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The Approach of *Sharīʿah* Audit in the Qur'an: An Analytical Study of Modern Scholars

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Abstract: The Qur'an came down in economic driven policy; because the Qur'an connects the belief in Allah firmly with socio economic justice. In Islamic economic system, *Sharīʿah* audit is an important tool which directs the systematic process of collecting and evaluating evidence to form an opinion about an entity's status. The rapidly growing Islamic banking and finance industry is ultimately an endeavor based on an adherence to *Sharīʿah* principles and guidelines. At the same time, *Sharīʿah* governance framework is the *Sharīʿah* audit and compliance process which serves a vital role in providing public assurance about the governance of *Sharīʿah* products and services. In this regard, it is essential to have a comprehensive *Sharīʿah* control system to ensure that all products and services in accordance with the *Sharīʿah*. The main objective of this paper is to show the evidence of *Sharīʿah* audit in the Qur'an. This study gives an introduction to *Sharīʿah* audit from the Qur'anic perspective and also identifies the basic features and objectives of *Sharīʿah* audit. The study also discusses the views and opinions of *Sharīʿah* audit from the modern scholar's perspective to get their ideas on *Sharīʿah* audit.

Keywords: Approach, *Sharīʿah,* Audit and Qur'an.

Introduction

The rapidly growing Islamic banking and finance industry is ultimately an endeavor based on an adherence to *Sharīʿah* principles and guidelines. A pillar of its *Sharīʿah* governance framework is the *Sharīʿah* audit and compliance process which serves a vital role in providing public assurance about the governance of *Sharīʿah* products and services. In economic system, audit is the systematic process of collecting and evaluating evidence to form an opinion about an entity's status. Therefore, one of the most important requirements for Islamic financial institutions (IFIs) is to carry out their activities in accordance with the principles of *Sharīʿah*. In this regard, it is essential to have a comprehensive, robust and well-functioning *Sharīʿah* control system to ensure that all products and services approved and provided by the IFI are widely recognized as being *Sharīʿah* compliant, not only at the point of approval or ratification, but also in terms of ongoing operations. All processes and procedures relating to each product, service or other *Sharīʿah* compliance-related responsibility for the relevant department must be well delineated. Therefore, The *Sharīʿah* compliance is the core and essence of Islamic financial system. There is a need to develop a useful *Sharīʿah* audit framework to ensure effectiveness of the goals of *Sharīʿah* compliance in IFIs which in turn can contribute positively to the *Ummah* (society) at large. In the light of Islamic teaching and practice in early Islamic society, the auditor should be liable also to financiers, should assess management practices, and report on its compliance with *Sharīʿah*. . Chapra (2014) argues that having too many auditors to audit the *Sharīʿah* aspects could introduce resistance from the auditees. Thus, a clear scope for internal and external auditors with regards to *Sharīʿah* audit practice is needed to introduce effectiveness and efficiency of *Sharīʿah* audit conduct based on the Qur'an and the Sunnah which are known as the primary sources of Islamic Law. This paper will help the learners and practitioners to have the knowledge of *Sharīʿah* approach on auditing in the Qur'an from the views of modern scholars.

Objective of the Study

The main objective of this paper is to discuss the *Sharīʿah* approach on auditing in the Qur'an within Islamic framework. The specific objective of this paper is:

1. To show the evidence of *Sharīʿah* audit in the Quran.
2. To identify the basic features and objectives of *Sharīʿah* audit.
3. To outline the views and opinions of *Sharīʿah* audit from the modern scholar's perspective.

Methodology of the Study

The methodology followed in this study is mainly of library work, basically it was based on Holy Quran, Hadiths and related literatures written in conventional and Islamic perspective. So basically, the qualitative method of research and descriptive approach to research were applied in this study as they were appropriate in looking into the research issue understudied.

The Approach of *Sharīʿah* Audit in the Qur'an

Islam does not recognize the separation between spiritual and temporal affairs, and considers commerce as a matter of morality and subject to the precepts of *Sharīʿah*. Hence Islamic banks (and indeed any Islamic business organizations) must abide by *Sharīʿah* precepts in all their business and financial transactions. The basis of Islamic economics is its value-oriented system based on the Qur'an and Ḥadīith. As life on earth is only a passing phase of man's life which extends into the Hereafter, one should aim at a welfare reaching beyond the worldly life (Siddiqi, 1982). There are some verses in the Qur'an which states on the issue of auditing. As Allah (s.w.t) says in the Qur'an: "Then as for he who is given his record in his right hand, He will be judged with an easy account, and return to his people in happiness."(Surat al-Insyiqaq, verses: 6-9). In another verse: "And indeed, [appointed] over you are keepers, Noble and recording; they know whatever you do."(Surat al-Infithar, verses: 10-12). In other verse: "Surely Allah takes account of all things" (Surat al-Nisa, verse: 82).

Features of *Sharīʿah* Audit

Auditing under Islamic perspective has some worth noting characteristics, amongst these features are given hereunder:

1. Auditing principles in Islam are conducted from the sources of Islamic jurisprudence such as the Holy Qur'an and Sunnah. These principles are perfect, permanent and comprehensive.

2. Secondly, audit is based on morals: Such as; Allah fearing, honesty, trust, keep-promises, co-operation, and forgiveness. In this context, Allah says: "Allah commands justice, the doing good and giving kinsfolk and He forbids all shameful deeds and injustice and receives admonition" (Surat al-Nahl, verse: 90).
3. It is based on the belief that Allah is only owner of all things, the believe in the day after for accountability in front of Allah.
4. Auditing in Islam deals only with lawful transactions, and avoids evil and unlawful dealings.
5. Auditing in Islam does braid on the behavioral aspects of the mankind working in the enterprises and motivates and incentives him towards straight path according to Islamic jurisprudence.
6. Auditing framework in Islam is wider, it implies spiritual and material aspects, it is applicable to the whole life.

Auditing in Islamic History:

In Islamic history, the institution of *Hisbah* and the role of the *Muhtasib* to monitor, control and prevent fraudulent exploitations on consumers in the marketplace go back to the time of Prophet Muhammad (p.b.u.h) and the first four Caliphs. The function was linked to Qur'anic verses that urge Muslims to promote right and prevent wrong. For instance in Sūrat al Māedah, verse: 104.

> *"Let there arise out of you, a band of people, inviting to all that is good, enjoining what is right, and forbidding what is wrong: They are the ones, to attain felicity."*

According to Imam Ghazali, the *Hisbah* practice must be seen as a *Fard Kifayah* for Muslims; where every Muslim is expected to play a positive role in the propagation of good (*Maaruf*) and suppression of evil (*Mungkar*). However, it has been made an obligation on a section of society to remain engaged in it. The *Muhtasib* is the official appointed by the ruler to implement *Hisbah* on behalf of the state. Murtuza (2004) notes that the institution of *Hisbah* moved along with Muslims into the Western provinces of Spain and remained an integral part of the state. However, according to him, with the arrival of Western colonialism and the simultaneous eclipse of Islamic political strength, most of the Muslim institutions underwent drastic decline. The institution of *Hisbah* also declined in effectiveness and virtually disappeared. The effectiveness of *Hisbah* was directly related to the strength of governance.

The Nature of Accountability

The nature of accountability indicates that self-accountability to Allah (s.w.t) is the best and beneficial guide for auditing. If a person is appointed as an auditor in any organization for auditing, he always feel that there is no scope for any fraudulent activities for the fearless of punishment as the Allah (SWT) always see him, rather he can perform well for his Allah fearing accountability. Regarding the self-audit, there are a lot of evidence in Al-Qur'an and Al-Hadith. In the Holy Qur'an Allah (SWT) says: "*Truly nothing is hidden from Allah*

(SWT), in the earth or in the heaven" (Surat al- Imran, verse: 5). In another verse: *"He is with you where so ever you may be."* (Surat al- Hudid, verse: 5)

Accountability for all actions and even intentions of the human beings appears a recurrent theme in the Holy Quran. To begin with, the question of how human accountability will take place, a verse in Quran explains that, "while (appointed) over you there are watchers, who are noble, writers (of the deeds), who know whatever you do." (Surat al-Infitaar, verses: 11-13) Broadening the scope of responsibility to include even intentions, another verse contains that, "To Allah belongs what is in the heavens and what is in the earth. If you disclose what is in your hearts or conceal it, Allah shall hold you accountable for it; then He will forgive whom He wills and punish whom He wills. Allah is powerful over everything." (Surat al-Baqarah, Verse: 284) Perhaps the most glaring example of how deep and encompassing this accountability by God is: "He knows the treachery of the eyes and whatever is concealed by hearts." (Surat al-Mominin, verse: 19). In a nutshell, this vast accountability is the direct outcome of the concept of Tauheed (the confession of the omnipotent authority of God), as has been beautifully expressed in verses like: "Allah takes careful account of all things." (Surat al-Nisa, verse: 86). "Then shall anyone who has done an atom's weight of good, see it! And anyone who has done an atom's weight of evil, shall see it!! (Surat al-Qariah, verse: 7-8).

Apart from a general sense of accountability for everything, Quran also touches upon one important aspect of accountability; the financial accountability. More interestingly, it is easier to find some indications in Quran for its specific focus on financial accountability. It is because human beings love wealth and are materialistic by nature: "and in his love for wealth, he is very intense." (Surat al-Aadiat, verse: 8). Another verse also throws light on the greedy nature of humans in detail: "It has been made attractive for people to love the desired things; that is, women, and children, hoarded heaps of gold and silver, and branded horses. The above mentioned Qur'anic injunctions and emphasis on accountability were practically implemented in the early Islamic period by the Prophet peace be upon him. Numerous instances can be quoted in this regard. For instance, the Prophet peace be upon him stressed "individual" accountability in these words: "Beware that every one of you is a shepherd and everyone is answerable with regard to his folk. The caliph is a shepherd over the people and shall be questioned about them. A woman is a guardian over the house hold of her husband and his children and has to be questioned about them. A slave is a shepherd over the property of his master and shall be questioned about it". Then the Prophet, may peace be upon him, added: "beware that every one of you is a guardian and every one of you shall be questioned with regard to his trust".

Why *Sharīʿah* Audit?

The term *Sharīʿah* audit (التدقيق الشرعي) is a relatively new term (Chik, 2011). Islamic religious auditing or *Sharīʿah* audit monitors the performance of IFIs' state of *Sharīʿah* compliance. It is evident from the definitions given above that the logic for *Sharīʿah* audit is to ensure the compliance of IFI with *Sharīʿah* in all possible respects. Indeed this is the core objective of *Sharīʿah* audit. It has also been explicitly asserted by what AAOIFI published in 2010 about the objectives of auditing. According Yaacob, H. (2012), the audit of an IFI aims to enable the auditor to express an opinion about the financial statements of the organization, as to whether they are prepared in all material respect in accordance with the fatwas, rulings and guidelines issued by the *Sharīʿah* supervisory board of the said IFI, the accounting standards of AAOIFI itself, the national accounting standards and practices, as well as the relevant rules and regulations of the country where the IFI operates. The auditors conducting this audit should also cater for the Code of Ethics for Professional Accountant and should be dressed with righteousness, integrity, trustworthiness, fairness, honesty, independence, objectivity, professional competence, due care, confidentiality, professional behavior and technical standards. Yaacob and Dongla (2012) also assert that auditing is important for guaranteeing corporate accountability and enhancing the stakeholders' faith in the company. However, unlike the conventional audit which focuses on the compliance of financial statements to be in accordance with GAAP and other relevant standards, *"the auditing of Islamic Financial Institution (IFI) cover a wide range of scope. This is because auditors/ Sharīʿah auditors must attest that the management has complied not only with relevant standards but also the Sharīʿah framework in all of the transactions to achieve the Maqāṣid as Sharīʿah."*

On the other hand, the broader scope of Islamic auditing has also been reiterated by Yahya and Mahzan (2012), who state that the scope of auditing in Islamic framework is much larger as compared to the scope of traditional auditing. From the traditional concept of attest and authority it would expand to report on various social and economic aspects of business organization. This is due to the reason that auditing in Islam has been derived from the basic values of Islamic societies and Sharīʿah principles.

Views of Scholars on *Sharīʿah* Audit

The emergence of Islamic accounting is substantially advanced as compared to that of *Sharīʿah* audit. Both of these are getting momentum as the industry is expanding at a fast speed. Since the research about *Sharīʿah* audit is at the embryonic stage, some basic issues and concepts of it have not yet been resolved. For instance, any field of study needs a proper definition and proper approach before one can dig deep into its different aspects. However, there has not been any unanimous and clear cut definition of the term *Sharīʿah* audit yet. In its simplest sense, *Sharīʿah* audit has been defined as an audit attestation for *Sharīʿah* compliance (Yahya and Mahzan, 2012).

Most of the scholars have opined that the *Sharīʿah* audit is the examination as per guidance of the accounting and auditing organization for Islamic Financial Institutions formerly known as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Hameed (2008) has defined it as:

> *"a systematic process of objectively obtaining and evaluating evidence regarding assertions about socio- economic, religious and environmental actions and events in order to ascertain the degree of correspondence between those assertions and Sharīʿah and communicating the results to users".*

Whereas Rahman (2008) defines Sharīʿah audit as "the accumulation and evaluation of evidence to determine and report on the degree of correspondence between information and established criteria for Sharīʿah compliance purposes". According to Akram Laldin (2009), *Sharīʿah* audit is the examination of an Islamic Financial Institutions (IFI's) compliance with the *Sharīʿah*, in all its activities particularly the financial statements and other operational components of the IFI that are subjected to the risk of compliance including but not limited to products, the technology supporting the operations, operational processes, the people involved in key areas of risk, documentations and contacts, policies and procedures and other activities that requires adherence to *Sharīʿah* principles. Dr. Ghulam Mohiuddin (2012) mentions that the purpose of Audit is to establish standards and provides guidance on the objective and general principles governing an audit of financial statements prepared by a financial institution which conducts business in conformity with Islamic *Sharīʿah* rules and principles. In Islamic viewpoint audit activities are not concentrated only on financial statements rather it is encompasses in whole over a believer's life.

AAOIFI's Governance Standard for IFIs no. 3 elaborates the objective of *Sharīʿah* audit as:

> *"the primary objective of the internal Sharīʿah review (carried out by independent division or part of internal audit department) is to ensure that the management of an IFI discharge their responsibilities in relation to the implementation of the Sharīʿah rules and principles as determined by the IFI's Sharīʿah Supervisory Board (SSB)".*

We find a more comprehensive definition of the term given by Haniffa (2010) which states that *Sharīʿah* audit is a systematic process of objectively obtaining and evaluating evidence regarding assertions about religious and socioeconomic actions and events in order to ascertain the degree of correspondence between those assertions and those of the applicable financial reporting framework, including the criteria specified based on *Sharīʿah* principles as recommended by the *Sharīʿah* Supervisory Board (SSB) and communicating the results to all interested parties.

Recommendation

1. An auditor should maintain his independence, integrity and objectivity. He must report what he watches.
2. Auditors should observe the profession's technical standard and make effort to improve his level of competence and quality of his service on a continuous basis.
3. The auditor should always be fair and impartial with his clients. He should exercise due professional care consistent with his responsibilities.
4. The auditor should conduct himself in such a manner that will promote good relationship among the members and enhance the reputation of the profession as a whole.
5. Audit is a social function, the auditors should conduct their activities in such a manner that the public interest is served at all times.

Conclusion

Auditing is an important task for every organization. If it is not done effectively and efficiently, the main figure of an organization as well as its position cannot be determined. For this efficient and effective audit the Holy Qur'an and Hadith can be the best guide to perform it. A man with Qur'anic knowledge as well as traditional knowledge on auditing can do it well. Now-a-days, Islamic Financial Institutions are growing rapidly with success. This is an initial approach that Islamic auditing may play a vital role there. But there is a need for more comprehensive works for pious person. A separate compilation should be developed with the reference of selected Qur'an, Sunnah and other divine messages. Initiative should be taken to develop God fearing attitude among the concerned. Divine message based course curriculum as well their implementation on different aspects, like accounting, auditing and other should be developed through study and research.

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