UNIVERSITI PUTRA MALAYSIA

ROLE OF HALAL AUDITORS AND CHALLENGES IN MANAGING HALAL CERTIFICATION

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ROLE OF HALAL AUDITORS AND CHALLENGES IN MANAGING HALAL CERTIFICATION

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

ROLE OF HALAL AUDITORS AND CHALLENGES IN MANAGING HALAL CERTIFICATION

By

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July 2018

Chairman : Elistina binti Abu Bakar, PhD
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Halal Certification has become a standard that has been used widely in Malaysia especially in industry. This halal certification has been managed by Malaysian halal body authorities which are Department of Islamic Development Malaysia (JAKIM) and State Islamic Religious Department (JAIN). A Halal Auditor is a person who reviews and handles an audit session before the services or products can be certified Halal. The aim of this qualitative study (conducted through an in-depth interview) is to explore the role of Halal Auditors and its challenges in managing halal certification process in Klang Valley area. To fulfill this objective of this study, four different types of informants were interviewed. They are Halal Auditors, halal certification panel, Halal Executives, and personnel of Ministry of Science, Technology and Innovation (MOSTI). The result of this study revealed challenges faced by Halal Auditors such as competition from another foreign certification bodies, lack of manpower, qualification of a halal auditor, problems in MYeHALAL system, the introduction of the new scheme and the challenges in reviewing halal certification application. Halal Auditors also shared the initiatives made by JAKIM to improve their performance in halal certification body. The second research question was answered through an in-depth interview with Halal Certification Panel. He gave a few suggestions for improvement regarding infrastructure for Malaysia halal certification body in terms of the manpower and resources for the mobile halal certification process. The Halal Executives voiced out their dissatisfaction during halal certification process especially when dealing with MYeHALAL, a system for halal certification application process, the challenges of Halal Auditors when make decision, delay in reviewing process, lack of proper guideline in Malaysia Halal Certification especially in developing Halal Assurance System (HAS), a competition from foreign halal certification bodies for Halal Auditors in giving recognition of the profession. In terms of practical implications, the findings of this study can be used as a baseline data for any policy invention, improvement or advocacy efforts related to halal certification process in Malaysia. The original contribution of this study is to highlight how important the role of Halal Auditors for halal
certification process and how they can give impact to the industry performance in Malaysia. This study is also in line with the National Transformation 2050 (TN50) and Industry Revolution 4.0 (IR 4.0) to uphold the profession of the Halal Auditors as a public servant.
Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains

PERANAN JURUAUDIT HALAL DAN CABARANNYA DALAM MENGURUSKAN PENSIJILAN HALAL

Oleh

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Julai 2018

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dengan proses pensijilan halal di Malaysia. Sumbangan awal kajian ini menunjukkan betapa pentingnya peranan juruaudit halal untuk proses pensijilan halal dan bagaimana mereka dapat memberi kesan kepada prestasi industri di Malaysia. Kajian ini juga selaras dengan Transformasi Negara 2050 (TN50) dan Revolusi Industri 4.0 (IR 4.0) untuk menegakkan profesion juruaudit halal sebagai seorang penjawat awam.
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I certify that a Thesis Examination Committee has met on 27 July 2018 to conduct the final examination of Muhammad Arif bin Muhammad on his thesis entitled "Role of Halal Auditors and Challenges in Managing Halal Certification" 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.

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<td>MAIN</td>
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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Malaysia has successfully introduced the halal standards and becomes the main exporters of a halal commodity (Sazelin, Safiah, Norain & Norun Najjah, 2013). In order to obtain halal certification, the manufacturers must comply with the process workflow and standard set by the Malaysia Islamic Development Department (JAKIM). By carrying out halal certification, it proves that the particular products or business are shariah compliance. (Ismail, Othman, Rahman, Kamarulzaman & Rahman, 2016). 

Toyyiban or wholesomeness concept applicable in halal certification requirement shows that safety aspect plays an important element in the halal certification process. It also becomes a marketing factor for all consumers including the non-muslim (Aziz & Chok, 2013). From the viewpoint of entrepreneurs, halal certification is a strategy to market their products and add-on to Good Manufacturing Practice (GMP) and Hazard Analysis Critical Control Points (HACCP) certification.

Halal certification process comprises a structured and detailed process where a credible Islamic department certifies the products including cosmetics; pharmaceutical or meat poultry produced by a company have met the specified halal standard. The products that have been certified must not contain non-halal materials (alcohol, pork, or food ingredient from the non-slaughtered animal origin) and produced using hygiene and safe equipment (Yusoff 2004; Talib, Ali, & Jamaludin, 2008; IKM, 2009; Miaz N Riaz; 2010).

Halal certification in Malaysia began in 1974 when The Islamic Affairs Research Centre previously known as BAHEIS (Bahagian Hal Ehwal Islam) under the Prime Minister Department was established. This department issued a Halal Certificate to the product including halal food and consumables products. In 1994, Ilham Daya Company had conducted halal inspection but it had imposed higher fees which later caused many companies hesitated to apply for the certificate (Buang & Mahmood, 2012; JAKIM Sabah, 2014). Then, the government changed their policy where all halal certification process including audits starting from 1st September 2002 was carried out solely by JAKIM.

However, in the year 2008, Halal Development Corporation (HDC) took over the Malaysian halal certification (unfortunately only for one year). Later, the authorized party responsible to issue the Halal Certificate was transferred back to JAKIM because the public claimed that HDC had made a lot of profit by issuing a Halal Certificate (Salleh & Jafri, 2015). Subsequently, the Trade
Description Act 2011 (TDA 2011) was legislated which had repealed the Trade Description Act 1972 (TDA 1972). Therefore, on 1st January 2012, only the halal logo from JAKIM and State Islamic Religious Council (MAIN) can be legally applied to all food products and premise services and the use of logos other than JAKIM or State Islamic Religious Department (JAIN) is considered as false description under the TDA 2011. As a result, if one particular product is going to be exported or marketed at the international and national level, the halal application can be made to JAKIM or JAIN. On the other hand, for products manufactured outside Malaysia and keen to be marketed in Malaysia, the manufacturers can use halal certification and logo by foreign Halal certification bodies recognized by JAKIM (Buang & Mahmod, 2012; Zakaria & Ismail, 2014). Until 31st July 2015, JAKIM had acknowledged 16 halal authorities and 72 Islamic bodies from 33 countries that have similar guidelines with Malaysian Halal Certificate (Wahab, Shahwahid, Hamid, Othman, Ager, Abdullah, & Saidpudin, 2016).

Malaysian halal certification offers seven types of schemes based on manual procedure. Each scheme stands for different types of product where code indicated scheme type. The schemes are food products (PR), consumable materials (BG), food premises (PM) which cover any structure such as hotel, stall, restaurant, kitchen and others, slaughterhouse (PS), place for slaughtering animal, logistic (LO) which includes services to transport items from warehouse to retailers, pharmaceutical (FM) medicinal products that have been registered with the Ministry of Health and cosmetic and toiletries (KO) refer to products that have contact with human body (MPFMHC, 2014; JHEAINS, 2017). There are also a few Malaysian Standards introduced by Ministry of Science, Science, Technology and Innovation (MOSTI) (2009) which have been listed in Table 1.1.

Table 1.1: Malaysian Standards related to Halal Certification Scheme

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<td><strong>MS 1500:2009 Halal Food-Production, Preparation, Handling and Storage-General Guidelines (Second Revision)</strong></td>
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<td><strong>MS 2200-1:2008 Islamic Consumer Goods-Part 1: Cosmetic and Personal Care-General Guidelines</strong></td>
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<td><strong>MS 2400-1:2010 Halalan-Toyyiban Assurance Pipeline-Part 1: Management System Requirements for Transportation of Goods and/or Cargo Chain Services</strong></td>
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<td><strong>MS 2400-2:2010 Halalan-Toyyiban Assurance Pipeline Part 1: Management System Requirements for Warehousing and Related Activities</strong></td>
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(source: Buang & Mahmod, 2012)
There are three professionals involved in the process of acquiring Halal Certification; Halal Auditors, Halal Executives, and Halal Certification Panel Expert. In order to obtain the Malaysian Halal Certificate, a few steps need to be followed. Firstly, Halal Auditors will receive a halal application from a Halal Executives of the companies. The Halal Auditors from shariah or food technology (Ahmad, Rahman, Othman & Abidin, 2017). Among the tasks of the auditors are to review the documents, ensure fee payment, conduct compliance audit at the premise, prepare the report and submit the result to Halal Certification Panel Council Meeting for approval. (MPFMHC 3rd Revision, 2014). For Halal Auditors, their job scope covers the inspection of company profile documentation, Halal Assurance System, raw material/ingredient, processing equipment, labeling and packaging, raw material storage, processing flow, logistics, employees, premise cleanliness, and sanitation. By doing this, Halal Auditors can capture photos, take a sample for analysis and submit a copy of audit report to the halal applicant and later to ensure the corrective action has been done by the Halal Executives for confirmation purposes before Halal Council Meeting (MPHMHC, 2014). The tasks are very challenging that need training, patience, ethics and good character to maintain audit quality (Mohamad & Norhalina, 2009).

According to MPFMHC (2014), Halal Executives can be identified as a responsible personnel in managing halal certification and compliance with the company/industry. The criteria for the Halal Executives position are that they must be Malaysian Muslim citizens with Islamic studies background or have been through Halal Executives training. After Halal Auditors has done the on-site audit, the corrective action of the Non-Conformance Report (NCR) must be made by the Halal Executives and then submit the correction to the Halal Auditors. The final stage is to hold the Malaysia Halal Certification Panel Meeting which the members comprise of the experts which include the Chairman, Secretary, two experts in shariah and technical committee. The appointment for the Halal Certification Panel (HCP) is for two years which can be renewed. Upon the appointment, the panels must sign the Confidentiality Undertaking Letter and they are not involved directly in the process of reviewing of halal certification application and audit. Nevertheless, HCP is responsible to make the final decision of halal certification application. The decisions can be either pass, pass with conditions, keep-in-view (KIV), fail, re-audit or cancellation. For a surveillance audit case, HCP can return or suspend the application. The HCP decision is final and shall be recorded and kept for future reference. The decision is then notified to the applicants about the status of their application (MPFMHC, 2014). The process is illustrated in Figure 1.1.

Faroouqui & Nurullah (2013) explained how the audit teams are selected based on certain criteria. Halal Auditors can be divided into two which are shariah advisors and technical auditors. The qualification for shariah advisor is that individual must have a qualification in Islamic studies, five years experiences in giving the religions rulings, and have a good experience with the halal industry. While the criteria for technical auditors, apart from their academic qualification, the person must maintain the integrity in managing the records and documents. There are a few restrictions order to become Halal Auditors; they must not
involve in crime and must not be suspended by any religious authority. The period of four weeks are required to review the document before the actual audit date. This task can be divided between members but the leader must ensure the task run smoothly. The leader must assure the documentation of the application, follow the government standard, handle the complaint and plan the next activity for the company audit session. In this initial audit, Halal Auditors audits applicant documentations, company location, regulatory aspect, compliance, and confirm audit time. The next stage consists of the main audit itself. This stage can proceed if the previous stage is carried out.

Stage audit aims to measure halal management system that covers “from farm to fork” aspects such as the information of major and minor raw material/ingredients, Halal Assurance System and performance, slaughtering process and client policies related to halal management review. (Farooqui & Nurullah, 2013). During audit session, the auditor can take a sample for inspection and testing at the accredited laboratory. Surveillance audit must be done by planning it on the last day of stage 2 audits which usually takes place every 6 months or 12 months. The purpose of the surveillance audit is to review the actions taken on NCR (non-conformance report) in the previous audit. (MPFMHC, 2014)
Figure 1.1: Malaysia Halal Certificate Flow Chart (source from MPFMHC, 2014)
1.2 Problem Statements

For many years, people have discussed halal issues especially relating to halal certification. Even though Malaysia has all the guidelines, standards and laws regulating the issue of halal, Muslim consumers often face problems to ensure that the products they buy are genuinely halal as they can only rely on the certification of the authorities. There was an evident when the incident involving deoxyribonucleic acid (DNA) pork (porcine) were alleged to be discovered in two Cadbury products in 2014 (Ramli, Jamaludin, Aminuddin & Hamdan, 2015). Even though the incident turned up to be false, this incident created various negative reactions from Muslim consumers and this shows the concern of the public about the issue of halal in Malaysia. This issue has caused the consumers, especially among Muslims, in a state of worry and lack of confidence in the halal status of products in the market. The worst part is the consumers may have lack of trust towards certification authority especially JAKIM (Elistina, Nashaqilla Afida Mastura & Mohidin, 2017). Apart from that, various other issues reported such as fraudulent halal certificate application, slow in processing and difficult procedures for certification (Hassan, 2017).

Noordin, Noor, & Samicho (2014) explained in their study the causes of delay in halal certification process. The new innovation in producing new product due to the modernization in the technology used in industrial processing manufacturer, causes lots of products produced which its raw material or additives can be obtained from microbes, animal, mineral or synthetic. This has caused Muslim consumers struggling to identify the ingredients in products manufactured by non-muslim producers whether they are halal or haram (Mohamad & Norhalina, 2009). This difficulty not only affected consumers but Halal Executives as well as Halal Auditors.

The delay in certification, at first glance may seem to derive from the industry as stated by Ahmad & et al. (2017). They discovered that Halal Executives are incapable to handle two cases simultaneously due to the reason that their qualification is mostly from the background of Islamic studies or food science and technology. Other points highlighted are the problems faced by those Halal Executives with technical knowledge but lack of shariah knowledge as well as Halal Executives with Islamic knowledge but lack of technical knowledge.

The same problems may arise relating to Halal Auditors performance to review the application because to become Halal Auditors the qualification required is similar to industry Halal Executives. Therefore, the question is whether Halal Auditors are competent to handle halal certification application efficiently. Noordin & et al. (2014) in their study also found the reasons for the delay in halal certification application. Among the reasons are poor understanding and incompetency of Halal Executives (halal certification applicants) to complete the application form, lack of staff at certification bodies, governance and complex technology used.
However, researchers in these fields have not yet sufficiently addressed the role of Halal Auditors and challenges in halal certification process. Various studies conducted to gauge the viewpoints of the stakeholders especially from the industries, but little attention is given to the Halal Auditors because they also need a new innovation in managing their work effectively (Reed, Goolsby, & Johnston, 2014). Nevertheless, no research so far has triangulated the viewpoints from different parties relating to Halal Auditors role and challenges including the opinion from the Halal Certification Panel experts.

Undeniably, the roles of Halal Auditors are very crucial to ensure the halal certification process run smoothly. In fact, the importance of the post was highlighted by Datuk Seri Panglima Madius Tangau, the Minister of Science, Technology, and Innovation (MOSTI) in his speech while launching the Malaysian Board of Technologists (MBOT) on 17 November 2016. He said in his speech, under the 10th Malaysia Plan, the government has identified the need for the establishment of the professional body to register and recognize professional technologists and technicians qualified as a profession in accordance with their expertise in line with the Transformation 2050 (TN50) and Industry Evolution 4.0 (IR 4.0) (Techies, 2017). It is also consistent with the statement by the previous Prime Minister of Malaysia, Dato’ Sri Najib Tun Razak, where public service has to hold six philosophies to ensure the achievement of National Transformation 2050 which include implementing a progressive working culture, ready to face the wave of industrial revolution 4.0 and most importantly to succeed not only in this world but also hereafter (Mutalib & Sulaiman, 2017). Recently, two studies from Thames & Schaefer (2016) and Ganapathy-Wallace (2017); Pandiyan (2017) & Ruban (2017) found that Malaysia is still lagging behind other countries such as Myanmar and Thailand towards technology where Malaysia is still using 2.0 and 2.4 technologies while others have started use intelligent artificial to create better efficiency in terms of output product and low operation cost. Therefore, it is expected that Halal Auditors are well versed not only related to Islamic issues but also competent in technology. Therefore, it is timely to study on the role of Halal Auditors and challenges as an important personnel of the public servant, so that improvement can be made to ensure the credibility of JAKIM/JAIN as a respected body in handling halal certification.

1.3 Purpose of the Study

The purpose of this qualitative study is to explore the role of Halal Auditors and its challenges in managing halal certification process Klang Valley area.
1.4 Research Questions

This study will answer the following research questions;

1) What are the challenges faced by Halal Auditors in the halal certification process and the initiatives to improve the performance of Malaysia Halal certification process?
2) What is Halal Certification Panel expectation on Halal Auditors in managing halal certification process?
3) What are the Halal Executives experiences when dealing with Halal Auditors and the consequences on company's performance when halal certificate take a long time to issue?
4) Is it possible to get recognition from the Malaysian Board of Technologist (MBOT) for Halal Auditors?

1.5 Research Objectives

1) To identify challenges faced by Halal Auditors in the halal certification process and the initiatives to improve the performance of Malaysia Halal certification process.
2) To explore Halal Certification Panel expectation on Halal Auditors in managing halal certification process.
3) To investigate the experiences of Halal Executives when dealing with Halal Auditors and the consequences on company's performance when halal certification takes a long time to issue.
4) To examine whether it is possible to get recognition from the Malaysian Board of Technologist (MBOT) for Halal Auditors.

1.6 Significance of the Study

This is to ensure the quality of Malaysian Halal Certification is maintained and trusted, to encourage more application for halal certification and consequently can boost Halal industries in Malaysia. Furthermore, it will be an important effort in promoting innovation and improvements in the organization such as JAKIM/JAIN as a credible halal certification body in Malaysia especially relating to the capability of their staff in handling all problems throughout the certification process.

This study will also benefit the industry in the process of halal certification, in terms of time, quality, reliability, as well as the potential to penetrate the market more quickly without disturbing the company's return of investment. More importantly, consumers as the end-users of the products will have more respect to JAKIM and always feel confident with halal logo. Therefore, they are
not easily influenced by false information about halal and always refer to JAKIM for information and clarification.

Moreover, this study will serve as a future reference not only to those researchers interested in halal issues but also those involved in the field of administration, business, entrepreneurship, human capital and consumer studies. Most importantly, the findings can also be extended to other certification bodies in Malaysia and can give useful input to National Transformation 2050 (TN 2050) and Industry Revolution 4.0.

1.7 Scope and Limitation of the Study

This study adopts a qualitative research method to gauge in-depth information on matters spelled out in the research question. The study was conducted in Klang Valley area due to the fact that many halal certification applications received are from this area. Table 1.2 shows the statistics of Halal certified companies by States.

<table>
<thead>
<tr>
<th>State</th>
<th>Percentage (%)</th>
<th>Halal Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selangor</td>
<td>25.8</td>
<td>556</td>
</tr>
<tr>
<td>Johor</td>
<td>13.3</td>
<td>287</td>
</tr>
<tr>
<td>Pulau Pinang</td>
<td>10.7</td>
<td>230</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>9.0</td>
<td>195</td>
</tr>
<tr>
<td>Perak</td>
<td>8.2</td>
<td>176</td>
</tr>
<tr>
<td>Sarawak</td>
<td>6.1</td>
<td>131</td>
</tr>
<tr>
<td>Kedah</td>
<td>4.9</td>
<td>106</td>
</tr>
<tr>
<td>Pahang</td>
<td>4.7</td>
<td>101</td>
</tr>
<tr>
<td>Melaka</td>
<td>4.6</td>
<td>99</td>
</tr>
<tr>
<td>Sabah</td>
<td>4.3</td>
<td>93</td>
</tr>
<tr>
<td>Negeri Sembilan</td>
<td>3.1</td>
<td>67</td>
</tr>
<tr>
<td>Kelantan</td>
<td>2.4</td>
<td>51</td>
</tr>
<tr>
<td>Terengganu</td>
<td>2.0</td>
<td>44</td>
</tr>
<tr>
<td>Putrajaya</td>
<td>0.2</td>
<td>4</td>
</tr>
<tr>
<td>Perlis</td>
<td>0.2</td>
<td>4</td>
</tr>
<tr>
<td>Labuan</td>
<td>0.1</td>
<td>3</td>
</tr>
<tr>
<td>Others</td>
<td>0.6</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>2159</td>
</tr>
</tbody>
</table>

Source: (HDC, 2016)

Primary data was obtained by using an in-depth interview with the Heads of the Halal Auditors of Hub Halal Malaysia, Malaysia Islamic Development Department (JAKIM) and Halal Management Division, Selangor Islamic Religious Department (JAIS), the Halal Certification Panel (HCP) from JAIS, and Halal Executives from a few industries.
Data triangulation method was used to validate and strengthen the research findings. Notably, the limitation of this method is the findings cannot be generalized to the whole population but the information is valuable to answer the objectives of the research. Only JAKIM and JAIS Head of Halal Auditors were interviewed because JAIS and JAKIM handle halal certification application mostly in Klang Valley area. Furthermore, it is appropriate to ask the Heads of Halal Auditors rather than the auditors themselves since they are more experience in handling their subordinates. Second research question was through the interviews with Halal Certification Panel (HCP) committee since this panel always deals with the auditors especially to review the reports made by the auditors before approving any application. Nevertheless, only one panel was interviewed since that informant has vast experience being a panel not only for JAIS but also JAKIM. The background information of this informant can be referred to in Chapter Four. For the third research question, several Halal Executives from industry were chosen as informants because they have experiences dealing with Halal Auditors. The last informant to answer the fourth research question was from Ministry of Science, Technology, and Innovation (MOSTI) and this individual must be the person involved in Malaysian Board of Technologist (MBOT).

In-depth interviews are more appropriate rather than Focus Group Discussion (FGD) even the latter has advantages rather than an interview. This is because the objective of the study is to explore the points of view of these four groups and the group discussion may cause a conflict especially between Halal Auditors and Halal Executives.

1.8 Definition of Terms

1.8.1 Role of Halal Auditors

Conceptual: Halal Auditors or halal officer is an important person to carry out halal audit and they must have a qualification of either Islamic background or food technology. Among the tasks of the auditors are to review the documents, ensure fee payment, conduct compliance audit at the premise, prepare the report and submit the result to Halal Certification Panel Council Meeting for approval. (MPFMHC 3rd Revision 2014).

Operational: a Halal Auditors is a personnel involved in managing halal certification application in JAKIM and JAIS from reviewing process until audit session. Personnel must have the knowledge, skill and abilities in terms of shariah and technical to review halal certification application received from industries.
1.8.2 Halal Certification Process

Conceptual: Halal certification process can be represented as a structured and detailed process where a credible Islamic department certifies the products including cosmetic, pharmaceutical or meat poultry produced by a company that meets the specified Halal standard. The product that has been certified must not contain non-halal materials (alcohol, pork, or food ingredient from animal origin) and produced using hygiene and safety equipment. (Yusoff, 2004; Talib, Ali, & Jamaludin, 2008; IKM, 2009; Miaz N Riaz, 2010).

Operational: Halal certification process (implemented by JAKIM/JAIS) can be elaborated as the process to get the confirmation that the products or services are safe, nutritious, no element of cheating and halal based on the fiqh law and are produced in a clean environment. The process started with the application made by a competent Halal Executives and then be audited by a competent halal auditor.

1.9 Chapter Summary

This chapter introduces background of the study, problem statements, purpose of the study, research questions, significance of the study, scope and limitation of the study and definition of terms. This is to ensure this study has not been done with other and identify the research gap and preserve the novelty of the study.
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