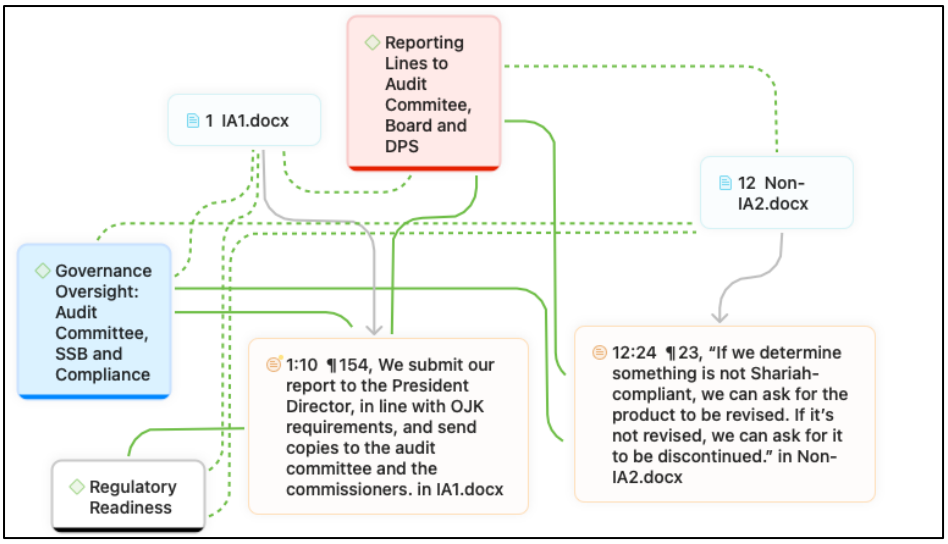


Figure 6.2 Network View Of Cross-Pillar Connections On Structural Independence (IA1 And Non-IA2)

Source: ATLAS.ti network view generated by researcher, based on coded data from IA1.docx and Non-IA2.docx

6.3.5.2 Technological Limitations and Organisational Adaptability

Technological limitations were identified in relation to the execution of Shari'ah audit activities. The data indicate that internal Shari'ah audit is primarily conducted using manual processes with limited digital tools. This condition affects audit workflow and increases the volume of manual tasks performed by auditors.

> ***IA6:*** *"Actually where we need to focus in the future. Once again, enhancing competencies—plus, Shari'ah itself must adapt to digitalisation, or the current transformations, which must be addressed like it or not." (6:9 ¶94–97, IA6.docx, Appendix 4)*

> ***IA1:*** *"Because they're (Audit Committee) the ones who sign the Internal Audit Charter. And every bank must have internal audit—it's required by OJK, the regulator." (1:39 ¶159, IA1.docx, Appendix 4)*

The data also show references to regulatory requirements related to the establishment of internal audit functions and audit structures. Shari'ah audit practices are described in relation to these requirements and existing operational procedures.

The following network visual generated using ATLAS.ti illustrates how digitisation challenges (Regulatory and Technological Integration) intersect with governance oversight (Organisational Commitment) and multidisciplinary capability demands (ISA Competency and Independence).

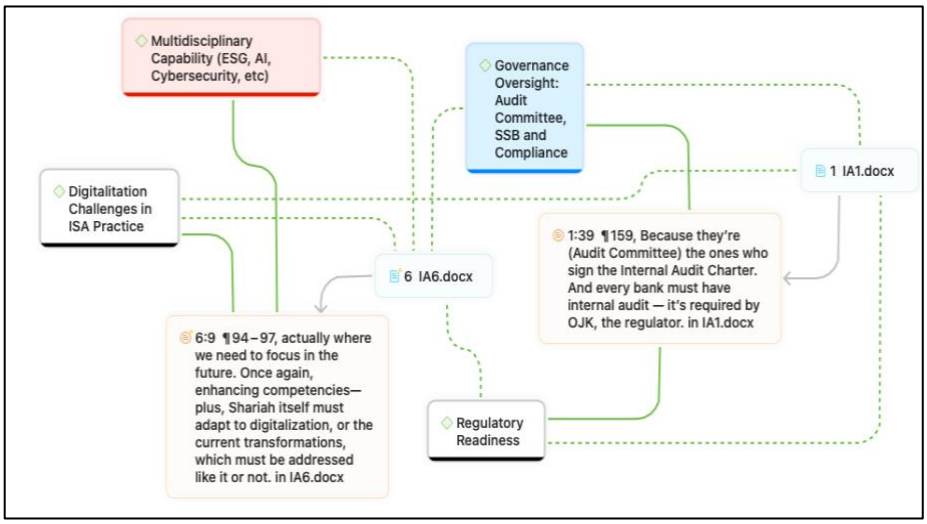


Figure 6.3 Network View Of Cross-Pillar Connections On Technological Limitations And Adaptability (IA6 And IA1)

Source: ATLAS.ti network view generated by researcher, based on coded data from IA6.docx and IA1.docx

6.3.5.3 Ethical Orientation as an Integrative Thread

Ethical orientation appeared in the data in relation to Shari'ah compliance and audit practice across organisational levels. The data show that auditors refer to Shari'ah principles when assessing the implementation of financing contracts and operational practices.

> ***IA4:*** *"There are principles that must be met. Have those principles been properly followed in accordance with Shari'ah law? Whether it's murabaha or something else—has it been implemented properly? That's what matters most, I think. If it hasn't, then it needs to be aligned with Shari'ah law. Why? Because it's about serving the Muslim community and also fulfilling Islamic legal requirements that are ultimately accountable to Allah SWT." (4:12 ¶79, IA4.docx, Appendix 4)*

> ***IA2:*** *"Audits should serve to restore operational practices to align with Shari'ah principles or Shari'ah-compliant actions. In Islamic banks, the SSB is responsible for monitoring operations, especially regarding Shari'ah principles. So, our reports are also sent to the SSB for review and evaluation, and they may provide input accordingly." (2:27 ¶128, IA2.docx, Appendix 4)*

These quotations indicate that audit reports are submitted to the Shari'ah Supervisory Board (SSB) for review and input. References to Shari'ah principles and accountability appear in relation to audit assessments and governance review processes.

The following network visual generated using ATLAS.ti illustrates how alignment with maqasid (Conceptual Clarity) intersects with auditor–auditee cooperation (ISA Competency and Independence) and governance oversight (Organisational Commitment). The linked quotations from IA4 and IA2 demonstrate how ethical orientation integrates conceptual, organisational, and oversight perspectives in Shari'ah audit practice.

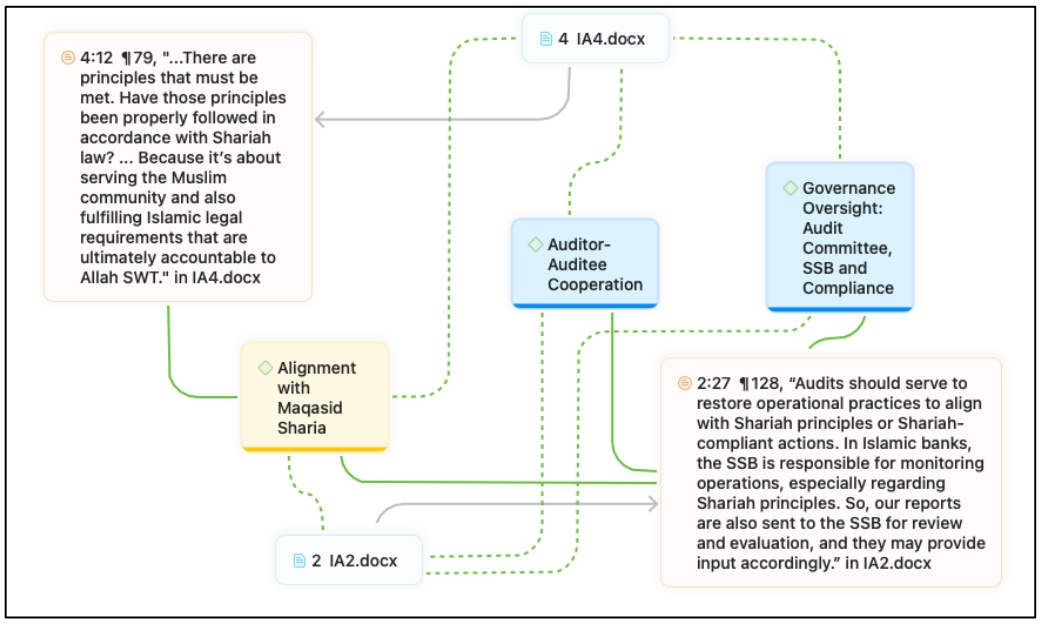


Figure 6.4 Network View Of Cross-Pillar Connections On Ethical Orientation

Source: ATLAS.ti network view generated by researcher, based on coded data from IA4.docx and IA2.docx

6.3.5.4 Regulatory Inhibitors and Systemic Constraints

Regulatory requirements were reported in relation to the structure and planning of internal Shari'ah audit activities. The data show that internal audit functions are formally established under OJK requirements and are embedded in governance structures through approved audit charters.

> ***IA1:*** *"Because they're (Audit Committee) the ones who sign the Internal Audit Charter. And every bank must have internal audit—it's required by OJK, the regulator." (1:39 ¶159, IA1.docx, Appendix 4)*

> ***IA2:*** *"If last year we already audited certain areas, we look for something new, or perhaps new operational activities introduced… We also review the BBP (Bank Business Plan)—we look at what business areas are being pursued, and that becomes the basis for determining the scope." (2:15 ¶118, IA2.docx, Appendix 4)*

These quotations indicate that audit scope is determined with reference to prior audit coverage and the Bank Business Plan (BBP), which guides the identification of audit areas and planning priorities.

The following network visual generated using ATLAS.ti illustrates how regulatory readiness (Regulatory and Technological Integration) intersects with governance oversight (Organisational Commitment) and audit method flexibility (Conceptual Clarity).

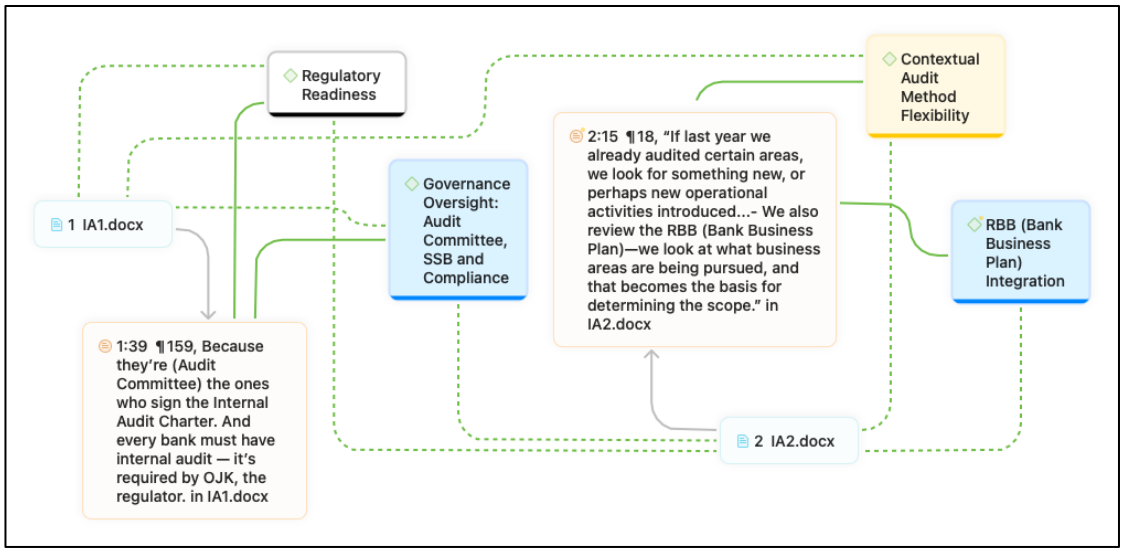


Figure 6.5 Network View Of Cross-Pillar Connections On Regulatory Inhibitors

Source: ATLAS.ti network view generated by researcher, based on coded data from IA1.docx and IA2.docx

6.4 Chapter Summary

Chapter 6 presents a thematic analysis of operational Shari'ah audit (OSA) practices in Indonesian Islamic banks, drawing on interviews, internal audit charters, and regulatory documents. The findings are organised around the four pillars of the conceptual framework—Conceptual Clarity, ISA Competency and Independence, Organisational Commitment, and Regulatory and Technological Integration—providing a structured account of how OSA is understood and implemented across institutions.

The chapter applies descriptive triangulation to compare perspectives across internal auditors, governance actors, and regulatory texts, highlighting areas of convergence, divergence, and institutional gaps. In addition to the four main themes, Section 6.3.5 synthesises cross-pillar patterns identified through ATLAS.ti analysis, revealing how issues such as structural independence, technological limitations, ethical orientation, and regulatory constraints intersect across thematic boundaries.

Together, these findings establish the empirical foundation for Chapter 7, where deeper interpretation is developed and the conceptual framework is refined in light of the Indonesian banking context.

CHAPTER 7
INTERPRETING THE FINDINGS AND CONCEPTUAL FRAMEWORK REFINEMENT

7.1 Introduction

This chapter interprets the empirical findings presented in Chapter 6 using the conceptual framework from Chapter 4 and the theoretical foundations of Maqasid al-Shari'ah and Islamic Agency Theory. It moves beyond description to analyse how operational Shari'ah audit (OSA) is understood, implemented, and shaped in Indonesian Islamic banks, and how these practices align with or diverge from normative Shari'ah governance and ethical objectives.

The analysis follows a hermeneutic phenomenological approach (Chapter 5), drawing on triangulated data from interviews, institutional documents, and regulatory texts. The discussion is organised around four conceptual pillars—Conceptual Clarity, ISA Competency and Independence, Organisational Commitment, and Regulatory and Technological Integration—followed by cross-pillar insights and a refined conceptual framework.

7.2 Interpretation of Findings by Conceptual Pillar

The interpretation of findings in this section is structured around the four conceptual pillars established in Chapter 4 and explored empirically in Chapter 6: (1) Conceptual Clarity, (2) ISA Competency and Independence, (3) Organizational Commitment, and (4) Regulatory and Technological Integration. While Chapter 6 presented the empirical themes and patterns as they emerged from the data, the current section advances the analysis by situating these findings within broader theoretical, regulatory, and institutional contexts. Each pillar is discussed in turn, integrating insights from interviews, institutional documents, and relevant regulations to provide a deeper understanding of how operational Shari'ah audit is conceptualised and enacted in Indonesian Islamic banks. The discussion also reflects the hermeneutic interpretive approach adopted in this study, drawing meaning from the interplay between participant perspectives, documentary evidence, and the researcher's analytical lens.

7.2.1 Pillar 1 – Conceptual Clarity

The first conceptual pillar, Conceptual Clarity, concerns the extent to which operational Shari'ah audit (OSA) is understood in a consistent, coherent, and purpose-driven manner across institutional and regulatory contexts. As discussed in Chapter 6, participant narratives revealed significant variation in terminology, definitional scope, and methodological orientation, with tensions between practice-oriented flexibility and oversight-driven standardisation. In interpreting these findings, this section examines how such variations reflect deeper issues of institutional identity, professionalisation, and the embedding of Islamic ethical objectives—particularly the role of Maqasid al-Shari'ah—within audit frameworks. The analysis connects these empirical insights with the theoretical propositions outlined in Chapter 4, highlighting where conceptual alignment is achieved and where gaps remain that may hinder the institutionalisation of OSA as a distinct and credible governance function.

7.2.1.1 Terminology and Definition

The issue of terminology and definition highlights how operational Shari'ah audit is understood and communicated differently across institutions. Internal auditors often approach the concept pragmatically, focusing on audit objectives and procedures rather than definitional precision, while non-internal stakeholders emphasise the importance of clarity and standardisation for regulatory coherence. This divergence reflects a broader tension between practice-driven flexibility and oversight-driven formalisation, where the absence of agreed terminology risks fragmenting institutional practice and undermining efforts toward a shared professional identity.

a. Terminology Ambiguity and Standardization Debate

The findings indicate a marked divergence in views on whether operational Shari'ah audit (OSA) terminology should be standardised across Islamic banks. Internal auditors tend to treat terminological variation as a pragmatic adaptation, allowing audit language to align with internal structures and operational realities. As Khalid and Sarea (2021) note, the lack of conceptual clarity in Shari'ah audit terminology remains a

challenge for consistent practice across institutions. As IA6 noted, "*As long as… there's no requirement that the terminology must be standardized… each bank… tends to have their own terminology… we just refer to POJK 1/2019*." This suggests that regulatory latitude enables institution-specific labelling, reinforcing the persistence of locally negotiated meanings (Puad et al., 2020).

By contrast, governance-oriented participants emphasise harmonisation to strengthen external intelligibility and sector-wide comparability. Drawing on international references, Non-IA1 argued that AAOIFI terminology provides a more appropriate label—"*the proper term should be Shari'ah compliance audit*"—while Non-IA2 insisted on adherence to codified definitions to avoid conceptual slippage across institutions. This orientation reflects the broader argument that standardised vocabularies can consolidate Shari'ah governance and reduce interpretive ambiguity for external stakeholders (AAOIFI, 2020; Yaacob & Donglah, 2012).

These divergent interpretations appear closely shaped by participants' institutional roles. Internal auditors, whose work is embedded in operational processes, prioritise adaptive terminology that fits internal workflows. Governance actors, focused on oversight and external accountability, place greater weight on alignment with normative references such as AAOIFI. This interpretive tension reflects a fusion of horizons between pragmatic operational flexibility and the perceived need for formalised uniformity (Algabry et al., 2021).

Documentary evidence reinforces this tension. Audit charters commonly employ broad labels (e.g., "audit operasional" or "audit intern syariah") without operational definitions, while key regulations (POJK 1/2019; POJK 2/2024) acknowledge "internal Shari'ah audit" without supplying binding terminology. Such ambiguity may constrain the potential of Shari'ah audits to support organisational improvement (Algabry et al., 2020; Jaradat & Oudat, 2025). The standardisation debate, therefore, is not merely semantic; it signals a governance issue concerning coherence, comparability, and the professional identity of OSA.

Interpreted through Maqasid al-Shari'ah and Islamic Agency Theory, terminological clarity becomes both an ethical and governance condition. From a Maqasid perspective, clearer definitions can strengthen transparency and accountability (*amanah*) and support justice and public benefit (*ʿadl; maslahah*) (Asutay, 2015; Auda, 2008). Conversely, a lack of clarity can hinder auditors' ability to ensure transparency and align practice (Algabry et al., 2021; Sani & Abubakar, 2021). In Islamic Agency

Theory, where Allah is the ultimate Principal, auditors are entrusted to ensure governance aligns with Shari'ah; standardisation can therefore reduce discretion-driven fragmentation by clarifying the auditor's trustee role under dual accountability (Chapra, 1992; Khalid & Sarea, 2021).

b. Terminology Preference and Usage

Internal-auditor narratives indicate that although "operational audit" remains the most formally recognised label in audit charters and regulatory-facing documentation, everyday usage is more heterogeneous. A minority of auditors retain the conventional term because it is institutionally familiar and aligns with formal reporting routines and POJK-referenced documentation. Most, however, use alternative labels—such as "routine audit," "regular audit," "activity-based audit," or "Shari'ah business audit"—to better match operational discourse, auditee engagement, or a process-specific emphasis.

IA5 exemplifies the preference for the conventional term as a way to preserve scope integrity and avoid fragmented labelling: "*...we audit from A to Z. To me, that's more like operational audit, and I think that term fits well.*" Here, terminology operates less as a technical classification than as a shorthand for an integrated audit logic that spans multiple dimensions of review rather than isolating them into separate audit "types." At the same time, the evidence suggests that terminological consistency is not guaranteed even within one institution. IA1's alternation between "regular audit," "examination," and "operational audit" points to communicative pragmatism—adjusting language to audience familiarity and institutional habit—rather than conceptual misunderstanding. Figure 7.1 (ATLAS.ti network visualisation) captures this intra-bank divergence by contrasting IA5's stable label use with IA1's shifting usage.

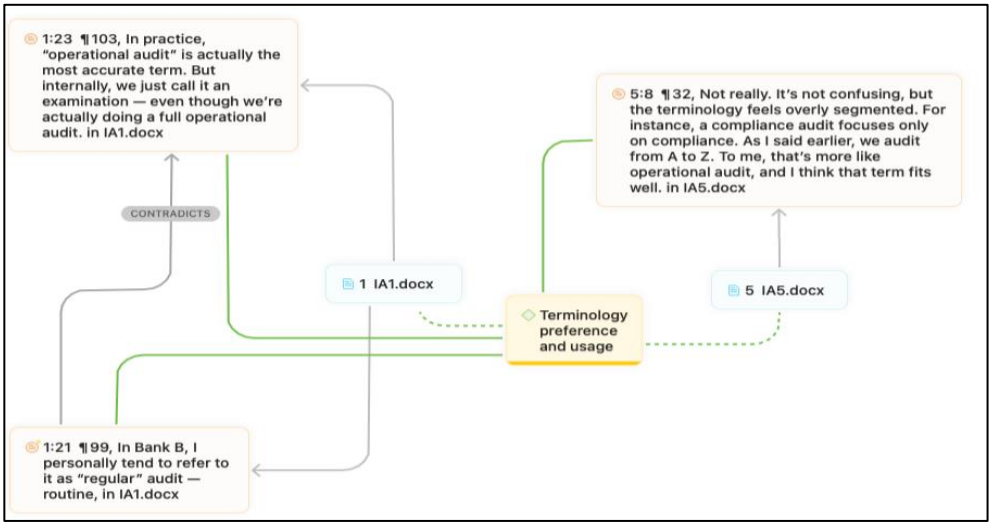


Figure 7.1 Network Visualization Of Terminology Preference And Usage Among Internal Auditors

Source: ATLAS.ti network view generated by researcher, based on coded data from Internal Auditor interview transcript

Several auditors explicitly prioritise terms they consider more accessible to auditees or more descriptive of audit focus. IA8 preferred "activity-based audit" because the review targets specific operational processes rather than an "entire operation" in one cycle, while IA2 used "routine audit" because it is perceived as more relatable, even though "formally it's the same process." In IA2's case, organisational form (SBU) also shaped the label: the audit is framed as a "Shari'ah Business Activity Audit" to demarcate Shari'ah-related activities from conventional operations under the parent bank—an interpretive boundary that IA2 suggested would be less salient in a fully-fledged BUS setting.

From a regulatory standpoint, Non-IA4 emphasised adherence to POJK vocabulary, pointing to terms such as "internal Shari'ah audit" and "external review of Shari'ah governance" as the principal definitional anchors in POJK 1/2019 and POJK 2/2024. While these instruments do not impose a single label equivalent to "OSA," the inclination to default to regulatory nomenclature signals that some governance actors treat terminology as part of governance clarity and external accountability, rather than as an operational convenience.

Table 7.1 therefore summarises a minority pattern of consistent "operational audit" usage alongside a majority pattern of alternative labels. Documentary evidence reinforces this diversity: bank audit charters commonly use broad terms such as "audit operasional" or "audit intern syariah" with limited definitional elaboration, while

regulatory documents recognise internal Shari'ah audit without supplying a binding glossary. This combination sustains institutional discretion and helps explain why multiple labels persist in practice.

Table 7.1
Summary Of Confirmed Findings From Internal Auditor Perspectives

Construct	Findings	Pattern
Terminology Preference and Usage	Consistently refers to the process as "operational audit," aligning with conventional terminology.	Minority view
	Demonstrates a preference for alternative terminology rather than the conventional label "operational audit."	Majority View

Source: Interview data with internal auditors, analysed using ATLAS.ti (2025).

Analytically, the observed variety is consistent with wider patterns of operational-audit diffusion, where practice often stabilises before terminology converges (GAO, 2018; INTOSAI, 2019). In Shari'ah audit settings, terminology also tends to develop organically within institutions rather than through prescriptive national standardisation (Khalid & Sarea, 2021; Yaacob & Donglah, 2012). However, the same flexibility can also indicate uneven conceptual anchoring: when multiple labels circulate without shared ethical framing, Shari'ah audit may be read primarily as procedural compliance rather than value-based governance (Algabry et al., 2020; Grassa, 2015; Haniffa & Hudaib, 2007; Khan, 1998).

Read through Maqasid al-Shari'ah, greater terminological clarity can support alignment with justice (*ʿadl*), trust (*amanah*), and public welfare (*maslahah*), whereas persistent ambiguity may blur purpose and ethical direction in how audit is understood and enacted (Asutay, 2015; Auda, 2008). From an Islamic Agency Theory perspective, where auditors act as trustees (*khalifah*) under dual accountability, terminology becomes part of governance signalling—helping communicate the audit's mandate and moral responsibility to internal and external audiences—rather than merely a linguistic preference (Chapra, 1992; Khalid & Sarea, 2021).

7.2.1.2 Audit Purpose and Ethical Orientation

The discussion of audit purpose and ethical orientation reveals that operational Shari'ah audit is not only expected to provide assurance on compliance but also to

embody values of justice, fairness, and accountability. Internal auditors often link their role to corrective and preventive functions, while non-internal stakeholders stress the ethical dimension of safeguarding public trust and aligning institutional practices with Shari'ah objectives. This dual orientation illustrates how technical assurance and moral responsibility are inseparable in defining the true purpose of Shari'ah audit.

a. Operational Audit Purpose and Scope

Internal and non-internal accounts converge on a shared baseline: operational Shari'ah audit (OSA) is expected to strengthen efficiency, effectiveness, and compliance, yet participants diverge on how explicitly Shari'ah-specific objectives should be embedded within the audit scope. Among internal auditors, the scope is typically designed through a pragmatic blend of risk-based assurance and operational feasibility. Some described Shari'ah assessment as an embedded control-testing layer across processes (IA2: "…*for every process… we're assigned a control testing element to examine its Sharia compliance*"), while others emphasised prioritisation of high-risk or strategically material units (IA3: "…*sampling at several units… determined based on NPF and outstanding balances*"). Internal descriptions also distinguished between thematic reviews (deeper focus on a defined area) and activity audits (broader end-to-end coverage) (IA4: "…*if it's thematic, it focuses only on financing… if it's an activity audit, it covers everything*"). In a few cases, auditors explicitly widened OSA beyond operational testing into governance alignment—linking performance, risk, and organisational authority to Shari'ah principles (IA10: "…*including performance, risk management, and how authority and structures align with Shari'ah principles*"). Taken together, these accounts suggest that the *purpose* of OSA is relatively stable, but its *scope* is negotiated through institutional priorities, resource constraints, and perceived audit value.

This pattern aligns with prior observations that Shari'ah audit practice often evolves institutionally rather than through a unified operational model. When scope design is left to organisational interpretation, flexibility increases but interpretive gaps also widen between operational auditors and governance actors (Grassa, 2015; Yaacob & Donglah, 2012). More recent evidence similarly indicates that discretion, competency, and regulatory interpretation continue to shape how Islamic banks define

audit purpose and scope in practice (Alghamati et al., 2024; Mohd Haridan et al., 2024). The present findings are consistent with this trajectory: internal auditors frequently treat OSA as an extension of risk-and-control assurance, whereas governance-oriented participants frame it as a mechanism to protect Shari'ah integrity and public trust.

Non-internal stakeholders articulated scope in more explicitly ethical and value-based terms. They argued that Shari'ah deviations cannot be assessed solely through conventional materiality thresholds; even "immaterial" findings require corrective treatment when they contradict Shari'ah norms (Non-IA1: "…*even if it's not significant… it still requires a cleansing process*"). Likewise, Non-IA3 emphasised that Shari'ah audit should ensure ethical principles permeate reporting and decision-making, not merely technical compliance ("…*not just about compliance… it's also about how Shari'ah principles become fully integrated, including in the reports*"). This stance resonates with the argument that ethics is the defining element distinguishing Islamic auditing from conventional auditing (Khan, 1998) and with the view that accountability in Islamic organisations extends beyond procedural conformity toward transparency before God and society (Haniffa & Hudaib, 2007). It also reflects continuing calls to strengthen the ethical-spiritual content of Shari'ah governance beyond risk-control emphases (Algabry et al., 2020).

Institutional form further conditions scope design. In Shari'ah Business Units (SBU), IA6 described a two-level pattern: branch audits often cover a wide range of activities (funding, financing, and administration), whereas division-level audits are typically narrower and thematic (IA6: "…*in branches, the scope covers almost all activities… but in divisions, it's usually thematic*"). This "mini bank" configuration encourages context-sensitive scoping, shaped by operational capacity and organisational hierarchy. IA5's emphasis on procedural sequencing ("…*the contract shouldn't come after other steps*…") further indicates that scope is not only about coverage but also about testing whether operational order and intent remain consistent with Shari'ah requirements—an implicit bridge between technical assurance and ethical substance.

Documentary and regulatory reviews reinforce the interview pattern: institutional audit charters commonly define operational audit in conventional terms (effectiveness, efficiency, compliance) with limited explicit articulation of Shari'ah-specific objectives. POJK No. 1/2019 frames the Internal Audit Unit primarily around evaluation of internal control, risk management, and governance processes, without

distinguishing conventional and Shari'ah-specific operational audit objectives, while POJK No. 2/2024 situates the Sharia Supervisory Board within the governance architecture and allows special audit requests for potential Shari'ah violations but does not establish a Shari'ah-focused operational audit typology. Related technical references (e.g., SEOJK No. 15/2024 and PBI No. 11/33/2009) further support internal control and compliance expectations yet remain non-prescriptive on how Shari'ah ethical aims should reshape operational audit categories.

Interpreted through the study's theoretical lens, this variation reflects a persistent balancing act between technical performance assurance and moral governance. From a Maqasid al-Shari'ah perspective, scoping choices are ethically consequential because audit criteria should protect justice (*ʿadl*), trust (*amanah)*, and public welfare (*maslahah*), not merely operational performance (Asutay, 2015; Auda, 2008). Islamic Agency Theory further clarifies why governance actors press for broader ethical coverage: auditors act as trustees (*khalifah*) under dual accountability, making "scope" part of governance signalling and moral responsibility rather than a neutral technical boundary (Chapra, 1992; Khalid & Sarea, 2021). Accordingly, the empirical split between internal risk-based scoping and governance-led ethical scoping can be read as complementary emphases within OSA—one prioritising operational assurance mechanisms, the other insisting that Shari'ah integrity remains the defining horizon of audit purpose and scope.

b. Alignment with Maqasid al-Shari'ah

Internal and non-internal accounts indicate that **Maqasid al-Shari'ah operates more as a normative horizon than as a formally embedded audit construct** in operational Shari'ah audits. Among internal auditors, maqasid-oriented reasoning is often expressed **implicitly** through references to justice, fairness, benefit (*maslahah*), and harm avoidance (mafsadah), but rarely appears as an explicit part of audit planning, criteria, or reporting. IA1 acknowledged this gap directly: *"Maqasid Shari'ah — I've heard of it, but rarely see it used,"* while IA2 framed audit as a corrective mechanism to restore Shari'ah-aligned practice: *"Audits should serve to restore operational practices to align with Shari'ah principles or Shari'ah-compliant actions."* This pattern

reflects a wider challenge in which maqasid is recognised as an ideal yet remains weakly institutionalised in day-to-day audit methodology (Khalid, Haron, & Masron, 2018).

At the level of practical meaning, auditors who did not explicitly name maqasid still articulated it in substance. IA4 emphasised financing decisions as needing to maintain justice and fairness, and IA7 extended maqasid alignment to institutional responsibility—ensuring operations generate benefit and avoid harm. This aligns with the view of Maqasid al-Shari'ah as a **moral compass** guiding decision-making beyond procedural conformity (Dusuki & Bouheraoua, 2011), and with the conception of maqasid as a dynamic system of values that should inform governance practice (Auda, 2008). Yet, the data suggest that these values remain personal and interpretive, rather than translated into shared audit tools, indicators, or evaluative benchmarks. Maqasid therefore remains an individual-level conviction rather than a codified orientation within audit methodology. This is consistent with the argument that ethical alignment often stays attitudinal unless converted into operational metrics and procedures (Abdulrahman et al., 2024).

Non-internal stakeholders reinforced maqasid as a **higher-order benchmark** for Shari'ah governance, emphasising that audit recommendations should address not only formal compliance but also the substance of Shari'ah adherence. However, they also recognised a structural constraint: without methodological scaffolding or regulatory prompting, maqasid can remain rhetorical—invoked as aspiration rather than institutionalised as audit design. This concern is consistent with findings that ethical embedding must be organisational (not only individual) to avoid fragmented value-based governance (Nan & Hassan, 2024) It also echoes the critique that regulatory and institutional frameworks frequently omit explicit maqasid integration, leaving application to institutional discretion (Puad et al., 2020).

A key finding is that **maqasid alignment can exist without terminological literacy**. Several participants practiced Shari'ah-oriented reasoning intuitively even when unfamiliar with the doctrinal label. IA3, for instance, only recognised the concept after it was explained during the interview: *"Oh yes, that makes sense. But I've only just heard the term."* This resonates with the broader argument that ethical–spiritual accountability in Islamic organisations may operate through faith-conscious practice even in the absence of formal conceptual vocabulary (Cahyono & Sudaryati, 2023; Haniffa & Hudaib, 2007). At the same time, the lack of shared terminology and structured training sustains an **epistemic gap**: auditors may act on maqasid-like values,

but struggle to express them consistently as audit criteria or to defend them as part of a standardised methodology.

This gap is reinforced by the dominance of **conventional risk-based and performance audit templates**, where Shari'ah principles are incorporated selectively rather than systematically. In effect, institutions appear to run a hybrid model: mainstream operational audit logic provides structure and rigour, while maqasid values enter informally through individual judgment. This mirrors what has been described as a "systems gap" between the ethical vision of Islamic jurisprudence and the procedural pragmatism of modern institutions (Auda, 2008; Okumuş, 2024).

Document and regulatory reviews corroborate the interview evidence. Maqasid al-Shari'ah is generally absent from formal audit charter definitions in both interviewed and non-interviewed banks; where ethical aims are stated, they tend to appear as generic professional values rather than as maqasid-linked objectives. Even in SBU contexts, documentation commonly mirrors conventional audit frameworks, with Shari'ah elements added as supplementary rather than integrated features. This reduces the likelihood that Islamic ethical purposes will be consistently realised through operational audit design (Khalid & Sarea, 2021). Likewise, POJK No. 1/2019 and POJK No. 2/2024 provide structural and procedural governance anchors but do not reference maqasid, leaving value-based orientation largely discretionary.

Read through the theoretical lens in Chapter 3, the implication is not merely "lack of mention," but **partial translation of ethics into audit architecture**. In Maqasid terms, maqasid provides the *ends* of Shari'ah governance—justice (*ʿadl*), trust (*amanah*), and public welfare (*maslahah*) (Asutay, 2015; Auda, 2008). Islamic Agency Theory clarifies the *accountability logic* that should carry those ends into practice: auditors act as trustees (*khalifah*) under dual accountability, so ethical alignment is not optional signalling but part of governance responsibility (Chapra, 1992; Khalid & Sarea, 2021). The finding, therefore, is best characterised as a **methodological under-integration**: maqasid is present as moral intent, but not yet consistently operationalised as criteria, indicators, and reporting language within OSA. This represents a missed opportunity to anchor Shari'ah audit identity in Islamic epistemology.

c. 4Es Including Ethics

Internal auditors widely recognised the "4Es" principle—effectiveness, efficiency, economy, and ethics—as relevant to operational Shari'ah audits, but they described **uneven institutionalisation** across the four elements. The first three Es were consistently embedded in planning and execution through risk-based approaches and conventional audit metrics, whereas **ethics was rarely treated as a distinct audit criterion**. Instead, it was commonly framed as either (i) **ethics-as-compliance** (implicitly covered by Shari'ah compliance checks) or (ii) **ethics-as-conduct** (an institutional value or professional expectation), rather than (iii) **ethics-as-testable criteria** reflected in audit programs, checklists, or performance targets. IA2 linked the framework to Islamic foundations ("*Shari'ah activities are rooted in Shari'ah principles, so the 4Es must reflect those foundations*"), and IA4 similarly emphasised that Shari'ah requires not only being economical, efficient, and effective, but also adhering to Islamic law. Yet IA1 questioned whether the 4Es receive explicit attention in practice, noting that "*in practice, I don't think there's much focus on the 4Es specifically*."

This empirical pattern is consistent with the enduring dominance of the **3Es** in mainstream operational audit vocabulary and tooling, where efficiency, effectiveness, and economy are readily operationalised through measurable indicators and risk-based evaluation. (GAO, 2018; INTOSAI, 2019). Within Islamic auditing discourse, however, the literature has long argued that a purely 3Es approach is incomplete because it under-specifies the moral dimension that differentiates Shari'ah-oriented assurance. Ethics is therefore positioned not as a "fourth add-on," but as the interpretive horizon through which performance and compliance should be judged in Islamic institutions. (Haniffa & Hudaib, 2007 ; Khan, 1998). Recent work similarly suggests that jurisdictions are increasingly acknowledging ethical judgement as integral to Shari'ah governance, while also noting that **measurable indicators for ethics remain difficult to define and standardise**. (Iqbal et al., 2025; Mohd Haridan et al., 2024).

Document and regulatory reviews reinforce this partial integration. Audit charters commonly adopt conventional definitions of operational audit aligned with the 3Es, while references to ethics—when present—tend to appear in professional conduct clauses or general Shari'ah compliance statements without methodological elaboration.

Regulatory texts (e.g., POJK 1/2019 and POJK 2/2024) provide governance structure and emphasise integrity and professionalism, but they do not explicitly codify a 4Es framework or specify how "ethics" should be translated into audit criteria, procedures, and reporting. This combination stabilises technical expectations for efficiency-oriented assurance while leaving ethics largely dependent on institutional culture, auditor judgement, and the extent to which Shari'ah compliance is assumed to "cover" ethical evaluation by default.

Read through the study's theoretical foundations, the weak formalisation of ethics represents a **normative–operational gap** rather than a lack of ethical intent. Maqasid al-Shari'ah implies that audit evaluation should protect justice (*ʿadl*), trust (*amanah*), and public welfare (*maslahah*), so ethical considerations are intrinsic to assessing whether operations realise Shari'ah objectives—not merely whether controls are effective. (Asutay, 2015; Auda, 2008). Islamic Agency Theory further frames auditors as trustees (*khalifah*) under dual accountability, making ethics part of governance signalling and moral responsibility, not simply an organisational value statement. (Chapra, 1992; Khalid & Sarea, 2021). In this sense, the data suggest that ethics is broadly acknowledged as foundational, but it remains under-institutionalised in audit instruments—producing a practical tension between what can be measured (3Es) and what must be morally assured (the fourth E).

7.2.1.3 Methodological Structure and Flexibility

The findings highlight how internal auditors and stakeholders perceive the methodological basis of operational Shari'ah audit. While some emphasized structured approaches rooted in conventional internal audit frameworks, others pointed to the need for greater flexibility to adapt to Shari'ah principles and institutional contexts. This tension between standardization and adaptability reflects broader debates on aligning methodology with both regulatory expectations and ethical objectives.

a. Absence of Formal Shari'ah Audit Methodology

Across both internal and non-internal accounts, participants converged on one central point: Indonesia does not yet have a formal, commonly shared, and consistently

applied methodology for conducting operational Shari'ah audits (OSA). In this subsection, "methodology" refers not merely to generic audit techniques (e.g., sampling, walkthroughs, control testing), but to an end-to-end Shari'ah-operational audit logic—covering scoping, criteria-setting, testing procedures, documentation standards, reporting conventions, and follow-up—where Shari'ah objectives are translated into explicit audit steps and evaluative benchmarks. In practice, auditors described OSA as a hybrid: largely derived from conventional internal audit frameworks, with Shari'ah considerations added as supplementary checks or partial criteria. This adaptation supports operational continuity, but it also produces variability in scope, depth, and execution across institutions, depending on how each bank interprets Shari'ah audit expectations and how confident auditors are in applying Shari'ah reasoning.

Internal auditor narratives illustrate this methodological gap clearly. IA1 stated that "*in terms of full-fledged Sharia audit scope, we don't have one yet*," while IA3 emphasised the absence of procedural specificity: "*in terms of detailed implementation, there is nothing specific—it's interpreted independently by the bank or SKAI*." These statements indicate that what exists is not a standardised audit method but an institution-specific interpretation layered onto conventional audit routines. IA10 added an important nuance by distinguishing between audit targets: "*auditing Shari'ah implementation is different from auditing Shari'ah governance frameworks—so the methodologies must also differ*." This suggests that part of the "absence" problem is not only a lack of tools, but also an unresolved question about **what exactly OSA is meant to audit**—operational execution of Shari'ah contracts and practices, or the broader governance architecture that supports Shari'ah compliance (or both), each requiring different methodological emphases.

These findings mirror long-standing concerns in the literature about Shari'ah audit fragmentation. (Yaacob & Donglah, 2012) observed that Islamic financial institutions often rely on modified conventional internal audit systems rather than developing distinct Shari'ah audit methodologies. (Grassa, 2015) similarly argued that such reliance increases interpretive variation because institutions tailor procedures to operational needs rather than to a shared Shari'ah-audit typology. Later work reiterates the consequence: without a dedicated framework, Shari'ah audit risks being reduced to compliance testing, instead of functioning as a comprehensive governance mechanism (Faza' et al., 2024; Rahman & Haron, 2019). Comparative discussions also show that

while some jurisdictions have moved toward codified standards, many—including Indonesia—remain dependent on general internal audit guidance that does not operationalise Shari'ah principles into repeatable audit criteria (Iqbal et al., 2025).

Non-internal stakeholders largely reinforced the diagnosis, but differed on what the solution should look like. Non-IA2 stressed the structural challenge of defining auditable criteria when reference points are primarily fatwa-based: "*there isn't [a Shari'ah audit framework at DSN]. It's only based on fatwas*," implying that methodology cannot mature without clearer foundations about audit object, criteria, and authority. Non-IA1, however, cautioned against assuming full separation is necessary: "*general auditing and Shari'ah auditing don't need to be entirely separate… sampling methods and others can still be used*." Read together, these accounts reflect an "integration dilemma": balancing the practicality of leveraging mainstream audit techniques with the need for a distinctive Shari'ah-operational logic that avoids treating Shari'ah as a mere add-on (Alghamati et al., 2024).

Document and regulatory review provides a consistent institutional explanation for why this hybrid condition persists. Audit charters (both interviewed and non-interviewed banks) generally outline internal audit structures and responsibilities, but rarely codify Shari'ah-specific procedures, testing sequences, or criteria definitions. Similarly, POJK 1/2019 and POJK 2/2024 establish governance and compliance expectations without prescribing a detailed OSA methodology, thereby leaving institutions with substantial discretion in "how" Shari'ah audit is executed. Internationally, even where guidance exists, it can still be broad: (AAOIFI, 2017) provides direction for Shari'ah compliance review but leaves significant room for institutional interpretation. The combined effect is an enabling–constraining horizon: flexibility supports contextual adaptation, but the absence of methodological codification inhibits the institutionalisation of OSA as a distinct and comparable practice.

Analytically, this methodological vacuum is not simply procedural; it signals a **translation gap** between Shari'ah purpose and audit practice. Overall, the practice of Shari'ah audit can therefore be characterised as only partially Islamised, in the sense that it retains a dominant conventional audit structure while incorporating Shari'ah elements in a selective and non-systematic manner.

From a Maqasid al-Shari'ah perspective, reliance on conventional templates without a clear Shari'ah-operational logic risks narrowing OSA into form-based

compliance, rather than an evaluative process that demonstrably advances justice (*ʿadl*), safeguards trust (*amanah*), and delivers public benefit (*maslahah*) through explicit criteria and accountable outcomes (Asutay, 2015; Auda, 2008). In Islamic Agency Theory, auditors act as trustees (*khalifah*) under dual accountability; therefore, methodological ambiguity can weaken governance credibility because audit judgement becomes overly dependent on individual discretion rather than transparent, repeatable procedures (Chapra, 1992; Khalid & Sarea, 2021). Under this lens, a structured OSA methodology is best understood as the operational mechanism that translates ethical objectives and accountability commitments into consistent planning, testing, reporting, and follow-up—so that Shari'ah audit functions not only as assurance of compliance, but as credible value-based governance in practice.

b. Contextual Audit Method Flexibility

Across internal-auditor accounts, operational Shari'ah audit methods were consistently portrayed as *context-sensitive rather than uniform*. Auditors adjust audit depth and coverage to match branch size, product complexity, risk exposure, and available resources, so the work remains feasible while still broadly risk-based. IA2 described this tailoring explicitly: "*If the branch is small and the risks are low, we can adjust the coverage and not go into as much detail as we would in a high-risk area*." IA5 added that the method is also shaped by capacity constraints: "*We adapt based on the infrastructure and team readiness… sometimes we have to simplify the approach so that the audit can still be completed on time*." IA10 reinforced that the determining factor is the *audit object*: "*it's not one-size-fits-all — the method depends on the audit object, as different products or business units require different testing procedures*." These narratives indicate that flexibility is often understood as *planned tailoring within a risk-and-object logic*, not merely ad hoc improvisation.

This pattern is consistent with the institutional pragmatism described in Shari'ah audit scholarship, where procedures are frequently modified to fit organisational structures and operational realities rather than being dictated by a single fixed model (Yaacob & Donglah, 2012). In the absence of standardised Shari'ah-audit typologies, flexibility becomes an expected feature of practice, but it also increases interpretive variation across institutions (Grassa & Gazdar, 2014). More recent comparative work

cautions that such flexibility is a double-edged sword: it supports contextual sensitivity, yet it can yield uneven emphasis on Shari'ah-specific testing and inconsistent implementation across the sector (Iqbal et al., 2025). In the Indonesian setting, this is visible in the way auditors frequently operate through conventional risk-based flows while integrating Shari'ah elements at different intensities depending on institutional preference and auditor confidence.

Non-internal stakeholders largely accepted this integration logic, but framed the "difference" as lying in Shari'ah context and scoping rather than in wholly separate audit techniques. Non-IA1 stated: "*A Shari'ah wheel and a non-Shari'ah wheel aren't different… general auditing and Shari'ah auditing don't need to be entirely separate. Sampling methods and others can still be used. The difference lies in the scope — we emphasise the Shari'ah context*." This position aligns with guidance that conventional audit tools can remain usable in Shari'ah settings, provided Shari'ah objectives and ethical compliance remain central to planning, criteria, and evaluation (AAOIFI, 2017). At the same time, Non-IA2's concern highlights the boundary of flexibility: when adaptation is not supported by a shared framework that integrates operational, accounting, and financing dimensions, discretion may weaken accountability and comparability across banks.

Documentary patterns help explain why flexibility is widely practised yet rarely formalised. Audit charters typically adopt standard risk-based audit sequences and delegate the "tailoring" decision to auditor judgement, with limited written guidance on *minimum Shari'ah parameters* that must remain constant across contexts. In such conditions, Shari'ah considerations can become selectively embedded—strongly emphasised in some audits and treated as a lighter overlay in others—because the organisation provides few explicit anchors for how Shari'ah factors should be incorporated into scoping, criteria, and evidence standards (Faza' et al., 2024; Hidayah, 2014). This does not make flexibility inherently problematic; rather, it clarifies that flexibility is occurring in an environment where institutional guardrails for Shari'ah integration are not always explicit.

Interpreted through the study's theoretical lens, contextual flexibility can be read as a Maqasid-oriented response to organisational realities: tailoring helps reduce hardship (hajiyyat) while still seeking to protect core objectives (daruriyyat), such as safeguarding wealth (mal) and preventing harm through credible Shari'ah assurance (Asutay, 2015; Auda, 2008). However, Islamic Agency Theory underscores that

discretion must be bounded by shared ethical safeguards, because auditors as *khalifah* carry dual accountability—horizontally to stakeholders and vertically to Allah—so "flexibility" should not drift into inconsistency that weakens *amanah* and sector-wide comparability (Chapra, 1992; Khalid & Sarea, 2021). In this sense, the prevalence of adaptive, risk-based methods supports practicality, but it also strengthens the case for clearer minimum Shari'ah evidence standards and scoping principles—so that contextual tailoring serves *maslahah* without diluting Shari'ah governance.

c. Development of Internal Audit Methodology

Building on the previous finding that Indonesia lacks a nationally standardised OSA approach, this subsection highlights a more forward-looking pattern: some Islamic banks have begun developing an internal OSA methodology through an iterative "learning loop," often strengthened by Shari'ah Supervisory Board (SSB) feedback. Rather than emerging from a fully designed Shari'ah audit model, internal methodology development is described as incremental and practice-led—refining audit programs, checklists, and scoping logic based on recurring findings, internal discussions, and governance review.

Internal auditor accounts show this proto-methodology most clearly in how teams convert audit experience into internal guidance. **This reflects a bottom-up innovation in Shari'ah audit methodology**, where methodological refinement emerges incrementally from field experience rather than being formally designed ex ante. IA5 explained that their unit is "*starting to draft our own guidelines for Shari'ah audits based on our past audit findings and discussions with SSB… still not a formal manual, but it's a step forward*." IA7 described a similar mechanism inside audit planning: "*The audit program is prepared by a specific team, but we also provide existing issues… we've seen in the field… we reprioritize based on our audit findings*." Read together, these narratives depict a repeatable development cycle—field issues become inputs, SSB dialogue becomes a governance filter, and reprioritisation becomes a method refinement step—even if the output has not yet matured into a formal manual.

This pattern is consistent with the literature on Shari'ah audit evolution as institutional pragmatism: practices often grow within conventional internal audit systems and gradually accumulate Shari'ah-specific adjustments rather than appearing

as a stand-alone methodology (Grassa, 2015; Yaacob & Donglah, 2012). The concern, however, is that without clearer structuring, such organic growth can produce uneven quality and comparability across banks—particularly when internal methods depend heavily on team interpretation and institutional culture (Khalid & Sarea, 2021). At the same time, studies emphasise that a credible internal Shari'ah audit methodology should embed Shari'ah principles at the design stage (not as an appendix), so that justice, transparency, and *maslahah* are carried into scoping, criteria, evidence expectations, and follow-up (Abd Rahman et al., 2025; Algabry et al., 2020; Algabry et al., 2021).

Non-internal perspectives reinforce the direction of development, while pushing for clearer structure. Non-IA2 proposed a more defined framework to support the SSB, spanning "three angles: operational, accounting, and financing," suggesting that internal auditors could become methodological partners in strengthening Shari'ah governance rather than merely implementers of conventional procedures. This resonates with guidance that encourages consistent procedures capable of translating Shari'ah principles into clearer audit steps and documentation standards (AAOIFI, 2017). Comparative discussion also indicates that in jurisdictions where Shari'ah audit methodology is more formalised, internal practice tends to mature faster; Indonesia, by contrast, still relies heavily on internal initiative and auditor interpretation, producing uneven development across institutions (Iqbal et al., 2025).

Document analysis supports this "developing-from-within" trajectory. Shari'ah-related refinements are often visible as **supplementary additions**—appendices, extra checklists, or product-specific guidance—rather than as a consolidated internal OSA methodology integrated into the main audit manual. This pattern fits the idea of fragmented progress: learning happens and tools accumulate, but the methodological logic is not yet consistently codified at the institutional level (Abd Rahman et al., 2025). Meanwhile, governance regulations provide structural expectations but leave methodological design largely to banks, which helps explain why internal learning loops and SSB feedback become primary drivers of methodological emergence rather than regulator-issued technical procedures.

The key analytical point is not simply that theory matters, but that Maqasid–Agency provides quality criteria for evaluating whether these emerging internal guidelines become a credible internal OSA methodology. From a Maqasid lens, the question is whether internal drafts and audit programs genuinely translate *ʿadl/amanah/maslahah* into explicit audit objectives, criteria, and evidence standards,

rather than remaining "Shari'ah add-ons" that vary by team (Asutay, 2015; Auda, 2008). From an Islamic Agency lens, the question is whether the SSB feedback loop and guideline documentation make auditors' judgments more defensible, repeatable, and transparent—reducing discretionary drift and strengthening accountability signalling under dual responsibility (Chapra, 1992; Khalid & Sarea, 2021). In this sense, the most important contribution of the findings here is identifying a concrete institutional pathway—learning loop + SSB feedback—through which Indonesian banks are beginning to build proto-methodologies that can later be consolidated into a more coherent internal OSA methodology.

d. Activity-Based Structuring within a Risk-Based Audit Approach (RBA)

Internal auditors consistently described audit planning as **risk-based (RBA)**, but the way RBA is operationalised is often **activity-structured**—i.e., audit effort is allocated to *activities/processes/units* judged to carry higher exposure, rather than distributing coverage evenly across all units. In this subsection, "activity-based structuring" refers to **priority-setting within RBA** (what gets deeper attention first), not "activity audit" as a separate audit type. Planning commonly begins with risk mapping across operational units or Shari'ah business lines (IA9: planning starts "*by assessing the risks of each operational unit or within the Sharia division or business unit*"), followed by selecting activities with more material exposure indicators (IA3: selecting "*several operational units that had relatively significant impact—determined based on NPF and outstanding balances*"). In routine scheduling, auditors also rely on accumulated field knowledge to rotate programs and target weak points (IA5: "*Every month we choose a different program for a specific branch, depending on that branch's risk… I understand where the weak spots usually are*"), while others emphasise early identification of key Shari'ah business areas to set priorities (IA2: "*identify and determine in advance the key areas for audit… then set the priority based on Shari'ah business to be audited*").

This prioritisation logic reflects a broader trajectory in operational auditing where audit practice expanded into risk and performance domains through institutional learning before achieving full conceptual standardisation (Power, 1997). Within Shari'ah audit settings, similar institutional pragmatism has been observed: procedures

tend to adapt to capacity, governance maturity, and operational realities rather than follow a single uniform model (Grassa, 2015; Yaacob & Donglah, 2012). In the Indonesian context, activity-structuring therefore functions as a practical mechanism to keep RBA feasible and targeted, especially when audit resources are limited and product/process profiles differ sharply across branches and business lines.

At the same time, participants' accounts (and the wider literature) signal a key vulnerability: **if "risk" is defined primarily through conventional exposure metrics**, RBA can underweight Shari'ah-specific or ethical vulnerabilities that do not always appear as immediate financial loss indicators. Scholars caution that adopting RBA without embedding Shari'ah-oriented criteria may narrow Shari'ah audit into technical assurance while overlooking ethical, reputational, or integrity risks central to Shari'ah governance (Abd Rahman et al., 2025; Iqbal et al., 2025). This concern aligns with arguments that Shari'ah assurance should treat non-compliance and ethical lapses as critical governance risks, not merely as ancillary compliance issues (Algabry et al., 2021; Khalid & Sarea, 2021). In practical terms, a branch with modest NPF may still warrant priority if there are vulnerabilities in contract sequencing, disclosure, cleansing treatment, or other process points where Shari'ah integrity can be compromised.

Document evidence is broadly consistent with the interviews. Audit charters in sampled banks typically reference RBA principles in annual planning, while the *activity-structuring* element appears more implicitly—through thematic scheduling, unit-by-unit plans, and program rotation—than as a formalised "Shari'ah RBA" protocol. This pattern mirrors international governance guidance that establishes audit and Shari'ah oversight expectations but leaves technical RBA calibration largely to institutional interpretation (AAOIFI, 2017; IFSB, 2009). As a result, the discipline of RBA is present, yet the extent to which Shari'ah-ethical risk is explicitly built into risk scoring and prioritisation varies by institution and by auditor judgement.

Read through the study's theoretical foundation, the central issue becomes the **quality of the risk definition** that drives activity-based prioritisation. A Maqasid al-Shari'ah lens implies that "high risk" should include not only financial exposure (e.g., NPF, outstanding balances) but also the likelihood of undermining justice (*ʿadl*), breaching trust (*amanah*), or reducing public benefit (*maslahah*) through unfair terms, weak transparency, or harmful operational outcomes (Asutay, 2015; Auda, 2008). Islamic Agency Theory reinforces why this matters for governance credibility: auditors, as trustees (*khalifah*) under dual accountability, need prioritisation logic that is

defensible and repeatable—so discretion does not drift toward convenience or purely measurable indicators (Chapra, 1992; Khalid & Sarea, 2021). Under this framing, RBA is not displaced; it is **reoriented**, so activity-based planning preserves operational discipline while ensuring Shari'ah-value vulnerability is treated as materially relevant within OSA.

7.2.1.4 Additional Findings

The additional findings suggest that operational Shari'ah audit (OSA) in Indonesia is developing through a *transitional* pathway rather than through a fully codified conceptual model. Across interviews, OSA is consistently described as operating within inherited conventional audit systems while gradually absorbing Shari'ah governance aspirations. This reflects what has been termed institutional pragmatism: banks rely on familiar audit architectures because methodological guidance remains limited, and conceptual clarity is therefore built incrementally through practice rather than imposed through a single template (Grassa, 2015 ; Yaacob & Donglah, 2012). In this context, the "additional" contribution is not simply that OSA is hybrid (already established earlier), but that hybridisation functions as a *development mechanism*—a bridge toward a more distinctive Shari'ah-oriented audit identity.

First, auditors repeatedly located their audit design in conventional internal audit routines, especially in SBU settings where governance arrangements still sit under a parent conventional structure. IA8 noted that "since we're still operating under an Islamic Business Unit, the methods are mostly the same (as conventional audit)," and IA2 similarly stated that "Shari'ah operational audits fundamentally rely on traditional internal audit methodologies." Rather than indicating conceptual weakness, these accounts point to a staged evolution—where adaptation is used to maintain operational continuity while gradually introducing Shari'ah-specific emphasis. Comparable patterns have been observed elsewhere, where Islamic banks tend to modify existing internal audit systems rather than build fully new audit frameworks from scratch, resulting in hybrid practices that are technically robust but selectively Shari'ah-adjusted (Abd Rahman et al., 2025; Grassa, 2015). In this sense, Indonesia's OSA trajectory resembles the wider historical pattern of operational auditing, which often begins as pragmatic adaptation before achieving clearer conceptual boundaries (Power, 1997).

Second, in the absence of a national methodology, banks appear to compensate by building *institution-specific proto-methodologies* through internal SOPs, manuals, and guidance books. IA2 explained that "we've developed our own Company Guidelines Book, which governs the technical execution of audits," while IA4 clarified the division of labour: "in terms of scope, it's already covered by POJK… the technical parts are the responsibility of each bank." This illustrates a practical governance arrangement: regulation provides structural anchors (e.g., POJK 1/2019 and POJK 2/2024), while procedural specificity is delegated to institutions. The consequence is that conceptual clarity becomes locally produced—strengthened within banks that formalise internal guidance, but uneven across the sector where such codification varies. This pattern aligns with observations that regulatory gaps often leave Shari'ah audit practice dependent on institutional interpretation and internal capacity (Algabry et al., 2020; Algabry et al., 2021). It also helps explain why calls for methodological consolidation frequently emphasise comparability and credibility across institutions rather than mere procedural completeness (Khalid & Sarea, 2021).

Third, participants increasingly framed OSA as a governance tool rather than a narrow compliance exercise. IA2 stated that the aim is to "enhance overall Shari'ah operational performance as expected by the company," and IA10 similarly linked audit work to broader governance and capacity testing. This shift signals an expanding audit identity: OSA is being asked to contribute to prevention, governance strengthening, and value-based oversight—an orientation that mirrors broader international discussions about Shari'ah audit evolving toward preventive and governance-focused roles (Iqbal et al., 2025). Conceptually, this movement is consistent with Islamic auditing arguments that ethics and accountability are not "add-ons" but intrinsic to Islamic governance; audit value is assessed not only through efficiency or control, but through fairness, transparency, and *maslahah*-oriented responsibility (Dusuki & Abdullah, 2007; Haniffa & Hudaib, 2007; Khan, 1998).

Fourth, the findings highlight that terminology remains fluid in ways that reflect identity formation rather than confusion. Auditors used "operational audit," "activity audit," and "routine audit" interchangeably, and some explicitly treated these as functionally equivalent. IA4 remarked that "whether it's operational or activity, it's actually the same thing," while IA9 emphasised that the essence of the work remains unchanged despite different labels. This reinforces the broader idea that, in emerging practice areas, technical routines can stabilise faster than vocabulary—especially when

institutions prioritise deliverables and feasibility over conceptual standardisation (Grassa, 2015; Yaacob & Donglah, 2012). Rather than being merely semantic, this linguistic flexibility signals that OSA is still negotiating its professional boundary and governance identity, a condition that also strengthens the case for clearer conceptual anchors over time (Khalid & Sarea, 2021).

Taken together, these additional findings support a "fusion of horizons" between inherited operational audit rationalities and emerging Shari'ah governance expectations. The practical horizon is shaped by conventional risk-based systems, internal capacity constraints, and regulatory structures that define governance roles without prescribing technical audit architecture (AAOIFI, 2017; IFSB, 2009). The normative horizon, by contrast, pushes OSA toward ethical accountability and governance enhancement—an aspiration that recent Indonesian discussions also describe as a negotiated transition rather than a settled model (Birton et al., 2023; Fitriani & Afsar, 2025).

Read through the Maqasid–Agency lens, the issue is not whether conventional tools are used, but whether internal SOPs and evolving practices *translate values into auditable architecture*: Maqasid asks whether *ʿadl/amanah/maslahah* are rendered into explicit objectives, criteria, and evidence expectations (Asutay, 2015; Auda, 2008), while Islamic Agency Theory asks whether internal codification and governance feedback loops discipline discretion—making judgments more repeatable, defensible, and credible under dual accountability (Chapra, 1992; Khalid & Sarea, 2021). In this sense, the "additional findings" portray OSA as a hybrid but advancing practice: conceptual clarity is emerging through institutional learning and governance aspiration, yet still requires methodological consolidation to fully reflect a Shari'ah-based audit identity.

7.2.2 Pillar 2 – ISA Competency and Independence

This pillar explores the technical qualifications, knowledge base, and organisational positioning of Internal Shari'ah Auditors (ISA) as determinants of effective operational Shari'ah audit practice. Competency and independence are interlinked: without adequate professional and Shari'ah-specific expertise, auditors may struggle to identify, interpret, and address non-compliance issues; without structural

safeguards, even competent auditors may face constraints in exercising objective judgment.

The findings are organised into two main code groups. The first—Structured Training in Audit Techniques and Fiqh Muamalah—examines the professional certifications, competency standards, and specialised Shari'ah training available to ISA, as well as their expanding role into emerging audit domains. The second—Structural Independence and Reporting Lines—focuses on the organisational structures and governance mechanisms that protect ISA objectivity, including their separation from executive management and direct reporting to oversight bodies.

Across both dimensions, participant narratives highlight gaps between normative expectations and practical realities. While many institutions encourage or mandate professional certification, Shari'ah-specific competency building is inconsistent. Similarly, while governance frameworks often stipulate independent reporting lines, in practice, organisational arrangements may dilute ISA autonomy. These tensions reveal that competency and independence are not static attributes but are shaped by institutional priorities, resource allocation, and sector-wide regulatory maturity.

7.2.2.1 Structured Training in Audit Techniques and Fiqh Muamalah

The discussion around structured training in both audit techniques and fiqh muamalah reveals a persistent dual challenge: technical proficiency and Shari'ah literacy. Internal auditors often described their audit capacity as shaped by conventional training frameworks, where risk-based and procedural standards dominate, while exposure to Shari'ah-specific knowledge remains incidental. Non-internal stakeholders echoed this concern, highlighting how the absence of structured and certified training programs undermines the credibility and consistency of Shari'ah audit practice. This tension reflects a wider issue in professional formation, where technical assurance is prioritised institutionally, but the ethical and jurisprudential dimensions necessary for Shari'ah compliance remain unevenly cultivated.

a. Professional Audit Certification (QIA, CIA, DSAA, etc.)

Participant accounts indicate a shared understanding—among both internal Shari'ah auditors (ISA) and non-internal stakeholders—that professional certification strengthens the credibility and technical quality of operational Shari'ah audits. For internal auditors, credentials such as QIA/CIA and Shari'ah-oriented certification such as DSAA function as institutional "proof" of competence and help auditors gain authority in formal reporting and governance interactions. This emphasis aligns with competency benchmarks promoted by the internal audit profession and Shari'ah governance guidance that expects auditors to combine technical capability with Shari'ah literacy (IFSB, 2009; IIA, 2024b).

However, institutional implementation is uneven. Some banks embed certification within recruitment and progression pathways—IA2 noted that SKAI recruits must complete examinations across levels, and IA10 described how certification requests can be escalated through the audit committee to secure managerial support. Others rely more on individual initiative; IA5 observed that certification is encouraged but not systematically enforced, resulting in uneven qualification profiles within the audit team. This pattern is consistent with Indonesian evidence that general internal audit credentials tend to dominate, while Shari'ah-specific training remains less systematic—creating competency gaps that can affect audit depth (Darista et al., 2025; Dewi & Sawarjuwono, 2019).

Non-internal participants largely treated certification as a professional baseline rather than a distinctive advantage. Non-IA2 framed it as an ethical obligation for auditors, yet Non-IA3 cautioned that formal credentials do not automatically translate into substantive Shari'ah understanding. This concern echoes the broader observation that when specialised Shari'ah-audit competency pathways are weak, conceptual awareness becomes uneven across practitioners (Khalid et al., 2024; Yaacob & Donglah, 2012). In this context, DSAA—introduced by DSN-MUI—can be read as an attempt to formalise Shari'ah-audit competency; however, existing literature suggests that a coherent and consistently adopted certification architecture remains uneven across many Islamic financial systems (Algabry et al., 2020; Khalid et al., 2024).

Document and regulatory review helps explain why variability persists. Audit charters frequently refer to "qualified personnel" without specifying certification types

or minimum benchmarks. Likewise, POJK 1/2019 and POJK 2/2024 emphasise adequate qualifications but leave interpretation to institutions, enabling flexibility but also producing inconsistent competency standards across the sector. International guidance similarly supports the principle of competence while allowing discretion in qualification details AAOIFI (2017). As a result, certification functions as both (i) a governance signal and (ii) a practical capacity-builder—yet these two functions do not always align.

Analytically, certification therefore carries symbolic and functional roles. Symbolically, it conveys legitimacy to management and external stakeholders, reinforcing *amanah* as a governance expectation (Haniffa & Hudaib, 2007). Functionally, its value depends on whether certification pathways cultivate Shari'ah-based judgement alongside technical mastery—because competence in Islamic auditing must remain ethically anchored rather than purely procedural (Khan, 1998). Recent work similarly emphasises that meaningful Shari'ah-audit competence requires the integration of conventional audit skills with moral accountability and value-based reasoning (Alghamati et al., 2025; Iqbal et al., 2025).

Read through Maqasid al-Shari'ah and Islamic Agency Theory, the quality test for certification is not simply whether auditors "hold credentials," but whether competency development strengthens auditors' ability to translate *ʿadl/amanah/maslahah* into audit objectives, criteria, and evidence, and to produce judgements that are defensible and repeatable under dual accountability (Asutay, 2015; Auda, 2008; Chapra, 1992; Khalid & Sarea, 2021). In this sense, uneven certification pathways risk producing uneven ethical assurance, supporting the case for clearer and more coherent ISA competency benchmarks that align technical proficiency with the value-based mandate of OSA.

b. Internal Audit Competency Standards and Benchmarking

Across interviews, participants consistently framed **competency standards** as a necessary foundation for assuring quality in operational Shari'ah audit (OSA). Internal auditors described these standards as practical reference points for recruitment, training pathways, and performance evaluation, often anchored in mainstream internal audit frameworks and then adapted to include Shari'ah-related expectations. IA3 explained

that their bank uses a competency matrix covering technical skills, behavioural capabilities, and Shari'ah knowledge, with benchmarks that must be met before auditors handle more complex engagements. IA7 similarly noted that their institution "follows IIA guidelines, but we add Shari'ah components where possible," while also acknowledging that formal structuring remains a work in progress. This positioning is consistent with audit quality literature that treats competency-based frameworks as a core mechanism for strengthening assurance outcomes (GAO, 2018; IIA, 2024b; INTOSAI, 2019).

Benchmarking practices also appeared, though unevenly. IA10 described competency assessment as part of annual HR evaluation and noted that practices are compared with other institutions, indicating a move toward external referencing rather than purely internal judgement. At the operational level, auditors highlighted skills that make competency "visible" in daily work: IA1 emphasised practical tool proficiency (e.g., strong spreadsheet capability) and communication/presentation skills needed for exit meetings and stakeholder engagement. This aligns with broader internal audit scholarship that treats competence as a combination of technical execution and organisational communication—especially where audit value depends on how findings are explained, negotiated, and followed up (Kagermann et al., 2008; Moeller, 2016; Pickett, 2010).

Several internal accounts also pointed to procedural standardisation tools as a proxy for competency assurance. IA2 mentioned the use of an internal guidelines book (BPP/Company Guidelines Book) to standardise technical steps across audit cycles, suggesting that competency is supported not only through individual capability but also through institutional scaffolding (templates, procedures, minimum documentation expectations). This is consistent with professional guidance that stresses the importance of clear procedural support to make audit work repeatable and less dependent on individual style (IIA, 2024a).

Non-internal stakeholders approached competency as both a technical and **Shari'ah-literacy requirement**. Non-IA2 questioned the appropriateness of assigning Shari'ah audit roles without demonstrable qualifications, while Non-IA3 stressed that auditors in Islamic banks must understand Shari'ah principles as a baseline expectation. This echoes the long-standing argument that Shari'ah auditing requires "dual competency" (audit + Shari'ah knowledge), and that weak Shari'ah grounding increases interpretive inconsistency and undermines the reliability of Shari'ah assurance (Kasim

et al., 2013; Kasim et al., 2009; Yaacob & Donglah, 2012). It also reinforces the view that competence is intertwined with ethical reliability and independence, because judgement quality in Shari'ah audit depends on both technical skill and trustworthy reasoning (Khalid & Sarea, 2021). Recent governance-oriented work similarly links ethical competence and knowledge depth to stronger Shari'ah governance culture and credibility (Achyani et al., 2025; Mohd Haridan et al., 2024; Nan & Hassan, 2024).

Document and regulatory review helps explain why competency practices remain patchy. Audit charters commonly state that auditors must be "qualified and competent," but often avoid specifying measurable benchmarks or assessment mechanisms; where such details exist, they tend to sit in HR systems rather than within the internal audit methodology itself. Likewise, governance standards and regulatory instruments generally set **broad** qualification expectations without prescribing detailed competency architecture, leaving significant discretion to institutions—an issue also observed in cross-jurisdiction discussions about uneven competency development in Shari'ah auditing (Algabry et al., 2021; Grassa, 2015; Karim & Archer, 2013).

Positioned within the Maqasid–Agency lens, these findings imply that competency standards are not merely HR instruments but part of the **infrastructure of ethical assurance**. A Maqasid orientation implies that "competence" must include the ability to translate *ʿadl*, *amanah*, and *maslahah* into audit objectives, criteria, and evidence-based conclusions—so Shari'ah knowledge is not treated as an informal add-on (Asutay, 2015; Auda, 2008). Islamic Agency Theory further frames auditors as *khalifah* under dual accountability, meaning benchmarking and competency matrices should reduce discretionary drift by strengthening defensible, repeatable judgement—thereby sustaining trust and governance legitimacy (Chapra, 1992; Khalid & Sarea, 2021).

c. Shari'ah Knowledge Limitations and Training Gaps

A recurring issue raised by both internal and non-internal auditors is the lack of structured Shari'ah knowledge among internal auditors. While most auditors are proficient in conventional audit techniques, their understanding of fiqh muamalah and contract-based requirements is often acquired informally, on the job, or through occasional seminars. Several internal auditors (IA1, IA6, IA9) noted that Shari'ah

elements are typically learned through informal discussions with colleagues or the Shari'ah Supervisory Board (SSB), rather than through a structured, certified training pathway. IA6 also pointed out that only a few staff members possess deeper Shari'ah expertise, creating operational dependence on them and resulting in gaps when they are unavailable.

These findings align with previous studies. Kasim et al. (2009) highlighted the reliance on ad-hoc learning due to limited structured training, while Yaacob and Donglah (2012) found that many institutions lack personnel who are both technically competent and sufficiently trained in Shari'ah. Khalid and Sarea (2021) identified the shortage of dual-competency auditors as a key challenge, which continues to hinder Shari'ah audit quality. In Indonesia, Achyani et al. (2025) reported similar gaps among SSB members, where limited certification and differing interpretations contribute to inconsistent review practices.

Non-internal auditors also observed that these knowledge gaps extend beyond internal auditors to the SSB. Non-IA2 mentioned that many SSB members lack professional certification, and Non-IA3 stressed that internal auditors with generalist backgrounds are often assigned Shari'ah-related duties. Non-IA1 added that a shallow understanding of fiqh principles weakens the integrity of compliance assessments, echoing concerns raised by Algabry et al. (2020) about fragmented capabilities across the sector.

Document analysis supports these findings. Audit charters from Bank A and Bank C require auditors to be "familiar with Shari'ah principles," but do not specify how this familiarity should be attained. Regulatory provisions under POJK 1/2019 and POJK 2/2024 mandate Shari'ah compliance but do not specify qualifications or training hours in fiqh muamalah. This absence of detailed guidance leaves training structures open to institutional interpretation, leading to significant variation in practice.

The gap in Shari'ah knowledge highlights the tension between high expectations and limited institutional investment in training. Without stronger regulatory direction or a national training framework, learning remains reactive—triggered by new products or issues—rather than part of a continuous development cycle. While this on-the-job learning allows adaptation, it limits the long-term professionalisation of Shari'ah audit roles.

From a Maqasid al-Shari'ah perspective, these training gaps undermine auditors' ability to assess whether operational practices uphold ʿ*adl*, protect *amanah*, and advance

maslahah Asutay (2015); Auda (2008). Islamic Agency Theory further stresses that auditors, as *khalifah*, must combine technical skills with moral discernment. Informal learning without structured pathways weakens both assurance quality and governance credibility Chapra (1992); Khalid and Sarea (2021). Closing the training gaps is essential to institutionalising ethical judgment, strengthening the role of operational Shari'ah audit as a trusted mechanism of Shari'ah accountability Asutay (2015).

d. Multidisciplinary Capability (ESG, AI, etc.)

Internal auditors across several banks (IA3, IA5, IA6, IA9, IA10) described how their roles are gradually expanding into new areas such as ESG reporting, cybersecurity, and technology-driven risk assessment. IA3 mentioned that their team had "started to be involved in ESG reporting reviews," while IA5 noted that technology-related audits are becoming more common even though most auditors do not come from IT backgrounds. IA9 also observed that "digitalisation and AI are changing how we work," pointing to both new opportunities and clear capability gaps. IA10 offered the most comprehensive reflection, highlighting that ESG, cybersecurity, and AI are becoming essential parts of the audit portfolio and emphasised the need to build competencies in these areas. IA6 echoed this direction, stating that these emerging areas are "where we need to focus in the future," while still maintaining strong Shari'ah competence.

These descriptions align with broader trends noted in the auditing literature. The IIA's IPPF (2024) and INTOSAI (2019) both emphasise that internal auditors are expected to respond to emerging risks such as digital transformation, sustainability reporting, and data-driven systems. In Islamic finance, discussions by Abdulrahman et al. (2024) highlight that Shari'ah auditors also need to adapt to new technological environments, especially as fintech and digital banking reshape operational risks. Likewise, the IFSB (2009) stresses that Shari'ah governance must keep pace with institutional and technological developments to remain effective. These perspectives help explain why internal auditors in this study increasingly encounter multidisciplinary assignments even though formal structures have not yet caught up.

Despite these shifts, document analysis shows that none of the reviewed audit charters—including Bank B's Audit Committee Charter—explicitly include ESG, AI, or similar competencies within the internal audit mandate. POJK 1/2019 (Article 56)

gives internal audit units a broad scope that could accommodate these areas, but without specific guidance, integration depends largely on institutional initiative. This contrasts with the future-oriented awareness expressed by internal auditors, and suggests that capability development is still happening informally rather than through structured planning.

No non-internal auditors mentioned ESG, AI, or other multidisciplinary requirements. Their focus remained on strengthening core Shari'ah literacy, internal audit methodology, and institutional legitimacy. This difference in emphasis suggests that internal auditors are already anticipating a changing risk landscape, while external stakeholders continue to prioritise foundational capacity.

This shift reflects an emerging horizon where ethical, technological, and governance concerns intersect in the day-to-day work of internal Shari'ah auditors. At the same time, without structured training or clear institutional frameworks, the expansion of responsibilities risks becoming superficial—adding new tasks without ensuring the depth of expertise needed to make these assessments meaningful.

This expanding multidisciplinary horizon can be interpreted as a natural extension of value-based OSA rather than a departure from it. A Maqasid al-Shari'ah orientation implies that emerging domains—such as ESG assurance, cybersecurity, and AI-enabled decision systems—are ethically relevant because they can materially affect ʿ*adl*, the protection of stakeholders' rights, and the pursuit of *maslahah*, especially where opacity, bias, or harm may arise through digital processes (Asutay, 2015; Auda, 2008). In parallel, Islamic Agency Theory positions internal auditors as *khalifah*, so competency expansion must be accompanied by moral discernment and governance discipline, ensuring that new technical reviews do not become box-ticking exercises but remain anchored in *amanah* and accountable judgement (Chapra, 1992; Khalid & Sarea, 2021). From this standpoint, multidisciplinary capability is not optional: it is part of sustaining Shari'ah governance credibility in modern operational environments, provided that institutions formalise training and embed these competencies into audit mandates and methodologies.

7.2.2.2 Structural Independence and Reporting Lines

The issue of structural independence and reporting lines exposes a fundamental dilemma in Shari'ah audit practice. Internal auditors frequently operate within

hierarchies where their placement and remuneration are tied to management, raising concerns about functional autonomy. Non-internal stakeholders also question whether current governance arrangements provide sufficient safeguards for impartial oversight, particularly in the role of SSB and audit committees. These dynamics reveal how institutional design can both enable and constrain the independence of Shari'ah audit, shaping its credibility and effectiveness.

a. Structural Independence from Executive Management

Structural independence was consistently identified by participants as a core requirement for an effective Shari'ah audit function. Internal auditors emphasised that independence protects the objectivity of their findings and recommendations. However, many also acknowledged that current arrangements still place them within the sphere of management influence. Dependencies related to budgeting, staffing, and operational approvals create subtle pressures that can shape audit priorities or limit the scope of review. IA1 noted, "*if you want true independence, the internal audit should ideally be placed directly under the Board of Commissioners*," while IA6 admitted that although independence is formally recognised, certain approvals "*still go through directors*." IA10 expressed a similar view, stating that independence is "recognised on paper," but day-to-day coordination with management remains unavoidable because resources and scheduling are controlled at that level.

Several auditors saw value in reporting to the President Director or CEO, mainly for access and authority. IA4 explained, "*internal auditors report directly to the President Director… we are given authority as outlined in the Internal Audit Charter*," while IA5 similarly shared, "*we report directly to the CEO — everything goes to the CEO*." Others, including IA8, suggested that in the long term, internal audit should be elevated "to a level higher than the division heads" to strengthen its structural standing. Internal Audit Charters were frequently cited as formal safeguards. IA7 described them as the main institutional mechanism that "guarantees the independence of auditors," even though operational realities often complicate this ideal.

Non-internal auditors expressed stronger concerns. Non-IA3 argued that internal auditors are "*generally seen as not independent because they report directly to management*," while Non-IA2 questioned the impact of pay and job security, noting

"*there's fear of being dismissed… it's management who pays their salary*." Non-IA1 emphasised that genuine support for independence comes from the commissioners rather than executive leadership. Although Non-IA4 pointed to POJK No. 1/2019, which requires internal audit to be independent, they agreed that normative provisions are insufficient without structural reinforcement.

These observations are consistent with broader literature. The IIA's IPPF (2024) places independence and objectivity as fundamental principles, requiring internal audit to report functionally to the board to safeguard impartiality. In Islamic finance, the IFSB (2009) reinforces this need, emphasising that Shari'ah compliance functions must operate free from management influence to maintain credibility. Empirical analyses by Grassa (2015) and Khalid and Sarea (2021) also highlight persistent weaknesses in independence across Islamic banks, noting that structural placement and operational dependencies often undermine the spirit of governance principles. Within the Indonesian context, Achyani et al. (2025) similarly observes that while internal audit units are formally placed under the Audit Committee, practical dependence on management for resources continues to weaken operational autonomy.

Document reviews mirror these tensions. While most audit charters position internal audit as an independent function reporting to the Board of Commissioners through the Audit Committee, they also assign logistical and administrative support to management. Bank B's Audit Committee Charter, for example, grants internal audit full access and authority but simultaneously outlines management's responsibility for providing operational resources. This creates a dual structure where independence is formally acknowledged but practically constrained.

In sum, independence is not only about reporting lines but about ensuring that auditors can act without undue influence. In Shari'ah audit, where assessments may challenge product structures, compliance interpretations, or governance decisions, compromised independence threatens both the reliability of audit work and the ethical integrity expected within Shari'ah governance. Structural arrangements that leave auditors dependent on executive management risk diluting the accountability mechanisms that Shari'ah audit is intended to uphold.

From the combined perspective of Maqasid al-Shari'ah and Islamic Agency Theory, independence is not only a governance "best practice" but a moral condition for credible Shari'ah assurance. A Maqasid-oriented audit function must be able to surface issues that compromise ʿ*adl*, weaken *amanah*, or harm *maslahah* even when

these findings are inconvenient to management, because ethical purpose cannot be fulfilled under coercive constraints (Asutay, 2015; Auda, 2008). Likewise, Islamic Agency Theory frames the auditor as a *khalifah* whose accountability extends beyond organisational principals, so structural dependence on executive control can distort judgement and dilute the vertical and horizontal accountability that OSA is meant to protect (Chapra, 1992; Khalid & Sarea, 2021). In this sense, strengthening reporting lines, resource autonomy, and board-level protection is not merely procedural reform; it is part of aligning the audit function with its value-based mandate and sustaining trust in Shari'ah governance.

b. Reporting Lines to Audit Committee or Board

Across most participating banks, internal auditors consistently described direct reporting to the Audit Committee (AC) and the Board of Commissioners as an essential governance feature that enhances oversight and access to decision-makers. Eight internal auditors confirmed that their units report directly to the AC or the Board, with many emphasising that this arrangement strengthens independence in practice. IA1 noted, "*if you want true independence, the internal audit should ideally be placed directly under the Board of Commissioners*," while IA7 highlighted that AC oversight provides "*the most important form of support… that guarantees the independence of auditors.*" IA4 also described a more blended arrangement in which reports are submitted to the President Director but are formally presented to the AC during quarterly meetings.

Several internal auditors highlighted the active role of the AC in reviewing and following up on audit results. IA2 explained that "*the Audit Committee regularly reviews our reports and gives recommendations to be implemented*," while IA8 noted that this process helps ensure findings are addressed promptly. Three auditors (IA6, IA7, IA10) also emphasised the benefit of a structured quarterly reporting cycle, which provides predictability for both oversight and planning.

In some banks, the Shari'ah Supervisory Board (SSB) is informed or copied on selected reports, though their involvement is generally more limited. IA4 mentioned that certain Shari'ah-related issues are shared with the SSB, and Non-IA1 echoed this, describing the SSB as the statutory Shari'ah supervisor. Non-IA2 also noted that the

SSB often provides Shari'ah opinions based on internal audit findings, even though they do not directly oversee the audit function.

These reporting practices align broadly with international standards. The IIA's IPPF (2024) emphasises that internal audit should report functionally to the Board or AC to safeguard independence and objectivity. Similarly, in Islamic finance, the IFSB (2009) calls for clear reporting lines to both the Board and the SSB to ensure the integrity of Shari'ah governance. Contemporary studies reinforce the importance of these structures. Algabry et al. (2021) observes that Islamic banks often face challenges with effective communication between audit teams, AC, and SSB, while Grassa (2015) highlights weaknesses in governance arrangements that can dilute the independence and influence of audit reporting. These concerns are reflected in Algabry et al. (2020), who argue that ambiguity in reporting authority remains a structural challenge in many jurisdictions. Within the Indonesian context, Achyani et al. (2025) observes that while reporting lines are formally aligned with good governance expectations, practical influence still depends on institutional culture and resource allocation.

Document reviews from Bank A, Bank C, and Bank B support these findings. Internal Audit Charters typically specify direct reporting to the AC or the Board, including clauses on reporting frequency and required disclosures. For example, Bank B's Audit Committee Charter explicitly grants the AC authority to access internal audit reports and request clarifications. However, these documents also assign logistical and administrative support to executive management, revealing potential dependency risks even when reporting lines appear structurally sound.

Regulatory provisions such as POJK 1/2019 (Article 7) and POJK 55/2016 (Article 8) require internal audit to report directly to the Board of Commissioners through the AC, but they do not address resource-related dependencies that can still affect audit scope and reporting dynamics. This creates both an enabling and constraining horizon. While formal structures strengthen independence, operational realities—such as management's control over budgeting, staffing, or scheduling—can subtly shape the depth and tone of reporting.

These reporting-line arrangements matter not only for procedural compliance but also for how Shari'ah accountability is operationalised in practice. From a Maqasid al-Shari'ah perspective, Board- and AC-level reporting strengthens the conditions under which audit findings can serve *ʿadl* (justice), protect *amanah* (trust), and promote *maslahah* (public benefit), because escalation pathways reduce the likelihood that

ethical concerns are filtered or normalised within managerial hierarchies (Asutay, 2015; Auda, 2008). At the same time, Islamic Agency Theory frames the auditor as a *khalifah* whose assurance role is anchored in dual accountability, implying that functional reporting to the Board (and meaningful linkage with the SSB on Shari'ah matters) helps align governance oversight with the auditor's trustee mandate (Chapra, 1992; Khalid & Sarea, 2021). However, the continuing dependence on executive-controlled resources suggests that reporting lines alone are insufficient unless accompanied by safeguards that protect audit scope, tone, and follow-up—so that formal governance structures translate into substantive ethical assurance.

7.2.3 ICI–Additional Findings: Agile Role Evolution of ISA

Several internal auditors described a significant shift in the role of Internal Shari'ah Auditors (ISA) within their organizations. This reflects a potential evolution from a compliance-oriented function toward a more dynamic, governance-oriented role within Shari'ah audit practice. Traditionally seen as compliance checkers, auditors now increasingly view themselves as key partners, contributing early insights, supporting decision-making, and helping identify risks before they develop into Shari'ah-related issues. IA6 articulated this shift: "Nowadays, we position ourselves more as consultants… the expectation is that we can offer improvements—ideally, even add value to the company." IA1 shared a similar experience, noting that their recommendations go beyond merely correcting errors and now aim to "help improve systems and processes."

A growing emphasis on agility was highlighted by many participants. IA10 explained, "In audit now, we're required to be agile—and being agile means being flexible in looking at space and concepts… we're now also expected to forecast." IA9 further supported this view, noting that auditors are no longer merely "watchdogs" but increasingly viewed as partners supporting operational growth and business performance.

This development aligns with broader trends observed in the literature. The IIA's IPPF (2024) notes that internal auditors across sectors are adopting advisory and value-adding roles while still maintaining independence. The IFSB (2009) emphasizes the importance of providing early Shari'ah input during product development and decision-making processes. Recent studies by Khalid and Sarea (2021) and Algabry et

al. (2020) further illustrate a shift where Shari'ah auditors contribute beyond traditional compliance reviews to support broader governance and organizational improvement. In Indonesia, Achyani et al. (2025) finds similar patterns, noting that advisory roles often emerge from organizational needs rather than formal structures. These insights are consistent with the experiences of participants, who engage with management at earlier stages despite the absence of explicit advisory clauses in their charters.

Document analysis supports this shift but also reveals a gap. Internal audit charters across all sampled banks still describe the ISA role in conventional terms, focusing primarily on evaluation and reporting. None of the charters explicitly acknowledge advisory or agile responsibilities, suggesting that these practices have developed informally through organizational expectations, rather than through formal governance frameworks.

The evolution of ISA roles is a reflection of broader integrated governance support. The shift towards a more agile, partnership-driven approach strengthens institutional responsiveness and integrates Shari'ah considerations earlier into business processes. However, these expanded roles underscore the importance of maintaining clear role boundaries and robust structural safeguards, ensuring that the advisory functions do not compromise the core independence and assurance function of Shari'ah audit work.

This agile role evolution aligns with a value-based view of Operational Shari'ah Audit (OSA), where auditors contribute to governance enhancement and prevention rather than merely post-hoc compliance correction. From a Maqasid al-Shari'ah perspective, earlier engagement can strengthen *ʿadl* (justice), protect *amanah* (trust), and secure *maslahah* (public benefit) by identifying ethical and contractual risks before they crystallize in operations (Asutay, 2015; Auda, 2008). At the same time, Islamic Agency Theory positions the ISA as a *khalifah*, meaning that advisory involvement must remain bounded by clear safeguards to preserve dual accountability and ensure that value-adding support does not dilute the independent assurance that remains central to Shari'ah audit's integrity (Chapra, 1992; Khalid & Sarea, 2021).

7.2.4 Pillar 3 – Organizational Commitment

Organizational commitment represents a central pillar in shaping the credibility and sustainability of Shari'ah audit practice. It reflects not only the degree of

institutional support for internal auditors, but also the adaptability of audit structures, reporting lines, and coordination with governance bodies. The perspectives gathered indicate that while formal frameworks often acknowledge independence and authority, in practice organizational dependencies and cultural factors strongly influence how Shari'ah audits are carried out. This pillar therefore highlights the interplay between institutional design and ethical accountability in determining the effectiveness of operational Shari'ah audit.

7.2.4.1 OC–Cultural–Behavioral Commitment

This pillar examines the extent to which organisational culture, leadership behaviour, governance structures, and institutional support shape the effectiveness of operational Shari'ah audits. Ethical culture forms a critical pillar in shaping how Shari'ah audit is understood, accepted, and enacted within organisations. Organisational commitment is expressed in two main dimensions. The first—Cultural–Behavioral Commitment—focuses on the internalisation of Shari'ah values into institutional culture and the quality of cooperation between auditors and auditees. The second—Structural–Organizational Commitment—addresses the governance oversight mechanisms, preferred organisational structures, and adaptability of audit functions in response to operational realities.

Findings reveal that while formal policies and governance structures exist to support Shari'ah audits, their effectiveness often depends on the depth of value internalisation and the responsiveness of organisational systems. Strong ethical cultures and cooperative relationships enhance audit credibility and impact, whereas structural weaknesses and limited adaptability can constrain the role of Internal Shari'ah Auditors (ISA).

a. Internalization of Organizational Values and Culture

Internal auditors emphasized the importance of embedding Shari'ah values into the organizational culture to ensure that compliance is not merely a procedural task. A shared commitment to ethics, fairness, and accountability was viewed as essential to strengthening the impact of Shari'ah audits and minimizing resistance to audit findings.

As IA3 stated, "*Shari'ah principles should be part of how we work every day, not just something checked during an audit.*" IA5 echoed this, noting that their work becomes much easier "*when the culture already values integrity and openness,*" while IA10 highlighted leadership behavior as a key factor in shaping organizational attitudes: "*If leadership shows commitment to Shari'ah values, it sets the tone for the whole organization.*"

Auditors described several ways these values are encouraged in daily practice. IA1 emphasized the importance of awareness and example-setting by branch heads, while IA2 mentioned the PRINSIP values—professionalism, integrity, innovation, and leadership—that are recited daily as part of organizational routines. IA4 connected these values directly to audit ethics, stating, "SKAI must be truly independent, honest, and uphold good ethics." Other practices included IA6's reference to the annual signing of a "Risk Culture Statement," IA8's emphasis on maintaining integrity with management support, and IA9's reminder that "*our duty is to the company, not individual interests.*" IA10 stressed that auditors should not be seen as watchdogs, but with "a service delivery mindset," while IA7 highlighted the necessity for "*integrity and professionalism... every auditor must have*."

Non-internal auditors confirmed the need for intentional embedding of Shari'ah values rather than layering them onto conventional structures. Non-IA1 noted that many Shari'ah banks "originated from conventional banks," meaning the organizational culture has yet to fully transition. Non-IA3 encouraged a shift in perceptions of auditors from inspectors to partners who help strengthen Shari'ah compliance, while Non-IA4 linked effective audit culture to broader adherence to good governance principles.

These findings are aligned with the literature. Haniffa and Hudaib (2007) emphasizes the need for Islamic organizations to foster accountability grounded in Shari'ah values, not just procedural conformity. Dusuki and Abdullah (2007) identify justice, benevolence, and ethical responsibility as core elements in Islamic finance. The IFSB (2009) stresses that effective Shari'ah governance requires developing behavioral and cultural norms rooted in Islamic ethics. However, Grassa (2015) and Algabry et al. (2020) highlight challenges in embedding these values due to reliance on conventional systems and gaps in ethical culture. Khalid and Sarea (2021) further supports this view, arguing that Shari'ah governance is most effective when backed by a value-driven culture and a strong "tone at the top."

Document analysis corroborates these observations. While internal audit charters reference ethics and governance, explicit integration of Shari'ah values is often limited to broad statements, not operational guidance. This suggests that the cultural embedding of values relies more on leadership behavior and day-to-day practices than on formal documentation.

Organizational culture serves as the foundation that shapes both the acceptance of audit processes and the implementation of recommendations. Without strong cultural support for Shari'ah values, formal governance structures may have limited impact on ensuring compliance. The internalization of values—through leadership commitment, routine reinforcement, and consistent interpretation—creates an environment where Shari'ah operational audits are viewed as collaborative processes focused on continuous improvement, rather than as adversarial or punitive exercises.

This emphasis on value internalization is central to a Maqasid–Agency understanding of OSA, where culture acts as the "soft infrastructure" that makes ethical governance auditable and sustainable. From a Maqasid al-Shari'ah perspective, organizational culture translates *ʿadl*, *amanah*, and *maslahah* from ideals into daily decisions, minimizing the risk of Shari'ah compliance becoming a mere checklist (Asutay, 2015; Auda, 2008). Islamic Agency Theory also frames auditors and management as *khalifah*, with a strong tone at the top and shared ethical norms enhancing internal self-control and reinforcing dual accountability beyond formal monitoring (Chapra, 1992; Khalid & Sarea, 2021).

b. Auditor–Auditee Cooperation

Internal auditors generally described their cooperation with auditees as constructive and grounded in mutual understanding. Many emphasised that a good working relationship does not weaken independence; instead, it helps auditees accept findings more openly and speeds up corrective action. IA2 and IA4 explained that when audits are framed as a way to improve processes rather than assign blame, conversations become easier and less defensive. IA5 shared how informal discussions sometimes reveal emerging issues before they grow, while IA7 noted that clear communication helps ensure conclusions are accurate and fairly interpreted. IA8 and IA9 also stressed

that preparation and professionalism reduce disputes, especially when expectations are communicated early.

Recent studies echo these observations. Mohd Haridan et al. (2024) shows that cooperation and relational trust between internal auditors and management are essential for effective Shari'ah assurance, while Nan and Hassan (2024) highlights how supportive internal culture strengthens communication and reduces resistance to audit findings. Iqbal et al. (2025) adds that many governance challenges in Islamic banks arise from weak interaction between auditors, management, and the SSB, and that clear communication channels improve the follow-up process. Similarly, Achyani et al. (2025) finds that strong cooperation between auditors and Shari'ah governance bodies reinforces the credibility of ethical and Shari'ah-related disclosures. These studies support the view that collaboration does not compromise independence; rather, it increases the impact and relevance of Shari'ah audit work.

From non-internal participants, cooperation was also seen as shaped by governance structures. Non-IA1 noted that the SSB often acts as a bridge between audit findings and management actions, while Non-IA2 emphasised the authority required to enforce corrective measures, drawing on examples from Malaysia where independent bodies conduct re-audits when needed. Non-IA4 linked cooperation to regulatory principles, pointing to POJK No. 1/2019 as the basis for ensuring internal auditors act objectively. These views align with IFSB (2009), which stresses that effective Shari'ah governance depends on strong coordination between internal audit, management, and the SSB.

Overall, the accounts show that effective cooperation in Shari'ah audit is both relational and structural. Trust, communication, and clarity help auditors work smoothly with operational units, while governance mechanisms and regulatory backing ensure that cooperation does not undermine independence. When these elements operate together, Shari'ah audits are better able to identify issues, support corrective action, and promote compliance in line with Shari'ah principles. This cooperative stance is also theoretically coherent with a value-based conception of OSA. From a Maqasid al-Shari'ah perspective, constructive auditor–auditee engagement supports *ʿadl* and *maslahah* by enabling fair fact-finding, timely correction, and learning-oriented improvement rather than punitive compliance rituals (Asutay, 2015; Auda, 2008). In Islamic Agency Theory, auditors operate as *khalifah*, so relationship-building becomes part of fulfilling *amanah*—provided that collaboration remains bounded by clear

evidence standards and governance safeguards that preserve independence and dual accountability (Chapra, 1992; Khalid & Sarea, 2021).

7.2.4.2 Structural–Organizational Commitment

a. Governance Oversight: Audit Committee, SSB, and Compliance

Governance oversight emerged as a central element in maintaining the integrity and practical relevance of Shari'ah audits. Internal auditors consistently described the Audit Committee (AC) and Board of Commissioners as the main bodies that ensure accountability and follow-up. IA1 explained that "our team's findings are summarised and brought to the committee… and the commissioners will push management to follow up," showing how oversight provides authority beyond management. IA4 also saw the committee as a source of encouragement and alignment, noting that "*the audit committee's role is to encourage… they provide input, give insight, and coordinate with the board of commissioners*." Several others, including IA5 and IA9, described the AC as a bridge between auditors and key decision-makers, helping translate audit observations into policy improvements. IA10 highlighted this influence clearly, stating that "*functionally, the Audit Committee has quite significant power… our position, our authority, and our access rights are all governed and protected*."

Non-internal auditors agreed with this enabling role, but they also pointed to gaps in coordination and capacity. Non-IA1 emphasised the need to integrate Shari'ah audit results into broader governance discussions, explaining that audit findings must also be shared with the Shari'ah Supervisory Board (SSB). However, they noted that SSB effectiveness depends heavily on the competence of its members—an issue also highlighted in Shari'ah governance literature. Grassa (2015) found that many SSBs across jurisdictions are constrained by limited expertise or weak positioning within the governance structure, while IFSB (2009) stresses that SSB members must have adequate knowledge and independence to fulfil their supervisory role. Non-IA1's insight that "its members must include people who understand what Shari'ah audit entails" echoes these concerns.

Some participants described more proactive practices. Non-IA1 shared that "*before every committee meeting… we held a pre-committee meeting… we filtered the*

issues," reflecting a deliberate effort to prioritise and escalate key matters. In contrast, Non-IA2 raised structural concerns, pointing out that in some banks "SSB appears to be under the director," which weakens independence and blurs accountability. This concern aligns with findings from Algabry et al. (2020), who argue that when governance bodies operate without clear role boundaries or proper authority lines, Shari'ah audit effectiveness is limited. Iqbal et al. (2025) also highlights similar "interactive governance gaps," showing that unclear coordination between IA, SSB, and the AC often leads to weak follow-up and fragmented oversight.

Regulatory references support the formal governance structure. Non-IA4 cited POJK No. 1/POJK.03/2019, POJK No. 17/2023, POJK No. 2/2024, and SEOJK No. 15/2024 as the regulations that outline the duties of the Board of Directors, Board of Commissioners, and SSB. However, these documents mainly set general responsibilities and do not provide detailed coordination protocols. As a result, much of the ISA–SSB relationship depends on institutional culture and informal practices, rather than formalised guidance. This pattern reflects observations in the Shari'ah governance literature, where oversight structures often exist on paper but rely on internal dynamics to function effectively (Mohd Haridan et al., 2024) (Mohd Haridan, 2024).

Overall, effective governance oversight in Shari'ah audit requires the perspectives of all three supervisory bodies—the Audit Committee, the SSB, and the compliance unit—to be aligned within a single monitoring process. When role boundaries are unclear or coordination is weak, the independence and impact of Shari'ah audits risk being constrained. Conversely, when communication is structured and oversight bodies are competent and empowered, Shari'ah audit findings are more likely to receive timely follow-up and support broader governance objectives. These oversight dynamics align closely with a Maqasid–Agency understanding of Shari'ah governance. From a Maqasid al-Shari'ah perspective, coordinated monitoring by the AC, SSB, and compliance function strengthens the institutional capacity to uphold ʿ*adl*, safeguard *amanah*, and realise *maslahah* through timely escalation and corrective action (Asutay, 2015; Auda, 2008). In Islamic Agency Theory, this multi-body oversight reinforces dual accountability by ensuring that audit signals are not contained within managerial hierarchies but translated into board-level governance responses, consistent with the trustee role of auditors and Shari'ah supervisors (Chapra, 1992; Khalid & Sarea, 2021).

b. Ideal Organizational Structure and Specialized Team

Participants emphasised that organisational structure plays a decisive role in the effectiveness of Shari'ah audit. Internal auditors repeatedly noted that an ideal arrangement should combine structural independence with specialised Shari'ah audit competencies. They viewed placement under the Board of Commissioners—through the Audit Committee—as the clearest way to safeguard autonomy. IA1 reflected this directly: "If you want independence, the internal audit should be placed directly under the Board of Commissioners." This aligns with the principles of the IIA (2024) and regulatory expectations under POJK 1/2019 and POJK 55/2016, which stress that internal auditors should report to the highest governance body to maintain objectivity. Similar concerns are echoed in Shari'ah governance literature, where IFSB (2009) and Grassa (2015) highlight structural independence as a core requirement for credible Shari'ah oversight.

Across institutions, participants described how the absence of a dedicated Shari'ah audit team weakens the depth of review. IA9, for example, remarked that "*a dedicated team for Shari'ah audits would be ideal*," as current reliance on generalist auditors limits how deeply they can assess Shari'ah-specific issues. This observation reflects what several scholars have found: that general auditing skills alone are insufficient for Shari'ah audit, and specialised knowledge in fiqh muamalah and Islamic finance is needed to ensure accuracy and credibility (Khalid & Sarea, 2021; Yaacob & Donglah, 2012). IA2 also shared that earlier attempts to decentralise audits through branch-level coordinators were discontinued due to competency issues, leading to a fully centralised model under SKAI.

Non-internal auditors expanded this discussion by linking structural design to broader Shari'ah governance capacity. Non-IA1 proposed a "Sharia Combined Assurance" approach, where internal audit, compliance, and SSB coordination operate within a single assurance system—an idea consistent with the integrated governance perspective described by IFSB (2009) and Kasim et al. (2009), who argue that effective Shari'ah governance depends on strong coordination between oversight bodies. However, competency concerns reappeared here as well. Non-IA1 pointed out that for such an assurance model to work, SSB members themselves must understand Shari'ah

audit. This echoes findings by Grassa (2015) and Algabry et al. (2020), who identify weak SSB capacity as a common governance gap.

Non-IA2 raised a different concern related to accountability: "*Who audits the SSB*?" They noted that while SSB issues Shari'ah opinions, there is limited independent evaluation of its performance. This issue is also discussed by Iqbal et al. (2025), who highlights coordination gaps and accountability challenges between IA, SSB, and the Audit Committee across several jurisdictions. Non-IA2 suggested adopting an external assurance model similar to Malaysia's ISLA to address this gap.

Document analysis shows that while interviewee banks' audit charters generally affirm independence and reporting lines to the Board of Commissioners, the establishment of specialised Shari'ah audit teams is rarely mandated. Instead, such teams—when they exist—tend to emerge informally, based on project needs. Regulatory guidance offers similar flexibility. POJK 1/2019 and POJK 55/2016 outline the positioning of internal audit and ethical obligations but do not require institutions to develop Shari'ah-specific audit units. This leaves structural reform largely dependent on internal policy decisions rather than external standards.

The findings point to a dual requirement for effective Shari'ah audit: structural independence and specialised Shari'ah expertise. Independence without sufficient Shari'ah knowledge risks producing audits that meet formal governance expectations but lack the depth needed to assess compliance accurately. On the other hand, strong Shari'ah expertise without structural safeguards may expose auditors to pressures that undermine objectivity. The ideal arrangement integrates both dimensions, creating a structure that supports technical competence while protecting the integrity of Shari'ah governance.

Conceptually, this "dual requirement" reflects the need to align governance architecture with ethical purpose. A Maqasid al-Shari'ah lens implies that structural design and team specialisation are instrumental for safeguarding ʿ*adl*, protecting *amanah*, and delivering *maslahah*, because these objectives cannot be reliably assessed without both independence and adequate Shari'ah interpretive capacity (Asutay, 2015; Auda, 2008). In parallel, Islamic Agency Theory frames auditors as *khalifah*, so an ideal structure must protect their dual accountability by insulating judgement from executive pressures while equipping them to evaluate Shari'ah substance—not merely procedural form—across operations (Chapra, 1992; Khalid & Sarea, 2021).

c. Organizational Support and Audit Structure Adaptability

Findings from both internal and non-internal perspectives show that the effectiveness of Shari'ah audit depends heavily on two closely connected elements: the level of organisational support provided by leadership, and the audit structure's ability to adapt to operational realities. Internal auditors repeatedly stressed that while policies and charters are important, they do not guarantee effective implementation. In practice, management approval and support often determine whether audit plans can be carried out. IA4 put it plainly: "If it's not approved by the directors or management, then we can't carry out the audit." This reflects the broader point made in Shari'ah governance literature, where IFSB (2009) and Haniffa and Hudaib (2007) emphasise that leadership commitment and "tone at the top" are essential for meaningful governance.

Internal auditors described management endorsement as a key enabler, especially when adapting audit structures to shifting operational needs. IA2 explained how the audit cycle is divided across semesters depending on available resources, while IA3 highlighted that SBU audits continue annually because "management fully supports our audit activities." IA5 also noted that cooperation from both management and auditees makes adaptation smoother. These accounts mirror findings by Yaacob and Donglah (2012), who observed that Shari'ah audit practices often evolve pragmatically based on internal capacity and leadership direction rather than formal methodology.

Non-internal auditors expanded this discussion by linking adaptability to broader Shari'ah governance alignment. Non-IA1 proposed a "Sharia Combined Assurance" model, arguing that internal audit, compliance, and the SSB must work in a coordinated manner—an idea consistent with IFSB (2009) and Kasim et al. (2009), who highlight that fragmented oversight weakens governance effectiveness. However, they also stressed that such coordination requires SSB members who understand Shari'ah audit, echoing concerns raised by Grassa (2015) and Algabry et al. (2020) about gaps in SSB competency. Non-IA2 went further by questioning the absence of independent oversight for SSB itself, noting that Malaysia uses external bodies such as ISLA to verify Shari'ah supervision. This aligns with Iqbal et al. (2025), who reports similar governance gaps in several jurisdictions.

Document analysis reveals that while most audit charters express strong institutional commitment to internal audit, they rarely specify how organisational

support should be operationalised for Shari'ah audits. This leaves the actual level of support highly dependent on the priorities of senior management. The same pattern is reflected in regulation. POJK 1/2019 outlines the authority and independence of internal audit but does not provide guidance on structural adaptability or resource allocation. As Khalid and Sarea (2021) note, such regulatory silence often leads to inconsistent implementation across institutions.

This indicates that organisational support and structural adaptability together constitute an "enabling horizon" for Shari'ah audit practice. Strong leadership backing provides the authority and resources needed for effective audits, while adaptable structures allow teams to respond to emerging operational and Shari'ah risks. When one element is missing—either weak institutional support or rigid structures—Shari'ah audits risk becoming mechanical exercises rather than dynamic governance tools. Conversely, when both elements align, Shari'ah audits are better positioned to uphold the ethical and operational integrity expected in Shari'ah governance frameworks.

Taken together, organisational support and structural adaptability can be interpreted as the practical conditions that allow value-based OSA to function as intended. From a Maqasid al-Shari'ah perspective, leadership commitment enables audits to consistently pursue *ʿadl*, reinforce *amanah*, and realise *maslahah*, while adaptive structures help ensure these objectives remain responsive to changing operational realities rather than confined to static checklists (Asutay, 2015; Auda, 2008). In parallel, Islamic Agency Theory frames auditors and governance actors as *khalifah*, so management backing and coordinated assurance arrangements strengthen dual accountability by empowering auditors to raise issues, secure follow-up, and preserve ethical integrity even when findings challenge operational priorities (Chapra, 1992; Khalid & Sarea, 2021).

7.2.4.3 Additional Findings Related to Structural Organizational Commitment

The additional findings under the Structural Organizational Commitment pillar show that Shari'ah audit practice in Indonesia is shaped by a mix of inherited conventional methods, institutional priorities, and evolving governance expectations. This pattern mirrors earlier studies noting that Islamic banks often build their audit processes on conventional foundations and adjust them gradually to reflect Shari'ah requirements (Algabry et al., 2020; Grassa, 2015). Internal auditors frequently

explained that their current approach is still tied to traditional internal audit systems, with Shari'ah elements added where necessary. IA8 described this clearly: "since we're still operating under an Islamic Business Unit, the methods are mostly the same as conventional audit," while IA2 noted that "Shari'ah operational audits fundamentally rely on traditional internal audit methodologies." Non-IA1 shared a similar view, emphasising integration rather than reinvention: "there's no need to create a completely new audit system… what we need to do is integrate them." This reflects what Yaacob and Donglah (2012) also observed—that Shari'ah audit practices often evolve organically inside institutions, influenced by available tools and internal culture rather than by a single prescribed model.

This dependence on existing frameworks extends to the operational manuals and SOPs used in daily work, which auditors adapt to Shari'ah contexts in the absence of a national methodology. IA2 explained that their team developed a Company Guidelines Book that governs technical execution of audits, while IA4 reminded that regulatory boundaries under POJK define only the scope, leaving the technical parts to each bank. This aligns with what AAOIFI (2020)and IFSB (2009) highlight—while governance standards set broad expectations, the operationalisation of Shari'ah audit often varies significantly across institutions.

Beyond methodology, auditors also stressed the value of delivering corrective and preventive recommendations. Several participants described their role as supporting better governance and preventing future non-compliance, echoing Haniffa and Hudaib's (2007) argument that Islamic governance must emphasise moral accountability and improvement, not just compliance checking. IA2 noted that audit reports are meant to improve overall Shari'ah performance, while IA10 described a broader view involving governance testing and organisational readiness.

Another finding relates to the flexible terminology used across banks. Many participants noted that OSA, activity audit, or operational audit are used interchangeably without significant impact on practice. This mirrors the wider literature showing that terminology in Shari'ah audit remains fluid internationally (Algabry et al., 2020; Grassa, 2015), partly because practice tends to adapt faster than formal definitions.

A further perspective emerged from auditors who linked their role to broader governance oversight, such as high-risk financing or strategic planning. IA6 and IA3 described intensified attention on financing portfolios to manage Shari'ah-related risks, which reflects IFSB's (2009) emphasis on risk governance as part of Shari'ah

compliance. IA2 also shared that reviewing the Bank's Business Plan (BBP) forms part of audit scoping, suggesting a more strategic role for auditors. This aligns with calls in the literature for internal auditors to act as governance partners in ensuring Shari'ah-aligned decision-making.

Non-internal auditors raised an important structural concern regarding the Shari'ah Supervisory Board (SSB). Both Non-IA2 and Non-IA3 pointed out weak structural safeguards for the SSB in Indonesia, contrasting it with Malaysia, where SSB oversight is strengthened by an independent review body. This resonates with Grassa's (2015) critique that inconsistent SSB independence undermines Shari'ah governance quality in several jurisdictions.

Institutional transformation also plays a role. IA4 noted that the shift from SBU to a full-fledged Islamic bank would widen the audit scope and require deeper integration across all functions. This reflects international observations that organisational restructuring often expands Shari'ah governance responsibilities (IFSB, 2009).

Finally, ethical culture emerged as a key foundation for Shari'ah audit effectiveness. IA5 and IA9 emphasised the importance of integrity and ethical behaviour, consistent with Haniffa and Hudaib's (2007) that emphasis on ethics as the moral core of Islamic governance. A strong ethical environment supports not only compliance but also the credibility of Shari'ah audit as a governance tool.

Overall, these findings show how the enabling horizon of Shari'ah audit practice—strategic alignment, ethical culture, and adaptive methods—interacts with constraining horizons such as limited SSB safeguards, reliance on conventional frameworks, and regulatory fragmentation. Together, these dynamics reveal that Shari'ah audits in Indonesia operate within a layered governance system where practice grows incrementally, shaped by institutional context and broader Shari'ah governance ideals.

Collectively, these additional findings suggest that "structural commitment" is ultimately tested by how far conventional audit infrastructures are reoriented toward a Shari'ah-defined purpose. A **Maqasid al-Shari'ah** lens implies that incremental adaptations, ethical culture, and strategic alignment only become meaningful when they consistently advance ʿ*adl*, reinforce *amanah*, and produce *maslahah* across governance layers—rather than leaving Shari'ah objectives dependent on local discretion or terminology (Asutay, 2015; Auda, 2008). In parallel, **Islamic Agency Theory** frames

auditors and Shari'ah governors as *khalifah*, so gaps in SSB safeguards, fragmented coordination, and uneven methodological anchoring directly weaken dual accountability and the credibility of OSA as a governance mechanism (Chapra, 1992; Khalid & Sarea, 2021).

Table 7.2
Discussion And Hermeneutic Interpretation Of Supplementary Findings In Organizational Commitment

Construct	Findings	Confirmed by (No. of IA)	Supported by Other Sources	Hermeneutic Interpretation
ISA Role in High-Risk Financing	Audit focus is directed to high-risk financing portfolios to control NPF and ensure Shari'ah compliance.	2 IA (IA3, IA6)	—	Positions Shari'ah audit as a guardian of institutional stability by aligning oversight with *maslahah*. This expands the audit horizon beyond compliance into risk governance but also constrains auditors as their scope becomes tied to financial survival targets.
Strategic Alignment with Bank Business Plan (BBP)	Audit scope incorporates review of BBP to ensure strategic programs are Shari'ah-compliant from the planning stage.	1 IA (IA2)	—	Demonstrates auditors' evolving role as strategic partners, embedding Shari'ah compliance into planning horizons. This represents an enabling horizon where audit practice participates in shaping institutional direction rather than merely reviewing outcomes.
Weak Structural Safeguards for SSB	SSB independence is limited due to reporting and remuneration structure under management, creating vulnerability to influence.	—	Non-IA2 (structural equality issue), Non-IA3 (lack of independent oversight in Indonesia vs. Malaysia)	Reveals a governance paradox: SSB is formally the highest Shari'ah authority yet substantively constrained by structural and financial dependence. This creates a constraining horizon where ethical oversight risks being subordinated to managerial control.
Structural Impact of SBU Transformation	Conversion of SBU to full-fledged Islamic bank will expand audit scope to all operational areas, including IT and support functions.	1 IA (IA4)	—	Signals a widening of institutional horizons: as SBU becomes independent, Shari'ah accountability permeates all operational layers. This transition enables deeper integration of Shari'ah principles but also demands new capacity and methodology.
Ethical Culture for Effective Shari'ah Audit	Ethical conduct, integrity, and professionalism are emphasized as essential for objective and Shari'ah-compliant audits.	2 IA (IA5, IA9)	—	Positions integrity not merely as personal virtue but as a collective horizon sustained by organ

Source: Interview data with internal and non-internal auditors, analysed using ATLAS.ti (2025).

7.2.5 Pillar 4 – Regulatory and Technological Integration

This pillar interprets the integration between the regulatory framework and technology utilization as the foundation that determines the consistency, efficiency, and adaptability of Sharia operational audits. This integration is not only understood as a formal synchronization between policies and infrastructure, but also as a dialogical process between legal norms, institutional practices, and the technical capabilities of auditors.

From the participants' narratives, it is evident that regulations provide a normative framework and governance structure, while technology offers the potential to accelerate and expand the scope of audits. However, the interaction between the two is not always harmonious. Regulations can be general, leaving room for interpretation, while technology adoption is often limited by resources, system readiness, and institutional resistance.

In this context, RTI is divided into two main dimensions. The first dimension—Regulatory Alignment and Institutional Interface—reflects how coordination between actors, particularly between Internal Shari'ah Auditors (ISA) and the Shari'ah Supervisory Board (SSB), as well as the understanding and utilization of the regulatory basis, shape practice alignment. The second dimension—Digitalization Landscape in Shari'ah Audit Practice—describes the reality of using manual tools, the limitations of system integration, barriers to technology adoption, and opportunities for strengthening thru data analytics.

A hermeneutic interpretation of this pillar reveals that the successful integration of regulation and technology is not merely the result of instrument availability, but rather stems from the alignment of meaning constructed between normative demands, technical capacity, and organizational culture.

7.2.5.1 Regulatory Alignment and Institutional Interface

a. Institutional Coordination with SSB/SSB

Coordination between Internal Shari'ah Auditors (ISA) and the Shari'ah Supervisory Board (SSB) holds a strategic role in ensuring that Shari'ah compliance is carried out consistently across the institution. Although regulations such as POJK No.

1/2019 and POJK No. 2/2024 formally position the SSB as the authority responsible for issuing Shari'ah opinions and monitoring their implementation, the actual interaction patterns between ISA and SSB differ from one bank to another. This variation is not unique to Indonesia; earlier studies such as Yaacob and Donglah (2012) and Grassa (2015) also found that coordination between Shari'ah audit functions and the SSB tends to be uneven when procedural mechanisms are not clearly defined.

In some banks, coordination follows a regular and structured routine. IA7 explained that "we do have interactions, like we do with the audit committee. We conduct evaluations regularly," while IA8 described ongoing "coordination and consolidation." In other institutions, however, the relationship is more limited. IA6 admitted that "the role of the SSB hasn't been very optimal yet… we rarely have direct communication." This reflects a gap also highlighted by Algabry et al. (2020), who noted that limited interaction between governance bodies often weakens the flow of Shari'ah-related information.

The purpose of coordination also varies. In some cases, the SSB acts as a reference point for clarifying fatwas, as noted by IA4: "we usually consult with the SSB to check if something is permissible." However, in other cases the SSB's involvement is more reactive or issue-specific. IA5 gave an example related to income-smoothing restrictions, remarking that "it's not ideal from a Sharia perspective." IA1 added that some SSB reviews start from internal audit findings: "their sample source is based on internal audit findings." This dynamic mirrors observations in AAOIFI Governance Standards (GS 1–3), where internal audit and Shari'ah review functions are expected to support the SSB with structured audit evidence.

Non-internal auditors also emphasised the SSB's dependency on internal audit for operational assessments. Non-IA2 explained that "the SSB… only has the authority to form a Shari'ah opinion. For that task, the SSB is usually assisted by internal audit," highlighting a relationship that is advisory rather than supervisory in practice. Non-IA1 shared a similar picture, describing how "audit findings… that relate to Sharia aspects are also communicated to the Sharia Supervisory Board." This dependency is also discussed in Alam and Miah (2021),Alam et al. (2023),Hamza (2013) and Farook and Farooq (2013), who note that SSBs often rely heavily on internal audit and compliance teams to obtain the information needed for decision-making.

The challenges in ISA–SSB coordination stem not only from procedural differences but also from conceptual horizons. ISA tends to focus on audit methods,

testing procedures, and risk management, while the SSB approaches problems through the lens of fiqh and fatwa interpretation. Without a clear mechanism that bridges these two perspectives, coordination may become fragmented (Bu Harawah & Jafri, 2022), as also argued by Dusuki and Abdullah (2007)and Haniffa and Hudaib (2007). The audit charters reviewed in this study contain generic clauses requiring coordination with the SSB, but they do not specify how coordination should occur in practice—whether through scheduled meetings, joint reviews, shared working papers, or pre-opinion consultations. As a result, effectiveness depends largely on institutional culture and individual initiative rather than formal governance design.

Seen through the fusion of horizons, effective ISA–SSB coordination requires more than compliance; it relies on shared purpose, information sharing, and trust-building communication. Recent studies link internal Shari'ah audit effectiveness to governance relationships and access to information (Khalid & Sarea, 2021), and show that stronger Shari'ah governance mechanisms improve Shari'ah compliance quality (Alam, Rahman, et al., 2022). However, cross-country analyses highlight that national Shari'ah governance regulations often lack procedural specificity, creating interpretive gaps and uneven implementation across banks (AlQassar & Ahmed, 2022). This variability reflects an institutional interface challenge that leads into the next theme on regulatory basis, where Shari'ah audit scope and authority are shaped by both governance ideals and regulatory limits (Karbhari et al., 2021; Safiullah et al., 2024).

In Maqasid–Agency terms, ISA–SSB coordination is the governance bridge that converts Shari'ah ideals into operational assurance. A **Maqasid al-Shari'ah** perspective implies that sustained interaction is needed to ensure audit testing and SSB fatwa interpretation jointly protect *ʿadl*, uphold *amanah*, and promote *maslahah*, rather than allowing Shari'ah oversight to remain episodic or purely advisory (Asutay, 2015; Auda, 2008). In parallel, **Islamic Agency Theory** frames both auditors and SSB members as *khalifah*, so weak coordination and vague protocols can dilute dual accountability by separating evidence-based review from authoritative Shari'ah judgement (Chapra, 1992; Khalid & Sarea, 2021). Strengthening structured information flows—through routinised meetings, shared work programmes, and clear escalation pathways—therefore becomes essential for making Shari'ah governance effective, not merely formal.

b. Regulatory Basis

For all IA participants (IA1–IA10), the regulatory framework serves as the formal anchor for operational Shari'ah audit, providing both legitimacy and direction to the work of Internal Shari'ah Auditors (ISA). Key references repeatedly mentioned included POJK No. 1/2019, POJK No. 2/2024, SEOJK No. 15/2024, and PBI No. 11/33/2009, which define the structure, authority, and responsibilities of internal audit functions and outline the role of the Shari'ah Supervisory Board (SSB). However, when viewed hermeneutically, these regulations function less as detailed manuals and more as broad interpretive guidelines—an issue echoed in recent literature showing that Shari'ah governance is often operationalized differently across banks despite shared regulatory umbrellas (Alam, Islam, et al., 2022; Fatmawati et al., 2022). This mirrors the concern raised in global literature, where scholars such as Hamza (2013) and Grassa (2015) note that Islamic banking regulations often set high-level governance expectations but leave much of the operational interpretation to individual institutions; more recent comparative work similarly finds that differences in regulatory regimes—and their level of procedural specificity—shape how Shari'ah governance is translated into practice (AlQassar & Ahmed, 2022).

Internal auditors described this pattern clearly. Many saw the regulations as the necessary foundation for authorising their reviews and ensuring management cooperation, yet they also recognised that the rules are intentionally broad. IA1 emphasised that "POJK definitely supports this… it's mandatory because the supervision function depends on it," while IA2 highlighted its scope, noting, "POJK No. 1 of 2019… covers everything—conventional banks, Islamic banks, and Islamic business units." Even as newer frameworks emerged, such as those in 2024, most auditors still viewed POJK 1/2019 as the main reference, suggesting a regulatory environment that is stable but also somewhat slow to evolve. This reflects what Yaacob and Donglah (2012) describe as a common challenge: regulatory guidance exists, but not in a form that defines a full Shari'ah audit methodology, leaving banks to develop their own procedures.

Non-internal auditors approached regulatory references from a governance angle. They stressed that national regulations place the SSB as the primary authority responsible for forming Shari'ah opinions. Non-IA2 stated plainly, "Who conducts

Shari'ah audits? According to regulations in Indonesia, it's the SSB," while Non-IA3 linked this to reporting duties specified in recent guidelines. Their views align with IFSB (2009) and AAOIFI Governance Standards (GS 1–3), which position the SSB as the key body ensuring Shari'ah compliance, supported—but not replaced—by internal audit functions (Wasim & Zafar, 2024). The need for structured ISA–SSB coordination is also repeatedly emphasised, yet remains inconsistently reflected in Indonesian practice (Fatmawati et al., 2022).

These accounts show that regulations are not interpreted in the same way by all actors. Internal auditors tend to read them as tools for legitimising audit activities and structuring workflow, while governance actors read them as a framework defining authority, responsibility, and reporting relationships. This echoes Farook, Hassan and Lanis (2011) and is consistent with evidence that even under one regulator, Shari'ah governance practices can diverge due to institutional translation of broad requirements (Alam, Islam, et al., 2022; AlQassar & Ahmed, 2022).

Document reviews confirm this interpretive variation: some audit charters adopt regulatory language directly, others refer indirectly, and few provide detailed operational guidance. As a result, regulatory meaning is co-constructed between legal requirements and institutional practice (Fatmawati et al., 2022). In this context, achieving genuine regulatory alignment requires more than formal compliance; it requires dialogic interpretation that connects regulatory intent with institutional realities and the ethical objectives of Shari'ah governance (Dusuki & Abdullah, 2007).

This regulatory "anchor–discretion" dynamic can be clarified through the Maqasid–Agency lens: rules provide the minimum governance scaffold, but ethical meaning is realised through how institutions operationalise them. From a **Maqasid al-Shari'ah** perspective, broad provisions are insufficient unless they are translated into audit criteria that consistently protect *ʿadl*, uphold *amanah*, and secure *maslahah*, otherwise compliance may remain formal rather than substantive (Asutay, 2015; Auda, 2008). In parallel, **Islamic Agency Theory** frames ISA and Shari'ah governors as *khalifah*, implying that regulatory interpretation carries moral weight and must be guided by dual accountability—not only to institutional principals but also to Allah—especially when procedural gaps leave room for discretion (Chapra, 1992; Khalid & Sarea, 2021).

7.2.5.2 Digitalization Landscape in Shari'ah Audit Practice

a. Manual Audit Execution and Limited System Integration

Findings from the field show that many Shari'ah audit activities are still carried out manually, with limited integration of technological tools. Several internal auditors described their work as heavily dependent on physical documents, manual data entry, and spreadsheet-based analysis. IA1 explained that "you must be proficient with Microsoft Office – especially since everything we do is still manual," adding that even reports are "still done manually, in Excel.". This experience reflects the broader pattern noted in earlier studies, where Shari'ah audit processes often rely on conventional tools because institutions lack structured system support (Khalid & Sarea, 2021; Yaacob & Donglah, 2012). The reliance on manual work contrasts with the expectations of modern audit standards—such as INTOSAI (2019), GAO (2018), and the IIA's 2024 IPPF—which emphasise the importance of data analytics, continuous auditing, and technology-enabled assurance for improving audit effectiveness.

By contrast, some institutions—especially larger Islamic banks—have begun to adopt more advanced systems. IA10 from Bank A described the transition toward automated tools: "Continuous Audit and Continuous Monitoring… implemented using digital tools and data analytics. In this setup, we auditors don't do much manual work. We build templates and rules to detect anomalies." This shift aligns with global developments where internal auditors increasingly apply automated routines to detect irregularities (IIA, 2024a; INTOSAI, 2019). The difference between banks that have embraced such systems and those still relying on spreadsheets illustrates a widening digitalisation gap within the industry.

This gap reflects not only a technological disparity but also differing interpretations of the role of technology within Shari'ah audit. While auditors often view digital tools as essential for accuracy, efficiency, and timely detection of Shari'ah risks, institutions may treat technology as merely administrative support rather than a core component of audit methodology. This echoes the concerns raised by Grassa (2015), who argues that inconsistencies in Shari'ah governance practices often stem from uneven institutional capabilities, including the absence of integrated systems. IFSB (2009) and AAOIFI governance standards also stress the need for robust processes

and reliable information flows to support effective oversight, implying that manual processes may undermine the reliability of Shari'ah assurance.

Document reviews reinforce these findings. Audit charters rarely mention digital tools beyond generic references to "audit instruments," and none explicitly describe system integration or data analytics as part of their methodology. This suggests that digitalisation is not yet embedded as a formal organisational priority. As a result, internal auditors operate within a context where technological infrastructure is uneven, limiting the transition toward more systematic, technology-driven Shari'ah audits.

Overall, the continued dominance of manual audit execution highlights the gap between operational reality and the aspirations of modern audit practice. It also shows that Shari'ah audit practices remain labor-intensive and disconnected from core banking systems, echoing Kasim et al. (2012) and Alam et al. (2023), who observed that manual methods constrain efficiency and weaken the capacity of Islamic banks to manage Shari'ah-compliance risk dynamically. Within the framework of Islamic Agency Theory, this technological stagnation sustains information asymmetry between agents and principals, as delayed and fragmented data reduce the timeliness and reliability of assurance. Moving toward technology-based auditing will require not only investment in infrastructure but also a shift in institutional understanding—from seeing technology as a supplementary tool to recognising it as integral to Shari'ah audit's methodological and epistemological foundation.

b. Digitalization Challenges in ISA Practice.

Participants described technology adoption in Shari'ah operational audits as a process filled with practical and cultural obstacles. Many explained that the issue is not only about having the right software or devices, but also about the readiness of auditors and the organisation to shift from manual habits to digital ways of working. IA6 reflected this challenge clearly: "We're in the digital era now — that's actually where we need to focus in the future… Shari'ah itself must adapt." This mirrors global observations that digitalisation requires more than technical tools; it also demands new skills, mindset change, and organisational adaptation (IIA, 2024a; INTOSAI, 2019).

The transition to digital documents further demonstrates this shift. IA10 explained how verification methods have changed: "Invoices, receipts — all of that are

no longer in hard copy… and digital documents are not easy to verify." He added that testing is now often population-based rather than sampling, which requires stronger system support. His comment illustrates how technological transformation expands both the scope and the difficulty of Shari'ah audit. As the volume of digital transactions increases, auditors must master new analytical tools to maintain reliability and independence—requirements also emphasized by Arsyad et al. (2025) and Kismawadi et al. (2025), who found that digital audit competence directly affects ethical assurance quality. This aligns with the GAO (2018) and INTOSAI (2019), both of which highlight that digital evidence and data-driven audits require auditors to develop analytical capabilities, and institutions to provide systems that can support these new processes.

However, not all institutions experience the same transition. IA1 admitted that some digital tools "weren't very applicable" to their situation, pointing to a mismatch between available systems and local needs. This reflects what Yaacob and Donglah (2012) and Khalid and Sarea (2021) found—that Shari'ah audit methods in many Islamic banks remain ad hoc, mainly because the tools and systems are not adequately aligned with Shari'ah audit requirements. This recognition of a skills gap echoes Badwan (2024) and Wasim and Zafar (2024), who argue that capacity building and ethical literacy are prerequisites for effective technology adoption in Islamic financial governance. It also connects to the Maqasid al-Shari'ah objective of *ihsan* (excellence): digital proficiency is not only a technical necessity but an ethical obligation to ensure accuracy and justice (*'adl*) in audit judgment. Such gaps are often reinforced by underlying governance inconsistencies (Grassa, 2015), which can slow or complicate the adoption of new technologies.

Regulatory adaptability also emerged as an important factor. IA9 stressed that "if there are changes due to technology… regulations must adapt," pointing out that outdated regulations may reduce public confidence. This concern underscores what Lestari et al. (2025) identify as the policy-adaptation gap: when regulatory standards lag behind technological reality, institutional trust (*amanah*) erodes. In the framework of Islamic Agency Theory, outdated regulation weakens the monitoring function of the principal (regulator) and increases operational discretion for agents, thereby heightening ethical risk. This is consistent with IFSB (2009), which emphasises that effective Shari'ah governance requires systems and oversight structures that evolve with industry changes. Yet, audit charters reviewed in this study rarely offer clear direction on digitalisation. Most mention technology only in general terms, without

specifying how digital tools should be integrated or how digital audit evidence should be handled.

Digital challenges also affect governance oversight. Non-IA1 gave an example from one of the largest Islamic banks, noting that when a recent incident occurred, the Audit Committee had to closely monitor the digital investigation process. This shows that oversight mechanisms must also adapt to ensure that audit functions remain effective in a fully digital environment.

These challenges highlight that digitalisation is not just a technical upgrade—it is a transformation in how audit work is understood and practiced. Auditors, management, and regulators need to develop a shared meaning of how technology strengthens Shari'ah audit rather than simply automating old routines. Without adequate capacity building, regulatory responsiveness, and organisational commitment, digitalisation risks becoming symbolic instead of improving audit quality in a substantive way.

Digitalization in Shari'ah audit, from a Maqasid al-Shari'ah perspective, goes beyond automation; it must preserve the ethical goals of *maslahah* (public welfare) and *amanah* (trustworthiness), enhancing auditors' ethical agency rather than replacing it. The challenge is balancing efficiency with ethical purpose, which is crucial for technological readiness in Islamic auditing (Kasim et al., 2012). However, limited system integration creates information asymmetry between auditors and regulators, reducing monitoring efficiency and trust in audit outcomes. These gaps hinder the achievement of maqasid such as *adl* (justice) and *maslahah*, which digitalization should promote. Auditors' experiences highlight that digitalization presents a dual challenge: improving efficiency while maintaining ethical accountability, requiring coordinated action from regulators, institutions, and auditors to align policy, system design, and human capability for transparent and trustworthy Shari'ah governance (Asutay, 2015; Auda, 2008).

c. Use of Technology and Continuous Monitoring

The interviews show that although internal auditors recognise the value of digital tools and continuous monitoring, the actual use of these technologies in Shari'ah operational audits is still limited. Most auditors described a gradual, step-by-step

adoption, using systems already available in the bank rather than tools designed specifically for Shari'ah audit. In many cases, technology functions mainly as a place to store data, instead of serving as an active mechanism for real-time oversight. This pattern is consistent with studies such as Yaacob and Donglah (2012) and Grassa (2015), who found that Islamic banks often depend on conventional systems that are not tailored to Shari'ah needs.

A more advanced example came from Bank A. IA10 explained that "*now it's done in real-time… Continuous Audit and Continuous Monitoring — implemented using digital tools and data analytics.*" This shows how some banks are beginning to develop more automated approaches, similar to what international standards such as INTOSAI (2019), GAO (2018), and the IIA's IPPF (2024) describe as the shift toward continuous auditing and data-driven assurance.

Even so, these cases remain the exception. The interviews show a tension between the vision of digital transformation and the practical realities of Shari'ah audit. Auditors expressed optimism that continuous monitoring can improve timeliness and expand audit coverage, but they also recognised that most of the available tools were originally created for general banking oversight. As a result, digitalisation often takes the form of "technical borrowing," where existing systems are repurposed for Shari'ah audit without fully capturing Shari'ah principles or maqasid-based objectives. Khalid and Sarea (2021) also highlight this gap, noting that the absence of Shari'ah-specific digital frameworks limits the maturity of Shari'ah audit practices across Islamic banks.

Document reviews reinforce this point. Some audit charters mention technology only in general terms, such as "supporting audit effectiveness," but none provide detailed guidance on how continuous monitoring should be applied to Shari'ah governance. Regulatory rules—such as POJK 1/2019 and POJK 2/2024—also do not include specific standards for digitalisation. This aligns with the IFSB (2009) view that effective Shari'ah governance frameworks must evolve with institutional and technological changes.

Overall, this finding refines the conceptual framework by showing that regulatory and technological integration requires more than adopting digital tools. It also demands the development of Shari'ah-sensitive systems and structured continuous monitoring practices. Without these, technology may support audit work, but it will not fully transform Shari'ah audit into a real-time assurance function.

From a Maqasid–Agency standpoint, technology and continuous monitoring are meaningful only when they enhance ethical assurance, not merely operational efficiency. A **Maqasid al-Shari'ah** orientation implies that digital tools should be configured to detect patterns that threaten *ʿadl*, undermine *amanah*, or diminish *maslahah*, thereby translating Shari'ah purpose into timely, evidence-based oversight rather than retrospective checking (Asutay, 2015; Auda, 2008). In parallel, **Islamic Agency Theory** frames auditors as *khalifah* tasked with reducing information asymmetry and strengthening dual accountability, so "technical borrowing" from conventional systems remains limited unless it is reshaped into Shari'ah-sensitive rules, indicators, and escalation pathways that support continuous assurance (Chapra, 1992; Khalid & Sarea, 2021).

7.2.5.3 Additional Findings: Regulatory and Technological Integration

The additional findings under the Regulatory and Technological Integration pillar point to several deeper issues that shape how Shari'ah audit is practiced in Indonesia. The first concerns institutional constraints in implementing Shari'ah principles, especially in financing. Auditors described how Islamic business units that operate under conventional parent banks often inherit established processes that limit the room to apply more authentic Shari'ah structures. This challenge reflects what Ahmed and Chapra (2002) calls the structural tension between Shari'ah ideals and existing institutional arrangements, and what Dusuki and Abdullah (2007) describe as the difficulty of embedding value-based objectives when market realities dominate operational decisions. In line with this, IA5 noted that limited customer demand for more complex contracts hinders transformation, while IA9 pointed to persistent NPF issues that restrict strategic Shari'ah development. This aligns with recent literature, which highlights how regulatory frameworks and institutional constraints limit the room for true Shari'ah governance implementation (Jaradat & Oudat, 2025).

A second issue relates to public misperception and low literacy, which several auditors saw as directly affecting operational readiness. This aligns with the concerns raised by Lewis (2006), who argue that the growth of Islamic finance is constrained when the public views Shari'ah-compliant products as merely cosmetic. Similarly, Dusuki and Abdullah (2007) highlights that without strong public understanding, Shari'ah governance mechanisms struggle to operate effectively. The auditors'

comments—such as IA2's observation that the public still perceives Islamic and conventional banking as "the same with different names"—reflect these broader societal gaps. Moreover, the lack of financial literacy continues to hinder the public's trust in Islamic banking, an issue that has been exacerbated in the digital ecosystem (Hasan et al., 2026).

The third finding concerns regulatory and institutional inhibitors, where regulatory expectations, capacity constraints, and uneven adoption of Shari'ah standards create hybrid practices. This resonates with Grassa (2015), who notes that regulatory fragmentation across jurisdictions often leads to inconsistent Shari'ah governance outcomes. Non-IA3's remark that local standards sometimes advance faster than international ones mirrors AAOIFI's (2015) observation about uneven global alignment. At the same time, IA8's example of balancing profit expectations with loss-sharing principles echoes the tension highlighted by Haniffa and Hudaib (2007) between ethical ideals and commercial pressures in Islamic financial institutions. This issue is compounded by the fragmented implementation of Shari'ah governance across jurisdictions, as noted in recent studies (Aspiranti et al., 2023).

Taken together, these findings broaden the understanding of the Regulatory and Technological Integration pillar. They suggest that technology and regulation cannot fully support Shari'ah audit effectiveness unless institutional structures, public literacy, and market realities are aligned with Shari'ah objectives. As emphasized in recent reviews, Shari'ah governance must be supported by both institutional capacity and stakeholder awareness to function effectively—not only as formal rules, but as lived practice (Wasim & Zafar, 2024).

7.3 Internal and External Enablers and Inhibitors of OSA

This section addresses RQ2 by synthesising the findings across the four conceptual pillars to explain how both internal and external factors shape operational Shari'ah audit (OSA) practice in Indonesian Islamic banks. Internal factors reflect organisational culture, auditor competence, methodological practices, and technological readiness, while external factors derive from regulatory frameworks, oversight bodies, market literacy, and broader technological environments. Together, these dynamics determine whether OSA functions as an enabling governance tool or faces constraints that limit its impact. Each of the four conceptual pillars contains both internal and

external dimensions, which are distinguished in the following subsections to address RQ2 systematically.

7.3.1 Internal Factors

Internal factors reflect the organisational conditions within Islamic banks that directly shape the implementation and effectiveness of Operational Shari'ah Audit (OSA). The findings highlight four key dimensions: conceptual clarity within institutions, the competence and independence of Internal Shari'ah Auditors (ISA), organisational commitment and leadership support, and the level of technological integration available to audit teams. These elements operate as enablers when they provide auditors with shared understanding, adequate expertise, institutional backing, and appropriate digital tools. However, gaps in internal clarity, uneven auditor capacity, dependence on management, and reliance on manual systems can also constrain the institutionalisation of OSA and limit its contribution to Shari'ah governance.

7.3.1.1 Conceptual Clarity

Conceptual clarity within institutions operates as both an enabler and inhibitor of OSA. When auditors apply flexible terminology and pragmatic working definitions, they are better able to align audit procedures with operational realities and cover dimensions such as compliance, efficiency, and effectiveness. However, the absence of standardised terminology and agreed definitions across banks leads to inconsistent interpretations of scope and methodology. This pattern echoes broader concerns in the literature that conceptual ambiguity weakens the coherence and comparability of Shari'ah audit practices (Algabry et al., 2020; Khalid, 2020).

As shown in Chapter 6 and reinforced in Section 7.2, variations in terminology reflect a deeper tension between operational pragmatism and institutional coherence. Without shared understanding, Shari'ah audit risks becoming fragmented and overly dependent on internal discretion rather than grounded in a unified institutional identity. Thus, while conceptual flexibility can support adaptation, its fragmentation remains a significant internal constraint on the development and institutionalisation of OSA.

7.3.1.2 ISA Competency and Independence (Internal Dimension)

The competence and independence of Internal Shari'ah Auditors (ISA) form a central internal determinant of OSA effectiveness. Strong technical skills, Shari'ah literacy, and professional certification enhance auditors' credibility and strengthen their ability to identify non-compliance. However, the findings show that capacity remains uneven, with some institutions relying heavily on a small number of individuals who possess Shari'ah expertise, while others depend on generalist staff with limited Shari'ah training. These weaknesses mirror broader concerns highlighted in the literature, where gaps in dual expertise continue to undermine the reliability of Shari'ah audit outcomes (Kasim et al., 2009).

Independence further shapes how effectively auditors can exercise their responsibilities. Although auditors are expected to operate objectively, structural dependencies—particularly reliance on management for resources, direction, or remuneration—can constrain their autonomy. Prior studies similarly note that independence risks are amplified when reporting lines are unclear or when Shari'ah governance structures rely excessively on management support (Alam & Miah, 2021; Ginena & Hamid, 2015; Kok et al., 2022). As reflected in Chapter 6 and discussed in Section 7.2, these vulnerabilities make competency and independence both enabling and inhibiting forces, depending on how strongly institutions invest in auditor development and safeguard their professional autonomy.

7.3.1.3 Organisational Commitment (Internal Dimension)

Organisational commitment plays a decisive role in determining how far OSA is supported, prioritised, and embedded within daily operations. Strong leadership backing, an ethical institutional culture, and constructive cooperation between auditors and auditees enable Shari'ah audit teams to conduct reviews with authority and ensure that findings receive meaningful follow-up. However, when management support is limited or when audit units rely heavily on generalist staff with minimal Shari'ah exposure, OSA risks being reduced to a procedural requirement rather than a substantive governance function.

These dynamics reflect broader observations in the literature, which emphasise that leadership behaviour, organisational culture, and resource allocation significantly

influence the legitimacy and impact of Shari'ah audit functions (Khalid & Sarea, 2021; Yaacob & Donglah, 2012). As demonstrated in Chapter 6 and interpreted in Section 7.2, organisational commitment can therefore operate as either an enabling force—when institutions prioritise ethics and adaptability—or a key constraint when dependence on management limits the auditors' authority and capacity to act.

7.3.1.4 Technological Integration

Technological integration emerged as an important internal factor influencing how effectively the Internal Shari'ah Audit (ISA) conducts operational Shari'ah audits. Interviews indicated that while Islamic banks have expanded digital capabilities in core banking and risk systems, these advances are not always reflected in the tools available to Shari'ah auditors. Much of the ISA work still relies on manual procedures, checklist-based reviews, and document sampling, limiting the depth and timeliness of audit assessments. This gap is consistent with earlier findings that Shari'ah audits tend to lag behind broader digitalisation trends in Islamic banking, resulting in inefficiencies and limited analytical capacity (Algabry et al., 2021; Yaacob & Donglah, 2012).

Internal auditors highlighted several challenges: restricted access to real-time data, limited automation for testing transactions, and the absence of integrated dashboards that link operational risks with Shari'ah non-compliance indicators. These constraints reduce auditors' ability to detect issues proactively or analyse large volumes of data, especially in high-transaction environments. By contrast, departments such as risk management and internal audit often benefit from more advanced digital tools.

The findings therefore reaffirm the need for stronger technological support tailored specifically to Shari'ah audit activities. Enhanced digital platforms, automated sampling tools, and analytics-enabled testing can improve audit coverage, reduce reliance on manual processes, and align Shari'ah audit capabilities with the operational complexity of modern Islamic banking. Without such technological integration, the contribution of OSA to governance effectiveness remains constrained despite auditors' technical competence or organisational support.

The interplay between these four internal factors also reveals an important systemic dynamic: their effectiveness is not additive but multiplicative. Conceptual clarity alone cannot compensate for weak auditor competence; similarly, strong organisational commitment cannot overcome the absence of technological tools. When

one internal dimension is underdeveloped, it creates a bottleneck that constrains the others. For instance, even where auditors possess strong Shari'ah literacy and enjoy supportive leadership, the absence of integrated digital systems forces them into manual, sampling-based reviews that reduce audit coverage and limit the depth of evidence gathering. This interdependence suggests that internal enablers must be developed in a coordinated manner rather than addressed as isolated institutional priorities. Institutions that invest selectively—strengthening competency while neglecting technology, or upgrading digital infrastructure while failing to resolve conceptual ambiguity—are unlikely to achieve sustainable improvements in OSA effectiveness. This finding reinforces the need for an integrated internal reform agenda in which conceptual, human capital, organisational, and technological dimensions are developed in tandem, guided by a shared understanding of OSA's ethical and operational objectives.

7.3.2 External Factors

External factors represent the wider regulatory and institutional environment in which Islamic banks operate, shaping both the boundaries and effectiveness of OSA. The analysis identifies three interrelated dimensions: the clarity and consistency of regulatory standards, the authority and competence of governance oversight bodies such as the Board, Audit Committee, and SSB, and the level of public literacy and societal expectations regarding Shari'ah compliance. These external elements can enhance credibility, comparability, and accountability when they provide clear guidance, strong oversight, and informed stakeholder expectations. Conversely, regulatory ambiguity, weak structural safeguards, and limited public understanding can dilute the impact of OSA and constrain its ability to reinforce Shari'ah governance in practice.

7.3.2.1 Regulatory Clarity and Standardisation

Regulatory clarity forms the foundation of external conceptual coherence for OSA. International frameworks such as AAOIFI Governance Standards and the IFSB's Shari'ah Governance principles provide explicit terminology and structured expectations for Shari'ah audit, offering a reference point for harmonisation across jurisdictions. These standards emphasise the need for systematic Shari'ah review and

clear definitions of audit roles, scope, and accountability (AAOIFI, 2020; IFSB-10, 2009).

In Indonesia, however, regulatory provisions such as POJK 1/2019 and POJK 2/2024 recognise the existence of internal Shari'ah audit but do not supply operational definitions or methodological guidance. This regulatory silence mirrors broader gaps highlighted in the literature, where national frameworks often acknowledge Shari'ah audit but leave its execution to institutional discretion (Kasim et al., 2009; Yaacob & Donglah, 2012). As a result, banks interpret terminology such as "internal Shari'ah audit," "Shari'ah review," or "operational audit" differently, contributing to sector-wide inconsistency—an issue echoed both in the literature and the empirical findings of Chapter 6.

While international standards offer an enabling reference, the lack of prescriptive national guidance constrains comparability and weakens the professional identity of OSA. Consequently, external regulatory clarity functions as a dual-edged condition: it enables coherence when clear standards exist, but becomes a constraining horizon when ambiguity persists and operational expectations are not translated into enforceable national rules.

Hermeneutically, these dynamics can be understood through the concept of the double hermeneutic: auditors not only interpret regulatory and institutional expectations but also reshape those expectations through their day-to-day practices and communicative choices. When auditors adopt flexible terminology in response to institutional norms, they simultaneously reinforce the very ambiguity that complicates standardisation efforts. When they defer to management on reporting structures, they contribute to the normalisation of structural dependencies that limit independence. This reflexive quality of interpretive practice means that the enablers and inhibitors identified in this study are not static conditions but evolving constructs that are continuously reproduced and contested within the institutions under study. Understanding OSA effectiveness therefore requires attending not only to formal structures and explicit policies but also to the interpretive frameworks that auditors and governance actors bring to their work—and how those frameworks are shaped by, and in turn shape, the broader Shari'ah governance environment in Indonesian Islamic banking.

7.3.2.2 Oversight Authority of Governance Actors

The authority and effectiveness of external governance actors—particularly the Board of Commissioners, Audit Committee, and Shari'ah Supervisory Board (SSB)—significantly shape the environment in which OSA operates. These bodies provide the structural oversight that ensures Shari'ah audit findings are acted upon, auditors' authority is protected, and Shari'ah considerations are integrated into broader governance decisions. This role is strongly emphasised in international standards, with IFSB-10 underscoring the importance of independent Shari'ah oversight, clear reporting lines, and effective coordination between the Board, Audit Committee, and SSB in safeguarding Shari'ah compliance (IFSB, 2009).

However, empirical findings in Chapter 6 reveal persistent structural limitations in Indonesia's governance landscape. Many SSBs remain dependent on management for access to information and remuneration, undermining their independence and reducing their ability to challenge operational decisions—an issue widely noted in the literature (Shafii et al., 2014; Yaacob & Donglah, 2012). Similarly, some Audit Committees and Board members lack specialised knowledge needed to scrutinise Shari'ah audit reports effectively, limiting the depth of oversight they can provide. Studies have long highlighted this capacity gap as a barrier to robust Shari'ah governance, especially where committees rely heavily on management-driven reporting (Kasim et al., 2009).

These constraints weaken the external support system that OSA requires to function effectively. When oversight bodies possess adequate authority, independence, and competence, they strengthen institutional accountability and amplify the impact of Shari'ah audit. When these elements are weak, oversight becomes symbolic, reducing OSA's influence and allowing management discretion to dominate governance practice. Thus, oversight authority operates as both an enabling and constraining external force shaping OSA implementation.

7.3.2.3 Public Literacy and Societal Expectations

Public literacy and societal expectations form an important external condition shaping the relevance and impact of OSA. In principle, Shari'ah audit contributes to public trust by assuring stakeholders that Islamic banks operate in accordance with

Shari'ah principles. However, as highlighted in Chapter 6, public understanding of Shari'ah governance processes—including how non-compliance risks are identified, reported, and rectified—remains limited. This gap reduces the societal pressure on banks to strengthen Shari'ah audit functions and contributes to a perception that Shari'ah compliance is primarily symbolic or procedural.

The literature similarly notes that stakeholder confidence in Islamic banks depends not only on regulatory compliance but also on the visibility and credibility of Shari'ah assurance mechanisms (Karim & Archer, 2013; Rahman & Haron, 2019). When customers, investors, and the wider public have limited awareness of Shari'ah audit roles, they are less likely to demand strong governance practices, reducing the external incentive for banks to develop robust OSA structures. Conversely, higher levels of public literacy can reinforce accountability by increasing scrutiny and expectations regarding Shari'ah compliance.

Findings in Chapter 6 revealed that misconceptions persist about the purpose of Shari'ah audit, the roles of the SSB, and the implications of Shari'ah non-compliance. These misperceptions dilute the perceived importance of OSA and weaken its capacity to function as a reputational safeguard for the industry. Thus, public literacy operates as a dual external force: it can enhance the legitimacy and accountability of Shari'ah audit when high, but becomes a constraining factor when societal understanding is limited or fragmented.

Taken together, the three external dimensions—regulatory clarity, oversight authority, and public literacy—do not operate as independent conditions but as a mutually reinforcing system of external governance. Regulatory frameworks establish the formal expectations for Shari'ah audit, oversight bodies translate those expectations into institutional accountability, and public literacy sustains the societal demand that gives Shari'ah audit its broader legitimacy. When all three are well-developed, they create a coherent external environment in which OSA can thrive as a credible governance mechanism. However, the Indonesian context reveals that these dimensions are unevenly developed: regulatory provisions acknowledge Shari'ah audit without prescribing its execution, oversight bodies exist but face structural constraints that limit their independence, and public understanding remains shallow despite the growth of the Islamic banking sector. This combination produces a governance landscape in which OSA is formally recognised but insufficiently supported, creating a gap between the normative ideals articulated in international standards and the operational realities faced

by auditors on the ground. Addressing this gap requires not only internal institutional reform but also coordinated action at the regulatory, governance, and societal levels, underscoring the importance of treating external factors as strategic priorities rather than background conditions for Shari'ah audit development in Indonesia.

7.3.3 Hermeneutic Synthesis

The analysis of RQ2 shows that the effectiveness of Operational Shari'ah Audit (OSA) is shaped by the continuous interaction between internal conditions within Islamic banks and the external structures that frame their governance environment. Internally, factors such as conceptual clarity, auditor competence, organisational commitment, and technological integration act as enablers when they provide shared understanding, strong capacity, supportive leadership, and adequate digital tools. Yet these same elements can also become sources of constraint when terminology is fragmented, expertise remains uneven, auditors depend heavily on management, or technological resources are limited.

Externally, regulatory clarity, oversight authority, and public literacy create the broader environment in which OSA practices are interpreted and enacted. Clear standards, strong governance oversight, and informed societal expectations can reinforce the legitimacy and credibility of Shari'ah audit. However, regulatory ambiguity, weak structural safeguards for oversight bodies, and limited public understanding dilute the influence of OSA and restrict its contribution to Shari'ah governance.

These dynamics illustrate an "enabling and constraining horizon" in which OSA practitioners must interpret and navigate competing expectations. Internal practices are shaped not only by organisational realities but also by how external norms, guidelines, and societal pressures are understood and integrated into daily audit work. The fusion of horizons between institutional practice and external regulation determines the degree to which OSA becomes institutionalised as a meaningful assurance mechanism. Where alignment occurs, OSA strengthens Shari'ah governance and supports ethical and operational accountability. Where gaps persist, OSA risks being reduced to a procedural formality rather than a substantive tool for safeguarding Shari'ah compliance and organisational integrity.

Table 7.3
Summary Of Internal And External Enablers And Inhibitors Of OSA

Theme	Internal Factors	External Factors
Conceptual Clarity	**Enablers:** Shared terminology standard; Documented OSA methodology; Explicit linkage to Maqasid in audit purpose **Inhibitors:** Fragmented labels; Missing operational definitions; Borrowing from conventional audit frames	**Enablers:** Reference to AAOIFI/IFSB standards **Inhibitors**: Regulatory silence; Absence of prescriptive national definitions
ISA Competency & Independence	**Enablers:** Structured Shari'ah and audit training; Certification and benchmarking; Protected reporting lines **Inhibitors:** Uneven expertise; Dependence on management; Weak structural safeguards	**Enablers:** Regulatory recognition of competency and independence requirements **Inhibitors:** Weak SSB safeguards; Lack of detailed competency standards
Organisational Commitment	**Enablers:** Measurable management support (authority, budget, KPIs); Integrated AC–SSB–Compliance oversight; Adaptive audit structure; Dedicated ISA involvement in high-risk financing **Inhibitors:** Limited management endorsement; Reliance on generalist staff	**Enablers:** Strong Board and Audit Committee oversight; Independent and empowered SSB authority; Clear governance coordination mandates **Inhibitors:** SSB dependence on management; Limited oversight capacity
Regulatory & Technological Integration	**Enablers:** Adoption of digital audit tools; Automated testing; Access to real-time data **Inhibitors:** Manual procedures; Limited system integration	**Enablers:** Regulatory clarity on Shari'ah governance; International standards supporting systematic Shari'ah review **Inhibitors:** Non-prescriptive regulations; Uneven digital standards

Source: Synthesised from interview data, document analysis, and regulatory review (2025).

In summary, the analysis of RQ2 shows that the effectiveness of OSA is determined not only by what occurs inside institutions but also by how these internal dynamics interact with external structures and expectations. The presence of enablers such as auditor competence, ethical culture, supportive governance, and regulatory frameworks can strengthen Shari'ah audit, but inhibitors including fragmented terminology, weak safeguards, uneven training, and public misperceptions limit its potential. The overall picture underscores that OSA cannot be institutionalised through internal adjustments alone; it requires alignment with external oversight, regulation, and societal literacy. This finding provides the basis for the subsequent cross-pillar insights, where the interplay between pillars is examined in greater depth.

7.4 Cross-Pillar Insights

The cross-pillar analysis underscores that operational Shari'ah audit in Indonesia is not confined within the boundaries of a single institutional pillar but shaped

by interactions across conceptual, organisational, competency, and regulatory dimensions. **Independence is therefore not purely structural but a negotiated balance between reporting lines, Shari'ah Supervisory Board (SSB) oversight, and regulatory mandates.**

Technological limitations further reveal how digital adaptation is simultaneously a regulatory requirement, an organisational challenge, and a competency gap, pressing auditors to expand into multidisciplinary domains. **Operational Shari'ah audit is therefore not simply a technical mechanism but a layered ethical system embedded within organisational and Shari'ah governance structures**. Ethical orientation serves as an integrative thread, anchoring Shari'ah audit in maqasid al-Shari'ah and ensuring that practice is more than procedural compliance but a vehicle for value-based accountability. Finally, regulatory inhibitors illustrate how systemic constraints formalise audit structures while narrowing methodological flexibility, demonstrating that governance and regulation both enable and constrain audit practice. **These systemic constraints operate both structurally and procedurally across organisational levels**.

A closer examination of the cross-pillar dynamics reveals four specific interaction patterns that are particularly consequential for OSA effectiveness in Indonesia. First, the relationship between Conceptual Clarity and Regulatory and Technological Integration is characterised by a mutual dependency: regulatory ambiguity at the national level perpetuates conceptual fragmentation at the institutional level, while institutional terminology diversity, in turn, makes it difficult for regulators to design prescriptive standards that reflect actual practice. This recursive relationship means that neither dimension can be resolved independently; progress in one requires concurrent development in the other. The absence of a shared national definitional framework thus functions not merely as a conceptual gap but as a regulatory constraint that ripples across all four pillars, limiting the comparability of audit practices and slowing the professionalisation of OSA as a distinct governance discipline.

Second, the intersection of ISA Competency and Independence with Organisational Commitment reveals a structural tension that runs through the audit function. Auditors who possess strong Shari'ah literacy and technical skills can only exercise those capabilities effectively when organisational structures protect their independence and provide adequate resources. Conversely, institutions that invest in governance infrastructure—specialised audit teams, integrated oversight mechanisms,

and strategic ISA involvement in high-risk financing—derive limited value from those investments if auditors lack the competence to utilise them effectively. This bidirectional dependency underscores the importance of treating competency development and organisational reform as jointly necessary conditions rather than sequentially addressable priorities. The findings suggest that Indonesian Islamic banks are more likely to achieve meaningful OSA improvements when auditor capability and institutional support are developed simultaneously, rather than when one is treated as a precondition for the other.

Third, the emergence of Regulatory and Technological Integration as a cross-cutting pillar reflects a broader shift in the nature of Shari'ah governance. Earlier frameworks in the literature tended to treat regulatory compliance and technology adoption as separate domains—one concerned with normative adherence, the other with operational efficiency. The findings of this study challenge that separation by showing that regulatory requirements increasingly presuppose technological capability, while technological adoption itself requires regulatory guidance to ensure that digital tools are applied in ways consistent with Shari'ah principles. Continuous audit and continuous monitoring (CACM) systems, for example, can only fulfil their governance function if both auditors and regulators understand how their outputs should be interpreted and reported within a Shari'ah governance framework. This regulatory-technological convergence therefore demands that the fourth pillar be treated not as an operational supplement but as a co-constitutive dimension of OSA practice—one whose effectiveness depends on, and in turn conditions, the other three pillars. The refined framework developed in this study captures this dynamic by positioning Regulatory and Technological Integration as a structurally interdependent component rather than a contextual backdrop.

These cross-pillar dynamics also reinforce the rationale for the four-pillar framework developed in this study. Whereas earlier models often treated auditor competency, organisational support, and regulatory alignment as separate domains, the Indonesian context shows that these dimensions constantly intersect in practice. The emergence of the fourth pillar—Regulatory and Technological Integration—reflects this interconnected reality, capturing pressures that cannot be fully understood within the earlier three-pillar structure. This synthesis not only strengthens the explanatory power of the framework but also marks its originality, positioning it as a more context-sensitive model compared to frameworks developed in other jurisdictions.

Viewed through a hermeneutic lens, the cross-pillar dynamics reveal a *fusion of horizons* between practitioner experiences, institutional arrangements, and evolving regulatory frameworks. The voices of auditors and governance actors highlight lived realities that often extend beyond the boundaries of formal structures, while regulatory texts and institutional charters impose expectations that may both enable and constrain practice. Interpreted together, these horizons converge to show that the effectiveness of OSA lies not only in the strength of individual pillars but in their dialogical interaction. This hermeneutic synthesis affirms the need for a framework that integrates stability with adaptability—captured in the inclusion of Regulatory and Technological Integration as a dynamic pillar—and underscores the originality of this study in advancing a context-sensitive model of Shari'ah audit.

Collectively, these cross-pillar dynamics have significant implications for how OSA should be conceptualised, implemented, and evaluated in practice. If the four pillars are treated as discrete institutional categories—each to be addressed by separate policies, training programmes, or regulatory provisions—the interdependencies between them will continue to be overlooked, and reform efforts will remain partial and fragmented. A more effective approach requires governance actors, regulators, and practitioners to adopt an integrated perspective in which improvements to one pillar are explicitly designed to reinforce the others. This means, for instance, that competency development initiatives should be accompanied by structural reforms that protect auditor independence; that regulatory revisions should be designed with technological implementation in mind; and that organisational commitment should be measured not only through resource allocation but through the quality of cross-functional coordination across the Audit Committee, SSB, and internal audit teams. The cross-pillar analysis thus offers not only an analytical contribution to the study of Shari'ah governance but also a practical framework for designing reform initiatives that are sensitive to the systemic character of OSA challenges in the Indonesian Islamic banking context.

7.5 Conceptual Framework Refinement

The initial conceptual framework presented in Chapter 4 was developed through an extensive literature review and grounded in the integration of Maqasid al-Shari'ah and Islamic Agency Theory. This framework proposed four main pillars—Conceptual

Clarity, ISA Competency and Independence, Organizational Commitment, and Regulatory and Technological Integration—as the foundation for effective operational Shari'ah audit (OSA) practices in Islamic banks. Each pillar was defined in relation to its theoretical roots and intended to capture the essential dimensions of value-based governance and spiritual accountability in Shari'ah auditing.

The refinement of this framework is informed by the empirical findings presented in Chapter 6, which drew on thematic analysis of interview data, institutional audit charters, and regulatory documents. These findings reveal both alignment with and divergence from the initial framework, highlighting specific contextual realities, operational challenges, and additional insights that were not fully captured during the conceptual development phase.

This refinement directly addresses Research Question 3: "How does the proposed integrated framework facilitate effective OSA practice in Islamic banks in Indonesia?" By integrating empirical insights into the original framework, the revised model demonstrates how theoretical constructs can be operationalised to address both enabling and constraining factors identified in practice.

The purpose of this refinement is to enhance the framework's relevance, close identified gaps, and accommodate the practical conditions of Shari'ah audit implementation in Indonesia. This process ensures that the revised framework not only reflects theoretical integrity but also incorporates field-based perspectives, thereby improving its applicability for both academic inquiry and professional practice.

7.5.1 Restatement of Initial Framework

The refinement of the initial conceptual framework preserves the four original pillars and translates the empirical findings into **positive, actionable components (key factor effectiveness)**. Evidence is drawn from interviews, documents and regulatory analysis summarised in Chapter 6.

1. Conceptual Clarity
    - Focus: Clear definitions, purpose, and ethical orientation of OSA.
    - Key elements: Terminology standardisation, audit purpose linked to Islamic ethical objectives, integration of Maqasid al-Shari'ah in audit

goals.

- Theoretical roots: *Maqasid al-Shari'ah* emphasising justice ('*adl*), transparency (*shafafiah*), and public benefit (*maslahah*).

2. ISA Competency and Independence
    - Focus: Technical skills, multidisciplinary capability, and structural independence of internal Shari'ah auditors (ISA).
    - Key elements: Certification, Shari'ah knowledge, independence in reporting lines, ability to address emerging audit challenges.
    - Theoretical roots: *Islamic Agency Theory*, positioning auditors as *khalifah* with a mandate to uphold trust (*amanah*) and accountability (*taqwa*).
3. Organizational Commitment
    - Focus: Institutional support, governance oversight, and structural alignment for Shari'ah audit functions.
    - Key elements: Supportive leadership, governance bodies (Audit Committee, SSB, Compliance), specialised teams, and organisational adaptability.
    - Theoretical roots: Value-based governance ensuring that organisational structures and cultures facilitate ethical audit practices.
4. Regulatory and Technological Integration
    - Focus: Alignment with national regulatory frameworks and integration of technology to enhance audit processes.
    - Key elements: Compliance with OJK and BI regulations, utilisation of digital tools for audit, overcoming technological gaps.
    - Theoretical roots: *Maqasid al-Shari'ah* principle of promoting benefit through innovation while safeguarding compliance.

While the first three pillars were largely developed from the literature review and theoretical integration in Chapter 4, the fourth pillar—Regulatory and Technological Integration—was consolidated as a distinct component following empirical data collection. Insights from interviews, institutional documents, and regulatory analysis revealed that regulatory alignment and technological readiness were

not merely supportive conditions, but core determinants of effective OSA practice, thus warranting their recognition as an independent pillar in the revised framework.

7.5.2 Refinement Decisions per Pillar

The refinement process applied to the initial conceptual framework resulted in a series of adjustments, additions, and clarifications across the four pillars. These changes are directly informed by the thematic findings from interviews, document reviews, and regulatory analysis, as detailed in Chapter 6.

7.5.2.1 Pillar 1 – Conceptual Clarity

Field evidence shows fragmented labels and missing operational definitions in audit charters, alongside debates on standardising terms and continued borrowing from conventional audit frames. The framework is refined to (i) adopt a shared terminology standard for Shari'ah/operational audit with controlled flexibility for institutional context; (ii) require a documented OSA methodology that adapts conventional techniques in a Shari'ah-compliant manner; and (iii) state audit purpose on the assurance–advisory continuum with explicit linkage to Maqasid al-Shari'ah. This turns semantic plurality into operational clarity and accountability (see Appendix 3; supporting quotation reports in Appendix 4).

7.5.2.2 Pillar 2 – ISA Competency and Independence

The data point to competency gaps and structural weaknesses that threaten independence, while expectations for an agile/advisory contribution are rising. The refinement therefore (i) strengthens structural safeguards for SSB and clarifies reporting lines that secure ISA independence; (ii) upskills ISA in Shari'ah knowledge, data analytics, and digital tools to support an agile advisory role without diluting assurance; and (iii) fixes role boundaries (assurance vs advisory) in policy and SOPs, aligned with certification requirements. The emphasis shifts from nominal qualifications to deployable capability within a structure that protects objectivity.

7.5.2.3 Pillar 3 – Organizational Commitment

Organisational commitment must be demonstrable, not declarative. The refinement operationalises it through (i) measurable management support—authority, budget, and KPIs—and proper positioning of ISA; (ii) integrated oversight across the Audit Committee, SSB/SSB, and Compliance, with clear safeguards for SSB; (iii) a mandate for ISA involvement in high-risk financing, with defined criteria, stages, and evidence; and (iv) an adaptive audit structure aligned to risk and organisational change. In short, commitment is translated into governance mechanisms that actually work.

7.5.2.4 Pillar 4 – Regulatory and Technological Integration

Interviews and regulatory review highlight institutional constraints, regulatory burdens, and uneven digitalisation that shape audit scope and evidence quality. The refinement (i) harmonises external standards and regulations (e.g., POJK/AAOIFI/IAPI) with internal policy and addresses regulatory and institutional inhibitors; (ii) implements continuous audit and continuous monitoring (CACM) and expands data-analytics capability; (iii) integrates systems (core banking–GRC–audit) to reduce manual work and raise evidential reliability; and (iv) sets a digitalisation roadmap for ISA covering tools, skills, and governance. The pillar moves from normative compliance to regulation-technology alignment that materially improves audit effectiveness.

While the first three pillars were largely developed from the literature review and theoretical integration in Chapter 4, the fourth pillar—Regulatory and Technological Integration—was consolidated as a distinct component following empirical data collection. Insights from interviews, institutional documents, and regulatory analysis revealed that regulatory alignment and technological readiness were not merely supportive conditions, but core determinants of effective OSA practice, thus warranting their recognition as an independent pillar in the revised framework.

The visual representation of the framework (Figure 4.3 in Chapter 4) depicts the four pillars as interconnected domains contributing to Ethical Operational Shari'ah Auditing. Building on that model and the evidence in Chapter 6, the refinement decisions are summarised in table 7.4.

Overall, these cross-pillar insights and refinement decisions reaffirm that effectiveness in OSA is achieved when ethical purpose and accountability structure are translated into workable governance and audit design. A **Maqasid al-Shari'ah** orientation provides the normative direction—prioritising ʿ*adl*, safeguarding *amanah*, and pursuing *maslahah*—while the operational pillars specify the institutional conditions needed to make these objectives auditable, measurable, and enforceable (Asutay, 2015; Auda, 2008). In parallel, **Islamic Agency Theory** explains why independence, competence, and integrated oversight are not optional features but mechanisms that sustain dual accountability and reduce information asymmetry as auditors perform their trustee role as *khalifah* (Chapra, 1992; Khalid & Sarea, 2021). In this sense, the refined framework functions as a bridge between ideals and practice: it converts value-based governance into concrete levers for audit execution, follow-up, and continuous improvement

Table 7.4
Refinement Decisions Per Pillar — From Proposed Components And Empirical Findings To Key Factors For Effectiveness.

Pillar	Core components (proposed framework)	Relevant research findings	Refined component (key factor for effectiveness)
Conceptual Clarity	Terminology & definition; Audit purpose & ethical orientation; Alignment with Maqasid; Clear OSA methodology	Terminological flexibility & institutional tolerance; Debate on standardisation; Dependence on conventional frameworks	**(1)** Terminology **standardisation with a shared understanding** and **controlled flexibility**. **(2) Documented OSA methodology** that adapts conventional frameworks in a **Shari'ah-compliant** way. **(3)** Explicit, measurable audit purpose **linked to Maqasid and ethics**.
ISA Competency & Independence	Certification & qualification; Shari'ah knowledge; Objectivity & independence; Multidisciplinary capability; Reporting lines	Agile role evolution (assurance → advisory/forecasting); **Weak structural safeguards for SSB**	**(1) Strengthen structural safeguards for SSB** and **clarify reporting lines** to secure ISA independence. **(2) Upskill ISA** (Shari'ah, data analytics, digital tools) to enable an **agile advisory** role **without diluting assurance**. **(3)** Clear **role boundaries** (advisory vs assurance) embedded in policies and SOPs.
Organizational Commitment	Management culture & support; Leadership commitment; Existence/positioning of ISA; Governance oversight (AC/SSB/Compliance)	ISA role in high-risk financing; Organizational support & audit-structure adaptability	**(1) Measurable management support** (authority, budget, KPIs) and appropriate **positioning of ISA**. **(2) Mandated ISA involvement in high-risk financing** (criteria, stages, evidence). **(3) Integrated oversight** (AC–SSB–Compliance) and **risk-based adaptive** audit structure.
Regulatory & Technological Integration	Alignment with regulations/standards; Integration of digital tools & data analytics; Supportive regulatory environment	Institutional constraints & inhibitors; Manual execution & limited system integration; Digitalisation challenges; Use of Technology & CACM	**(1) Align regulations** and internal policies with technological advancements and **remove barriers to system integration**. **(2)** Implement **CACM/real-time monitoring** and automate evidence collection. **(3) Integrate systems** (core banking–GRC–audit) and build sustained **data-analytics** capability.

Source: Author's synthesis of Chapter 6 evidence (interview quotation reports and document/regulatory review), supported by ATLAS.ti 25 outputs (2024–2025).

7.5.3 Revised Conceptual Framework

The revised conceptual framework, as shown in Figure 7.2, reflects the integration of empirical findings from interviews, audit charters, and regulatory documents into the original four-pillar structure. While the overarching theoretical foundation—integrating *Maqasid al-Shari'ah* and *Islamic Agency Theory*—remains intact, each pillar has been strengthened to address both enabling and constraining factors revealed in practice.

Key refinements include:

- Expanded definitions and scope for Conceptual Clarity, incorporating methodological realities and terminological flexibility observed in the field.
- Enhanced focus on ISA Competency and Independence, particularly in professional certification, multidisciplinary expertise, and adaptive roles.
- Broadened Organizational Commitment to include explicit safeguards for SSB independence and strategic involvement of ISA in high-risk financing oversight.
- Elevated Regulatory and Technological Integration to highlight institutional constraints, regulatory inhibitors, and technology adoption challenges as core determinants of OSA effectiveness.

The revised conceptual framework builds upon the initial model developed in Chapter 4 by integrating empirical evidence from interviews, audit charters, and regulatory documents. While the four-pillar structure remains intact, the content within each pillar has been refined to reflect the operational realities and contextual factors of Shari'ah audit practice in Indonesia. This revision ensures that the framework is both theoretically grounded and practically relevant.

Pillar 1 – Conceptual Clarity

The original focus on terminology, audit purpose, and ethical orientation is retained, but expanded to capture field realities. Two new elements—*Terminological Flexibility and Institutional Tolerance* and *Audit Method Based on Conventional*

Frameworks—were added to address the inconsistent usage of audit-related terms across institutions and the persistence of conventional methodologies in OSA practice. These changes reflect the empirical observation that conceptual alignment remains a work in progress, requiring greater integration of Islamic principles into operational methodologies.

Pillar 2 – ISA Competency and Independence

This pillar's emphasis on professional certification, Shari'ah knowledge, and independence has been reinforced through empirical findings that exposed competency gaps and structural vulnerabilities, particularly in the role of SSB. The addition of *Agile Role Evolution of ISA* recognises the shifting responsibilities of internal Shari'ah auditors towards more advisory and adaptive functions, responding to both emerging risks and governance demands.

Pillar 3 – Organizational Commitment

Originally centred on governance oversight, structural clarity, and organisational adaptability, this pillar now incorporates two new elements: *Weak Structural Safeguards for SSB* and *ISA Role in High-Risk Financing*. These additions reflect findings that SSB authority is often constrained by organisational arrangements, and that ISA involvement in monitoring large exposures plays a strategic role in managing both compliance and risk.

Pillar 4 – Regulatory and Technological Integration

Initially concerned with regulatory alignment and technology adoption, this pillar has been strengthened to include *Institutional Constraints in Shari'ah Implementation* and *Regulatory and Institutional Inhibitors*. These refinements acknowledge that product limitations, public literacy gaps, and regulatory burdens—such as those stipulated in POJK 12/2023—are critical determinants of Shari'ah audit scope and effectiveness. By elevating these issues from contextual notes to formal

elements, the revised framework positions them as structural factors that must be addressed for sustainable audit improvement.

Overall, this refined framework offers a more comprehensive and contextually grounded model for operational Shari'ah auditing in Indonesia. By integrating empirical insights into the theoretical base, it provides both a normative guide and a practical tool for enhancing Shari'ah audit effectiveness. This directly responds to Research Question 3, demonstrating how the proposed integrated framework can facilitate effective OSA practice by addressing real-world enablers and inhibitors identified in the field.

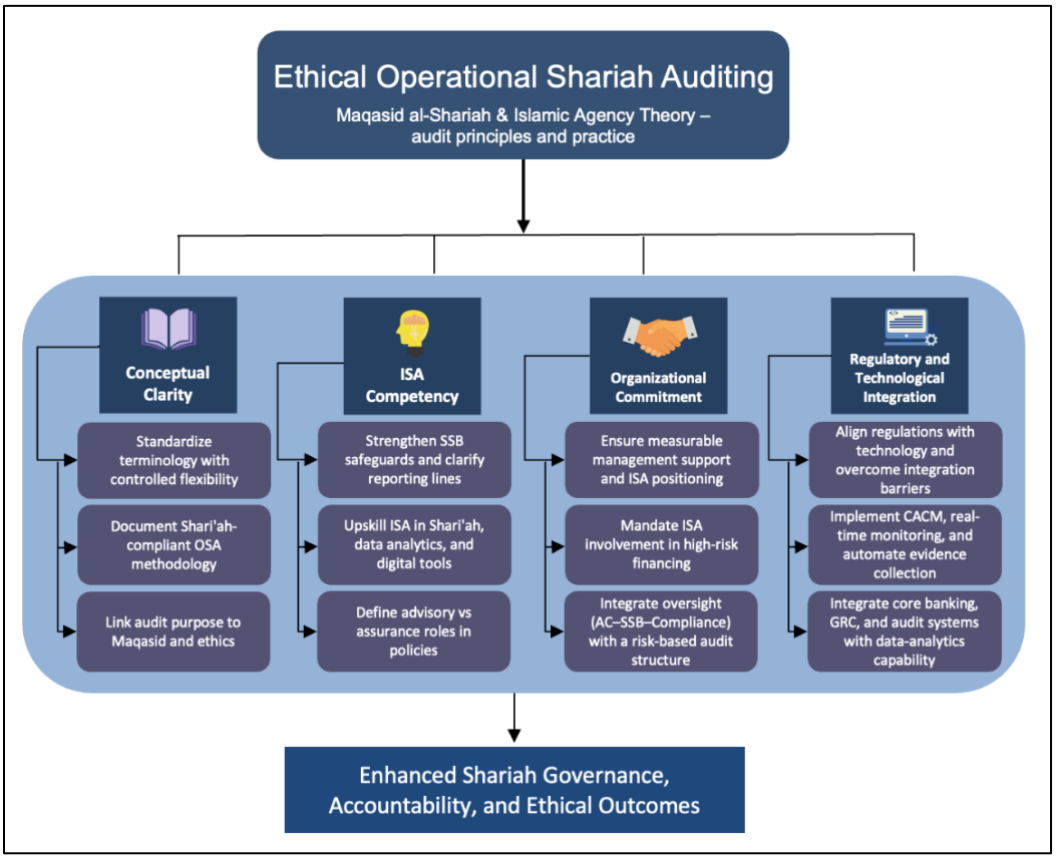


Figure 7.2 Refined Conceptual Framework For Effective Operational Shari'ah Audit (OSA)

Source: Developed by the researcher, adapted from the initial conceptual framework in Chapter 4 and refined using empirical evidence from interviews, institutional documents, and regulatory analysis presented in Chapter 6.

The refinement of the conceptual framework marks the culmination of the research process, transforming a theoretically derived model into an empirically validated and context-sensitive guide for operational Shari'ah auditing in Indonesia.

The integration of additional elements across all four pillars ensures that the framework does not merely outline ideal conditions, but also addresses the structural, organisational, and regulatory realities that shape audit practice.

By explicitly incorporating themes such as methodological reliance on conventional frameworks, the evolving role of internal Shari'ah auditors, organisational safeguards for SSB, and institutional constraints in Shari'ah implementation, the revised framework bridges the gap between normative aspirations and operational realities. This ensures that the model is capable of guiding both policy development and institutional practice in ways that are feasible, sustainable, and aligned with Shari'ah principles.

From a theoretical perspective, the refinement process reaffirms the relevance of *Maqasid al-Shari'ah* and *Islamic Agency Theory* as foundational lenses for understanding and improving Shari'ah audit practices. At the same time, it demonstrates the necessity of accommodating contextual complexity, recognising that effective governance must be both principled and adaptive.

7.6 Chapter Summary

Chapter 7 has provided an interpretive synthesis of the thematic findings from Chapter 6, integrating perspectives from internal auditors, non-internal auditors, institutional documents, and regulatory frameworks. The discussion was structured around the four pillars of the conceptual framework developed in Chapter 4: Conceptual Clarity, ISA Competency and Independence, Organizational Commitment, and Regulatory and Technological Integration. For each pillar, the analysis moved beyond descriptive coding to examine how enablers and inhibitors interact within the operational Shari'ah audit (OSA) environment in Indonesia.

The first pillar, Conceptual Clarity, revealed that while practitioners recognise the need for shared definitions and coherent audit objectives, significant variation persists in terminology, methodological orientation, and the integration of Islamic ethical principles such as Maqasid al-Shari'ah. These variations reflect both institutional flexibility and the absence of prescriptive regulatory guidance, creating a spectrum between practice-oriented adaptability and oversight-driven standardisation.

The second pillar, ISA Competency and Independence, highlighted the dual challenge of ensuring adequate technical and Shari'ah-specific expertise while

safeguarding structural independence from management influence. While some institutions invest in professional certification and multidisciplinary skills, others continue to operate with generalist auditors and limited Shari'ah training. Structural positioning and reporting lines remain critical determinants of perceived and functional independence, with tensions evident between normative governance ideals and operational realities.

The third pillar, Organizational Commitment, underscored the importance of governance oversight, resource allocation, and structural adaptability in supporting effective Shari'ah audits. Effective cooperation between auditors, auditees, audit committees, and Shari'ah supervisory boards emerged as a key enabler, while organisational inertia, fragmented team structures, and limited dedicated resources acted as constraints. Examples of adaptive practices—such as the creation of specialised teams or flexible audit planning—demonstrated how organisational support can translate into tangible audit effectiveness.

The fourth pillar, Regulatory and Technological Integration, revealed a layered reality in which regulatory frameworks provide essential structure but also impose constraints through capital requirements, inconsistent standard adoption, and limited emphasis on digitalisation. Technological readiness varied widely, with some banks relying heavily on manual audit processes while others adopted data analytics and continuous monitoring systems. Additional findings in this pillar identified institutional constraints in Shari'ah implementation, public misperceptions and literacy gaps, and regulatory–institutional inhibitors as interconnected factors shaping OSA practice.

Beyond individual pillars, **the cross-pillar analysis (Section 7.4) revealed deeper interdependencies**. Structural independence emerged as a recurring concern across auditor competency, organisational oversight, and regulatory mandates. Technological limitations were not merely a technical issue but intertwined with governance support, regulatory readiness, and auditor capability. Ethical orientation served as a unifying thread, grounding practice in maqasid al-Shari'ah and linking conceptual clarity with oversight and auditor–auditee cooperation. Regulatory inhibitors illustrated how systemic frameworks could simultaneously formalise audit structures and constrain methodological flexibility, reinforcing the need for adaptive integration across dimensions.

These cross-pillar insights suggest that the effectiveness of OSA in Indonesia depends on the dynamic alignment of conceptual clarity, auditor capability and

independence, organisational commitment, and integrated regulatory-technological support. Where these elements are mutually reinforcing, OSA can evolve into a value-driven governance mechanism that advances both operational efficiency and compliance with Islamic ethical principles. Where they remain fragmented or misaligned, the audit function risks becoming a procedural formality rather than a transformative tool.

Taken together, the findings also provide a direct answer to RQ2 by showing how both internal and external factors act as enablers and inhibitors across the four pillars. Internal dynamics such as auditor competence, organisational support, and methodological clarity enable OSA when reinforced by shared culture and resources, but constrain it when fragmented or dependent on management. Externally, regulatory frameworks, governance oversight, SSB roles, and public literacy create the wider environment that can legitimise and strengthen OSA, yet may also limit its effectiveness when provisions are ambiguous or safeguards remain weak.

This synthesis provides the basis for refining the integrated OSA framework proposed in Chapter 4. The following chapter will present the final conceptual framework, outline its theoretical and practical contributions, and discuss implications for policy, practice, and future research.

CHAPTER 8
CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

8.1 Conclusion

This study set out to develop and refine a conceptual framework for effective Operational Shari'ah Audit (OSA) practice in Islamic banks in Indonesia, guided by the integration of Maqasid al-Shari'ah and Islamic Agency Theory. The research was driven by three objectives: first, to examine existing OSA practices in Islamic banks (RO1); second, to investigate the enablers and inhibitors shaping those practices (RO2); and third, to propose an integrated framework that enhances their effectiveness (RO3). These objectives corresponded to three research questions, which sought to understand the current state of OSA, the role of organisational factors as both enablers and inhibitors, and the value of an integrated framework in advancing the practice.

Drawing from a qualitative, interpretivist approach informed by hermeneutic phenomenology, the study analysed data from 14 semi-structured interviews with internal and non-internal auditors, supplemented by eight institutional audit charters and five key regulatory documents. The two-stage design allowed for both conceptual development through literature review and empirical refinement through field data. The findings provide a nuanced picture of OSA in Indonesia, highlighting areas of progress as well as enduring gaps that must be addressed to achieve its ethical and operational aspirations.

First, under the pillar of Conceptual Clarity, the study found persistent ambiguity in definitions and methodological frameworks for OSA. While some auditors advocated for standardised terminology aligned with regulatory references, others prioritised functional outcomes over labels. Institutional documents, including audit charters, rarely contained explicit definitions or methodologies for Shari'ah audit, relying instead on conventional internal audit frameworks with limited integration of Islamic principles. The tension between flexibility in practice and the push for standardisation emerged as a central conceptual challenge. This pillar also revealed the influence of SOP-driven, manual processes, and a tendency to measure audit value through corrective and preventive recommendations rather than strategic Shari'ah objectives.

Second, in the pillar of ISA Competency and Independence, the findings underscored the dual necessity of technical proficiency and ethical accountability for internal Shari'ah auditors. Certification requirements and Shari'ah-specific knowledge varied widely, with many auditors lacking formal qualifications in both Shari'ah and audit techniques. While multidisciplinary capabilities were increasingly recognised as essential, auditors also faced structural constraints to independence due to their organisational placement and remuneration by management. The role of SSB as Shari'ah supervisors mirrored these structural limitations, raising concerns over their ability to provide robust oversight without enhanced technical capacity and safeguards for independence.

Third, the pillar of Organizational Commitment highlighted how governance structures, leadership attitudes, and cross-unit collaboration shape the operational realities of OSA. Effective practice depended on the support of audit committees, SSB/SSB, and compliance units, yet coordination with SSB was often minimal compared to formal reporting to audit committees. Ideal structures proposed by participants included dedicated Shari'ah audit teams with clear authority and integration within the broader governance system. Organisational adaptability emerged as a practical enabler, allowing auditors to tailor their approaches to dynamic field conditions, though this adaptability was uneven across institutions.

Fourth, the pillar of Regulatory and Technological Integration revealed that while regulatory frameworks for Shari'ah governance have advanced, they have not yet produced a uniform and operational OSA framework. Recent regulations (POJK 2/2024, SEOJK 15/2024) introduced stronger governance requirements, but gaps remain in prescriptive standards for Shari'ah audit execution. Participants also pointed to institutional constraints, such as limited Shari'ah-compliant product portfolios and public literacy gaps, which indirectly hindered Shari'ah audit effectiveness. On the technological front, audit execution remained largely manual, with slow adoption of integrated systems for Shari'ah compliance monitoring. Digitalisation was recognised as a future necessity, yet faced challenges in infrastructure, budget, and readiness.

In addressing RQ2, the findings confirm that both internal and external factors functioned simultaneously as enablers and inhibitors of OSA across the four pillars. Internal factors such as auditor competence, organisational commitment, and methodological clarity supported audit practice when strengthened by institutional culture and resources, but became constraints when fragmented or dependent on

management. At the same time, external factors—most notably regulatory frameworks, oversight arrangements, SSB roles, and public literacy—provided legitimacy and structure, yet also introduced limitations where safeguards were weak or provisions remained ambiguous.

Taken together, these findings affirm that while OSA is increasingly recognised as integral to Shari'ah governance, its institutionalisation in Indonesia remains incomplete. The study's integrated framework addresses this by combining the ethical imperatives of Maqasid al-Shari'ah with the accountability mechanisms of Islamic Agency Theory, operationalised through four interdependent pillars. The framework positions auditors not merely as technical reviewers but as ethical guardians (*khalifah*) whose accountability extends beyond shareholders to Allah, ensuring that audits serve the public good (*maslahah*) and prevent harm (*mafsadah*).

The refined framework contributes to theory by bridging conceptual clarity and ethical governance in the context of Islamic banking audits, demonstrating how religious principles can be operationalised through structured governance and audit practices. It contributes empirically by mapping enablers and inhibitors across multiple data sources, providing a grounded understanding of OSA practice in Indonesia. Practically, it offers a roadmap for banks, auditors, and regulators to strengthen audit methodology, enhance auditor competency, safeguard independence, and integrate technological tools to improve efficiency and coverage.

In conclusion, this research reaffirms that effective OSA requires alignment between ethical intent, organisational capacity, and regulatory structure. Without clear definitions, competent and independent auditors, committed governance, and supportive regulatory-technological ecosystems, the promise of OSA as a tool for both compliance and ethical stewardship will remain underrealised. By proposing an integrated framework grounded in both theory and practice, the study provides a foundation for future development, adaptation, and policy-making aimed at embedding OSA as a normative, strategic, and ethical component of Islamic banking in Indonesia.

8.2 Limitations

While this study provides valuable insights into the practice and development of Operational Shari'ah Audit (OSA) in Indonesia, several limitations must be acknowledged to contextualise the findings.

First, the research scope was limited to Full-Fledged Islamic Bank (FFIB) and Sharia Business Units (SBU) in Indonesia. Although references to international practices in Malaysia, Pakistan, and Bahrain informed the conceptual framework, the empirical data were confined to the Indonesian context. This limits the direct generalisability of findings to other jurisdictions with different regulatory and institutional environments.

Second, the sample comprised 14 participants, including 10 internal auditors and four non-internal auditors such as SSB members, audit committee members, external auditors, and a regulator. While purposive and snowball sampling ensured participant relevance, the proportion of regulator and SSB perspectives was limited. This imbalance may have constrained insights into policy-making; however, triangulation with regulatory texts and institutional charters helped to mitigate this limitation.

Third, the study relied primarily on semi-structured interviews and document analysis. Direct observation of audit implementation was not feasible due to confidentiality and access restrictions, and planned focus group discussions were replaced with triangulation of existing data sources. This reduced the opportunity to capture real-time audit dynamics and cross-stakeholder interactions.

Fourth, the interpretive nature of hermeneutic phenomenology means that findings are shaped by the researcher's lens in synthesising multiple perspectives. While reflexive memos, audit trails, and peer debriefing were used to strengthen credibility, the possibility of interpretive bias cannot be entirely eliminated.

Finally, the research was conducted during a period of significant regulatory change, notably with the introduction of POJK 2/2024 and POJK 25/2024. These evolving frameworks may alter the applicability of some findings over time. Accordingly, the proposed framework should be seen as context-sensitive and tied to the regulatory landscape of 2024, with potential for refinement as the environment evolves.

8.3 Research Implications

8.3.1 Theoretical Implications

This study enriches the literature on Islamic auditing by integrating *Maqasid al-Shari'ah* and Islamic Agency Theory into a practical, four-pillar framework for OSA.

It demonstrates that ethical principles—such as justice (‘*adl*), trustworthiness (*amanah*), and transparency (*shafafiyyah*)—can be operationalised alongside conventional governance mechanisms to enhance audit effectiveness. The framework extends the theoretical understanding of *Value-Based Governance* and *Spiritual Accountability*, showing their applicability beyond normative discourse into operational audit processes. Future research could test and refine this framework in other jurisdictions or through quantitative studies, exploring causal links between the identified enablers/inhibitors and audit performance outcomes.

8.3.2 Practical Implications

For Islamic banks, the framework offers a roadmap to improve audit methodology by integrating ethical objectives, enhancing procedural clarity, and adopting digital tools for efficiency and risk-based coverage. Senior management can use the findings to strengthen governance alignment, resource allocation, and cross-unit coordination, particularly between audit teams, SSB, and compliance units.

For internal Shari’ah auditors, the study underscores the need for dual competence in Shari’ah and audit methodologies. Targeted certification, multidisciplinary training, and exposure to diverse audit contexts can address current skill gaps. The findings also reinforce the importance of maintaining structural independence to safeguard audit objectivity.

For Shari’ah Supervisory Boards (SSB/SSB), the research highlights the necessity of stronger technical capacity, more active engagement in audit processes, and closer collaboration with internal audit units. Moving beyond a compliance-signoff role towards proactive Shari’ah risk monitoring can enhance their contribution to governance.

For regulators, the insights suggest the potential benefits of issuing more prescriptive OSA standards, harmonising terminology, and setting competency benchmarks for both auditors and SSB. Additionally, incorporating digital audit infrastructure requirements into regulatory frameworks could accelerate sector-wide adoption.

8.3.3 Policy Implications

At the national policy level, the findings support the development of a standardised Shari'ah audit framework that aligns institutional practices across the Islamic banking sector. Such a framework should embed maqasid-based objectives, competency requirements, and technological integration as core elements.

Regulatory bodies like OJK and Bank Indonesia could consider expanding the scope of Shari'ah governance regulations to include explicit operational audit guidelines, ensuring both ethical compliance and operational efficiency. This may include formalising SSB roles, enhancing their independence, and providing structured capacity-building programmes.

From a technological policy perspective, mandating system integration for Shari'ah compliance monitoring—particularly in high-risk financing—could improve audit reach and reliability. Public education initiatives on Shari'ah-compliant banking would further create a more informed customer base, indirectly supporting stronger governance and audit outcomes.

In sum, this dissertation has sought to advance both the scholarly and practical understanding of Operational Shari'ah Audit in Indonesia by bridging theoretical ideals with the lived realities of practice. By integrating *Maqasid al-Shari'ah* and Islamic Agency Theory, the study has provided a framework that is not only conceptually robust but also grounded in empirical evidence. While the findings confirm the progress made in strengthening Shari'ah governance, they also reveal persistent gaps in clarity, competence, commitment, and integration that must be addressed for OSA to fulfil its ethical and operational potential. The recommendations outlined herein offer a pathway for Islamic banks, auditors, SSB, and regulators to collectively enhance audit effectiveness, safeguard independence, and embed ethical values into daily practice. Ultimately, the vision for OSA in Indonesia is one of a governance tool that transcends compliance—serving as a strategic instrument for value creation, public trust, and the realisation of Shari'ah's higher objectives in the modern financial landscape.

8.3.4 Methodological Contribution

This study makes a methodological contribution by applying a hermeneutic phenomenological approach and a two-stage research design to the study of Shari'ah audit, an approach that remains underutilised in Islamic governance research.

The use of hermeneutic phenomenology enabled an interpretive shift from describing audit practices to examining how meaning is constructed by practitioners within organisational and regulatory contexts. Drawing on Ricoeur's distanciation, the hermeneutic circle, and Gadamer's fusion of horizons, the analysis exposed interpretive tensions between operational pragmatism and normative Shari'ah governance, as well as between individual ethical conviction and institutional codification—dimensions that are typically less visible in survey-based or conventional content analysis approaches. This demonstrates the value of hermeneutic phenomenology in capturing the lived and situated nature of Shari'ah audit practice within Islamic financial institutions.

The study's two-stage design further strengthens its methodological originality. By combining systematic literature review and conceptual framework development in Stage 1 with empirical validation and refinement in Stage 2, the research ensured both theoretical grounding and field-based verification of the proposed framework. This addresses a common limitation in Shari'ah audit studies, where frameworks are often developed either from literature without empirical testing or from empirical observation without strong theoretical integration.

In addition, the integration of documentary triangulation—using internal audit charters and regulatory texts alongside interview data—advances methodological practice in this field. Rather than treating institutional documents as contextual background, this study positions them as independent analytical sources that can confirm, nuance, or challenge practitioner accounts, thereby strengthening the robustness of interpretive findings.

8.4 Future Research Directions

While this study has provided a comprehensive exploration of Operational Shari'ah Audit (OSA) practices in Indonesia, further research is needed to expand, validate, and deepen the insights presented here. One promising avenue lies in conducting comparative studies across different jurisdictions, such as Malaysia,

Bahrain, and Pakistan, to examine how varying regulatory landscapes shape the institutionalisation of OSA. Such cross-country work could highlight context-specific adaptations as well as identify universal principles that strengthen Shari'ah governance.

Future studies could also adopt quantitative or mixed-method approaches to test and refine the proposed framework. Large-scale surveys or structural equation modelling may provide statistical validation of the relationships between enablers, inhibitors, and audit effectiveness identified in this dissertation. This would complement the qualitative findings and allow researchers to assess causal pathways and generalisability across a wider population of Islamic financial institutions.

Another important direction involves longitudinal research that tracks the impact of evolving regulations—particularly POJK 2/2024 and POJK 25/2024—on the practice of OSA over time. Observing how Islamic banks interpret and operationalise these requirements, how governance actors (especially the SSB, audit committee, and internal audit function) adjust their roles and reporting lines, and how audit scope, methodology, and technological integration evolve in response would provide clearer evidence on whether regulatory reforms translate into stronger and more consistent Shari'ah governance in practice. Such longitudinal insights could also support ongoing refinement of the proposed framework, ensuring it remains responsive to regulatory change and the shifting risk landscape of Islamic banking in Indonesia.

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APPENDICES

APPENDIX 1

Interview Protocol

Study Title: Developing a Conceptual Framework for Operational Shari'ah Audit in Indonesian Islamic Banks: A Qualitative Study

Researcher: Sri Sulistyowati

Ethics Approval: UiTM Research Ethics Committee, Approval No. REC/11/2023 (PG/MR/461), 5 December 2023

Methodological Note

This protocol guided the semi-structured interviews conducted during the fieldwork phase of this study (December 2023 – November 2024). The interview guide was developed based on the initial three-pillar conceptual proposal — Conceptual Clarity, ISA Competency and Independence, and Organisational Commitment — derived from the literature review available at the design stage. The fourth pillar, Regulatory and Technological Integration, emerged subsequently from the extended literature review and the analytical interpretation of recurring themes in participant narratives, as explained in Sections 4.4.4 and 6.3.4 of this thesis. References to regulatory and technological matters in the transcripts therefore arose primarily through participant-led elaboration and contextual probing during interviews, rather than from pre-formulated questions.

In line with the semi-structured interview approach, the questions below served as a core guide. Probing questions and follow-up prompts were adapted to each participant's role (Internal Auditor or Non-Internal Auditor stakeholder), professional experience, and the flow of the conversation.

Part I: Pre-Interview Procedures

The following procedures were applied prior to every interview:

1. Verification of signed informed consent form
2. Testing of primary and backup audio recording devices
3. Conducting the interview in a private setting (in-person or secure video conference)
4. Assignment of a unique anonymity code to each participant (e.g., IA1, IA2, Non-IA1)
5. Verbal reconfirmation of consent recorded at the start of each session

Part II: Interview Opening

Participant Information

Anonymity Code	_____
Organisation Type	Full-fledged Islamic Bank / Shari'ah Business Unit / Regulator / SSB / External Audit
Date and Time	_____

Operational Definition Shared with Participant

> *"For the purposes of this study, Operational Shari'ah Auditing (OSA) is defined as providing information and assurance about the quality of the management of the organisation. It assesses the economy, efficiency, effectiveness, and Islamic ethics (the 4Es) of organisational management by examining resource use, information systems, delivery of outputs, and outcomes — including performance indicators, monitoring systems, and legal and Shari'ah ethical compliance — while suggesting ways management practices might be improved."*

Professional Background

1. How many years have you been in your current position?
2. Briefly describe your experience in either managing or conducting Operational Shari'ah Audits.

Part III: Core Interview Questions

Pillar 1: Conceptual Clarity

Sub-theme 1.1 — Clear Concept of OSA and the 4Es

1. Internal Shari'ah auditors have reported that the concept of the 4Es (economy, efficiency, effectiveness, and ethics) remains ambiguous in operational Shari'ah auditing practice. To what extent do you agree with this observation?
2. How many OSAs aligned with the definition above have you conducted on a yearly basis? Could you provide examples?
3. If you consider the 4Es insufficient as audit criteria, what additional objectives or criteria should OSA address?

Sub-theme 1.2 — Terminology

4. What term does your department use to describe operational Shari'ah audits (e.g., operational audit, management audit, performance audit, value for money audit)?
5. In your opinion, do these varied terms contribute to confusion regarding the scope, inputs, and outputs of OSA?
6. Would you support the adoption of "Operational Shari'ah Auditing" as a single standard term for future use?

Sub-theme 1.3 — Methodology and Evidence Gathering

7. How do you respond to the observation that there is no clear methodology for operational Shari'ah auditing?
8. What challenges have you encountered in gathering reliable evidence during OSAs — particularly given the subjective nature of judgement, potential auditee-auditor conflict, or auditees' perceptions of the audit process?
9. Have you experienced situations where significant performance issues were omitted from OSA reports due to insufficient supporting evidence or unreliable performance measures?
10. What are your views on the subjectivity and standardisation challenges in measuring performance against the 4Es?

Pillar 2: ISA Competency and Independence

Sub-theme 2.1 — Audit Committee and Governance Support

11. How important is audit committee support for the effective conduct of OSA?
12. Some literature suggests that audit committees lack sufficient authority to support the Internal Audit Function. What is your view on this?
13. What is the level of internal auditor independence from management in your organisation?
14. Does the inclusion of consulting activities within the OSA process affect auditor independence?
15. To what extent does management within your organisation support and facilitate the practice of OSA?

Sub-theme 2.2 — Resource Adequacy

16. OSAs are often described as time-consuming. Has the time factor affected the conduct of OSAs in your organisation, including the timeliness of reports?
17. Are you satisfied with the current professional staff resources available for conducting OSAs?
18. In your opinion, what skills and experience are essential for conducting effective OSAs?
19. Given your audit budget, what is your prioritisation between financial audits and OSAs?
20. Has budget limitation ever constrained the number or scope of OSAs conducted?

Pillar 3: Organisational Commitment

Sub-theme 3.1 — Management Support and Knowledge

21. How does the quality of the auditor-management relationship affect the implementation of OSA recommendations?

22. Have you experienced management resistance to OSAs? If so, what reasons did you observe?

23. In your view, what is the level of management understanding regarding the benefits of OSA?

24. Does management's understanding of OSA influence the acceptance and implementation of its recommendations?

25. Has management raised complaints about the quality or practicability of OSA recommendations? If so, what were the typical concerns (e.g., staff capability, time factor, findings being too theoretical)?

Sub-theme 3.2 — Auditor-Auditee Interactions

26. Have you encountered negative reactions from auditees in accepting audit recommendations? What do you consider to be the underlying reasons?

27. How can internal auditors reduce such negative reactions?

28. To what extent do positive auditor-auditee interactions enhance the acceptance of OSA recommendations by management?

Sub-theme 3.3 — Organisational Structure and Culture

29. How important is a clear organisational structure — with defined responsibilities and authority — for the effective practice of OSA?

30. To what extent does a professional corporate culture facilitate effective OSA conduct and the acceptance of its findings?

Part IV: Closing

31. Before we conclude, is there anything else regarding the enabling factors or challenges of Operational Shari'ah Auditing that you feel is important and that we have not covered?

Part V: Post-Interview Procedures

The following procedures were applied after every interview:

1. Verification of audio file integrity and backup

2. Recording of reflective field notes regarding participant tone, hesitations, and contextual observations

3. Transfer of audio file to encrypted, password-protected storage labelled with the anonymity code only

4. Member checking — transcripts were shared with participants who requested verification, in line with the validity procedures outlined in Section 5.7.

APPENDIX 2

Research Ethic

REC 2 / 2019 Rev 3 (2020)

Research Ethics Committee
Research Management Centre
Universiti Teknologi MARA
40450 SHAH ALAM
Tel: 03-5544-8069, Faks: 03-5544-2096/2767

Borang Klasifikasi Risiko Kajian
Research Risk Classification Form

Tajuk Penyelidikan : *Title of Research Project :*	Implementation of Operational Shari'ah Audit Framework for Indonesian Islamic Banks
Nama Penyelidik : *Name of Researcher :*	SULISTYOWATI SRI
Nama Penyelia : *Name of Supervisor :*	DR. DALILA BT DAUD
Alamat Jabatan : *Department Address :*	ACCOUNTING RESEARCH INSTITUTE ARAS 12 MENARA SAAS UNIVERSITI TEKNOLOGI MARA SHAH ALAM 40000 ,SHAH ALAM (SEKSYEN 2-8 & 14 [PUSAT BANDA , SELANGOR
No.Telefon /Emel : *Contact No /Email :*	081225194185 / 2021434498@student.uitm.edu.my

Sekiranya jawapan anda 'Ya' kepada mana-mana soalan di bawah, sertakan maklumat ringkas di ruang yang disediakan. Sila jawab SEMUA soalan.
If your answer is 'Yes' to any of the following questions, please include a brief information in the space provided. Please answer ALL questions.

SUBJECTS' PROFILE	No	Yes	Brief description
1. Adakah subjek kanak-kanak (Umur di bawah 18 tahun)? *Are the subjects children (under 18 years old)?*	☑	☐	
2. Adakah subjek daripada golongan rentan? (cth: kecelaruan mental, kelainan keupayaan intelektual, berkeperluan khas, minoriti dan sebagainya.) *Are the subjects from a particular vulnerable group? (e.g. mental disorder, mentally challenged, disabled, minority, disadvantaged group etc.)*	☑	☐	
3. Adakah subjek/pesakit ini memerlukan rawatan terminal? *Are any of these subjects/patients in terminal care?*	☑	☐	
4. Adakah subjek tidak boleh atau tidak berupaya memberi izin? (spt: izin akan diambil secara tidak langsung daripada penjaga sah dan sebagainya.) *Are any of these subjects unable or are incapable of giving consent? (i.e. consent will be obtained indirectly from a legal guardian etc.)*	☑	☐	
5. Adakah subjek diberi sebarang emolumen untuk menyertai kajian? *Are the subjects given any form of emolument to participate?*	☑	☐	

RISK OF HARM	No	Yes	Brief description
9. Adakah anda akan mengumpul sampel biologi contohnya. cecair badan? (jika 'Tidak', teruskan ke Soalan 14.) *Will you be collecting biological samples e.g. body fluids? (if 'No', go to Question 14.)*	☑	☐	
10. Adakah anda mempunyai akses kepada apa-apa maklumat yang akan membolehkan pengenalpastian subjek secara individu? *Do you have access to any information that will allow the identification of individual human subjects?*	☑	☐	
11. Adakah kaedah pengumpulan invasif dan berpotensi menyebabkan kemudaratan, kesakitan atau ketidakselesaan? (kecuali tusukan jari, tumit, telinga.) *Is the collection method invasive and has the potential to cause harm, pain or discomfort? (except finger, heel, ear prick.)*	☑	☐	
12. Adakah subjek akan melalui ujian fizikal atau senaman berintensiti tinggi? (jika 'Tidak', teruskan ke Soalan 16.) *Will the subjects be subjected to vigorous physical tests or exercise regime? (if 'No', go to Question 16.)*	☑	☐	
13. Adakah subjek bukan atlet atau pesakit dengan penyakit kronik? *Are the subjects non-athletes or patients with chronic illness?*	☑	☐	
14. Adakah mereka akan melalui senaman berintensiti maksimum? *Will they be subjected to maximal exercise intensity?*	☑	☐	
15. Adakah terdapat sebarang prosedur/ ubat yang terlibat? *Is there any form of procedure/ medication involved?*	☑	☐	
16. Adakah terdapat ubat atau peranti yang digunakan dengan tanpa indikasi yang diluluskan? *Is there any drug or device used with an unapproved indication?*	☑	☐	
17. Adakah keizinan kajian telah didapati daripada sesiapa selain pesakit/subjek? *Can the informed consent be obtained from anyone other than the patient/subject?*	☑	☐	
18. Adakah terdapat sebarang kemudaratan kepada subjek jika dia memilih untuk menarik diri? *Is there any kind of risk to the subject if he/she chose to withdraw?*	☑	☐	
19. Adakah sampel yang dikumpul akan disimpan untuk penyelidikan di masa hadapan? *Will the samples obtained be stored for future research?*	☑	☐	
20. Adakah anda bercadang untuk menganalisa sampel selain tujuan asal ia dikumpulkan? *Do you propose to analyse the sample outside of the original purpose for which it was collected?*	☑	☐	
21. Jika 'Ya' pada No. 20, adakah anda mendapat persetujuan daripada peserta untuk tujuan ini? *If 'Yes' to No. 20, have you obtained consent from participants for this purpose?*	☑	☐	
22. Apakah jenis sampel biologi yang dikumpul? (Sila nyatakan jumlah dan kekerapan.) *What type of biological samples collected? (Please indicate amount and frequency.)*	☑	☐	

OTHER ETHICAL ISSUES	No	Yes	Brief description
22. Adakah terdapat sebarang isu etika lain yang tidak dinyatakan dalam senarai semak ini? *Are there any other ethical issues not stated in this checklist?*	☑	☐	

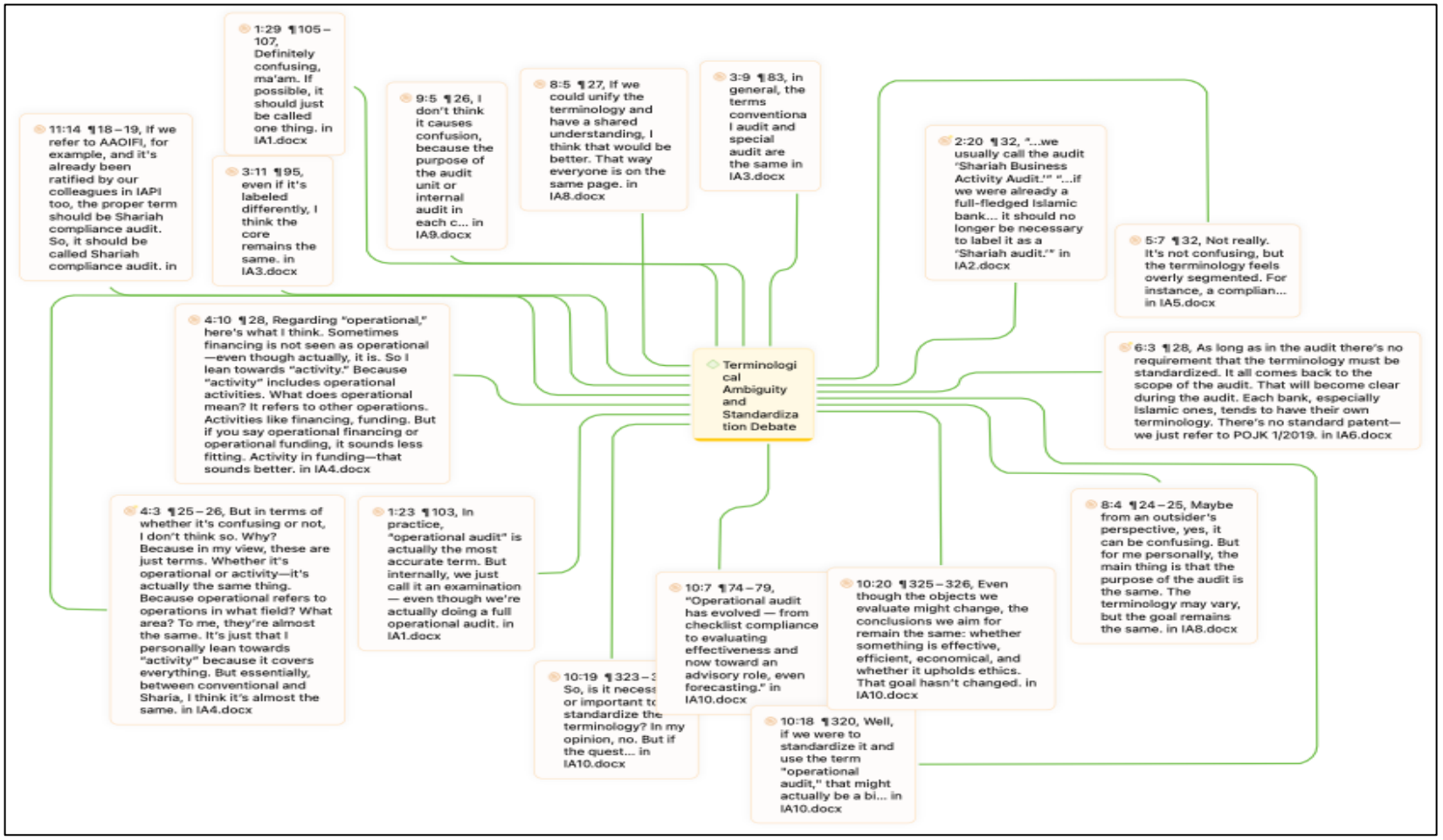
PRIVACY AND CONFIDENTIALITY	No	Yes	Brief description
6. Adakah data yang dikumpul berpotensi untuk menyebabkan ketidak selesaan, keaiban atau gangguan psikologi kepada subjek? (cth: orientasi seksual dan sebagainya.) *Does any of the data collected have the potential to cause discomfort, embarrassment, or psychological harm to the subjects? (e.g. sexual orientation etc.)*	☑	☐	
7. Adakah penyelidikan anda melibatkan langkah-langkah yang tidak dimaklumkan kepada subjek? (cth: pemerhatian rahsia dan sebagainya.) *Does your research involve measures undeclared to the subjects? (e.g. covert observations etc.)*	☑	☐	
8. Adakah data yang dikumpulkan akan didedahkan kepada pihak lain yang tidak terlibat dalam penyelidikan? (cth. agensi kerajaan) *Will the collected data be made available to other parties not involved in the research? (e.g. government agencies)*	☑	☐	

APPENDIX 3

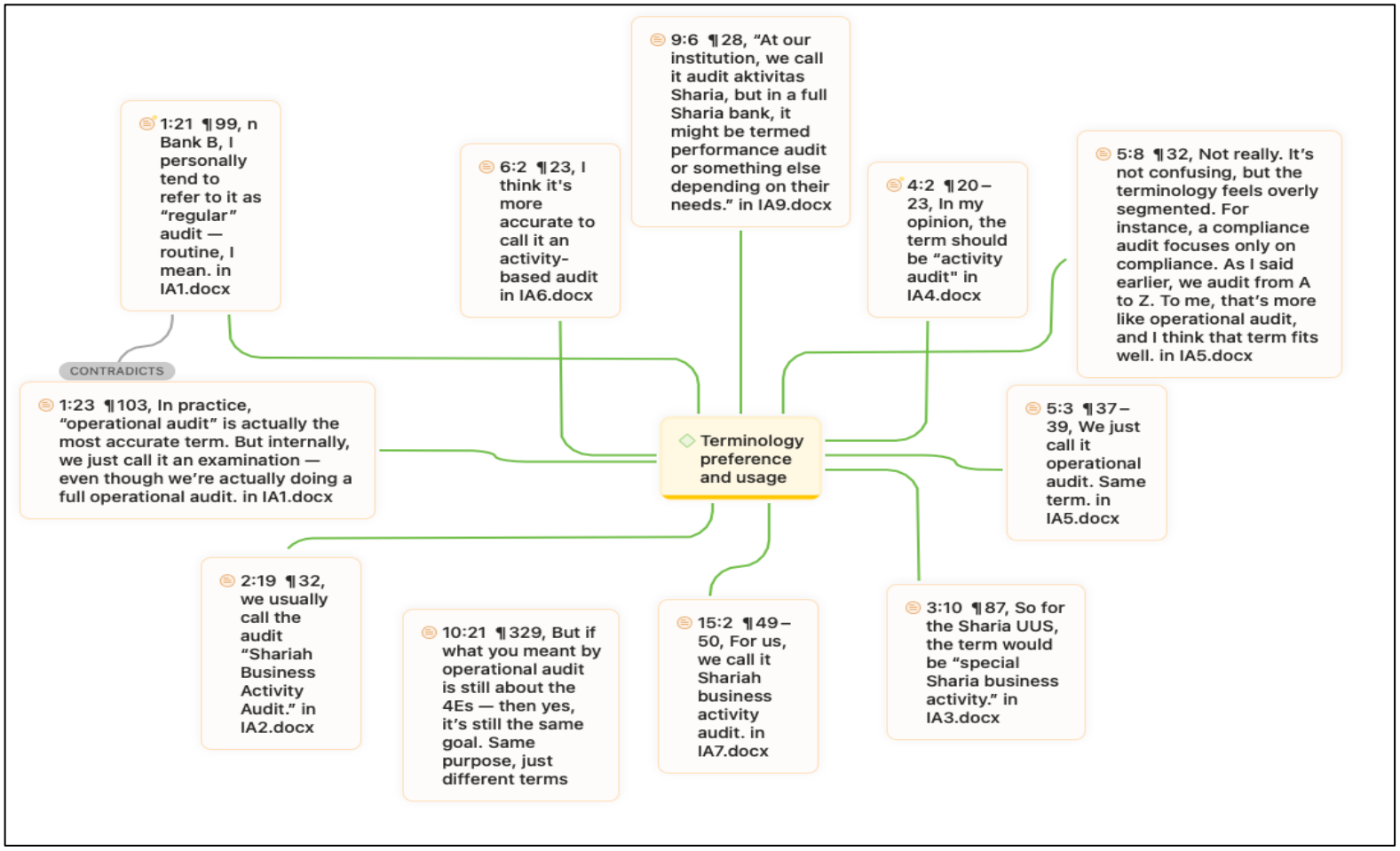
Visual Network For Each Code

Note: All network visuals in this appendix were generated in ATLAS.ti 25 from the author's coding of interviews and documents (2024–2025). To keep the figures readable, only the main codes and recurring links are displayed; isolated items and single-occurrence links are hidden. No data were deleted.

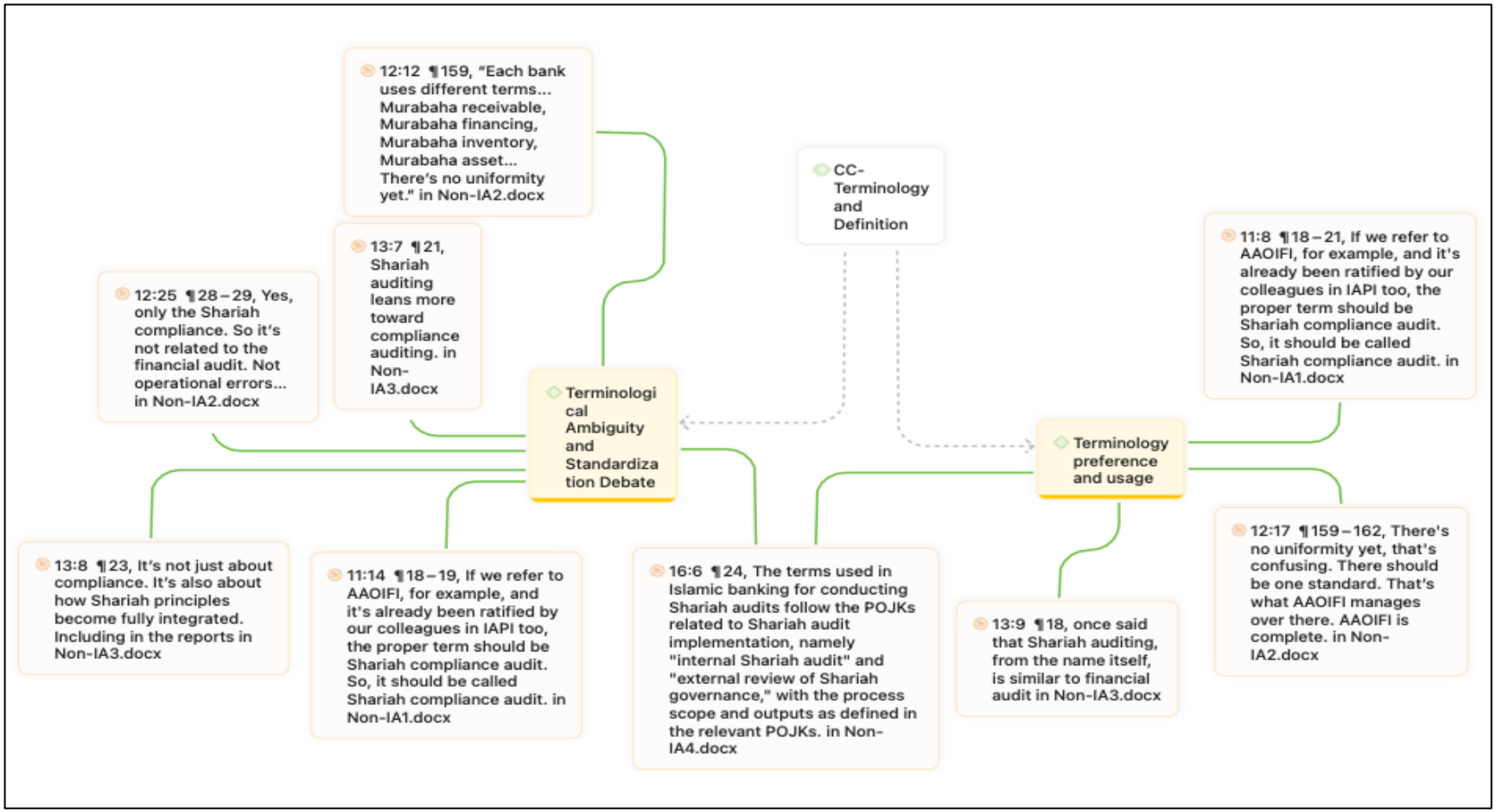
1) Network view — IA Perspective Toward Terminological Ambiguity and Standardization Debate



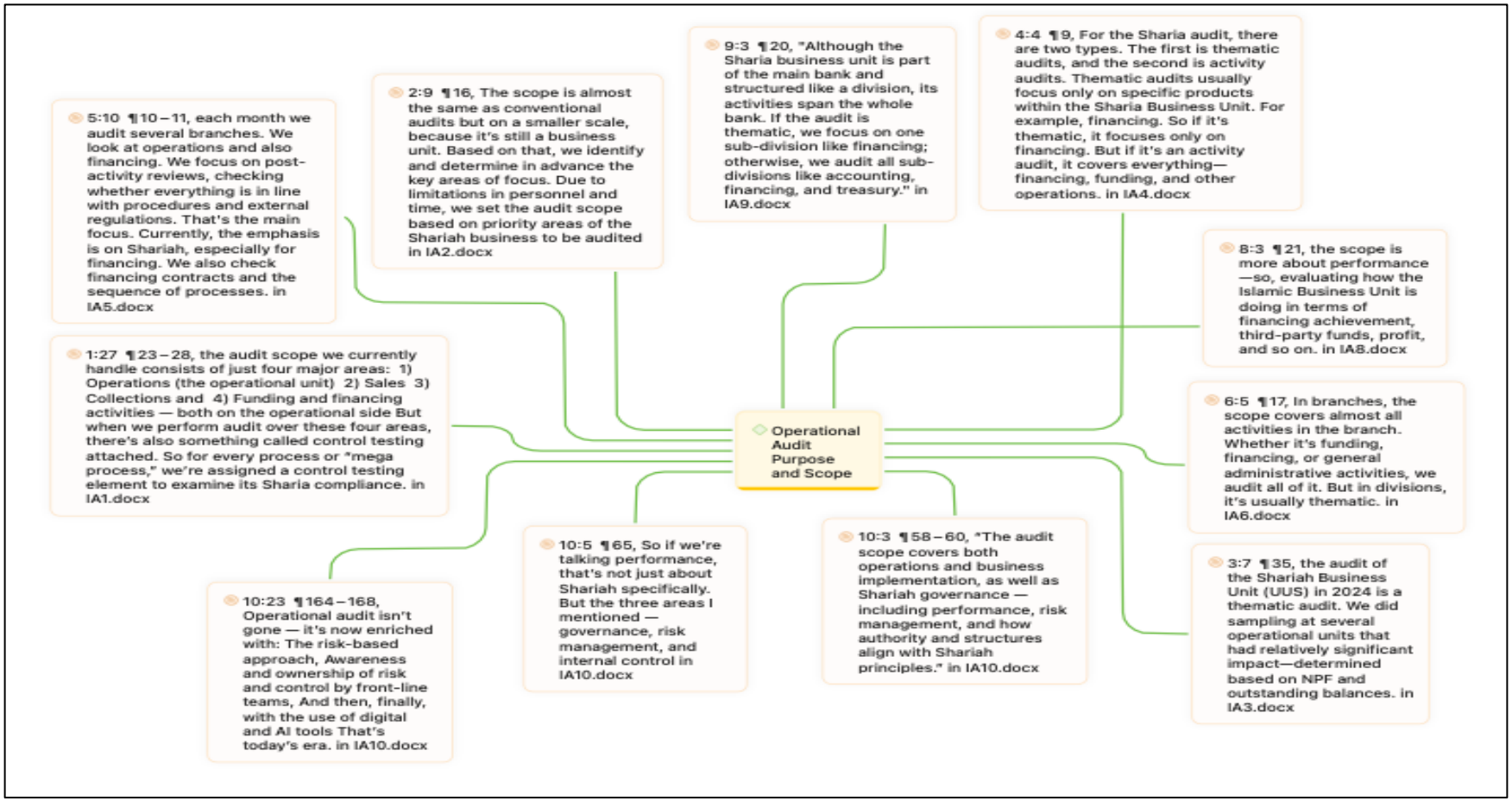
2) Network View – IA Perspective Toward Terminology Preference and Usage



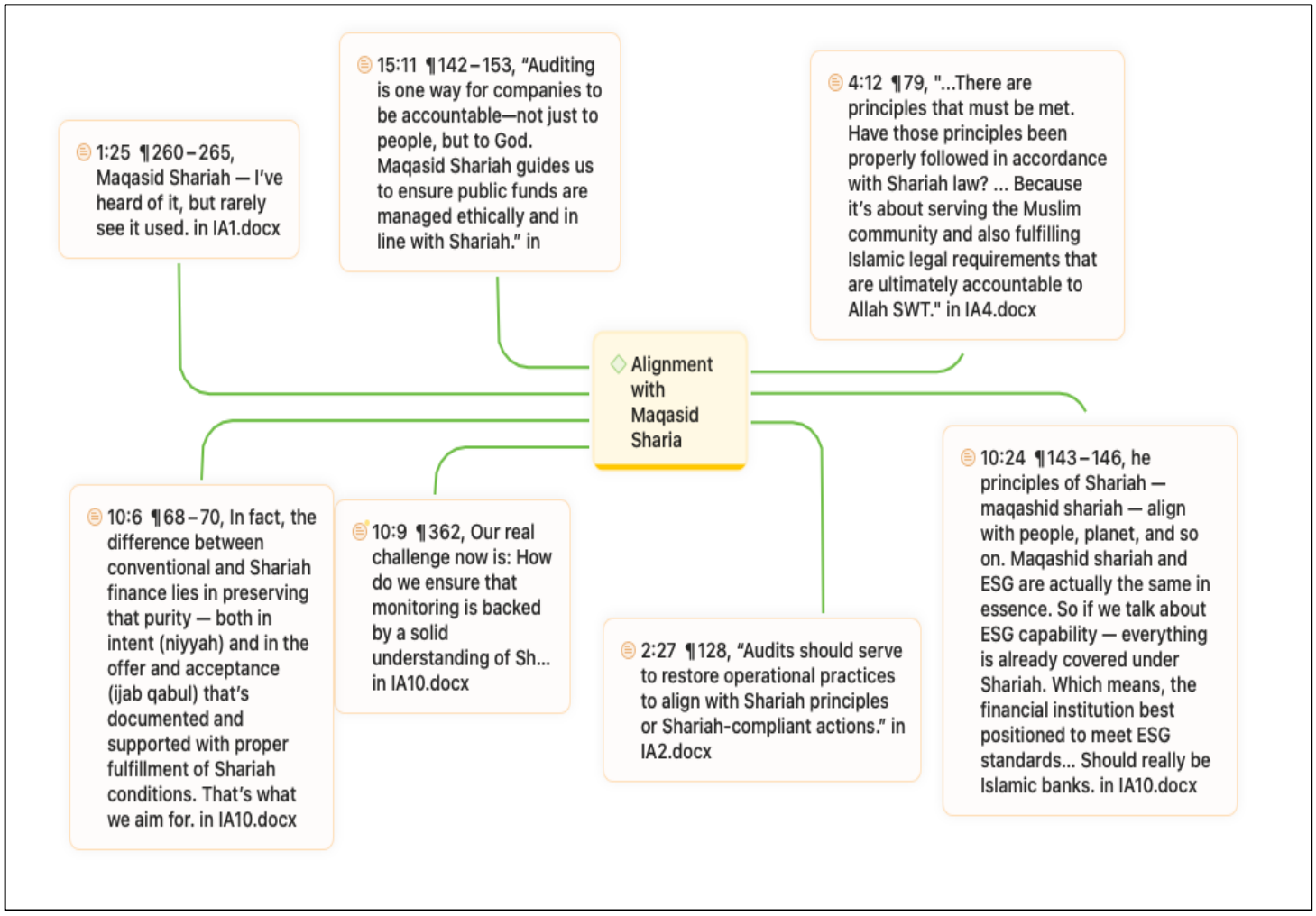
3) Network View – Non Internal Auditor Perspective Towards Terminology and Definition



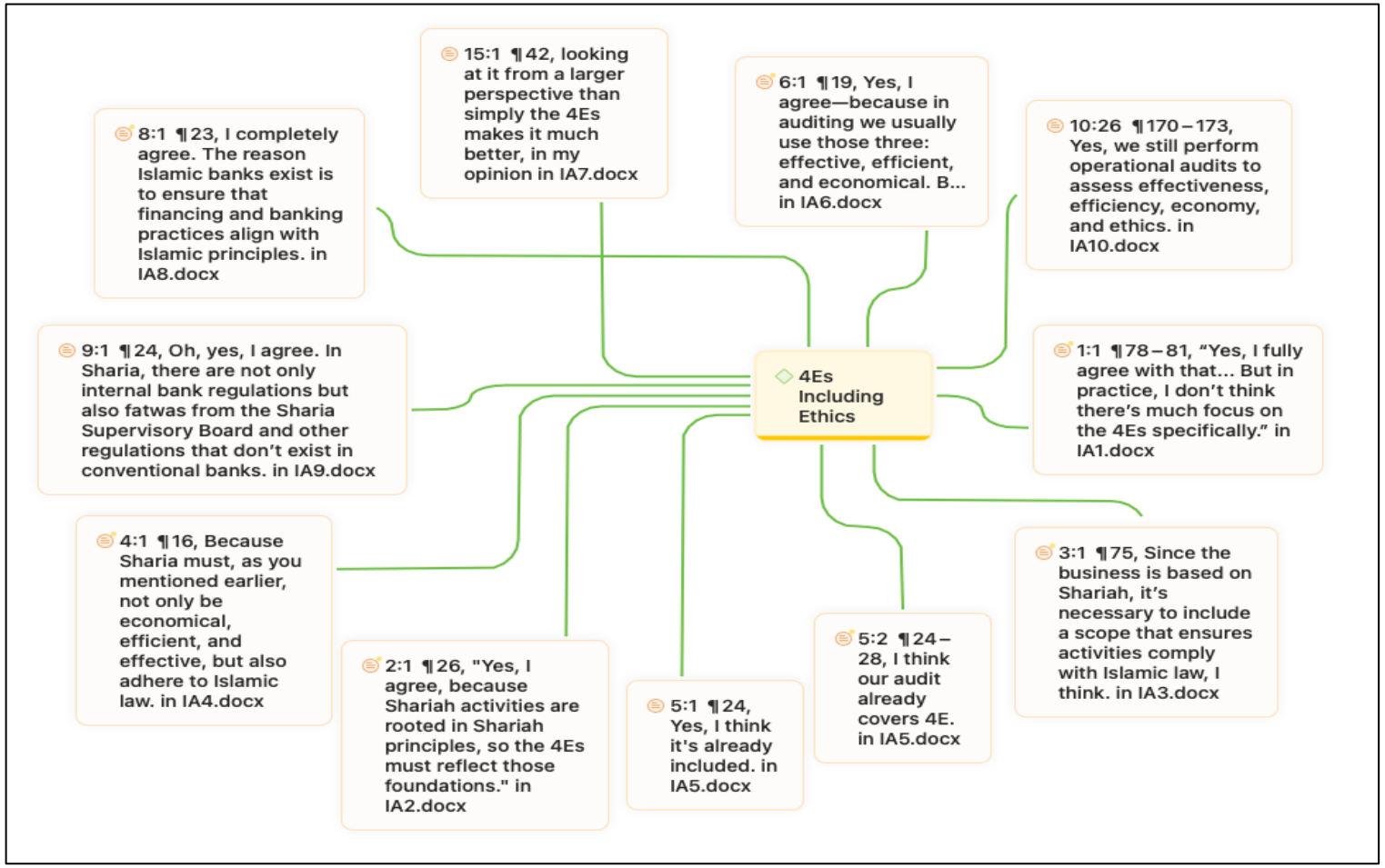
4) Network View – IA Perspective Towards Operational Audit Purpose and Scope



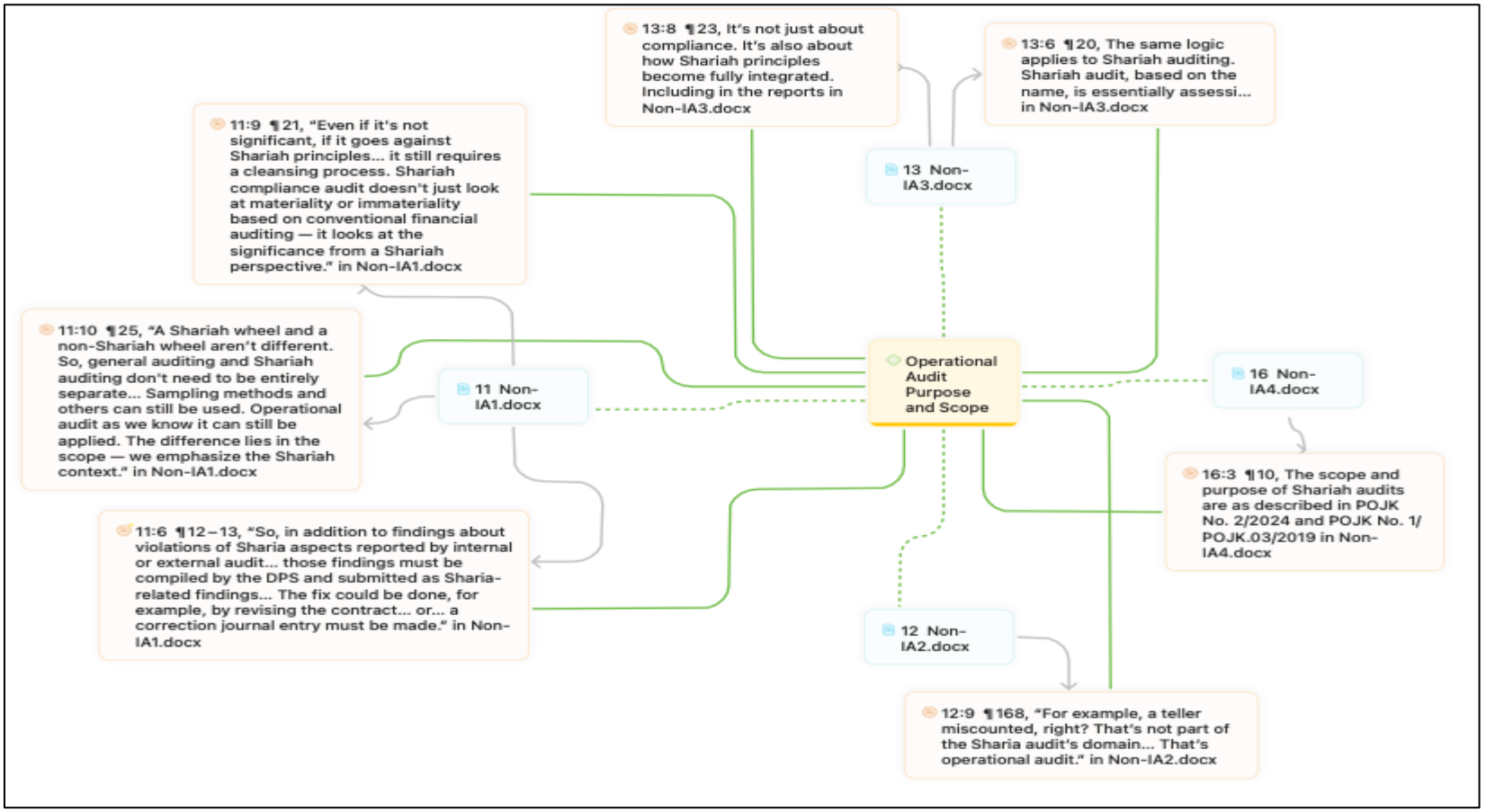
5) Network View – IA Perspective Toward Alignment with Maqasid al-Shari'ah



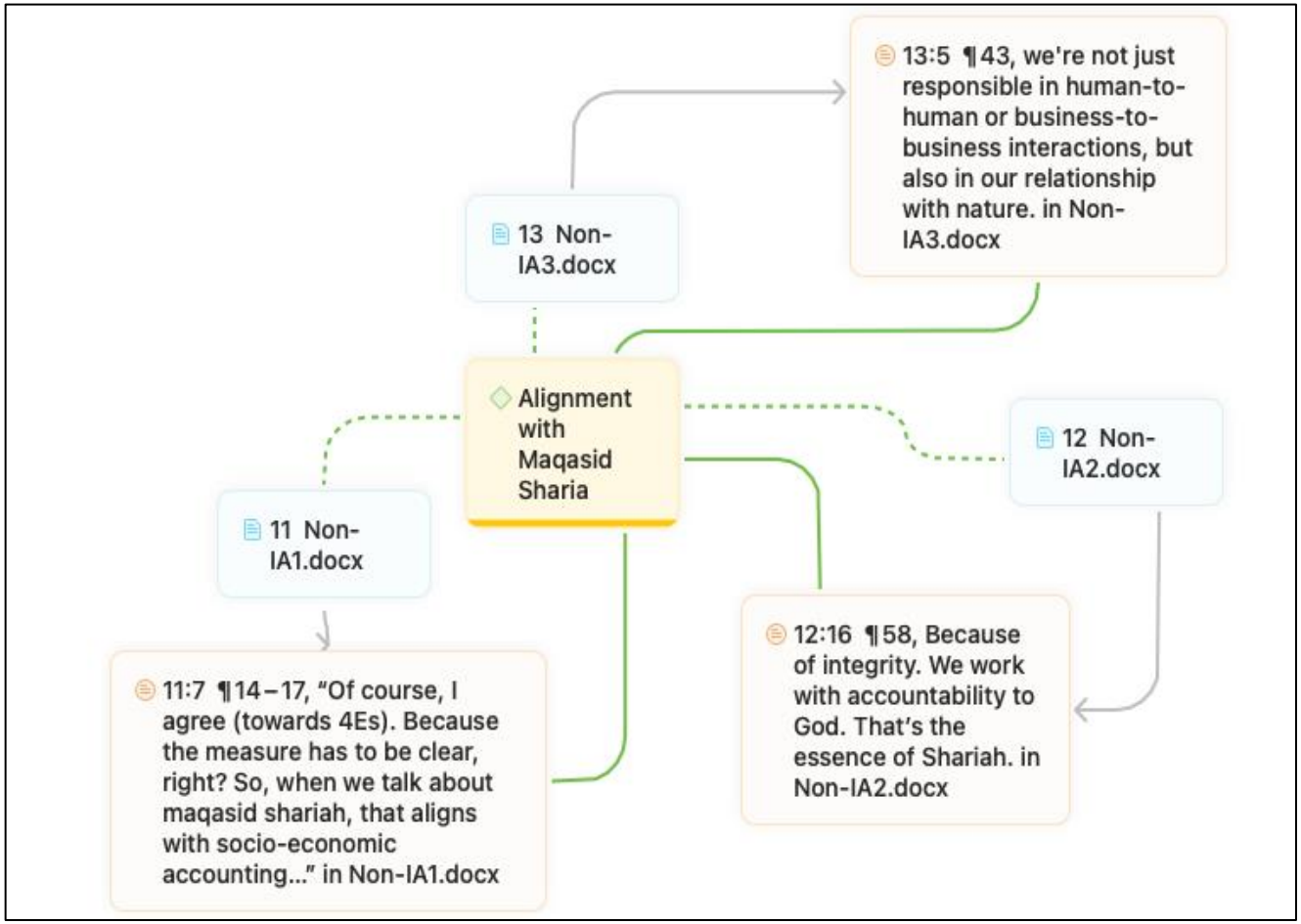
6) Network View – – IA Perspective Toward 4Es Including Ethics



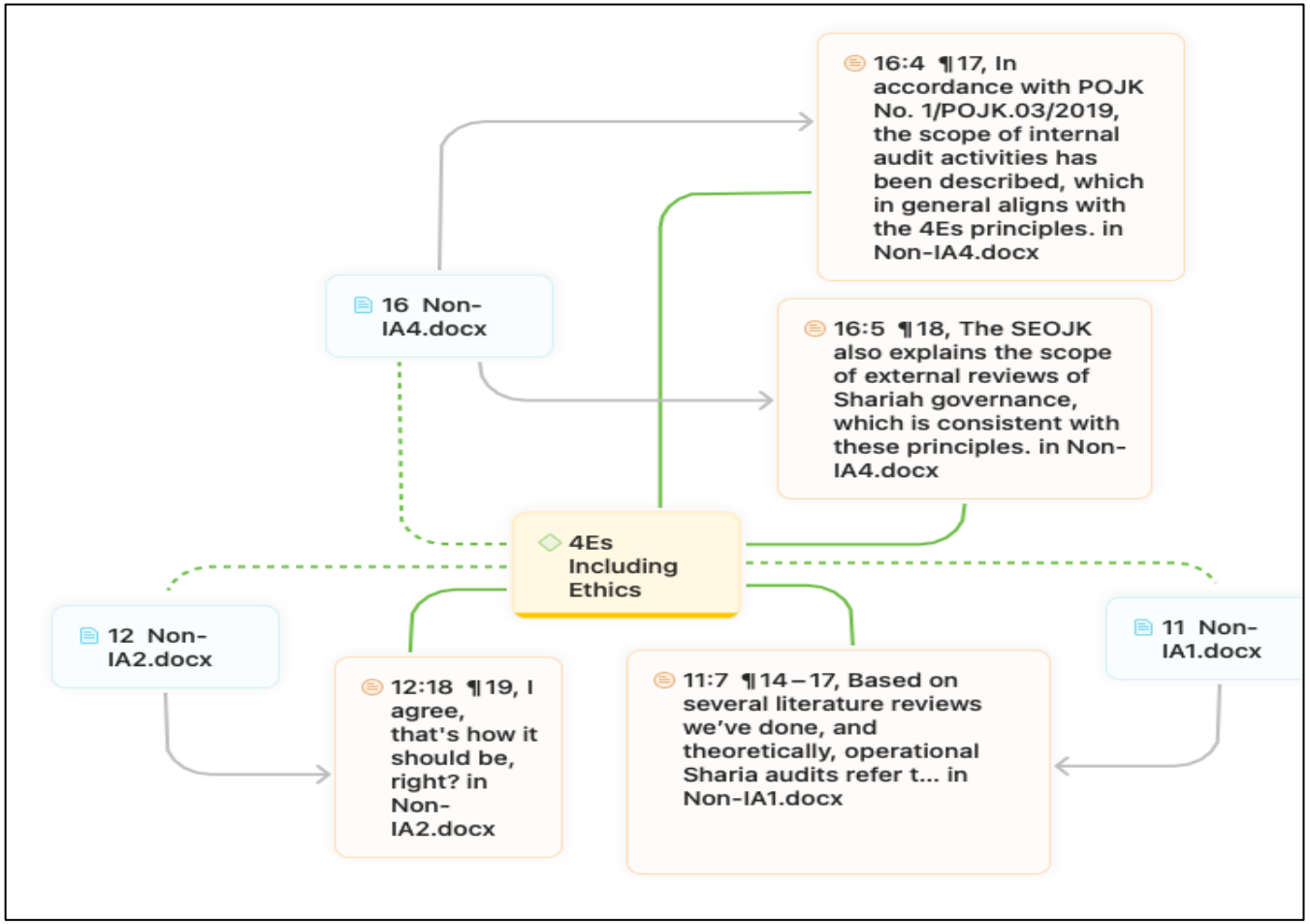
7) Network View – Non IA Perspective Toward Operational Audit Purpose and Scope



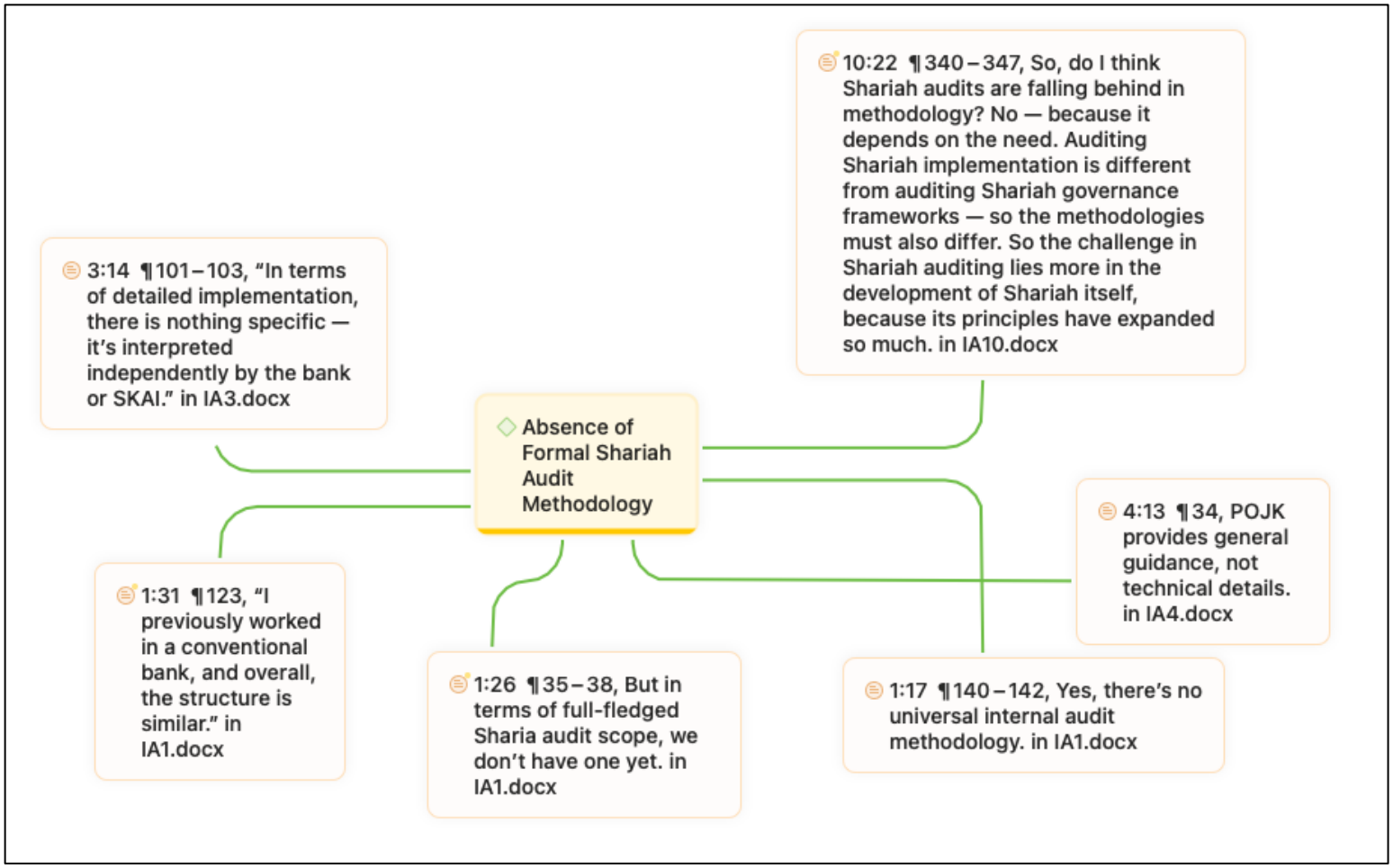
8) Network View – Non IA Perspective Toward Alignment with Maqasid Shari'ah



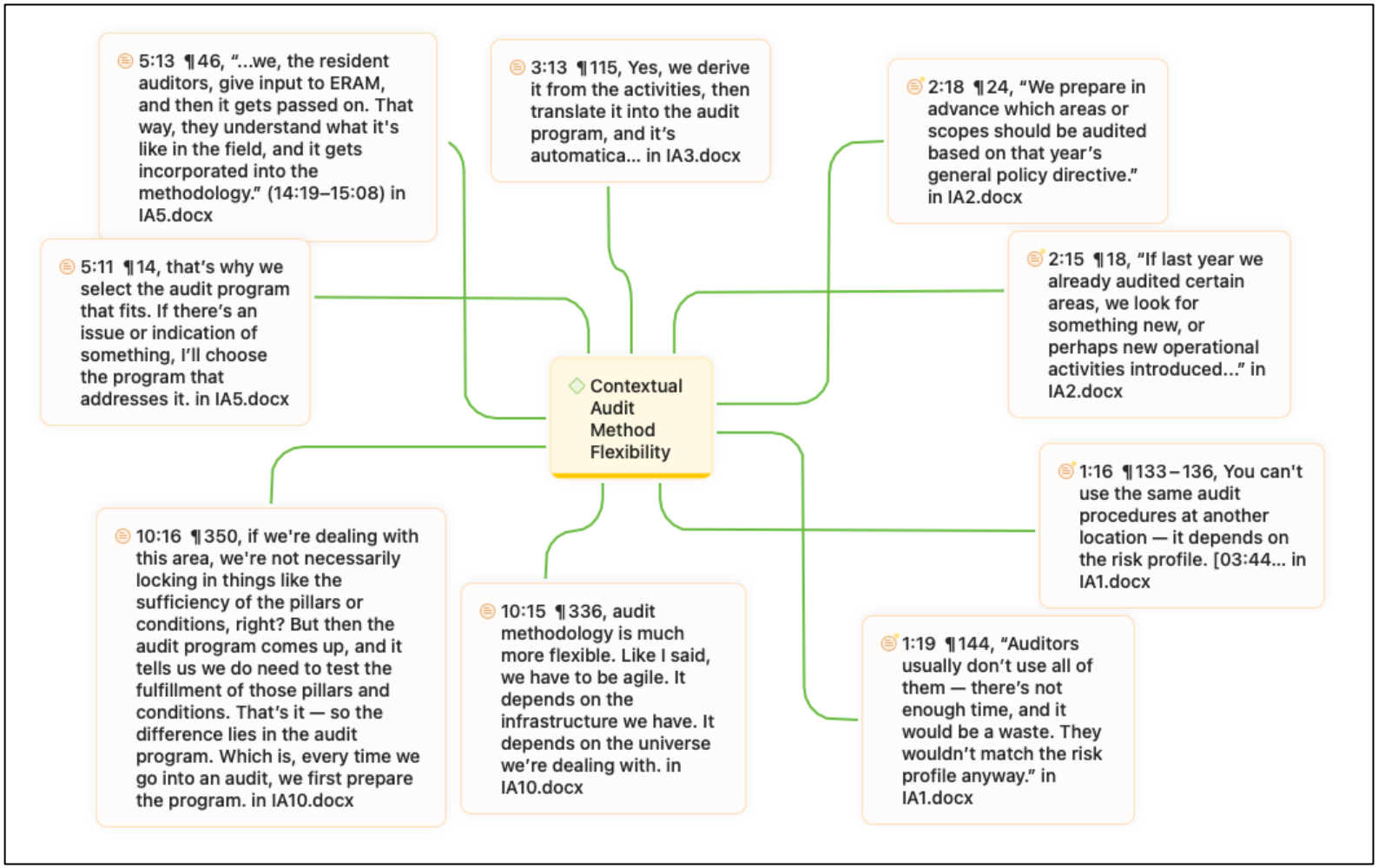
9) Network View – Non IA Perspective Toward 4Es Including Ethics



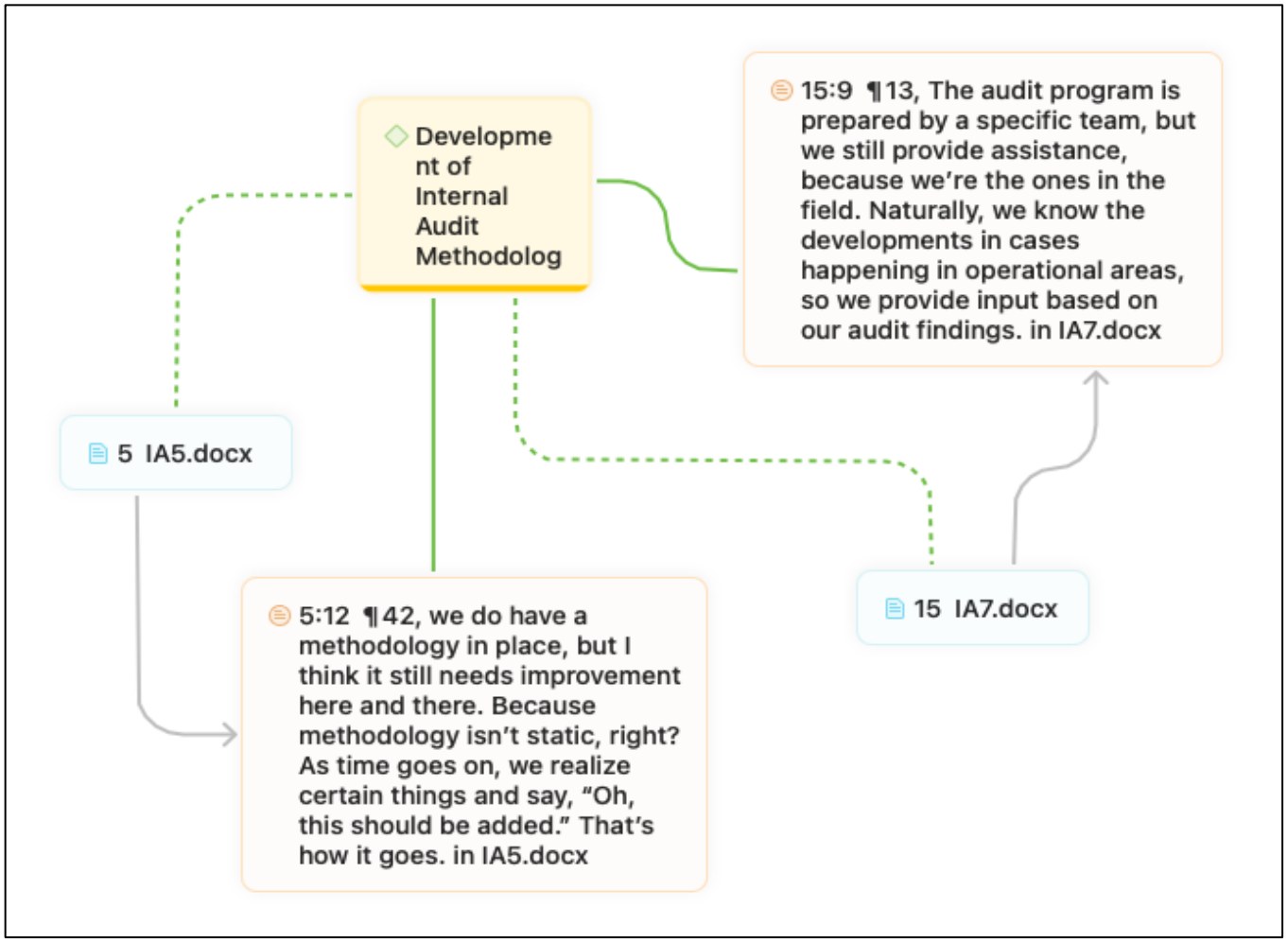
10) Network View – Internal Auditor Perspective Toward Absence of Formal Shari'ah Audit Methodology



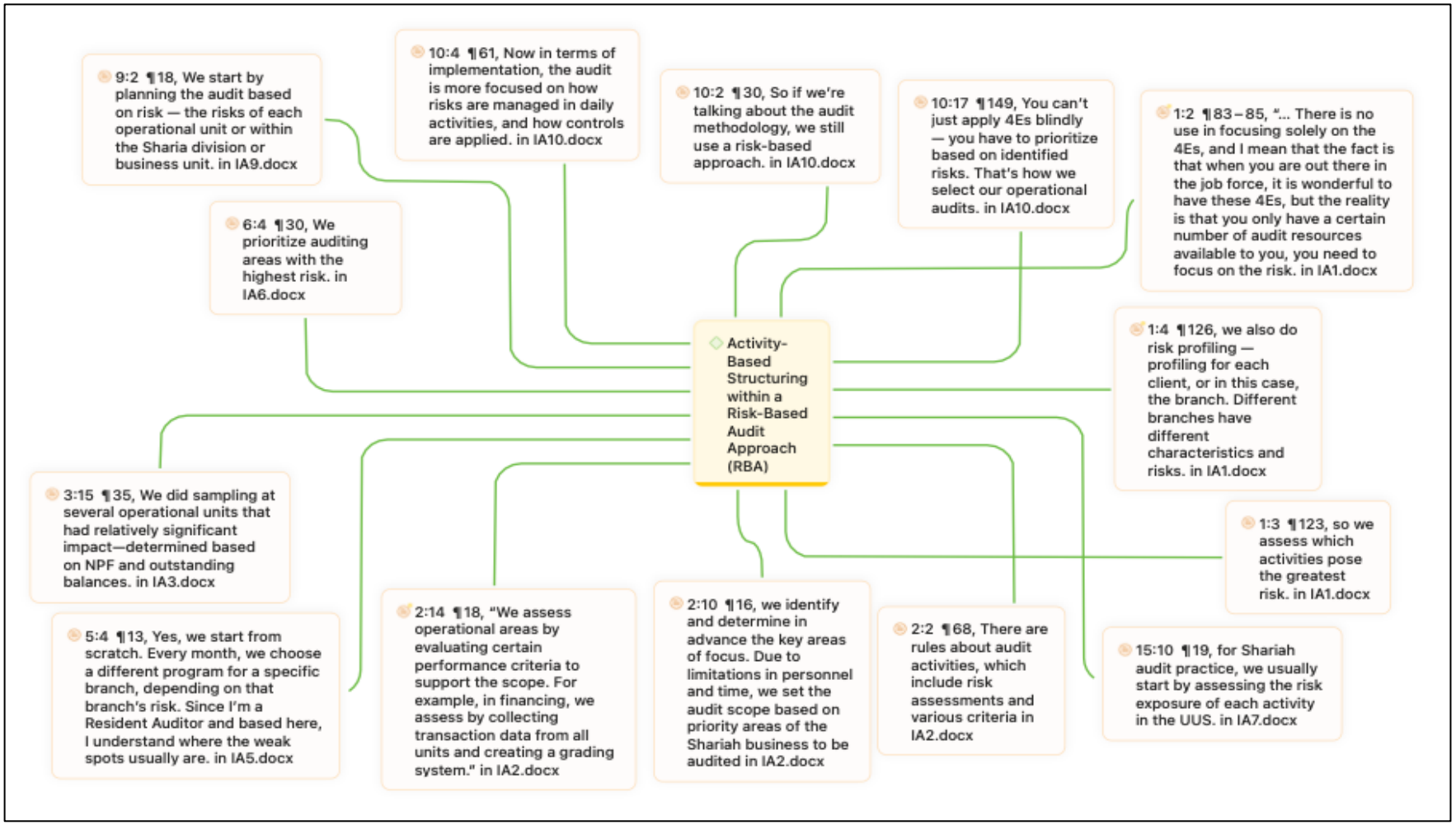
11) Network View – Internal Auditor Perspective Toward Contextual Audit Method Flexibility



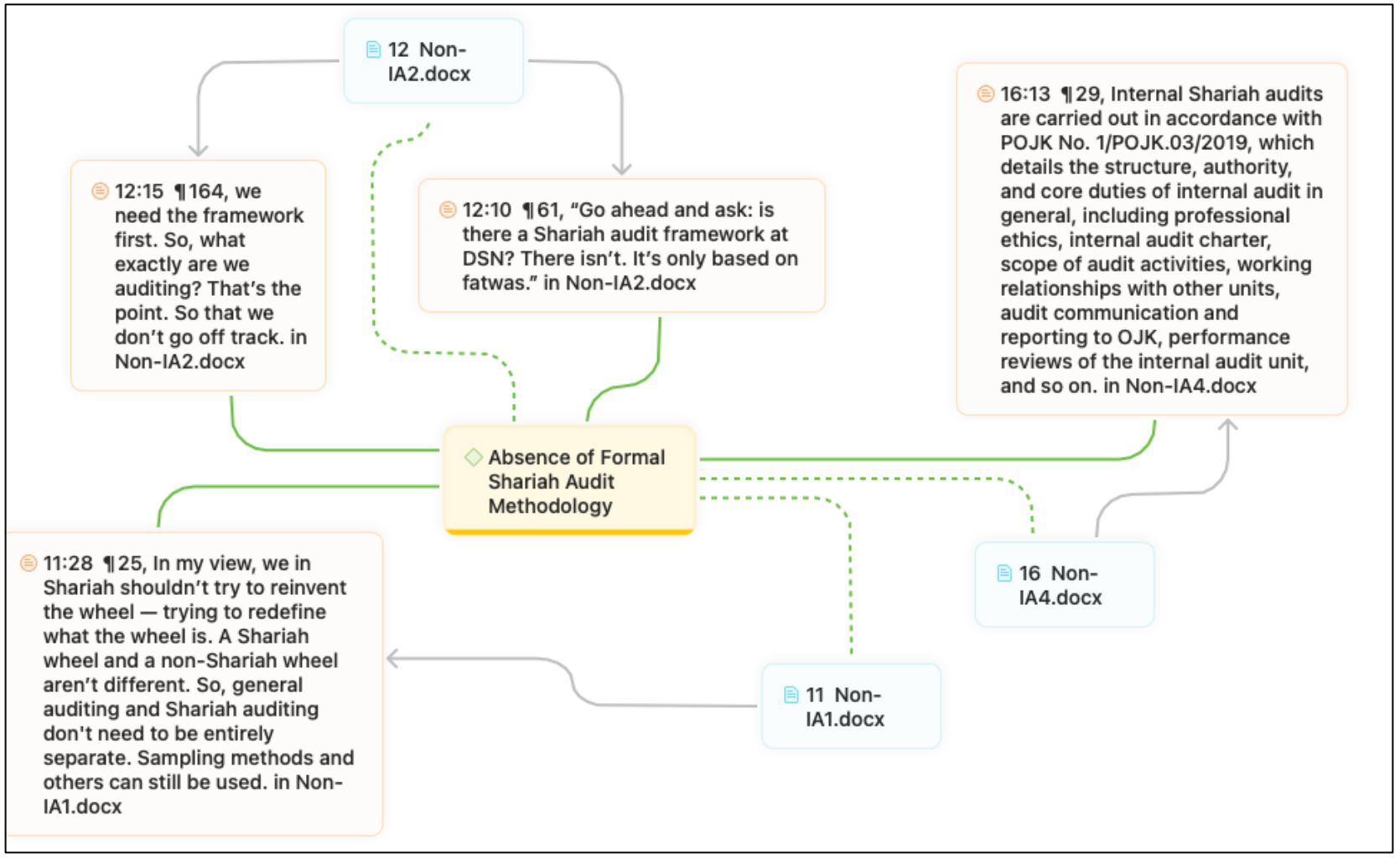
12) Network View – IA Perspectives Towards Development of Internal Audit Methodology



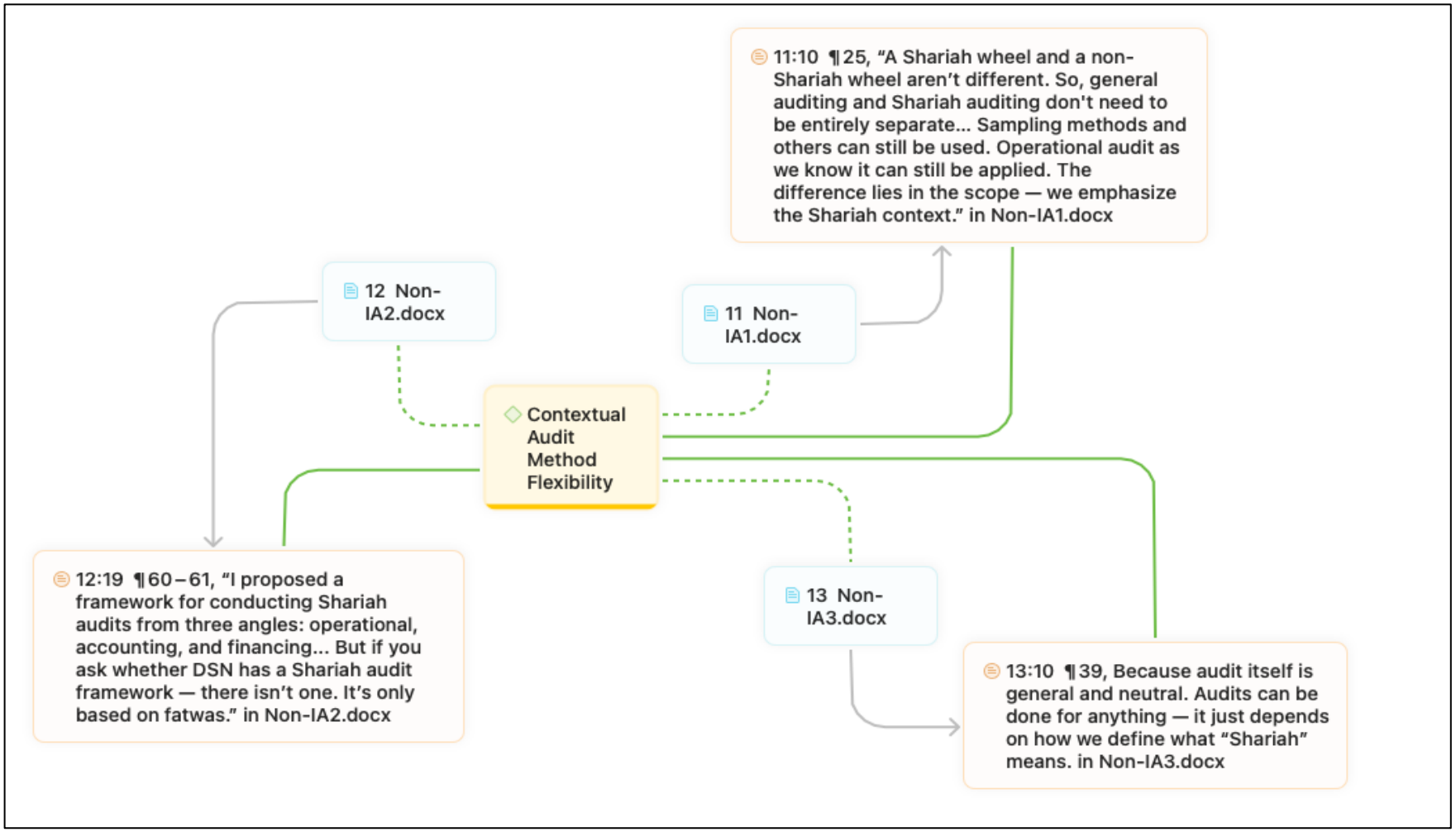
13) Network View – IA Perspectives Towards Activity-Based Structuring within a Risk-Based Audit Approach (RBA)



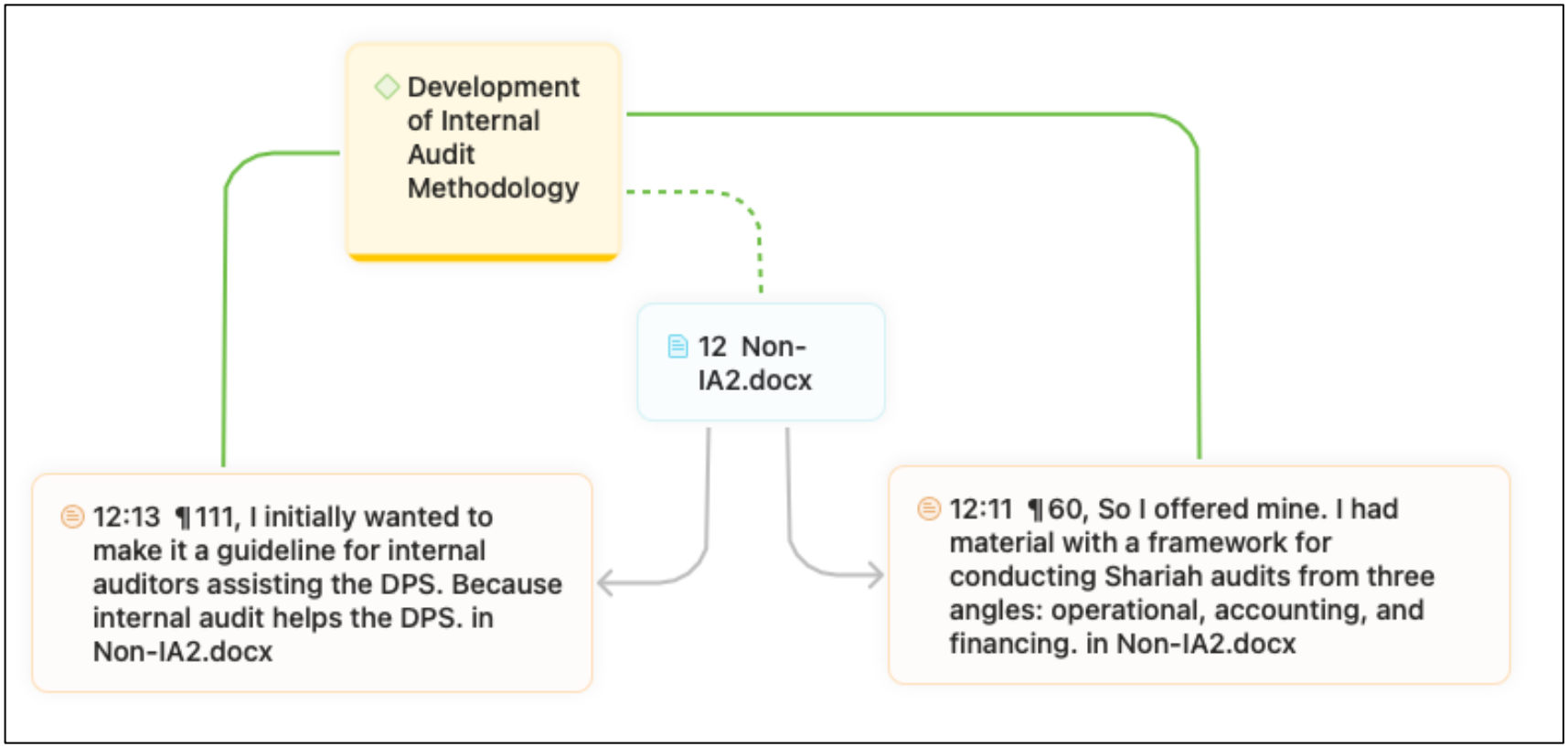
14) Network view – Non-IA Perspectives Towards Absence of Formal Shari'ah Audit Methodology



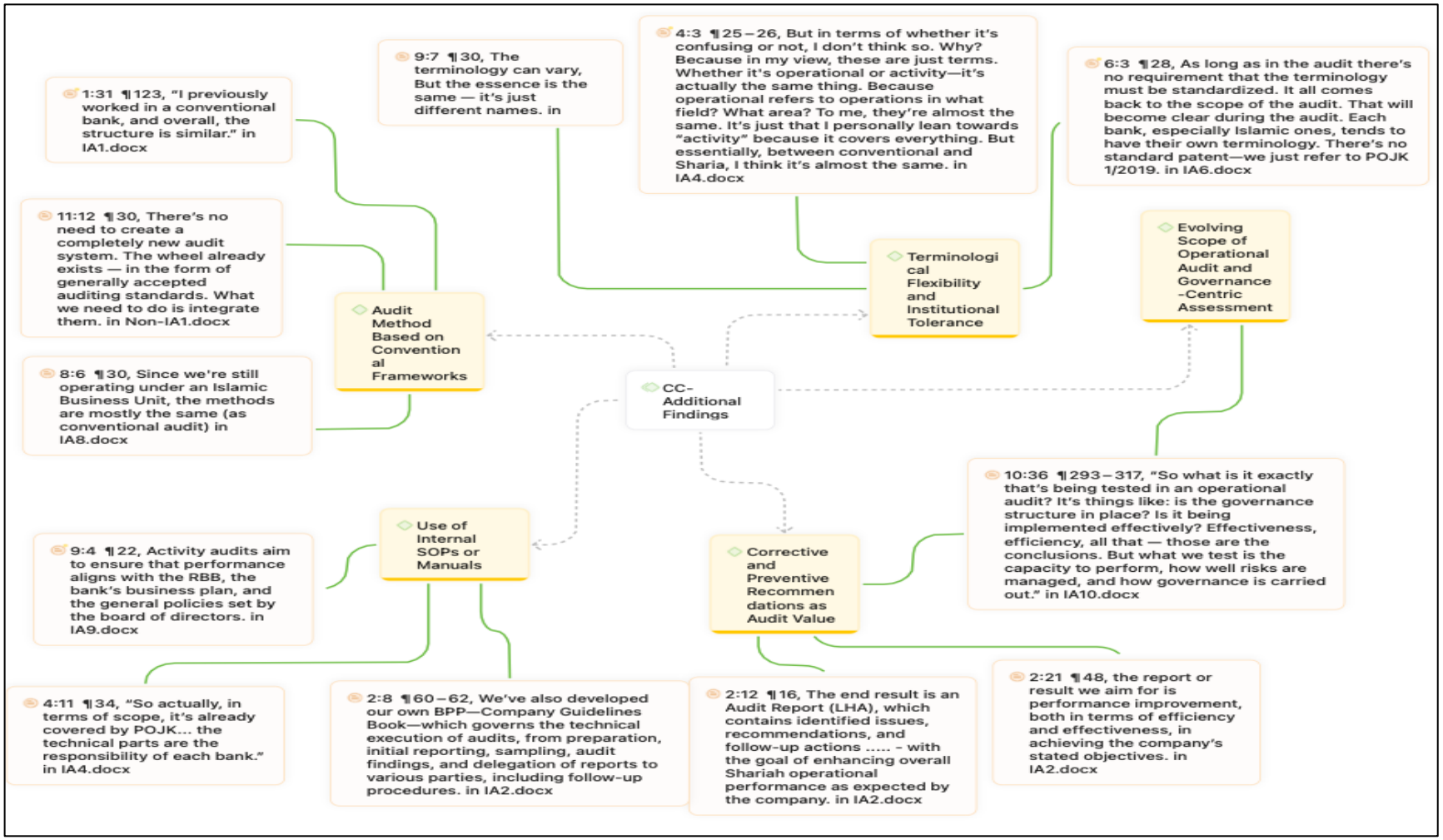
15) Network view – Non-IA Perspectives Towards ..



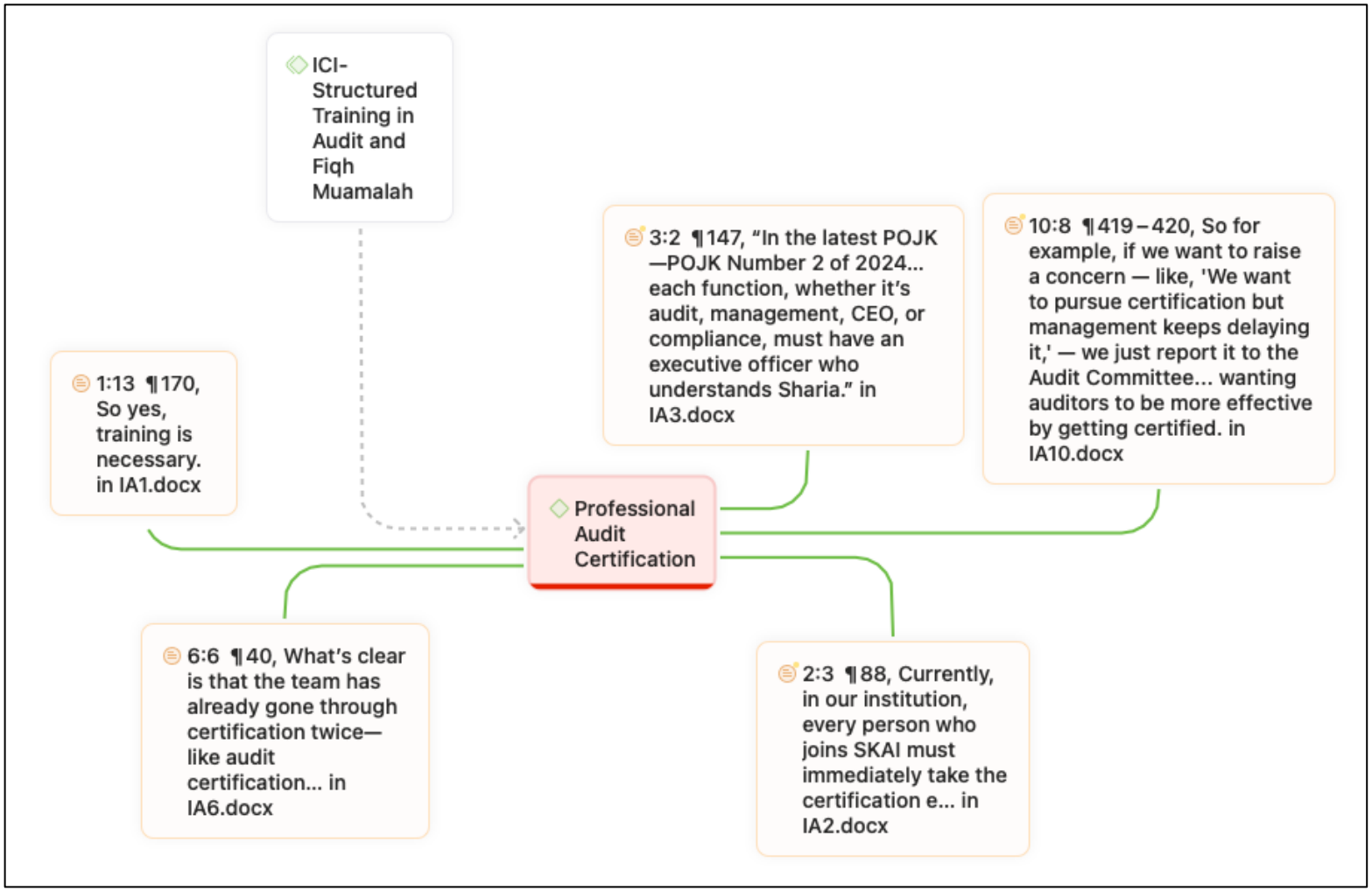
16) Network view – Non-IA Perspectives Towards ..



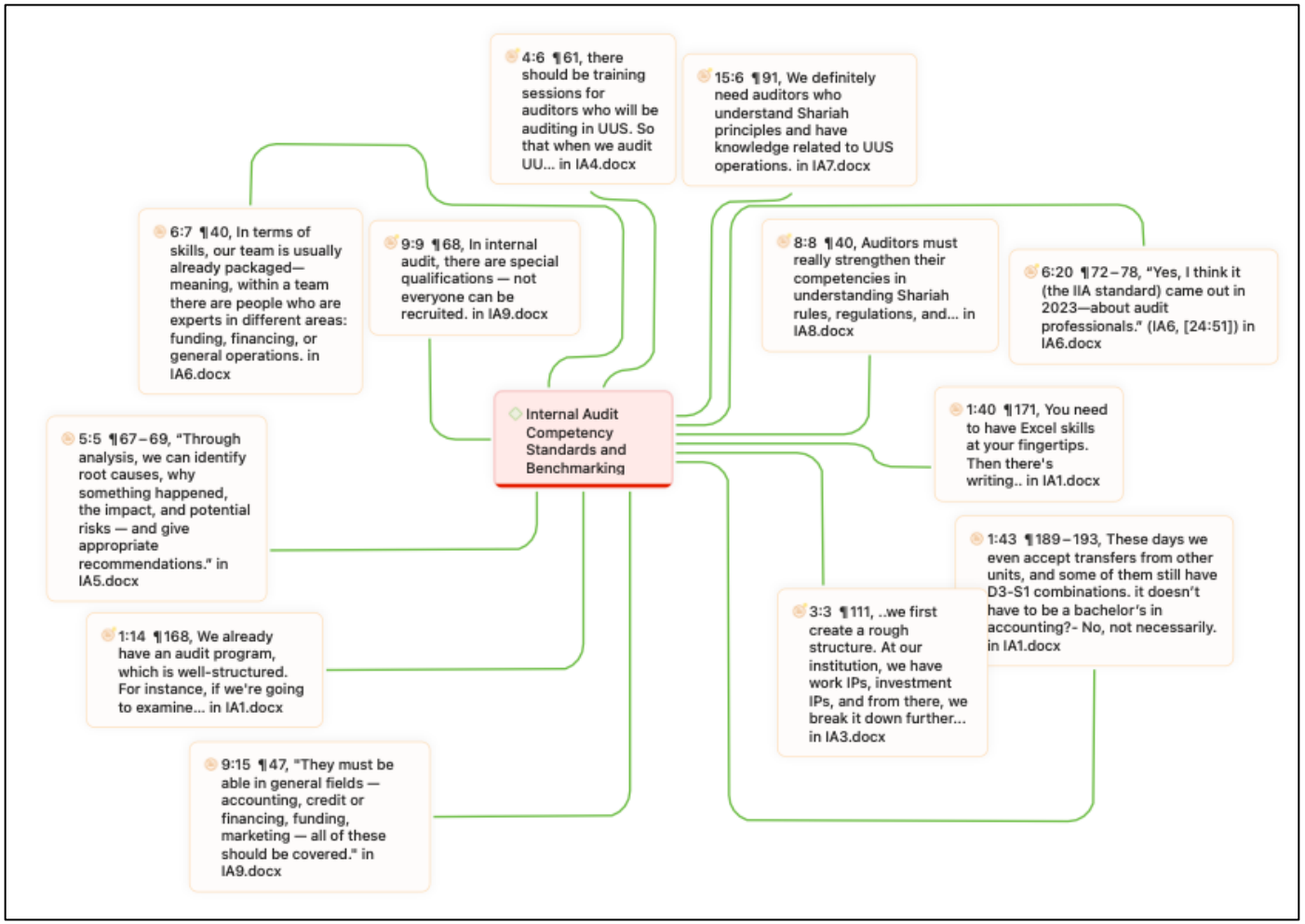
17) Network view – Additional Findings



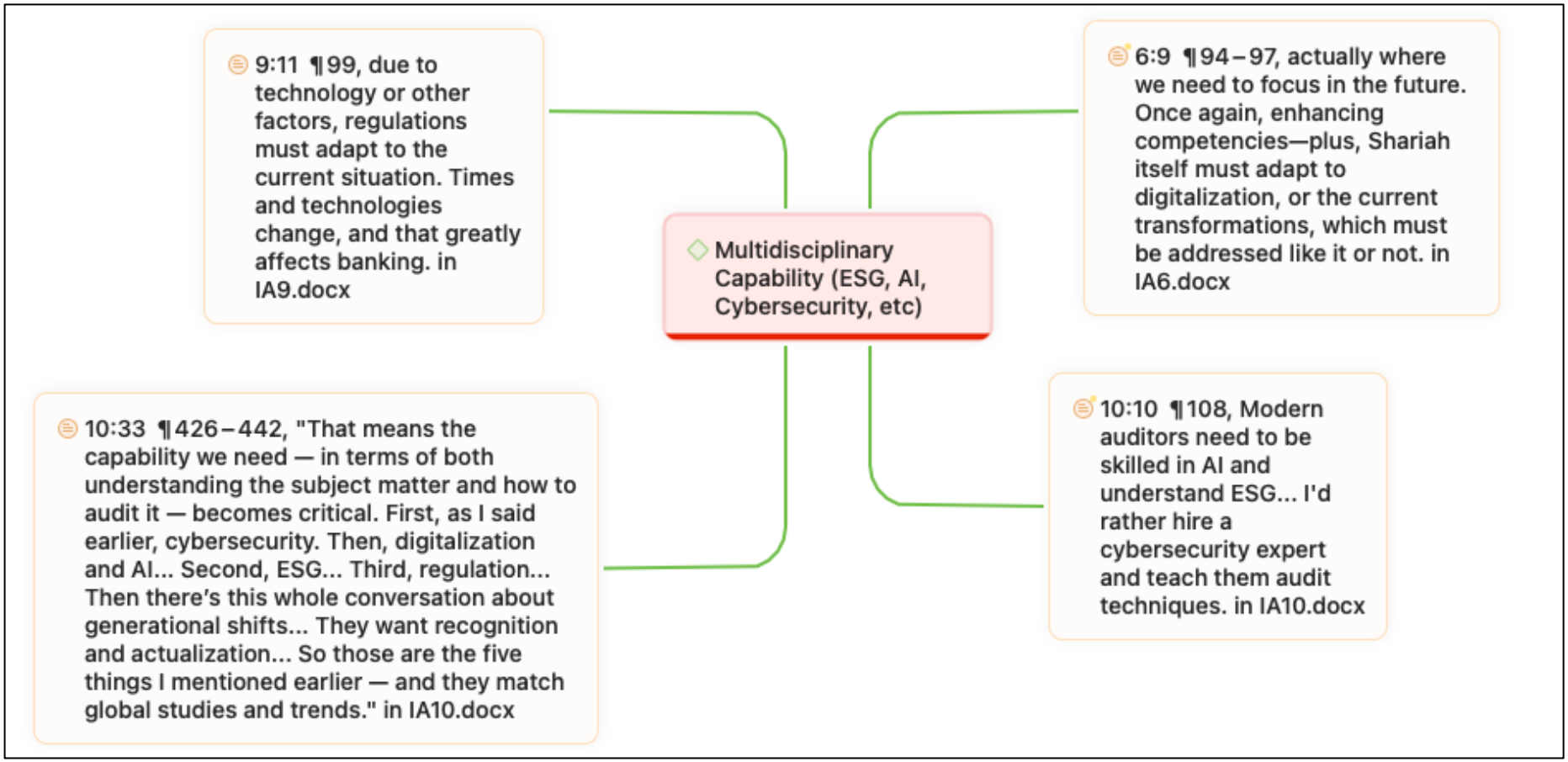
18) Thematic Network for Professional Audit Certification: IA Perspective



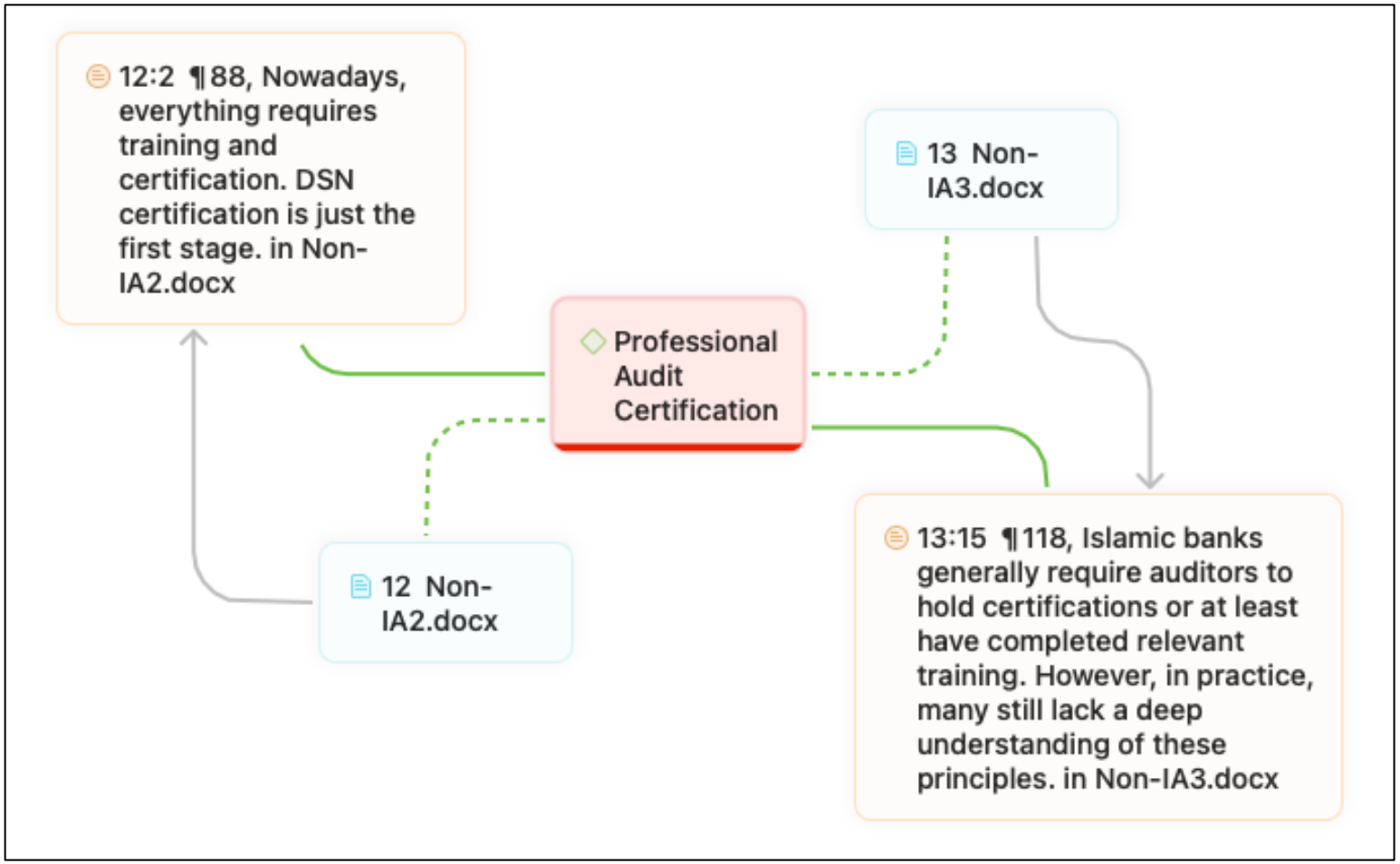
19) Thematic Network for Internal Audit Competency Standards and Benchmarking: IA Perspective



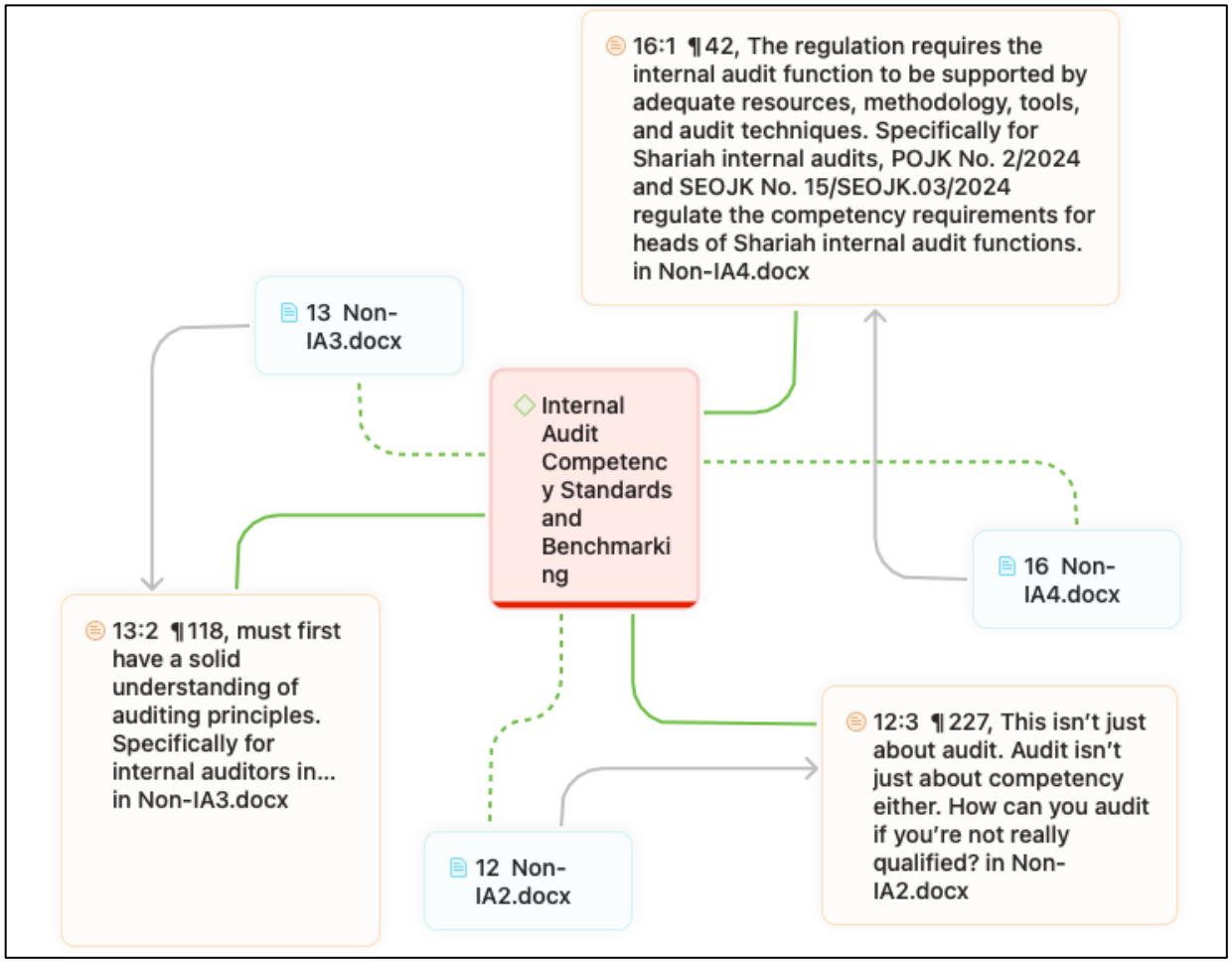
20) Thematic Network for Shari'ah Knowledge Limitations and Training Gaps: IA Perspective



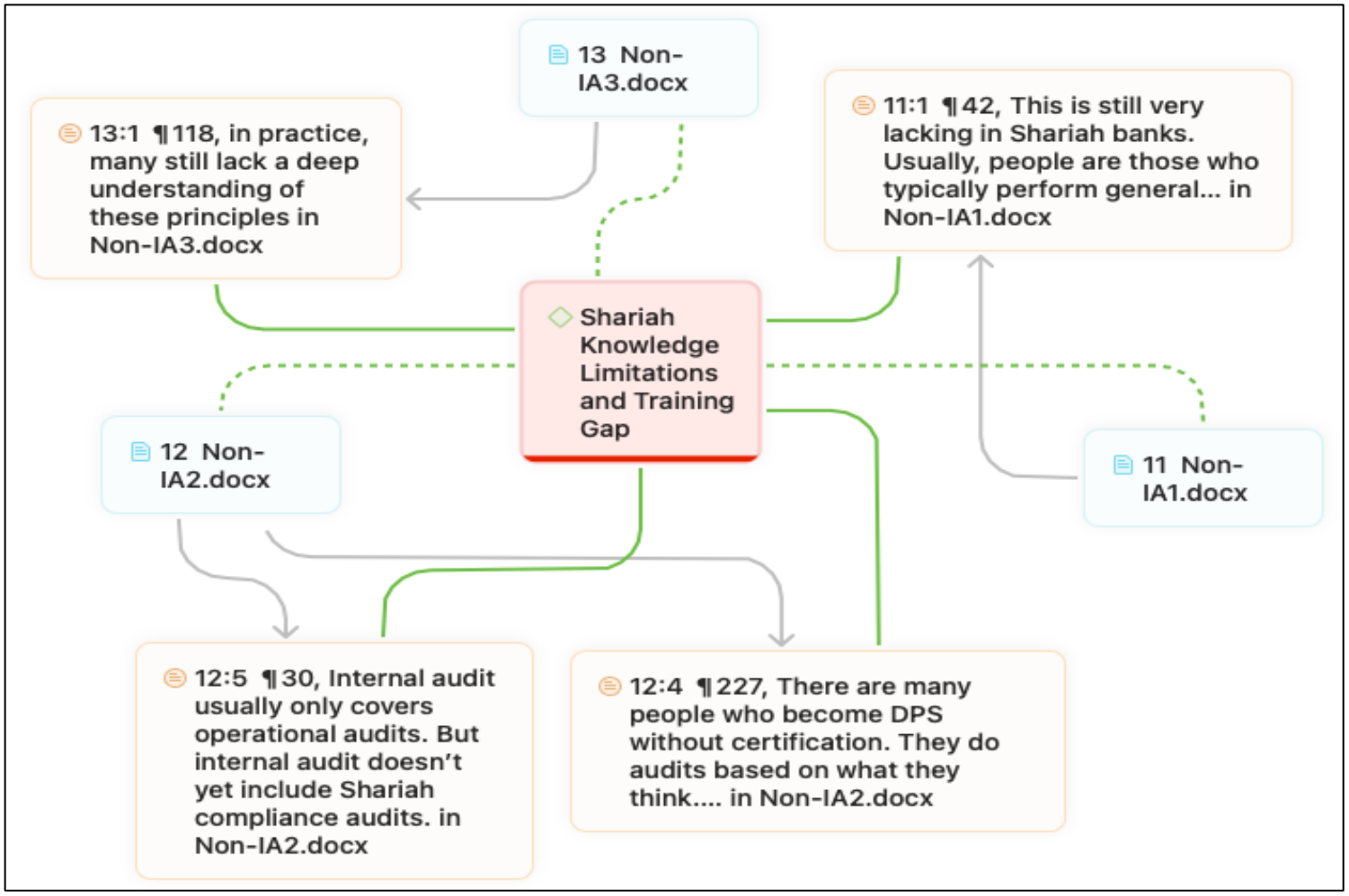
21) Thematic Network for Professional Audit Certification: Non IA Perspective



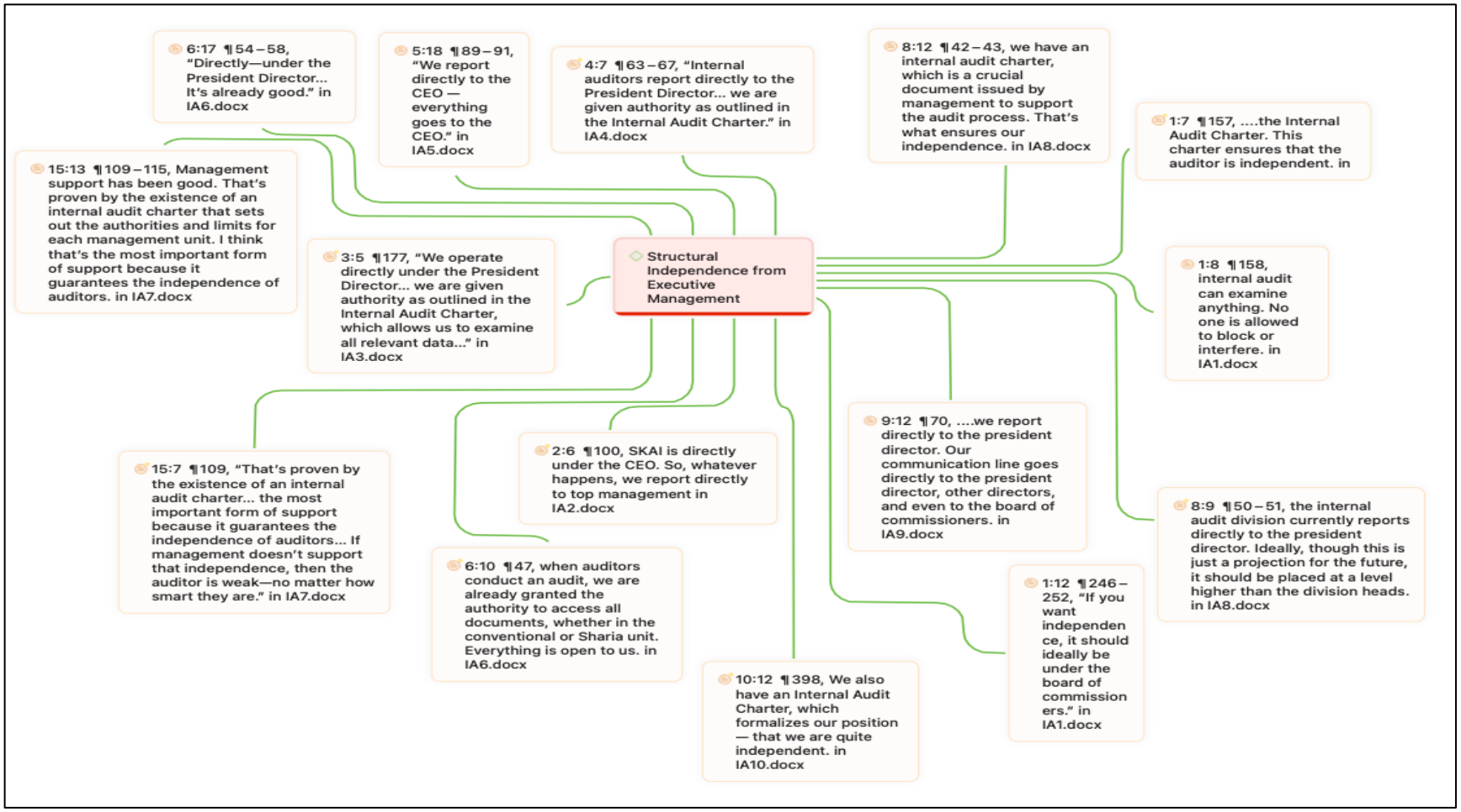
22) Thematic Thematic Network for Internal Audit Competency Standards and Benchmarking: Non IA Perspective



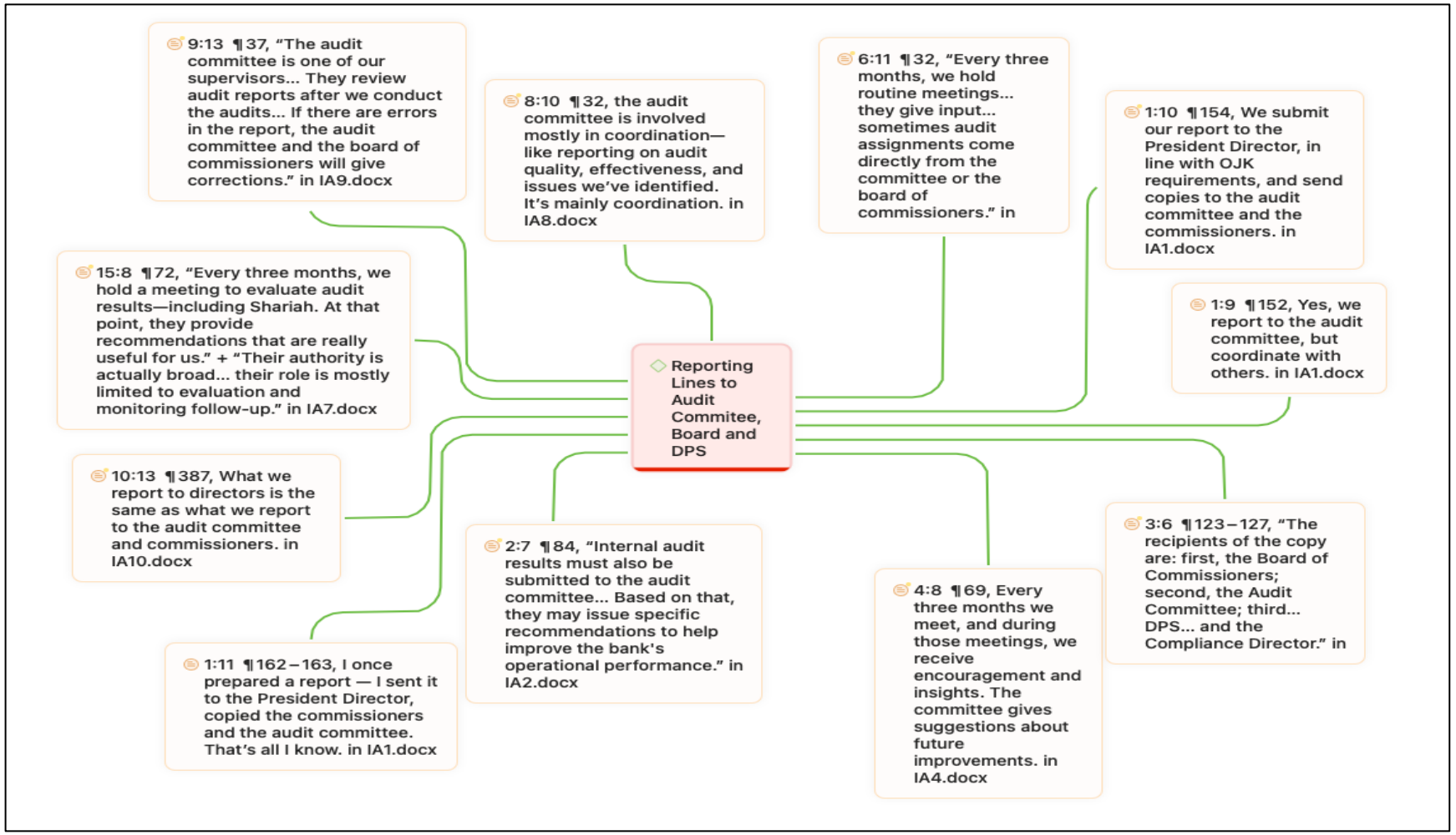
23) Thematic Thematic Network for Sharia Knowledge Limitations and Training Gaps: Non IA Perspective



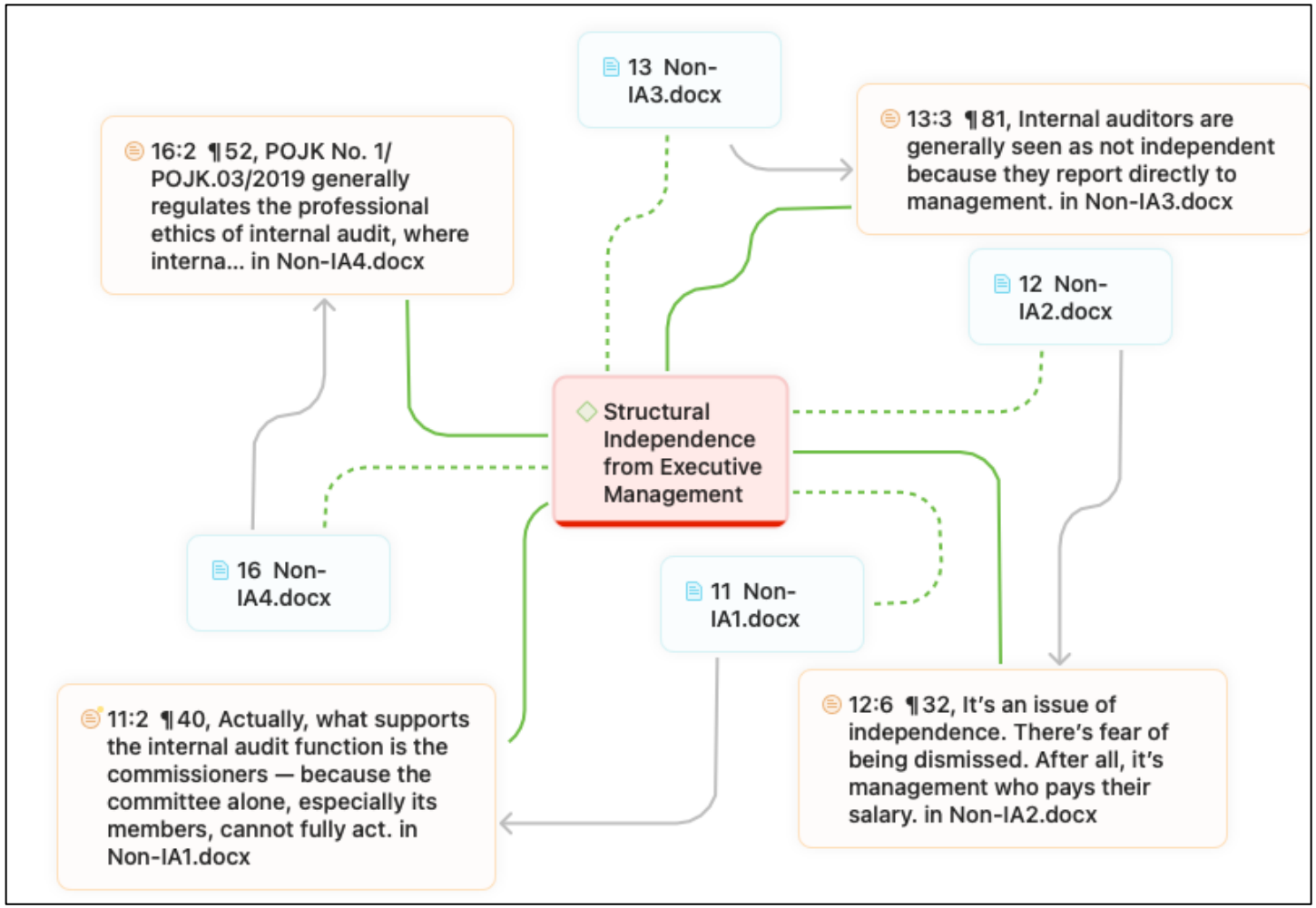
24) Thematic Thematic Network for Structural Independence from Executive Management: IA Perspective



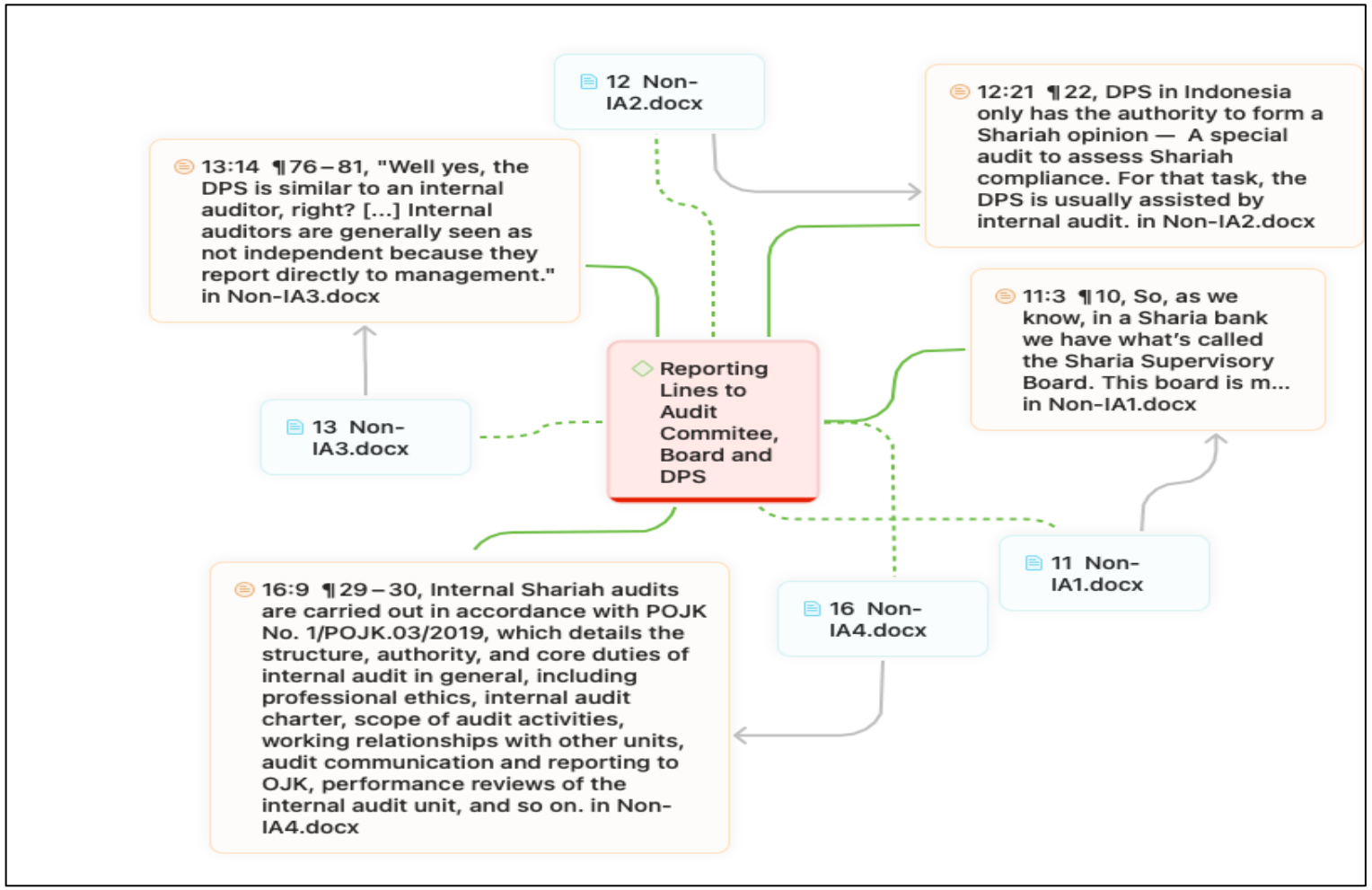
25) Thematic Thematic Network for Reporting Lines to Audit Committee or Board: IA Perspective



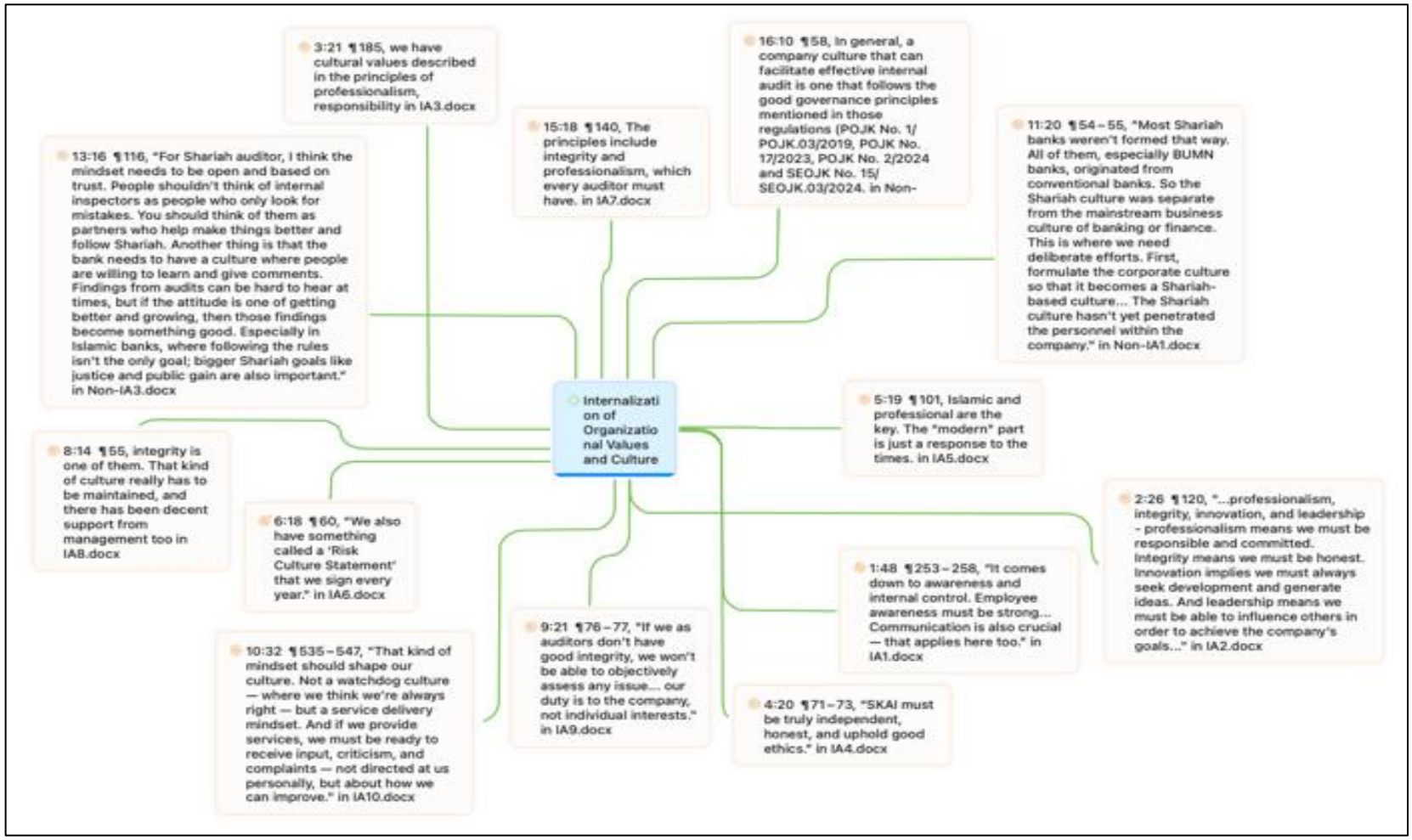
26) Thematic Thematic Network for Structural Independence from Executive Management: Non-IA Perspective



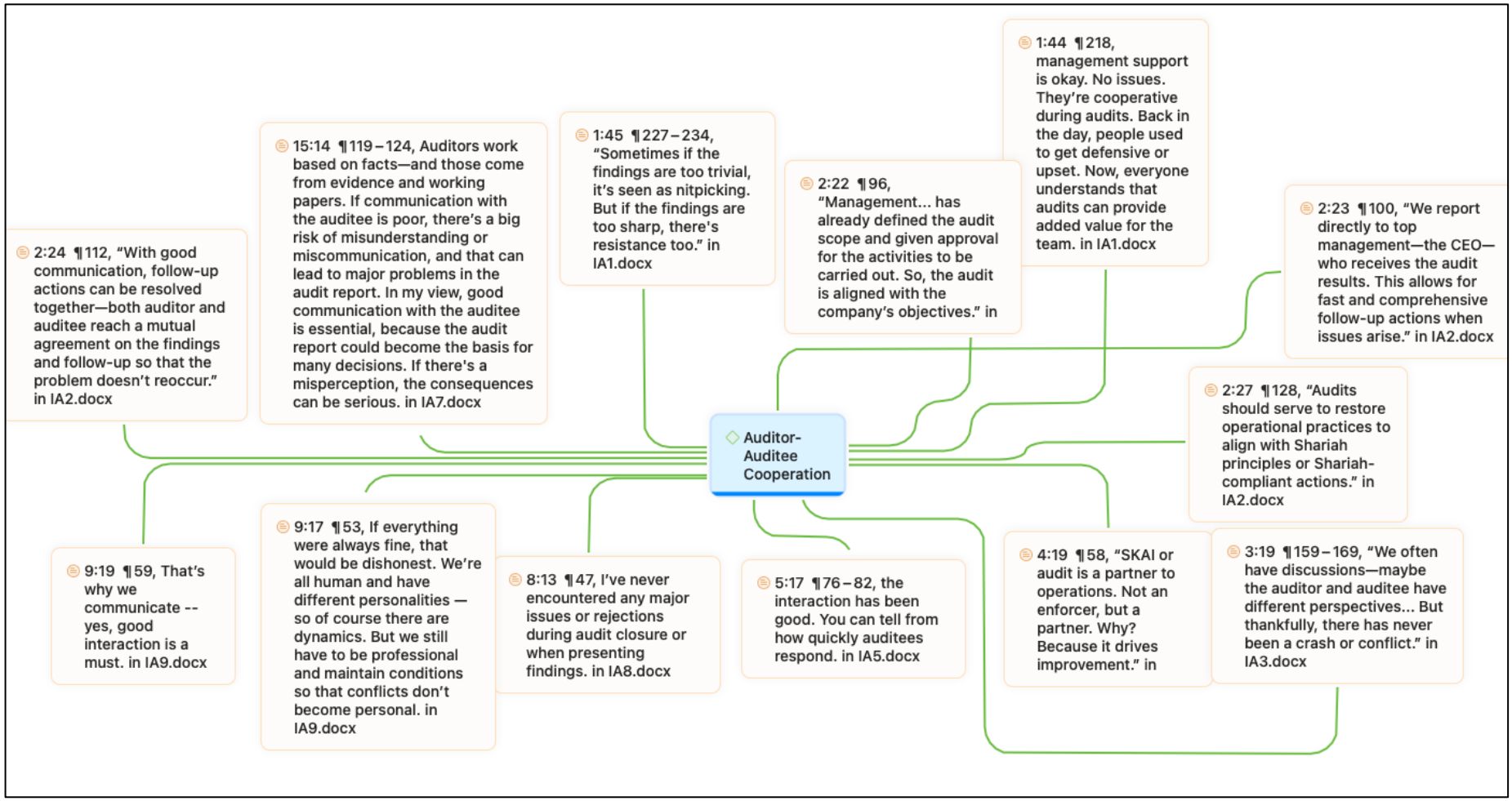
27) Thematic Thematic Network for Reporting Lines to Audit Committee or Board: Non-IA Perspective



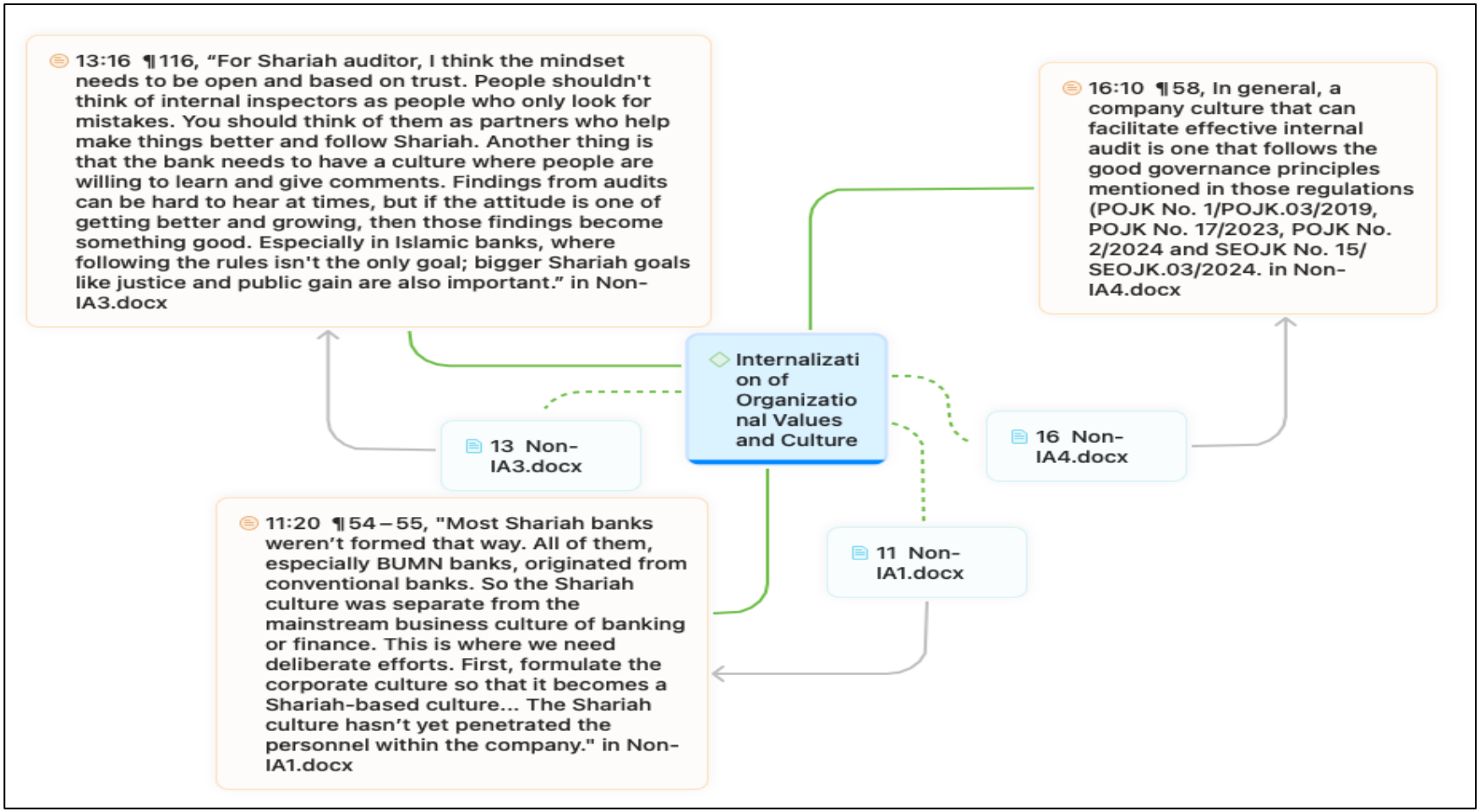
28) Thematic Thematic Network for Internalization of Organizational Values in Institutional Culture: IA Perspectives



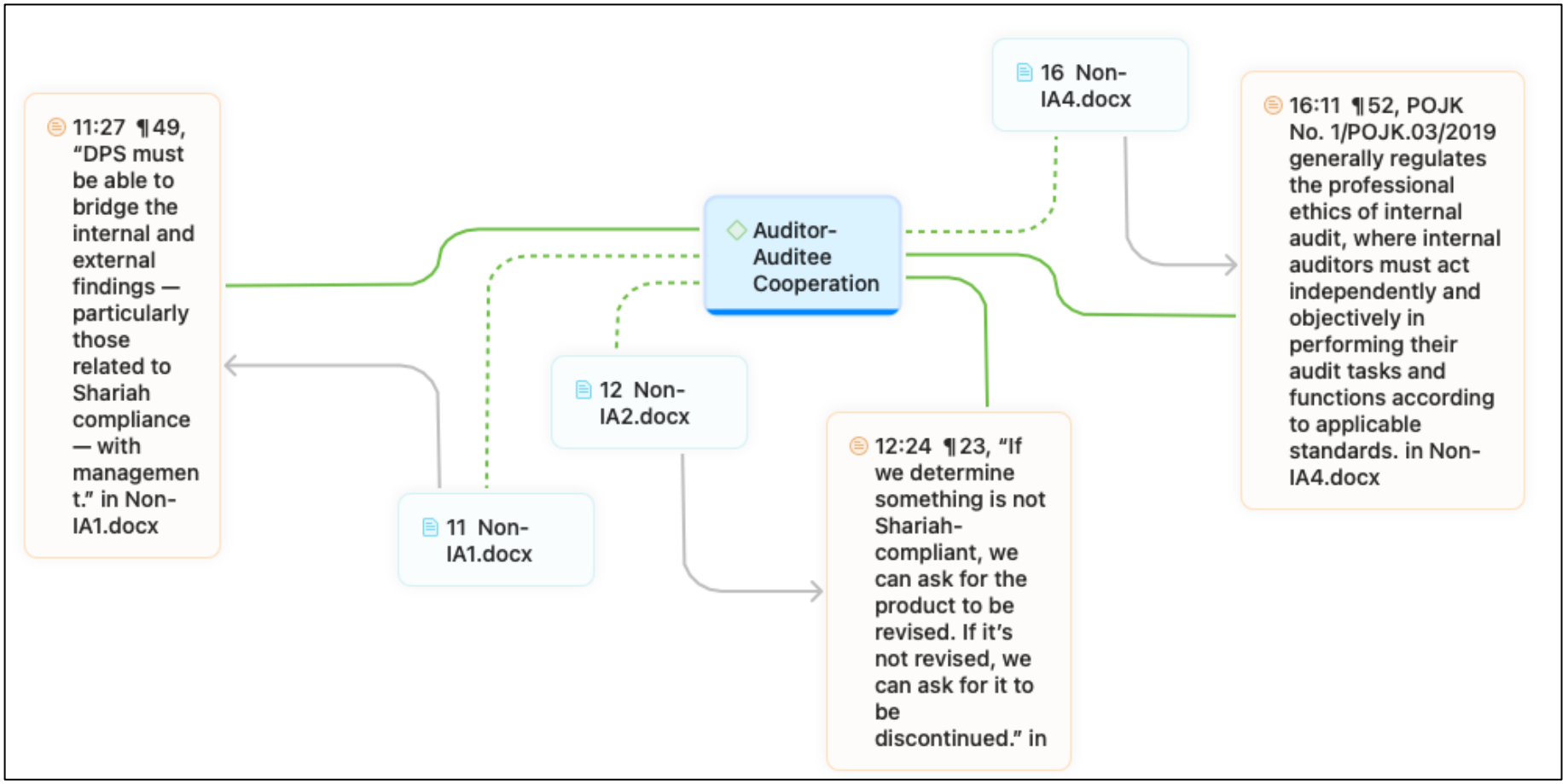
29) Thematic Thematic Network for Auditor–Auditee Cooperation: IA Perspectives



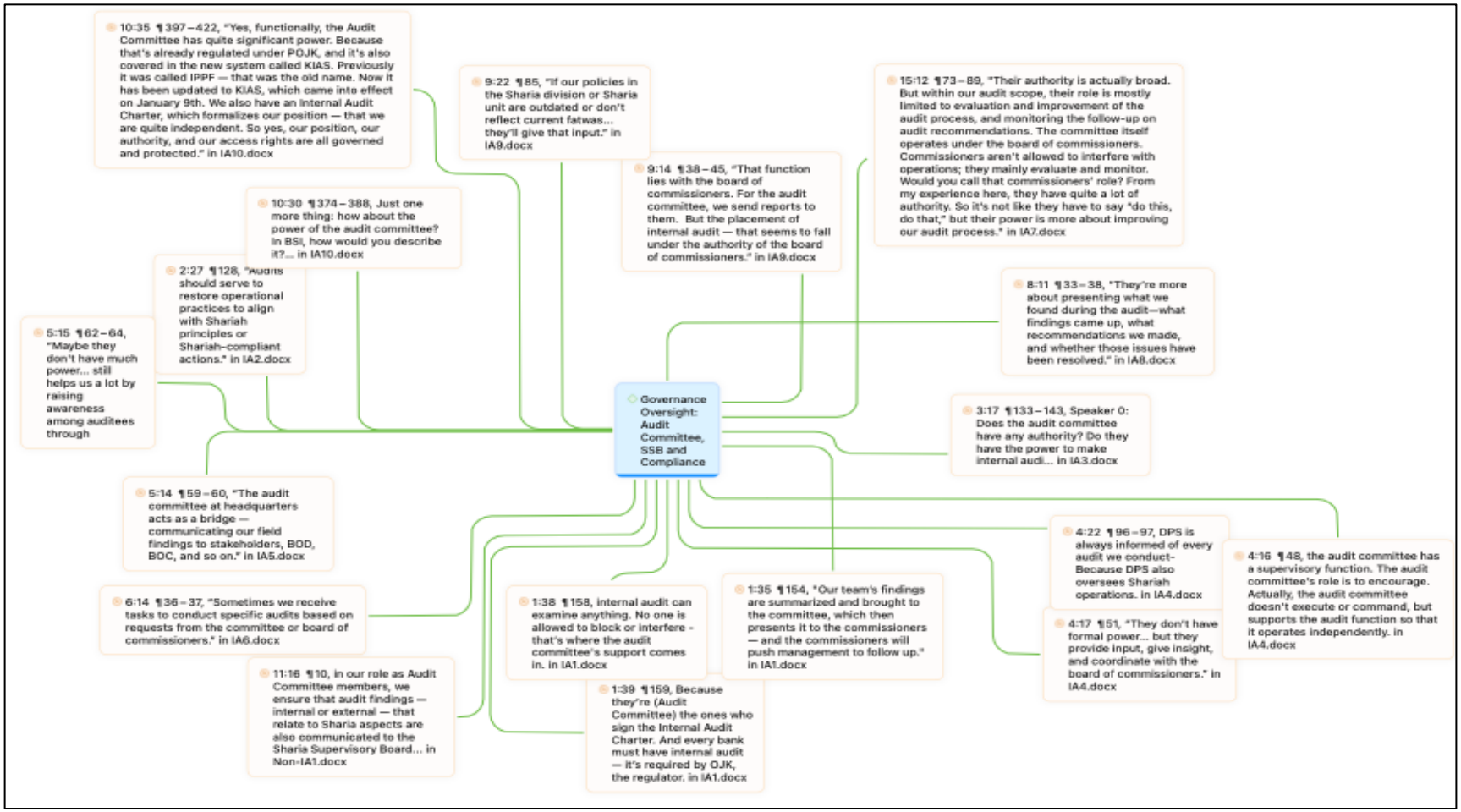
30) Thematic Thematic Network for Internalization of Sharia Values in Institutional Culture: Non-IA Perspectives



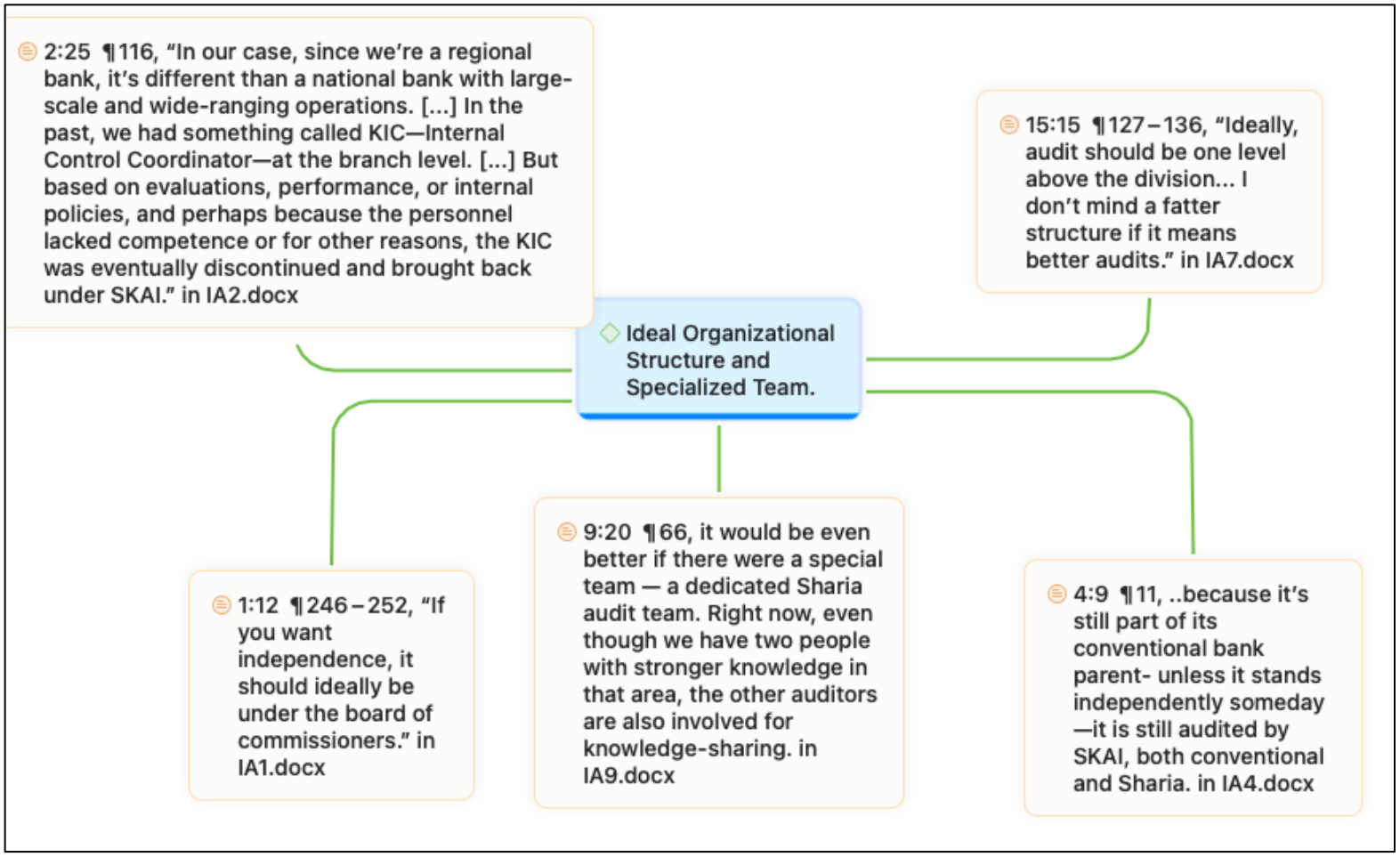
31) Thematic Thematic Network for Auditor–Auditee Cooperation: Non-IA Perspectives



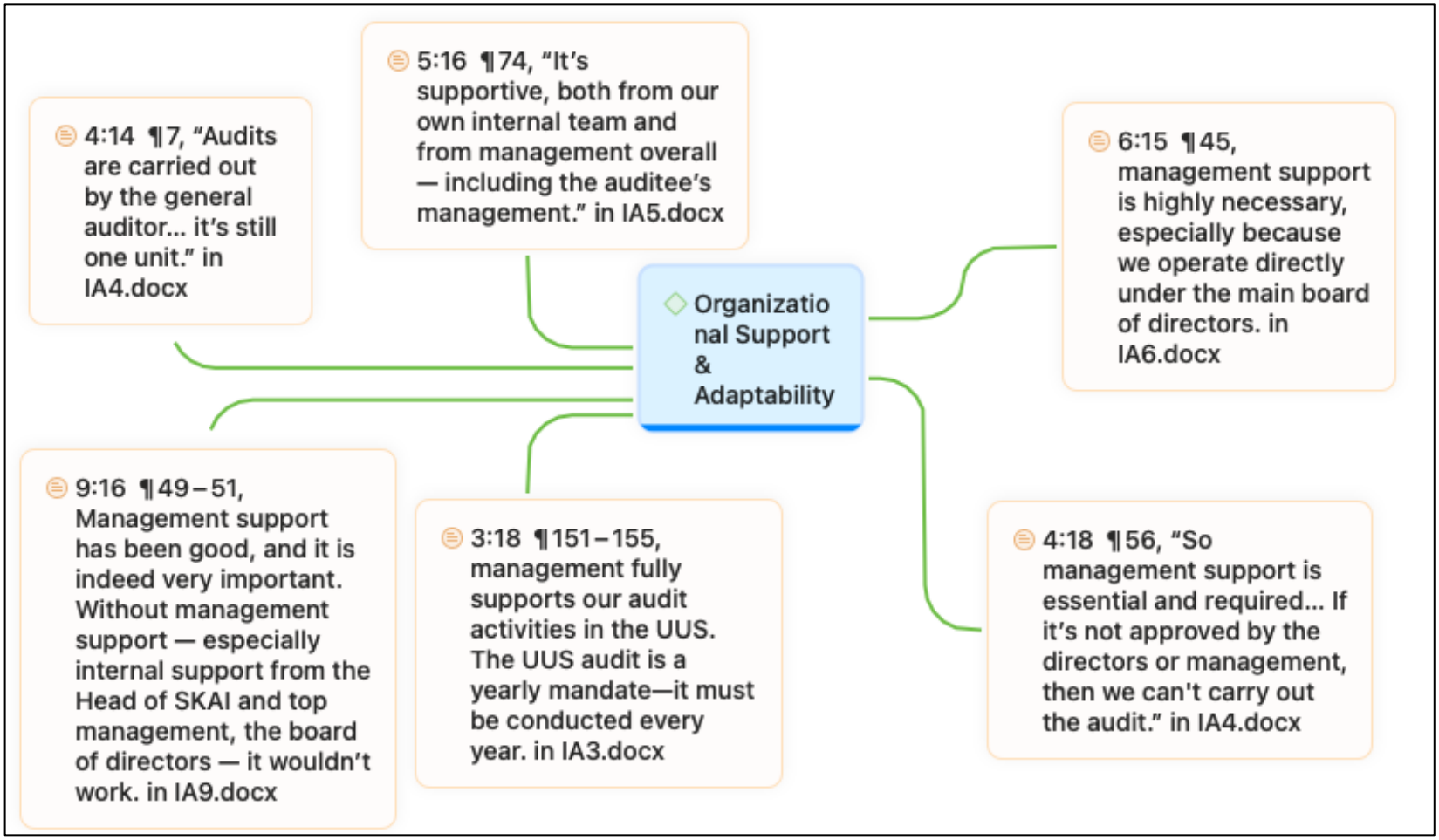
32) Thematic Thematic Network for Governance Oversight: Audit Committee, SSB, and Compliance : IA Perspectives



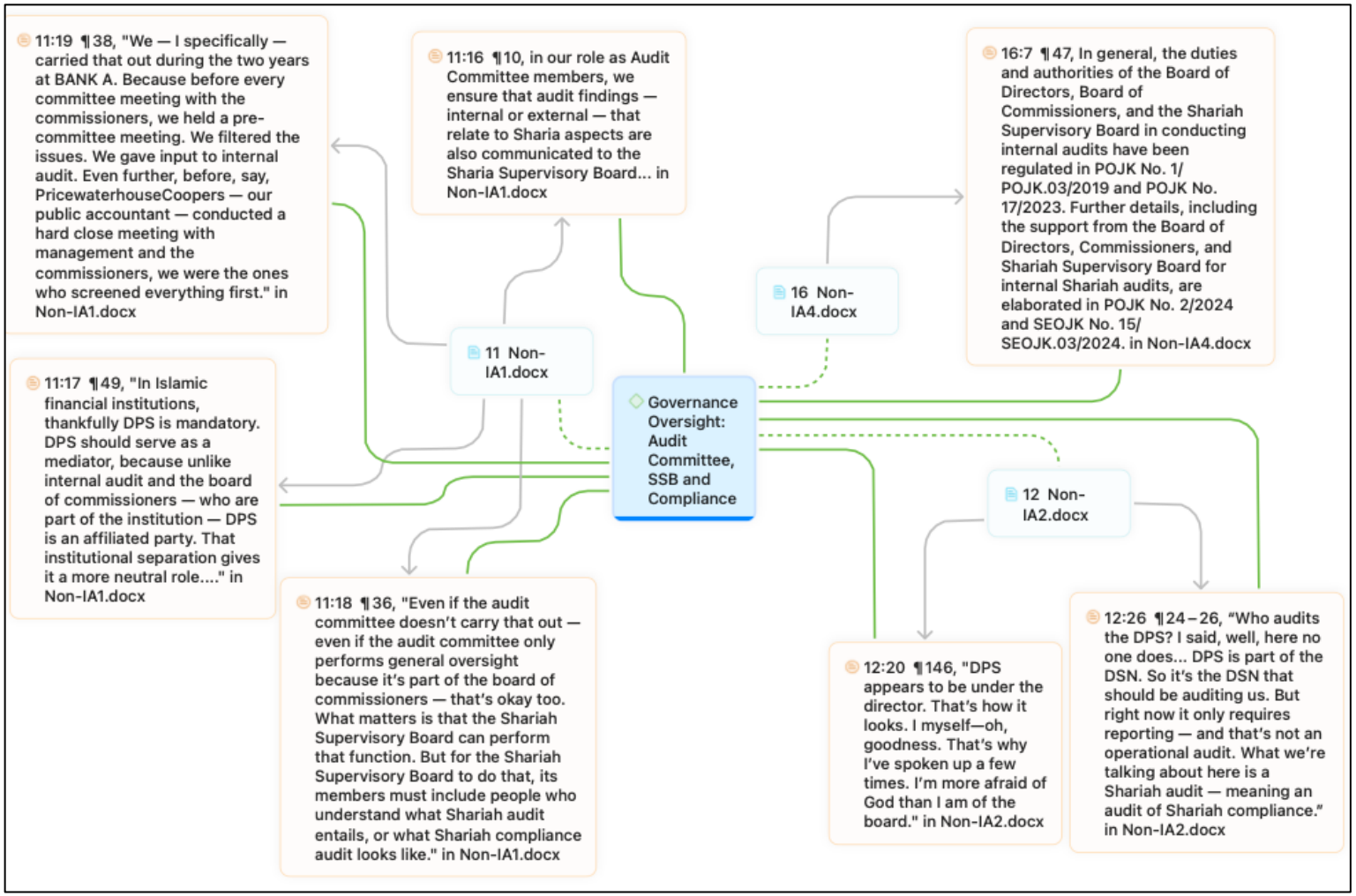
33) Thematic Thematic Network for Ideal Organizational Structure and Specialized Team : IA Perspectives



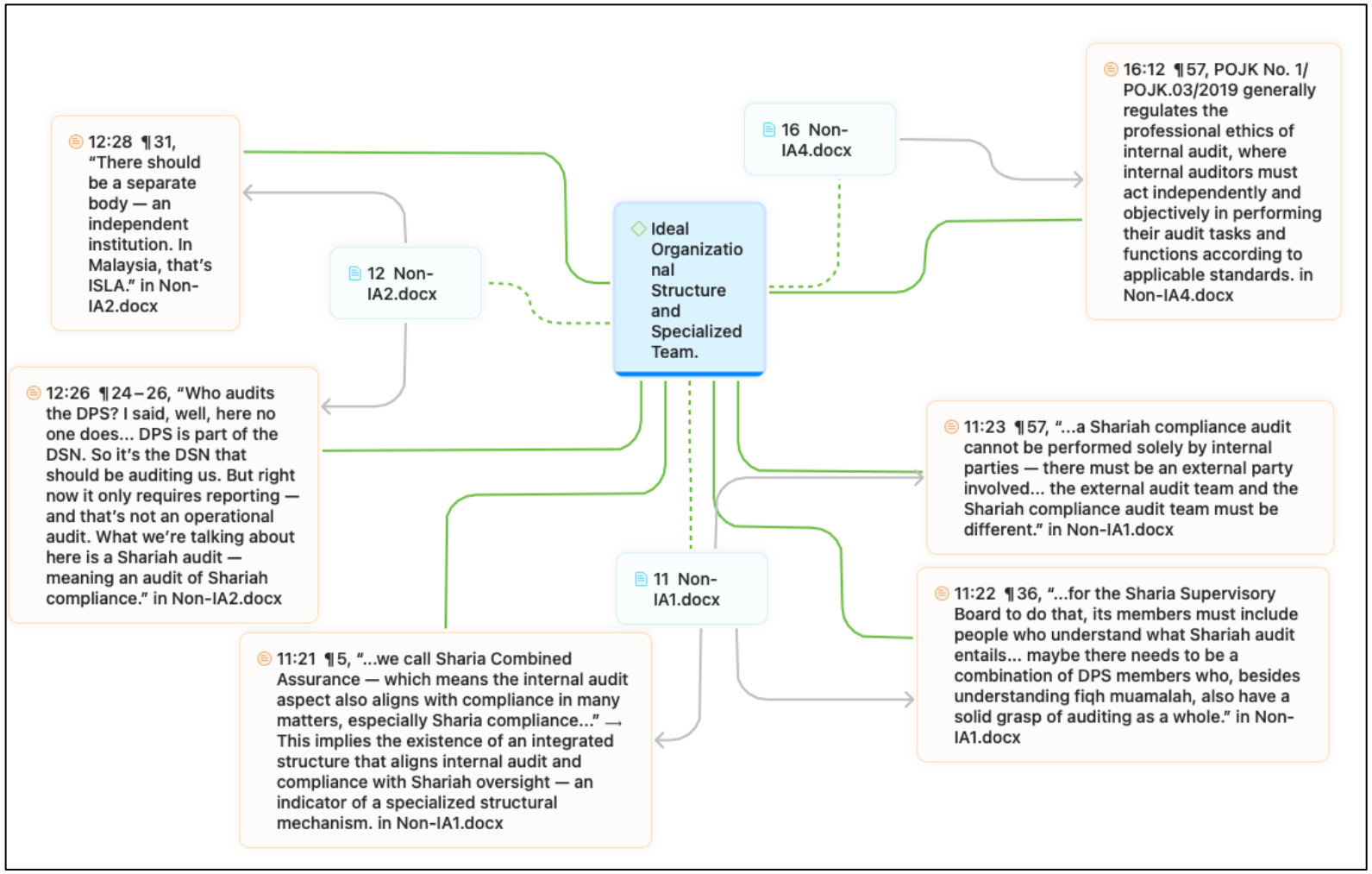
34) Thematic Thematic Network for Organizational Support and Audit Structure Adaptability : IA Perspectives



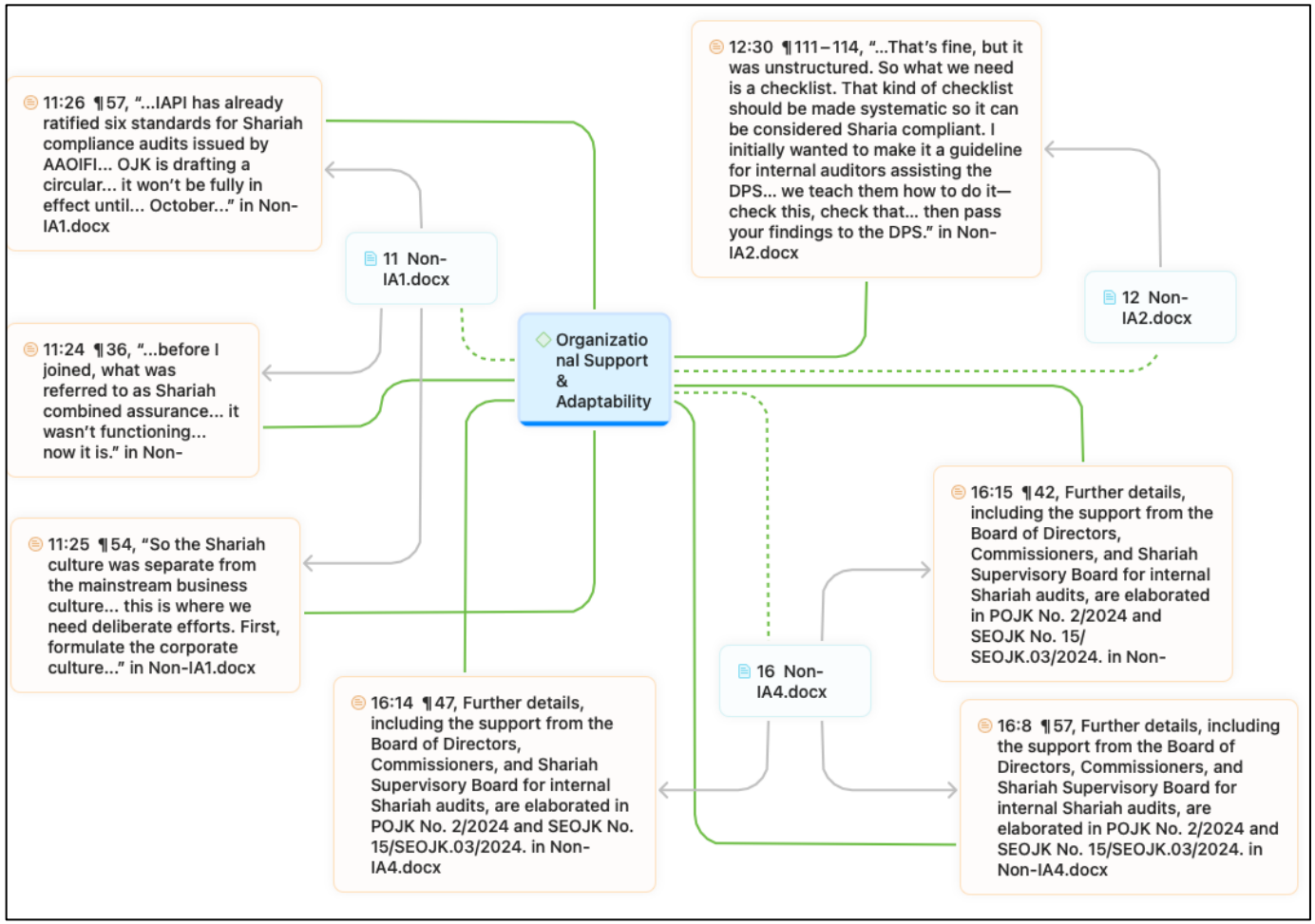
35) Thematic Thematic Network for Governance Oversight: Audit Committee, SSB, and Compliance : Non-IA Perspectives



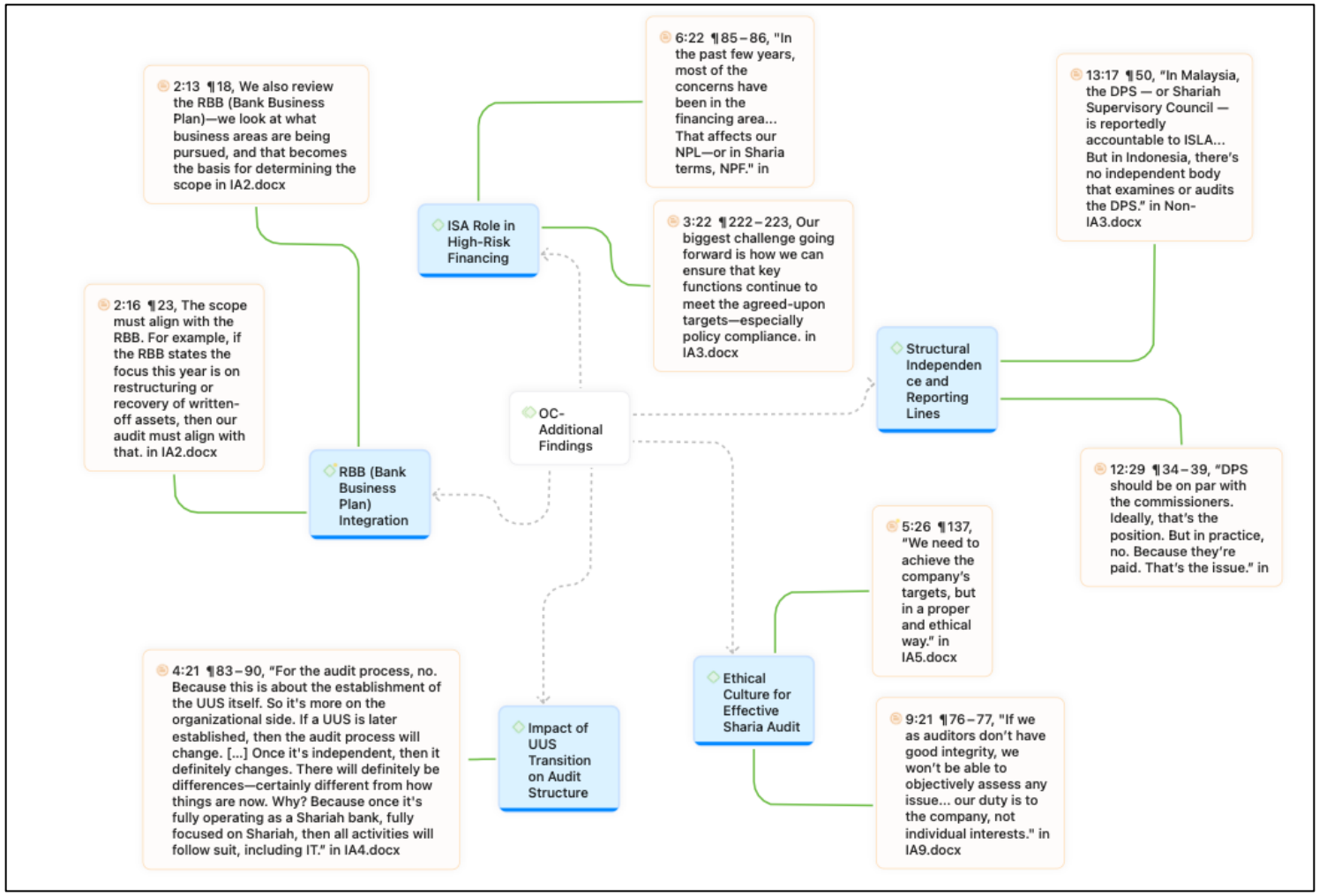
36) Thematic Thematic Network for Ideal Organizational Structure and Specialized Team : Non-IA Perspectives



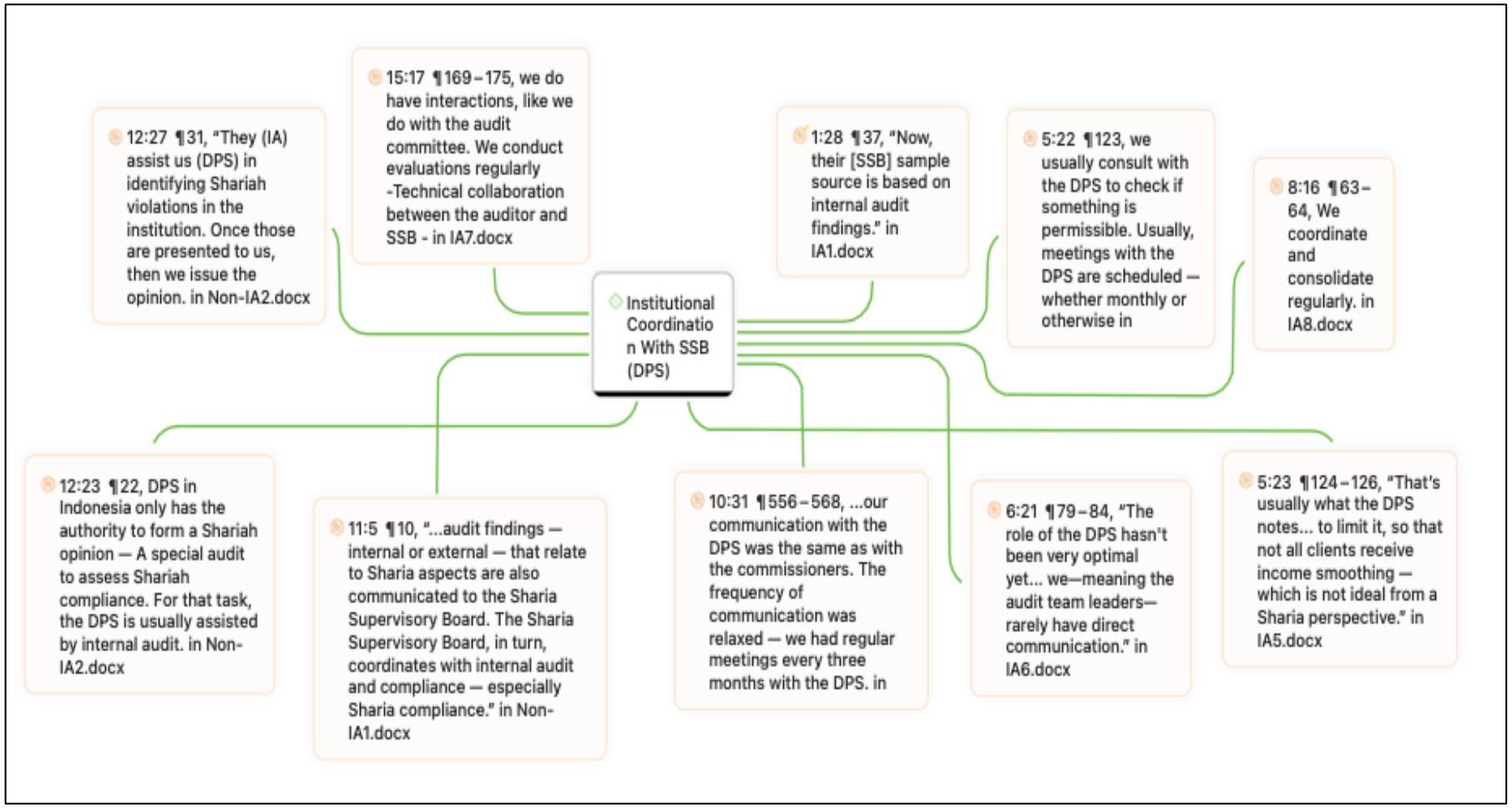
37) Thematic Thematic Network for Organizational Support and Audit Structure Adaptability : Non-IA Perspectives



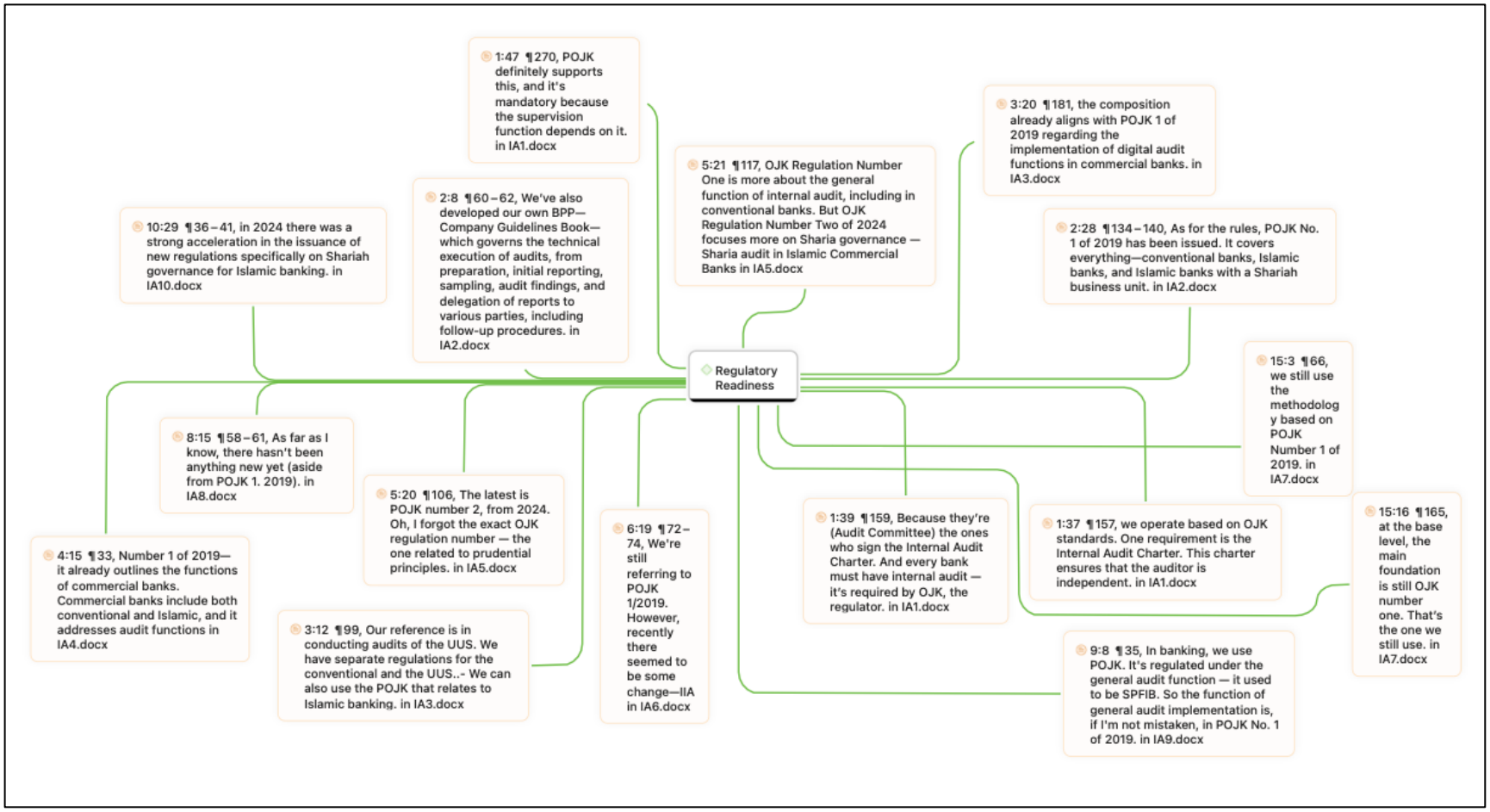
38) Thematic Thematic Network for Additional Findings Related to ISA Competency and Independence



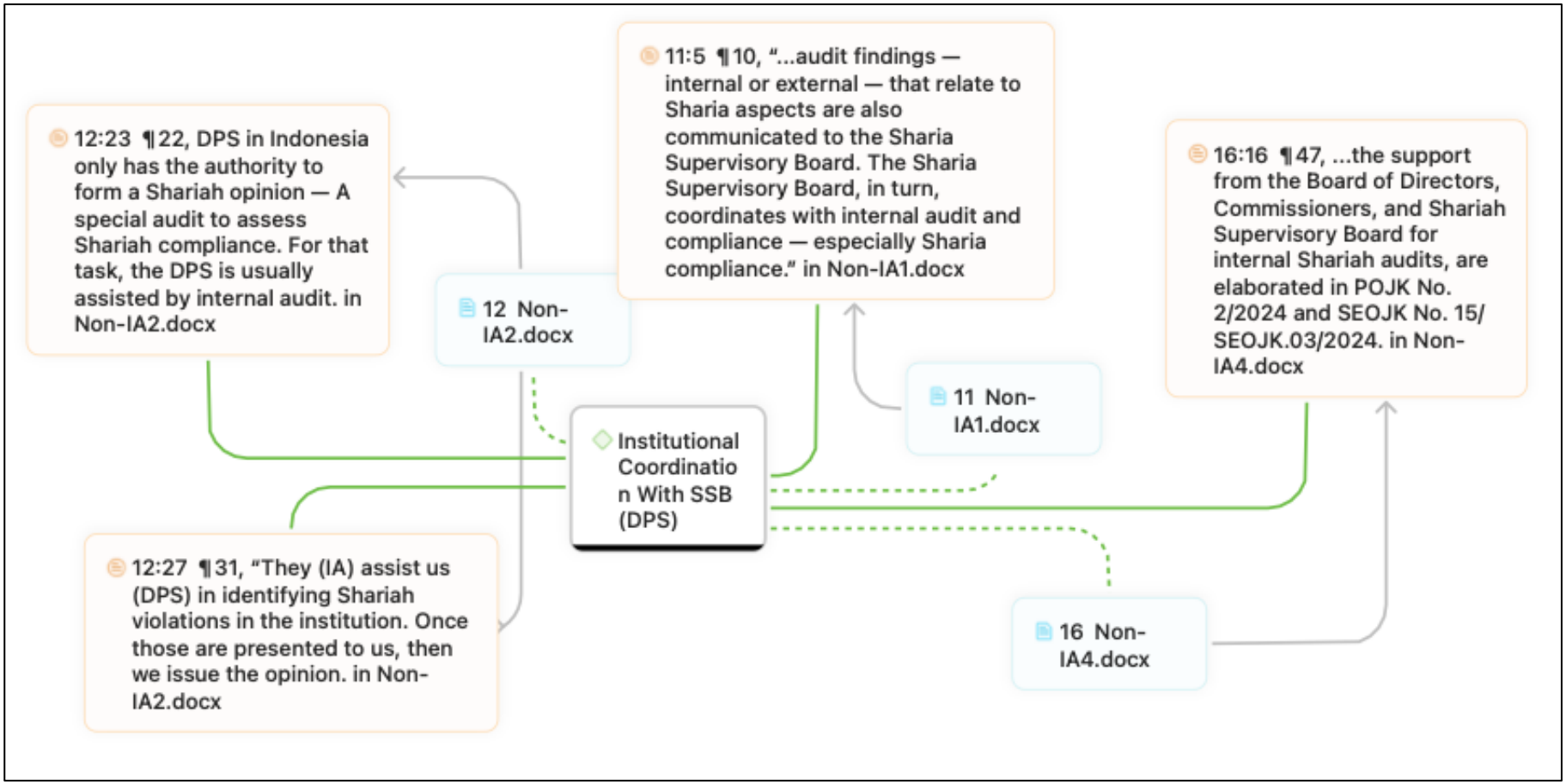
39) Thematic Thematic Network for **Institutional Coordination with SSB/SSB** : IA Perspectives



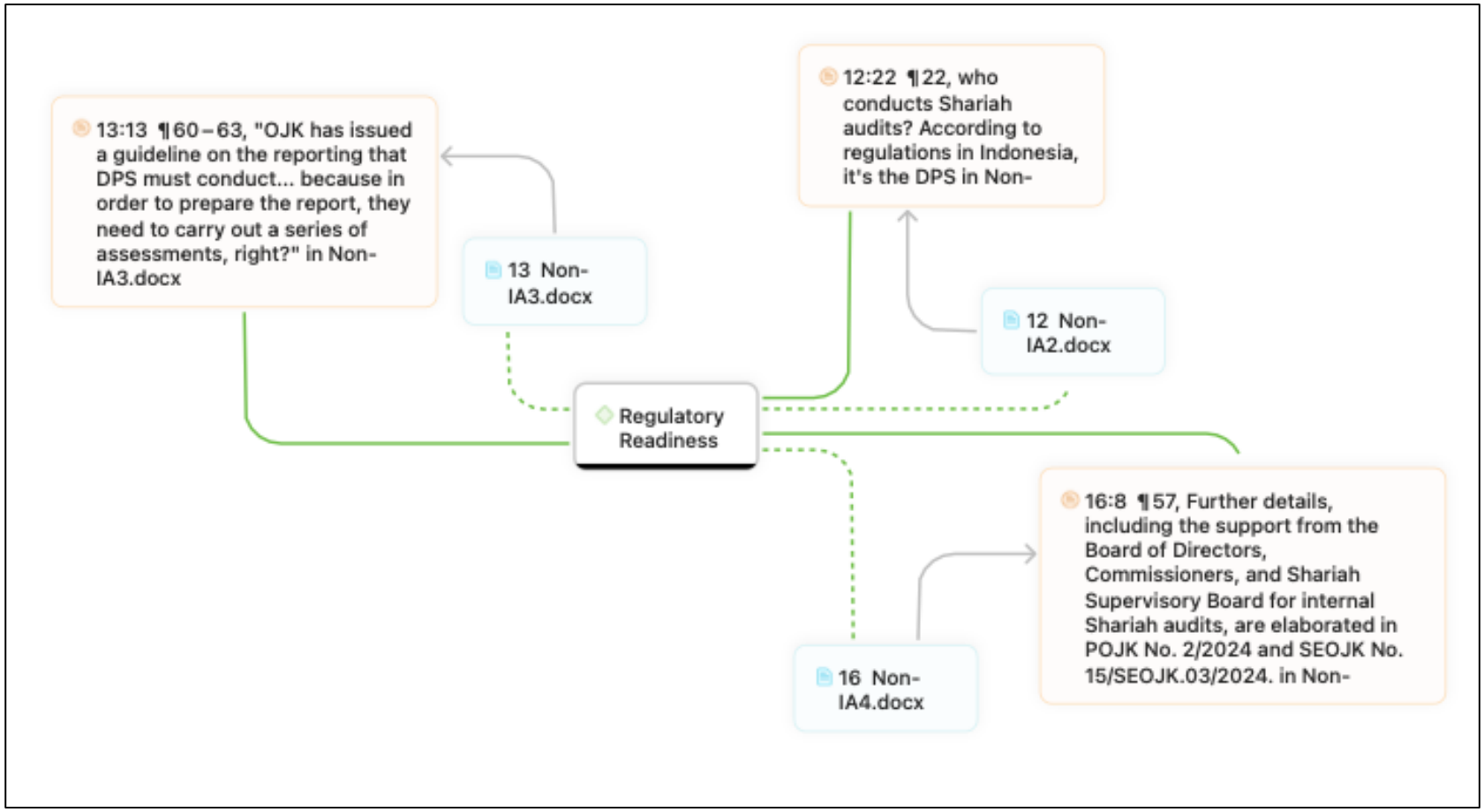
40) Thematic Thematic Network for **Regulatory Basis** : IA Perspectives



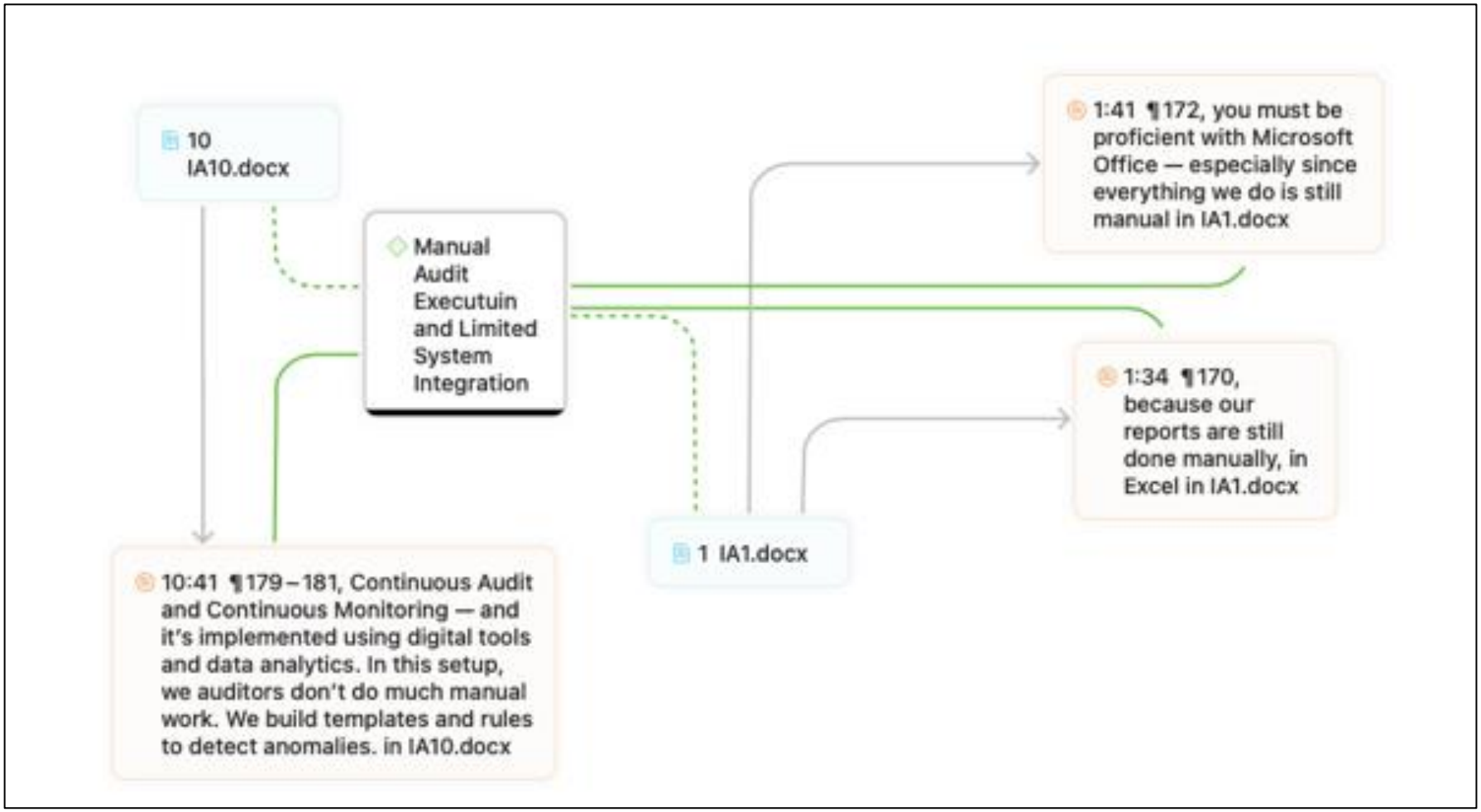
41) Thematic Thematic Network for **Institutional Coordination with SSB/SSB** : Non-IA Perspectives



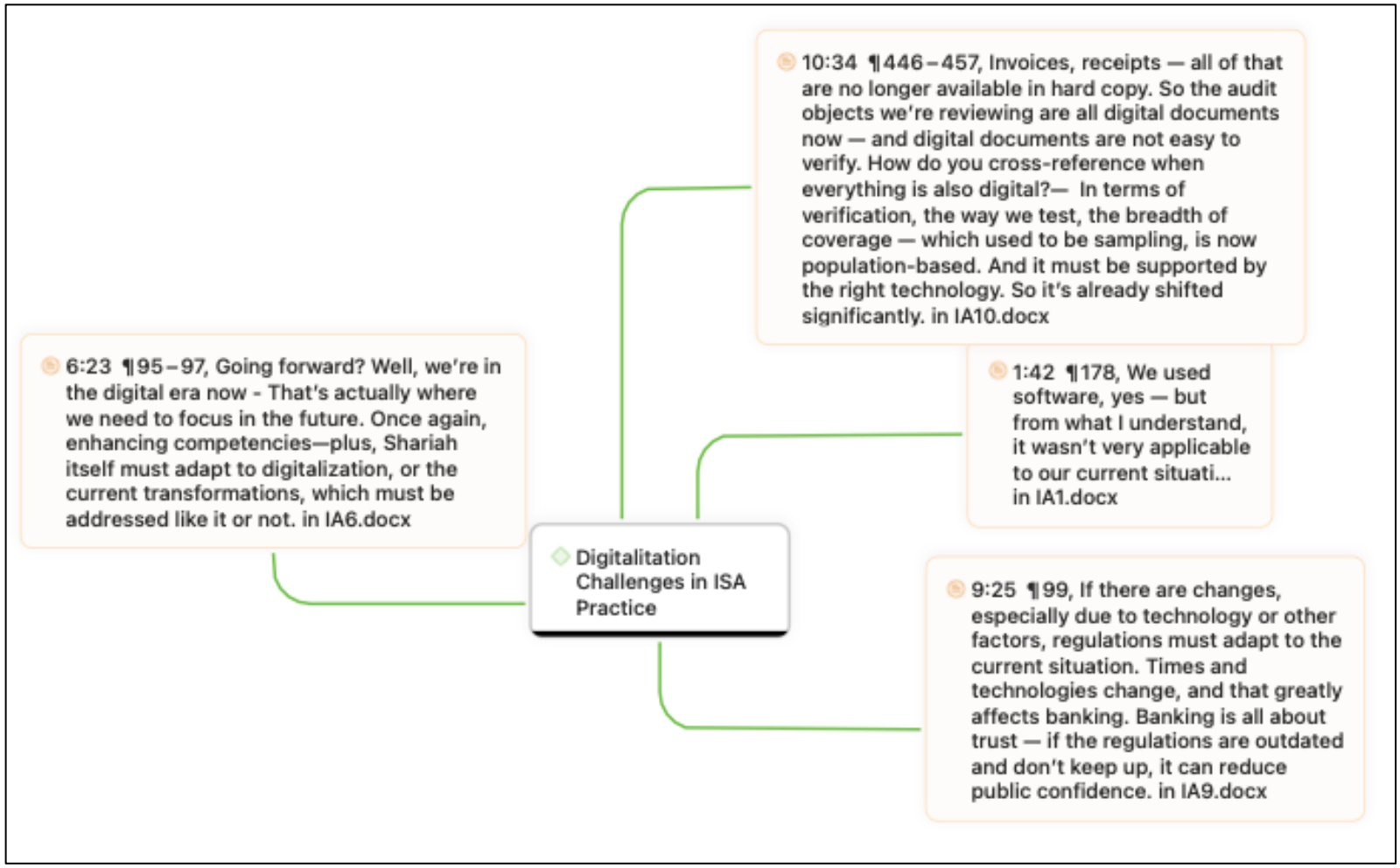
42) Thematic Thematic Network for **Regulatory Basis** :Non- IA Perspectives



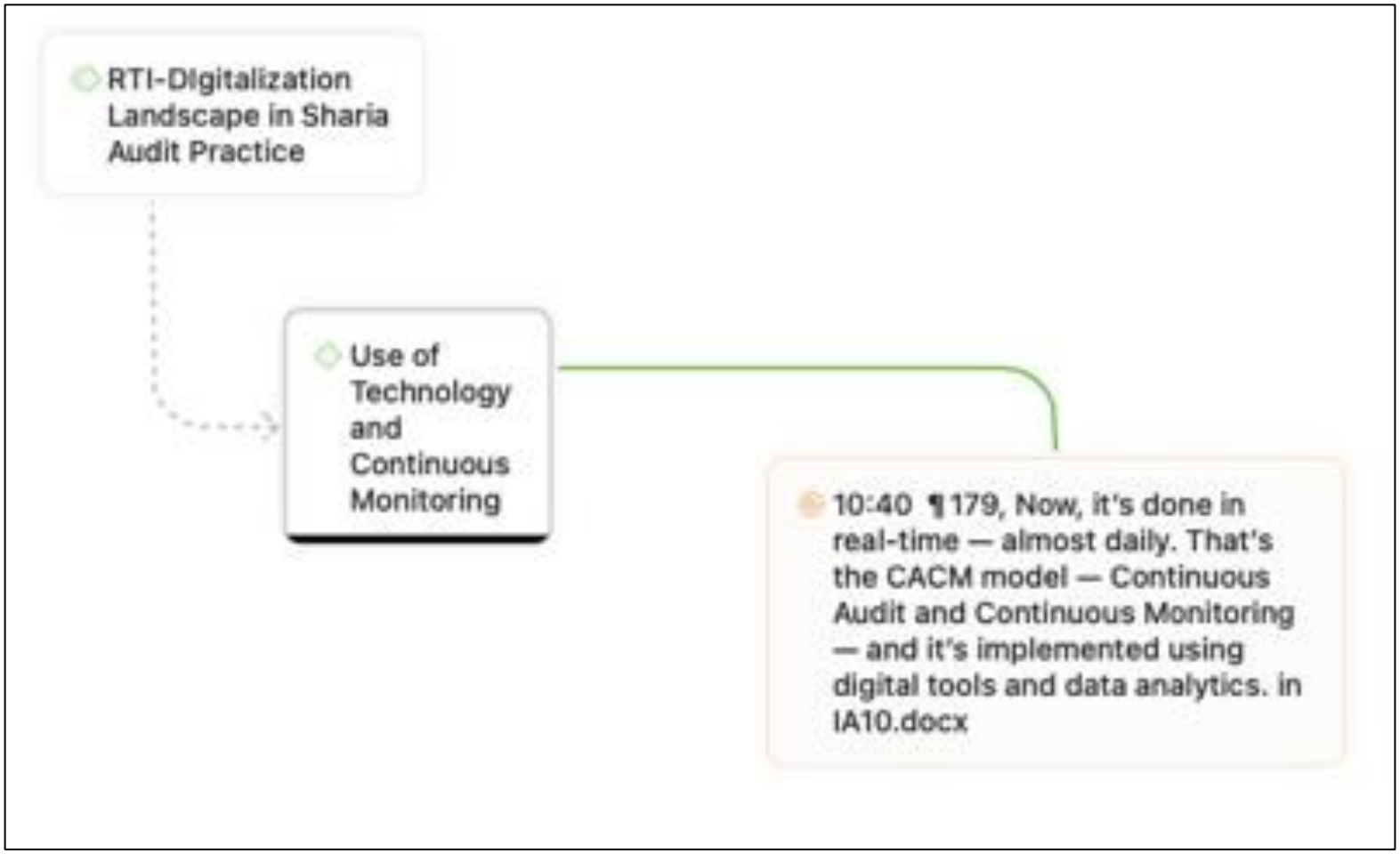
43) Thematic Thematic Network for **Manual Audit Execution and Limited System Integration** :IA Perspectives



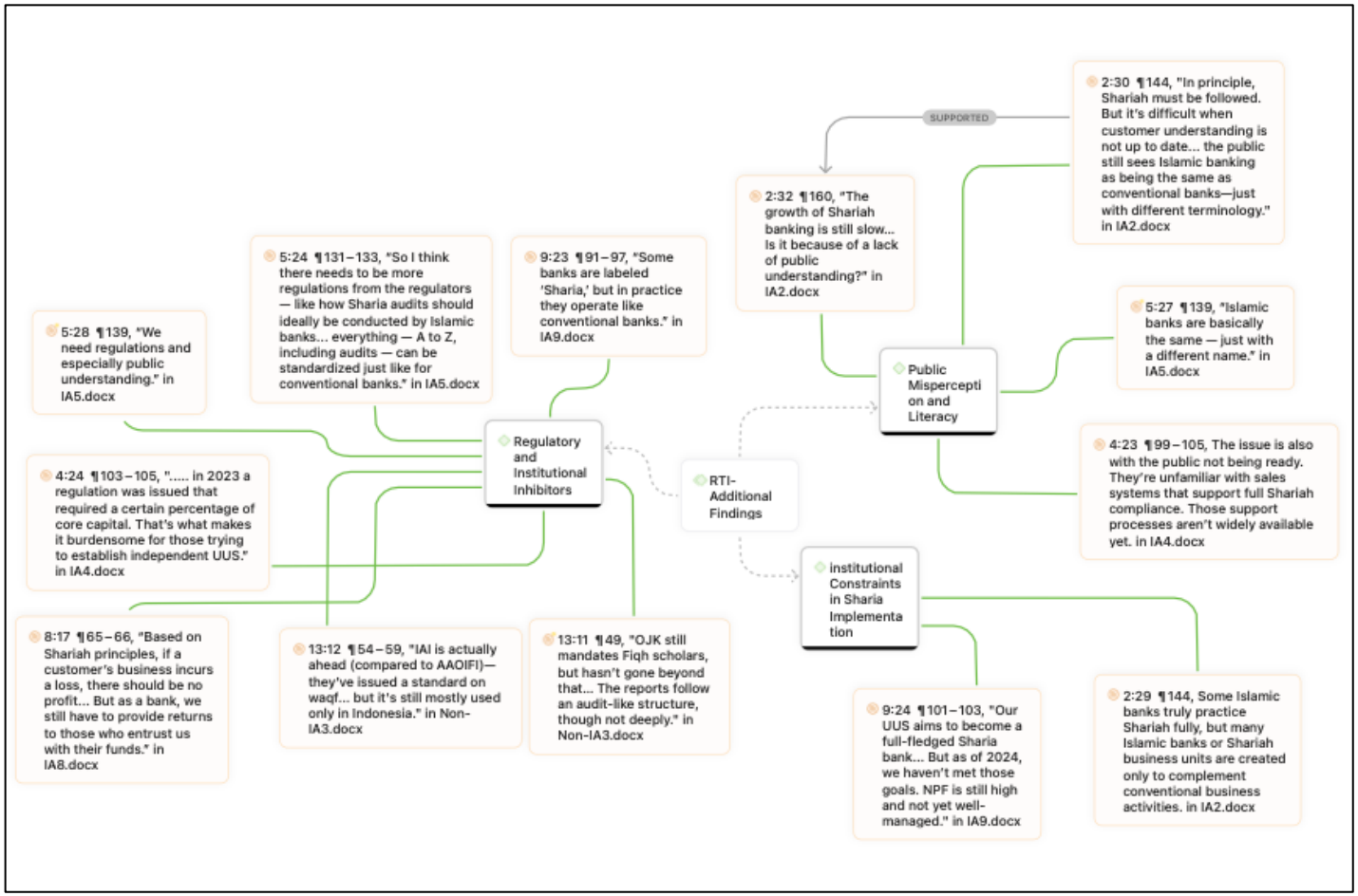
44) Thematic Thematic Network for **Manual Digitalization Challenges in ISA Practice** :IA Perspectives



45) Thematic Thematic Network for **Use of Technology and Continuous Monitoring** :IA Perspectives



46) Thematic Thematic for Additional Findings Related to Regulatory and Technological Integration



APPENDIX 4

Quotation Reports (metadata only)

Note: This appendix lists quotation metadata exported from ATLAS.ti 25 based on the author's coding of interviews and documents (2024–2025). To keep the file concise and protect confidentiality, the full quotation text is not included. Fields shown: code title, source document/participant (anonymised as IAx/Non-IAx), paragraph/timestamp reference, and attached codes (where relevant). Complete verbatim quotations are available upon request. Any redactions are indicated as [redacted].

ATLAS.ti Report

DIssertation for full

Quotations grouped by Codes

Filter:
Filter quotations which are coded with any of the codes “4Es Including Ethics”, “Absence of Formal Shariah Audit Methodology”, “Activity-Based Structuring within a Risk-Based Audit Approach (RBA)”, “Agile Role Evolution of ISA”, “Alignment with Maqasid Sharia”, “Audit Method Based on Conventional Frameworks”, “Auditor-Auditee Cooperation”, “Contextual Audit Method Flexibility”, “Corrective and Preventive Recommendations as Audit Value”, “Development of Internal Audit Methodology”, “Digitalitation Challenges in ISA Practice”, “Ethical Culture for Effective Sharia Audit”, “Evolving Scope of Operational Audit and Governance-Centric Assessment”, “Governance Oversight: Audit Committee, SSB and Compliance”, “Ideal Organizational Structure and Specialized Team.”, “Impact of UUS Transition on Audit Structure”, “institutional Constraints in Sharia Implementation”, “Institutional Coordination With SSB (DPS)”, “Internal Audit Competency Standards and Benchmarking”, “Internalization of Organizational Values and Culture”[…]

Report created by Sri Sulistyowati on 20 Aug 2025

4Es Including Ethics

17 Quotations:

1:1 ¶ 78 – 81, “Yes, I fully agree with that... But in practice, I don’t think there’s much focus on the 4Es specifically.” in IA1.docx

2:1 ¶ 26, "Yes, I agree, because Shariah activities are rooted in Shariah principles, so the 4Es must reflect those foundations." in IA2.docx

3:1 ¶ 75, Since the business is based on Shariah, it’s necessary to include a scope that ensures activities comply with Islamic law, I think. in IA3.docx

4:1 ¶ 16, Because Sharia must, as you mentioned earlier, not only be economical, efficient, and effective, but also adhere to Islamic law. in IA4.docx

5:1 ¶ 24, Yes, I think it's already included. in IA5.docx

5:2 ¶ 24 – 28, I think our audit already covers 4E. in IA5.docx

6:1 ¶ 19, Yes, I agree—because in auditing we usually use those three: effective, efficient, and economical. B… in IA6.docx

8:1 ¶ 23, I completely agree. The reason Islamic banks exist is to ensure that financing and banking practices align with Islamic principles. in IA8.docx

9:1 ¶ 24, Oh, yes, I agree. In Sharia, there are not only internal bank regulations but also fatwas from the Sharia Supervisory Board and other regulations that don’t exist in conventional banks. in IA9.docx

10:1 ¶ 75 – 80, Now, when we talk about operational audit, that’s actually the second stage — where we start talking… in IA10.docx

10:21 ¶ 329, But if what you meant by operational audit is still about the 4Es — then yes, it’s still the same goal. Same purpose, just different terms now. in IA10.docx

10:26 ¶ 170 – 173, Yes, we still perform operational audits to assess effectiveness, efficiency, economy, and ethics. in IA10.docx

11:7 ¶ 14 – 17, Based on several literature reviews we’ve done, and theoretically, operational Sharia audits refer t… in Non-IA1.docx

12:18 ¶ 19, I agree, that's how it should be, right? in Non-IA2.docx

15:1 ¶ 42, looking at it from a larger perspective than simply the 4Es makes it much better, in my opinion in IA7.docx

16:4 ¶ 17, In accordance with POJK No. 1/POJK.03/2019, the scope of internal audit activities has been described, which in general aligns with the 4Es principles. in Non-IA4.docx

16:5 ¶ 18, The SEOJK also explains the scope of external reviews of Shariah governance, which is consistent with these principles. in Non-IA4.docx

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• Absence of Formal Shariah Audit Methodology

12 Quotations:

1:17 ¶ 137 – 142, Yes, there's no universal internal audit methodology. in IA1.docx

1:26 ¶ 35 – 38, But in terms of full-fledged Sharia audit scope, we don't have one yet. in IA1.docx

1:31 ¶ 123, "I previously worked in a conventional bank, and overall, the structure is similar." in IA1.docx

1:36 ¶ 23, The policy comes from head office, really. And at the head office, the Sharia audit is just "attache… in IA1.docx

3:14 ¶ 101 – 103, "In terms of detailed implementation, there is nothing specific — it's interpreted independently by the bank or SKAI." in IA3.docx

4:13 ¶ 34, POJK provides general guidance, not technical details. in IA4.docx

10:22 ¶ 340 – 347, So, do I think Shariah audits are falling behind in methodology? No — because it depends on the need. Auditing Shariah implementation is different from auditing Shariah governance frameworks — so the methodologies must also differ. So the challenge in Shariah auditing lies more in the development of Shariah itself, because its principles have expanded so much. in IA10.docx

10:38 ¶ 30, So if we're talking about the audit methodology, we still use a risk-based approach. We use the standard steps: planning, execution, and reporting. But when it comes to Shariah audits, we add Shariah-specific components. So it's not a completely different process. It's more about layering Shariah compliance into each stage. in IA10.docx

11:28 ¶ 25, In my view, we in Shariah shouldn't try to reinvent the wheel — trying to redefine what the wheel is. A Shariah wheel and a non-Shariah wheel aren't different. So, general auditing and Shariah auditing don't need to be entirely separate. Sampling methods and others can still be used. in Non-IA1.docx

12:10 ¶ 61, "Go ahead and ask: is there a Shariah audit framework at DSN? There isn't. It's only based on fatwas." in Non-IA2.docx

12:15 ¶ 164, we need the framework first. So, what exactly are we auditing? That's the point. So that we don't go off track. in Non-IA2.docx

16:13 ¶ 29, POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024 provide further detail on the roles and responsibilities related to internal Shariah audits and external reviews of Shariah governance. The implementation of external Shariah governance reviews will also follow guidelines to be developed by the Indonesian Institute of Public Accountants (IAPI) as the association representing the public accounting profession in Indonesia. in Non-IA4.docx

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• Activity-Based Structuring within a Risk-Based Audit Approach (RBA)

17 Quotations:

1:2 ¶ 83 – 85, "… There is no use in focusing solely on the 4Es, and I mean that the fact is that when you are out there in the job force, it is wonderful to have these 4Es, but the reality is that you only have a certain number of audit resources available to you, you need to focus on the risk. in IA1.docx

1:3 ¶ 123, so we assess which activities pose the greatest risk. in IA1.docx

1:4 ¶ 126, we also do risk profiling — profiling for each client, or in this case, the branch. Different branches have different characteristics and risks. in IA1.docx

1:5 ¶ 127 – 132, we have an audit program. At our bank, there are 100 programs to choose from. So a given branch migh… in IA1.docx

1:19 ¶ 144, "Auditors usually don't use all of them — there's not enough time, and it would be a waste. They wouldn't match the risk profile anyway." in IA1.docx

1:20 ¶ 144, In fact, our audit program library contains over 100 entries. These are already filtered — they're t… in IA1.docx

2:2 ¶ 68, There are rules about audit activities, which include risk assessments and various criteria in IA2.docx

2:10 ¶ 16, we identify and determine in advance the key areas of focus. Due to limitations in personnel and time, we set the audit scope based on priority areas of the Shariah business to be audited in IA2.docx

2:14 ¶ 18, "We assess operational areas by evaluating certain performance criteria to support the scope. For example, in financing, we assess by collecting transaction data from all units and creating a grading system." in IA2.docx

3:15 ¶ 35, We did sampling at several operational units that had relatively significant impact— determined based on NPF and outstanding balances. in IA3.docx

5:4 ¶ 13, Yes, we start from scratch. Every month, we choose a different program for a specific branch, depending on that branch's risk. Since I'm a Resident Auditor and based here, I understand where the weak spots usually are. in IA5.docx

6:4 ¶ 30, We prioritize auditing areas with the highest risk. in IA6.docx

9:2 ¶ 18, We start by planning the audit based on risk — the risks of each operational unit or within the Sharia division or business unit. in IA9.docx

10:2 ¶ 30, So if we're talking about the audit methodology, we still use a risk-based approach. in IA10.docx

10:4 ¶ 61, Now in terms of implementation, the audit is more focused on how risks are managed in daily activities, and how controls are applied. in IA10.docx

10:17 ¶ 149, You can't just apply 4Es blindly — you have to prioritize based on identified risks. That's how we select our operational audits. in IA10.docx

15:10 ¶ 19, for Shariah audit practice, we usually start by assessing the risk exposure of each activity in the UUS. in IA7.docx

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• Agile Role Evolution of ISA

5 Quotations:

1:46 ¶ 236, when we present audit findings — aside from confirming them, we give recommendations. Our recommenda… in IA1.docx

6:16 ¶ 49, nowadays we position ourselves more as consultants. Especially since we are internal auditors, the expectation is that we can offer improvements—ideally, even add value to the company. in IA6.docx

9:18 ¶ 55, nowadays auditors aren't just watchdogs — we're partners of the operational and business units to support growth and profit achievement. in IA9.docx

10:18 ¶ 320, if we were to standardize it and use the term "operational audit," that might actually be a bit rigid. Because in audit now, we're required to be agile — and being agile means being flexible in looking at space and concepts. in IA10.docx

10:28 ¶ 79 – 80, So our function isn't just about assessing effectiveness anymore. We're now also expected to forecast. in IA10.docx

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Alignment with Maqasid Sharia

10 Quotations:

1:25 ¶ 260 – 265, Maqasid Shariah — I've heard of it, but rarely see it used. in IA1.docx

2:27 ¶ 128, "Audits should serve to restore operational practices to align with Shariah principles or Shariah-compliant actions. In Islamic banks, the SSB is responsible for monitoring operations, especially regarding Shariah principles. So, our reports are also sent to the SSB for review and evaluation, and they may provide input accordingly." in IA2.docx

4:12 ¶ 79, "...There are principles that must be met. Have those principles been properly followed in accordance with Shariah law? ... Because it's about serving the Muslim community and also fulfilling Islamic legal requirements that are ultimately accountable to Allah SWT." in IA4.docx

10:6 ¶ 68 – 70, In fact, the difference between conventional and Shariah finance lies in preserving that purity — both in intent (niyyah) and in the offer and acceptance (ijab qabul) that's documented and supported with proper fulfillment of Shariah conditions. That's what we aim for. in IA10.docx

10:9 ¶ 362, Our real challenge now is: How do we ensure that monitoring is backed by a solid understanding of Sh… in IA10.docx

10:24 ¶ 143 – 146, he principles of Shariah — maqashid shariah — align with people, planet, and so on. Maqashid shariah and ESG are actually the same in essence. So if we talk about ESG capability — everything is already covered under Shariah. Which means, the financial institution best positioned to meet ESG standards… Should really be Islamic banks. in IA10.docx

11:7 ¶ 14 – 17, Based on several literature reviews we've done, and theoretically, operational Sharia audits refer t… in Non-IA1.docx

12:16 ¶ 58, Because of integrity. We work with accountability to God. That's the essence of Shariah. in Non-IA2.docx

13:5 ¶ 43, we're not just responsible in human-to-human or business-to-business interactions, but also in our relationship with nature. in Non-IA3.docx

15:11 ¶ 142 – 153, "Auditing is one way for companies to be accountable—not just to people, but to God. Maqasid Shariah guides us to ensure public funds are managed ethically and in line with Shariah." in IA7.docx

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Audit Method Based on Conventional Frameworks

7 Quotations:

1:18 ¶ 137 – 142, Of course (we adopt audit procedures from conventional auditing). We begin by reviewing the audit subject, then we gather evidence, confirm findings, hold an exit meeting, and prepare the report. That part is all standard. in IA1.docx

1:31 ¶ 123, "I previously worked in a conventional bank, and overall, the structure is similar." in IA1.docx

2:17 ¶ 23, for Shariah operational audits, it's basically similar to what we do in conventional. in IA2.docx

8:6 ¶ 30, Since we're still operating under an Islamic Business Unit, the methods are mostly the same (as conventional audit) in IA8.docx

11:12 ¶ 30, There's no need to create a completely new audit system. The wheel already exists — in the form of generally accepted auditing standards. What we need to do is integrate them. in Non-IA1.docx

11:13 ¶ 33 – 34, So there's no need for a special standard, if I'm not mistaken according to Non-IA1. A special stand… in Non-IA1.docx

13:4 ¶ 37 – 39, Yes (similar to how conventional audit are done). Because audit itself is general and neutral. Audits can be done for anything — it just depends on how we define what "Shariah" means. in Non-IA3.docx

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• Auditor-Auditee Cooperation

16 Quotations:

1:44 ¶ 218, management support is okay. No issues. They're cooperative during audits. Back in the day, people used to get defensive or upset. Now, everyone understands that audits can provide added value for the team. in IA1.docx

1:45 ¶ 227 – 234, "Sometimes if the findings are too trivial, it's seen as nitpicking. But if the findings are too sharp, there's resistance too." in IA1.docx

2:22 ¶ 96, "Management... has already defined the audit scope and given approval for the activities to be carried out. So, the audit is aligned with the company's objectives." in IA2.docx

2:23 ¶ 100, "We report directly to top management—the CEO—who receives the audit results. This allows for fast and comprehensive follow-up actions when issues arise." in IA2.docx

2:24 ¶ 112, "With good communication, follow-up actions can be resolved together—both auditor and auditee reach a mutual agreement on the findings and follow-up so that the problem doesn't reoccur." in IA2.docx

2:27 ¶ 128, "Audits should serve to restore operational practices to align with Shariah principles or Shariah-compliant actions. In Islamic banks, the SSB is responsible for monitoring operations, especially regarding Shariah principles. So, our reports are also sent to the SSB for review and evaluation, and they may provide input accordingly." in IA2.docx

3:19 ¶ 159 – 169, "We often have discussions—maybe the auditor and auditee have different perspectives... But thankfully, there has never been a crash or conflict." in IA3.docx

4:19 ¶ 58, "SKAI or audit is a partner to operations. Not an enforcer, but a partner. Why? Because it drives improvement." in IA4.docx

5:17 ¶ 76 – 82, the interaction has been good. You can tell from how quickly auditees respond. in IA5.docx

8:13 ¶ 47, I've never encountered any major issues or rejections during audit closure or when presenting findings. in IA8.docx

9:17 ¶ 53, If everything were always fine, that would be dishonest. We're all human and have different personalities — so of course there are dynamics. But we still have to be professional and maintain conditions so that conflicts don't become personal. in IA9.docx

9:19 ¶ 59, That's why we communicate -- yes, good interaction is a must. in IA9.docx

11:27 ¶ 49, "DPS must be able to bridge the internal and external findings — particularly those related to Shariah compliance — with management." in Non-IA1.docx

12:24 ¶ 23, "If we determine something is not Shariah-compliant, we can ask for the product to be revised. If it's not revised, we can ask for it to be discontinued." in Non-IA2.docx

15:14 ¶ 119 – 124, Auditors work based on facts—and those come from evidence and working papers. If communication with the auditee is poor, there's a big risk of misunderstanding or miscommunication, and that can lead to major problems in the audit report. In my view, good communication with the auditee is essential, because the audit report could become the basis for many decisions. If there's a misperception, the consequences can be serious. in IA7.docx

16:11 ¶ 52, POJK No. 1/POJK.03/2019 generally regulates the professional ethics of internal audit, where internal auditors must act independently and objectively in performing their audit tasks and functions according to applicable standards. in Non-IA4.docx

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• Contextual Audit Method Flexibility

12 Quotations:

1:16 ¶ 133 – 136, You can't use the same audit procedures at another location — it depends on the risk profile. [03:44… in IA1.docx

1:19 ¶ 144, "Auditors usually don't use all of them — there's not enough time, and it would be a waste. They wouldn't match the risk profile anyway." in IA1.docx

2:15 ¶ 18, "If last year we already audited certain areas, we look for something new, or perhaps new operational activities introduced...- We also review the RBB (Bank Business Plan)—we look at what business areas are being pursued, and that becomes the basis for determining the scope." in IA2.docx

2:18 ¶ 24, "We prepare in advance which areas or scopes should be audited based on that year's general policy directive." in IA2.docx

3:13 ¶ 115, Yes, we derive it from the activities, then translate it into the audit program, and it's automatica… in IA3.docx

5:11 ¶ 14, that's why we select the audit program that fits. If there's an issue or indication of something, I'll choose the program that addresses it. in IA5.docx

5:13 ¶ 46, "...we, the resident auditors, give input to ERAM, and then it gets passed on. That way, they understand what it's like in the field, and it gets incorporated into the methodology." (14:19–15:08) in IA5.docx

10:15 ¶ 336, audit methodology is much more flexible. Like I said, we have to be agile. It depends on the infrastructure we have. It depends on the universe we're dealing with. in IA10.docx

10:16 ¶ 350, if we're dealing with this area, we're not necessarily locking in things like the sufficiency of the pillars or conditions, right? But then the audit program comes up, and it tells us we

do need to test the fulfillment of those pillars and conditions. That's it — so the difference lies in the audit program. Which is, every time we go into an audit, we first prepare the program. in IA10.docx

11:10 ¶ 25, "A Shariah wheel and a non-Shariah wheel aren't different. So, general auditing and Shariah auditing don't need to be entirely separate… Sampling methods and others can still be used. Operational audit as we know it can still be applied. The difference lies in the scope — we emphasize the Shariah context." in Non-IA1.docx

12:19 ¶ 60 – 61, "I proposed a framework for conducting Shariah audits from three angles: operational, accounting, and financing... But if you ask whether DSN has a Shariah audit framework — there isn't one. It's only based on fatwas." in Non-IA2.docx

13:10 ¶ 39, Because audit itself is general and neutral. Audits can be done for anything — it just depends on how we define what "Shariah" means. in Non-IA3.docx

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• Corrective and Preventive Recommendations as Audit Value

3 Quotations:

2:12 ¶ 16, The end result is an Audit Report (LHA), which contains identified issues, recommendations, and follow-up actions ..... - with the goal of enhancing overall Shariah operational performance as expected by the company. in IA2.docx

2:21 ¶ 48, the report or result we aim for is performance improvement, both in terms of efficiency and effectiveness, in achieving the company's stated objectives. in IA2.docx

10:36 ¶ 293 – 317, "So what is it exactly that's being tested in an operational audit? It's things like: is the governance structure in place? Is it being implemented effectively? Effectiveness, efficiency, all that — those are the conclusions. But what we test is the capacity to perform, how well risks are managed, and how governance is carried out." in IA10.docx

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• Development of Internal Audit Methodology

4 Quotations:

5:12 ¶ 42, we do have a methodology in place, but I think it still needs improvement here and there. Because methodology isn't static, right? As time goes on, we realize certain things and say, "Oh, this should be added." That's how it goes. in IA5.docx

12:11 ¶ 60, So I offered mine. I had material with a framework for conducting Shariah audits from three angles: operational, accounting, and financing. in Non-IA2.docx

12:13 ¶ 111, I initially wanted to make it a guideline for internal auditors assisting the DPS. Because internal audit helps the DPS. in Non-IA2.docx

15:9 ¶ 13, The audit program is prepared by a specific team, but we still provide assistance, because we're the ones in the field. Naturally, we know the developments in cases happening in operational areas, so we provide input based on our audit findings. in IA7.docx

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• Digitalitation Challenges in ISA Practice

6 Quotations:

1:42 ¶ 178, We used software, yes — but from what I understand, it wasn't very applicable to our current situati… in IA1.docx

6:9 ¶ 94 – 97, actually where we need to focus in the future. Once again, enhancing competencies— plus, Shariah itself must adapt to digitalization, or the current transformations, which must be addressed like it or not. in IA6.docx

6:23 ¶ 95 – 97, Going forward? Well, we're in the digital era now - That's actually where we need to focus in the future. Once again, enhancing competencies—plus, Shariah itself must adapt to digitalization, or the current transformations, which must be addressed like it or not. in IA6.docx

9:25 ¶ 99, If there are changes, especially due to technology or other factors, regulations must adapt to the current situation. Times and technologies change, and that greatly affects banking. Banking is all about trust — if the regulations are outdated and don't keep up, it can reduce public confidence. in IA9.docx

10:34 ¶ 446 – 457, Invoices, receipts — all of that are no longer available in hard copy. So the audit objects we're reviewing are all digital documents now — and digital documents are not easy to verify. How do you cross-reference when everything is also digital?— In terms of verification, the way we test, the breadth of coverage — which used to be sampling, is now population-based. And it must be supported by the right technology. So it's already shifted significantly. in IA10.docx

11:15 ¶ 8, nowadays everything is digital. Take for instance the IT incident that BANK A experienced — that also became a responsibility of the Audit Committee, to continuously monitor on behalf of the board of commissioners how well it has been resolved or anticipated. It includes future IT developments. in Non-IA1.docx

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• Ethical Culture for Effective Sharia Audit

2 Quotations:

5:26 ¶ 137, "We need to achieve the company's targets, but in a proper and ethical way." in IA5.docx

9:21 ¶ 76 – 77, "If we as auditors don't have good integrity, we won't be able to objectively assess any issue... our duty is to the company, not individual interests." in IA9.docx

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• Evolving Scope of Operational Audit and Governance-Centric Assessment

1 Quotations:

10:36 ¶ 293 – 317, "So what is it exactly that's being tested in an operational audit? It's things like: is the governance structure in place? Is it being implemented effectively? Effectiveness, efficiency, all that — those are the conclusions. But what we test is the capacity to perform, how well risks are managed, and how governance is carried out." in IA10.docx

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• Governance Oversight: Audit Committee, SSB and Compliance

25 Quotations:

1:10 ¶ 154, We submit our report to the President Director, in line with OJK requirements, and send copies to the audit committee and the commissioners. in IA1.docx

1:35 ¶ 154, "Our team's findings are summarized and brought to the committee, which then presents it to the commissioners — and the commissioners will push management to follow up." in IA1.docx

1:38 ¶ 158, internal audit can examine anything. No one is allowed to block or interfere - that's where the audit committee's support comes in. in IA1.docx

1:39 ¶ 159, Because they're (Audit Committee) the ones who sign the Internal Audit Charter. And every bank must have internal audit — it's required by OJK, the regulator. in IA1.docx

2:27 ¶ 128, "Audits should serve to restore operational practices to align with Shariah principles or Shariah-compliant actions. In Islamic banks, the SSB is responsible for monitoring operations, especially regarding Shariah principles. So, our reports are also sent to the SSB for review and evaluation, and they may provide input accordingly." in IA2.docx

3:17 ¶ 133 – 143, Speaker 0: Does the audit committee have any authority? Do they have the power to make internal audi… in IA3.docx

4:16 ¶ 48, the audit committee has a supervisory function. The audit committee's role is to encourage. Actually, the audit committee doesn't execute or command, but supports the audit function so that it operates independently. in IA4.docx

4:17 ¶ 51, "They don't have formal power… but they provide input, give insight, and coordinate with the board of commissioners." in IA4.docx

4:22 ¶ 96 – 97, DPS is always informed of every audit we conduct- Because DPS also oversees Shariah operations. in IA4.docx

5:14 ¶ 59 – 60, "The audit committee at headquarters acts as a bridge — communicating our field findings to stakeholders, BOD, BOC, and so on." in IA5.docx

5:15 ¶ 62 – 64, "Maybe they don't have much power… still helps us a lot by raising awareness among auditees through management." in IA5.docx

6:14 ¶ 36 – 37, "Sometimes we receive tasks to conduct specific audits based on requests from the committee or board of commissioners." in IA6.docx

8:11 ¶ 33 – 38, "They're more about presenting what we found during the audit—what findings came up, what recommendations we made, and whether those issues have been resolved." in IA8.docx

9:14 ¶ 38 – 45, "That function lies with the board of commissioners. For the audit committee, we send reports to them. But the placement of internal audit — that seems to fall under the authority of the board of commissioners." in IA9.docx

9:22 ¶ 85, "If our policies in the Sharia division or Sharia unit are outdated or don't reflect current fatwas... they'll give that input." in IA9.docx

10:30 ¶ 374 – 388, Just one more thing: how about the power of the audit committee? In BSI, how would you describe it?… in IA10.docx

10:35 ¶ 397 – 422, "Yes, functionally, the Audit Committee has quite significant power. Because that's already regulated under POJK, and it's also covered in the new system called KIAS. Previously it was called IPPF — that was the old name. Now it has been updated to KIAS, which came into effect on January 9th. We also have an Internal Audit Charter, which formalizes our position — that we are quite independent. So yes, our position, our authority, and our access rights are all governed and protected." in IA10.docx

11:16 ¶ 10, in our role as Audit Committee members, we ensure that audit findings — internal or external — that relate to Sharia aspects are also communicated to the Sharia Supervisory Board... in Non-IA1.docx

11:17 ¶ 49, "In Islamic financial institutions, thankfully DPS is mandatory. DPS should serve as a mediator, because unlike internal audit and the board of commissioners — who are part of the institution — DPS is an affiliated party. That institutional separation gives it a more neutral role...." in Non-IA1.docx

11:18 ¶ 36, "Even if the audit committee doesn't carry that out — even if the audit committee only performs general oversight because it's part of the board of commissioners — that's okay too. What matters is that the Shariah Supervisory Board can perform that function. But for the Shariah Supervisory Board to do that, its members must include people who understand what Shariah audit entails, or what Shariah compliance audit looks like." in Non-IA1.docx

11:19 ¶ 38, "We — I specifically — carried that out during the two years at BANK A. Because before every committee meeting with the commissioners, we held a pre-committee meeting. We filtered the issues. We gave input to internal audit. Even further, before, say, PricewaterhouseCoopers — our public accountant — conducted a hard close meeting with management and the commissioners, we were the ones who screened everything first." in Non-IA1.docx

12:20 ¶ 146, "DPS appears to be under the director. That's how it looks. I myself—oh, goodness. That's why I've spoken up a few times. I'm more afraid of God than I am of the board." in Non-IA2.docx

12:26 ¶ 24 – 26, "Who audits the DPS? I said, well, here no one does... DPS is part of the DSN. So it's the DSN that should be auditing us. But right now it only requires reporting — and that's not an operational audit. What we're talking about here is a Shariah audit — meaning an audit of Shariah compliance." in Non-IA2.docx

15:12 ¶ 73 – 89, "Their authority is actually broad. But within our audit scope, their role is mostly limited to evaluation and improvement of the audit process, and monitoring the follow-up on audit recommendations. The committee itself operates under the board of commissioners. Commissioners aren't allowed to interfere with operations; they mainly evaluate and monitor. Would you call that commissioners' role? From my experience here, they have quite a lot of authority. So it's not like they have to say "do this, do that," but their power is more about improving our audit process." in IA7.docx

16:7 ¶ 47, In general, the duties and authorities of the Board of Directors, Board of Commissioners, and the Shariah Supervisory Board in conducting internal audits have been regulated in POJK No. 1/POJK.03/2019 and POJK No. 17/2023. Further details, including the support from the Board of Directors, Commissioners, and Shariah Supervisory Board for internal Shariah audits, are elaborated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024. in Non-IA4.docx

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• Ideal Organizational Structure and Specialized Team.

11 Quotations:

1:12 ¶ 246 – 252, "If you want independence, it should ideally be under the board of commissioners." in IA1.docx

2:25 ¶ 116, "In our case, since we're a regional bank, it's different than a national bank with large-scale and wide-ranging operations. [...] In the past, we had something called KIC—Internal Control Coordinator—at the branch level. [...] But based on evaluations, performance, or internal policies, and perhaps because the personnel lacked competence or for other reasons, the KIC was eventually discontinued and brought back under SKAI." in IA2.docx

4:9 ¶ 11, ..because it's still part of its conventional bank parent- unless it stands independently someday—it is still audited by SKAI, both conventional and Sharia. in IA4.docx

9:20 ¶ 66 – 67, it would be even better if there were a special team — a dedicated Sharia audit team. Right now, even though we have two people with stronger knowledge in that area, the other auditors are also involved for knowledge-sharing. in IA9.docx

11:21 ¶ 5, "...we call Sharia Combined Assurance — which means the internal audit aspect also aligns with compliance in many matters, especially Sharia compliance..." → This implies the existence of an integrated structure that aligns internal audit and compliance with Shariah oversight — an indicator of a specialized structural mechanism. in Non-IA1.docx

11:22 ¶ 36, "...for the Sharia Supervisory Board to do that, its members must include people who understand what Shariah audit entails... maybe there needs to be a combination of DPS members who, besides understanding fiqh muamalah, also have a solid grasp of auditing as a whole." in Non-IA1.docx

11:23 ¶ 57, “...a Shariah compliance audit cannot be performed solely by internal parties — there must be an external party involved... the external audit team and the Shariah compliance audit team must be different.” in Non-IA1.docx

12:26 ¶ 24 – 26, “Who audits the DPS? I said, well, here no one does... DPS is part of the DSN. So it’s the DSN that should be auditing us. But right now it only requires reporting — and that’s not an operational audit. What we’re talking about here is a Shariah audit — meaning an audit of Shariah compliance.” in Non-IA2.docx

12:28 ¶ 31, “There should be a separate body — an independent institution. In Malaysia, that’s ISLA.” in Non-IA2.docx

15:15 ¶ 127 – 136, “Ideally, audit should be one level above the division... I don’t mind a fatter structure if it means better audits.” in IA7.docx

16:12 ¶ 57, POJK No. 1/POJK.03/2019 generally regulates the professional ethics of internal audit, where internal auditors must act independently and objectively in performing their audit tasks and functions according to applicable standards. in Non-IA4.docx

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• Impact of UUS Transition on Audit Structure

1 Quotations:

4:21 ¶ 83 – 90, “For the audit process, no. Because this is about the establishment of the UUS itself. So it's more on the organizational side. If a UUS is later established, then the audit process will change. […] Once it's independent, then it definitely changes. There will definitely be differences—certainly different from how things are now. Why? Because once it's fully operating as a Shariah bank, fully focused on Shariah, then all activities will follow suit, including IT.” in IA4.docx

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• institutional Constraints in Sharia Implementation

2 Quotations:

2:29 ¶ 144, Some Islamic banks truly practice Shariah fully, but many Islamic banks or Shariah business units are created only to complement conventional business activities. in IA2.docx

9:24 ¶ 101 – 103, "Our UUS aims to become a full-fledged Sharia bank... But as of 2024, we haven’t met those goals. NPF is still high and not yet well-managed." in IA9.docx

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• Institutional Coordination With SSB (DPS)

12 Quotations:

1:28 ¶ 37, “Now, their [SSB] sample source is based on internal audit findings.” in IA1.docx

5:22 ¶ 123, we usually consult with the DPS to check if something is permissible. Usually, meetings with the DPS are scheduled — whether monthly or otherwise in IA5.docx

5:23 ¶ 124 – 126, “That’s usually what the DPS notes... to limit it, so that not all clients receive income smoothing — which is not ideal from a Sharia perspective.” in IA5.docx

6:21 ¶ 79 – 84, “The role of the DPS hasn't been very optimal yet... we—meaning the audit team leaders—rarely have direct communication.” in IA6.docx

8:16 ¶ 63 – 64, We coordinate and consolidate regularly. in IA8.docx

10:31 ¶ 556 – 568, ...our communication with the DPS was the same as with the commissioners. The frequency of communication was relaxed — we had regular meetings every three months with the DPS. in IA10.docx

11:5 ¶ 10, “...audit findings — internal or external — that relate to Sharia aspects are also communicated to the Sharia Supervisory Board. The Sharia Supervisory Board, in turn, coordinates with internal audit and compliance — especially Sharia compliance.” in Non-IA1.docx

11:16 ¶ 10, in our role as Audit Committee members, we ensure that audit findings — internal or external — that relate to Sharia aspects are also communicated to the Sharia Supervisory Board... in Non-IA1.docx

12:23 ¶ 22, DPS in Indonesia only has the authority to form a Shariah opinion — A special audit to assess Shariah compliance. For that task, the DPS is usually assisted by internal audit. in Non-IA2.docx

12:27 ¶ 31, “They (IA) assist us (DPS) in identifying Shariah violations in the institution. Once those are presented to us, then we issue the opinion. in Non-IA2.docx

15:17 ¶ 169 – 175, we do have interactions, like we do with the audit committee. We conduct evaluations regularly -Technical collaboration between the auditor and SSB - in IA7.docx

16:16 ¶ 47, ...the support from the Board of Directors, Commissioners, and Shariah Supervisory Board for internal Shariah audits, are elaborated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024. in Non-IA4.docx

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• Internal Audit Competency Standards and Benchmarking

17 Quotations:

1:14 ¶ 168, We already have an audit program, which is well-structured. For instance, if we're going to examine… in IA1.docx

1:40 ¶ 171, You need to have Excel skills at your fingertips. Then there's writing.. in IA1.docx

1:43 ¶ 189 – 193, These days we even accept transfers from other units, and some of them still have D3-S1 combinations. it doesn’t have to be a bachelor’s in accounting?- No, not necessarily. in IA1.docx

2:4 ¶ 62, We’ve also developed our own BPP—Company Guidelines Book—which governs the technical execution of au… in IA2.docx

3:3 ¶ 111, ..we first create a rough structure. At our institution, we have work IPs, investment IPs, and from there, we break it down further... in IA3.docx

4:6 ¶ 61, there should be training sessions for auditors who will be auditing in UUS. So that when we audit UU… in IA4.docx

5:5 ¶ 67 – 69, “Through analysis, we can identify root causes, why something happened, the impact, and potential risks — and give appropriate recommendations.” in IA5.docx

6:7 ¶ 40, In terms of skills, our team is usually already packaged—meaning, within a team there are people who are experts in different areas: funding, financing, or general operations. in IA6.docx

6:20 ¶ 72 – 78, “Yes, I think it (the IIA standard) came out in 2023—about audit professionals.” (IA6, [24:51]) in IA6.docx

8:8 ¶ 40, Auditors must really strengthen their competencies in understanding Shariah rules, regulations, and… in IA8.docx

8:18 ¶ 67 – 70, "The most important thing is upgrading the auditors' competencies. They need to be trained on regulations related to Islamic banking..." in IA8.docx

9:9 ¶ 68, In internal audit, there are special qualifications — not everyone can be recruited. in IA9.docx

9:15 ¶ 47, "They must be able in general fields — accounting, credit or financing, funding, marketing — all of these should be covered." in IA9.docx

12:3 ¶ 227, This isn't just about audit. Audit isn't just about competency either. How can you audit if you're not really qualified? in Non-IA2.docx

13:2 ¶ 118, must first have a solid understanding of auditing principles. Specifically for internal auditors in… in Non-IA3.docx

15:6 ¶ 91, We definitely need auditors who understand Shariah principles and have knowledge related to UUS operations. in IA7.docx

16:1 ¶ 42, The regulation requires the internal audit function to be supported by adequate resources, methodology, tools, and audit techniques. Specifically for Shariah internal audits, POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024 regulate the competency requirements for heads of Shariah internal audit functions. in Non-IA4.docx

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• Internalization of Organizational Values and Culture

13 Quotations:

1:48 ¶ 253 – 258, "It comes down to awareness and internal control. Employee awareness must be strong... Communication is also crucial — that applies here too." in IA1.docx

2:26 ¶ 120, "...professionalism, integrity, innovation, and leadership - professionalism means we must be responsible and committed. Integrity means we must be honest. Innovation implies we must always seek development and generate ideas. And leadership means we must be able to influence others in order to achieve the company's goals..." in IA2.docx

3:21 ¶ 185, we have cultural values described in the principles of professionalism, responsibility in IA3.docx

4:20 ¶ 71 – 73, "SKAI must be truly independent, honest, and uphold good ethics." in IA4.docx

5:19 ¶ 101, Islamic and professional are the key. The "modern" part is just a response to the times. in IA5.docx

6:18 ¶ 60, "We also have something called a 'Risk Culture Statement' that we sign every year." in IA6.docx

8:14 ¶ 55, integrity is one of them. That kind of culture really has to be maintained, and there has been decent support from management too in IA8.docx

9:21 ¶ 76 – 77, "If we as auditors don't have good integrity, we won't be able to objectively assess any issue... our duty is to the company, not individual interests." in IA9.docx

10:32 ¶ 535 – 547, "That kind of mindset should shape our culture. Not a watchdog culture — where we think we're always right — but a service delivery mindset. And if we provide services, we must be ready to receive input, criticism, and complaints — not directed at us personally, but about how we can improve." in IA10.docx

11:20 ¶ 54 – 55, "Most Shariah banks weren't formed that way. All of them, especially BUMN banks, originated from conventional banks. So the Shariah culture was separate from the mainstream business culture of banking or finance. This is where we need deliberate efforts. First, formulate the corporate culture so that it becomes a Shariah-based culture... The Shariah culture hasn't yet penetrated the personnel within the company." in Non-IA1.docx

13:16 ¶ 116, “For Shariah auditor, I think the mindset needs to be open and based on trust. People shouldn't think of internal inspectors as people who only look for mistakes. You should think of them as partners who help make things better and follow Shariah. Another thing is that the bank needs to have a culture where people are willing to learn and give comments. Findings from audits can be hard to hear at times, but if the attitude is one of getting better and growing, then those findings become something good. Especially in Islamic banks, where following the rules isn't the only goal; bigger Shariah goals like justice and public gain are also important.” in Non-IA3.docx

15:18 ¶ 140, The principles include integrity and professionalism, which every auditor must have. in IA7.docx

16:10 ¶ 58, In general, a company culture that can facilitate effective internal audit is one that follows the good governance principles mentioned in those regulations (POJK No. 1/POJK.03/2019, POJK No. 17/2023, POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024. in Non-IA4.docx

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• ISA Role in High-Risk Financing

2 Quotations:

3:22 ¶ 222 – 223, Our biggest challenge going forward is how we can ensure that key functions continue to meet the agreed-upon targets—especially policy compliance. in IA3.docx

6:22 ¶ 85 – 86, "In the past few years, most of the concerns have been in the financing area... That affects our NPL—or in Sharia terms, NPF." in IA6.docx

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• Manual Audit Executuin and Limited System Integration

3 Quotations:

1:34 ¶ 170, because our reports are still done manually, in Excel in IA1.docx

1:41 ¶ 172, you must be proficient with Microsoft Office — especially since everything we do is still manual in IA1.docx

10:41 ¶ 179 – 181, Continuous Audit and Continuous Monitoring — and it’s implemented using digital tools and data analytics. In this setup, we auditors don’t do much manual work. We build templates and rules to detect anomalies. in IA10.docx

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• Multidisciplinary Capability (ESG, AI, Cybersecurity, etc)

4 Quotations:

6:9 ¶ 94 – 97, actually where we need to focus in the future. Once again, enhancing competencies—plus, Shariah itself must adapt to digitalization, or the current transformations, which must be addressed like it or not. in IA6.docx

9:11 ¶ 99, due to technology or other factors, regulations must adapt to the current situation. Times and technologies change, and that greatly affects banking. in IA9.docx

10:10 ¶ 108, Modern auditors need to be skilled in AI and understand ESG... I'd rather hire a cybersecurity expert and teach them audit techniques. in IA10.docx

10:33 ¶ 426 – 442, "That means the capability we need — in terms of both understanding the subject matter and how to audit it — becomes critical. First, as I said earlier, cybersecurity. Then, digitalization and AI... Second, ESG... Third, regulation... Then there’s this whole conversation about generational shifts... They want recognition and actualization... So those are the five things I mentioned earlier — and they match global studies and trends." in IA10.docx

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• Operational Audit Purpose and Scope

23 Quotations:

1:22 ¶ 99, Like I mentioned earlier, we have routine, thematic, and special audits. But if someone really wants a more detailed term, then yes, operational audit overall is appropriate. in IA1.docx

1:27 ¶ 23 – 28, the audit scope we currently handle consists of just four major areas: 1) Operations (the operational unit) 2) Sales 3) Collections and 4) Funding and financing activities — both on the operational side But when we perform audit over these four areas, there's also something called control testing attached. So for every process or "mega process," we're assigned a control testing element to examine its Sharia compliance. in IA1.docx

2:9 ¶ 16, The scope is almost the same as conventional audits but on a smaller scale, because it's still a business unit. Based on that, we identify and determine in advance the key areas of focus. Due to limitations in personnel and time, we set the audit scope based on priority areas of the Shariah business to be audited in IA2.docx

3:7 ¶ 35, the audit of the Shariah Business Unit (UUS) in 2024 is a thematic audit. We did sampling at several operational units that had relatively significant impact—determined based on NPF and outstanding balances. in IA3.docx

3:8 ¶ 51, Yes. Activity-based audits cover all aspects. The scope and objectives are already outlined in our R… in IA3.docx

4:4 ¶ 9, For the Sharia audit, there are two types. The first is thematic audits, and the second is activity audits. Thematic audits usually focus only on specific products within the Sharia Business Unit. For example, financing. So if it's thematic, it focuses only on financing. But if it's an activity audit, it covers everything—financing, funding, and other operations. in IA4.docx

5:10 ¶ 10 – 11, each month we audit several branches. We look at operations and also financing. We focus on post-activity reviews, checking whether everything is in line with procedures and external regulations. That's the main focus. Currently, the emphasis is on Shariah, especially for financing. We also check financing contracts and the sequence of processes. in IA5.docx

6:5 ¶ 17, In branches, the scope covers almost all activities in the branch. Whether it's funding, financing, or general administrative activities, we audit all of it. But in divisions, it's usually thematic. in IA6.docx

6:13 ¶ 10 – 12, So, three years. Regarding your current job responsibilities, does that mean IA6-Bank D functions mo… in IA6.docx

8:2 ¶ 17, "Auditing in an Islamic Business Unit focuses on understanding policies, checking implementation, and evaluating performance." in IA8.docx

8:3 ¶ 21, the scope is more about performance—so, evaluating how the Islamic Business Unit is doing in terms of financing achievement, third-party funds, profit, and so on. in IA8.docx

9:3 ¶ 20, "Although the Sharia business unit is part of the main bank and structured like a division, its activities span the whole bank. If the audit is thematic, we focus on one sub-division like financing; otherwise, we audit all sub-divisions like accounting, financing, and treasury." in IA9.docx

10:3 ¶ 58 – 60, "The audit scope covers both operations and business implementation, as well as Shariah governance — including performance, risk management, and how authority and structures align with Shariah principles." in IA10.docx

10:5 ¶ 65, So if we're talking performance, that's not just about Shariah specifically. But the three areas I mentioned — governance, risk management, and internal control in IA10.docx

10:23 ¶ 164 – 168, Operational audit isn't gone — it's now enriched with: The risk-based approach, Awareness and ownership of risk and control by front-line teams, And then, finally, with the use of digital and AI tools That's today's era. in IA10.docx

11:6 ¶ 12 – 13, “So, in addition to findings about violations of Sharia aspects reported by internal or external audit… those findings must be compiled by the DPS and submitted as Sharia-related findings… The fix could be done, for example, by revising the contract… or… a correction journal entry must be made.” in Non-IA1.docx

11:9 ¶ 21, “Even if it's not significant, if it goes against Shariah principles… it still requires a cleansing process. Shariah compliance audit doesn't just look at materiality or immateriality based on conventional financial auditing — it looks at the significance from a Shariah perspective.” in Non-IA1.docx

11:10 ¶ 25, “A Shariah wheel and a non-Shariah wheel aren’t different. So, general auditing and Shariah auditing don't need to be entirely separate… Sampling methods and others can still be used. Operational audit as we know it can still be applied. The difference lies in the scope — we emphasize the Shariah context.” in Non-IA1.docx

11:11 ¶ 30, General audit or internal audit usually uncovers those — they find fraud. So what is fraud? Again, i… in Non-IA1.docx

12:9 ¶ 168, “For example, a teller miscounted, right? That’s not part of the Sharia audit’s domain… That’s operational audit.” in Non-IA2.docx

13:6 ¶ 20, The same logic applies to Shariah auditing. Shariah audit, based on the name, is essentially assessi… in Non-IA3.docx

13:8 ¶ 23, It’s not just about compliance. It’s also about how Shariah principles become fully integrated. Including in the reports in Non-IA3.docx

16:3 ¶ 10, The scope and purpose of Shariah audits are as described in POJK No. 2/2024 and POJK No. 1/POJK.03/2019 in Non-IA4.docx

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• Organizational Support & Adaptability

15 Quotations:

2:33 ¶ 116, “Typically, in the first semester, we focus on branch operational audits. In the second semester, we audit specialized activities—such as Shariah, treasury, or divisional areas like DPK (third-party funds), HC (human capital), or credit. It’s all divided accordingly.” “If more resources are available, we’d consider expanding staff or structure to allow deeper coverage.” in IA2.docx

3:18 ¶ 151 – 155, management fully supports our audit activities in the UUS. The UUS audit is a yearly mandate—it must be conducted every year. in IA3.docx

4:14 ¶ 7, “Audits are carried out by the general auditor… it’s still one unit.” in IA4.docx

4:18 ¶ 56, “So management support is essential and required… If it’s not approved by the directors or management, then we can't carry out the audit.” in IA4.docx

5:16 ¶ 74, “It’s supportive, both from our own internal team and from management overall — including the auditee’s management.” in IA5.docx

6:15 ¶ 45, management support is highly necessary, especially because we operate directly under the main board of directors. in IA6.docx

9:16 ¶ 49 – 51, Management support has been good, and it is indeed very important. Without management support — especially internal support from the Head of SKAI and top management, the board of directors — it wouldn’t work. in IA9.docx

11:24 ¶ 36, “...before I joined, what was referred to as Shariah combined assurance... it wasn’t functioning... now it is.” in Non-IA1.docx

11:25 ¶ 54, “So the Shariah culture was separate from the mainstream business culture... this is where we need deliberate efforts. First, formulate the corporate culture...” in Non-IA1.docx

11:26 ¶ 57, “...IAPI has already ratified six standards for Shariah compliance audits issued by AAOIFI... OJK is drafting a circular... it won’t be fully in effect until... October...” in Non-IA1.docx

12:30 ¶ 111 – 114, “…That’s fine, but it was unstructured. So what we need is a checklist. That kind of checklist should be made systematic so it can be considered Sharia compliant. I initially wanted to make it a guideline for internal auditors assisting the DPS… we teach them how to do it—check this, check that… then pass your findings to the DPS.” in Non-IA2.docx

12:31 ¶ 111, There were many violations in the murabaha." Why? "There were no receipts." That’s fine, but what’s… in Non-IA2.docx

16:8 ¶ 57, Further details, including the support from the Board of Directors, Commissioners, and Shariah Supervisory Board for internal Shariah audits, are elaborated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024. in Non-IA4.docx

16:14 ¶ 47, Further details, including the support from the Board of Directors, Commissioners, and Shariah Supervisory Board for internal Shariah audits, are elaborated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024. in Non-IA4.docx

16:15 ¶ 42, Further details, including the support from the Board of Directors, Commissioners, and Shariah Supervisory Board for internal Shariah audits, are elaborated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024. in Non-IA4.docx

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• Professional Audit Certification

10 Quotations:

1:13 ¶ 170, So yes, training is necessary. in IA1.docx

1:34 ¶ 170, because our reports are still done manually, in Excel in IA1.docx

2:3 ¶ 88, Currently, in our institution, every person who joins SKAI must immediately take the certification e… in IA2.docx

3:2 ¶ 147, “In the latest POJK—POJK Number 2 of 2024… each function, whether it’s audit, management, CEO, or compliance, must have an executive officer who understands Sharia.” in IA3.docx

6:6 ¶ 40, What’s clear is that the team has already gone through certification twice—like audit certification… in IA6.docx

10:8 ¶ 419 – 420, So for example, if we want to raise a concern — like, 'We want to pursue certification but management keeps delaying it,' — we just report it to the Audit Committee... wanting auditors to be more effective by getting certified. in IA10.docx

12:1 ¶ 66, All professions should be certified. in Non-IA2.docx

12:2 ¶ 88, Nowadays, everything requires training and certification. DSN certification is just the first stage. in Non-IA2.docx

12:14 ¶ 227, Audit isn’t just about competency either. How can you audit if you’re not really qualified? in Non-IA2.docx

13:15 ¶ 118, Islamic banks generally require auditors to hold certifications or at least have completed relevant training. However, in practice, many still lack a deep understanding of these principles. in Non-IA3.docx

• Public Misperception and Literacy Gap

4 Quotations:

2:30 ¶ 144, "In principle, Shariah must be followed. But it's difficult when customer understanding is not up to date... the public still sees Islamic banking as being the same as conventional banks—just with different terminology." in IA2.docx

2:32 ¶ 160, "The growth of Shariah banking is still slow… Is it because of a lack of public understanding?" in IA2.docx

4:23 ¶ 99 – 105, The issue is also with the public not being ready. They're unfamiliar with sales systems that support full Shariah compliance. Those support processes aren't widely available yet. in IA4.docx

5:27 ¶ 139, "Islamic banks are basically the same — just with a different name." in IA5.docx

• RBB (Bank Business Plan) Integration

3 Quotations:

2:13 ¶ 18, We also review the RBB (Bank Business Plan)—we look at what business areas are being pursued, and that becomes the basis for determining the scope in IA2.docx

2:15 ¶ 18, "If last year we already audited certain areas, we look for something new, or perhaps new operational activities introduced...- We also review the RBB (Bank Business Plan)—we look at what business areas are being pursued, and that becomes the basis for determining the scope." in IA2.docx

2:16 ¶ 23, The scope must align with the RBB. For example, if the RBB states the focus this year is on restructuring or recovery of written-off assets, then our audit must align with that. in IA2.docx

• Regulatory and Institutional Inhibitors

8 Quotations:

2:31 ¶ 152, "There are also international standards... such as IFRS 9 or PSAK 71. However, the Shariah units have not yet fully implemented these. PSAK 112 is still in the early stages..." in IA2.docx

4:24 ¶ 103 – 105, "..... in 2023 a regulation was issued that required a certain percentage of core capital. That's what makes it burdensome for those trying to establish independent UUS." in IA4.docx

5:24 ¶ 131 – 133, "So I think there needs to be more regulations from the regulators — like how Sharia audits should ideally be conducted by Islamic banks... everything — A to Z, including audits — can be standardized just like for conventional banks." in IA5.docx

5:28 ¶ 139, "We need regulations and especially public understanding." in IA5.docx

8:17 ¶ 65 – 66, "Based on Shariah principles, if a customer's business incurs a loss, there should be no profit... But as a bank, we still have to provide returns to those who entrust us with their funds." in IA8.docx

9:23 ¶ 91 – 97, "Some banks are labeled 'Sharia,' but in practice they operate like conventional banks." in IA9.docx

13:11 ¶ 49, "OJK still mandates Fiqh scholars, but hasn't gone beyond that… The reports follow an audit-like structure, though not deeply." in Non-IA3.docx

13:12 ¶ 54 – 59, "IAI is actually ahead (compared to AAOIFI)— they've issued a standard on waqf... but it's still mostly used only in Indonesia." in Non-IA3.docx

● Regulatory Readiness

20 Quotations:

1:37 ¶ 157, we operate based on OJK standards. One requirement is the Internal Audit Charter. This charter ensures that the auditor is independent. in IA1.docx

1:39 ¶ 159, Because they're (Audit Committee) the ones who sign the Internal Audit Charter. And every bank must have internal audit — it's required by OJK, the regulator. in IA1.docx

1:47 ¶ 270, POJK definitely supports this, and it's mandatory because the supervision function depends on it. in IA1.docx

2:8 ¶ 60 – 62, We've also developed our own BPP—Company Guidelines Book—which governs the technical execution of audits, from preparation, initial reporting, sampling, audit findings, and delegation of reports to various parties, including follow-up procedures. in IA2.docx

2:28 ¶ 134 – 140, As for the rules, POJK No. 1 of 2019 has been issued. It covers everything—conventional banks, Islamic banks, and Islamic banks with a Shariah business unit. in IA2.docx

3:12 ¶ 99, Our reference is in conducting audits of the UUS. We have separate regulations for the conventional and the UUS..- We can also use the POJK that relates to Islamic banking. in IA3.docx

3:20 ¶ 181, the composition already aligns with POJK 1 of 2019 regarding the implementation of digital audit functions in commercial banks. in IA3.docx

4:15 ¶ 33, Number 1 of 2019—it already outlines the functions of commercial banks. Commercial banks include both conventional and Islamic, and it addresses audit functions in IA4.docx

5:20 ¶ 106, The latest is POJK number 2, from 2024. Oh, I forgot the exact OJK regulation number — the one related to prudential principles. in IA5.docx

5:21 ¶ 117, OJK Regulation Number One is more about the general function of internal audit, including in conventional banks. But OJK Regulation Number Two of 2024 focuses more on Sharia governance — Sharia audit in Islamic Commercial Banks in IA5.docx

6:19 ¶ 72 – 74, We're still referring to POJK 1/2019. However, recently there seemed to be some change—IIA in IA6.docx

8:15 ¶ 58 – 61, As far as I know, there hasn't been anything new yet (aside from POJK 1. 2019). in IA8.docx

9:8 ¶ 35, In banking, we use POJK. It's regulated under the general audit function — it used to be SPFIB. So the function of general audit implementation is, if I'm not mistaken, in POJK No. 1 of 2019. in IA9.docx

10:29 ¶ 36 – 41, in 2024 there was a strong acceleration in the issuance of new regulations specifically on Shariah governance for Islamic banking. in IA10.docx

12:22 ¶ 22, who conducts Shariah audits? According to regulations in Indonesia, it's the DPS in Non-IA2.docx

13:13 ¶ 60 – 63, "OJK has issued a guideline on the reporting that DPS must conduct... because in order to prepare the report, they need to carry out a series of assessments, right?" in Non-IA3.docx

15:3 ¶ 66, we still use the methodology based on POJK Number 1 of 2019. in IA7.docx

15:4 ¶ 68, So methodologically, the audit uses POJK Number 1 of 2019. in IA7.docx

15:16 ¶ 165, at the base level, the main foundation is still OJK number one. That's the one we still use. in IA7.docx

16:8 ¶ 57, Further details, including the support from the Board of Directors, Commissioners, and Shariah Supervisory Board for internal Shariah audits, are elaborated in POJK No. 2/2024 and SEOJK No. 15/SEOJK.03/2024. in Non-IA4.docx

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• Reporting Lines to Audit Commitee, Board and DPS

15 Quotations:

1:9 ¶ 152, Yes, we report to the audit committee, but coordinate with others. in IA1.docx

1:10 ¶ 154, We submit our report to the President Director, in line with OJK requirements, and send copies to the audit committee and the commissioners. in IA1.docx

1:11 ¶ 162 – 163, I once prepared a report — I sent it to the President Director, copied the commissioners and the audit committee. That's all I know. in IA1.docx

2:7 ¶ 84, "Internal audit results must also be submitted to the audit committee… Based on that, they may issue specific recommendations to help improve the bank's operational performance." in IA2.docx

3:6 ¶ 123 – 127, "The recipients of the copy are: first, the Board of Commissioners; second, the Audit Committee; third… DPS… and the Compliance Director." in IA3.docx

4:8 ¶ 69, Every three months we meet, and during those meetings, we receive encouragement and insights. The committee gives suggestions about future improvements. in IA4.docx

6:11 ¶ 32, "Every three months, we hold routine meetings… they give input… sometimes audit assignments come directly from the committee or the board of commissioners." in IA6.docx

8:10 ¶ 32, the audit committee is involved mostly in coordination—like reporting on audit quality, effectiveness, and issues we've identified. It's mainly coordination. in IA8.docx

9:13 ¶ 37, "The audit committee is one of our supervisors… They review audit reports after we conduct the audits… If there are errors in the report, the audit committee and the board of commissioners will give corrections." in IA9.docx

10:13 ¶ 387, What we report to directors is the same as what we report to the audit committee and commissioners. in IA10.docx

11:3 ¶ 10, So, as we know, in a Sharia bank we have what's called the Sharia Supervisory Board. This board is m… in Non-IA1.docx

12:21 ¶ 22, DPS in Indonesia only has the authority to form a Shariah opinion — A special audit to assess Shariah compliance. For that task, the DPS is usually assisted by internal audit. in Non-IA2.docx

13:14 ¶ 76 – 81, "Well yes, the DPS is similar to an internal auditor, right? [...] Internal auditors are generally seen as not independent because they report directly to management." in Non-IA3.docx

15:8 ¶ 72, "Every three months, we hold a meeting to evaluate audit results—including Shariah. At that point, they provide recommendations that are really useful for us." + "Their authority is actually broad… their role is mostly limited to evaluation and monitoring follow-up." in IA7.docx

16:9 ¶ 29 – 30, Internal Shariah audits are carried out in accordance with POJK No. 1/POJK.03/2019, which details the structure, authority, and core duties of internal audit in general, including professional ethics, internal audit charter, scope of audit activities, working relationships with other

units, audit communication and reporting to OJK, performance reviews of the internal audit unit, and so on. in Non-IA4.docx

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• Shariah Knowledge Limitations and Training Gap

19 Quotations:

1:15 ¶ 204 – 205, They should get some basic understanding. So even if someone doesn't come from an Islamic economics… in IA1.docx

1:33 ¶ 167, I got a new team member transferred from the operations division. They had never worked as an auditor before — and teaching them was really hard. in IA1.docx

2:5 ¶ 88, since our Shariah is still in the form of a Shariah business unit, in line with OJK Regulation 2019,… in IA2.docx

3:4 ¶ 192, "Maqasid Shariah… what is that? No, I haven't heard of it… it's more about practice than the conceptual terminology." in IA3.docx

4:5 ¶ 53 – 54, [21:29 - 22:20] Speaker 2: Regarding the experience needed for conducting audits in Sharia Business… in IA4.docx

5:6 ¶ 103 – 104, Have you ever read about Maqasid Shariah? [30:18 - 30:19] Speaker 1: Not really. in IA5.docx

6:8 ¶ 42, So the Sharia experts we have are just a few individuals. in IA6.docx

6:12 ¶ 42, Since most team members are experts in conventional auditing, they may not be familiar with the specific terms used in Sharia financing or funding. We have a few who are knowledgeable in that, but not everyone. in IA6.docx

8:7 ¶ 40, "Without proper knowledge, it's impossible to audit in a Shariah context... someone unfamiliar with Shariah might be confused by the terminology." in IA8.docx

9:10 ¶ 66 – 67, Right now, even though we have two people with stronger knowledge in that area, the other auditors are also involved for knowledge-sharing. But the depth of understanding is limited because of limited human resources. in IA9.docx

9:20 ¶ 66 – 67, it would be even better if there were a special team — a dedicated Sharia audit team. Right now, even though we have two people with stronger knowledge in that area, the other auditors are also involved for knowledge-sharing. in IA9.docx

10:6 ¶ 68 – 70, In fact, the difference between conventional and Shariah finance lies in preserving that purity — both in intent (niyyah) and in the offer and acceptance (ijab qabul) that's documented and supported with proper fulfillment of Shariah conditions. That's what we aim for. in IA10.docx

10:9 ¶ 362, Our real challenge now is: How do we ensure that monitoring is backed by a solid understanding of Sh… in IA10.docx

10:39 ¶ 69 – 70, ...the difference between conventional and Shariah finance lies in preserving that purity — both in intent (niyyah) and in the offer and acceptance (ijab qabul) that's documented and supported with proper fulfillment of Shariah conditions. That's what we aim for. To be honest, we're still learning and improving. in IA10.docx

11:1 ¶ 42, This is still very lacking in Shariah banks. Usually, people are those who typically perform general… in Non-IA1.docx

12:4 ¶ 227, There are many people who become DPS without certification. They do audits based on what they think.… in Non-IA2.docx

12:5 ¶ 30, Internal audit usually only covers operational audits. But internal audit doesn't yet include Shariah compliance audits. in Non-IA2.docx

13:1 ¶ 118, in practice, many still lack a deep understanding of these principles in Non-IA3.docx

15:5 ¶ 91, the most important thing because Shariah products operate under specific principles—like contracts a… in IA7.docx

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• Structural Independence and Reporting Lines

2 Quotations:

12:29 ¶ 34 – 39, "DPS should be on par with the commissioners. Ideally, that's the position. But in practice, no. Because they're paid. That's the issue." in Non-IA2.docx

13:17 ¶ 50, "In Malaysia, the DPS — or Shariah Supervisory Council — is reportedly accountable to ISLA... But in Indonesia, there's no independent body that examines or audits the DPS." in Non-IA3.docx

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• Structural Independence from Executive Management

20 Quotations:

1:7 ¶ 157, ...the Internal Audit Charter. This charter ensures that the auditor is independent. in IA1.docx

1:8 ¶ 158, internal audit can examine anything. No one is allowed to block or interfere. in IA1.docx

1:12 ¶ 246 – 252, "If you want independence, it should ideally be under the board of commissioners." in IA1.docx

2:6 ¶ 100, SKAI is directly under the CEO. So, whatever happens, we report directly to top management in IA2.docx

2:23 ¶ 100, "We report directly to top management—the CEO—who receives the audit results. This allows for fast and comprehensive follow-up actions when issues arise." in IA2.docx

3:5 ¶ 177, "We operate directly under the President Director… we are given authority as outlined in the Internal Audit Charter, which allows us to examine all relevant data…" in IA3.docx

4:7 ¶ 63 – 67, "Internal auditors report directly to the President Director… we are given authority as outlined in the Internal Audit Charter." in IA4.docx

5:18 ¶ 89 – 91, "We report directly to the CEO — everything goes to the CEO." in IA5.docx

6:10 ¶ 47, when auditors conduct an audit, we are already granted the authority to access all documents, whether in the conventional or Sharia unit. Everything is open to us. in IA6.docx

6:17 ¶ 54 – 58, "Directly—under the President Director… It's already good." in IA6.docx

8:9 ¶ 50 – 51, the internal audit division currently reports directly to the president director. Ideally, though this is just a projection for the future, it should be placed at a level higher than the division heads. in IA8.docx

8:12 ¶ 42 – 43, we have an internal audit charter, which is a crucial document issued by management to support the audit process. That's what ensures our independence. in IA8.docx

9:12 ¶ 70, ...we report directly to the president director. Our communication line goes directly to the president director, other directors, and even to the board of commissioners. in IA9.docx

10:12 ¶ 398, We also have an Internal Audit Charter, which formalizes our position — that we are quite independent. in IA10.docx

11:2 ¶ 40, Actually, what supports the internal audit function is the commissioners — because the committee alone, especially its members, cannot fully act. in Non-IA1.docx

12:6 ¶ 32, It's an issue of independence. There's fear of being dismissed. After all, it's management who pays their salary. in Non-IA2.docx

13:3 ¶ 81, Internal auditors are generally seen as not independent because they report directly to management. in Non-IA3.docx

15:7 ¶ 109, "That's proven by the existence of an internal audit charter… the most important form of support because it guarantees the independence of auditors… If management doesn't support that independence, then the auditor is weak—no matter how smart they are." in IA7.docx

15:13 ¶ 109 – 115, Management support has been good. That's proven by the existence of an internal audit charter that sets out the authorities and limits for each management unit. I think that's the most important form of support because it guarantees the independence of auditors. in IA7.docx

16:2 ¶ 52, POJK No. 1/POJK.03/2019 generally regulates the professional ethics of internal audit, where interna… in Non-IA4.docx

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• Terminological Ambiguity and Standardization Debate

24 Quotations:

1:21 ¶ 99, In Bank B, I personally tend to refer to it as "regular" audit — routine, in IA1.docx

1:23 ¶ 103, In practice, "operational audit" is actually the most accurate term. But internally, we just call it an examination — even though we're actually doing a full operational audit. in IA1.docx

1:29 ¶ 105 – 107, Definitely confusing, ma'am. If possible, it should just be called one thing. in IA1.docx

2:20 ¶ 32, "...we usually call the audit 'Shariah Business Activity Audit.'" "...if we were already a full-fledged Islamic bank... it should no longer be necessary to label it as a 'Shariah audit.'" in IA2.docx

3:9 ¶ 83, in general, the terms conventional audit and special audit are the same in IA3.docx

3:11 ¶ 95, even if it's labeled differently, I think the core remains the same. in IA3.docx

4:3 ¶ 25 – 26, But in terms of whether it's confusing or not, I don't think so. Why? Because in my view, these are just terms. Whether it's operational or activity—it's actually the same thing. Because operational refers to operations in what field? What area? To me, they're almost the same. It's just that I personally lean towards "activity" because it covers everything. But essentially, between conventional and Sharia, I think it's almost the same. in IA4.docx

4:10 ¶ 28, Regarding "operational," here's what I think. Sometimes financing is not seen as operational—even though actually, it is. So I lean towards "activity." Because "activity" includes operational activities. What does operational mean? It refers to other operations. Activities like financing, funding. But if you say operational financing or operational funding, it sounds less fitting. Activity in funding—that sounds better. in IA4.docx

5:7 ¶ 32, Not really. It's not confusing, but the terminology feels overly segmented. For instance, a complian… in IA5.docx

6:3 ¶ 28, As long as in the audit there's no requirement that the terminology must be standardized. It all comes back to the scope of the audit. That will become clear during the audit. Each bank, especially Islamic ones, tends to have their own terminology. There's no standard patent—we just refer to POJK 1/2019. in IA6.docx

8:4 ¶ 24 – 25, Maybe from an outsider's perspective, yes, it can be confusing. But for me personally, the main thing is that the purpose of the audit is the same. The terminology may vary, but the goal remains the same. in IA8.docx

8:5 ¶ 27, If we could unify the terminology and have a shared understanding, I think that would be better. That way everyone is on the same page. in IA8.docx

9:5 ¶ 26, I don't think it causes confusion, because the purpose of the audit unit or internal audit in each c… in IA9.docx

10:7 ¶ 74 – 79, "Operational audit has evolved — from checklist compliance to evaluating effectiveness and now toward an advisory role, even forecasting." in IA10.docx

10:18 ¶ 320, if we were to standardize it and use the term "operational audit," that might actually be a bit rigid. Because in audit now, we're required to be agile — and being agile means being flexible in looking at space and concepts. in IA10.docx

10:19 ¶ 323 – 324, So, is it necessary or important to standardize the terminology? In my opinion, no. But if the quest… in IA10.docx

10:20 ¶ 325 – 326, Even though the objects we evaluate might change, the conclusions we aim for remain the same: whether something is effective, efficient, economical, and whether it upholds ethics. That goal hasn't changed. in IA10.docx

10:21 ¶ 329, But if what you meant by operational audit is still about the 4Es — then yes, it's still the same goal. Same purpose, just different terms now. in IA10.docx

11:14 ¶ 18 – 19, If we refer to AAOIFI, for example, and it's already been ratified by our colleagues in IAPI too, the proper term should be Shariah compliance audit. So, it should be called Shariah compliance audit. in Non-IA1.docx

12:12 ¶ 159, "Each bank uses different terms... Murabaha receivable, Murabaha financing, Murabaha inventory, Murabaha asset… There's no uniformity yet." in Non-IA2.docx

12:25 ¶ 28 – 29, Yes, only the Shariah compliance. So it's not related to the financial audit. Not operational errors… in Non-IA2.docx

13:7 ¶ 21, Shariah auditing leans more toward compliance auditing. in Non-IA3.docx

13:8 ¶ 23, It's not just about compliance. It's also about how Shariah principles become fully integrated. Including in the reports in Non-IA3.docx

16:6 ¶ 24, The terms used in Islamic banking for conducting Shariah audits follow the POJKs related to Shariah audit implementation, namely "internal Shariah audit" and "external review of Shariah governance," with the process scope and outputs as defined in the relevant POJKs. in Non-IA4.docx

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Terminological Flexibility and Institutional Tolerance

3 Quotations:

4:3 ¶ 25 – 26, But in terms of whether it's confusing or not, I don't think so. Why? Because in my view, these are just terms. Whether it's operational or activity—it's actually the same thing. Because operational refers to operations in what field? What area? To me, they're almost the same. It's just

that I personally lean towards “activity” because it covers everything. But essentially, between conventional and Sharia, I think it’s almost the same. in IA4.docx

6:3 ¶ 28, As long as in the audit there’s no requirement that the terminology must be standardized. It all comes back to the scope of the audit. That will become clear during the audit. Each bank, especially Islamic ones, tends to have their own terminology. There’s no standard patent—we just refer to POJK 1/2019. in IA6.docx

9:7 ¶ 30, The terminology can vary, But the essence is the same — it’s just different names. in IA9.docx

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Terminology preference and usage

15 Quotations:

1:21 ¶ 99, In Bank B, I personally tend to refer to it as “regular” audit — routine, in IA1.docx

1:23 ¶ 103, In practice, “operational audit” is actually the most accurate term. But internally, we just call it an examination — even though we’re actually doing a full operational audit. in IA1.docx

2:19 ¶ 32, we usually call the audit “Shariah Business Activity Audit.” in IA2.docx

3:10 ¶ 87, So for the Sharia UUS, the term would be “special Sharia business activity.” in IA3.docx

4:2 ¶ 20 – 23, In my opinion, the term should be “activity audit" in IA4.docx

5:3 ¶ 37 – 39, We just call it operational audit. Same term. in IA5.docx

5:8 ¶ 32, Not really. It’s not confusing, but the terminology feels overly segmented. For instance, a compliance audit focuses only on compliance. As I said earlier, we audit from A to Z. To me, that’s more like operational audit, and I think that term fits well. in IA5.docx

6:2 ¶ 23, I think it's more accurate to call it an activity-based audit in IA6.docx

9:6 ¶ 28, “At our institution, we call it audit aktivitas Sharia, but in a full Sharia bank, it might be termed performance audit or something else depending on their needs.” in IA9.docx

10:37 ¶ 287 – 289, ... when we declare the purpose of an audit, we usually say one of the main goals is performance. Then we evaluate or assess the effectiveness, efficiency, and economy of an activity. The next part is evaluating the adequacy and effectiveness of governance — that includes risk management and internal control. So it’s still there, actually, Mbak. When we talk about efficiency and all that — it’s part of performance.” in IA10.docx

11:8 ¶ 18 – 21, If we refer to AAOIFI, for example, and it's already been ratified by our colleagues in IAPI too, the proper term should be Shariah compliance audit. So, it should be called Shariah compliance audit. in Non-IA1.docx

12:17 ¶ 159 – 162, There's no uniformity yet, that's confusing. There should be one standard. That’s what AAOIFI manages over there. AAOIFI is complete. in Non-IA2.docx

13:9 ¶ 18, once said that Shariah auditing, from the name itself, is similar to financial audit in Non-IA3.docx

15:2 ¶ 49 – 50, For us, we call it Shariah business activity audit. in IA7.docx

16:6 ¶ 24, The terms used in Islamic banking for conducting Shariah audits follow the POJKs related to Shariah audit implementation, namely "internal Shariah audit" and "external review of Shariah governance," with the process scope and outputs as defined in the relevant POJKs. in Non-IA4.docx

• Use of Internal SOPs or Manuals

4 Quotations:

2:8 ¶ 60 – 62, We've also developed our own BPP—Company Guidelines Book—which governs the technical execution of audits, from preparation, initial reporting, sampling, audit findings, and delegation of reports to various parties, including follow-up procedures. in IA2.docx

2:11 ¶ 16, the audit plan has to be included in the Annual Audit Work Plan (RKAT), which is approved by the board of directors. This serves as the audit guideline that must be followed by SKAI in IA2.docx

4:11 ¶ 34, "So actually, in terms of scope, it's already covered by POJK... the technical parts are the responsibility of each bank." in IA4.docx

9:4 ¶ 22, Activity audits aim to ensure that performance aligns with the RBB, the bank's business plan, and the general policies set by the board of directors. in IA9.docx

• Use of Technology and Continuous Monitoring

1 Quotations:

10:40 ¶ 179, Now, it's done in real-time — almost daily. That's the CACM model — Continuous Audit and Continuous Monitoring — and it's implemented using digital tools and data analytics. in IA10.docx

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Sri Sulistyowati obtained her Bachelor's degree in Accounting from Universitas Muhammadiyah Surakarta, followed by a Master of Science in Accounting from Universitas Diponegoro, Indonesia, and is currently a PhD candidate in Accounting at the Accounting Research Institute (ARI), Universiti Teknologi MARA (UiTM), Shah Alam, Malaysia. Her PhD thesis focuses on the development of a conceptual framework for **Operational Shari'ah Audit (OSA)** in Islamic banking by integrating **Maqasid al-Shari'ah** and **Islamic Agency Theory**. Her research examines key dimensions of Shari'ah governance, including auditor competency and independence, organizational commitment, and regulatory and technological integration. She is currently a Lecturer at the Faculty of Economics and Business, Universitas Islam Sultan Agung, Semarang, Indonesia**.**

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