

Knowledge, Skills and Characteristics Requirements for Shari'ah Auditors

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ABSTRACT

The shari'ah audit function within the Islamic financial institutions (IFIs) provides assurance on IFI's compliance with shari'ah principles. Currently, IFIs in Malaysia are experiencing a shortage of qualified shari'ah auditors (SAR) to perform the shari'ah audit function. This paper aims to explore the specific elements of knowledge, skills and other characteristics (KSOC) required of SAR in carrying out their tasks effectively. A multiple-case study involving various types of IFIs were conducted to gather insights on current practices of recruiting SAR and determine the relevant KSOC for SAR. In total, 31 respondents were interviewed comprising representatives from the regulator, SAR, and Heads of Shari'ah Audit Department of selected participating IFIs. The findings reveal that shari'ah knowledge is the essential knowledge component, followed by knowledge of Islamic banking operation and knowledge of Fiqh Muamalat. For the skill component, auditing is revealed as the main skill required of SAR to be considered as competent. In addition, this study finds that SAR must also have the willingness to learn attitude as a complementing characteristic to the knowledge and skill elements identified above, as a package requirement for a competent shari'ah auditor. This research contributes to the importance of competency practice among Islamic banking personnel. It also contributes to the management policy in the recruitment or training of shari'ah auditing professionals of IFIs in Malaysia.

Keywords: Competency, knowledge, skill, Shari'ah, Shari'ah Auditors

INTRODUCTION

There has been an increasing demand for the Islamic financial product and services in Malaysia. Ernst and Young World Banking Competitiveness Report 2014/2015 reported that Malaysian Islamic banks' participation in banking assets constitute 20.7% in the local market and 16.7% in the global market (Ernst & Young 2015). The situation spurs opportunities for the Islamic financial service providers. The Islamic financial sector has the responsibility to uphold the shari'ah complied activities in the operations in order to instil confidence from their shari'ah sensitive customers as well as value seekers. A shari'ah compliant operation manifests the commitment of the management to conduct their business according to the shari'ah precept and protect the welfare of their faith-based stakeholders. One measure to ensure shari'ah compliance is through assurance given by their shari'ah audit activities.

The motivation for the study stems from the fact that Islamic banking environment should comply with the shari'ah principles, hence, a complete adherence to shari'ah rulings is the only option for the IBs. A proper mechanism would be able to identify and promptly address any non-compliance issues. The mechanism proposed would be a robust Shari'ah audit (SA) system that would cushion the effect of shari'ah non-compliance risk. The audit will safeguard the interests of shari'ah sensitive and increase market confidence in the shari'ah-compliance IBs. Theoretically, the SA parameter differs from the regular audit as the conduct of the former is beyond the typical systematic process of gathering sufficient and appropriate

evidence. SA scope covers a much wider dimensions of religious, economic, and ethical objectives (Yussof 2013). It will also ultimately preserve the IBs' reputation and pave the way toward excellence in providing financial services to the interested parties.

Despite the importance of SA for IBs, previous studies revealed that the shortage of qualified and competent SAR poses as one of the major challenges to conduct proper shari'ah audit process. The need for competent professionals in the SA discipline also ensures that IBs operation is parallel with the ultimate IB's objective that is to achieve the Maqasid al-shari'ah as well as to remain significant in the eyes of the stakeholders. The SARs appointed from the respective IBs could have graduated from different fields such as accounting and auditing, Islamic finance, or shari'ah. Due to the unique role of SARs, Yussof (2013) postulated that competent SARs should be knowledgeable in Islamic law and commercial transactions as well as accounting or auditing practices. However, Muslim professionals who are qualified and well-versed in both disciplines are considered a rare breed. In fact, studies highlighted that one of the challenges in ensuring proper audit process is the shortage of qualified and independent SARs to facilitate audit process effectiveness (Abdul Rahman 2008; Yaacob 2012; Mohd Hussan, Abdul Karim & Manap 2013).

The SARs also have an additional obligation to perform their religious responsibility of "*amar ma'ruf nahi munkar*", which means commanding the proper and forbidding the improper. This is to say that spiritual

ingredient of Allah's consciousness became the main ingredient in performing the SA in the soul of SARs as their fear to the hereafter supersedes any other worldly things (Yusof 2013). The SARs should report any violation of the Islamic principles in the IB's financial statement as to the external auditors reporting on the truth and fairness of the IB's financial position. There is, however, a competitive pressure for IBs to perform better than their conventional counterparts as they are expected to perform in a pure shari'ah-compliant framework.

At this juncture, it is the duty of the IFIs' management to appoint their SARs. It appears that many Islamic banks, as part of the IFIs, perform the SA using their internal audit resources as suggested in the requirements of the CBM in the SGF. The internal audit teams may not be able to comprehend the complexity and intricacies inherent to Islamic banking audit environment if they are lack with the necessary knowledge, skills, and other attributes in the Islamic banking context. This situation may impede the IBs' goal to achieve '*Maqasid al-shari'ah*' compliant operation. If the issue of competencies of the SAR not tactfully addressed, the quality of SA performed may be compromised. A recent study on the SARs also revealed that the majority of the internal auditors involved in the SA have no Islamic Banking and Finance and shari'ah qualifications (Mahzan & Yahya 2014). The findings further extend the earlier evidence by Kasim, Mohamad Ibrahim and Sulaiman (2009) and Price Waterhouse Cooper (PWC) (2011), which found IB suffer from lacked of competent staff.

To date, there are no professional bodies in Malaysia that offer specific professional certification for SARs. The only source of human capital development for SARs in Malaysia depends largely on the effort by respective IBs to provide training to their staff. As there are no specific guidelines for the specific skills, knowledge, or other proficiencies needed to produce competent SARs, there are questions on the competencies of the current or existing SARs to perform SA effectively. There is still a lack of information on what constitute as knowledge, skills, and other attributes that lead to competent SARs. Uncovering this new information is considered a phenomenon worth exploring as prior studies fail to provide such evidence. A much detailed investigation is needed to determine the aspect of KSOC consummating to competency requirement for shari'ah auditors in performing their duty. Hence, this study purports to explore the critical knowledge, skills, and other characteristics (KSOC) considered fundamental for competent shari'ah auditors in IBs in Malaysia. Since shari'ah audit is a new function related to the operational audit within the IFIs, it is vital to delineate the specific KSOC requirements for the function from the conventional internal auditing function. To achieve this, the research samples for the case studies were selected based on purposive sampling strategy whereby only those employees directly involved in the execution of SA practice were chosen.

The present study employed a qualitative stance to further complement earlier findings by examining the

specific KSOC as elaborated by personnel who are directly involved in the shari'ah audit function through the conduct of interviews and such information can be used by the practitioners as guideline in recruiting future shari'ah auditors within their banking institutions.

ISLAMIC BANKING INSTITUTIONAL BACKGROUND IN MALAYSIA

In Malaysia, the emergence of Islamic banks (IBs) alongside with the more established conventional banking in Malaysia serves as an alternative financial system to a segment of the society whose preference is for financial products and services that are aligned with the Islamic precepts. IBs perform the same function as the conventional banking except for the austere requirement to have their banking operations in line with the Islamic teaching. Thus, the integrity of banking industries and the confidence of the stakeholders depend largely on the adherence to Islamic ethics and values which the bank upholds to (Dusuki 2008).

Islamic banking in Malaysia started in 1963 with the establishment of Tabung Haji (the Pilgrims Management and Fund Board) (Mokhtar, Abdullah & M.Alhabshi 2008; Sulaiman, Nasser & Muhammed 2013). Later, the Malaysian Islamic banking system has started to grow into several phases. The first phase, namely 1983-1992, saw the establishment of the first full-fledged Islamic Bank called Bank Islam Malaysia Berhad on 1 July 1983, operating by shari'ah principles. The Islamic Banking Act 1983 was also officially enacted during the same phase. During this phase, BIMB has been the sole provider of Islamic products that are not offered by other conventional banks. (Mokhtar et al. 2008). The second phase, which is from 1993 - 2003 is considered as the introduction of Islamic windows. This period is when the government introduces *Skim Perbankan Tanpa Faedah* (SPTF) or the interest-free banking scheme in 1993, where the conventional banks were allowed to offer Islamic banking products. The term SPTF was later changed to Skim Perbankan Islam or Islamic Banking Scheme (IBS) in December 1998. Under IBS, conventional banks with Islamic windows are obligated to improve their Islamic banking unit to Islamic banking division to support the Islamic banking industry. This phase also saw the establishment of the second full-fledged Islamic bank, namely Bank Muamalat Malaysia Berhad (BMB) in 1999, which indirectly breaks the monopoly status of BIMB besides ensuring a healthy competition for Islamic banking in Malaysia (Mokhtar et al. 2008).

The latest phase, namely 2004 onwards, saw a financial liberalization period for Islamic banking in Malaysia. During this time, the Malaysian government has issued licenses to three new foreign full-fledged Islamic banks from the Middle Eastern countries, namely Kuwait Finance House, Qatar Islamic Bank, and Al Rajhi Bank and Investment Corporation to operate in Malaysia. Besides that, more Islamic subsidiaries are introduced by the local

conventional banks such as RHB Islamic Bank and Hong Leong Islamic Bank, allowing more players in the Islamic banking in line with the government effort to have better competition and creating opportunities for Islamic banking (Mokhtar et al. 2008).

The liberal economic policy of the Malaysian government allows foreign Islamic banks to operate in the country, including the foreign international IBs. As a way to promote the country as the international Islamic finance hub further, Malaysia launched the Malaysian International Islamic Finance Centre (MIFC) in August 2006. To date, the MIFC has listed 18 banks as IBs consisting of 10 domestic IBs and 6 foreign IBs. Out of the 18 IBs, 16 IBs and two (2) International Islamic banks (BNM 2018).

Unlike the conventional banks, the IBs in Malaysia are licensed and operated by the Central Bank of Malaysia (CBM) under a separate legal framework due to its difference in terms of the operational aspects whereby IBs have to comply with the shari’ah principles. Besides abiding by the acts, the IBs would also refer to the Shari’ah Governance Framework (SGF) issued by the CBM, which provides them guidelines on their IB operations.

in Malaysia (BNM 2010). Figure 1 overleaf depicts the SGF, which consists of four (4) functions namely, shari’ah audit, shari’ah research, shari’ah risk management control and shari’ah review. Shari’ah audit acts as the third line of defense in mitigating the shari’ah non-compliance risk within the IFIs. In addition, the enactment of IFSA in 2013 enhances the monitoring mechanism on the shari’ah governance of the IFIs in Malaysia (Malaysia 2013).

The below diagram depicts the Malaysia’s two-tier Shari’ah governance system comprising of two components, the Shari’ah Advisory Council (SAC) at the CBM and the internal body in each IFIs consisting of Shari’ah Committee (ShC) or Shari’ah Supervisory Board (SSB). At the first tier, the SAC will be the advisor to CBM on matters relating to shari’ah compliance of the IFIs whilst at the second tier, the financial institutions need to establish their own ShC consisting of those with Shari’ah qualified individuals whom will provide advice on shari’ah compliance matters within the IFIs.

SHARI’AH GOVERNANCE OF ISLAMIC FINANCIAL INSTITUTION

The governance of IFIs in Malaysia falls under the jurisdiction of CBM. Under the purview of CBM, the SGF was introduced in 2010 to strengthen the structure of shari’ah governance, processes, and arrangements of IFIs

LITERATURE REVIEW

SHARI’AH AUDIT

Historically, the Islamic auditing emanates from the concept of *Hisbah* and *Muhtasib*. *Hisbah* means “to account,” “to compute” or “to measure” which leads to an assessment by officers of the government known as *Muhtasib*. It is the responsibility of *Muhtasib* to observe, control and prevent shari’ah non-compliance in the trading

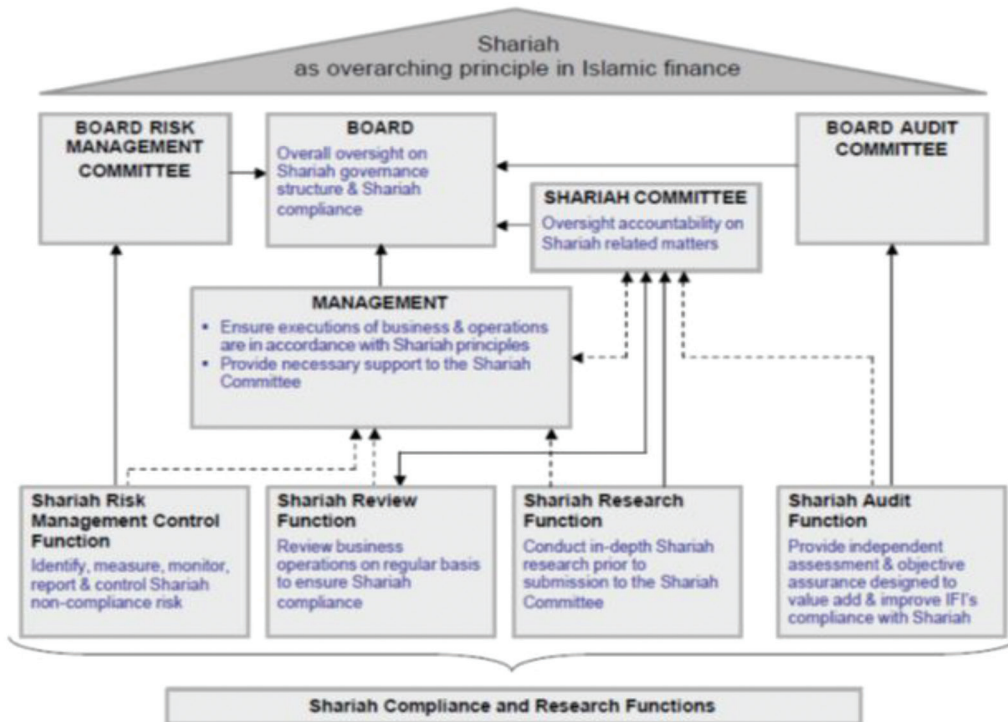


FIGURE 1. Shari’ah Governance Framework (BNM 2010)

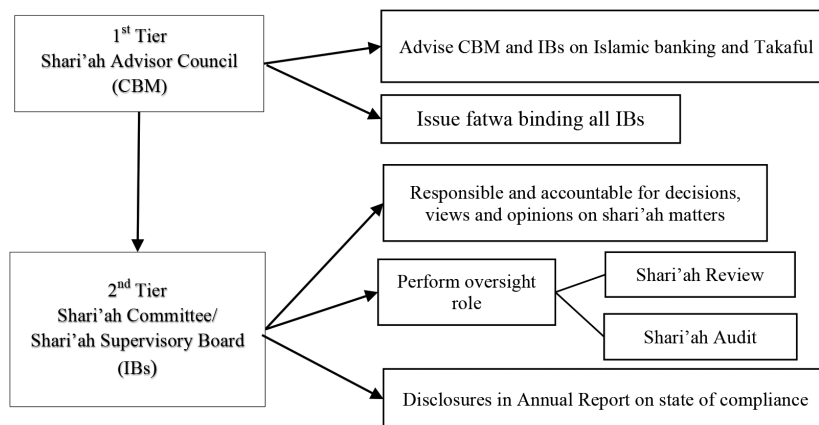


FIGURE 2. The two-tier Shari'ah governance of IFIs in Malaysia (BNM 2010)

activities (Kasim 2010; Yussof 2013). In today's Islamic banking setting, the practice of *Hisbah* and *Muhtasib* is akin to having shari'ah governance through shari'ah audit function which monitors the conduct and operation of the Islamic Banks (IBs). The SGF defines shari'ah audit as, "periodical assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFI's business operations, with the main objective of ensuring a sound and effective internal control system for Shariah compliance" (Bank Negara Malaysia 2010, p. 23).

Prior research on shari'ah audit can be divided into two i.e. pre-SGF studies and post-SGF studies. Pre-SGF focuses on the need to have a different set of auditing guidelines in terms of its scope to cater the niche market of Islamic banking (Khan 1985). Other scholars also supported the emphasis on the shari'ah principles compliant by the Islamic banking operation. They suggested widening the scope of Islamic auditing as to include the operational activities, financial statements, organizational structures, policies and procedures, documentation and contracts (Abdul Rahman 2008; Mohamed Ibrahim 2008; Mohamed Sultan 2007). Most of these early studies were merely on the need and challenges to conducting the shari'ah audit (Abdul Rahman 2008; Yaacob 2012). The empirical research on shari'ah audit started only in 2009 by Kassim et al., who disclosed that majority of the IFIs favour to have the shari'ah review process than the shari'ah audit. At that time, shari'ah audit was not compulsory, and there was a lack of expertise to conduct the shari'ah audit function within the IFIs (Kasim et al. 2009). The dilemma experienced by the IFIs in performing shari'ah audit at that time were expected as there was no standard shari'ah audit framework for them to refer to as guidance to perform their duty. Hence, the auditors tend to use the same audit program which they used for conventional banking operation with some modification to fit the Islamic banking products and operations (PwC 2011).

For the post-SGF studies, additional issues such as lack of SAR with knowledge on both Shari'ah and accounting and auditing knowledge, duties and role of SAR and qualification (Mahzan & Yahya 2014; PwC 2011; Yussof 2013; Shafii, Salleh, Mohd Hanefah & Jusoff 2013). More recent studies were carried out specifically to help the industry to improve the shari'ah audit practices. These studies focused on shari'ah audit training and education (Yaacob et al. 2013; Mohd Ali, Mohamed, Shahimi & Shafii 2015; Shafii et al. 2014); certification of SAR (Najeeb & Mohamed Ibrahim 2013; Shafii et al. 2014), shari'ah audit effectiveness (Khalid, Haron & Masron 2017; Othman & Ameer 2015) and shari'ah audit practice (Ab Ghani and Abdul Rahman 2015).

For practitioners, sources of authority for competency of shari'ah auditors include the SGF, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) through its Internal Shariah Review function and International Professional Practices Framework (IPPF) for internal auditors. A comparative review of the competency requirement stated in these three sources is shown in Table 1 overleaf.

Based on the above review, it appears that the guideline provided by SGF does not explicitly mention the type of shari'ah related knowledge required to perform the shari'ah audit. At the international level, AAOIFI has issued specific auditing standards for both internal and external shari'ah auditors (AAOIFI 2016). However, standards issued by AAOIFI were not made mandatory for IFIs to adopt and are mainly applicable to organizations operating in the Middle Eastern countries (MEC) such as Bahrain and Qatar. However, prior studies found that IFIs do refer to the AAOIFI standards in addition to the local standards (Kasim & Mohd Sanusi 2013) in matters concerning competency of shari'ah auditors. As compared to CBM's SGF, the AAOIFI standards relatively provide a much detailed guidance. It can only be inferred from conditions set for Shari'ah Committee and Shariah Review that the relevant knowledge for shari'ah auditors are Fiqh Muamalat and Usul-Fiqh.

TABLE 1. Comparison of competency requirement for Shari'ah Auditors

Guideline	Competency Requirement
CBM's SGF	Para 7.8: Internal auditors who have acquired Shari'ah-related knowledge and training
AAOIFI (Internal Shari'ah Review)	Para 12: <i>Knowledge of Islamic Shari'ah rules and principles in general, and Fiqh Muamalat in particular</i>
ISPPA (Internal Auditing)	Attribute Standards 1210: <i>Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities</i>

Source: (AAOIFI 2015, BNM 2011 and The Institute of Internal Auditor Global 2013)

DEFINITION ON COMPETENCY

The concept of competencies was originally popularized in the management literature as a way to improve individual's performance (Boyatzis 1982) following a notion that 'competency' is a much applicable concept rather than intelligence was highlighted by McClelland, who describes competencies as individuals' characteristics which led to higher performance (McClelland 1973). These characteristics are in the form of aptitudes (natural talent, prone to improvement), abilities (application of a talent) as well as knowledge or required information for task accomplishment (McClelland 1973). Competency also means the capability or ability set of related but different set of behavior organized surrounding the construct called "intent" where behaviors can be said as the demonstrations of the intent in various situations or times (Boyatzis 1982). In general, competency can be observed as human capabilities to execute certain tasks in an organization as well as the capabilities of a particular organization to perform certain function in ensuring the continuous operation of the organization. In light of shari'ah auditor's requirements, there are certainly shari'ah auditing specific competencies that need to be mastered by the internal auditors in order to ensure effective performance can be delivered.

INTERNAL AUDITORS COMPETENCY

One of the functions that plays a vital role in improving the organization's internal control systems, analyzing risks and providing consulting services is the internal audit function. Over the years, the function of the IAF has expanded, requiring a more sophisticated body of knowledge for internal auditors to perform their duty (Burnaby et al. 2006). To show the seriousness of professional body with regard to ensuring high quality audit performed by the worldwide internal auditors, the Institute of Internal Auditors Research Foundation (IARF) has conducted a worldwide survey using worldwide internal auditors as their participants to comprehend how internal auditing is practiced throughout the world. The survey was then translated into a common body of knowledge (CBOK). One of the focus areas of the CBOK study is the best practices and competent practitioners relates to competency (The Institute of Internal Auditors Research Foundation (IARF) 2013). CBOK also explains competency as a relationship

between task performance and the individual attributes such as knowledge, skills and attitudes. The findings of CBOK, inter alia, can be utilized as a benchmarking mechanism for the use of internal auditing knowledge. The five (5) main areas of knowledge with regard to competencies to perform work for internal auditors identified by CBOK 2010 are auditing, ethics, fraud awareness, internal auditing standards and technical knowledge of the industry.

The professional body's viewpoint on competency of their professional members is further heightened with the International Federation of Accountants (IFAC) guidelines on International Education Standard (IES) 8 on Competence Requirements for Audit Professional which states that an auditor needs to have formal audit education (knowledge) (IES 2), professional skills (IES 3) and able to apply professional values, ethics and attitudes to different situations and organizations (IES 4). These guidelines suggests knowledge as key attribute to competency, besides skills and attitudes (International Federatoion of Accounting (IFAC) 2014).

Understanding the business process undeniably can be a critical point for internal auditors to perform their duty. In the context of Malaysian's Islamic banking setting, the internal auditors of the IFIs are expected to not only possess auditing skills as required by the internal auditors' professional bodies but also additional qualification such as shari'ah knowledge particularly Fiqh Muamalat to ensure comprehensive shari'ah audit has been performed and that overall IFIs operation is shari'ah compliant.

ISLAMIC-BASED HUMAN COMPETENCY

From the Islamic worldview, individual's competency is the need to ensure the availability of human capital in the form of human talent management to produce sufficient pool of competent staffs and Shari'ah experts whom are critical to spearhead innovation of Islamic financial products and services (Laldin 2011). In this context, Section IV of the SGF stresses on the significance of competency as the characteristics to be fulfilled by any person bearing responsibilities outlined in the SGF. In relation to the position of shari'ah auditor, the basic guideline provided by the SGF for shari'ah audit to be performed by the internal auditors who have acquired adequate Shari'ah-related knowledge and training. To do so, they may seek assistance of the shari'ah officer of

the same IFIs, as long as it does not compromise the audit objectivity (BNM 2010, p.23). Such practice may be debated of violating the scope of the work of the Shari'ah officer.

Natt, Al-Habshi and Zainal (2009) suggested a holistic method to human capital competency as the foundation for mismatched skills within the Islamic and conventional financial services industry. They proposed different criteria in terms of training programs; effectiveness of training programs measured by the individuals' employee key performance indicators (KPIs); new recruits of different institutions require different set of generic or specific skills or competencies and institutions can have different preference when it comes to hiring new staffs ranging from discipline-specific such as banking and finance to a much broad-based discipline such as economics or human resource. As trainings of these IFIs seem to be motivated towards attaining individual institutions objectives, it is highly suggested that IFIs establish an industry-wide standard on training and human capital development. Only an all-inclusive perspective on human capital can produce a well-balanced knowledge worker who possess sound knowledge and sturdy commitment to the fundamentals of Islamic teachings and principles (Natt et al. 2009).

Empirical evidence, on the other hand suggested that majority of the shari'ah auditors in IFIs are inexperienced and have no professional or academic qualifications either in Islamic banking or shari'ah (Abdul Rahman 2008; Kasim, et al. 2009). This finding is in agreement with another study which discovered that even though most respondents (39%) have 10-20 years of working experience, only 6% of them have 10-20 years working experience in the Islamic banking and finance working experience (Mahzan & Yahya 2014). In addition, a study by Shafii et al. (2013) discovered that knowledge in shari'ah and accounting are necessary to internal auditors conducting the shari'ah audit. However, the case study was performed with only one representative from the internal auditors and no in depth study comparing the practice of recruitment of shari'ah auditors among the full-fledged IBs and Islamic banking subsidiaries have been performed. Hence, more competencies studies will assist us to comprehend the aspects of competencies to be instilled and inculcated as part of human capital development within the IFIs in Malaysia.

KNOWLEDGE

The element of knowledge as part of competency criteria for a particular job or task is vital. Knowledge can be referred to rudimentary understanding of a person over something, be it an information or certain process. An acquired knowledge can be a general and specific knowledge. A general knowledge usually refers to the formal curriculum based on the syllabus that a graduate have acquired throughout their university years. Lustri, Miura and Takahashi (2007) pointed out that a person's knowledge should be transferred to other individuals or groups in the effort to nurture organizational knowledge

and such transfer is only possible once the knowledge is externalized by those acquiring it and internalized by those needing it, particularly the implied knowledge which is hard to be imitated by rivals. In light of this notion, it is certainly a challenge for new graduates in Accounting to compete in the job market unless if they have other knowledge, skills and other capabilities besides Accounting (Mohamed & Lashine 2003). The need for in-depth knowledge in a specialized area is also to be emphasized even though it is a trend in the worldwide market for graduates to have a wider gamut of knowledge in multidisciplinary areas (Mohamed & Lashine 2003). Competence-based education approach can perhaps be the alternative option as there is a necessity to align the university curricula to the needs of the society and the labor market (Mulder, Gulikers, Biemans & Wesselink 2009).

At present, the SGF does not specifically mention the type of shari'ah knowledge required to perform the duty as shari'ah auditors. It can only be inferred from the criteria set for the Shariah Committee and shari'ah review that the shari'ah knowledge mentioned are related to Fiqh Muamalat and Usul-Fiqh. To counter the lack of guidance and details on this aspect in the SGF, the only specific knowledge to develop competent shari'ah auditor is in the form of training offered by local training agencies. Some of the agencies which provide training are Islamic Banking and Finance Institute of Malaysia (IBFIM), International Centre for Education in Islamic Finance (INCEIF) and Centre for Research and Training (CERT) (CERT 2014; IBFIM 2014; INCEIF 2014). CBOK 2010, on the other hand highlighted certain knowledge to be grasped by the internal auditors which are the Internal Auditing standards as outlaid in the IPPF, ethics, regulatory standards, internal control system (ICS), fraud awareness and the earning risk management.

Knowledge element that need to be acquired by the shari'ah auditor should be the knowledge surpassing the normal knowledge that required for the general internal auditors working in any sector, or internal auditors within the banking institutions. The standard or normal internal auditors' knowledge is expected to circle within the IPPF, whilst for the internal auditors working in banking institution, knowledge on banking business operation and regulation and guidelines pertaining to conventional banking such as Financial Services Act 2013 is a necessity. Hence, additional to the knowledge requirement for general internal auditor or internal auditor within banking institution, a shari'ah auditor's knowledge need to be imbued with the shari'ah knowledge as outlined in SGF. Even though what is shari'ah knowledge is not specifically mentioned in the SGF, to serve the shari'ah audit function, such knowledge can be inferred to be Fiqh Muamalat, shari'ah governance, resolution by the Shari'ah Committee, and most importantly regulation, acts or standards pertaining to Islamic banking operation such as IFSA 2013 and SGF.

SKILLS

Skills means the ability of an individual to apply the knowledge gained or applying such know-how to complete the assigned tasks and solve problems. It can be in the form of cognitive, involving the application of logical, intuitive and creative thinking what is, requiring human attentiveness and the use of methods, resources, kit and instruments (Hoffmann, Michael, Manfred & Gerhard 2010). Communication and technical skills are also considered to be essential to become competent employee (Woodruffe 1992).

Other abilities to be stressed to the accounting students are the ability to communicate in universal languages and negotiation skills. Working in group environments using new communication gadgets has also become a familiar scenario. Thus, it is essential for a future accountant to appreciate human relations at different age levels and different learning stages by counseling them through listening and encouragement. This situation is possible only if the new generation accounting graduates are willing to open their mind to new ideas, new know-how, new cultures, and willingness to adapt (Mohamed & Lashine 2003). Although we acknowledge that certain skills develop only through working experience, it is equally important to recognize the need for such skills at the early stage. For instance, the ability of a person to ask the right questions to gather accurate and concrete information, the ability to identify the important information, and the ability to apply common sense and reasons in clarifying relationship between events, matters, or even individuals. Hence, it is just that Mohamed and Lashine (2003) suggested these traits should also be possessed by the accounting graduates and apply them in the real working world. Mohamed and Lashine (2003) summed their argument concerning the skills alluded as to the critical thinking skills, namely the ability to achieve logical conclusions to queries that cannot be answered promptly and accurately in a condition when relevant information may not be available. This trait refers to as the ability to rationally recall process and apply acquired skills to assist in recognizing and rendering judgment to resolve situations.

CBOK 2010 as aforementioned earlier recognized that skills used by internal auditors have steadily progressed and transformed to embrace the challenges of conducting new types of audit. The CBOK has also classified skills into two groups, which are the technical and behavioral skills respectively. The five main technical skills recognized by CBOK 2010 are understanding business, risk analysis and control assessment techniques, identifying types of controls; governance, risk and control tools and techniques besides business process analysis. In addition, the five main behavioral skills identified by CBOK 2010 are confidentiality, objectivity, communication, and judgment, besides governance and ethics sensitivity (IIARF 2010). As SARs are part of the internal auditors of IBs, their ability to apply the shari'ah knowledge on the IB products allows them to comprehend the movement of transactions that have occurred in their organization, thus being able to

detect any shari'ah non-compliant products or activities. Thus, those are the SAR's knowledge that need to be explored, knowledge which surpass the conventional internal auditor's knowledge of the banking operations.

OTHER CHARACTERISTICS

Other characteristics refers to the behavioral factors of an individual which represents traits which differs between them (Hoffmann et al. 2010). Other attributes related to personal development such as ethical responsibility, self-motivation, self-esteem, self-management and integrity also contribute the elements needed as part of competency requirements are highlighted by Mohamed and Lashine (2003). These interpersonal skills assist the working process in teams besides facilitate other people from diverse backgrounds. In addition, managerial skills such as the ability to organize and delegate tasks would be a value added skill to the professionals.

Seol and Sarkis (2005) argued that other characteristics or the behavioral skills such as personal skills (handling oneself in challenging situation, under time pressure and organizational change) and interpersonal skills are the attributes that need to be focused in selecting candidates for internal auditors' position. This findings is later supported by Endaya and Mohd Hanefah (2016) who argued that internal auditor's characteristics such as objectivity, effective communication, professional due care, have a significant impact on the effectiveness of the internal audit function.

RESEARCH METHODOLOGY

RESEARCH DESIGN

This paper adopts a qualitative design to gather insights into 'knowledge,' 'skill' and 'other characteristic' or KSOC requirements for SAR. Data was obtained through in-depth interviews. In this study, participants are selected based on purposive sampling. The respondents for the study comprised Head of Shari'ah Audit Department and Shari'ah auditors from various IFIs. A total of 31 respondents participated in this study inclusive of a representative from the CBM, 19 SAR and 11 head of shari'ah audit department (HSA).

The participating IFIs which are the unit of analyses of this study include the full-fledged Islamic banks (FFIB), Islamic banking subsidiaries (IBS), Development Financial Institutions (DFIs) and Banks with Islamic window (IW). FFIB refers to either local or international banks which only offers Islamic banking products or services. IBS, on the other hand, denotes conventional banks with Islamic banking subsidiary. DFIs refers to the specialized financial institutions established by the Malaysian government to improve and encourage importance strategic sectors to achieve the country overall socio-economics development objectives. The IW, on the other hand, refers to commercial bank granted the license by the CBM to offer certain Islamic

banking product and services. Details of the respondents are depicted in the table overleaf.

FINDINGS AND DISCUSSION

As depicted in Table 2, 31 participants voluntarily were involved in this study consists of a representative of CBM, 11 Head of Shari’ah auditor (HSA) and 19 shari’ah auditors (SAR). The majority of the HSA and SAR consist of males, which are 87.5% and 62.5% respectively. As for the religion, interestingly, two respondents who served as HSA and SAR respectively in the FFIB are non-Muslims. The age range for the HSA is mostly more than 40 years of age (57.2%) with experience of more than 15 years in the banking industry. As for the SAR, the majority of them aged less than 40 years of age (65.2%) with the majority of them having less than five (5) years working experience in the audit field (39.13%).

On qualification background, majority of the respondents (61.3%) have at least a degree qualification while 22.6% hold Masters qualification. On the area of their specialization during their undergraduates, majority of the respondents have obtained their degree in Accounting

(10/31, 32.3%) followed by Islamic Finance (7/31, 22.6%), Shari’ah (6/31, 19.4%) and other types of field of study such as Engineering, Chemistry and General Islamic Studies (8/31, 25.8%).

The interviews reveal the current practice of recruitment and selection of SAR for participating institutions. The majority of the SAR were internally acquired from the internal audit function of the IBs, which are mostly trained as internal auditors. In addition, this study also reveals that KSOC of competent SAR consists of knowledge in Shari’ah, complemented by skill in Auditing and infused with other characteristic such as willingness to learn and the right attitude.

KNOWLEDGE

In general, there are mixed views on the required knowledge necessary for SAR to perform their duty. Figure 4 overleaf depicts the pattern among the four groups of Islamic banking, showing the concentration on the shari’ah knowledge, follow suit by knowledge in Islamic banking and Fiqh Muamalat. As most of the appointed SAR holds qualification in Accounting, they acquire their

TABLE 2. Distribution of respondents

Banking Groups	Positions*	Gender		Qualification		
		Female	Male	Degree	Masters	Others/ Professionals
CBM	Manager		1	1		
FFIB	HSA		4	4		
(4)	SAR	5	3	7	1	2
IBS	HSA	1	2	2	1	
(3)	SAR	3	2	5		
DFI	HSA		3	3		1
(3)	SAR		6	5		1
IW	HSA		1		1	
Total		9	22			

*HSA-Head of Shari’ah Auditor SAR-Shari’ah Auditor

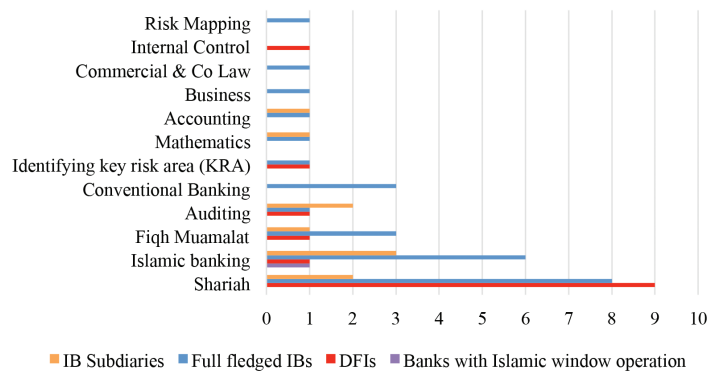


FIGURE 3. Pattern of responses on "Knowledge" element

knowledge in shari'ah and banking operations through training provided either in-house or externally organised by other Islamic finance training centres. Figure 3 shows the pattern of responses for the knowledge element by the respondents. One of IBS respondents articulated on the importance of shari'ah knowledge:

“Of course, the understanding of Shari'ah is utmost important for you to become a Shari'ah auditor. Based on that, you will be able to tell what are lacking regarding controls, in ensuring Shari'ah compliance at all time.”

The HSA of a DFI majoring in shari'ah emphasized the need for individuals with shari'ah qualification to fill in the SAR position as he aptly described:

“For best practice for shari'ah audit, there must be someone with shari'ah background. There are many ways shari'ah audit can be conducted. We can collaborate from the beginning. We have done a lot of collaboration, we join the other auditors, and we look at this angle. I feel to highlight the need for shari'ah audit from the shari'ah background. We can feel the difference. We can see.”

As most of the appointed SARs are from the accounting background, they obtained their shari'ah knowledge and banking operations from training and courses provided either in-house or by their respective banks or they attended other courses provided by other Islamic finance training centers such as International Centre for Education in Islamic Finance (INCEIF) or IBFIM. A respondent from the IBS group acknowledged such practice where she mentioned:

“The knowledge on shari'ah can be acquired through many sources such as discussion with the shari'ah management team of the bank or through the Shari'ah Committee of the bank.”

On the differences in opinions among the HSA and SARs on the knowledge aspect of competency, the HSA provided more preference of knowledge as opposed to

those provided by the SARs. Figure 4 below shows the schematic view of the different opinions between HSA and SARs on 'knowledge' matter.

Interestingly, both parties agreed that knowledge in shari'ah is the fundamental knowledge to be acquired and grasped in performing their duty, followed by knowledge in Islamic Banking and *Fiqh Muamalat*. These findings are similar to the overall view of *knowledge* by all respondents from the four groups. Experienced HSA emphasized on auditing skill more than having the shari'ah knowledge as they believed that a good audit manual that has already outlined the task is supposed to be performed by these SARs. A necessary shari'ah knowledge is enough for them to perform their duty. However, this view is not agreed by an experienced senior SAR from the FFIB group who has vast knowledge in IB operations and thinks that understanding the shari'ah aspect of the banking activity is vital so that he or she can internalize the concept of shari'ah compliance. The auditing skill is a skill that a person can learn as the audit process runs. As she said:

“That one can be acquired along the line, in this kind of environment.”

The above view is supported by a respondent from an FFIB group; even though she has degree in Islamic studies, she felt that experience in performing the audit is not sufficient as the person in the field must also delve into shari'ah knowledge. She explained:

“In future, if an individual in a bank is interested in shari'ah audit, then it is not enough for him or her to have only the audit experience, he has to learn, and it can come from our experience.”

Another SAR in an FFIB group, who was previously an IT auditor, having experience more than 15 years, he felt the need to take a Master's degree or undertake the CIFP program to understand shari'ah issue better, as a self-fulfillment method, as he said:

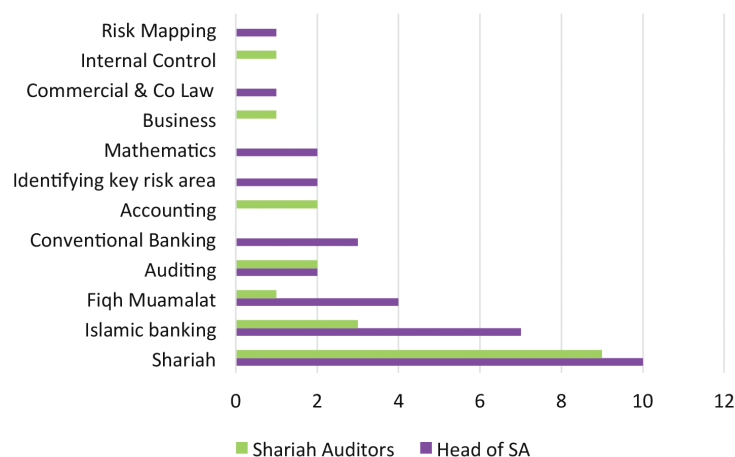


FIGURE 4. Comparison of responses between HSA and SAR on *knowledge*

“I have the intention to further my study in CIFP because to build up a career in shari’ah we must have some knowledge.”

The above expression of the thirst for shari’ah knowledge is believed to be a manifestation of needing more knowledge to support the SAR work.

Auditing knowledge, seems to have little response compared to shari’ah knowledge. The response is understandable since most respondents view auditing as a component of skills that needs to be applied rather than a ‘knowledge’ to be acquired. Moreover, the number of responses captured in the figures does not reflect the actual importance or sentiments of the ‘knowledge’ due to the nature of the qualitative information. This study does not suggest that ‘knowledge’ is the only important component of competency. Other elements of competency such as skills and other characteristics also need to be considered. For instance, the auditing knowledge has been underrated as it is regarded more as a skill rather than knowledge.

SKILLS

In terms of the skills to be acquired by the SAR, as shown in Figure 5, the respondents provided seven (7) types of skills which are auditing, communication, analytical thinking, report writing, negotiation skills, IT and documentation. The main skill which was emphasized by most respondents is the auditing skill whilst the only skill highlighted by each group is the analytical thinking. These skills are common skills needed to perform internal auditing function, as two respondents commented,

“Analytical ability to assess the designs of controls at the respective auditable unit or locations.”

“Audit is more on analytical skill, we will argue with the auditee. If he (the auditor) cannot defend, no added value to the organization, it’s going to be difficult”.

Auditing skill is viewed as more of a skill rather than knowledge by the respondent. Thus, fewer respondents place emphasis on auditing as knowledge as compared to regarding it as an important skill to perform the shari’ah audit. In fact, most HSA favour skill as the most important element of competency compared to knowledge in performing their duty as SAR, as one of the respondents from the DFI elaborated,

“An auditor with less Islamic banking knowledge can do the audit in Islamic bank, but if a person with good Islamic banking knowledge but with no auditing skill may not achieve the audit objective. He cannot perform because even though he has the Islamic knowledge but when it comes to auditing, he cannot perform because when it comes to Auditing principle, fundamental skills, he cannot achieve because there is a segregation between audit shari’ah, auditing shari’ah client, shari’ah risk management those that really running the shari’ah business, they have different principle in terms of work done. So if he comes with less or minimal shari’ah background but auditing skill is tip top, that guy can do a better audit on shari’ah. It just a matter of slowly he will develop what are the processes, what are the requirement set by the specific people in this bank.”

Except for the respondent from a bank with Islamic window, the respondents from other groups agreed that auditing skill is the main skill to be acquired to become a SAR. As some of the respondents expressed:

“In terms of skill, audit skill. Like what to test, what is the objective, the risk and then the document that you want to inspect. At least, if you have the experience, you already know that to perform this audit, you need this document.”

“The most important thing for an auditor to conduct work successfully is on the audit skill itself.”

The skill of communication skill is highlighted mostly by the respondents from the FFIB group. This choice of skill is normal for auditors as they are expected to communicate

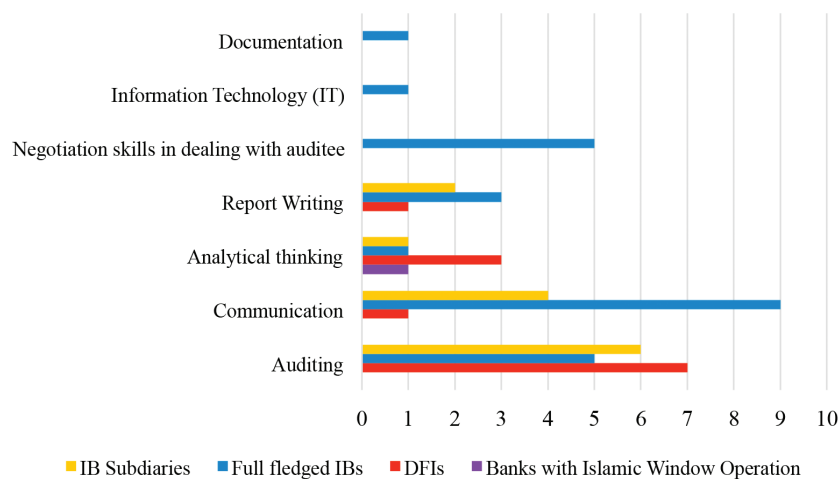


FIGURE 5. Pattern of responses on “Skills” element

or probe on certain issue as one of the respondents expressed:

“The most important thing being auditor is the ability to learn, willingness to learn and improve your skills because audit comes with writing and communication skills. So those are part of the communication as well, apart from exposure, the skill itself, negotiation skill.”

Lack of communication skill may lead to auditors having a problem with auditees as raised by several auditors on the work challenges that they have encountered. For instance, one of the respondents mentioned:

“One more thing, in terms of communication skill, you must have like some auditees they are defensive, you need to know how to tackle them in terms of getting information.”

In addition to the communication skill verbally, it is also important to consider written communication as a medium to raise the audit issues. As one respondent from the IBS reiterated:

“One more skill besides communication skill, writing skill also important because when we want to communicate findings which are usually in the form of a report. So when you present the findings, it has to be concise and direct so that the auditee.”

The respondents also emphasize that besides the communication skill, another skill to be grasped is the ability of the SARs to negotiate with their auditees. This skill is only highlighted by the respondents from the FFIB group. As they commented:

“During exit meeting, we will discuss the audit findings. Whichever is not ok, the auditee will ask why. Then, he puts his argument and then we will agree on something. We will incorporate his new response. He will come back to us so we will finalize with us agreeing at the exit meeting so that no dispute arises. When we table the findings, if they response the other way round, then we need to document the disagreement.”

“Another problem to me is the attitude of the auditee itself because sometimes as I mentioned just now sometimes, auditee can be very defensive. To tackle them, we need to have some skills. Sometimes, it is quite tough to liaise with this kind of person, sometimes I have to get my boss, I think the best person to discuss with them is my boss.”

Interestingly, each group highlighted analytical thinking skill which is the only skill raised by the respondent from a bank with an Islamic window. As some of the respondents argued:

“Audit is more on analytical skill.”

“Analytical ability to assess the designs of controls at the respective auditable unit or locations.”

Figure 6 below shows the comparison in the choice of skills within HSA and SAR. While the HSA identified more knowledge to be acquired by the SAR to perform their duty as discussed earlier, the pattern is opposite in terms of the element of skills where the SAR provided three other skills as shown below are the negotiation skills in dealing with auditee, IT, and documentation

The two skills, documentation and IT, were both mentioned by respondents from the FFIB group. On these skills, a respondent mentioned:

“Skill interview and then communication in terms of getting information, sometimes I use CAAT too, Computer Aided Auditing Technique. That can also be considered a skill. Like, when we use the system we use data, we extract data, see where is the data, we download relevant data, so we must have IT skill.”

Most of the experienced HSA with more than 10 years of experience, are of the opinion that while knowledge in auditing is essential to understand and assess the risk associated with the IB business, the audit skills are the one that allows the knowledge to be adequately translated throughout the audit engagement. Since most of the HSAs

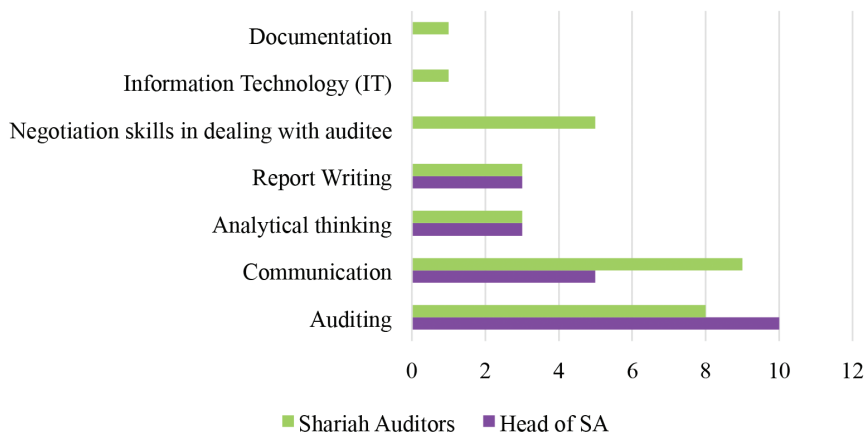


FIGURE 6. Comparison of responses between HSA and SAR on skills

are experienced internal auditors with vast experience in a banking environment, they prefer on the job training to teach the new graduates or the staff seconded from other departments as a model of future training for SARs.

OTHER CHARACTERISTICS (OC)

Another element considered important to SAR to perform the shari’ah audit effectively is other characteristics as depicted in Figure 7. From the figure, it can be noted that willingness to learn and good attitude or strong character took the top spot for OC. A respondent narrated:

“The most important being auditor is the ability to learn, willingness to learn, improve your skills.”

Besides a willingness to learn, another equally important Other characteristics for a SAR is the good attitude or strong character. As explained by the respondent from the DFI group:

“Of course, in terms of character, if the person is problematic, he is problematic regardless whether he has the knowledge or skills.”

The SARs are also expected to have certain passion or interest and committed to the IB environment, as one respondent cited:

“The person should have an interest or commitment towards Islamic banking audit and willing to learn many new things. That is changes or concern in Islamic banking industry.”

Another respondent corroborated with his view:

“If he has no willingness, desire, or no passion to drive the task. Sometimes, it is more on patience that will cover your interest to study. You can cope with the challenges. You can cope with all pressure.”

Having inquisitive mind will also assist the SARs in performing their duty as one respondent from the FFIB group echoed his opinion:

“Characteristics like hardworking and inquisitive is a must. You cannot wait for people to feed you. The person has to put extra effort to learn, get more information and share with other team members.”

Figure 8 overleaf shows the comparison in the choice of other characteristics within the HSA and their SARs. It is interesting to view that the focus of Other characteristics among the HSA and SARs seems to differ as few other characteristics highlighted by the HSA or SARs and not by both types of respondents. For instance, while SARs mentioned Other characteristics such as Dedicated, Inquisitive Mind, Sceptical Mind and Strong Vision; the HSA mentioned Other characteristics, which relates to the traditional requirement of an internal auditor such as Integrity, Due Professional Care, Independence, Ethics and Confidentiality, and Proactive.

REGULATOR’S VIEW ON COMPETENCY REQUIREMENT OF SHARIÁH AUDITOR

Since the focus of the study is the difference view of the HSAs and SARs on the KSOC requirement for competent SAR within the IBs, the views from the representative of CBM is elicited more on to understand the stand taken by the regulator in ensuring the shariáh audit has been conducted according to SGF. On the specific competency requirement for the SARs to perform their duty, the CBM’s representative reiterated:

“On the specific competencies requirement, currently it is very broad. But it is very clear that the main requirement is for the internal auditors to be trained in shari’ah, it didn’t describe what sort of training, how many training hours but to us it’s like yes shari’ah auditor is something unique and a requirement. I would not say deep understanding in shari’ah, but a basic understanding would be sufficient, but if you have internal auditor with knowledge in shari’ah would be better, but as far as the requirement is concerned, currently we are developing, we are revising the SGF to enhance the requirement, and some of the thing we would actually spell out.”

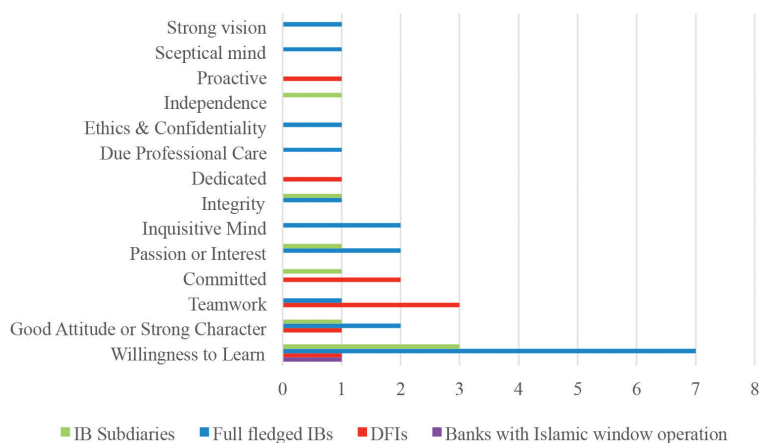


FIGURE 7. Pattern of responses on “Other Characteristics”

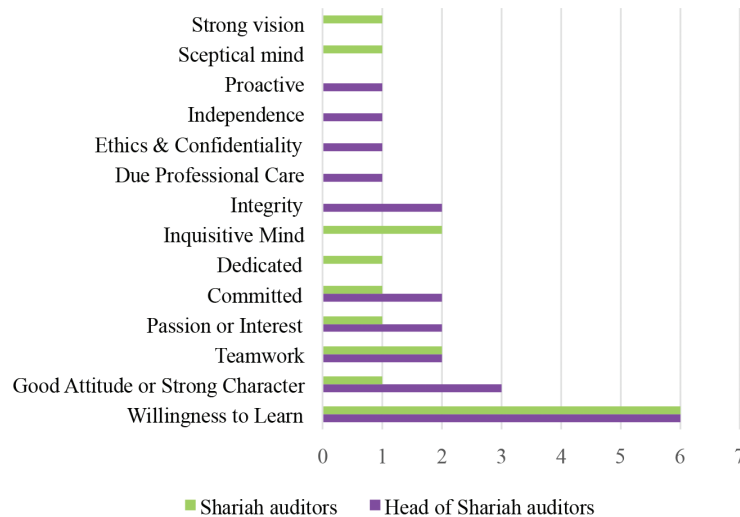


FIGURE 8. Comparison of responses between HSA and SAR on *other characteristics*

On the level of competency within the SARs in the IFIs, he further elaborated his stand and commented on the practice of hiring the SARs:

“In developing the policies, in one of the process, we do environmental scanning where we engaged with the industry, we find out the level of competency, I would say we do not have the data to say most of them are competent or not competent. From the engagement, I would say that they somehow have met the basic requirement. To a certain extent, their operation to me ensure they comply the shari’ah. They have proper tools. They have audit technique to ensure compliance. I am also involved in the industry committee to develop shari’ah audit framework, head by ISRA. ISRA has actually finalized and given to us. On our part, we have look through the work done by ISRA, basically we want to make sure whether it will solve the issue or not so how we address the issue accordingly, so we decided to come up with the specific guidance. In terms of the level of competency, in the committee it is easier to train auditor rather than to train shari’ah officers to conduct a shari’ah audit, meaning to say, if for them the new auditor, she wants skill, the senior wants the shari’ah knowledge.”

The CBM’s representative was also asked to provide his view on lack of shari’ah knowledge among the SARs:

“This is very subjective, in department shari’ah knowledge is not as similar to the shari’ah review function as for shari’ah review, they expected to acquire the department knowledge because the thing is that when they review, they look at the shari’ah decision, they would have to interpret what have been decided but for auditors is different depending how robust or comprehensive the policy or audit manuals or audit program. If you have good, robust, comprehensive audit program, you can perform the audit as per references. You don’t have to understand everything. We observe that what we lack in the industry, they have not translated the decision into policy accordingly. If internal auditors are to conduct the audit, they must look at the policy or SOP. If that procedure is not considered comprehensive, it is difficult for the auditor to perform an audit which has basic knowledge in shari’ah

if no sufficient guidance. If you have comprehensive guidance, they need to have basic knowledge. The decision is detail”

The regulator has been actively involved with the industry to ensure that the implementation of SA from the inception of the SGF into the IFI scenario. The minimal guideline on the competency criteria for SARs provides discretion to the IFIs in selecting their SA team as the IBs in Malaysia consists of local and international IB which means ‘one size fits all’ policy is not suitable in the Malaysian Islamic banking business environment. The findings revealed that the CBM’s representative, HSAs and SARs differ in the views over competency aspect of SARs.

Graphically, the proposed ideal KSOC for SAR is shown in Figure 9. The integration of these three elements, that are knowledge, skills, and other characteristics are argued to be able to produce a competent SAR to the IFI. The combined knowledge coupled with the relevant skills is used to detect any shari’ah non-compliance over the IB operations. The analytical and interpersonal skill would certainly result in a comprehensive SA being performed. The knowledge, skills and other characteristics identified above are suggested to be the pre-requisites for a competent SAR. Lacking in any of these elements may impair the shari’ah auditors’ ability to perform the shari’ah audit function.

CONCLUSION

This study aims to explore KSOC for shari’ah auditors. Through interviews with 31 respondents, insights on the required KSOC for shari’ah auditors were obtained from the industry player themselves. The most cited knowledge components are Shari’ah knowledge, Shari’ah, Islamic banking, and Fiqh Muamalat. While for skills, auditing, analytical thinking, and communication skills are considered as the three (3) primary skills necessary skills to be acquired for the SAR to become competent.

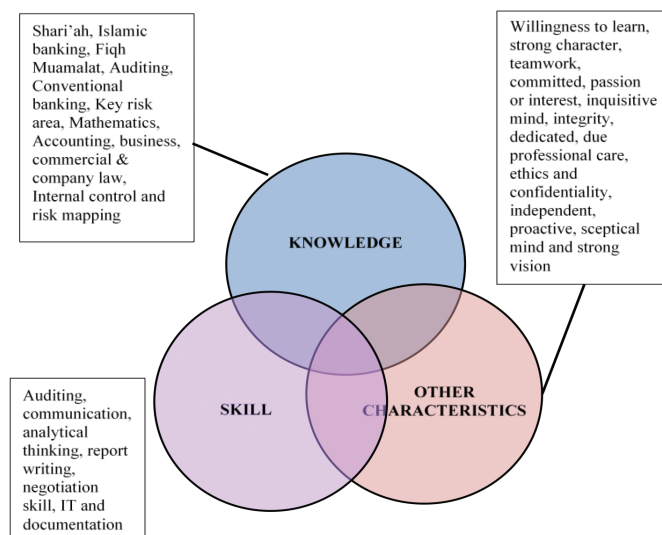


FIGURE 9. Ideal KSOC for shari'ah auditors

The combination of the identified skills, knowledge and other characteristics or attribute such as willingness to learn good attitude and teamwork, as identified in this study, should lead to a more effective performance of the function. The industry also disclosed the challenging task of recruiting fresh shari'ah auditors who are work ready. As an immediate measure, various training were conducted to overcome this challenge. This study offers new findings with regards to the elements of KSOC required to consummate the competency requirement of SAR within the context of IFIs in Malaysia. Apart from that, the findings also provide practitioners, in particular top management of IFIs, a guideline in recruiting new SARs.

RESEARCH LIMITATIONS/IMPLICATIONS

The respondents in this multiple-case study voluntarily represent the Islamic banks and banks offering Islamic product and services. However, this study does not cover the Takaful industry even though the Islamic Financial Services Act 2013 (IFSA) governs both industries. Also, since shari'ah audit has only been mandated to IFIs in Malaysia, specifically, the Islamic banking sector, the findings, and discussions thereof may not be generalizable to other industries engaged in shari'ah compliance activities. The study also focuses only on the competency required by the shari'ah auditors within the Islamic banks which is a perception base and does not explore their current level of competencies and their effectiveness.

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