

## AIA Professional Qualification: Auditing and Corporate Governance for Islamic Financial Institutions

Candidates should also refer to the Professional Qualification (PQ) Programme. The Auditing and Corporate Governance for Islamic Financial Institutions version forms part of the PQ Programme.

Accounting and auditing professionals who provide services to Islamic financial institutions (IFIs) need to have an understanding of the underpinning philosophy and nature of business of such institutions in order to perform their role effectively with competence and independence. Therefore, auditing and accounting professionals concerned with auditing and reviewing financial reports of IFIs need to have the ability to apply their knowledge on how they are to be audited and governed in accordance to the sources and philosophy of Islamic principles (shariah Islamiyah), whilst also complying with other regulations.

The paper provides indepth knowledge of the theory that underpines Islamic finance and understanding of the regulations which govern it, and how to apply that in practice.

The paper is structured to examine the knowledge of candidates on three sets of standards related to auditing, governance and Shariah and also to assess relevant learning outcomes consistent with a number of areas included in the International Education Standards<sup>1</sup> (IES) IES 2 and IES 4. The standards covered in the syllabus of this course are drawn primarily from the pronouncements of IFSB and AAOIFI's auditing, governance and Shariah standards, which are the standard-setting bodies of the Islamic banking and finance industry.

Candidates must have satisfied the requirements of the Foundation and Professional 1 levels before commencing study of this paper and satisfactory completion of the remaining papers at this level is also a pre-requisite before candidates can proceed to studying the Multi-disciplinary case study.

### **Aims**

The aim of this paper is to develop and examine the candidate's ability:

1. To present, discuss and critique the framework and guiding standards issued by AAOIFI on governance and supervision processes (Governance standards) of Islamic financial institutions;
2. Demonstrate how to apply the shariah compliance and shariah audit and assurance framework for Islamic financial institutions including the guiding standards issued by AAOIFI

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<sup>1</sup> Refer to the AIA Professional Qualification Programme – Section 3.2 Summary of Competencies Mapping

on external auditing and assurance practices of Islamic financial institutions (Auditing standards);

3. To discuss and critique the guiding standards issued by AAOIFI on shariah permissibility and rules for specific Islamic finance products and mechanisms (Shariah standards);
4. Discuss and critique the code of ethics for employees, professional accountants and auditors of Islamic financial institutions (Codes of Ethics) issued by AAOIFI and IFAC which contravene with Islamic rules and principles .

## Learning Outcomes

After successfully completing this paper, candidates should be able to:

1. Appraise the nature and purpose of Islamic auditing and critically assess compliance to those standards in the performance of shariah audits including the audit evidence required in specified situations and the audit work required at the final review and report stage of the audit of an Islamic financial institutionsl.
2. Critically appraise the supervision and governance process by the Shariah Supervisory Board (SSB), internal shariah review committee and the governance committee in conforming to governance standards by AAOIFI.
3. Report on the qualities, qualifications, rights, duties and professional obligations and justify actions to be carried out by an auditor of IFI and by a Shariah board member in ensuring that all the activities of the IFIs are within the shariah boundaries.
4. Develop and justify appropriate responses to complex and technical issues related to financial contracts and financial statements in complying with shariah principles and standards.
5. Appraise and critique code of ethics for employees, professional accountants and auditors of Islamic financial institutions (Codes of Ethics) issued by AAOIFI and IFAC.



## Structure of the Paper

Assessment is by a three-hour examination (including 15 minutes reading time) consisting of four compulsory questions. The allocation of marks may not be equal and some questions will be in the form of a case study, while others will be critical and analytical questions on specific topics and developments of Shariah Governance arrangements, Islamic and Shariah audits, assurance and ethics.

All these questions could assess any of the Learning outcomes.

The exam questions are based on the latest version of AAOIFI's standards and Shariah Governance Framework for Islamic Financial Institutions of which candidates are expected to have detailed knowledge.

Candidates are required to have sufficient knowledge on the application and interpretation of the above standards, practices and current debates regarding the development of Islamic auditing, assurance and accountability. The syllabus covers all the different aspects of the professional practice of Islamic auditing, assurance, governance, ethics as well as the financial accounting aspects that auditors need to consider at the year-end as part of audit planning for Islamic financial institutions, which are defined to include Islamic banks, Islamic insurance companies (Takaful), and Islamic

investment funds. The syllabus covers the shariah standards and a compilation of major contemporary *fiqh al-mu'amalat* (Jurisprudence of Financial Transactions) related to a large array of Islamic financial contracts and products, including those pertaining to banking, Islamic insurance, investment banking, capital markets and financing.

The Shariah Governance arrangements in the syllabus cover:

- General Requirements of the Shariah Governance Framework
- Oversight, Accountability & Responsibility
- Independence and Competency
- Confidentiality & Consistency
- Shariah Review
- Shariah Audit
- Shariah Risk Management

The syllabus coverage of Shariah Review includes:

- The Shariah review procedures in planning, executing and documenting the conclusions and writing the report.
- The implementation of adequate quality control policies and procedures by the Shariah Supervisory Board (SSB).
- The discharging of responsibilities by the Islamic financial institutions' (IFIs) management in relation to the relevant shariah rules and principles as determined by their Shariah Supervisory Board (SSB).
- The requirements expected of shariah review staff such as independence, proficiency and having adequate background and training relevant to the shariah review and key financial accounting issues related to auditing the financial statements of IFIs during and at the year-end, namely, recognition of revenues and expenses, measurement of assets and liabilities, profit determination and accountability (disclosure & presentation).

For the critical debates on the future developments and challenges facing Islamic and shariah auditing and supervisory practices in the syllabus, candidates should have knowledge of relevant debates and arguments on such matters and continuously update themselves with the latest developments.

## Syllabus

1. Auditing standards for Islamic Financial Institutions (ASIFI) and governance standards for Islamic Financial Institutions (GSIFI) (Learning Outcomes 1, 2)

Topic Weighting                      50%

Candidates need to have a thorough understanding of what is required in the ASIFI and GSIFI with regard to the performance of external shariah audits of Islamic financial institutions up to the auditor's report, and the relationships with the Shariah Supervisory Board (SSB), shariah review, internal shariah review, and the IFI management and governance committee.

2. Shariah Standards (Learning Outcome 3)

Topic Weighting                      20%

Candidates must have a thorough understanding of the requirements in the Shariah Standards with regard to the examination of the extent of an IFI's compliance with these standards to ensure that all the activities of the IFIs are within the shariah boundaries.

3. Shariah contractual conditions on accounting principles, concepts and year-end financial accounting adjustments (Learning Outcome 4)

Topic Weighting                      15%

Adjusting the year-end accounts due to the accrual concept as well as the need to comply with shariah principles and standards is a key area of the syllabus. Candidates are therefore expected to have an in-depth understanding of all the financial accounting statements and standards issued by AAOIFI and the key issues regarding accounting adjustments.

4. Codes of Ethics ( Learning outcome 5)

Topic Weighting                      15%

Candidates must have a thorough understanding of the codes of ethics issued by AAOIFI and IFAC.

### **Relationship to Qualification Structure**

Candidates have the option of selecting this paper instead of the Developments in Assurance & Accountability paper at the Professional 2 level.

Islamic financial institutions have their own unique characteristics. In order to be able to offer competent advice and to have the ability to support business decisions and transactions, a professionally qualified auditor and shariah reviewer who opt to be involved in work related to Islamic financial institutions must have a thorough knowledge of the various contracts that govern the transactions of these institutions, the accounting, auditing and governance standards that have been specifically developed for these institutions, as well as the key financial accounting and management issues related to Islamic banks and organisations.

This paper therefore aims to:

- (a) Build on the knowledge acquired by candidates in financial accounting, auditing, governance and professional ethics;
- (b) Ensure that as an auditor and shariah reviewer, candidates are well equipped with the knowledge required to practice and;
- (c) Ensure candidates are able to demonstrate knowledge of the ethical behaviour required of a professional accountant/auditor in accordance with the Islamic financial institutions (Codes of Ethics) issued by AAOIFI and the IESBA Code and Professional Counduct.



## Recommended Reading Lists

AIA Magazine – International Accountant

ISSN: 1465-5144

### **Shariah Audit and Assurance: Process and Programme (2017)**

Authors: Zurina Shafii, Mustafa Mohd Hanefah, Abdul Rahim Abdul Rahman, Supiah Salleh, Nurazalia Zakaria, and Muhammad Iqmal Hisham Kamaruddin

Publisher: USIM Press

ISBN: 978-967-440-380-5

### **Corporate Governance in Islamic Financial Institutions (2014)**

Author: Hussein Elasrag

Publisher: MPRA Paper (Munich Personal RePEc Archive)

Website: [https://mpra.ub.uni-muenchen.de/56326/3/MPRA\\_paper\\_56326.pdf](https://mpra.ub.uni-muenchen.de/56326/3/MPRA_paper_56326.pdf)

### **Islamic Banking and Finance An Introduction (1st Edition 2019)**

Authors: Roszaini Haniffa and Mohammad Hudaib

Publisher: Cengage

Website: [www.cengage.co.uk](http://www.cengage.co.uk)

ISBN: 9781473734609

### **AAOIFI Publications**

Accounting, Auditing and Governance Standards for Islamic Financial Institutions

Shari'ah Standards for Islamic Financial Institutions

Statement on the Purpose and Calculation of Capital Adequacy Ratio for Islamic Banks

**Website:** [www.aaofifi.com](http://www.aaofifi.com)

**Link to e-standards:** <http://aaofifi.com/shariaa-standards/?lang=en>

### **Islamic Financial Services Board (IFSB) Publications**

Published standards on Islamic financial services

Website: [www.ifsfb.org/published.php](http://www.ifsfb.org/published.php)

### **Shariah Governance Framework for Islamic Financial Institutions (2010)**

Publisher: The Shariah Advisory Council of Bank Negara Malaysia (SAC)

Website:

[http://www.bnm.gov.my/guidelines/05\\_shariah/02\\_Shariah\\_Governance\\_Framework\\_20101026.pdf](http://www.bnm.gov.my/guidelines/05_shariah/02_Shariah_Governance_Framework_20101026.pdf)

## Articles

### **Research in Accounting Regulation**

Archer, S., and Karim, R. A. A., (1997), "Agency Theory, Corporate Governance and the Accounting Regulation of Islamic Banks, Supplement, pp. 97 – 114.

### **Journal of Islamic Accounting and Business Research (JIABR)**

Archer, S., Karim, R. A. A., and V. Sundararajan, V (2010) "Supervisory regulatory, and capital adequacy implications of profit-sharing investment accounts in Islamic finance", Vol.1 (1),pp. 10-31.

### **Journal of Management and Governance**

Archer, S., Karim, R. A. A., and Al-Deehani, T (1998), "Financial Contracting, Governance Structures and the Accounting Regulation of Islamic Banks: An Analysis in Terms of Agency Theory and Transaction Cost Economics," , Special Issue on Accounting Regulation, pp. 149-170.

### **Journal of Islamic Accounting and Business Research**

Website: [www.emeraldinsight.com/jiabr.htm](http://www.emeraldinsight.com/jiabr.htm)