

ANALYZING THE RELIABILITY AND INDEPENDENCE OF EXTERNAL SHARIAH AUDIT PRACTICES IN ISLAMIC FINANCIAL INSTITUTIONS OF PAKISTAN

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ABSTRACT

This thesis is aimed at generating qualitative understanding of the external Shariah audit practices of Islamic Financial Institutions (IFIs) in Pakistan. The core purpose is to analyze the reliability and independence of these audits. Literature suggests that certain guidelines are being followed by IFIs to conduct such audits. These audits, however, typically rely on the opinion of Shariah Supervisory Boards. For this study, to understand the reliability and independence of Shariah audits in IFIs qualitative research approach has been adopted. Data collection is performed through semi-structured interviews. Non-probability approach has been used as sampling method, and target population were practitioners working in regional offices of the audit firms operating in Pakistan. Data analysis is conducted through Ritchie and Lewis framework method. This analysis approach depends on explanatory and/or descriptive conclusions around the identified themes within the data collected. The findings suggest that there is a need for Shariah audit framework/standards in order to lessen the reliance on the Shariah Supervisory Board. Inclusion of curriculum related to Shariah audit should be ensured in order to enhance the competency of external auditors so that the audit report they produce can be relied on. It is very important that the Shariah auditors have both accounting and Shariah knowledge to remain independent while conducting an audit assignment. Moreover, the study contributes to an understanding of the factors that facilitate improved external Shariah audit practices. This will ensure the compliance of IFIs audit with Shariah principles. It also highlights the factors that contribute to understand the need of a reliable and independent external Shariah audit practices in IFIs.

Chapter 1

Introduction

1.1. Introduction

The overview of the thesis is presented in this chapter. The purpose is to discuss the systematic flow of the research. The background of the research is discussed which includes introduction to the audit system in general and importance of Shariah audit in Islamic Financial Institutions (IFIs). This chapter further discusses knowledge gaps and findings from the literature leading to research questions. Moreover, the structure of the thesis is presented in this chapter.

1.2. Background of the Study

In today's competitive environment, Islamic banking and finance is gaining a lot of importance among investors due to the reason that it operates under Islamic principles. In Islamic states, Shariah principles are considered as important factors to attract investors towards investing in Islamic Financial Institutions and to gain their trust, as it defines the types of investments that are permissible under Islamic law. However, along with attracting investors towards such financial system, it is also important to ensure compliance of such system with Shariah principles in audits. Existing literature suggests that there is voluminous data

available on different banking approaches but there is scarcity of literature on Islamic banking sector focusing on their audit practices. Therefore, this research would help to explore and understand the need of reliable and independent external audit practices in Islamic banking keeping in view Shariah approaches.

All audits primarily follow a similar sequence of activities, which can be broadly divided into four stages; comprising of audit planning, collection of audit evidence, evaluation of audit evidence, and communication of audit result (Messier, 2013). The first stage that is audit planning facilitates to establish scope and objectives of the audit. It further organizes the audit team which develops an understanding of business operations and reviews previous audit results. This stage also identifies risk factors and helps to prepare the audit program that needs to be followed.

The second stage is aimed at observation of operating activities and review of documentation. Moreover, it involves discussion with employees and questionnaires. Physical examination of assets and confirmation through third parties is also part of this phase. Furthermore, vouching of source documents and analytical review is considered most important part of this stage.

Evaluation of audit evidence is third stage in the process that assesses quality of internal controls, reliability of information, and operating performance. This stage also identifies need for additional evidence and risk factors involved. Audit findings are documented in this stage. The last stage of audit is formulating audit conclusions and to develop recommendations for management. Moreover, audit results are presented in this stage.

In the area of global Islamic banking industry and Shariah governance, the external Shariah audit is considered as latest development. The purpose is to ensure and maintain credibility of the Islamic Financial Institutions' claim of Shariah compliance. Traditionally, Shariah supervisory board is appointed to oversee Shariah compliance of respective Islamic financial institutions. Nevertheless, it is considered important to initiate guidelines for conducting proper Shariah audit exercise. It is also important to mention here that Shariah audit needs to comply with Islamic law as well as conventional law.

1.3. Research Questions

The study seeks to investigate the need of reliable and independent external Shariah audit in Islamic Financial Institutions. To meet this purpose, following research questions will be addressed:

RQ1- Why there is need of external Shariah audit in Islamic Financial Institutions?

RQ2- How does reliability in external Shariah audit be assured?

RQ3- How does independence of auditor be assured in external audit?

RQ4- What practices can be adopted to improve Shariah audits?

1.4. Research Objectives

The research questions will serve to fulfill below mentioned objectives:

- Explore whether the auditors have sufficient Shariah knowledge for judging or examining the affairs of Islamic Financial Institutions.
- To explore the extent to which the auditors may rely on the suggestions of Shariah supervisory board of the entity under audit/review.
- To examine the reliability of the Shariah Audit performed by external auditors.
- To examine the independence of the Shariah Audit performed by external auditors.

1.5. Structure of the Thesis

The thesis comprises of total five (05) chapters which are as follows;

Chapter 1 presents the overview of the thesis. The purpose is to discuss the systematic flow of the research. The background of the research is discussed here which includes introduction to the reliability and independence of audit practices. Lastly, the structure of the thesis is presented. Chapter 2 discusses available literature on the research topic. It includes knowledge gaps and findings from the literature followed by research questions.

Chapter 3 includes justifications for the methodology used. It further discusses the research design and research strategy in order to systematically analyze the qualitative data. This chapter also discusses need of using appropriate analysis technique. Chapter 4 discusses the interpretation and findings of the research data

while in Chapter 5 conclusion and recommendations of the research are presented which also includes suggestion and recommendations for future research.

1.6. Conclusion

This chapter provided background of the research study. It also discussed findings from the literature followed by research questions for the study that emphasizes on the importance of reliable and independent Shariah audit in Islamic Financial Institutions. Moreover, the structure of the thesis is presented in this chapter. The next chapter will discuss literature review on audit practices of Islamic Financial Institutions. It will also discuss convention audit process along with religious perspective.

Chapter 2

Literature Review

2.1. Introduction

Literature about Islamic Financial Institutions is discussed in this chapter. Moreover, it elaborates current audit practices of Islamic Financial Institutions. In order to focus on the literature systematically, the relationship of reliability and independence to external audit is also discussed in this chapter.

2.2. Islamic Banking and Finance

In today's competitive environment, Islamic banking is gaining a lot of importance among investors due to the reason that it operates under Shariah principles. In Islamic states, Shariah principles are considered important to attract investors towards investing in Islamic Financial Institutions and to gain their trust, as it defines the types of investments that are permissible under Islamic law. However, along with attracting investors towards such financial system, it is also important to ensure compliance of such system with Shariah principles not only in operational and financial matters but also in auditing. Existing research suggests that there is voluminous literature available on different banking approaches but there is scarcity of literature on Islamic banking sector focusing on their audit practices. Therefore, this work would help to explore and understand the need of reliable and independent external audit

practices in Islamic banking keeping in view Shariah approaches.

In conventional audit, there are certain qualities an external auditor must poses in order to be eligible for conducting an audit assignment. This includes the following;

- 1- An auditor should be duly qualified, either under the Chartered Accountants Ordinance, 1961, or any other law for the time being in force.
- 2- An auditor must have secured a satisfactory Quality Control Review (QCR) issued by the ICAP.
- 3- An auditor must be enlisted in the panel of auditors maintained by State Bank of Pakistan

In addition to above mentioned criteria capacity and competence of auditor is key element defining the suitability of auditor which demands adequate knowledge, expertise, resources, experience and skills to perform the duties with professional competence in conformity with legal and regulatory stipulations in addition to international accounting and auditing standards. Independence is another key factor in audit process; it pertains to impartiality in protecting the public interest in true spirit. For this purpose, guidance may be taken from relevant provisions of code of ethics issued by ICAP and relevant ISA. Lastly, Financial Integrity is considered another key factor in the process. The environment of integrity, honesty and financial discipline is crucial for all the financial institutions and for all related stakeholders, which includes statutory auditors as well (Framework on External Audit for Financial Institutions, 2019).

In conventional banking audit is aimed at finding out whether the financial statement presented are true and fair while in Islamic banking and financial institutions, along with the fair view of statements, audit is also aimed to make certain that concurrence is made with Shariah in all phases business. (Haniffa, 2010 and Sultan, 2007). For this purpose, there are two standard setting independent organizations in Islamic finance known as "The Islamic Financial Service Board (IFSB)" and the "Accounting and Auditing Organization for Islamic Financial Institutions(AAOIFI)" (Yaacob and Donglah, 2012).

Islamic Banking and Finance had already made an appearance and is probably an alternative to

conventional banking. After its contribution from the last four decades, it is emerging as a great competitor to conventional banking system (Shahzad et al., 2017). Moreover, the assets that are under the control of Islamic Financial Institutions are growing phenomenally (Yaacob and Donglah, 2012). The estimated current size of Islamic financial market ranges from \$1.66 Trillion to \$2.1 Trillion with expectation of market size to be \$3.4 Trillion by end of 2018. This shows acceptance of Islamic financial industry all over the world among financial services users (Shafii et al., 2014). Therefore, in order to protect the claim of the stakeholders' this tremendous amount of assets needs to be managed well. Moreover, it should be ensured that their investments are utilized according to the principles of Shariah; this is where the role of Shariah audit becomes significant (Yaacob and Donglah, 2012). Therefore, to ensure compliance with Shariah in all aspects, Islamic banking and financial institutions have greater responsibilities to their stakeholders than conventional banking institutions (Abdullah and Pillai, 2010).

To establish faith of investors in Islamic banking and financial institutions, it is important to ensure that transactions made through such banking have purity and compliance with Shariah law. If not, the growing interest of investors in Islamic financial products may start to decline (Sultan, 2007). Establishing faith is one of core value in the context of accountability and audit. For instance, the second caliph of the Muslims, Umar Bin Khattab (may Allah be pleased with him) once received some pieces of cloth from one of the Islamic states. Umar distributed these pieces of cloth evenly; he gave everyone one piece of cloth. One day when Umar stood to give a khutba (sermon), he had two pieces of those cloth on. Umar then spoke and said. "Listen and obey everybody." Salman Farsi (may Allah be pleased with him) stood up and said. "We will not listen and we will not obey. "Umar asked "how come". Salman said "Because you have given each one of us one piece of cloth, and we see that you are wearing two pieces of cloth." Umar Bin Khattab did not respond, but signaled his son Abdullah Bin Umar (may Allah be pleased with him) to stand up and respond to what Salman is saying. Abdullah bin Umar stood up and said. "My

father is a very tall man, very well built with wide shoulders. One piece of cloth would not be enough for him. So I gave him mine". Salman said "now we will listen and obey." (Khalifa Umar bin al-Khattab, 2019). In order to strengthen and augment working of Islamic Financial Institutions, it is important to monitor the activities to establish faith (Shaharuddin, 2011).

Literature shows that auditors mostly lack Shariah knowledge and their opinion while conducting audit is based on the interpretation made by Shariah supervisory boards which in turn may impair independence because faith based stakeholders occasionally see these boards with doubt and need a third-party's independence assurance (Yaacob and Donglah, 2012). Furthermore, different schools of fiqh in Islam manifold the problem and one single interpretation could be satisfactory for believer of one fiqh and non-practicable for other (Sultan, 2007). Therefore, it is a great challenge to have Shariah officers having both Shariah and audit skills (Kasim et al., 2009). However, it is suggested that chartered accountancy firms should ensure that auditors possess the required Shariah knowledge to undertake audits (Samra, 2016).

Shariah audit can be defined as a systematic process that can be helpful to obtain relevant and most importantly sufficient evidence that can lead to form an opinion as whether the practices used by Islamic Financial Institutions are consistent with Sharia approaches that are acceptable by the Islamic community or not (Sultan, 2007). Islamic audit practices takes into account most important factor such as compliance with Shariah approaches. It helps to develop individual's trust towards the financial institutions operating under Islamic and Shariah principles (Laldin, 2011). In the same context, Shariah governance framework is issued by State Bank of Pakistan for Islamic Financial Institutions working in Pakistan (Shahzad et al., 2017). Shariah governance is a notion that helps to assess the acceptance of financial transactions of IFI with Shariah principles in order to earn confidence of the stakeholders (Haqqi, 2014). Moreover, Shariah audit aids the Shariah Board to identify the comfort level in Shariah compliance (Shahzad et al., 2017).

In Islamic Financial Institutions, the user of the financial statements will not only make investment decision based on the audited financial statements but will also expect that the information presented in the audited financial statement is according to Shariah principles (Yaacob and Donglah, 2012). Therefore, “Reliability” and “Independence” are two basic components that are under consideration in this study.

2.2.1. Reliability in Audit

Reliability in audit refers to the quality of an audit and trustworthiness of its results. Therefore, it is considered to be central to auditing (Reliability in Audit, 2018). Shariah supervisory boards (SSBs) are mainly responsible to make certain conformance to Shariah transaction in Islamic Financial Institutions (Rammal, 2010). Therefore, to make it certain that Islamic financial regulations are followed, Islamic Financial Institutions need to introduce Shariah conformance mechanism a part of their control structure (State Bank of Pakistan, 2018). Reliable financial statements are of key importance for the reason that shareholders and other users base their decisions on the financial statement. Moreover, financial statements are the snapshot of the organization financial performance, financial position and cash flow. Therefore, auditors play a very vital role in ensuring that the financial statements are reliable. It is assigned to them by shareholders to determine whether these statements present a true and fair view (IASB Framework, 2018).

In Shariah audit the responsibility of the auditor manifolds where the auditor will also express an opinion on that whether the information presented in the financial statements are in conformance with Shariah principles. There are many aspects of reliability in audit but most important to our study is the faithful representation of the financial information and its fitness for the intended purpose (IASB Framework, 2018). However, both the internal and external auditor of the Islamic Financial Institutions lacks the requisite Shariah knowledge and competence and relies heavily on the advice of the Shariah Supervisory Board (SSB). This raises a question that whether such an audit and the resulting opinion be considered a reliable one since the work done is mainly based on the

research work of the SSB because the auditor concerned may have little or no expertise and opinion. Through this research, we will try to find answer to this question.

2.2.2. Independence in Audit

Independence in audit refers to the proper examination of the accounts, accounting practices, financial records, business transactions, and internal controls (Independence in Audit, 2018). Going forward, it is very important for the auditors to be enough qualified to practice their skills in an objective and independent manner (Rahman, 2008). Similarly, it is substantial for the auditors to be independent while carrying out the audit procedures as the shareholders would lean on their audit report to reach any conclusion. In Islamic Financial Institutions, it is duty of an auditor to identify that whether the affairs of the business are conducted according to Shariah laws. Therefore, auditors are required to have: “the state of mind that would allow the auditor to express an opinion without comprising on professional judgments, to act with integrity and exercise objectivity and professional skepticism (IFAC Code of ethics for Professional Accountants, 2018).

It is important for audit team and firms to be self-subsistent during the audit assignment. Audit reports are the key factors that help stakeholders to reach any conclusion regarding Islamic banking. Therefore, it is very important for the auditors to be independent while conducting audits. The audit procedure starts when the audit team initiates the audit work until the signing of the audit report. The IFAC code explains independence requisite for audit. Moreover, it is aimed at identifying risk to independence that audit firm and team may face. It also helps to rate the significance of the risk identified and most importantly apply appropriate protection to reduce the risk to an acceptable level. In situations, where it is not viable to lower it to a tolerable level or no protection is available then eliminate the activity that causes the risk or turndown the engagement and cease it. There are several areas where independence would be affected and auditor should give sufficient attention to eliminate those risks or reduce it to an appropriate level so that the user of the audit report can get an

unbiased and fair opinion. (IFAC Code of ethics for Professional Accountants, 2018).

It is expected that information provided in the audited financial statements should be represented in accordance with the International Accounting Standards. Moreover, the transaction should be accounted for in accordance with its substance and economic reality, not with its legal form. Similarly, in Islamic Financial Institutions, the information is expected to be presented in accordance with the Shariah principles and in accordance with the standards set by the standard setting bodies for the Islamic Financial Institutions that are Islamic financial service board (IFSB) and the accounting and auditing organization for Islamic Financial Institutions (AAOIFI).

It is important for the auditor to understand the purpose of the information presented in the audited financial statements. Moreover, they must be aware about the purpose for which it would be consulted by the user of financial statements. Furthermore, they need to identify that the information presented in the financial statements is reliable for that specific purpose or not (IASB Framework, 2018).

The literature suggests need for reliable and independent external Shariah audit in Islamic Financial Institutions. The main purpose of Islamic banking is to fulfill 'maqasid al-Shariah' which refers to Shariah law (Kasim et al., 2009). Though Shariah audit is considered very important, however, from human capital perspective there is lack of understanding on how to implement efficient and effective Shariah audit system (Shafii et al., 2014). Therefore, it is important to ensure that Shariah audit is carried out by an independent and competent person. In order to make Shariah conformance certain, Shariah auditors execute audits on both subjective such as Shariah information and objective information that is financial information (Rahman, 2008). Similarly, reliability of financial audit has a lot of significance for the shareholders of Islamic Financial Institutions (IASB Framework, 2018). It is also considered important for the auditors to carry out audits in an independent manner (Rahman, 2008).

2.2.3. Development of Human Capital

One important aspect in implementing reliable and independent Shariah audit is the development of competent human capital that possesses both audit skills and is Shariah literate. Human capital needs is described by Laldin (2011) as the need to make certain that enough number of competent officers and shariah experts are available to develop new products and services To cope with the demand new programs, trainings for Islamic banks and Shariah audit subjects in curriculum are required to be incorporated.

Shafii et.al. (2010) emphasized that an audit to become successful the credible expertise of the individual to develop the plan and monitor the results. As the officials of the banks have commercial background may not understand the concept of shariah as a result giving inaccurate reasons on banking products to their customers. Therefore proper training of the bank officials are also required. The argument is also backed by the survey on 15 banking institutions performed by PwC (2011) which revealed that there is a need to expand the talent pool with Shariah knowledge and competencies. To do so, educators need to be properly trained with Shariah Auditing as well in Shariah issues.

2.3. Knowledge Gap and Finding from Literature

The study will lead to an understanding of the importance of Shariah audit in Islamic Financial Institutions. Therefore, following research gaps are identified through literature.

- Huge research has been done on audit system in general. However, there is a lack of research on the need for reliable and independent external Shariah audit in Islamic Financial Institutions.
- There is scarcity of research on factors that can be helpful in prudently defining a system to introduce compliance of audit with Shariah principles.

2.4. Conclusion

The literature contributes towards an understanding of the factors that are related to general audit practices. It also provides an insight to the concepts and practices that can prove to be

useful in formulation and application of Shariah audit concept in external audit Islamic Financial Institutions. Next chapter will discuss the methodology and methods for conducting this research.

Chapter 3

Research Methodology and Methods

3.1. Introduction

In order to examine audit practices of Islamic Financial Institutions in depth an effective methodology is needed, therefore, the study will adopt basic assumptions of qualitative research. This chapter comprises justification for the methodology used. It further discusses the research design and research strategy.

3.2. Research Methodology

Qualitative research approach has been adopted for this study whereby data have been collected through semi structured interviews (DiCicco Bloom, & Crabtree, 2006). Non-probability approach has been used as sampling method, and target population were practitioners working in regional offices of big four (04) audit firms located at Islamabad i.e. A.F Ferguson, KPMG, Deloitte and Ernst & Young. These firms operating all over the world. In addition to the interviews, thesis is based on document review wherein previous research and latest approaches of Islamic Financial Institutions audits will be studied and explored critically to achieve objective of this research study. Data analysis is aimed at exploring answers to the research questions therefore data analysis will be done using thematic analysis.

In a research process every step has the possibility to influence the output of the research, therefore, to avoid errors in output, it is important to be careful during all the steps of a research process (Brink, 1991). Primarily, Research design is selected according to the nature of research problem. Preferring qualitative research design over quantitative approach in this research study is due to the reason that it facilitates rigorous comprehension of the phenomenon under study. Qualitative research takes into account real world settings it emphasizes on the meanings and processes of a case that are not possible to be measured or examined in terms of quantity

(Silverman, 2013). In this approach, interpretation of the data is focused rather than to test a hypothesis (Denzin and Lincoln, 2005). A wide range of interconnected interpretive practices are displayed in a qualitative research to have a better understanding of the phenomenon under study (Zimmer, 2006).

3.2.1 Qualitative Research

To critically analyze the external Shariah Audit Practices a qualitative research design has been used in this research to obtain rigorous comprehension of the phenomenon under study. Adopting non-probability sampling, auditors facilitating audits of Islamic Financial Institutions has interviewed using semi structured approach. Non-probability sampling involves human judgment in selection of the sample. Non-probability sampling is adopted to ensure that sample comprises of individuals who are expert in conducting audits with reference to Shariah practices. While conducting semi structured interviews, it is pivotal to adopt a flexible interview guide. A proper guideline helps to keep the interview on track and all the relevant topics and concepts are addressed properly (Smith and Osborn, 2003).

Data collection for the study has been done using interviews along with observation and review of audit documents/reports. Observations were based on the actual audit procedure being followed by the audit firms. In a research study, document review supports the arguments that are obtained through other sources (Yin, 2003), such as interviews in this research study (DiCicco-Bloom and Crabtree, 2006). Moreover, reliability and independence of audit practices has been explored through observation and document review.

3.2.2. Case Studies

Yin (2003) refers to case study as an understanding of complex social phenomenon in real life context. It assists to acquire rich understanding of the research phenomenon that is under study. Moreover, in exploring human affairs, case study method is considered to be very useful approach (Stake, 1978). This approach is prevalent in many fields of both qualitative and quantitative research (Yin and Heald, 1975), and it is mainly aimed at analytical generalization (Yin, 1994). For data

collection in a case study, multiple sources can be used as it is a flexible approach and facilitates triangulation of research results (Denzin and Lincoln, 2005).

The empirical evidence is systematically developed on the research questions (Hartley, 2004). Case study enables a close and interactive relationship between the researcher and respondent. It also emphasizes on how and why things are happening. Moreover, it allows investigating the contextual realities. However, a case study does not intend to study the whole organization, the focus is rather on a particular issue and/or feature. It allows generalization, where findings from multiple cases can be replicated (Anderson, 1998).

3.2.2.1. Introduction of Case “Islamic Financial Institution”

In a case study method, it is very important to develop an understanding of the case, the context in which the case operate and phenomenon under study (Yin, 2003). This research study is based on external Shariah audit practices of Islamic Financial Institutions whereby the phenomenon under study is the compliance with Shariah principles, and reliability and independence of such external Shariah audits.

The case under study is the external Shariah audit of Islamic Financial Institutes carried by the big four (04) Chartered Accountancy firms i.e. A.F Ferguson also known as Price Waterhouse Coopers (PWC), KPMG, Deloitte and Ernst and Young having its presence in Pakistan. There are either direct or indirect stakeholders that may affect the audit practices of such institutions. Beneficiaries of these Islamic Financial Institutions such as investors are primary and direct stakeholders. A beneficiary is someone who receives any kind of benefits from the organization.

3.2.3. Data Collection Methods

Several methods are used to accumulate qualitative data that include interviews, observations, focus group, and action research. In a case study approach, for confirming and strengthening research results, data can be elicited by combining multiple qualitative techniques (Noor, 2008). For conducting interviews either of the two approaches can be adopted; direct interaction with the respondent in group settings or one to one direct interaction with the respondent (Brinkmann, 2014). In this case study one to one direct interaction with the respondent is adopted. To perform documentary analysis, documents are also collected from audit department of the organization to explore reliability and independence of the audit practices.

Interviews are conducted as primary data collection method whereby questions are designed carefully to obtain adequate information about the research topic using semi structured format. These questions are then piloted in Islamic Financial Institutions operating in Pakistan. While for validating the collected data, participant observation is also used along with interviews

3.2.3.1. Semi structured interviews

Semi structured interviews are conducted due to the reason that it is flexible to approach different respondents differently according to the situation while ensuring answer to each question than in structured interviews (Noor, 2008). It is also useful approach for exploring respondent's opinion and perception regarding sensitive and complex issues. Moreover, it facilitates probing for clarification of the responses, and for gaining maximum information (Barriball and While, 1994).

3.6. Interview Questions

In this section, the link between research questions and interview question is presented in table 1 for relativity and better understanding.

Table 1: Linking Research Questions with Interview Questions.

Research Question No.	Interview Question No.
RQ1- Does the Islamic Financial Institutions need an external Shariah Audit?	1- In your opinion, what is the need for external Shariah audit in Islamic Financial Institutions? 2- What is the significance of external Shariah audit in Islamic Financial Institutions? 3- Describe various types of approaches that are in practice to conduct Shariah audit in Islamic Financial Institutions. 4- Describe the influence of Shariah audit on decision of stakeholder's investment in Islamic Financial Institutions.
RQ2- How can the external Shariah audit of Islamic Financial Institutions be made reliable	5- How you see auditor's competence to ensure reliability in internal audit process? 6- How you see auditor's competence to ensure reliability in external audit process? 7- What are the prerequisite of a reliable audit in your opinion? 8- To what extent, do you think that auditor's consider shareholders' perception as an important factor in audit findings?
RQ3- How can independence of external auditors be assured when he given the task of Shariah Auditing?	9- What are the prerequisite of an independent audit in your opinion? 10- How do you see auditor's competence to ensure independence in audit process, both internal and external?
RQ4- What practices can be adopted to improve Shariah audits?	11- What do you think are the weaknesses of existing audit practices? 12- What changes will you suggest in existing audit practices? 13- What should be done to improve Shariah audit in Islamic Financial Institutions? 14- How can Shariah audit practices be effectively designed to retain stakeholder's investments in Islamic Financial Institutions? 15- To what extent do you think the formation of public sector auditing body to perform Shariah audits will be useful? 16- Can University Curriculum play any role to enhance knowledge of Islamic financial investments among audit students?

3.7. Documents Reviewed and Observation Tools

A symbolic representation of the data such as documents are recorded and retrieved over time when necessary. A document is an important source to support the arguments that are obtained through other sources (Yin, 2003). In this study, interviews are used as primary data collection approach (DiCicco Bloom and Crabtree, 2006).

However, secondary data sources are very useful in triangulation of primary data. In order to acquire a better understanding of the phenomenon under study different organizational audit reports, organization's memos and yearly reports are reviewed. Different audit queries are also observed for better understanding of audit system of IFI under study.

Table 2: Data Collection Tools for Research Questions

Research Questions	Data Collection Tool
RQ1- Why there is need of external Shariah audit in Islamic Financial Institutions?	• Semi-Structured Interview • Observation Tool • Documents Review
RQ2- How does reliability in external Shariah audit be assured?	• Semi-Structured Interview
RQ3- How does independence of auditors be assured in external audit?	• Semi-Structured Interview • Observation Tool • Documents Review
RQ4- What practices can be adopted to improve Shariah audits?	• Semi-Structured Interview • Observation Tool • Documents Review

3.8. Sampling Technique

Purposive heterogeneous non-probability sampling is adopted as sampling strategy. It involves human judgment in selection of the sample (Bradle, 1999). Such sampling allows the researcher to choose the respondents with diverse characteristics. It also ensures variability within qualitative data (Robinson, 2014). However, a qualitative sample does not allow statistical generalizations. The focus is to make analytical generalization (Yin, 2009). Relevant to particular phenomena, purposive heterogeneous sampling approach offers wide range of perspective (Guarte and Barrios, 2006).

In order to gain in-depth information (Curtis, Gesler, Smith, and Washburn, 2000), a small sample is selected using purposive sampling (Miles and Huberman, 1994) One of the limitations for having a limited number of respondents is the time constraint.

3.8.1. Sample Size

Sample comprises of 10 respondents in total that are referred as R1 to R10. Three (03) respondents are selected respectively from the two firms that are internationally ranked as First & Second (are referred as R1 to R6) and two (02) respondents each are selected from the firms that are ranked as

third (03) and fourth (04) (referred as R7 to R10). Respondents are initially determined by the higher management of the institution based on their designation and audit responsibilities. However, they also allowed the individual judgment of the researcher in respondent's selection.

3.9. Data Analysis Tools and Techniques

Different interpretation techniques, procedures and guidelines are suggested by the researchers to analyze qualitative data as there is no specific formula to perform qualitative analysis (Miles and Huberman, 1994; Stake, 1995). Primarily, analysis approach for specific case study depends on the nature of the case (Ryan and Bernard, 2003).

As a first step, the data collected through interviews is transcribed and brought into a text form to perform analysis (Ritchie and Lewis, 2003). A textual form of qualitative data is to be analyzed in this process. For this purpose, patterns are identified within the text systematically (Gale et al., 2013), followed by splitting of the collected data into parts (Stake, 1995). It further requires creating themes and sub-themes (Ryan and Bernard, 2003). Different researchers use different terms for themes such as codes (Miles and Huberman, 1994), labels

(Baptiste, 2001), category (Dey, 2003). In analysis process, a code is conceptual or descriptive label assigned to the raw data (Gale et al., 2013).

Literature proposes different approaches and techniques for generating themes. However, nature of the collected data is also taken into account while identifying themes. In this specific case, thematic analysis is thought to be an appropriate approach for performing data analysis (Ryan and Bernard, 2003). It is considered as a systematic approach to analyze qualitative data (Alhojailan, 2012). This technique is useful to identify and analyze similar patterns known as themes (Braun and Clarke, 2006).

3.9.1. Data Analysis through Ritchie and Lewis Framework Method

In qualitative research there is no specific criterion for analysis therefore choosing data analysis approach is considered to be laborious task (Gibson and Brown, 2009). In this study, the framework method is preferred for performing data analysis due to the reason that it identifies commonalities and differences within the data. It also looks for

explanatory and/or descriptive conclusions around the themes (Ritchie and Lewis, 2003). It further facilitates data summarizing. It provides a structure that helps to systematically reduce the data, retaining its link to the original data. In this approach, qualitative data analysis allows data management and interpretation in a sequential manner. Here interpretation is based on thematic analysis, explanatory analysis, and typologies.

For highly heterogeneous data the framework method is not accommodative. Therefore, to categorize data it is important to have similar topics within the data. The framework analysis method is used to perform thematic analysis of the data obtained through semi structured interviews. The name is derived from thematic framework; therefore, it is main component of this method (Gale et al., 2013). The outputs allow comprehensive and transparent data analysis.

3.9.2. Procedure of Analysis

The framework of analysis is discussed step by step in order to conduct a systematic analysis of qualitative data.

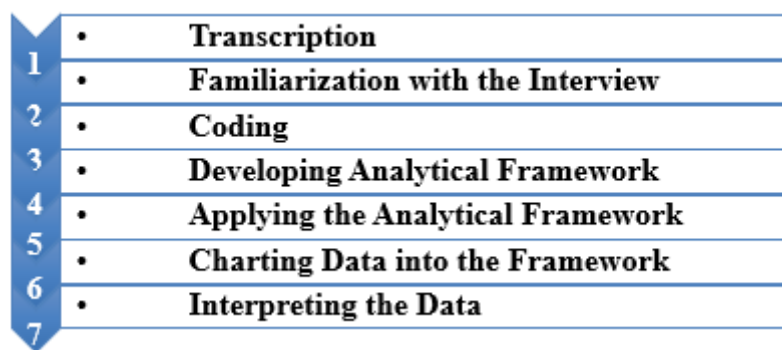


Figure 1: Analysis Framework for the Study

3.9.2.1. Stage I- Transcription

A word to word data transcription is completed with the help of the recorded audio of the interviews. A proper transcription of data is the basis to facilitate further stages of the data analysis. The purpose is to form useful piles of qualitative data about the same thing. After completion of each interview, each audio was saved with the assigned specific code for respondents. Transcriptions were maintained in a folder. Lastly,

data collected through secondary sources was also transcribed.

3.9.2.2. Stage II- Familiarization with the Interview

Getting familiar with the interviews through audio recording, transcribed notes and/or data that were taken during the interview process is done in the stage-II of the framework analysis. It is very important for the researcher to develop an understanding of the situation (Ritchie and Lewis,

2003). A helpful technique is to re-listen interviews in order to gain a better interpretation of the qualitative data. Random interviews can be selected for re-listening purpose. At this stage, irrelevant data such as those concepts that are not related to the research topic are also excluded. This is done in order to manage data properly. Moreover, all the transcriptions were printed out to identify codes, sub themes and themes more conveniently by highlighting them.

3.9.2.3. Stage-III Coding

In analysis process, a very important stage is coding of the qualitative data. Code can be anything relevant in the data. It is something interpreted in the passage and is considered to be important. A code can be a value, a substantive thing, an emotion, and impressionistic element (Ritchie and Lewis, 2003). Coding helps to classify all the data whereby purpose is to make organized comparison possible with other parts of the data. In this specific case hybrid model of coding is used where codes are derived initially from research questions and prior knowledge of the subject these are called the pre-set codes, further another set of codes that are different from the pre-set codes are the emergent codes which has emerged from analysis and reading of data. The data consist of interview transcripts.

3.9.2.4. Stage-IV Developing Analytical Framework

After coding of few transcripts all the identified labels were compared followed by finalized codes to apply to subsequent transcripts. Codes identified in this stage were then further grouped into categories of sub themes, and themes. A code with title of “other” was also created to exclude the data that does not fit the research questions. Once all the transcripts are coded, the analytical framework is final. An analytical framework is set of codes organized into categories that have been developed and used to manage and organize the data (Table 3). It creates a new structure for the data that is

helpful to summarize the data in a way that can support answering the research questions.

3.9.2.5. Stage-V Applying the Analytical Framework

At this stage, framework is applied to the qualitative data. A number or abbreviation is assigned to each code to be used in further write up rather than using full name of the code. The codes are further sorted into sub themes and themes. For assigning abbreviations, first letter of each code is used. For example, “Enhancing Efficiency” is assigned “EE” as abbreviation. Moreover, all the relevant codes are grouped into sub theme reflecting the same concept or idea. These sub themes are then further grouped into theme that broadly represents the same idea (Table 3).

All the codes, sub themes and themes are derived from the data that is collected through semi structured interviews. Before initiating the coding process, all the 10 interviews were transcribed vigilantly. An understanding was developed with the context of the themes. Consequently, all the data is coded. Sub themes and themes have been generated according to the context in which they emerged. Codes are primarily grouped on the basis of common attribute among them.

3.9.2.6. Stage-VI Charting Data into the Framework

A very important aspect of qualitative analysis is to reduce the voluminous data and to bring it into a manageable form by summarizing it (Gale et al., 2013). Data reduction is the process whereby data is simplified and sorted with the emphasis on important piles of data (Miles and Huberman, 1994). Charting is used for this purpose which is aimed at summarizing the data from all the transcripts by categories. This stage facilitates to reduce the voluminous data while retaining the important parts of the data. Charting ensures focus of the researcher on describing the important data. Therefore, themes and sub-themes identified through framework method are presented in a chart format in figure 2.

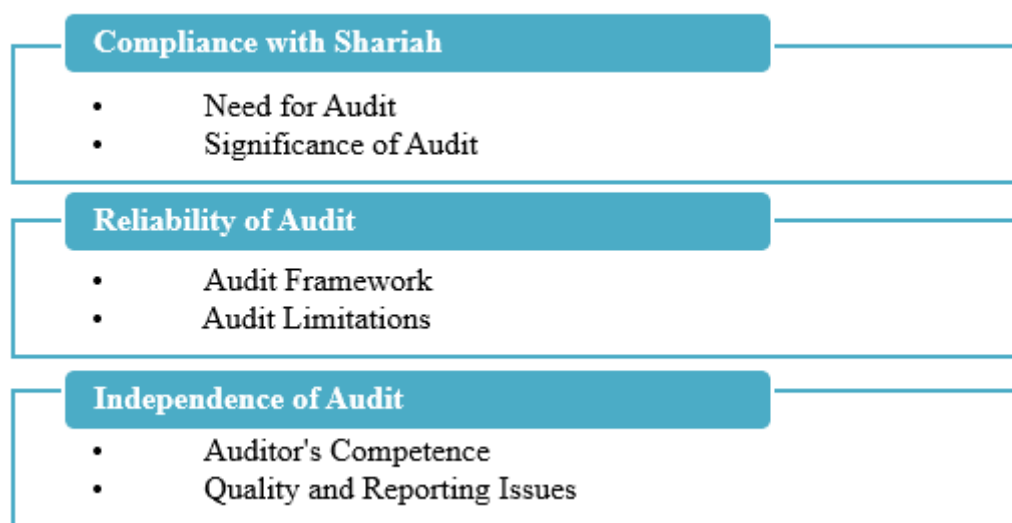


Figure 2: Chart of Themes and Sub Themes

3.9.2.7. Stage-VII Interpreting the Data

Interpretation of the qualitative data is aimed at constructing the meanings, explaining details, and drawing conclusion. Therefore, at this final stage, qualitative data is interpreted. As an important factor commonalities and differences are identified within the data. This stage is discussed in detail in chapter 5.

3.10. Quality Issues

3.10.1. Credibility

Qualitative research approaches have proved to be highly diverse. To attain the creditability research process has to be reliable and valid (Brink, 1991). To ensure creditability, it is important to adopt a well-established research method. Moreover, establishing trustworthiness of data is also an important factor (Shenton, 2004). During the research process, it can be ensured through triangulation by using combination of interviews, observation along with documentary analysis (Patton, 1999). In this study, along with semi-structured interviews, audit documents review and observations is also carried out to ensure creditability.

3.10.2 Transferability

Transferability means 'the degree to which the results can be shifted to other settings or groups'. It is important to provide details of selection,

attributes of those involved in the process, context, approach used to collect data, and analysis process clearly to ensure transferability (Graneheim and Lundman, 2004). Furthermore, the findings of the research should be understood within the particular context of organization where the research is carried out, specifically the geographic area (Shenton, 2004).

3.10.3 Dependability

Dependability refers to the degree to which the results of a research remain consistent when repeated. To deal with dependability, research needs to be described in detail. A detailed description makes it convenient for the future researchers to repeat the work (Shenton, 2004). Therefore, to increase the dependability for future research the context of the research study is discussed in detail.

3.10.4 Conformability

Conformability refers to the extent to which the findings of a research are not influenced by researchers own perceptions. Triangulation is a useful approach to ensure conformability of the qualitative data (Shenton, 2004). To ensure conformability, previous audit reports were reviewed and observations were also taken into consideration along with semi-structured interviews.

3.11. Conclusion

In this chapter an insight into the methodology and methods used for conducting this research was studied. It also provided reason for choosing case study method and also discussed the sampling and interview techniques. The circumstances of the case for research are discussed in detail. Data analysis tools and technique are discussed by explaining the steps of analysis under Ritchie and Lewis Framework Method. Furthermore, codes, sub themes and themes are generated in order to interpret data. The next chapter will focus on analysis and findings of the study.

Chapter 4

Analysis and Findings

4.1. Introduction

A framework for analysis is developed in the previous chapter. Interpretation and findings of the data will be discussed in this chapter. The audit practices of Islamic Financial Institutions with reference to Shariah principles are well studied in this thesis. This study will satisfy an important need of external audit and the desire to satisfy this need is strong enough to make a worthwhile effort to establish a framework to facilitate Shariah audit in Islamic Financial Institutions.

4.2. Analysis of Case & Findings.

In order to support the rise for Islamic Financial institution (IFI) it is important to encourage strong Islamic principles in Shariah audit. For this study, the context of Pakistan is taken into consideration while developing audit practices for this specific region. Research finding includes three themes: compliance with Shariah, reliability of audit, and independence of audit. The first theme presents the extent of compliance with current Shariah audit practices. In the second theme the reliability of Shariah audit is analyzed. In the last theme independence of Shariah audit is taken into account.

4.2.1 Compliance with Shariah:

This theme presents the extent of compliance with Shariah in current audit practices. The research findings revealed that need for Shariah audit that complies with all aspects is very important as an effective Shariah audit will increase the confidence

of the investors as they will rely on the audit report and from the audit report it can be ensured that their return on the investments are fair and in accordance with Shariah as most of the investors in Islamic Financial Institutions are faith-based investors. A respondent R4 enunciated; *"If efforts are being made to achieve the objective of Shariah audit and taking into account the perception of stakeholders while performing audit, shariah audit can be very fruitful in pointing out the non-compliances and can play a vital role in development of this market and will be able to compete with banking industry."*

A respondent R5 said; *"Shariah audit can be very productive if it highlights more efficient Shariah investment options that will also help in polishing performance of IFI. As investors in IFI are mostly faith based investors their main concern of investment is that it must comply with Shariah, If at any point they realize that Islamic Financial Institutions are not compliant with Shariah law, they will withdraw their investments."* It is very important that the investment policy is in compliance with the criteria of Shariah. As Islamic Financial Institutions cannot invest in companies that are not conducting *halal* business. If Shariah audit is effective it can identify the most efficient investment options.

Non-compliance with Shariah is currently an inherent risk for Islamic Financial Institutions that would have a far reaching impact not only for the Individual Islamic Financial Institutions but for the entire industry. Most of the auditors involved in the process have commercial background and Shariah Audit is in its early stages which increase chances of non-compliance. In addition to this Competition with conventional banking, focus only on compliance of financial statements of Islamic financial Institutions and non-observance of compliance in its processes manifolds the problem. Conventional auditors do not take into account the moral and ethical values presented by Islam.

Another auditor R2 enunciated; *"Conventional auditor may disappoint stakeholders of the IFI as their contention/claim is about economic events, the broader aim of Shariah audit i.e. social objective may not be achieved which the IFI wants to achieve."* This shows the need for rigorous Shariah audit and developing Shariah auditing standards is very important to

achieve compliance that is not only limited to financial statements of Islamic Financial Institutions but having a broader concept to achieve Maqasid of Shariah. It is very important that the evaluation of Islamic Financial Institutions must be different from that of conventional methods.

An auditor R1 perspective about the Shariah audit is; *"In Islamic Financial Institutions the essential aspect of this system is Shariah audit. In developing auditing standards many efforts have been made but the center of attention and scope is on financial statements instead of the belief of Shariah Audit that includes examining of Islamic Financial Institutions activities established on Maqasid al Shariah. Most importantly, the word "Shariah review" used by AAOIFI instead of" Shariah Audit" may suggest a lower level of assurance.*

4.3.2 Reliability of Audit

From the responses of the auditors involved in the process reveal that most of the times the external auditors rely on the recommendations of Shariah Supervisory Board and both the internal and external auditors examine the affairs of the Islamic Financial Institutions in light of the guidelines set by the Shariah Supervisory Board and as a result the audit report loses its reliability and can't be relied on. This is one of the limitations of Shariah audit. The full benefit cannot be availed from shariah auditor if they are not truly independent; there is no clear line for segregation of duties which is essential for any effective internal audit process.

An auditor R7 responded; *"There is a question mark on the Shariah Supervisory Board to be independent. They are involved in making fatwas for the products which they launch afterwards. Secondly they themselves set guidelines for Shariah compliance as well as conducting review of the IFI concerned. Moreover they do not carry out a holistic approach and it's very rare to find SSB member as a qualified auditor who can conduct audit as per international principles.*

From the above response, it can be interpreted that there is a conflict of interest. As Shariah Supervisory Board is involved in making the Fatwas and they themselves review their own Fatwas which affect both the independence of external Shariah auditors and in turn the audit report cannot be relied on.

It is very crucial to enhance reporting requirements of Islamic Financial Institutions which may fulfill needs of all stakeholders and these intuitions should try to offer better services and value of investments then conventional bank institutions which have a well establish market. Standard Shariah audit is the most urgent requirement of Islamic Financial Institutions which will help to promote investments. It is very important to have International Shariah auditing standards for auditing and International financial reporting standards that can be applied all over the world to Islamic Financial Institutions. Formation of Regulatory body is important as for Chartered accountants which should be responsible for providing standard education, training and also to govern practicing members and ensure quality service by conducting quality control reviews. The absence of Shariah auditing standards are still missing which the Shariah auditors are required to follow.

A respondent R9 says; *"It is important to provide framework which comprises of standards for accounting and requirements to be compliant in accordance to Shariah. This should include minimum educational requirements in IFI for professionals who have expertise in both Islamic and Technical Knowledge."*

Shariah auditors have the responsibility to ensure that the information presented in the financial statements of Islamic Financial Institutions is fit for the purpose means that the purpose for which they are presented can be relied on. In order to achieve this purpose it is very important that Shariah auditor have the required competency both in Shariah and accounting.

A respondent R4 said; *"Competency of auditor is essential for reliability of an audit process. Along with competency of an auditor, it is also important to ensure independence as it is the basic difference between internal and external auditor"* It is explained by a responded R7 that; *"characteristic of reliable audit is that it is well planned and auditor obtains sufficient and appropriate audit evidence for all material areas of audit and assesses area of risk further it also depends on competence of the audit team.*

4.3.3 Independence of Audit

Independence of the auditor can be achieved if they are competent and they have the required knowledge of Shariah so that they can analyze the Fatwas of Shariah Supervisory Board without relying on the knowledge of members of Shariah Supervisory Board and once the auditor have the required Shariah knowledge the audit report in turn can be relied on. Another respondent explains the concept of independence in audit as; *"Independence is one of five fundamental principles of Code of ethics which can be assured by avoiding situations as given in Code of ethics as issued by Institute of Chartered Accountants of Pakistan."*

Respondent R6 said that *"Lack of shariah and accounting knowledge have affected the audit. As auditors with accounting knowledge do not have the required shariah knowledge and vice versa to examine the compliance effectively. It is very important for Shariah Auditor to have both accounting and shariah knowledge so that he understands and audit the Islamic Financial Institutions."*

To achieve the required independence and reliability the audit report may be placed before the independent audit committee so that the operations of the Shariah Supervisory Board can be analyzed from independent perspective rather than the current method where Shariah Supervisory Board reviews its own operations and fatwas and their decision is considered as final. Self-review threat arises in this case.

A respondent's R8 perspective is; *"The report of internal or external audit performed is placed before the Shariah Committee which gives suggestions to the board of directors. The decision of the board is then final. Shariah auditor has a very limited role in influencing the decision of IFI. The power rest with the board of directors to make important decisions regarding the products and services offered Shariah auditor must be powerful enough to influence the decision of IFI as they are accountable not only to the stakeholders but to ALLAH the society and Ummah."*

In order to produce Competent Shariah auditors it is very important that Shariah audit must be included in the curriculum besides accounting and conventional auditing. The curriculum must be prepared in line with the practical issues that exist so that it can overcome the problems and faith

based investors do not lose confidence in the Islamic Financial Institutions. There should also be proper specialized training/ internships after completion of studies so that the students who aim to become Shariah auditors are well trained and educated.

One of the respondent believes that; *"There must be professional education and training institutes which provide standard knowledge and training to conduct such process under Shariah guidelines. This will help to ensure standard and best practices in Shariah audits."* A response from another person R10 is *"There is no specialized education and training system for Shariah auditors and the matter is debated that which expertise is more important for Shariah auditors, Shariah knowledge or technical expertise of accounting and audit."*

A well-established audit system is considered as an important factor to motivate investors towards Islamic Financial Institutions. It is evident from literature that in the area of Shariah governance and global Islamic banking industry, the external Shariah audit is a latest development. It is aimed at ensuring and maintaining credibility of the Islamic Financial Institutions' claim of Shariah compliance. An auditor R5 responded, *"Shariah audit plays a significant role in IFI, it is important that there is an independent examination of the affairs of IFI to ensure that all the matters are carried out in accordance with the Shariah. A rigorous Shariah audit will also help the stakeholders to decide about their investment as they are mainly concern that whether the affairs of the IFI are conducted in accordance with Shariah. Opinion of the Shariah audit in this regard will help the stakeholders also."*

4.4. Conclusion

Analysis of the collected data and discussion was generated on the basis of responses of the auditors. Islam has got a very broad concept of accountability (audit) of all human actions and intensions. It covers all aspects of human life and financial matters are not an exception. Allah (SWT) knows this says in the Holy Quran *"It has been made attractive for people to love the desired things; that is, woman, children, hoarded heaps of gold and silver, branded horses, cattle and tillage. That is an enjoyment of the worldly life, but with ALLAH lays the beauty of the final resort."* (Quran, 3:14). This

avarice of human nature demands that man should be repeatedly reminded not to forget that they are “trustees” and that any violation in what they have entrusted with might result in distasteful consequences for them.

The next chapter will focus on the conclusion of this study as well as recommendations for future research.

Chapter 5

Conclusion and Recommendations

5.1. Introduction

In this chapter conclusion of the external Shariah audit system is presented which includes suggestion for improving the existing audit system of Islamic Financial Institutions. Furthermore, recommendations for future research are also presented.

5.2. External Shariah Audit

The tremendous growth in Islamic finance requires having competent Shariah auditors so that there is a system of check and balance. The perception of the Shariah auditor is very important as they are the ones that are facing difficulties. Their views will play an important role in developing standards. Those external auditors who have the knowledge of Shariah and accounting knowledge if being paid by the Government will increase independence to a greater extent. We cannot say the same about SSB as they are being paid by the Islamic Financial Institutions. Even the auditors who audit the Islamic Financial Institutions are being paid by the same organization. In context of Pakistan if Auditor General of Pakistan creates a separate Director General office for Shariah audit it will increase independence of auditors and ultimately the audit report provided can be relied on.

It is important to review policies from time to time according to the situation and market demand. It is also important to involve Shariah experts for policy matters during formulating audit policies. It is very important that Shariah audit scope include maqasid shariah. As currently Shariah audit is used as a tool to examine compliance of the Islamic Financial Institutions with the regulations which regulates the Islamic Financial Institutions which brings similarity with conventional audit which is in contradiction with maqasid shariah. It is evident

that both the internal and external auditor of the Islamic Financial Institutions lacks the requisite Shariah knowledge and competence and relies mainly on the advice of the Shariah Supervisory Board. This raises the question that whether such an audit and the resulting opinion be considered a reliable.

5.3. Significance and Contribution of the Study

The study contributes to an understanding of the factors that facilitate improved external Shariah audit system. As discussed above, the audit system of Islamic Financial Institutions lacks compliance with Shariah principles.

The study highlights the factors that contribute to understand the need of a reliable and independent external Shariah audit practices in Islamic banking. Though, huge research has been done on banking sector. However, audit practices of Islamic banking sector are not focused in the context of Pakistan. This study will therefore seek to understand and expand the knowledge on this matter.

5.4. Limitations of the Study

This research is conducted in IFI operating in Pakistan. Such institutions work under specific code of conduct therefore getting access to some of its processes is a hard task. In addition, there is lack of time to conduct research at bigger level. Furthermore, geographic constraints are also involved in conducting research therefore keeping the time constraint in mind only accessible sample size is addressed. However, to generalize the results to a larger group it is important to involve maximum participants in the process.

5.5. Recommendations for Practitioners

For audit practitioners the study would be helpful to prudently design audit systems that includes incorporating Shariah principles in audit process. Though organizations are using the existing audit system but it is important to bring changes to existing practices and to ensure compliance with Shariah principles in its true sense.

The literature provides clear evidence of the audit approaches currently practiced in this sector. Empirical review indicated that in order to gain trust of the investors in Islamic banking it is very much important to understand the factors that can

motivate investors towards Islamic banking system. Based on literature, it is suggested that compliance with Shariah principles may attract more investors towards Islamic banking sector. More focus has to be diverted towards knowing the Shariah audit skills of the practicing auditor. The Shariah auditor can give more accurate insight into the skill requirements of the field and that can help in deriving better recommendations.

5.6. Recommendations for future Research

The study conducted will provide potential advantages for future research work;

- It is recommended that future research be directed towards the factors that can be helpful in identifying specific audit procedures and practices to ensure compliance with Shariah principles.
- Apart from qualitative research, results of the research can be tested using other research methodologies.

Appendix A

Interview Consent Form

1. I [] hereby allow Shahab Khan to interview me and quote my responses in a thesis/scholarly research paper.
2. The purpose and nature of the interview has been explained to me.
3. I understand that the interview will last approximately 30-45 minutes. Notes will be taken during the interview and responses will be recorded electronically. If I don't want to be taped, I will not participate in the interview.
4. I understand that the researcher will not identify me by name in any reports using information obtained from this interview, and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies which protect the anonymity of individuals and institutions.
5. I understand that this research paper/thesis will be submitted to a supervisor at Institute of Management Studies.
6. I have read and understand the explanation provided to me. I have had all my

questions answered to my satisfaction, and I voluntarily agree to participate in this study.

Signature:

Date:

Appendix B

Interview Questions

The below mentioned research questions will be answered in the research study;

- In your opinion, what is the need for external Shariah audit in Islamic Financial Institutions?
- What is the significance of external Shariah audit in Islamic Financial Institutions?
- Describe various types of approaches that are in practice to conduct Shariah audit in Islamic Financial Institutions.
- Describe the influence of Shariah audit on decision of stakeholder's investment in Islamic Financial Institutions.
- How you see auditor's competence to ensure reliability in internal audit process?
- How you see auditor's competence to ensure reliability in external audit process?
- What are the prerequisite of a reliable audit in your opinion?
- To what extent, do you think that auditor's consider shareholders' perception as an important factor in audit findings?
- What are the prerequisite of an independent audit in your opinion?
- How do you see auditor's competence to ensure independence in audit process, both internal and external?
- What do you think are the weaknesses of existing audit practices?
- What changes will you suggest in existing audit practices?
- What should be done to improve Shariah audit in Islamic Financial Institutions?
- How can Shariah audit practices be effectively designed to retain stakeholder's investments in Islamic Financial Institutions?
- To what extent do you think the formation of public sector auditing body to perform Shariah audits will be useful?

- Can University Curriculum play any role to enhance knowledge of Islamic financial investments among audit students?

Appendix C

Additional Interview Questions

- So you believe that the audit system of Islamic Financial Institutions is much familiar with the audit of conventional banking institutions?
- If you think that the audit system of Islamic Financial Institutions that is not in accordance with Shariah compliance, then what do you consider the major reasons for this approach?

- Do you feel internal audit system can be regarded as less important than external audit system?
- Can you discuss in more detail the current audit procedure practiced in your institutions?
- What kinds of changes are of prime importance in your view?
- So additional training and/or qualification can be much effective in your opinion?
- How do you tackle with specific challenges you mentioned during an audit process so that your reliability and independence being an auditor is not affected?

Appendix D

Observation Tools for the Study		
S.NO.	Observation	Description
1	Gestures	• Tone of Voice • Movement of Hands • Facial Expressions while responding to questions.
2	Participant Observation	• The researcher spent sufficient time in organizational settings to observe certain patterns while conducting audit of Islamic Financial Institutions.

Appendix E

Table 3: Codes, Sub Themes and Themes

The final table of analytical framework contains 38 codes for the case A as presented in table 3 below;

Codes		Sub Themes	Themes
Code 1	EE (Enhancing Efficiency)	Sub Theme 1: Need for Audit	Theme 1: Compliance with Shariah
Code 2	C (Compliance)		
Code 3	CB (Confidence Building)		
Code 4	ES (Early Stage of Shariah Audit)		
Code 5	CBB (Commercial Banking Background)		
Code 6	ICN (Increased Chances of Non-		

	compliance)			
Code 7	CCB (Competition with Conventional Banking)			
Code 8	FSI (Financial Statements of IFIs)			
Code 9	CSO (Compliance with Structure of Organization)			
Code 10	CSP (Compliance with Structure of Processes)			
Code 11	RA (Review of Adequacy)			
Code 12	SIO (Shariah Investment Options)			
Code 13	WI (Withdrawal of Investments)	Sub Theme 2: Significance of Audit		
Code 14	ESA (External Shariah Audit)			
Code 15	EA (Expertise in Audit)			
Code 16	UE (Unbiased Examination)			
Code 17	EO (Evaluations of Operations)			
Code 18	EP (Evaluations of Policies)			
Code 19	ILB (Islamic Law of Business)			
Code 20	FAI (Framework to address Audit Issues)	Sub Theme 1: Audit Framework	Theme 2: Reliability of Audit	
Code 21	SCB (Similarity with Conventional Banking)			
Code 22	UCF (Use of Conventional Framework)			
Code 23	CSSB (Conflict with Shariah Supervisory Board)	Sub Theme 2: Audit Limitations		
Code 24	AC (Auditor's Competence)			
Code 25	AE (Audit Evidence)			
Code 26	DIEA (Difference between Internal and External Audit)			
Code 27	CE (Code of Ethics)			
Code 28	AI (Auditor's Independence)	Sub Theme 1: Auditors Competence	Theme 3: Independence of Audit	
Code 29	SK (Standard Knowledge)			
Code 30	BPA (Best Practices in Audit)			
Code 31	FRB (Formation of Regulatory Body)			
Code 32	TPM (Training of Practicing Members)			
Code 33	QCR (Quality Control Reviews)			
Code 34	ITK (Islamic and Technical Knowledge)			
Code 35	ERR (Enhanced Reporting Requirements)			Sub Theme 2:

Code 36	FSN (Fulfillment of Stakeholders Need)	Quality and Reporting Issues	
Code 37	MFI (Management of Financial Institutions)		
Code 38	PIFI (Promoting Islamic Financial Institutes)		

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