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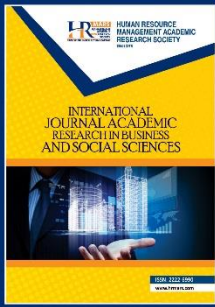
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Challenges in Recruiting Specialized Internal Auditors: Case Study Evidence of Islamic Financial Institution in Malaysia

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Abstract

The internal audit function within an organization is no longer confined to the conventional compliance or operational audit. Specialized internal audit has emerged with the rise of certain service sectors including the Islamic financial institutions (IFIs). This specialised audit known as shariah audit is purported to safeguard the welfare of faith-based investors by ensuring a shariah compliant IFIs. Effective shariah audit requires competent internal auditors. Shortage in qualified and competent internal auditors to conduct effective shariah audit has however become one of the challenges for the IFIs. This paper explores these challenges through the perspective of practitioners within the IFI in Malaysia as one of the active players in providing the Islamic banking products and services to the Muslims' users. This study adopted a multiple case-study to gather the data on challenges of shariah auditors of Islamic bank to perform their duty. Interview was conducted with a representative from the IFIs regulator and 30 internal auditors from four types of IFIs directly involved in conducting the shariah audit. There is currently a lack of standard operating procedure on the recruitment of specialized internal auditors in the IFI from a mixed practice on the composition of specialized internal auditors recruited by the IFIs with most of them being accounting qualified candidates. The IFIs also prefer to hire either internally or externally acquired experienced internal auditors. The main challenge in hiring this type of internal auditors is to have professionals with vast knowledge, skills and experiences in accounting, auditing and shariah related matters. This study contributes to the importance of competency practice among Islamic banking personnel. It also contributes to the management policy in the recruitment or training of shariah auditing professionals of IFIs in Malaysia. This empirical research contributes to the importance of competency practice among Islamic banking personnel besides management policy in the recruitment or training of shariah auditing professionals of IFIs in Malaysia.

Keywords: Internal Auditor, Competency, Shariah Audit, Shariah Auditor.

Introduction

As a part of internal control mechanisms, internal audit function is performed to monitor an organization's operational activities. Such function has evolved over the years specifically to cater various needs of business entities including the service industry involving Islamic banking products and services. The audit function is a way to safeguard the interest of the stakeholders by having shariah-compliant operations and offering shariah compliant services. Such function is to be conducted by the internal auditors to the IFIs known as the shariah auditors. In addition to the conventional internal auditors, the shariah auditors provide an assurance service to ensure that the IFIs can support the shariah practices and instill confidence among the stakeholders.

The Malaysian government through its Central Bank of Malaysia (CBM) has introduced the Shariah Governance Framework (SGF) in 2011 to strengthen the structure of shariah governance, processes and arrangements (Bank Negara Malaysia, 2010). The shariah governance function before the implementation of SGF was bequeathed upon the Shariah Committee (SC) of the respective IFIs to oversee any shariah compliance matters through the shariah review and shariah audit function. The introduction of SGF has brought a new dimension to shariah audit function where shariah audit is performed as the third line of defense in mitigating shariah non-compliance risks of the IFIs in accordance to shariah as stipulated in Section 28 of Islamic Financial Services Act (IFSA) 2013. Failure to comply the standard may be subjected to the Board of directors, management or officers of the institutions to heavy penalty of RM 25 million including imprisonment of up to 8 years (s.28 (6) of the IFSA 2013). It is the duty of shariah auditors to review whether or not the execution of the IFIs operation is in accordance to shariah as IFIs are accountable to the stakeholders' interest (Malaysia, 2013). To do so, sufficient knowledge is required to perform the duty. As shariah audit is considered as a new specialized internal audit to be added to the already unique nature of internal audit work in the IFIs, it is therefore worth exploring the challenges of the IFIs management to recruit this type of specialized internal auditors, which are widely known as shariah auditors to the IFIs in Malaysia.

For the position of shariah auditor, the basic guideline provided by the SGF in Clause 7.7 is for shariah audit to be performed by the internal auditors with adequate Shariah-related knowledge and training. To perform the shariah audit, the appointed shariah auditor may seek assistance from the shariah officer of the same IFIs as long as it does not compromise the audit objectivity (BNM 2010, p.23). Such practice may be debated of violating the scope of work of the Shariah officer. Hence, it is appropriate that only qualified and competent professional shariah auditors of the IFIs shall execute the shariah audit function.

Internal Auditors Competency

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 specific education, experience and expertise in the field of accounting and auditing besides having attitude and ethical behavior in work (Cheng, Engstrom, & Kattleus, 2002) and certain qualifications to understand the criteria as well as competent enough to determine the types 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). Many studies recognized that the main factors contributed to auditors' competence are formal education at the institution of higher learning as

an entry requirement to the accounting profession, training, 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 groups 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, whereas the latter is greatly influenced by personal characteristics and experiences. Experiences gained over the years of performing audit is a vital factor that benefited the auditors in making complex judgment (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 auditing skill as it cannot be directly observed (Bedard 1989). This notion was further reinforced by Libby and Frederick (1990) mentioning that experienced auditors have better understanding on financial statements, able to provide explanation on errors better and manage to classify errors based on audit objectives and the underlying accounting system. Another study by Tubbs (1992) also emphasized that experienced auditors can bring positive impact in terms of mistakes' awareness, fewer misconceptions on mistakes, the ability to remember more mistakes and matters related to the cause of errors. These findings were however published in the early studies on auditing profession in general, namely before millennium in which the later years have observed more changes taking place in the auditing profession.

The development of competencies within the internal auditing profession has been also spawned across the region and addressed expansively in prior studies (Coetzee Erasmus & Plant 2015; Plant, Coetzee, Fourie 2013; Pickett 2000; Seol Sarkis & Lefley 2011). Competencies within the internal auditing profession refer to the abilities, skills and attributes required for the internal auditors to perform their duty or task (International Federation of Accountants, 2014).

An early study on competencies for internal auditors by Pickett (2000) suggested the internal auditors to keep abreast with the changes in their working environment. Companies need to define their competencies and build in-house programs as part of continuous development activity. Pickett (2000) argued that competencies are the interaction of three factors called 'the three circles approach' involving the auditing standards, audit products as well as the organization's risk management strategy. While audit standards set boundaries within which work to be performed, audit product refers to the service delivered. The organization's risk management, on the other hand, denotes to where the audit function fits in by adding values to the reliability and integrity of risk management. Companies must also send their internal audit staff for training as competency need to evolve according to changes in the working environment (Pickett 2000).

The function of the IAF has expanded over the years requiring a more sophisticated body of knowledge for internal auditors to perform their duty (Burnaby, Hass, & Abdolmohammadi, 2006). To show the seriousness of professional bodies to ensure high quality audit performed by worldwide internal auditors, the Institute of Internal Auditors Research Foundation (IIARF) has laid an effort to conduct a worldwide survey using worldwide internal auditors as their respondents to understand how internal auditing is practiced throughout the world. The survey

was then interpreted into a common body of knowledge (CBOK). In 1972, CBOK was first introduced followed by the year 1985, 1992, 1999, and 2006 with the latest in 2010 (Abdolmohammadi, Burnaby, & Hass, 2006).

The latest CBOK, CBOK 2015 discussed the role of personal characteristics associated with the self-assessment competency ratings. This 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 rated their self-assessment competency higher than those with less than five years of experience. This suggests the “value of developing staff over some years to fully benefit from the increased level of internal audit competency” (The Institute of Internal Auditors Research Foundation, 2015).

Coetzee, Erasmus and Plant (2015) however criticized the CBOK 2010 study for generalizing the importance of competency ranking across the global internal audit practitioners. They argued that different assessments in the form of country-specific internal audit competency assessment are needed by certain regions with consistently different perceptions on the competency level of importance. Their argument led to the notion that the general assessment on general competencies, technical skills and behavioral skills needed over global internal auditors as disclosed in CBOK 2010 is not appropriate to represent all regions. On the other hand, the professional body’s viewpoint on competency of their professional members was further intensified with the International Federation of Accountants (IFAC) guidelines on the International Education Standard (IES) 8 on Competence Requirements for Audit Professional stating that an auditor needs to have a formal audit education (knowledge) (IES 2), professional skills (IES 3) and able to apply professional values, ethics and attitudes to different situations and organizations (IES 4) (IFAC, 2014).

Another comprehensive study was performed by the IARF in 2011 to 2013 to obtain stakeholders’ views on internal audit competency. The study was focused on competencies rated higher or lower and found that the largest rating gap of competency is between the stakeholders and the internal auditors. It was also revealed that higher ratings for components of competency were ethics, confidentiality, objectivity and professionalism as opposed to lower ratings for negotiations skills, business process analysis and data collection and analysis tools and techniques. Aspects in which the stakeholders gave a significantly lower rating than the internal auditors themselves was comprehending the nature of the business, business process analysis and problem solving skills. It is also interesting to note that in some areas including the perception on the overall performance of internal auditors, the stakeholders rated internal audit performance as higher than the internal auditor themselves (The Institute of Internal Auditors, 2013). Appreciating the business process irrefutably can be a critical point for internal auditors to accomplish their duty.

Shariah Auditors’ Competency

Empirical evidence in Malaysia suggested that majority of the shariah auditors in IFIs are lack of or have no professional or academic qualifications either in Islamic banking or shariah (Abdul Rahim Abdul Rahman 2008; Nawal Kasim, Shahul Hameed Mohamad Ibrahim & Maliah Sulaiman, 2009). This finding was later reinforced by another study discovering that even though

majority of the respondents (39%) have 10-20 years of working experience, only 6% of them have 10-20 years working experience in the Islamic banking and finance (Mahzan and Yahya, 2014). Moreover, a study by Zurina Shafii *et al.* (2013) discovered that knowledge in shariah and accounting are necessary to internal auditors conducting the shariah audit. However, the case study was performed with only one representative from the internal auditors with no in depth study comparing the practice of recruitment of shariah auditors among the full-fledged Islamic banks and Islamic banking subsidiaries. Hence, having more competency studies will help in understanding the aspects of competency to be instilled and inculcated as part of human capital development in IFIs in Malaysia.

Currently, the SGF (in para 7.8) stated that “*Internal auditors who have acquired shariah related knowledge and training*” in terms of knowledge requirement did not specifically mention the types of shariah knowledge required to perform the duty as shariah auditors. It can only be inferred from the criteria set for the Shariah Committee and shariah review that knowledge of shariah mentioned are Fiqh Muamalat and Usul-Fiqh. To counter the lack of guidance and details on this aspect in the SGF, the only specific knowledge to develop competent shariah auditor is in the form of training offered by local training agencies. These training agencies include the Institute of Banking and Finance Institution (IBFIM), International Center for Education in Islamic Finance (INCEIF), Center for Research and Training (CERT) and REDmoney to name a few (CERT, 2014; Institute Banking and Finance Institute of Malaysia, 2014; International Center for Education in Islamic Finance, 2014; Redmoney, 2014). The International Center for Education in Islamic Finance (INCEIF), a higher learning institution under the wing of BNM, has been established to accommodate the requirements of the industry (International Center for Education in Islamic Finance, 2014). INCEIF designed programs to ensure that the industry requirements are covered by the course syllabus. IBFIM for instance, has developed Certified Qualification in Islamic Finance (CQIF) consisting of three (3) levels namely core, intermediate and advanced levels. An assessment will be conducted at the end of each level to assess the candidates’ understanding and ability to relate the knowledge gained to be practiced in the IFIs (IBFIM, 2014). Other than trainings offered by IBFIM, other training programs offered at the moment can be argued to be unstructured to cater the needs for professional shariah auditors.

Although various trainings in Shariah audit have been provided by these trainings agencies, the duty to ensure that IFIs shariah auditors are accountable for auditing the IFIs have the right skills, knowledge and other capabilities to perform shariah audit competently lies on the top management of these IFIs. In the context of this study, the internal auditors of the Islamic banks must not only possess auditing skills, but also mastery on shariah knowledge to ensure that comprehensive shariah audit is performed and overall operation of Islamic banking operation are shariah compliant. In the Malaysian’s Islamic banking setting, the internal auditors of the IFIs are expected to not only possess auditing skills as required by the internal auditors’ professional bodies, but also warrant additional qualifications including shariah knowledge particularly *Fiqh Muamalat* to ensure comprehensive shariah audit is performed and that overall IFIs operation are shariah compliant.

As not many studies provide insights on the recruitment practice and the challenges encountered by these institutions to recruit or train candidate to fill the position of shariah

auditors, this study is a concerted and humble effort to understand such phenomenon.

Methodology

The purpose of this study is to have an insight on the challenges to recruit competent shariah auditors. In order to achieve this, a multiple case-study on the practice of recruiting shariah auditors was conducted through interviews involving a representative from BNM and a group of 30 shariah auditors from four (4) full-fledged Islamic banks (FFIB), three (3) Islamic banking subsidiaries, three (3) Development financial institutions and an Islamic window. The definition for each type of IFI is elaborated in the table below. For the purpose of this study, the IFIs mentioned only confined to those Islamic banks offering Islamic banking products and services.

Table 1: Types of Islamic Banking Institutions in Malaysia

Types of IFIs	Definition
Islamic banking subsidiary	Conventional banks with Islamic banking subsidiary or offering Islamic banking windows by obtaining license from the BNM to set up an Islamic segment as subsidiary or as part of their segment under the bank's Islamic banking division. They are governed by the Financial Services Act 2013 (FSA) for their conventional banking operations and IFSA for their Islamic banking subsidiaries.
Developmental Financial Institution	Specialized financial institutions established to develop and promote strategic sectors to achieve the country's overall socioeconomic development objectives governed by the Development Financial Institutions Act 2002.
Islamic window	Banks granting a license to offer Islamic banking windows upon licensing from the BNM. The FSA also governs these banks for their conventional banking operations and IFSA for their Islamic banking window operations.

For the confidentiality of the positions and banking institutions of which respondents represented for, the respondents were coded as G1R1 to G4R1 while the regulator is coded as RG.

RESULTS AND DISCUSSION

Demographic

A total of 31 respondents were involved in this multiple case-study comprising a Manager of Islamic banking and Takaful department representing the regulator, 11 Head of Shariah audit department and 19 shariah auditors. Distribution of respondents according to types of banking institutions is as follows:

Table II: Distribution of respondents according to the types of Islamic bank

Type of group	Manager	Head of shariah audit (HSA)	Shariah auditors (SAR)	Respondents code
Central Bank of Malaysia (CBM)	1	-	-	RG
Full-fledged Islamic bank (FFIB)		4	8	G1R1-G1R12
Islamic banking subsidiary (IBS)		3	5	G2R1-G2R8
Development Financial Institutions (DFI)		3	6	G3R1-G3R9
Islamic window (IW)		1	-	G1R1
Total	1	11	19	

SUMMARY OF INTERVIEW DISCUSSION

Recruitment practice on shariah auditor within the IFIs

There is a mixed practice on recruiting shariah auditors for the IFIs in Malaysia with no specific standard for operating procedures employed. The main criteria are qualification and years of working experience. In terms of professional qualification, most IFIs prefer those with accounting qualification and those who have been performing internal audit within the financial institution either external to the IFIs or within the IFIs. Such practice is summarized in the table below where the shariah auditors recruited are of those internally acquired internal auditors, externally acquired internal auditors or fresh graduate.

Table III: Summary of current practices on recruiting SAR by groups

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

Interview with one of the HSAs from the FFIB revealed that coaching the accounting or banking graduates is much easier than those graduates with shariah background. The respondents felt that shariah knowledge is something that can be learned on the job and by attending continuous training on shariah related subjects. To them, auditing skill is the most important element to be grasped to become a competent SAR. Training accounting graduates was found to be much easier than graduates from other disciplines by most HSA since they were exposed to the various subjects related to the governance of an institution (even though not especially in the banking industry). For instance, an accounting student at a local university would have at least learned the basic company law, taxation and auditing for assurance services, corporate governance and company secretary. This is consistent with a worldwide trend to have graduates with wider knowledge in other disciplines (Mohamed Ehab & Lashine 2003). In addition, local universities opting English as their medium in teaching became another advantage to the accounting graduates compared to the shariah graduates who learn their major in Arabic as most banking institutes prefer English as the medium of communication (with exception of the Middle Eastern countries). Unless if the shariah graduates are majoring in Islamic Finance or Islamic Banking and not purely shariah discipline, it would somehow a disadvantage for them if they are interested to join the Islamic banking industry.

The second group, which is the IBS, however follows the conventional practice by recruiting their SAR from the existing internal auditors (IA) in the Internal Audit Department (IAD) team with accounting qualification. This practice is similar to that in the foreign FFIB headed by the HSA with vast experience in the auditing field. The head of the IFIs from this group felt much easier to train someone with accounting qualification compared to other majors.

As for the third group, the DFIs, there are two different practices. While the majority of the

respondents from HSA preferred to have the accounting graduates as their SA team, an interesting practice was discovered within one bank (Bank 1) in the DFI group, which opted to have the entire SA team of five SARs comprised those with shariah qualifications. Even though the bank is operating as a DFI, it has been offering only Islamic banking products and services to its customers since 2003. To the HSA, the management feels that it is vital for the bank to have SARs with shariah qualification since other IAD's internal auditors can perform the general SA.

Even though the team comprised those from shariah background, interviews with the respondents of this DFI revealed that the HSA holds a Master's in Islamic Finance from a local international university with two of his SARs currently pursuing their studies in the Master's program. Furthermore, the DFI have established the SA Section for specific shariah matters while other internal auditors are responsible for general SA. As the particular DFI is offering only Islamic banking products and services, it can be inferred that the entire internal audit team is indirectly responsible for verifying whether or not their operations are complied with shariah. Such practice, however, can be argued since none of the SA team members has any basic accounting or auditing background. This situation may jeopardize the quality of audit presented if the SA team is the only audit team responsible in performing the 'check and balance' for the IFI.

On a different note, it is a positive trend to know the practice of this DFI as they employ shariah graduates to become part of their IAD as shariah graduates that will see themselves as marketable and no longer confined to the teaching profession traditionally associated to them. The increase in demand for shariah graduates has also created an opportunity to expand their career path. Their effort in pursuing a better career with a better pay should not, however, compromise their objective in making a shariah decision.

Interestingly, unlike other banks, the same DFI have made it compulsory for their internal auditors to undergo training under the Institute of Internal Auditors Malaysia (IIAM) specifically to obtain the Certificate in Internal Auditing for Financial Institution (CIAFIN) with no bond attached. The non-bonding situation does not seem to exist in other banks in the same group or another group. In fact, most of the trainings with certification conducted joint ventured with a third party (university or another training institution) require the respective staff to be bonded for at least two years with the bank.

The fourth group, IW, which is represented by only one bank, has no particular Standard Operating Procedure (SOP) in hiring or selecting their SAR team. To their HSA, his main concern is the person's capability to perform the task, which he believes can be molded in the form of on-the-job training. As the HSA is a Chemistry graduate himself and trained under the Financial Sector Talent Enrichment Programmed (FSTEP) program of BNM, he sees the passion to be in the industry as the main drive for a person to make him or herself competent in the area of SA. To him, a candidate with accounting qualification can be an advantage, but it is not a must to pursue a career as an SAR. The bank is willing to employ SARs from any qualifications as well.

CHALLENGES IN RECRUITING SHARIAH AUDITORS WITHIN THE IFIS

As mentioned earlier, the majority of the respondents are of Accountancy graduates. The interviews conducted with the HSA revealed that it is a challenge to acquire SARs with both auditing and shariah qualifications. Most of the banks opt those with accounting or Islamic banking degrees. Among the main challenges of the IFIs in hiring competent SARs are the difficulty in getting experienced SARs, SARs being pinched by other IFIs or SARs transferred to

other IFIs, potential SAR candidates being too demanding due to the scarce supply of such professionals, family-related problems, lack of shariah knowledge and candidates' attitude problems. Other challenges highlighted are lack of commitment to job requirement, finding an immediate replacement, less passion on the job, lack of auditing skill, lack of soft skills, the reluctance of another department to second their staff to the IAD as well as staff the inability to cope with industry working pressure.

On the difficulty in getting experienced SARs, respondents from the HSA expressed:

The challenge is to look for someone who has both internal audit skill and shariah knowledge. (G2R1)

A limited number of individual with both shariah or Islamic banking exposure and auditing. (G2R4)

They are limited in the market, it is hard to get them. (G3R4)

Candidates do not have the practical application knowledge on the shariah concept and skills required in conducting audit review. (G3R8)

Yes, you can find shariah people, but it is very difficult because ultimately, being a shariah auditor or Treasury auditor is all about the auditor, whether you have the skills because auditors are different, they have a specific character. Because simply when you look at people, they can simply spot that something is not right, so go and dig, so if you have that intuition, it would be easy to do an audit. (G1R5)

She further added to the challenges in hiring the competent SARs by saying:

Actually, it is more of commitment. The main thing with the auditor is the commitment to learn. To explore new things. Actually because why? Whenever you do audit assignments, different audit tasks, for example, this month, you will audit home financing, then next you go to personal financing. Then, you go to trade financing, after that you go RA. What you are exploring is the mind of auditor constantly learning because while you are not quite finished with the home financing, suddenly you have personal financing, not yet finished, then you have to do Ar-Rahnu. Can you imagine how the brain of these people works? The most important thing of being an auditor is the ability to learn, willingness to learn, improve your skills because in audit you must have skills, writing skills, communications skills, so those part of the competencies as well apart from exposure, the skill itself, negotiation skills, whenever you raise audit findings sometimes. (G1R5)

On the possibility of the previous SARs being pinched by other IFIs or transferred to other IFI, one respondent related this with his experience as:

The good one will be pinched. One of my staffs is now in Bank XXX; another one

finds the job unsuitable to her, more interested in teaching. The other one is Gen Y, who prefers another bank that offers increment of RM300-RM400. So basically, it has been on and off. From the beginning of the recruitment of shariah auditors, 6 to 7 staffs have resigned. Otherwise, I will perform the audit alone. (G1R1)

The HSA also expressed his concern over the matter of personnel with shariah knowledge as demanding as his lamented:

Ok, I just take those with good attitude because to find a skillful person is hard if there is any, he demands high pay, even higher than my pay as the Head, so that is impossible. So, what I did was to take the fresh graduates, so what I'm looking at is not the skills, more on the attitude. If there is willingness to learn, I try to take Accounting graduates, like Miss N, she has experience but not much related. She has done audit but not on shariah audit. As for Mr. K, I have purposely taken him because I have looked at the SGF, there is one part, IT application, and so I took him and train him. The idea is with the hope that there is someone in the team with IT background that can perform the shariah audit. And then I took Mrs.A, also a fresh graduate in Usul Fiqh. (G1R1)

He also expressed his concern dealing with the work ethics of staff from the new generation:

Very tough, to a stage where they have many commitments, sometimes they do not perform up to the standard, as long as the work is done. The burden will fall on us. However, when it comes to the Gen Y, sometimes we feel frustrated. To perform a shariah audit in a bank, we have to know the level. The guideline is at the very top. We must have two sets of guidelines, one for shariah requirement, that is one thing, and then we have to perform the risk mapping. We want to take the requirement to map it to the process and practice. The bank guideline is another thing, so we have to master both, and only then they can blend. That is why we have a gap now. Even though SGF states that a qualified shariah officer must have a shari'ah degree, I do not believe that to perform effective risk management, having that would be enough. The understanding is different from the shariah. In operation, we performed better, in fact to a certain extent, we must have interest, passion and interest. In fact, in SC, we can sometimes advise them on certain things since we can blend both things. (G1B1)

On the same issue, another HSA expressed his views:

It just a matter of whether you can provide candidates in terms of experience, pay and personally I think the people because of shariah, I think they are spoilt. The bigger chunk is I think they are spoilt because the demand the exceeds supply and people are becoming shariah whatever advisor. In my book, they should not be, they are too young, not enough experience, but we are desperate in moving

towards Islamic banking, in pushing and created, in pushing the Islamic banking agenda and created this demand. Now they even have shariah scholar for that matter. Yes, they demand higher pay, which we have no choice, we have to find somebody who does not ask for the moon and the sun, find somebody who is reasonable. If we take someone experienced, which means he is working in other banks, we have to take from another bank. (G1R8)

The majority of SARs in the DFI groups hold accounting qualification as the HSA from this group prefer those with accounting or banking qualification to become part of their SAR team since they believe that these individuals are much easier to be trained compared to those from other backgrounds. Another challenge in training these SARs is their other characteristics, particularly their willingness to learn new things. One of the HSA mentioned that he is willing to teach someone in accounting background as long as this person is willing to learn. Based on the interviews, it can be interpreted that it is challenging for the IFIs in Malaysia to recruit professionals with the qualifications of accounting and shariah. Nevertheless, these weaknesses can be overcome by providing them with ongoing trainings and courses related to IFIs operation and shariah related matters.

CONCLUSION AND RECOMMENDATIONS

In general, the IFIs have a clear understanding on the need to have a shariah audit function within their organization even though no specific guidelines on competency were provided in the SGF issued by the BNM. The interpretation of the SGF's guidelines on competency is translated into their SOP of recruitment using two measures, which are qualification and years of working experience. It was found that there is a mixed practice among the IFIs offering the Islamic banking and products in recruiting their SARs. The full-fledged Islamic Bank (FFIB) prefers to have a team of SAR with mixed qualifications consisting of those from accounting, shariah and banking or Islamic finance. The reason for the choice is to allow the team to complement each other for related matters that they are lacking in performing the SA. Meanwhile, the Islamic Banking Subsidiary (IBS) and Development Financial Institutions (DFI) favor SA team with accounting qualification for the reason that subject matter in accounting knowledge is more important to perform their duty as SARs, while the IW's respondents have no specific preference in terms of qualification as long as the candidate has the willingness to learn in performing the job function.

The SA team selected for most groups consists of fresh graduates with either accounting or shariah qualification, externally acquired SARs consist of experienced internal auditors in Islamic banking or internally acquired internal auditors from the internal audit department (IAD). In most cases, the IBs prefer to select their shariah audit team from their IAD as this team is experienced with the IB operations and have years of experience in the internal audit line. To cater for the lack of knowledge in shariah, *Fiqh Muamalat* and Islamic banking, the SARs were sent for training and given both incentives and opportunity to further their studies. Group training amounting to certain certifications in Islamic finance was noted to be practiced in larger organizations to ensure that the SARs selected can perform their duty effectively.

It is not exaggerating to state that the Malaysian IFIs are still lack of talent management in selecting auditors with the knowledge in auditing and shariah. On the other hand, practitioners in the field also emphasized that it is a challenging task to recruit graduates who have knowledge

in both areas. As an immediate measure to counter the lack of professionals who master both auditing and shariah knowledge, the management of the IFIs has exposed the shariah auditors with the respective IFIs to shariah certified training programs conducted by established training organizations such as IBFIM, continuing professional development (CPD) from professional bodies such as the Malaysian Institute of Accountants (MIA) apart from in-house trainings provided by the senior shariah auditors in the respective IFIs.

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