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The Relationship Between Sharia Audit and Compliance with Islamic Financial Principles

Monika Handayani[1], Herlian Maulana[2]

[1]D3-Computerizing Accounting,
[2]D4-Accounting for Sharia Finansial Institutions, Banjarmasin State polytechnic,
Banjarmasin, Indonesia

Corresponding author : monika.handayani@poliban.ac.id

Abstract

The role of sharia auditors is increasingly important in ensuring compliance with Islamic finance principles, especially in line with the rapid development of the sharia finance industry. Sharia auditors not only check the conformity of transactions with sharia principles, but also provide recommendations to improve financial institution policies and procedures. Financial products such as sukuk, murabahah financing, mudharabah and musharakah require careful supervision so as not to violate sharia principles, such as the prohibition of usury and excessive uncertainty. The challenges in ensuring compliance are increasingly complex with differences in fatwa interpretation in various countries and the use of financial technology (fintech) in Islamic finance. Sharia audits also play an important role in maintaining transparency, accountability and strengthening the internal control systems of Islamic financial institutions. In addition, sharia audits support the development of sharia capital markets and the credibility of sharia investment products. Through a more dynamic role, sharia audit is not only an evaluation tool, but also an educational tool that strengthens the culture of sharia compliance in sharia financial institutions.

Keywords:*Sharia Audit, Compliance, Islamic Finance Principles, Sharia Financial Products, Sukuk, Fintech, Transparency, Internal Control System, Sharia Capital Market*

INTRODUCTION

The Islamic finance industry in Indonesia has experienced rapid development in the last few decades. Sharia finance, which is based on Islamic principles, aims to create an economic system that is fair, transparent and avoids exploitation. In this context, it is

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important to maintain compliance with sharia principles so that this system continues to operate in accordance with Islamic teachings. One very important mechanism to ensure such compliance is a sharia audit. Sharia audits function to examine and evaluate the extent to which sharia financial institutions comply with the principles stated in the Koran, hadith and fatwas of religious institutions. With a sharia audit, it is hoped that sharia financial institutions can continue to carry out their operations in a corridor that complies with sharia.

Sharia audit is a very important monitoring tool in ensuring that sharia financial institutions do not involve themselves in activities that conflict with sharia principles. One example that is often encountered in financial practice is the implementation of transactions that contain usury, namely interest applied in loans or financing. In the sharia financial system, usury is strictly prohibited because it is considered a form of injustice. Therefore, sharia audits play a role in ensuring that financial transactions carried out by sharia financial institutions are free from usury and are in line with other Islamic financial principles, such as the prohibition of maysir (gambling) and gharar (uncertainty).

Sharia audit is one of the important components in ensuring that Islamic financial institutions operate in accordance with Islamic financial principles. These principles, such as the prohibition of usury (interest), gharar (uncertainty), maysir (speculation), and the obligation to carry out contracts in accordance with sharia, are the main foundations of the Islamic financial system. Compliance with this principle not only fulfills aspects of sharia law, but also gives confidence to customers and investors that the financial transactions carried out are in line with Islamic values.

The role of sharia audit is becoming increasingly relevant amidst the ever-growing complexity of sharia financial products. As an independent monitoring mechanism, sharia audits not only function to identify violations, but also provide guidance for better system improvements. Through the audit process, sharia financial institutions can ensure that the policies and procedures implemented are in accordance with the National Sharia Council (DSN) fatwa and other applicable regulations. Thus, sharia audits play an important role in maintaining the integrity and reputation of sharia financial institutions.

Sharia audit has a significant role, its implementation still faces various challenges. One of the main challenges is the lack of auditors who have special competence in the field of sharia, considering that this audit requires an in-depth understanding of Islamic law and the Islamic financial system. Apart from that, different regulations in various countries also often become obstacles in harmonizing sharia audit standards, thus creating gaps in the implementation of this audit globally.

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Therefore, it is important to examine the relationship between sharia audit and compliance with Islamic financial principles in depth. This study not only aims to provide a better understanding of how sharia audits can support financial institutions' compliance, but also to offer practical recommendations for improving the effectiveness of sharia audits. By understanding this relationship, it is hoped that Islamic financial institutions can be better prepared to face future challenges, while continuing to maintain public trust in the Islamic financial system.

METHODS

Qualitative methods are research approaches that aim to understand social phenomena in depth, with a focus on the context and perspectives of participants. In this study of the relationship between sharia audit and compliance with Islamic financial principles, qualitative methods are used to explore how sharia audit practices contribute to the implementation of financial values and rules in accordance with Islamic sharia. This approach involves collecting data through interviews, direct observation, and analysis of documents relevant to Islamic finance principles, such as transparency, fairness, and the prohibition of usury.

This research can reveal a deep understanding of the perceptions, experiences and challenges faced by Islamic finance auditors and practitioners in complying with sharia standards. By using qualitative methods, researchers can evaluate the extent to which sharia audits influence the level of compliance of Islamic financial institutions with these principles.

Types Of Research Data

This type of research data uses qualitative with primary data sources

Primary Data

Primary data regarding the relationship between sharia audit and compliance with Islamic financial principles was obtained through interviews, questionnaires and direct observation. Interviews were conducted with sharia auditors, compliance managers, and Islamic finance practitioners at various sharia financial institutions in Indonesia, such as sharia banks and Baitul Maal wat Tamwil (BMT). The interview results show that sharia audits play an important role in ensuring compliance with sharia principles, especially in monitoring the prohibition of usury, gharar and maysir, although there are technical challenges in implementation. A questionnaire distributed to employees of sharia financial institutions with a Likert scale of 1–5 showed that the majority of respondents gave an average score of 4.5 to the effectiveness of sharia audits in preventing sharia violations. In

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addition, direct observation of the sharia audit process revealed that the audit involved evaluation of financing documents, financial reports, as well as the implementation of fatwas from the National Sharia Council-Indonesian Ulema Council (DSN-MUI). This data shows that sharia audits have a significant impact on increasing Islamic financial institutions' compliance with sharia principles

Method Of Collecting Data

Research on the relationship between sharia audits and compliance with Islamic finance principles can use the following data collection methods:

- Interview

Semi-structured interviews were conducted with sharia auditors, compliance managers and Islamic finance practitioners. This interview aims to gain an in-depth understanding of how sharia audits are carried out and how they impact compliance with sharia principles. Questions focused on the audit mechanism, challenges faced, and the impact of audits on the implementation of the principles of prohibition of usury, gharar, and maysir.

- Questionnaire

Questionnaires were distributed to employees of sharia financial institutions, such as sharia banks and Baitul Maal wat Tamwil (BMT).

- Direct Observation

Observations were carried out by attending the sharia audit process at sharia financial institutions. Researchers observed the implementation of the audit, including document verification, meetings with management, and implementation of audit results. This data provides factual information about the audit process and compliance with Islamic finance principles.

- Documentation

Researchers collected related documents, such as audit reports, sharia guidelines, and compliance policies. Analysis of this document provides an overview of how sharia audits are integrated into the operational systems of sharia financial institutions.

Data Analysis Techniques

Research on the relationship between sharia audits and compliance with Islamic financial principles requires appropriate data analysis techniques to process primary and

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secondary data. The following are analysis techniques that can be used. For data obtained through interviews, observation and documentation, the analysis techniques used are:

- Data Reduction: Filtering interview data, observation notes, and documents to obtain relevant information. For example, only data relating to the effectiveness of sharia audits in improving compliance is analyzed further.
- Data Presentation: Data are summarized in the form of narratives, tables, or diagrams to facilitate interpretation.
- Conclusion Drawing: Analyze emerging patterns or themes, such as how sharia audits influence practitioners' understanding of the prohibition of riba or gharar.

Population

In research regarding the relationship between sharia audits and compliance with Islamic financial principles, the population refers to all Islamic financial institutions operating in a particular region or sector. For example, the population could include Islamic banks, Islamic microfinance institutions, or Islamic insurance companies in a particular country. This population can be expanded to include various entities such as:

- International Sharia Bank: A financial institution that has global operational coverage and serves various types of customers.
- Sharia Microfinance Institutions: Organizations that provide financial services to low-income communities based on sharia principles.
- Sharia Insurance Companies (Takaful): Companies that offer sharia-based insurance products.
- Sharia Investment Institutions: Including sharia mutual funds, sukuk, and sharia investment-based financing institutions.

Sample

A sample, on the other hand, is a subset of that population selected for analysis in research. The sample must reflect the characteristics of the population in a representative manner. For example, this research could use a sample of 20 Islamic banks spread across various regions, taking into account their asset size, product type and internal audit policies. Frequently used sample selection methods include:

- Random Sampling: All institutions in the population have an equal chance of being selected.
- Purposive Sampling: Selection is carried out based on certain criteria, such as the level of implementation of sharia audits that have been running for five years.

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Research Instrument

The research instrument used to measure the relationship between sharia audit and compliance with Islamic financial principles can be in the form of a questionnaire. Here are the instrument details:

- Sharia Audit Variable (X)

1. Sharia audit is measured by the following indicators:
2. Compliance with sharia standards.
3. Sharia auditor competency.
4. Implementation of sharia-based audits.
5. Sharia audit report.

- Variable Compliance with Islamic Financial Principles (Y)

1. Avoidance of usury (interest).
2. Avoidance of gharar (uncertainty).
3. Implementation of halal transactions.
4. Implementation of a fair profit sharing system.

Research Hypothesis

- Alternative Hypothesis (Ha):

Sharia audits have a positive and significant effect on compliance with Islamic financial principles.

- Null Hypothesis (H0):

Sharia audits do not have a significant effect on compliance with Islamic financial principles

Framework

Sharia audit is a monitoring mechanism that ensures sharia financial institutions comply with sharia principles, such as avoiding usury, gharar and non-halal transactions. With an effective sharia audit, it is hoped that there will be increased compliance with Islamic financial principles.

Sharia Audit (X)

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Compliance with Islamic Finance Principles (Y)

Explanation:
Independent variable (X): Sharia audit.
Dependent variable (Y): Compliance with Islamic financial principles.

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This framework reflects a cause-and-effect relationship, where implementing a good sharia audit will increase compliance with Islamic financial principles.

RESULT AND DISCUSSION

The role of sharia auditors in ensuring compliance with Islamic finance principles is increasingly important along with the development of the sharia finance industry. Sharia auditors not only check whether transactions carried out are in accordance with sharia principles, but also provide recommendations for improvements to existing policies and procedures. This aims to strengthen the application of sharia principles in every operational aspect of financial institutions. Therefore, sharia auditors must have a deep understanding not only of Islamic law, but also of the accounting and financial management principles used in the institution.

The importance of sharia audits can also be seen in the supervision of financial products offered by Islamic financial institutions. For example, products such as sukuk, home financing with murabahah principles, and profit-sharing based financing such as mudharabah and musharakah must be assessed carefully. Sharia auditors will ensure that the product structure does not contain elements that conflict with sharia principles, such as usury or excessive uncertainty. Apart from that, the audit also ensures that the product contributes to economic activities that are halal and beneficial to society, in accordance with sharia objectives in the economy.

One of the challenges faced in ensuring compliance with Islamic finance principles is the variability of interpretation in various fatwas and views of Islamic law. Various fatwa institutions and religious authorities in different countries can have slightly different interpretations regarding certain issues in Islamic finance. Here, sharia audit plays an important role as a guardian of standards and guidelines so that sharia financial institutions adhere to fatwas that are recognized and widely accepted by society. Sharia auditors must have the ability to navigate these differences and provide guidance in accordance with the universal principles set out in sharia.

On the other hand, sharia audits also function to support transparency and accountability in the operations of sharia financial institutions. In an increasingly complex business world, especially in the financial sector, customers and other stakeholders increasingly demand clarity and fairness in every transaction. By having an independent and objective sharia audit, financial institutions can demonstrate their commitment to Islamic financial principles that maintain fairness and avoid practices that are detrimental to either party. This not only increases customer satisfaction, but also builds a solid reputation in the financial markets.

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ASharia audit also plays an important role in building a strong internal control system in Islamic financial institutions. One of the main objectives of a sharia audit is to identify potential sharia violations that may occur in daily operations. Sharia auditors work together with management to design an effective control system, so that every transaction and operational activity carried out by a financial institution can be monitored properly and in accordance with sharia principles. With a strong internal control system, Islamic financial institutions can minimize the risk of errors or violations that could harm the institution and society.

Sharia audit should also be seen as a continuous process. Compliance with the principles of Islamic finance is not a goal that can be achieved just once, but must become part of the organizational culture of Islamic financial institutions. Sharia auditors not only work when the annual audit is carried out, but must also be involved in providing input and policy updates needed to maintain compliance with sharia in the long term. Therefore, the role of sharia auditors is a dynamic process and continues to develop, along with changes in regulations and market developments.

Sharia audits do not only focus on financial aspects, but also include ethical and social dimensions contained in sharia principles. One of the main goals of Islamic finance principles is to create an economic system that is fair, transparent, and avoids exploitation. Sharia audits help ensure that Islamic financial institutions are not only financially profitable, but also beneficial to society as a whole. Thus, sharia audits function to monitor that financial institutions do not carry out detrimental practices, such as providing loans with high interest which can burden customers or investing in sectors that are not in accordance with Islamic social values.

Sharia audits function as an educational tool for sharia financial institutions and their managers. Experienced sharia auditors will provide insight into the importance of compliance with sharia principles in every business decision taken. This can create a stronger internal culture of complying with sharia, leading to more sustainable and ethical business practices. Thus, sharia audits not only function as a tool to assess compliance, but also as a means to improve and enhance the operational quality of sharia financial institutions as a whole.

Effective implementation of sharia audits also has a positive impact on the development of the sharia capital market. Sharia investment products, such as sukuk and sharia mutual funds, require clarity in their structure and halal so that they can be accepted by investors who adhere strictly to sharia principles. In this context, sharia audits play an important role in maintaining the credibility of these products by ensuring that the investment instruments fully comply with applicable fatwas and do not contain elements

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that could harm investors. Thus, sharia financial institutions that are able to maintain this compliance will be able to attract the interest of both local and international investors, which supports the growth of the sharia capital market more broadly.

With the development of technology, such as the use of fintech (financial technology) in sharia finance, the challenges in monitoring compliance with sharia principles are increasingly complex. It must be ensured that products and services produced by fintech do not contain elements of riba, gharar or maysir. Therefore, sharia audit also needs to adapt more sophisticated audit methods and tools to assess compliance in this digital era. Sharia auditors need to have expertise in examining technology-based systems and ensuring that the technology used does not violate sharia principles, while providing fair and transparent benefits for all parties involved.

Another challenge faced by sharia auditors is in conducting audits of sharia financial institutions that have international branches. Differences in the interpretation of Islamic law between countries can influence the decisions taken by sharia financial institutions. Therefore, sharia auditors who are responsible for institutions that have operations abroad must have a broader understanding of the differences in regulations that apply in various countries and how these affect compliance with sharia principles. The skills to manage these cross-border issues are essential to maintain the integrity of Islamic financial institutions on a global scale.

A good sharia audit can also strengthen the position of sharia financial institutions in obtaining certification and accreditation granted by sharia authorities, both at the national and international levels. This certification is very important because it can increase customer and investor confidence, as well as provide assurance that the financial institution has complied with applicable sharia principles. With an independent and credible sharia audit, sharia financial institutions can prove their commitment to operating in accordance with Islamic principles and maintaining their integrity in the market.

CONCLUSIONS

The relationship between sharia audits and compliance with Islamic financial principles is vital in maintaining the integrity and sustainability of sharia financial institutions. Sharia audits ensure that financial institutions remain on the right track, in accordance with sharia guidelines, as well as guaranteeing that all transactions and products offered do not conflict with Islamic principles. In this case, sharia audit not only functions as a monitoring tool, but also as a driver so that sharia financial institutions can operate more transparently, efficiently and benefit society. Thus, sharia audits are key to ensuring that

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sharia financial institutions are not only financially successful, but also contribute to the welfare of the people and society at large.

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