



UNIVERSITI PUTRA MALAYSIA

***QUALITY OF SHARIAH COMPLIANCE ASSURANCE IN MALAYSIAN
ISLAMIC BANKS POSTS IMPLEMENTATION OF SHARIAH
GOVERNANCE FRAMEWORK***

NURFARAHIN BINTI MOHD HARIDAN

GSM 2016 1



**QUALITY OF SHARIAH COMPLIANCE ASSURANCE IN
MALAYSIAN ISLAMIC BANKS POST IMPLEMENTATION OF
SHARIAH GOVERNANCE FRAMEWORK**

By

NURFARAHIN BINTI MOHD HARIDAN

**Thesis Submitted to the Putra Business School in Fulfilment of the
Requirements for the Master of Science**

June 2016

All material contained within the thesis, including without limitation text, logos, icons, photographs and all other artwork, is copyright material of Universiti Putra Malaysia unless otherwise stated. Use may be made of any material contained within the thesis for non-commercial purposes from the copyright holder. Commercial use of material may only be made with the express, prior, written permission of Universiti Putra Malaysia.

Copyright © Universiti Putra Malaysia



Abstract of thesis presented to the Senate of Universiti Putra Malaysia in
fulfilment of the requirement for the Master of Science

**QUALITY OF SHARIAH COMPLIANCE ASSURANCE IN MALAYSIAN
ISLAMIC BANKS POST IMPLEMENTATION OF SHARIAH GOVERNANCE
FRAMEWORK**

By

NURFARAHIN BINTI MOHD HARIDAN

June 2016

Chair: Ahmad Fahmi Sheikh Hassan, PhD

Faculty: Putra Business School

Shariah board has been a great spur to the prudence of Islamic banks by ensuring Shariah compliance on the operations of Islamic banks. The aim of this study is to investigate the quality of Shariah compliance assurance from the Shariah compliance review and audit carried out in Islamic banks. In doing so, the role of Shariah boards and other internal mechanisms available to support this role have been critically evaluated. This study used a qualitative case study research design and employed semi-structured interviews to gain an in-depth understanding on the current governance practiced in Islamic banks. Analysis from interviews conducted with fourteen key individuals in two Islamic banks indicated that the quality of Shariah compliance assurance provided by Shariah board has improved. The emphasis on Shariah audit laid down in Shariah Governance Framework (SGF) has enhanced the credibility of Shariah board in providing a quality Shariah assurance on the operations of Islamic bank. However, the empirical findings indicated that the Shariah compliance review roles of Shariah boards were not effectively undertaken by Shariah board as they were highly dependent on the report of Shariah Department Officer. In addition, Shariah board only participates in the development of Shariah audit plan and later endorses audit findings carried out by Shariah Audit Officers. Drawing from this heavy reliance of Shariah board on the work of Internal Shariah Officers of Islamic banks, the call for External Shariah Auditor to provide Shariah compliance assurance remains a focal point deemed more credible to the stakeholders.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia
sebagai memenuhi keperluan untuk Master Sains

**QUALITY OF SHARIAH COMPLIANCE ASSURANCE IN MALAYSIAN
ISLAMIC BANKS POST IMPLEMENTATION OF SHARIAH GOVERNANCE
FRAMEWORK**

Oleh

NURFARAHIN BINTI MOHD HARIDAN

Jun 2016

Pengerusi: Ahmad Fahmi Sheikh Hassan, PhD

Fakulti: Putra Business School

Lembaga Syariah telah diberi kepercayaan penuh dalam memastikan keteguhan bank-bank Islam terhadap pematuhan Syariah di dalam setiap operasi mereka. Tujuan kajian ini dijalankan adalah untuk menyiasat kualiti jaminan pematuhan Syariah yang akan dilaksanakan oleh jawatankuasa semakan dan audit syariah di bank-bank Islam. Sehubungan dengan itu, Ahli Lembaga Syariah dan mekanisme dalaman lain memainkan peranan yang penting dalam memberikan sokongan padu terhadap dua peranan penting ini. Kajian ini menggunakan kaedah penyelidikan kajian kes kualitatif dan temu bual separa berstruktur untuk mendapatkan pemahaman yang lebih mendalam mengenai tadbir urus semasa yang diamalkan di bank-bank Islam. Hasil analisa daripada temu bual yang telah dijalankan bersama empat belas individu utama di dalam dua bank Islam menunjukkan bahawa kualiti jaminan pematuhan Syariah yang disediakan oleh Lembaga Syariah ini telah bertambah baik. Penekanan ke atas audit Syariah yang ditetapkan dalam Rangka Kerja Tadbir Urus Syariah (SGF) juga telah meningkatkan kredibiliti lembaga Syariah dalam menyediakan jaminan Syariah yang berkualiti mengenai operasi bank Islam. Walau bagaimanapun, penemuan empirikal menunjukkan bahawa ahli lembaga Syariah tidak menjalankan tugas semakan patuh syariah dengan berkesan kerana kebergantungan mereka terhadap laporan yang diberikan oleh Pegawai Jabatan Syariah. Di samping itu, peranan Ahli Lembaga Syariah hanya sekadar mengambil bahagian dalam pembangunan pelan audit Syariah dan kemudian menyokong penemuan audit yang dijalankan oleh Pegawai Audit Syariah. Hasil daripada amalan kebergantungan Lembaga Syariah terhadap kerja-kerja yang dilaksanakan oleh Pegawai Syariah Dalaman bank-bank Islam, adalah disarankan supaya tanggungjawab jaminan patuh Syariah diberikan kepada Juru Audit Luar Syariah sebagai fokus utama yang dijangka dapat memberikan keyakinan yang lebih tinggi kepada pihak berkepentingan.

ACKNOWLEDGEMENTS

First and foremost, I am very grateful to Allah, the Almighty, for giving me the strength to undergo all the challenges in life. Secondly, I would like to address special thanks to my teachers and lecturers throughout my life. They have thought and polished my capability to go through life and their assistance encouraged me to be a better person.

Thirdly, I would like to thank my valued supervisor, Dr. Ahmad Fahmi Sheikh Hassan and my supervisory committee, Dr. Junaina Muhammad for their guidances, patience, encouragement and valuable comments in supervising me to complete this piece of work. It was a great pleasure to have their supervisions.

Next, I would like to acknowledge and give thanks to the Ministry of Higher Education in providing funds for my Master thesis. Also, I am grateful to have very supportive family and friends for their motivation and support. Finally, I would like to present my deepest appreciation to my beloved father and mother for their unconditional love and support.

I certify that a Thesis Examination Committee has met on **21st of June, 2016** to conduct the final examination of Nurfarahin binti Mohd Haridan on her thesis entitled “Quality of Shariah Compliance Assurance in Malaysian Islamic Banks Post Implementation of Shariah Governance Framework” in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Master of Science.

Members of the Thesis Examination Committee were as follows:

Nur Ashikin Mohd Saat, PhD

Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

Mohamed Hisham Dato’ Hj Yahya, PhD

Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Internal Examiner)

Ismail Ahmad, PhD

Professor
Arshad Ayub Graduate Business School
Universiti Teknologi MARA
Malaysia
(External Examiner)

PROF. DATUK DR. MAD NASIR SHAMSUDIN

Deputy Vice Chancellor (Academic & International)
Universiti Putra Malaysia

Date:

On behalf of,
Graduate School of Management
Universiti Putra Malaysia

This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the Master of Science.

The members of the Supervisory Committee were as follows:

Ahmad Fahmi Sheikh Hassan, PhD

Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

Junaina Muhammad, PhD

Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

PROF. DATUK DR. MAD NASIR SHAMSUDIN

Deputy Vice Chancellor (Academic & International)
Universiti Putra Malaysia

Date:

On behalf of,
Graduate School of Management
Universiti Putra Malaysia

Declaration by graduate student

I hereby confirm that:

- this thesis is my original work;
- quotations, illustrations and citations have been duly referenced;
- this thesis has not been submitted previously or concurrently for any other degree at any other institutions;
- intellectual property from the thesis and copyright of thesis are fully-owned by Universiti Putra Malaysia, as according to the Universiti Putra Malaysia (Research) Rules 2012;
- written permission must be obtained from supervisor and the office of Deputy Vice-Chancellor (Research and Innovation) before thesis is published (in the form of written, printed or in electronic form) including books, journals, modules, proceedings, popular writings, seminar papers, manuscripts, posters, reports, lecture notes, learning modules or any other materials as stated in the Universiti Putra Malaysia (Research) Rules 2012;
- there is no plagiarism or data falsification/fabrication in the thesis, and scholarly integrity is upheld as according to the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) and the Universiti Putra Malaysia (Research) Rules 2012. The thesis has undergone plagiarism detection software.

Signature: _____ Date: _____

Name and Matric No.: _____

Declaration by Members of Supervisory Committee

This is to confirm that:

- the research conducted and the writing of this thesis was under our supervision;
- supervision responsibilities as stated in the Universiti Putra Malaysia (Graduate Studies) Rules 2003 (Revision 2012-2013) are adhered to.

Chairman of Supervisory Committee

Signature : _____
Name : Dr. Ahmad Fahmi Sheikh Hassan
Faculty : Faculty of Economics and Management, UPM

Member of Supervisory Committee

Signature : _____
Name : Dr. Junaina Muhammad
Faculty : Faculty of Economics and Management, UPM

Table of Contents

ABSTRACT	i
ABSTRAK	ii
ACKNOWLEDGEMENTS	iii
APPROVAL	iv
DECLARATION	vi
LIST OF TABLES	xi
LIST OF DIAGRAMS	xii
LIST OF ABBREVIATIONS	xiii
CHAPTER	
1 INTRODUCTION	1
1.0 Background of the Study	1
1.1 Problem Statements	5
1.2 Research Objective	7
1.2.1 The Main Objective:	7
1.2.2 The Specific Objectives are:	7
1.3 Research Questions	7
1.4 Significance of the Study	8
1.5 Structure of the Study	8
2 LITERATURE REVIEW AND MALAYSIAN ISLAMIC BANKING BUSINESS ENVIRONMENT	10
2.0 Introduction	10
2.1 Corporate Governance	10
2.1.1 Corporate Governance Theories	11
2.2 Islamic Banking and Finance	12
2.2.1 Shariah	12
2.3 Shariah Compliance Assurance	16
2.3.1 The Role of Shariah Boards	17
2.3.2 Internal Governance Mechanism in Islamic Financial Institutions (IFIs)	19
2.4 Malaysian Islamic Banking Business Environment	22
2.4.1 Framework for Shariah Governance in Malaysian Islamic Financial Institutions (IFIs)	22
2.5 Research Framework	23

3	RESEARCH METHODOLOGY	26
	3.0 Introduction	26
	3.1 Purpose of the Study	26
	3.2 Research Methodology	27
	3.2.1 Research Design	27
	3.2.2 Research Method	28
	3.3 Sample Data	29
	3.4 Pilot Study	31
	3.5 The In-depth Interview	32
	3.6 Analysis of Interview Data	32
4	CASE STUDY ANALYSIS OF BANK A	34
	4.0 Introduction	34
	4.1 Overview of Bank A	34
	4.2 Providing Assurance for the Shariah Compliance in Bank A	35
	4.2.1 The Competency of Shariah Board	35
	4.2.2 The Independency of Shariah Board in Providing Assurance	37
	4.3 Implication of the SGF on the Governance System of Bank A	42
	4.3.1 Effectiveness of Shariah Supervision	44
	4.3.2 Implementation of Shariah Audit Program	45
	4.4 Summary	46
5	CASE STUDY ANALYSIS OF BANK B	47
	5.0 Introduction	47
	5.1 Overview of Bank B	48
	5.2 Providing Assurance for the Shariah Compliance of Bank B	48
	5.2.1 The Competency of Shariah Board	48
	5.2.2 The Independency of Shariah Board in Providing Assurance	50
	5.3 Implication of SGF on the Governance System of Bank B	53
	5.3.1 Effectiveness of Shariah Supervision	54
	5.3.2 Implementation of Shariah Audit Program	55

5.4 Summary	56
6 ANALYSIS AND COMPARISON OF THE CASE STUDIES	57
6.0 Introduction	57
6.1 The Competency of the Shariah Board	57
6.2 The Governance Role of Shariah Board	58
6.2.1 Shariah Advisory Role	58
6.2.2 Shariah Review Role	60
6.2.3 Shariah Audit Role	62
6.3 Issues of Independency Among Shariah Board Members	64
6.4 Other Internal Governance Mechanisms Supporting the Functions of the Shariah Board	64
6.5 The Quality of Shariah Compliance Assurance on Post Implementation of SGF	65
7 CONCLUSION, RECOMMENDATIONS AND RESEARCH LIMITATIONS	67
7.0 Conclusion	67
7.1 Theoretical and Policy Implications	68
7.2 Research Limitations and Recommendations for future study	69
REFERENCES	71
APPENDICES	79
BIODATA OF THE STUDENT	82
LIST OF PUBLICATIONS	83

LIST OF TABLES

Table		Page
1.1	Framework for the Governance of Malaysian IFIs	3
3.1	Numbers of IFIs	30
4.1	Background of the Respondent of Bank A	34
5.1	Background of the Respondents of Bank B	47
6.1	Shariah Advisory Roles of Shariah Boards	59
6.2	Shariah Compliance Review Roles of Shariah Board	61



LIST OF DIAGRAMS

Diagram		Page
1.1	Key Organs in The IFI's Shariah Governance Framework	4
2.1	Research Framework for This Study	25
6.1	Flow of Shariah Audit	63



LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
BAC	Board Audit Committee
BCBS	Basel Committee on Banking Supervision
BNM	Bank Negara Malaysia
BOD	Board of Director
CAGR	Compounded Annual Growth Rate
CEO	Chief Executive Officer
GP8-i	Guidelines on Financial Reporting for Islamic Banking Institutions
GPS-1	Guidelines on the Governance of Shariah
IASB	International Accounting Standards Board
IBA	Islamic Banking Act
ICBU	International Currency Business Unit
IFI	Islamic Financial Institutions
IFRS	International Financial Reporting Standard
IIFS	Institutions Offering Islamic Financial Services
IMF	International Monetary Fund
MIFC	Malaysian International Islamic Finance Centre
OECD	Organization for Economic Co-operation and Development
SAC	Shariah Advisory Council
SGF	Shariah Governance Framework

© COPYRIGHT UPM



CHAPTER 1

INTRODUCTION

1.0 Background of the Study

The effective governance system that has been installed in the organization may prevent corporate scandal issues and enhance the role of all key organs in the organization. For instance, a previous study indicated the execution of good governance in the organization may influence the performance of the organization (Brown and Caylor, 2006; Bhagat and Bolton, 2008). In addition, corporate governance promotes the distribution of rights and develops governance system and functions among different participants in the organization. Similar recommendations are deemed important when discussing the governance of financial institutions such as banks which are highly regulated by several frameworks and guidelines to ensure the stability of financial systems in the particular institutions. The absence of good governance installed in the financial institution may lead to a global crisis and affect the economic growth of countries (Grais and Pellegrini, 2006a).

However, the corporate governance concept and structure applied in corporations such as conventional banking not adequately address the principles governed in Islamic financial institutions (IFIs) (Sulaiman, Majid and Arifin, 2015; Perry, 2011; Abu-Tapanjeh, 2009). The term "Shariah" is used in Islamic banking to describe banking activities that are operating in compliance with the principles of Islamic finance. The Shariah is a divine law that is derived from two main sources — i.e., Al-Quran and Al-Hadith, meant to guide humankind. When applying the Shariah on commercial activities of IFIs such as Islamic banks, the Shariah promotes Islamic banks to uphold social justice and religious values while conducting their business (Dusuki, 2008; Abu-Tapanjeh, 2009; Saif Alnasser and Muhammed, 2012). In addition, the basic roots of IFIs in operating a business, the Islamic banks must abide by the Shariah law in all aspects of their operations including the product development. In this sense, the accountability in every aspect of the Islamic bank management will be questioned since they are not only performing their role to the stakeholder's objectives but are also accountable to God in overall activities of the Islamic banks.

In addition to the governance system that is usually discussed for corporations, the Islamic banks industry has an additional layer of governance that ensures compliance to the Shariah. The existence of a robust Islamic financial ecosystem based on a governance system that ensures Shariah compliance is deemed to have great importance to the stakeholders of the Islamic banking industry. It can be well argued that the integrity of an Islamic bank would be undermined—and stakeholders would lose confidence—if its operation is found to be non-compliant to the Shariah. As a matter of interest, the effective role of Shariah board may contribute a great spur to the prudence of Islamic banks by escalating the confidence level of stakeholders and provides the Islamic banks with a good image (Ghayad, 2008). Apart from the discussion, the integral role of independent Shariah boards is providing assurance that the operations of

Islamic banks comply to the Shariah in the annual Shariah report on Shariah compliance of Islamic banks (see for example Briston and El-Ashker, 1986; Tomkins and Karim, 1987; Karim, 1990b; Karim, 1990a; Maali et al., 2006; Rammal, 2006). Thus, the extensiveness in the governance functions of Islamic banks such as the Shariah board roles will ensure the commitment of Islamic banking in providing a quality of Shariah compliance assurance.

Bank Negara Malaysia (BNM) or the Central Bank of Malaysia is a statutory body that is responsible for providing law, policy and guidelines to ensure the monetary and financial stability of the Malaysian economy. Several frameworks have been developed and introduced by BNM to ensure that the operations of Islamic banks are aligned to the principles of Islamic finance. In 2005, the Guidelines on the Governance of Shariah or GPS-1 had been designated by BNM to govern the Islamic bank activities. The recommendation in GPS-1 highlighted several requirements to the functions and role of the Shariah board in Islamic banks. Some of the guidelines are the requirements for the board of directors (BODs) to appoint at least three members of Shariah boards who have knowledge and expertise in Shariah. In addition, the Shariah boards are expected by the guidelines to perform their role including providing an assurance that the Islamic bank's operations comply with the Shariah law. Later, new guidelines entitled the Shariah Governance Framework (SGF) were introduced and became effective in January 2011. In the new guidelines, many aspects of the Shariah governance mechanism have been highlighted including enhancement on the role of the Shariah boards, the BODs and the management in relation to provide a quality of Shariah compliance assurance. For the purpose of this study, the effectiveness of every key organ in Islamic banks were investigated under the present Shariah governance regime of Malaysian Islamic banks, i.e. SGF. Furthermore, the study examines the quality of Shariah compliance assurance provided by independent Shariah boards after the SGF has been introduced. The Table below shows the differences on the elements that were highlighted in GPS-1 and SGF.

Elements	GPS-1	SGF
Objectives	<ul style="list-style-type: none"> • To enhance the role of the Shariah board 	<ul style="list-style-type: none"> • To enhance the role of the Shariah board, BOD and the management in matters relating to Shariah; and • To outline the functions relating to Shariah review, Shariah audit, Shariah risk management and Shariah research
Effective Date	1 st of January 2005	1 st of January 2011
<u>The Role of Shariah Board</u>		
Appointment	<ul style="list-style-type: none"> • BOD will appoint at least three of the Shariah board members 	<ul style="list-style-type: none"> • BOD will appoint at least five persons as the members of the Shariah board
Duties and Responsibilities	<ul style="list-style-type: none"> • To advise the BOD on Shariah matters • To endorse a Shariah Compliance manual that all the Islamic banks operations are Shariah-compliant • To provide written Shariah opinions. 	<ul style="list-style-type: none"> • To advise BOD on Shariah matters • To perform oversight role on Shariah matters in the Islamic banks' operations and activities • To access the work carried out by Shariah review and Shariah audit in providing their assessment of Shariah compliance assurance in the annual report • To provide written Shariah opinions
Qualifications	<ul style="list-style-type: none"> • The Shariah board shall at least have knowledge in Usul al-Fiqh (Islamic Jurisprudence) or Fiqh al-Muamalat (Islamic Commercial Law) 	<ul style="list-style-type: none"> • The majority of Shariah members must possess knowledge in Shariah and other appropriate qualifications in that area.
<u>The Role of Shariah Officer</u>		
Internal Shariah Review	<ul style="list-style-type: none"> • Shariah officers are expected to assist the Shariah board to undertake Shariah compliance review 	<ul style="list-style-type: none"> • To review a process of Islamic banks on a continuous basis
Shariah Audit	<ul style="list-style-type: none"> • Not specified • Individual Islamic Shariah audit framework 	<ul style="list-style-type: none"> • To verify at least on an annual basis that all the key organs in IFI and business operations comply with Shariah
Shariah Risk Management	<ul style="list-style-type: none"> • Not specified • Individual Islamic Shariah risk management framework 	<ul style="list-style-type: none"> • To identify all possible non-compliance risks and measure the remedial that needs to be taken to reduce the risk
Shariah Research	<ul style="list-style-type: none"> • Not specified • Individual Islamic Shariah research framework 	<ul style="list-style-type: none"> • To conduct research on Shariah

Table 1.1: Framework for the Governance of Malaysian IFIs

Meanwhile, Diagram 1.1 below illustrates the structure and framework of Shariah governance functions, roles and reporting relationships of key organs in Islamic Financial Institutions (IFI) provided by BNM in the guidelines of SGF. The formal reporting line(s) among the key functions in the governance of IFIs will ensure that Shariah matters and issues are carried out effectively and efficiently. On this subject, the Shariah board is responsible in overseeing the business and operations of the Islamic bank and functionally reports to the BOD. All Internal Shariah Officers shall report their results to the Shariah boards for approval. This entails the Shariah review function to report their results concurrently to the Shariah boards and management whereas the Shariah audit function will report their regular audit findings to the Shariah board members and Board Audit Committee (BAC) for verification. If any events of non-compliance with Shariah are found, they may be reported to the BOD and BNM.

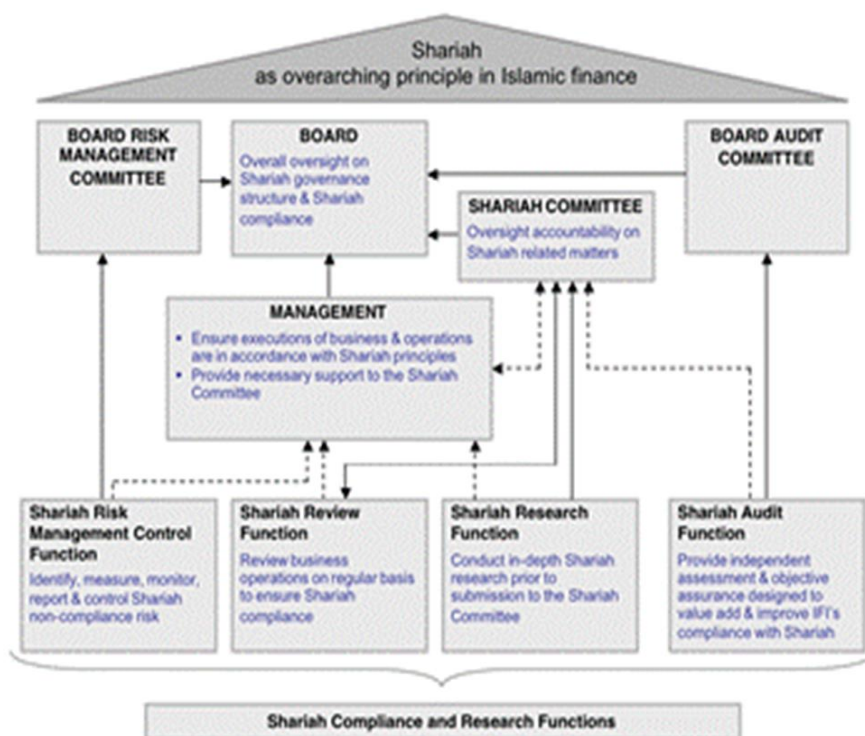


Diagram 1.1: Key Organs in The IFI's Shariah Governance Framework¹

Subsequently, a new legislation i.e. Islamic Financial Service Act 2013 (IFSA) was enacted on March 2013 intended to enhance the integrity of Shariah boards in providing views, opinions and assurance of Shariah compliance in the Shariah report of Islamic banks. Amongst issues highlighted in the IFSA are the appointment and qualifications of Shariah board members and accountability of

¹ Source from BNM website at www.bnm.gov.my

respected parties on the Shariah compliance assurance of Islamic banking operations. For example, Section 30 of IFSA highlights the appointment and qualifications of Shariah board members in IFIs. In this regard, under the new Act, banks may apply directly to the BNM on the establishment of the Shariah boards for the purpose of advising and overseeing that all operations, activities and affairs of Islamic banks comply with the Shariah (IFSA, 2013, para 30). In relation to the qualification of Shariah board members, there is a provision for the Shariah board members to meet all the requirements set out by the standards that are specified by BNM (IFSA, 2013, para. 31). In addition, the Islamic banks shall at all times ensure that all business activities and transactions are Shariah-compliant. In pertaining to the Shariah compliance, the failure of Islamic banks to comply with the above provision shall make them liable to imprisonment for a term not exceeding eight years or to a fine not exceeding twenty-five million ringgit or to both (IFSA, 2013, para. 29).

1.1 Problem Statements

In the last few decades, the Islamic finance industry has made rapid progress with total global financial assets currently estimated to be around USD2trillion with a compounded annual growth rate (CAGR) of 17.3% (MIFC, 2014, pp. 2). The success of Islamic finance is also evident through its contribution to corporate social responsibility (Farag, Mallin and Ow-Yong, 2014; Abdelsalam, Duygun, Matallin-Saez and Tortosa-Ausina, 2014) and economic development (Gheeraert, 2014; Gheeraert and Weill, 2015). In relation to the growth of the industry, Malaysia was reported to be the third largest in the world after Iran and Saudi Arabia and contributed approximately 21.9% of the total domestic banking assets while also accounting for 9.6% of global Islamic banking at the end of 2014 (IFSB, 2015, pp. 9). In particular, the Malaysian Islamic banking industry is acknowledged to be the most developed globally with a comprehensive governance framework for its Islamic banks in relation to Shariah compliance which is paramount to stakeholders (Chapra and Ahmed, 2002; Grais and Pellegrini, 2006; IFSB, 2006; Ginena, 2014; Ullah, Harwood and Jamali, 2016). It is also well-known that Shariah boards generally have a heavy burden of responsibility for providing Shariah compliance assurance² which contributes to the development of the Islamic banking governance system and to serve the religio-ethical to stakeholders (Bougatef, 2015; Ullah et al., 2016). This challenging task of providing Shariah compliance assurance on Islamic banking operations sets a requisite on the membership of Shariah boards. For example, there is a call for the members of Shariah boards to be from diverse qualifications including Shariah, accounting, finance, economics and laws (for example AAOIFI, 1997; Gambling, Jones and Karim, 1993; Grais and Pellegrini, 2006; Laldin, 2008b). In addition, the Shariah board should be independent and given access to Islamic banks' documents and accounts when undertaking the Shariah compliance review (Karim, 1990a; Briston and El-Ashker, 1986; Tomkins and Karim, 1987; Gambling et. al., 1993; Rammal, 2006). In concluding the review

² Shariah compliance assurance is a Shariah opinion issued by the Shariah boards of respective Islamic banks that all their operations and businesses are complying with Shariah (IFSB, 2006, para. 117).

process, the Shariah board is required to issue a report on the level of Shariah compliance which is then published in the annual report of Islamic banks (AAOIFI, 1998; Briston and El-Ashker, 1986; Haniffa and Hudaib, 2007; IFSB, 2006; Karim, 1990a and 1990b; Tomkins and Karim, 1987). As a matter of discussion, the Shariah board plays an essential role in providing Shariah compliance assurance to the Islamic banks' operations. In other words, the Shariah board who are given the highest responsibility and trust from Islamic bank in relation to Shariah compliance assurance should perform their fiduciary duties with values prescribed in the al-Quran and al-Hadith such as being independent and transparent. For example, God says in the Holy al-Quran "Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever Hearing and Seeing" (Quran, 4:58). The Prophet Muhammad s.a.w was reported to have said that "All of you are shepherds and each of you is responsible for his flock. An Imam is a shepherd and he is responsible for those in his care. A man is a shepherd in respect of his family and is responsible for those in his care. The woman is a shepherd in respect of her husband's house and is responsible for those in her care. The servant is a shepherd in respect of his master's property and is responsible for what is in his care. All of you are shepherds and each of you is responsible for his flock" (Sahih Muslim, 20: 4496).

In considering above discussion, various studies have been undertaken which highlight on issues surrounding the governance role of Shariah board. A recent study conducted by Ullah et. al. (2016) indicate that the issues of incongruent objectives between Shariah board and managers could lead to "*Fatwa Shopping*"³ as managers of IFIs struggle to obtain Shariah approval of their Islamic banking products and operations in order to portray an Islamic image rather than truly uphold Shariah principles. This phenomenon of "*Fatwa Shopping*" provides room for bankers to appoint liberal Shariah scholar who can issue rulings that suits their objective and needs. Ullah et. al. (2016) also grave a serious concern over the lack of independence of Shariah board in issuing the Shariah compliance assurance since top management of Islamic banks were reported to exert influence over decisions of Shariah board. Additionally, Alhabshi and Bakar (2008) also highlighted that Shariah boards have inherent deficiencies when conducting the Shariah compliance review role in relation to the development of Islamic financial products. Hasan (2011) provided similar findings that Shariah boards have minimum participation in conducting their review task as 58% of the Shariah board delegated their Shariah compliance review function to be carried out by the Shariah officers.

³ A *Fatwa* is a 'religious ruling' or 'religious edict' issued only by Shariah scholars based on Islamic doctrine and jurisprudence. It has become well-known that some banks engage in employing linient scholars to attain permissibility of action especially when dealing with Islamic transactions or financial contracts. The concern has been raised when managers attempt to influence the Shariah board's decision and opinions in regards to their goal and objectives and that would lead to "*Fatwa Shopping*". This could be interpreted as 'managerial opportunism'.

Meanwhile, Hassan (2012) revealed a serious concern about the weaknesses in the Shariah compliance review conducted by the Shariah boards of Malaysian Islamic banks. Under the regime of the GPS-1, Hassan (2012) found that the Shariah compliance review had minimum participations of Shariah boards as it was mainly undertaken by the Shariah officers of Islamic banks. The results of the Shariah compliance reviews were then reported to the Shariah boards for approval, thus making the debut of rubber stamping of the Shariah boards role claims. He also reported instances where the top management influenced the decision of Shariah boards. Hence, these deficiencies on the role of the Shariah board to undertake their duties independently and effectively would result in the quality of Shariah compliance assurance the board provided to be questioned. Later, the Islamic banks implemented the new SGF to enhance the role of the Shariah boards, the BODs and management in providing assurance of Shariah compliance. However, there is a lack of extensive literatures discussing the issues surrounding the implementation of SGF and the efficacy of the Shariah board's role in Islamic banks. For the purpose of this study, the researcher examines the quality of Shariah compliance assurance provided by the independent Shariah board after SGF has been introduced in the Malaysian Islamic banking industry.

1.2 Research Objective

1.2.1 The Main Objective:

Generally, this study aims at examining the quality of Shariah compliance assurance provided by the independent Shariah board after the SGF has been introduced in the Malaysian Islamic banking industry.

1.2.2 The Specific Objectives are:

1. To investigate the Shariah review undertaken by the Shariah board following the implementation of SGF in the Islamic banking industry.
2. To examine the Shariah audit program following the implementation of SGF in the Islamic banking industry.
3. To ascertain the quality of Shariah compliance assurance provided by Shariah board from the Shariah review and Shariah audit programs undertaken by the Islamic banking industry.

1.3 Research Questions

The study provides several research questions based on the research objectives as mentioned in Section 1.2.2 The research questions give some ideas to examine the issues surrounding the Shariah governance function. This research focus on answering the following research questions:

1. How is the Shariah review undertaken by the Shariah board in Islamic banking industry?

2. How is the Shariah audit program undertaken in Islamic banks?
3. How do the Shariah compliance review and Shariah audit programs influence the Shariah compliance assurance in the Islamic banking industry?

1.4 Significance of the Study

The rapid growth of the Islamic financial system in Malaysia has placed a strong emphasis on the stability and diversity of financial institutions from across the world. This is demonstrated with the existence of a comprehensive governance infrastructure of Islamic financial system by providing the best practices for Islamic bank on the adherence of Shariah (Sulaiman, Majid and Arifin, 2015; PwC, 2008). Malaysia, which has been recognised as an international Islamic finance hub in the Asian region since 2007 is deemed to have the most developed regulatory and supervisory framework for the Islamic banking industry (MIFC, 2010). A review of previous literature showed that there is a lack of extensive literature investigating the impact of the new SGF introduced by BNM in 2011 on the quality of Shariah compliance assurance provided by the Shariah boards of Malaysian Islamic banks. The effective role of the Shariah board enhance the confidence level of investors and other stakeholders on the Islamic banking operations. Hence, this study tends to provide an understanding of the issues surrounding the role of the Shariah board and the effectiveness of the Shariah audit function operated in Islamic banks.

In addition, this study is hoped to contribute to the Malaysian Islamic bank industry by giving a better understanding on the efficacy of the implementation of SGF. The effective implementation of SGF enhance the significant roles and functions of the board of directors, the Shariah board and the management. The findings of this study provide evidence on the effectiveness of the Shariah board roles towards the Shariah compliance assurance after the implementation of SGF in Islamic banks. Thus, this study has a policy implication in assisting the regulators to strengthen the SGF in Malaysian Islamic banking industries. At the same time, the findings of this study can be useful for the regulators of other countries in developing the framework for their country's Islamic bank industry.

1.5 Structure of the Study

This chapter provides a discussion on the background of the study, highlights some important issues as the aim of this study in the problem statement, and outlines the research objectives and research question of this study. Next, chapter two highlight several discussions from previous literatures that show important findings to the interest of this topic. In addition, this chapter also deliberates on two governance theories, i.e. agency theory and stakeholder theory that are used as the theoretical framework of this study. Important Shariah governance mechanisms responsible for the provision of Shariah compliance assurance to the stakeholders of Islamic banks are also be discussed in detail. The chapter ends with an explanation on the framework for Shariah governance of Malaysian IFIs and a discussion on the research framework of the present study.

Meanwhile, chapter three provide outlines of the research methodology of this study. An in-depth interview method is used as the medium of investigation. This chapter highlight the rationale of the interview data and issues related to data collection. The interview strategies are also be discussed in this chapter. Then, chapter four and five provide further analysis of the current practice of the Shariah governance framework in Bank A and Bank B respectively. These two chapters highlight the issues and challenges of the Shariah board in providing the Shariah assurance on the operations of Islamic banks. Chapter six provides the analysis and comparison on the Shariah governance practices of these two Islamic banks. The essential elements of the Shariah boards' governing function and other established governing mechanisms in these two Islamic banks are also be evaluated in this chapter. Finally, chapter seven concludes the discussion by highlighting the operative efficacy of the Shariah boards' role in providing religious compliance assurance and draws some policy implications.

REFERENCES

- AAOIFI. (1997). *Governance Standard for Islamic Financial Institutions No. 1: Shari'a Supervisory Board: Appointment, Composition and Report*. Manama, Bahrain: Accounting and Auditing Standards for Islamic Financial Institutions.
- AAOIFI. (1998). *Governance Standard for Islamic Financial Institutions No. 2: Shari'a Review*. Manama, Bahrain: Accounting and Auditing Standards for Islamic Financial Institutions.
- AAOIFI. (2010). *Financial Accounting Standards*. Manama, Bahrain: Accounting and Auditing Organization for Islamic Financial Institutions.
- Abdelsalam, O., Duygun, M., Matallin-Saez, J. C. and Tortosa-Ausina, E. (2014). Do ethics imply persistence? The case of Islamic and socially responsible fund. *Journal of Banking and Finance*, 40: 182-194.
- Abu-Tapanjeh, A. M. (2009). Corporate governance from the Islamic perspective: A comparative analysis with OECD Principles. *Critical Perspectives on Accounting*, 20: 556–567.
- Agrawal, A. and Knoeber, C. R. (1996). Firm performance and mechanism to control agency problems between managers and shareholders. *Journal of Financial and Quantitative Analysis*, 31(3): 377-397.
- Ahmed, H. (2006) Islamic law, adaptability and financial development. *Islamic Economic Studies*, 13(2): 79-101.
- Ahmed, H. (2011). Maqasid al-Shari'ah and Islamic financial products: A framework for assessment. *ISRA International Journal of Islamic Finance*, 3(1): 149-160.
- Ahrens, T. and Chapman, C. S. (2006). Doing qualitative field research in management accounting: Positioning data to contribute to theory. *Handbook of Management Accounting Research*, 1: 299-318.
- Al-'Arabi, A. B. M. (1958). *Ahkam al-Quran* (Vol. 1). Matba'ah al-Babi al-Halabi.
- Alhabshi, S. M. and Bakar, M. D. (2008). Survey on Shari'ah board of institutions offering Islamic financial services across jurisdictions. In: IFSB ed. *Islamic Finance: Surveys on Global Legal Issues and Challenges*, 167-206.
- Alvesson, M. and Skoldberg, K. (2009). *Reflexive methodology: New vistas for qualitative research*. London: Sage Publication.
- Andres, P. d. and Vallelado, E. (2008). Corporate governance in banking: The role of the board of directors. *Journal of Banking and Finance*, 32(12): 2570-2580.
- Angelides P. et. al. (2011). *The Financial Crisis Inquiry Report*. National Commission on the Causes of the Financial and Economic Crisis in the United States. Washington, D. C.: U.S. Government Printing Office, 633.
- Archer, S., Karim, R. A. A. and Al-Deehani, T. (1998). Financial contracting, governance structures and the accounting regulation of Islamic banks: An analysis in terms of agency theory and transaction cost economics. *Journal of Management & Governance*, 2(2): 149-170.
- Asutay, M. (2008). Islamic banking and finance: Social failure. *New Horizon* October- December (169), 1-3.
- Aziz, Z. A. *Corporate Governance and Aspects of the Regulatory Framework Instituted in Malaysia*. Address presented at 2nd Seminar for Central Banks and Monetary Agencies on AAOIFI's accounting standards, Kuala Lumpur. May 2002.

- Aziz, Z. A. *Approaches to Regulation of Islamic Financial Services Industry*. Speech presented at IFSB Summit - Islamic Financial Services Industry and The Global Regulatory Environment, London. May 2004.
- Banaga, A. et al. (1994). *External Audit and Corporate Governance in Islamic Banks: A Joint Practitioner-Academic Research Study*. Aldershot: Avebury.
- Berle, A. A. and Means, G. C. (1932). *The Modern Corporation and Private Property*. New York.
- Berry, M. A. and Rondinelli, D. A. (1998). Proactive corporate environmental management: A new industrial revolution. *Academy of Management Executive*, 12(2): 38-50.
- Bhagat, S. and Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance*, 257-273.
- Bhattacharjee, A. (2012). *Social Science Research: Principles, Methods, and Practices*. Textbooks Collection, Book 3.
- BNM. (2004). *Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions (GPS-1)*. Bank Negara Malaysia.
- BNM. (2009). *The Central Bank of Malaysia Act 2009*. Bank Negara Malaysia.
- BNM. (2010). *Shariah Governance Framework for Islamic Financial Institutions*. Bank Negara Malaysia.
- BNM. (2012). *Capital Adequacy Framework (Capital Components)*. Bank Negara Malaysia.
- Borham, A. J. (2013). Malaysian experience in implementation of the banking and financial transactions without *riba*. *International Journal of Research in Social Science*, 3 (2).
- Bougatef, K. (2015). The impact of corruption on the soundness of Islamic banks. *Borsa Istanbul Review*.
- Boyatzis, R. E. (1998). *Transforming Qualitative Information: Thematic Analysis and Code Development*. London: Sage.
- Briston, R. and El-Ashker, A. (1986). Religious audit: Could it happen here?. *Accountancy* 98 (1118), 120.
- Brown, L. D. and Caylor, M. L. (2006). Corporate governance and firm valuation. *Journal of Accounting and Public Policy*, 25: 409-434.
- Carroll, A. (1993). *Business and Society: Ethics and Stakeholder Management*. South-Western Publishing, Cincinnati.
- Carroll, A. B. and Buchholtz, A. K. (1999). *Business and Society: Ethics and Stakeholder Management*. 4th ed. London: International Thomson.
- Chapra, M. U. and Ahmed, H. (2002). Corporate governance in Islamic financial institutions. *Islamic Development Bank: Islamic Research and Training Institute*.
- Ciancanelli, P. and Gonzalez, J. A. R. (2001). Corporate governance in banking: A conceptual framework. *SSRN eLibrary*.
- Collier, P. M. (2008). Stakeholder accountability: A field study of the implementation of a governance improvement plan. *Accounting, Auditing and Accountability Journal*, 21(7): 933-954.
- Cooper, D. J. and Morgan, W. (2008). Case Study research in accounting. *Accounting Horizons: June 2008*, 22(2): 159-178.
- Cooper, K. and White, R. E. (2012). *Qualitative Research in the Post-Modern Era: Contexts of Qualitative Research*. Springer Science and Business Media B.V.

- Dusuki, A. W. (2008). Understanding the objectives of Islamic banking: A survey of stakeholders' perspectives. *International Journal of Islamic and Middle Eastern Finance and Management*, 1 (2): 132-148.
- Dusuki, A. W. (2010). Do equity-based Sukuk structures in Islamic capital markets manifest the objectives of Shariah? *Journal of Financial Services Marketing*, 15(3): 203-214.
- Dusuki, A. W. and Abozaid, A. (2007). A critical appraisal on the challenges of realising Maqasid al-Shari'ah in Islamic banking and finance. *IUJ Journal of Economics and Management*, 15(2): 143-165.
- El Hawary, D., Grais, W. and Iqbal, Z. (2004). Regulating Islamic financial institutions: The nature of the regulated. *World Bank Policy Research Working Paper*.
- Farag, H., Mallin, C., Ow-Yong, K. (2014). Corporate social responsibility and financial performance in Islamic banks. *Journal of Economic Behavior and Organization*.
- Gambling, T. et. al. (1993). Creditable organizations: Self regulation v. external standard setting in Islamic banks and British charities. *Financial Accountability and Management*, 9(3): 195-207.
- Garas, S. N. (2012). The conflicts of interest inside the Shari'a supervisory board. *International Journal of Islamic and Middle Eastern Finance and Management*, 5(2): 88-105.
- Garas, S. N. and Pierce, C. (2010). Shari'a supervision of Islamic financial institutions. *Journal of Financial Regulation and Compliance*, 18(4): 386-407.
- Gendron, Y. and Bédard, J. (2006). On the constitution of audit committee effectiveness. *Accounting, Organizations and Society*, 31(3): 211-239.
- Ghayad, R. (2008). Corporate governance and the global performance of Islamic banks. *Humanomics*, 24(3): 207-216.
- Gheeraert, L. (2014). Does Islamic finance spur banking sector development? *Journal of Economic Behavior & Organization*.
- Gheeraert, L. and Weill, L. (2015). Does Islamic banking development favor macroeconomic efficiency? Evidence on the Islamic finance-growth nexus. *Economic Modelling*, 47: 32-39.
- Ginena, K. (2014). Shariah risk and corporate governance of Islamic banks. *Corporate Governance: The International Journal of Business in Society*, 14(1): 86-103.
- Grais, W. and Pellegrini, M. (2006). Corporate Governance and Shariah Compliance in Institutions Offering Islamic Financial Services. *SSRN*.
- Grais, W. and Pellegrini, M. (2006a). Corporate governance and stakeholders' financial interests in institutions offering Islamic financial services. *World Bank research paper*.
- Grassa, R. (2013). Shariah supervisory system in Islamic financial institutions. *Humanomics*, 29(4): 333-348.
- Hammersley, M. and Atkinson, P. (1995). *Ethnography: Principles in practice*. 2nd ed. London, Routledge, 263-287.
- Haniffa, R. (2010). Auditing Islamic Financial Institutions, *In Islamic Finance: Instruments and Markets* (QFinance). London, Bloomsbury.
- Haniffa, R. M. and Hudaib, M. (2007). Exploring the ethical identity of Islamic banks via communication in annual reports. *Journal of Business Ethics*, 76(1): 97-116.

- Haron, S. and Wan Azmi, W. N. (2009). *Islamic Finance and Banking System: Philosophies, Principles and Practices*. Kuala Lumpur, McGraw-Hill Publications.
- Hasan, Z. (2010). Proceeding of the Conference on the Future of Faith in the Era of Globalization: *Corporate Governance in Islamic Financial Institutions: An Ethical Perspective*.
- Hasan, Z. (2011). A survey on Shari'ah governance practices in Malaysia, GCC countries and the UK: Critical appraisal. *International Journal of Islamic and Middle Eastern Finance and Management*, 4(1): 30-51.
- Hassan, A. F. S. (2012). *An Empirical Investigation into the Role, Independence and Effectiveness of Shari'ah Boards in the Malaysian Islamic Banking Industry*. PhD Thesis, University of Cardiff.
- Hassan, A. F. S. (2013). *Standardization and Innovation in the Malaysian Islamic Banking Industry: The Role of Centralised Shari'ah Board*. In: Readings in Finance. Universiti Putra Malaysia Press, Serdang, Selangor. ISBN 9789673443727.
- Hassan, M. K. and Lewis, M. K. (2007). *Handbook of Islamic Banking*. Cheltenham, UK; Northampton, MA, USA: Edward Elgar.
- Heath, J. and Norman, W. (2004). Stakeholder theory, corporate governance and public management: What can the history of state-run enterprises teach us in the post-Enron era? *Journal of Business Ethics*, 53: 247–265.
- Henry, C. M. and Wilson, R. (2004). *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press.
- Herre, R. (1979). *Social Being*. Oxford: Blackwell.
- IFSB. (2006). *Guiding Principles on Corporate Governance for Institutions Offering Only Islamic Financial Services (Excluding Islamic Insurance (Takaful) Institutions and Islamic Mutual Funds)*. Islamic Financial Service Board.
- IFSB. (2009). *Guiding Principles on Shari'ah Governance System for Institutions offering Islamic Financial Services*. Islamic Financial Services Board.
- IFSB. (2015). *Islamic Financial Services Industry: Stability Report 2015*. Islamic Financial Service Board.
- Iqbal, Z. (1997). Islamic financial systems. *Finance & Development*, 34(2): 42-45.
- Iqbal, Z. and Greuning, H. V. (2008). *Risk Analysis for Islamic Banks*. The World Bank, Washington, D. C.
- Iqbal, Z. and Mirakhor, A. (2001). Conference Proceedings on Governance, Transparency and Risk Management of Islamic Financial Institutions: *Role of Stakeholders in Corporate Governance of Islamic Financial Institutions*. Lebanon, Beirut.
- Iqbal, Z. and Mirakhor, A. (2004). Stakeholders model of governance in Islamic economic system. *Islamic Economic Studies*, 11(2): 43-63.
- Iqbal, Z. and Mirakhor, A. (2007). *An Introduction to Islamic Finance: Theory and Practice*. Chichester: John Wiley and Sons Ltd.
- Jensen, M. C. and Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4): 305-360.
- Kahf, M. *Maqasid Al-Shari'ah in the Prohibition of Riba and Their Implication for Modern Islamic Finance*. In: IIUM International Conference on Maqasid al-Shari'ah, Kuala Lumpur. August 2006.

- Kamali, M. H. (2000). *Islamic Commercial Law: An Analysis of Futures and Options*. Cambridge: The Islamic Texts Society.
- Kamali, M. H. (2003). *Principles of Islamic Jurisprudence*. Cambridge: The Islamic Text Society.
- Kamali, M. H. (2008). *Shari'ah Law: An Introduction*. Oxford: Oneworld Publications.
- Karim, R. A. A. (1990a). The independence of religious and external auditors: The case of Islamic banks. *Accounting, Auditing & Accountability Journal*, 3(3): 34-44.
- Karim, R. A. A. (1990b). Standard setting for the financial reporting of religious business organisations: The case of Islamic banks. *Accounting & Business Research*, 20(80): 299- 305.
- Kasim, N., Mohamad Ibrahim, S. H. and Sulaiman, M. (2009). Shariah auditing in Islamic financial institutions: Exploring the gap between the "desired" and the "actual". *Global Economy and Finance Journal*, 2(2): 127-137.
- Kasim, N., Nuhtay, S. N. and Syed Ahmad Salman. (2013). Shariah governance for Islamic capital market: A step forward. *International Journal of Education and Research*, 1(6).
- Kassim, S. H., Majid, M. S. A. and Yusof, R. M. (2009). Impact of monetary policy shocks on the conventional and Islamic banks in a dual layer banking system: Evidence from Malaysia. *Journal of Economic Cooperation and Development*, 30(1): 41-58.
- Kennedy, M. M. (1979). Generalizing from single case studies. *Evaluation Quarterly*, 3: 661-678.
- Khan, M. S. and Mirakhor, A. (1986). The framework and practices of Islamic banking. *Finance Development* 3(September), 32-36.
- Khiyar, K. A. (2012). Malaysia: 30 years of Islamic banking experience (1983-2012). *International Business & Economics Research Journal*, 11(10).
- Kothari C. R. (2004). *Research Methodology: Methods and Techniques*. 2nd ed. New Delhi: New Age International Publishers.
- Laldin, M. A. (2008a). Roles and responsibilities of Shariah scholars in Shariah advisory services series-part 1 of 2. *The Halal Journal* (Sept-Oct), 54-56.
- Laldin, M. A. (2008b). Roles and responsibilities of Shariah scholars in Shariah advisory services series-part 2 of 2. *The Halal Journal* (Nov-Dec), 56-58.
- Levine, R. (2004). *The Corporate Governance of Banks: A Concise Discussion of Concepts and Evidence*. The World Bank.
- Lewis, J. (2009). Design issues. In: Ritchie, J. and Lewis, J. eds. *Qualitative Research Practice*. London: Sage Publication Ltd.
- Lewis, J. and Ritchie, J. (2003). *Qualitative Research Practice: A Guide for Social Science Students and Researchers*. Sage Publications Ltd.
- Lewis, M. K. (2007). Islamic banking in theory and practice. *Monash Business Review*, 3(1).
- Maali, B. et al. (2006). Social reporting by Islamic banks. *Abacus*, 42(2): 266-289.
- Mathison, S. (1988). Why triangulate? *Educational Researcher*, 17(2): 13-17.
- May, T. (2001). *Social Research: Issues, Methods and Process*. Buckingham: Open University Press.
- MIFC. (2010). *Gateway to Asia: Malaysia, International Islamic Finance Hub*. Malaysia International Islamic Financial Centre.
- MIFC. (2014). *A Landmark Year for Global Islamic Finance Industry*. Malaysia International Islamic Financial Centre.

- MIFC. (2015). *US: Potential Market for Islamic Finance*. Malaysia International Islamic Financial Centre.
- Molyneaux, D. and Lane, V. W. (1982). *Effective interviewing: Techniques and analysis*. Boston: Allyn and Bacon, Inc.
- Naqvi, S. N. H. (1981). *Individual Freedom, Social Welfare and Islamic Economic Order*. Essay in Islamic Economic Philosophy, 1.
- Naqvi, S. N. H. (1994). *Islam, Economics and Society*. London: Kegan Paul International.
- Naqvi, S. N. H. (2003). *Perspective on Morality and Human Well-Being: A Contribution to Islamic Economics*. Leicester: The Islamic Foundation.
- Neuman, W. L. (2011). *Social Research Methods: Qualitative and Quantitative Approaches*. 7th ed. Pearson Publication.
- OECD. (1999). *OECD Principles of Corporate Governance*. Organisation for Economic Co-Operation and Development.
- OECD. (2006). *OECD Principles of Corporate Governance*. Organisation for Economic Co-Operation and Development.
- Patton, M. Q. (1990). *Qualitative Evaluation and Research Methods*. 2nd ed. Newbury Park, CA: Sage, 335-337.
- Patton, M. Q. (2001). *Qualitative Research & Evaluation Methods*. 3rd ed. Saint Paul, MN: Sage Publications.
- Perry, F. V. (2011). The corporate governance of Islamic banks: A better way of doing business? *Michigan State Journal of International Law*, 19(2).
- PwC. (2008). *Malaysia Asia's Islamic Finance Hub*. Malaysia: PricewaterhouseCoopers.
- Rahman, A. R. A. (1998). Issues in corporate accountability and governance: An Islamic perspective. *American Journal of Islamic Social Sciences*, 15(1): 55-69.
- Rahman, A. R. A. (2008). Shariah audit for Islamic financial services: The needs and challenges. *ISRA Islamic Finance Seminar*.
- Rammal, H. G. (2006). The importance of Shari'ah supervision in Islamic financial institutions. *Corporate Ownership and Control*, 3(3): 204-208.
- Rammal, H. G. (2010). *Corporate Governance in the Islamic Banking System in Pakistan: The Role of the Shari'ah Supervisory Board*. PhD Thesis, University of Adelaide.
- Richards, L., & Morse, J.M. (2007). *Users Guide for Qualitative Methods*. 2nd ed. Thousand Oaks, CA: Sage.
- Rossman, G. B. and Rallis, S. F. (1998). *Learning in the Field: An Introduction to Qualitative Research*. London: Sage.
- Safieddine, A. (2009). Islamic financial institutions and corporate governance: New insights for agency theory. *Corporate Governance: An International Review*, 17(2): 142-158.
- Sahih Muslim*. Kitab al-Buyu', Book 10, Number 3853.
- Sahih Muslim*. Kitab al-Imara, Book 20. Number 4496.
- Saif Alnasser, S. A. and Muhammed, J. (2012). Introduction to corporate governance from Islamic perspective. *Humanomics*, 28 (3): 220 – 231.
- Saldana, J. (2013). *The Coding Manual for Qualitative Researchers*. 2nd ed. Sage Publication.
- Schatzman, L. and Strauss, A. L. (1973). *Field Research: Strategies for a Natural Sociology*. Prentice Hall PTR.
- Sekaran, U. and Bougie, R. (2009). *Research Method for Business: A Skill Building Approach*. 5th ed. John Wiley and Son Publication.

- Shafii, Z., A. Z. Abidin, Salleh, S., Jusoff, K. and Kasim, N. (2013). Post implementation of Shariah governance framework: The impact of Shariah audit function towards the role of Shariah committee. *Middle-East Journal of Scientific Research 13 (Research in Contemporary Islamic Finance and Wealth Management)*, 7-11.
- Shahwan. S., Shafii. Z. and Salleh. S. (2010). Management of Shariah non-compliance audit risk in the Islamic financial institutions via the development of Shariah compliance audit framework and Shariah audit programme. *Kyoto Bulletin of Islamic Area Studies*, 3(2): 3–16.
- Siddiqi, M. N. (2004). *Riba, Bank Interest and the Rationale of Its Prohibition*. Islamic Development Bank, Jeddah: Islamic Research and Training Institute.
- Siddiqi, M. N. (2006). Shariah, economics and the progress of Islamic finance: The role of Shariah experts. In: *Concept Paper Presented at Pre-Forum Workshop on Select Ethical and Methodological Issues in Shari'a-Compliant Finance, Seventh Harvard Forum on Islamic Finance*. Cambridge: Massachusetts, USA.
- Snape, D. and Spencer, L. (2003). The foundations of qualitative research. In: Ritchie, J. and Lewis, J. eds. *Qualitative Research Practice: A Guide for Social Science Students and Researchers*. London: Sage Publications, 1-23.
- Solomon, J. (2007). *Corporate Governance and Accountability*. 2nd ed. John Wiley & Sons, Ltd.
- Spira, L. (1999). Independence in corporate governance: The audit committee role. *Business Ethics: A European Review*, 8: 262-273.
- Spira, L. F. *The Role of the Audit Committee: The Gap Between Expectations and Reality*. Conference Paper for the 2nd European Conference on Corporate Governance: Can Europe build on its diversity to develop the corporate governance system of the future, Brussels. November 2002.
- Strauss, A. and Corbin, J. M. (1997). *Grounded Theory in Practice*. Sage Publications.
- Sulaiman, M., Majid, N. A. and Arifin, N. M. (2015). Corporate governance of Islamic Financial Institutions in Malaysia. *Asian Journal of Business and Accounting*, 8(1).
- Tomkins, C. and Karim, R. A. A. (1987). The Shari'ah and its implications for Islamic financial analysis: An opportunity to study interactions among society, organization, and accounting. *The American Journal of Islamic Social Sciences*, 4(1): 101-115.
- Turley, S. and Zaman, M. (2007). Audit committee effectiveness: Informal processes and behavioural effects. *Accounting, Auditing & Accountability Journal*, 20(5): 765-788.
- Uddin, M. H., Ullah, M. H. and Hossain, M. M. (2013). An overview on the basics of Islamic audit. *European Journal of Business and Management*, 5 (28).
- Ullah, S., Harwood, I. A. and Jamali, D. (2016). 'Fatwa repositioning': The hidden struggle for Shari'a compliance within Islamic financial institutions. *Journal of Business Ethics*.
- W. Turner, D. (2010). Qualitative interview design: A practical guide for novice investigators. *The Qualitative Report*, 15 (3): 754-760.
- Wilson, J. O. S., Casu, B., Girardone, C. and Molyneux, P. (2010). Emerging themes in banking: Recent literature and directions for future research. *The British Accounting Review*, 42(3): 153-169.

- World Bank. (2012). *Malaysia - Report on the Observance of Standards and Codes (ROSC): Corporate Governance Country Assessment*. Report on the Observance of Standards and Codes (ROSC). Washington, DC: World Bank Group.
- Yahya, Y., & Mahzan, N. (2012). Proceedings of the 3rd International Conference on Business and Economic Research: *The role of Internal Auditing in Ensuring Governance in Islamic Financial Institution (IFI)*.
- Yin, R. K. (2003). *Applications of Case Study Research*. 3rd ed. Sage Publications Ltd, 34.
- Yin, R. K. (2009). *Applied Social Research Methods Series*. 4th ed. Los Angeles: Sage Publication, 5.
- Yusof, S. A. and Amin, R. M. (2007). A survey on the objective of the firm and models of producer behaviour in the Islamic framework. *Journal of King Abdul Aziz University: Islamic Economics*, 20(2): 3-16.
- Zaher, T. S. and Hassan, M. K. (2001). A comparative literature survey of Islamic finance and banking. *Financial Markets, Institutions & Instruments*, 10(4): 155-199.
- Zaidi, J. A. ed. (2008). *Shari'a Harmonization, Regulation and Supervision*. AAOIFI-World Bank Islamic Banking and Finance Conference. Manama, Bahrain, November 10-11.

APPENDICES

a) Background Information

Organisation name:

Name of participant:

Position:

No. of years in the organisation:

b) Interview Questions to the CEO:-

1. How important is the role of Shariah Board to your Islamic bank?
2. How do you perceive the governance mechanism of Shariah Board in your Islamic bank?
3. What is the current role of Shariah Board in your Islamic bank?
4. How does the implementation of Shariah compliance review under the new Shariah governance framework (SGF) different from the GPS-1?
5. What is the Shariah audit program used in your Islamic bank?
6. What is the reporting process of Shariah Board of your Islamic bank?
7. Do Shariah Board members participate in the Shariah audit program?
8. Does the new SGF improve the Shariah audit program performed in your Islamic bank?
9. How does the Shariah Board resolve possible conflict with the Board of Directors or the management of your Islamic bank?
10. Does the new SGF improve the quality of Shariah compliance assurance provided by Shariah Board?

c) Interview Questions to the Shariah Board:-

1. How many Shariah Board members are there in your Islamic bank?
2. What are the criteria and mechanism on the appointment of the Shariah Board in your Islamic Bank?
3. What is the current role of the Shariah Board in your Islamic bank?
4. How does the Shariah compliance review undertaken by Shariah Board in your Islamic bank?
5. How does the implementation of Shariah compliance review under the new Shariah governance framework (SGF) different from the GPS-1?
6. What is the Shariah audit program used in your Islamic bank?
7. Do Shariah Board members participate in the Shariah audit program?
8. What is the reporting process of Shariah Board of your Islamic bank?
9. Does the new SGF improve the Shariah audit program performed in your Islamic bank?
10. How do the Shariah Board members interact with other parties within your Islamic bank?
11. Does management of Islamic banks influence in any way to the decisions made by Shariah Board?
12. Do you see in any way that management's profit motive has over ruled the decisions made by Shariah Board?
13. How does the Shariah Board resolve possible conflict with the Board of Directors or the management of your Islamic bank?

14. Does the new SGF improve the quality of Shariah compliance assurance provided by Shariah Board?

d) Interview Questions to the Internal Auditor:-

1. How many Internal Auditor members are there in your Islamic bank?
2. What are the criteria and mechanism on the appointment of the Internal Auditor in your Islamic Bank?
3. What is the current role of Internal Auditor?
4. How does the Internal Auditor assist the Shariah Board in providing Shariah compliance assurance in your Islamic bank?
5. How does the Internal Auditor assist the Shariah Board in performing the Shariah audit procedure?
6. What is the Shariah audit program used in your Islamic bank?
7. Is there any difference between normal audit and Shariah audit program?
8. Do Shariah Board members participate in the Shariah audit program?
9. What is the reporting process of Internal Audit of your Islamic bank?
10. Does the new SGF improve the audit program performed in your Islamic bank?
11. How does the Internal Auditor interact with Shariah Officer within your Islamic bank?
12. Does management of Islamic banks influence in any way to the decisions made by Shariah Board?
13. Do you see in any way the management's profit motive over ruled the decisions made by Shariah Board?
14. Does the new SGF improve the quality of Shariah compliance assurance provided by Shariah Board?

e) Interview Questions to the Shariah Officer:-

1. How many Shariah Officer members are there in your Islamic bank?
2. What are the criteria and mechanism on the appointment of the Shariah Officer in your Islamic Bank?
3. What is the current role of the Shariah Officer in your Islamic bank?
4. How does the Shariah Officer assist the Shariah Board in providing Shariah compliance assurance in your Islamic bank?
5. How does the implementation of Shariah compliance review under the new Shariah governance framework (SGF) different from the GPS-1?
6. What is the Shariah audit program used in your Islamic bank?
7. Do Shariah Board members participate in the Shariah audit program?
8. What is the reporting process of Shariah Officer of your Islamic bank?
9. Does the new SGF improve the Shariah audit program performed in your Islamic bank?
10. How does the Shariah Officer interact with other parties within your Islamic bank?
11. Does management of Islamic banks influence in any way to the compliance review performed by Shariah Officer?

12. How does the Shariah Officer resolve possible conflict with the Board of Directors or the management of your Islamic bank?
13. Does the new SGF improve the quality of Shariah compliance assurance provided by Shariah Board?



BIODATA OF THE STUDENT

Nurfarahin was born in Selangor, Malaysia on 7 February 1989. She earned the Bachelor of Accountancy from Universiti Putra Malaysia (UPM) on 2012. In 2016, she was awarded Master of Science in Finance from Putra Business School, UPM. She is currently pursuing Doctor of Philosophy in Business Economics in UPM.



LIST OF PUBLICATIONS

Hassan, A. F. S., Haridan, N. F. M., Zamil, N. A. M. and Muhammad, J. (2016). Reporting Assurance for Religious Compliance in Islamic Banks: Are We There Yet? *International Journal of Applied Business and Economic Research*, 14(3): 1465-1479.

Haridan, N. F. M., Hassan, A. F. S. and Karbhari, Y. (2016). Islamic Banks and Religious Assurance: Do Shariah Boards Faithfully Serve? *Paper was submitted to the Journal of Management and Governance*.

