

# Talent Management for Shariah Auditors: Case Study Evidence From the Practitioners

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## Abstract

The environment for most financial institutions today is complex, dynamic, highly competitive, and extremely volatile, and such condition is likely to remain for years to come. In addition to these external situations, most financial institutions also faced the challenge to manage talents flow in particular, a shortage of needed competencies. One measure to overcome this condition is to be systematic in managing their human capital if they wish to gain and sustain a competitive advantage in years ahead. This paper postulates to explore the competency criteria as one of talent management for shariah auditors in the Islamic Financial Institutions (IFIs) in Malaysia. A qualitative design was adopted by conducting interviews with 30 practitioners consisting of the Heads of Shariah audit departments (HSA) and shariah auditors (SAR) from the IFIs and the Head of Islamic banking department from the Central Bank of Malaysia. This is followed by a focus group discussion to validate the findings. The study found that there was mixed practices on talent management in terms of competency aspect required for shariah auditors. Generally, participants agreed that certain skills, knowledge and characteristics added with years of experience in the field, are pre-requisite to become competent shariah auditors. This study is unique as it explores the case from the qualitative stance. Opinions were elicited from the parties directly involved in preparing guidelines to the IFIs as well as those practitioners executing the shariah audit function within their institutions. IFIs will have better guideline on recruiting competent future shariah auditors, as part of their internal audit team to uphold the shariah precept.

**Keywords:** competency, Shariah auditors, skills, knowledge, talent management

## 1. Introduction

Malaysia witnessed quite a remarkable growth in Islamic financial service sector over the last 35 years since the establishment of its first Islamic bank in 1983. The Economic Transformation Programme (ETP) disclosed that 11.6% Gross Domestic Product in Malaysia was contributed by the financial services sector. To cater such needs, Malaysia has successfully operated a dual banking system where the conventional banking system runs simultaneously with the Islamic financial system though both are governed by the different acts, the Financial Institutions Act 2013 (FSA) and Islamic Financial Institutions Act 2013 (IFSA) respectively. To date, Malaysia holds one of the world's most progressive Islamic financial market, with an Islamic finance system approximated to be worth around USD1 trillion in assets, which is five times greater than in 2003 (MIFC, 2018). With the current business environment in banking sector such as strict regulation, technology advancement, digital revolution and change in society lifestyle, more weightage is placed on creating a competent Islamic finance service within the economy.

To complement the sturdy growth in Islamic finance sphere in Malaysia, ample professional talents are essential to fulfill the diverse needs of the industry. Hence, in tandem with the growth for Islamic financial products and services, so does the demand for Islamic finance human capital. One of the areas essential to fulfill the growing demand for Islamic finance professionals is the auditing function. Realizing the increase in the market for this kind of Islamic finance position, the IFIs need to manage the talents within the auditing fraternity to ensure this scarce talent is retained and grow within their institution. In Malaysia, this specialized internal audit position is assigned to perform the shariah audit function. Such function is delineated in the Shariah Governance Framework (SGF), a guideline issued by the Central Bank of Malaysia, as the third line of defense to ensure the IFIs are being conducted in compliance with shariah rules and principles (BNM 2010). The shariah audit function refers to the "periodic

assessment conducted from time to time, to provide an independent assessment and objective assurance designed to add value and improve the degree of compliance in relation to the IFIs business operations, with the main objective of ensuring a sound and effective internal control system for shariah compliance” (BNM, p. 23, 2010). In short, the salient features of shariah audit function which examines a wide range of IFIs activities such as products, contracts, transactions, people, IT aims to ensure the activities within the IFIs complies to shariah. Such job scope is to be completed by the shariah auditor (SAR).

It is interesting to highlight that the difference adoption of standards within the Muslim countries have resulted in different interpretation on the basic requirement for shariah auditors. Table 1 shows the different requirement by different standards with regards to competency requirement in appointing shariah auditors within the ambit of IFIs. Three standards were identified to be relevant in the context of this study i.e. the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) standards, the standards for Internal Auditors or known as the International Practices Professional Framework (IPPF) and the specific framework for IFIs in Malaysia which is the Shariah Governance Framework (SGF) issued by the Central Bank of Malaysia (CBM) to be which became effective in 2011.

Table 1. Competency requirement for Shariah auditors based on different standards and guidelines

<b>CBM's SGF (Shariah audit function)</b>	<b>AAOIFI (Internal Shariah Review)</b>	<b>IPPF (Internal Auditors)</b>
Para 7.8: Internal auditors who have acquired shariah-related knowledge and training	Para 12: Knowledge of Islamic Shariah rules and principles in general, and Fiqh Muamalat in particular	Attribute Standard 1210: Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities

The SGF issued by the CBM does not specifically elaborate on the type of shariah related knowledge to be acquired by the shariah auditors. A much detailed guideline is shown in AAOIFI standard, which is to be applied by both internal and external auditors, although it is to be adhered to by mainly the Middle East countries. IPPF, being an application within the conventional audit framework, however, was more on focusing the competency expected from any professional internal auditors. Hence, it can be inferred that shariah knowledge for the shariah audit function are the knowledge related to Fiqh Muamalat and Usul-Fiqh. Thus, a much detailed study to explore the aspect of competency for shariah auditors is necessary for talent management purposes in considering the scarcity of Muslims professional engaged in such discipline.

## 2. Literature Review

Previous literature concentrated on talent management issues revolving Muslims in IFIs, followed by shariah auditors, and internal auditor issues. In discussing issues about talent management for professional Muslims within the IFIs, it is essential to first understand the issues highlighted for the shariah auditors which are part of the internal audit function within the IFIs.

### 2.1 Talent Management of Muslim Professionals in IFI

Talent management is crucial for an organization to entice and retain essential talents. Garavan, Carberry and Rock (2012) argued that attracting, selecting, developing and retaining talent is vital to increase the potential and performance level among the talents besides increasing the individual's success level in performing the job scope by using their own abilities, and to constantly improve their own abilities. An appropriate initiative in managing talents may lead to better organization development. In addition, it was also concurred that talents' knowledge, skills and abilities can be developed through the behavioral modification tasks such as technical training and coaching (Brooks and Nafukho, 2006, Ab Rashid, Supian & Bojei 2018). Another study also found that talents' mindset assisted organization in recruiting the best talents for their organization by building a talent management strategy based on competency profiling (Bhatnagar, 2009, Akgun & Tektufekci 2017).

A successful audit is also influenced by the strength of human resources such as having competent and reliable expertise to strategize the work plan and reviewing the result (Shafii et al. 2010). A strong urge for relevant training on shari'ah concepts is also raised by scholars since most of the bank officers trained are from the non-shari'ah

background, thus they do not understand how to apply shari'ah concepts and run the risk of providing the wrong explanation on the banking products to their customers (Abdul Rahman 2010, Ahmed, et al 2018). Training needs assessment assists in identifying performance requirements or needs within IBs which can direct human resources to their niche areas, fulfilling the organizational objectives, and improving the Islamic financial services (Asrar Mirza & Riaz 2012; Hossain 2014). The moderate level of the advanced concept of Islamic banking products and services of the bank managers as part of human resources in the IBs reinforces the need for a training program to improve their knowledge of that area to improve their performance in their organization (Seah Abdullah & Abdul Rahman 2007, Agbim & Eluka 2018).

There is indeed a challenge for scholars and academicians to ensure the current as well as future accounting graduates are exposed to shari'ah knowledge before they embark on the job market. Studies by PwC (2011) and Abdul Rahman (2010) also suggest the need to expand the talent pool with SA knowledge and other competencies. Prior empirical results also seemed to imply that there is a need to integrate SA as part of the curriculum offered to the accounting students.

Another empirical longitudinal case study presented by Rammal and Parker (2010) on the issues of selection and training of shari'ah advisors strengthened the fact that there is a limited pool of competent shari'ah advisors who may be serving multiple IFIs, contravening the government banking regulation, thus creating a conflict of interest. The twofold role performed by the shari'ah advisor as the external as well as the internal religious auditor may also lead to the potential conflict of interest in the IBs. The researcher recommended that there is a dire need for the Pakistani government as well as the private sector to invest in educational facilities to expand the number of qualified shari'ah advisors and to develop further regulation to govern the SA issue. The same subject was also revisited by Yaacob (2012) as he argued that SARs are viewed to be incompetent, lacking accountability, and compromised independence. The author expressed his concern that the lack of accountability assigned to a monitoring body is due to non-existence of shari'ah-compliant examiner in the form of Hisbah institution and the *muhtasib*. The same Islamic economy concept was also emphasized by Kassim (2010) and Yusoff (2013). While Yaacob (2012) believed that the reinforcement of Hisbah institution as a solution to the threat of independence among the SARs, earlier, Khan (1985) has discredited the idea due to the complexity of commercial arrangement and the variety of existing institutions bestowing with such responsibilities.

The perspective of practitioners directly involved in the SA process on the issue of auditors' qualifications was performed by Kasim and Mohd Sanusi (2013). The findings disclosed that only 5.9% of the respondents consisting mostly of internal auditors and management of shari'ah division were qualified in both shari'ah and accounting, or auditing qualifications as compared to 69% who claimed to practice shari'ah auditing in IFIs in Malaysia. Another recent research that supported the findings using a survey involving 158 internal auditors in IFIs that offer IB products was performed by Yahya and Mahzan (2014). Although the majority of the respondents (39%) have 10-20 years of general banking experience, only 6% of them have 10-20 years of Islamic banking and finance working experience. It is alarming to note that the study also reveals that the majority of the internal auditors who performed the SA have no Islamic banking and finance, and shari'ah qualifications. The lack of specific qualifications to conduct the SA indicates the critical stage to have competent internal auditors with shari'ah knowledge. This finding supports the existing study that the issues of scarce competent SARs are still unresolved and may affect the reputable image of the IFIs to the Muslim stakeholders as well as other financial service users.

Another recent exploratory study on developing and engaging talents within the IFIs in Malaysia found that talent management, succession planning as well as talent engagement has been implemented within the IFIs. The study revealed that 52.1% respondents admit to have less knowledge on the meaning of key talents, 23.1% admitting their organization has not managed to identify key talent and 44.4% agreed that identifying key talent is a major challenge within the organization that they are working at (Kamil & Iqbal, 2017, Abosedra & Sita 2018). This study could be an indication that a better talent management mechanism and succession is needed for engaging the talents in future.

In another study to view the employability of Islamic Banking and Finance graduate was conducted on graduates from the year 2009 to 2016 in Islamic banking related programs from a local higher learning institution. Only 147 alumni participated in the survey which revealed that 53% have managed to secure jobs, with 38.1% employed with full-time permanent job by several well-known banking institutions in Malaysia such as Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Berhad (BMB) and Maybank Berhad (MBB) (Ahmad, Mawar, & Ripain, 2017). Besides eliciting information on graduates employability from the alumni, the study also revealed that 68.9% of the respondents opined that the content covered in the programs offered by the institution meet the market demand. Even

though this study only confined to one public university, it may indicate positive employability outlook to the future graduates majoring in Islamic finance and banking.

At the local outset, recent discussion paper issued by the CBM has outlined generic responsibilities (set by the CBM) and specific responsibilities set by the financial institutions for the senior management at the executive level including the Chief of Internal Audit and Head of Shariah function (Bank Negara Malaysia, 2018). Although no specific functions were outlined but the discussion paper has specifically mentioned that the importance of independence of senior roles in the control function. Para 4.11 of the discussion paper delineated the control functions including the internal audit function's responsibility is independent from other business lines "to provide objective assessment, reporting and assurance on the effectiveness of a financial institution's policies and processes, and its compliance with legal and regulatory obligations" (Bank Negara Malaysia, 2018, p.9).

## 2.2 Shariah Auditor's Issues

Previous studies on shariah auditors function span from the issues of duties and roles, qualification, experience and training, certification and training, shariah audit effectiveness as well as its professionalism. Table 2 summarizes the evolution of shariah auditors study in three columns. The first two columns discuss past literatures before the introduction of SGF in 2011, whilst the third column concentrates on studies performed post SGF implementation. Limited empirical studies were noted on shariah audit issue and most studies were in the form of conceptual papers discussing the Islamic approach to audit of the IFIs.

The role of shariah auditors were not extensively discussed in the literatures. Even the term 'shariah audit' was not widely used but rather annotated as 'Islamic or religious audit' in referring to the shariah audit function. Studies before the year 2000 focused on the auditors' role and the framework within which auditors perform their duties (Briston & Ahmed Al-Ashker 1986; Khan 1985; Abdel Karim 1990) besides the issue of independence (Rifaat Ahmed 1990). During this period, the SA term was not yet used to refer to those auditors performing an audit in the IFIs. Rather, a phrase such as 'Islamic or religious audit/auditor' was frequently used to refer to the SA function. In fact, the concept of safeguarding the faith-based stakeholders through SA function was not popular and enticing to the scholars of IFIs. At that time, the role of SARs was a responsibility of the Shari'ah Supervisory Board (SSB) or currently termed as Shari'ah Committee (SC).

The SSB's functions are likened to that of conventional auditors (Briston & Ahmed Al-Ashker 1986; Abdel Karim 1990), where its functions includes shari'ah ex-ante and ex-post audit, determination, and payment of zakat as well as the adoption of appropriate accounting policies (Khan 1985). Hence, SSB role requires them to be knowledgeable in Islamic finance, accounting, auditing, Islamic jurisprudence, and other required subjects related to the operation of IFIs (Briston & Ahmed Al-Ashker 1986; Khan 1985; Abdel Karim 1990).

## 2.3 Internal Auditor Competency

As shariah auditor is part of the internal audit function, the internal auditor competency studies are also worth to be considered. In a broad sense, auditors need to have the competency and obligation to maintain professional knowledge and skills as expected by the interested parties. They must also have the specific education, experience, and expertise in the field of accounting and auditing besides attitude and ethical behavior in work (Cheng, Engstrom & Kattelus 2002), and certain qualifications to understand the criteria and competent enough to determine the type and amount of evidence that must be gathered to substantiate their findings (Konrath, 2002). With such competencies, auditors are expected to show better performance in their duties, roles, and specific situations (Cheng et al. 2002, Abdurashed 2017).

Many studies recognized that the main factors which contributed to auditors' competence are formal education at the institution of higher learning as an entry requirement to the accounting profession, training, demonstrated extensive audit experiences, and procedural skills (Bedard & Chi 1993) as well as continuous professional development in the auditing field (Bedard 1989; Boynton & Walter 2010; Flint 1988; Mills 1993). Mastery of audit or technical expertise, on the other hand, became the concern of Tan and Libby (1997) who categorized audit expertise into two, namely technical and non-technical skills. The former refers to the auditor's fundamental ability in the form of procedural knowledge and other clerical tasks within the scope of accounting and auditing while personal characteristics and experiences greatly influence the latter. Experiences gained over the years of performing audit are a vital factor which benefited the auditors in making complex judgments (Abdolmohammadi, 1991). An earlier empirical study by Kaplan and Reckers (1989) posited that inexperienced auditors tend to incur higher errors than experienced auditors. The number of auditing years can be a measure of expertise in audit skill as such skill may not be able to be observed directly (Bedard 1989). This notion is further reinforced by Libby and Frederick (1990), who

found that experienced auditors have better understanding of the financial statements, able to provide explanation on errors better, and manage to classify errors based on audit objectives and the underlying accounting system.

To prove the seriousness of professional body on ensuring high quality is performed by competent professional internal auditors worldwide, the IARF has conducted a global survey using global internal auditors as their participants to gather data on how internal auditing is practiced worldwide. It is through the survey as well that the body managed to determine their scope of the Common Body of Knowledge (CBOK). The recent CBOK study, CBOK 2015 provides new insights into the values of core competency to the worldwide internal auditors. CBOK 2015 discussed the role of personal characteristics associated with the self-assessment competency ratings. The study explores the importance to consider the impact of internal audit experience, academic background, and staff ranks in composing staff for Internal Audit Department (IAD). It was found that there was a positive association between longer tenure in internal auditing and higher competency self-assessment. It was also revealed that internal auditors with more than five years of experience rate their self-assessment competency higher compared to those with less than five years. This is suggesting the “value of developing staff over some years to fully benefit from the increased levels of internal audit competency” (IARF 2015, p. 19).

Table 2. Pre and post-SGF summary of past studies on Shariah auditors

THEMES	PRE-SGF		POST-SGF
	1985 – 2000	2001 - 2010	2011 - 2018
Duties and roles	Khan (1985); Briston & Al-Ashker (1986); Abdel Karim (1990)	Mulyany (2008); Kasim et al. (2009)*; Rammal & Parker (2010)*; Abdul Rahman (2008); Shafii et al. (2010)	PwC (2011)*; Garas (2012); Yaacob & Donglah (2012)*; (Kasim & Mohd Sanusi, 2013)*; (Kasim, Mutamimah, Sigit Handoyo, & Mohd Sanusi, 2013)*; Shafii et al (2013); Othman & Ameer (2015)
Qualification, experience and training		Chapra & Ahmed (2002); Mulyany(2008); Kasim et al.(2009)*; Abdul Rahman (2008); Rammal & Parker (2010)*; Shafii et al. (2010); Haniffa (2010)	PwC (2011)*; Yaacob (2012); Yaacob & Donglah (2012)*; Yaacob et al. (2013)*; Kasim & Mohd Sanusi (2013)*; Kasim et al. (2013)*; Shafii et al (2013); Mohd Hussan et al. (2013); Mahzan & Yahya (2014)*
Certification and education		Mulayany (2008)	Yaacob & Donglah (2012)*; Yaacob et al. (2013)*; Kasim et al. (2013)*; Mohd Ali & Shafii (2014)*; Shafii et al. (2014)
Professionalizing the role of shariah auditors			Najeeb & Mohamed Ibrahim (2013)

\*Empirical study

Source: Authors

Studies on shariah auditors, talent management and internal auditors’ competency intertwined to set direction for future Islamic finance professionals in particular shariah auditors. Hence, this study is conducted to explore the talent management practices within the IFIs in Malaysia.

### 3. Methodology

To gather rich and in-depth data from the participants, this study interviews experts from IFIs in Malaysia. Malaysia is considered as one of the most developed Islamic finance practicing countries in the world. As shariah auditors are scarce in number, interviews are chosen to elicit in-depth information from the participants (Merriam, 2009). A total of 31 respondents from regulator and 12 Islamic banking institutions (IB) volunteered for the study. Details of the respondents are depicted in the below table.

Table 3. Demographic information for the interviews’ participants

Types of banking institutions	Total participating banking institutions	Designation		
		Manager	Head of Shariah Audit Department (HSA)	Shariah auditors (SAR)
Regulator – CBM	1	1		

Full-fledged Islamic banks (FFIB)	4	1	5
Islamic banking subsidiary (IBS)	3	4	5
Developmental Financial Institutions (DFI)	3	3	6
Bank with Islamic window (IW)	1		
Total	12	11	19

Then, a focus group discussion (FGD) was utilized. The whole process of the FGD such as setting time and handling the participants was arranged between the researchers set up with collaboration with the International Shariah Research Academy for Islamic Financial Institution, a wing under the Central Bank of Malaysia to discuss the necessary elements of competency considered relevant to shariah auditors. The focus group discussion was conducted on voluntary basis where researchers have invited the potential FGD participants through email. Below table shows the demographic of participants to the FGD.

Table 4. Demographic data for focus group discussion

Type of institutions	Position	No
Central Bank of Malaysia	Manager	1
Research Institute under CBM	Director	1
Public Universities	Associate Professors	3
Islamic Financial Institutions		
Full-fledged Islamic banks (FFIB)	Head of shariah audit	1
	Shariah auditor	1
Islamic banking Subsidiary (IBS)	Shariah auditor	2
Developmental Financial Institutions (DFI)	Head of shariah audit	1
Total		10

## 4. Findings

### 4.1 Current Practice of Recruiting the SAR

It was discovered that the composition of SAR within an IFI ranged from one (1) to five (5) which is quite small compared to the total internal auditors within the financial institutions. The interviews revealed that most financial institutions in this study have mixed practice in relation to specific SOP in recruiting their SAR. The common practice of recruitment among the groups has been based on the candidates' qualifications and experience. Most IBs prefer to recruit their staff from the Internal Audit Department (IAD). However, there are also IBs, which recruited fresh graduates and offer the position to other experienced internal auditor (IA) from other banking institutions. The HSA have also shared their experience as the party directly involved in selecting the SAR. In fact, some of them were given the priority to shortlist the candidates before they are called for interview sessions by the Human Resource Department. On this matter, a respondent shared his experience on selecting SAR for his financial institution:

"I have to conduct the interview. We have to fill in the staff requisition form. In the staff requisition form, we mentioned the set of competencies that we want from the candidates. So, the Human Resource officers go and research. They come back. Look, we have these few CVs. So, I will assess the CVs. We see from the assessment, the right for the position that I want. Out of for example 6 or 7 people we call them. Then I will interview three of them. We have the HR representative because sometimes they want to ask about the organization in terms of the perks,

about things answered by HR. Very specific to audit. Then when I am happy with some of the candidates, we shortlist them.”

Another respondent from the FFIB group which favors taking their IA from their IAD to perform the SA related the recruitment practice in the bank:

“No, every audit is deemed as a shari’ah audit. In addition, within the shari’ah department, there is a dedicated audit team that compliments the audit performed by the internal auditors.”

Another SAR from the IBS which has its Inventory Skill for its Human Resources Department mentioned the SOP in selecting the existing IA team to perform the SA:

“Yes, internal vacancies on shari’ah audit will include the requirements that the auditor must acquire shari’ah knowledge.”

#### 4.2 Composition of Qualification of Shari’ah Auditors

The externally and internally acquired IA is mostly trained in Accounting, Finance, or Banking for their first degree. Many factors were considered by the practitioners in selecting the candidates for SARs as the Shariah Audit section is part of the IAD team of the respective IBs. The group analysis shows that for the FFIB group, the first two banks of the FFIB group prefer their SA team comprising of a mix of SARs from diverse qualification backgrounds, namely accounting, shari’ah, and banking. The other two foreign banks in the FFIB group, however, prefer the SA team dominated by those having a qualification in accounting. The scenario is not surprising since most of the HSA themselves hold degrees or professional qualifications in accounting and have vast experience in the auditing field. The summary is shown in the overleaf table.

In terms of the composition of qualification on the current practice across the group under this study, the result has certainly shown an improvement to the earliest study on qualified staff to perform SA by (Nawal Kasim, Shahul Hameed Mohamad Ibrahim, & Maliah Sulaiman, 2009) and a subsequent study by PwC (2011). While a previous study revealed by Nawal et al.(2009) with only 5.9% respondents qualified in both qualifications (Accounting and shari’ah), the current study found that 10/30 (30%) respondents consisting of HSA and SARs have both qualifications. Most of these respondents either have basic Accounting or other degree supplemented with certification on shari’ah-related knowledge such as Master’s in Islamic Finance by International Centre for Education in Islamic Finance (INCEIF), such as respondents from the Islamic banking subsidiary group.

Table 5. Summary of current practices on recruitment of SAR by groups

Groups	Bank	Current Practice of Recruitment SAR		
		Fresh graduate (Area of specialization)	Externally acquired IA	Internally acquired IA
Full-fledged Islamic Bank (FFIB)	1	√ (Shari’ah)	√	√
	2	√ (Shari’ah)	√	
	3		√	√
	4		√	√
Islamic Banking Subsidiary (IBS)	1	√ (Accounting)		√
	2	√ (Accounting)	√	√
	3	√ (Accounting & Banking)	√	√
Development Financial Institutions (DFI)	1	√ (Shari’ah)		√
	2	√ (Accounting)		√
	3			√
Islamic Window (IW)	1		√	

In another note, work ethics have also changed over the generation, where the internal auditors of some banks have been loyal to their organization, the new batch of SAR consists of newly graduated SARs or having less than five years’ experience in auditing line. There are high chances that they may transfer to other banks which offer better

pay or pinched by other banks who want their expertise knowing that their expertise is scarce. Most banks, however, have bond agreements attached to their personnel as they undertake certain certification program under collaboration between the bank and the training center. Interview with one of the FFIB's HSA also revealed that high demand for shari'ah scholars has also caused shortages in the market for them, especially when the young generation like to jump to another job for better pay. This trend may be part of the explanation why banks have a stricter rule on bonding issue and prefer to set a few years of probation period before the staffs are considered as permanent.

Interviews with two HSA having less than five years' experience as SAR with two different degrees, one in Engineering and another in Chemistry, shows that the new generation who opt to practice shariah audit regardless of their initial major as their first degree. This is partly due to their passion and took the effort to further their studies to enrich their knowledge. Another HSA from DFI group views Gen Y as those who are more knowledgeable or exposed to more information. This could be due to their syllabus that has revised and upgraded compared to previous graduates. However, he lamented them for having a lack of passion on their duty. BNM program such as Financial Sector Talent Enrichment Programme (FSTEP) has an absolute advantage regarding knowledge in IB but when it comes to the execution of audit from this person, he felt that the performance is no different from any other graduates.

Overall, the SAR of the four groups have fulfilled the requirements set by SGF and Accounting, Auditing Organization for Islamic Financial Institution (AAOIFI) in terms of shari'ah-related knowledge and training through the appointment of SAR among shari'ah graduates (as practiced by the FFIB group) or training on shari'ah-related matters by all the groups (AAOIFI 2016; Bank Negara Malaysia 2010). As for the requirements set by IPPF where the SAR must possess the knowledge, skills, and other competencies needed to perform the responsibilities, such requirements have been met indirectly as the other two guidelines were satisfied (IIARF 2013).

The findings also support the previous study on IA in IFIs that offer IB products performed by Mahzan and Yahya (2014) as the majority of IA of IB have no Islamic banking and finance and shari'ah qualifications. This weakness is however being countered by these IBs, by providing more training with certification as initiated by Bank 2 of FFIB, Bank 2 of Group 2, and Bank 2 of Group 3. The individual SAR have also personally taken the effort to pursue their studies in the shari'ah-related areas to perform better SAR within the IB environment such as Master's in Islamic Finance or a certificate from FSTEP program under the BNM training scheme (Bank Negara Malaysia, 2015).

For short-term measures, the best available option on the qualification of SAR team is practiced by the local FFIB (Bank 1 and 2) where they choose to have a combination of SA team consisting of those with accounting, shari'ah, and banking qualifications. They have also selected their team with a combination of existing internal auditors who have vast experience in general and IT audit. In the case of these FFIB, their combination of SA team allows the SARs to complement each other in their strongest and weakest areas. By this method, they can refer to their teammates for any matter that arises. Overall, efforts have to be taken to ensure that the IFIs will have more future graduates who can serve as SARs. Graduates with accounting, Islamic banking, Islamic finance, or shari'ah should be given the opportunities to take a double major in another subject, which can complement their lack on certain areas of discipline. For instance, the practice of allowing accounting students to have a minor in shari'ah study as suggested by Shafii et al. (2013) and Seah Abdullah and Abdul Rahman (2007) may empower the quality of the SA.

#### *4.3 Working Experience of the HSA and SAR*

It is also important to view the previous working experience of the HSA and SARs of the respondents. The experiences, especially in the banking industry and auditing field, would indeed influence the management and conduct of the SA section within the Internal Audit Department. Most of the HSA have 10 to 25 years of experience in the banking industry, especially the HSA of the FFIB and IBS groups. In fact, three (3) out of four (4) HSA of the FFIB group are the Chief Internal Auditor (CIA) of the IB. Few banks, however, have employed either all shari'ah graduates, as in the case in Bank 1 in Group 3 or a unique combination that is by having staff from a Chemistry and Engineering graduates as part of their internal auditor's team to perform the SA. In fact, there are three, who are in the early 30s who have become the HSA of their IBs; Bank 3 of the IBS Group with an Engineering degree and Bank 1 of DFI group with shari'ah degree and the bank from the IW group with a Chemistry degree.

As for Bank 1 of DFI group, even though all their SA teams consist of shari'ah graduates, the HSA has obtained his Master's degree in Islamic Finance from a local university. He has also been working in Islamic banking environment upon graduating from his Shari'ah degree. He relates his experience as:

"My career started with management associated where I have to be all-rounders. Then, I am more on shari'ah advisory but I have done shari'ah review and then after a while in shari'ah advisory, I was transferred to this section



in the Business Banking Unit and Subsidiary. Previously, the name is more towards commercial, internal audit. There are many departments in the audit. I was in charge of commercial audit. Then only we set up the shari'ah audit unit.”

The HSA of Bank 3 from the IBS group, on the other hand, holds a degree in Engineering and Masters in International Management. He has also completed his Certificate in Islamic Law Practice (CILP) and obtained his Certificate Credit Executive (CCA). Both certifications relate to Islamic banking. Previously, he was involved in the investment banking in another international bank. As for the HSA of the IW group who graduated with Chemistry qualification as his first degree, upon graduating, he underwent one-year training under the FSTEP program at the BNM. Under FSTEP, he was exposed to the Islamic finance knowledge and later started his career in commercial banking. Before being responsible for managing the IW's SA, he has experience in handling the SA section of another IB of another IBS.

Although the three HSA came from non-accounting qualifications, it can be observed during the interview session that their passion for the banking and finance environment is the main driver to them being involved in the industry in the first place. Their unyielding interest in the Islamic banking has encouraged them to pursue their studies in the Islamic Finance area and later apply positions related to their interest in Islamic finance institutions. In general, the SARs of the three groups of IBs, excluding the IW, have a combination of experienced internal auditors as well as fresh graduates. As for the FFIB group, only two out of eight SARs are fresh graduates with shari'ah qualification. The other six SARs consist of experienced internal auditors of the IB who were involved in other types of audit such as branch audit, IT, and Headquarters audit before they were seconded as SARs under the SA section. Also, five SAR were accounting graduates, and another SAR holds a degree in Islamic studies.

As for the SARs of the IBS group, four out of five SARs hold a degree in Accountancy and another SAR holds a degree in Banking. Except for Bank 1, the SAR from the other two banks has less than five-year experience in the banking operation and involved in the SA. As for the SARs of the DFI, except for the SAR of Bank 1, the rest of the SARs from Banks 2 and 3 have more than 15 years of experience in the banking industry, and specifically in the internal audit section. SAR of Bank 1 which consists of two shari'ah graduates have less than two years of experience in internal audit. Their specialization as shari'ah graduates is more towards the general aspect and not related to Islamic Finance.

The working experience in the field of audit has assisted the respondents in performing the SA. The previous exposure provides an advantage on how the SA should be performed. Two respondents with banking experience more than 10 years related their experiences, which have assisted them in performing their current duty as SARs in their respective IBs:

“I can say if fresh graduate with no experience, he or she can face a problem because even for us who have been here, when we want to say Mudarabah Murabahah sometimes we say it the wrong way. It sounds similar, but it refers to the different concept. So, to me, if you ask me, not everyone can perform the shari'ah audit. You must have lots of guts to perform shari'ah because sometimes shari'ah is almost like issuing fatwas. So, our decision can be scary, benchmark, why we want to do that, why are we saying that it is wrong right. Sometimes, the knowledge is not there together with what we have learned. It comes with experience.”

“No problem to me because when we perform an operational audit, we check in terms of process. Do we need to perform this process? But, we impart the shari'ah element. I have performed a different kind of audit, the operational audit. Then, I have to do shari'ah audit, so it covers all process. It covers contracts. We look at process actually, no need to bother about what contract to be used, has the process been performed correctly?”

Indeed, the working experience has become one of the criteria emphasized in selecting SARs for the financial institutions. Most the respondents from Groups 2 (IBS) and 3 (DFI), on the other hand, articulated that a SAR needs to have at least three years of working experience before the SAR can become competent. This finding is consistent with the suggestions made by previous scholars who contended audit skills to having a positive relationship with audit experience (Bedard & Chi 1993; Bedard 1989; IARF 2015; Libby & Frederick 1990; The IIA 2015). The focus group discussion, however, put a turn to the previous opinions raised in the interviews as they unanimously agreed that it might take more than 10 years to become a competent SAR.

#### *4.4 Ideal Knowledge, Skills and Other Characteristics (KSOC) for Competent SAR*

The combination of KSOC is useful to produce competent SARs. The respondents provided mixed opinions on this matter when they were asked to provide the ideal KSOC for SARs to perform their duty. The regulator representative spoke of CBM views:

“If possible, all shari’ah auditors are trained in shari’ah. But these dedicated staffs, for example, engaging in Certificate in Islamic Law. Internal auditors of an Islamic bank, the requirement as far as we are concern, only the dedicated shari’ah auditor. If they have more, it is okay.”

The majority of the HSA with vast and long experience in auditing and banking industry (more than 10 years), aged more than 40 years, opined that auditing skills should be the main skill to be grasped by the SAR, followed by knowledge of shari’ah and other characteristics elements. While these HSA emphasized the importance of auditing skills, such skills must be in line with a good attitude such as high commitment and willing to learn. Several HSA conveyed their views:

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

“I think all three aspect is important. Lacking certain part will affect the quality.”

“The best would be to a mixture of all. If I have someone in shari’ah, of course, he understands shari’ah, and he knows what audit is all about, can apply thinking skill that would be the ideal one.”

The SARs however, have expressed their concern on the ideal competencies to be different from what being expressed by their heads, as they corroborated their views:

“Knowledge in shari’ah, basically the person must have the ability on what the knowledge for. The knowledge must be firm. If the knowledge is to come other than those from the shari’ah background, to apply the knowledge to us. Personally, I think the process is going to be very slow. One more thing is about perception, people see that you are not from the shari’ah background, because shari’ah is based on fact, we cannot simply make any judgment whenever we like.”

“Good audit skills and adequate shari’ah knowledge. He or she is able to apply shari’ah knowledge to the Islamic operations and business.” “Experience. Currently, they need more human resources very well equipped in shari’ah knowledge and the product. Currently, we know that banking product is highly advance, then there is ustadz who knows *Fiqh* but to understand where the complicated fund relative product is difficult so we try to be shari’ah auditors who can meet both in terms of *Fiqh* knowledge and the understanding of the shari’ah product itself.”

Even a SAR with experience of more than 10 years in auditing currently attached to a foreign FFIB also echoed her sentiment on the need for SARs to be performed by those with shari’ah background:

“If I were the Head of Department, I would choose someone with the shari’ah background, shari’ah knowledge, and shari’ah qualification. Why I say that? To do the shari’ah audit because mind you, banking operation something you can learn along the way, okay, that is what I’ve been doing all the while in auditing. I learn from my auditees. Okay, I learn from those who have the hands on the work on the transaction. You can gather the knowledge as you go whereas shari’ah knowledge because you were doing it in Arabic you were studying in Arabic language. It would be a beauty for one shari’ah auditor with the shari’ah background, shari’ah knowledge and degree to perform the audit especially in the event where you need to browse through the document in Arabic. I am talking about our bank because our scholars Middle Eastern, the papers are all in the Arabic language. When it comes to this bank, this type of bank, same nature as Kuwait Finance House and *Al-Rajhi*, so fatwas and the original conversation during the Shari’ah Committee meeting are all in Arabic.”

A much senior auditor in a FFIB explicated her perception:

“I think the requirement, it requires all, a combination of three, because if you have knowledge, no skill, it is difficult to do the shari’ah audit. Yes, people say shari’ah audit can be learned but it takes time. It depends on the scenario, if you have the knowledge, no audit skill, you can still audit based on the knowledge that you have, but if you have no knowledge, you have the skill, it is also difficult to perform an audit on certain thing if you do not know anything on Shari’ah. It is difficult on deciding what to check. I prefer if we have all three elements.”

There is a mixed view on the ideal competency aspect for the SARs in IBs from the interviews conducted. While the HSA prefer someone with accounting background, the SARs with such background felt like they are missing certain

knowledge. The participants of the focus group recommended the element of Islamic banking and shariah committee resolution as part of technical skill to be grasped by the SARs as auditing the IBs is the main core of the SAR duty. It is argued that it is crucial for SARs to have the skill to audit sections related to IB operations. As explained by one of the participants:

“In terms of the Islamic banking can be considered as well as technical skill because it’s not as building knowledge, we have to be hands-on that you get the particular knowledge rather than, but for this you have to have hands-on. For me, perhaps put under technical skill. This is the core of the auditors itself. The tech skills that we are looking at apart from the shariah knowledge.”

Another participant expressed her view as she said:

“In relation to standards and guidelines maybe should include the SC resolution as well for individual bank because that is very important.”

The section to be audited by the SAR varies within the banking group, depending on what type of operation they are involved in. On this matter, banks under FFIB, IBS, and IW groups are found to offer a much wider banking products such as retail, corporate, capital market, investment, insurance, Takaful, and unit trust. The banks under the DFI group, however, focus more on retail or consumer products. The complexity of some of banking operations requires the SARs to have vast knowledge and apply shari’ah auditing skills to different operational activities offered by the banks. As emphasized by one of the respondents from the IBS group,

“I think we need to have Islamic banking knowledge on the operation because that is considered as technical skills. Because to understand the core operations require years of experience. It must be hands-on. And then to perform, so you have hands on things you want to expand further. The technical skills, maybe you must add on the Islamic banking for capital market so that we can see. In fact, if you talk about Islamic banking operation, we have to state whether is it retail? Is it corporate banking? Is it consumer? We have different kind of business. Different type of business requires different kind of skill. Trade finance it is becoming a niche so this is the thing, technical skill. It’s a very rare skill that we need to have.”

The participants in the FGD agree that the scope of knowledge and skills required for a SAR to perform their duties can be said to be wider than the requirement for internal auditors in the financial institution and even wider than the general internal auditors in other industries, as financial institutions have to comply to specific act, specifically the Islamic Financial Services Act 2013 in Malaysian jurisdiction. This situation can be explained in Figure 1. In general, most respondents agreed that a combination of the three elements of KSOC coupled with sufficient working experience would generate a competent SAR.

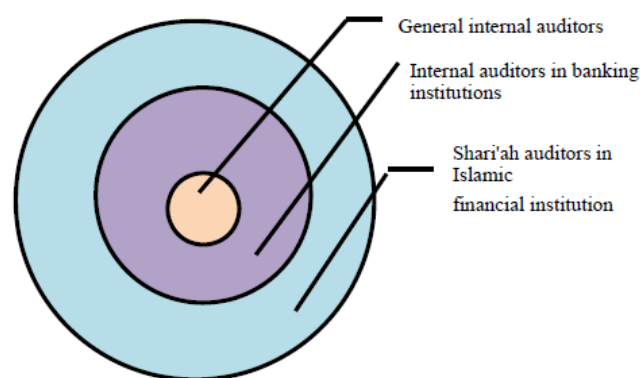


Figure 1. Comparison on job scope of general internal auditors, internal auditors in banking institutions and Shari’ah auditors

#### 4.5 Training and Furthering Studies

One measure taken by the IFIs to overcome the lack of shari’ah knowledge among the SAR, as the majority of them are graduates of non-shari’ah background is providing various training related to auditing skills, Shari’ah matters, and Islamic banking products. Training is either provided internally or by external parties. Internal training is in the form of compulsory training such as induction and refresher courses. External training is training provided by

established financial institutions training centers such as The Institute of Bankers Malaysia (IBBM) and Institute of Banking and Finance Institution (IBFIM). Comments received below are evidence that those involved in the shari'ah audit department are required to attend certain training:

“Internal is compulsory at least six days training had to be completed.”

“We have certification program in Islamic Law, all in-house training. Then we can further our study to CIFP. The company also provide a scholarship for CIFP and INCEIF.”

In some cases, some banking institutions are considered as privileged to have graduates who have undergone FSTEP program under the BNM. As disclosed by one of the respondents within the HSA:

“And some of the graduates under BNM called FSTEP if you are aware, that one they gather all graduates especially those who are interested in the banking industry. FSTEP has many modules to prepare knowledge.”

Other respondents related the details of the training that they have undergone at their institution:

“First, they are exposed to the basic thing. Then, after that, we can specialize in which areas, Capital Market, Banking, Takaful, and Wealth Management. Since our banking is more related to Capital Market and banking, the bank take up these modules, we do not cover Takaful and Wealth Management. Takaful is more on insurance. So, most people go for banking modules. My team involves in wholesale banking, Islamic banking, and business, we were assigned for Capital Market. Ok, since three of us attended the Capital Market, we must attend the public classes. The rest IBFIM can still accommodate us, to conduct the in-house and the banking one, I think about the same, within four months, they complete, we attend the public class, we have to follow the schedule, spread across the year.”

“In Islamic banking division, it has already been indicated I think under section 16.1 where the bank must provide training fund, at least, to staff involved in Islamic banking, part of it budget falls under internal audit. So, we do not mind how many times in a year if not breached the budget. 16.1 is guideline under the Islamic banking BNM.”

Some banks also collaborate with training centers to provide the training within the institution. By this way, the staff does not have to go to the training center themselves. As respondents from the IBS explained:

“We conduct in house with IBFIM; all 30 sit here. IBFIM conduct in-house. Because we conduct in-house, we can plan how long to complete the course, otherwise, if we were to follow the public classes, it may take a year.”

Another way of ensuring the IAD staff has the necessary shari'ah knowledge is by collaborating with local universities. For instance, interested internal auditors and shari'ah officers in Bank 2 in FFIB has a joint venture with Universiti Sains Islam Malaysia (USIM) to take Certificate in SA course. Under the course, participants must complete certain modules and given a test before they are given a certificate in SA. The HSA for the group elaborated:

“Currently, we have roughly about 15 of our auditors are currently pursuing studies with USIM, collaboration between USIM and this bank, so there are we have that collaboration. For that training, that we call it Certified Shari'ah Audit Professional.”

Another bank, Bank 2 in a DFI group, on the other hand, collaborates with International Islamic University for a short course leading to Certificate in Shari'ah Law. As the respondent from the DFI group explained:

“If beginner auditor, we have specific training, Certificate in Internal Auditing for Financial Institution or CIAFIN training three hours' audit skill.”

The banking institution has also made an effort to allow staff to further their study and even sponsored them in some cases. The bank also encourages and allows staff to take unpaid leave to further their study. For this privilege, the staff are bonded for several years of their tenure with the banking institution as mentioned by two of the respondents:

“The Unit Head under this bank is bonded for three years. Two years' part time.”

“We have two staffs who are currently on sabbatical leave who are pursuing their studies in Master in Islamic Finance. One is doing it in the UK, University of Durham.”

Another method considered favorable to some of the HSAs is on the job-training or also referred to them as personal coaching. A respondent shared his experience of coaching their subordinates:

“I mean, like what I've said, I will teach from end to end process, selling until recovering part. Selling part is where we look at the important features that we need to tackle for Shari'ah audit, usually, terminologies they use the wrong terminology and they do not update the product time sheet timely. If documentation, may be what we call aqad

process flow, the sequential flow, the process itself, somehow or rather I will teach them the end to end process, then only they can see the process from the top until the end.”

Based on the interviews and focus group discussion, the study identified two (2) factors which are the training courses and continuous professional development, besides ongoing coaching practiced by the financial institution, coupled with individuals' progressive characteristics contributing to the increase in knowledge and skills of the SARs. Training plays an important part in the Islamic banking setting as most of the newly appointed SARs have no exposure to the shari'ah knowledge as well Islamic banking products. Efforts taken by the banking institutions to instill the required knowledge through training internally or externally are commendable as part of talent management within these IFIs. This will eventually leads to competent SAR. Number of years working also contribute to the increase in the competency level of the SAR. A more experienced SAR is associated with the longer years working within the IFIs environment, exposed to various challenges in performing and completing the shariah audit tasks. Acknowledging the importance of managing the talent of this scarce profession is no longer an option but a necessity that cannot be ignored.

## 5. Conclusion

As a conclusion, a competent SAR ensures quality conduct of Shariah audit function and protects the welfare of the faith-based stakeholders. Indeed this stemmed from the concerns that banking institutions offering Islamic banking products have religious obligations, besides the economic obligations, in ensuring that activities conducted by those institutions are tantamount to the tenets of Islam. Effective and excellent shariah audit function is achievable if performed by competent SARs who possess the necessary knowledge, skills, with positive attitude and values to perform such duty. Only then, faith-based stakeholders would be comforted. By doing so, the SAR will ultimately fulfill their duty to Allah s.w.t as part of their duty as *khalifah* in this world. The findings offer significant contributions both to theory and practice. Practitioners who focus inter alia on the competency aspect in filling the succession plan as part of their talent management or development program is highly recommended.

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