

Combined Assurance Strategy in Sharia Audit for Detecting Hifz al-Mal Violations in Islamic Financing

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Abstract: The growth trajectory of Indonesia's Islamic banking sector continues to reflect a positive trend; however, the industry remains confronted with critical challenges related to sharia non-compliance, particularly within financing instruments such as *murābahah*, *muḍārabah*, *mushārahah*, and *ijārah*. Various forms of non-compliance have emerged at both administrative and substantive levels, indicating potential violations of the *ḥifz al-māl* principle within the framework of *maqāṣid al-sharī'ah*. This study aims to explore and conceptualize an effective sharia audit strategy to detect such irregularities by proposing a four-pillar auditing model that integrates: (1) fatwa- and PSAK-based checklist mechanisms, (2) a combined assurance approach between the Sharia Supervisory Board and internal audit units, (3) strengthened professional competence and auditor scepticism, and (4) risk-based audit mapping. Employing a descriptive qualitative design through systematic library research, the study synthesizes primary regulatory texts and recent empirical scholarship using thematic classification and content analysis. The findings indicate that sharia auditing practices which remain focused on administrative compliance are insufficient for identifying substantive deviations. Consequently, a risk-oriented, collaborative, and *maqāṣid-driven* audit framework is required to ensure the protection and preservation of transactional value. This research contributes to the development of an operational and value-based sharia audit model that can support internal policy implementation within Islamic financial institutions and serve as an academic foundation for enhancing national sharia auditing standards.

Keywords: Combined Assurance, *Hifz al-Māl*, Islamic Financing, Sharia Audit, Sharia Supervisory Board

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INTRODUCTION

The development of Indonesia's Islamic financial industry has demonstrated sustained and substantial growth over the past decade. This progress is reflected in increasing asset accumulation, continuous innovation in Islamic financing products, wider institutional outreach, and the strengthening of governmental regulatory support for the implementation of sharia-compliant economic systems. According to recent official data, the national Islamic banking sector has achieved a market share of 7.72% of total banking assets as of the end of 2024, with the combined assets of Islamic Commercial Banks (Bank Umum Syariah) and Islamic Business Units (Unit Usaha Syariah) surpassing IDR 846 trillion. These indicators strongly reinforce growing public trust and signal Indonesia's potential to emerge as a global hub for sharia-based financial development grounded in principles of justice (*al-'adl*), societal benefit (*al-maṣlaḥah*), and the protection of economic value and property rights (*ḥifz al-māl*).

Despite this promising quantitative expansion, fundamental challenges remain, particularly concerning the consistent adherence to *fiqh al-mu'āmalāt* principles. Financing instruments such as *murābahah*, *muḍārabah*, *mushārahah*, and *ijārah* are inherently designed as

sharia-compliant alternatives that must remain free from elements of *ribā* (usury), *gharar* (excessive ambiguity), and *maysir* (speculative or gambling-like practices). Consequently, each financing arrangement must be executed in accordance with sharia provisions not only in its contractual structure but also in matters of ownership transfer, administrative documentation, profit-sharing or margin calculation mechanisms, and equitable risk-return distribution. Failure to uphold these requirements may lead to sharia non-compliance, which could subsequently undermine the validity of transactions, affect the legitimacy of generated income, and potentially damage the institutional integrity and reputation of Islamic financial entities. (Yusra, 2024; Amelia, 2024).

In operational practice, sharia auditing serves as a central supervisory mechanism designed to ensure that all institutional activities, financial products, and internal policies remain fully aligned with Islamic legal principles. The role of sharia audit goes beyond the verification of administrative compliance or contractual documentation, as it also requires a comprehensive assessment of the transactional substance in accordance with sharia objectives, as stipulated by the National Sharia Board – Indonesian Council of Ulama (DSN-MUI) and the international standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In its implementation, sharia audit functions are executed collaboratively by the Sharia Supervisory Board (SSB) and internal auditors through systematic procedures of verification, validation, evaluation, and reporting, ensuring that every transactional structure and financing product offered by Islamic banks adheres to sharia compliance requirements. (Amelia, 2024)

Nevertheless, a growing body of empirical findings and scholarly analyses indicates that incidents of sharia non-compliance continue to occur within various Islamic financial institutions. Common forms of irregularities include the application of unauthorized dual contractual structures, unilateral determination of *murābaḥah* margins without a fair negotiation process, inconsistencies between contractual documentation and the actual underlying transactions, as well as unclear procedures related to ownership transfer and delivery of the traded asset. These cases suggest that some Islamic banks place excessive emphasis on documentary formalities while overlooking the substantive dimensions of transactions, particularly those associated with the principles of *ḥalālan-ṭayyiban*, fairness, transparency, and equitable risk allocation. (Marzuki, 2024).

In addition, a critical phenomenon that warrants further attention is the dominance of *murābaḥah*-based financing within the portfolio composition of Islamic banks in Indonesia. Empirical reports indicate that *murābaḥah* financing consistently accounted for more than 58% of the total financing distribution during the period 2021–2023, positioning it as the most predominant mode of financing compared to profit-sharing contracts such as *muḍārabah* and *mushārahah*. (Ni & Kusumaningrum, 2024). The institutional preference for *murābaḥah* financing is largely driven by its relatively clear risk profile and predictable profit margins compared to other sharia-based financing structures. However, this condition simultaneously increases the likelihood of substantive non-compliance, including the execution of fictitious *murābaḥah* transactions (in which asset ownership is not genuinely transferred), concealed price mark-ups, and ambiguities concerning the specification and identification of the underlying asset. (Malik et al., 2025). Failure to identify these non-compliant practices may lead to a range of adverse consequences, including monetary losses, enforcement actions from regulatory authorities, reduced spiritual and ethical validity of profit realization, and a significant decline in stakeholder confidence toward Islamic financial institutions.

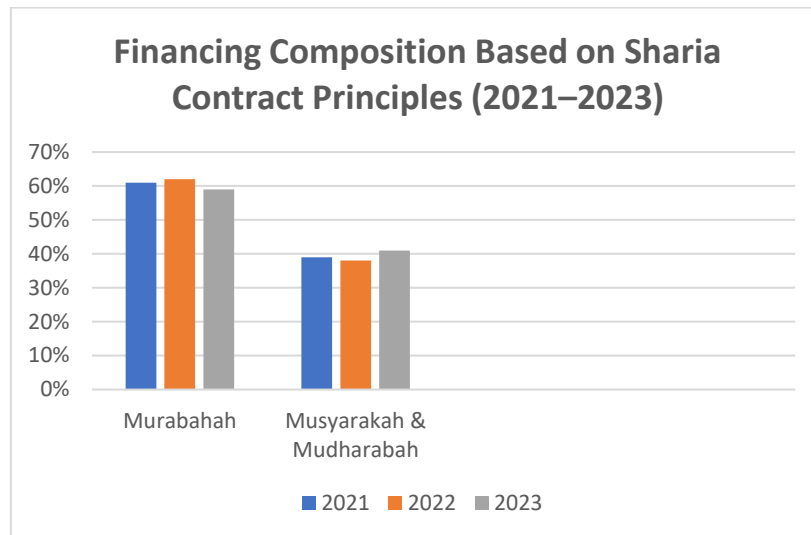


Figure 1: Financing Composition Based on Sharia Contract Principles (2021–2023)
(Ni & Kusumaningrum, 2024)

In this context, sharia auditing practices in Indonesia have not yet been supported by a uniform and nationally binding standard, despite the availability of international sharia audit guidelines issued by AAOIFI. The adoption of these standards across Islamic financial institutions in Indonesia remains inconsistent and is often limited to referential or administrative use, with certain institutions applying them based on internal interpretation and policy discretion rather than as mandatory operational guidelines. (Respatiningsih et al., 2025). The challenges faced by Islamic financial institutions are further intensified by the intricate nature of *fiqh al-mu‘āmalāt*, the diversity of contract structures, and the evolving landscape of modern financial transactions, all of which necessitate a multidimensional competency framework in sharia auditing. Consequently, sharia auditors are required to possess interdisciplinary expertise that spans Islamic jurisprudence, accounting, risk management, and Islamic financial law. At the same time, Indonesia has yet to establish a uniform national standard governing sharia audit practices, despite the availability of international sharia auditing standards issued by AAOIFI. The application of these standards across Islamic financial institutions in Indonesia remains inconsistent and often limited to referential or administrative compliance, with instances where their implementation is subject to internal policy discretion and interpretive flexibility at the institutional level. (Al-Ustadzi & Ainirrohmah, 2024). This issue becomes even more pronounced given the doctrinal complexity of Islamic transactional jurisprudence, the varied application of sharia-compliant contractual frameworks, and the constantly developing nature of financial innovations, which consequently necessitate a comprehensive skill set involving jurisprudential interpretation, accounting standards knowledge, risk analysis, and regulatory compliance in Islamic finance.

Contemporary studies indicate that sharia non-compliance is not merely caused by inconsistencies in documentary evidence; it is also linked to the limited expertise and weak professional scepticism of internal auditors, compounded by the insufficient active role of the Sharia Supervisory Board in routine oversight and monitoring mechanisms. (Elga, Tasya, 2025). In many Islamic financial institutions, internal auditors do not consistently possess adequate educational or professional backgrounds in *fiqh al-mu‘āmalāt*, which consequently limits their ability to accurately assess the substantive compliance of transactions. (Hassan, A., & Harahap, 2010). Additionally, the role of the

Sharia Supervisory Board tends to be concentrated at the product initiation stage, while ongoing oversight is infrequently performed, leading to suboptimal supervisory outcomes and potential oversight gaps. (Mutmainah & Apriliantika, 2023)

To address these challenges, the development of a collaborative sharia audit model that synergizes the roles of the Sharia Supervisory Board (SSB) and internal auditors—referred to as a combined assurance strategy—is essential. This model is expected to integrate substantive sharia assessment conducted by the SSB with risk-oriented procedural evaluation performed by internal auditors. Such an approach is deemed more effective than conventional auditing methods that rely predominantly on administrative checklists and document verification. Accordingly, the purpose of sharia audit should extend beyond ensuring documentary compliance, and instead aim to uphold the values of *maqāṣid al-sharī‘ah*, particularly the *ḥifẓ al-māl* principle that emphasizes asset preservation and the protection of public wealth.

Existing research has predominantly discussed the theoretical mandate of the SSB, the implementation of AAOIFI standards, ethical disclosure mechanisms, and the identification of non-halal income; however, no prior empirical work has formulated an operational, measurable, and *fiqh al-mu‘āmalāt*-based combined assurance audit model for detecting *ḥifẓ al-māl* violations, particularly within the dominant *murābaḥah* financing structure. Thus, the research gap lies in the absence of an integrated audit framework that simultaneously optimizes the sharia expertise of SSB members and the technical auditing capabilities of internal auditors. The novelty of this study is the development of a four-pillar conceptual model of sharia combined assurance, consisting of: (1) sharia-norm-based audit instruments, (2) dual-role collaborative audit mechanisms between SSB and internal auditors, (3) enhanced professional competence and auditor scepticism, and (4) risk-driven audit procedures. The main objective of this research is to identify the most effective sharia audit strategy for detecting violations of the *ḥifẓ al-māl* principle in Islamic bank financing and to propose a practical, structured, and implementable audit framework.

To achieve the stated research objectives, this study adopts a descriptive qualitative approach employing a library-based research design. The analytical process involves several stages, including systematic literature selection, thematic classification, comparative analysis, and theoretical interpretation, as elaborated in the methodology section.

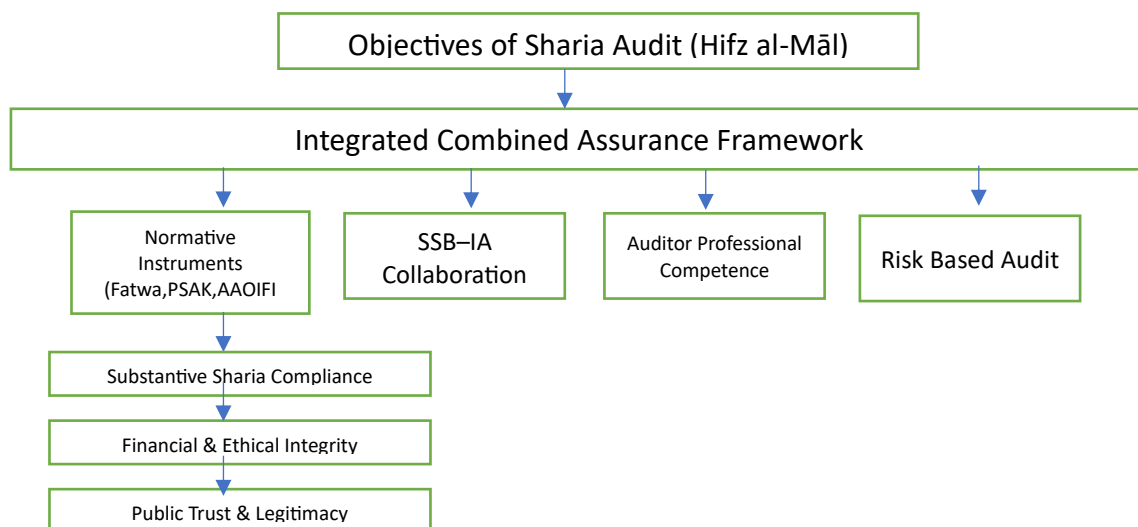


Figure 2: Integrated Combined Assurance–Based Sharia Audit Framework

LITERATURE REVIEW

Sharia Agency Theory

Sharia Agency Theory represents an extension of the classical agency theory introduced by Jensen and Meckling (1976), but recontextualized within the value system, ethical norms, and moral principles of Islam. Within Islamic financial institutions, agency relationships are not limited to contractual arrangements between the capital provider (*shāhib al-māl*) and the fund manager (*muḍārib*); rather, they are underpinned by spiritual foundations and transactional ethics that emphasize *divine accountability*. (Y. Abdullah & Nugraha, 2020). Thus, an agent's obligation is not confined to maximizing financial returns, but must also include the prevention of any form of sharia non-compliance, thereby upholding the entrusted responsibility and maintaining the spiritual integrity and blessing of all transactional activities.

In the context of Islamic banking, agency conflicts can emerge when managerial decisions are driven predominantly by profit margins and short-term performance targets, potentially at the expense of adherence to sharia compliance requirements. (Antonio, 2019). For example, this may be reflected in the unilateral determination of *murābaḥah* pricing without transparent negotiation, the diversion of financing funds for purposes that are not aligned with the agreed contractual terms, and *form-over-substance* practices in which transactions are recorded as sales contracts but, in economic substance, resemble conventional loan arrangements. (Hasan et al., 2025). These irregularities suggest that the agent is not fulfilling their sharia-based fiduciary obligation, which may lead to various forms of sharia agency costs, including reputational deterioration, regulatory non-compliance, and diminished religious legitimacy.

These instances of non-compliance reflect a failure on the part of the agent to meet their sharia-governed fiduciary mandate, thereby posing the risk of incurring sharia agency costs manifested through reputational impairment, legal and regulatory liabilities, and the weakening of religious legitimacy within transactional activities.

Objectives of Shariah

Maqāṣid al-Sharī'ah provides a philosophical framework asserting that the purpose of Islamic law extends beyond regulating legal actions, encompassing the assurance of economic, social, and spiritual well-being. (Dusuki, A., & Bouheraoua, 2011). From a financial perspective, ḥifẓ al-māl constitutes the most applicable maqāṣid objective, as it emphasizes the preservation, ethical stewardship, and just allocation of wealth through secure and legally permissible mechanisms. (Auda, 2008). Oleh karena itu, peran audit syariah tidak hanya memastikan *documentary compliance*, tetapi juga fokus kepada *substantive compliance* untuk menilai niat, proses, dan dampak transaksi pembiayaan.

Within a maqāṣid-based auditing framework, auditors are expected to transcend procedural checklist methodologies by applying a rigorous substance-over-form review to determine the authenticity of contract implementation. In the case of *murābaḥah*, this includes assessing the factuality of asset ownership by the bank, the certainty of the sale price, the transparency of margin agreements, and verifying that no deceptive practices (*tadlīs*) occur within the contractual process. (Misbah et al., 2022). As a result, sharia auditing should be viewed as a long-term protective instrument that prioritizes the enduring welfare and interests of customers, rather than functioning solely as an administrative compliance checklist.

From a maqāṣid perspective, auditors are required to examine transactional intent and value impact beyond legal formalism. The audit methodology must therefore possess the ability to uncover latent *gharar*, simulated contractual arrangements, and deceptive legal structuring

that could undermine welfare objectives. As such, maqāsid-compliant sharia auditing evolves from a purely prescriptive model into a comprehensive value-driven evaluation framework that ensures financing products promote welfare, equity, transparency, and are devoid of harm or exploitative potential.

Legitimacy Theory

Legitimacy Theory asserts that organizational continuity is contingent upon fulfilling societal normative standards (Suchman, 1995). In Islamic banking, legitimacy takes both commercial and religious forms. Commercial legitimacy derives from financial success, while religious legitimacy is rooted in substantive, verified compliance with sharia requirements, not merely symbolic identification. When authentic compliance cannot be evidenced, a legitimacy gap may occur, reflecting a misalignment between stakeholder expectations and institutional conduct. (Djumadi et al., 2025)

Detected violations of Sharia principles, especially those involving dominant and frequently used public products like Murabahah, directly threaten the bank's religious legitimacy. Exposure to non-compliance cases can trigger a legitimacy gap, which is the disparity between the bank's practices and the public's expectation of upholding Sharia compliance. Therefore, a strict and effective Sharia audit strategy is the most vital managerial instrument for maintaining the social contract with the community. Through independent and credible compliance audit reports, Islamic banks can communicate and convince stakeholders that they have fulfilled their ethical and normative responsibilities, which will ultimately strengthen customer trust and ensure the bank's operational sustainability. The combined assurance strategy between the DPS and internal auditors, which is examined in this research, is an institutional effort to maintain and reinforce that legitimacy amidst the challenges of modern business practices.

METHOD

This research adopts a descriptive qualitative methodology utilizing a library research framework, chosen to explore and interpret sharia auditing practices through a deep contextual understanding rather than quantitative validation. The primary objective is to produce a critical assessment and comprehensive conceptual construction of a four-pillared sharia audit model, comprising: normative sharia-driven audit checklists, a combined assurance framework connecting SSB and internal audit functions, enhancement of auditor competence and professional scepticism, and the application of risk-based audit mapping. The model formulation is informed by a triangulated synthesis of normative religious sources, empirical evidence of sharia non-compliance cases, and regulatory guidance issued by DSN-MUI and OJK.

This study relies on secondary data obtained from multiple credible sources, including nationally accredited journals (SINTA), high-impact international journals, academic conference proceedings, scholarly books, primary sharia regulatory documents (DSN-MUI fatwas, Islamic PSAK, and AAOIFI standards), and formal institutional reports published by OJK and Bank Indonesia. A systematic data collection method was applied, involving targeted keyword formulation, exploration of authoritative academic databases, and rigorous screening of relevant literature. Inclusion criteria were limited to peer-reviewed publications from 2015 to 2025 that demonstrated strong thematic relevance, while exclusion criteria ruled out non-scholarly works, personal opinions, and predatory journal publications. The data collection process concluded with thematic coding aimed at organizing and categorizing literature based on core sharia audit topics to facilitate analytical interpretation.

A qualitative content analysis approach was applied as the core analytical method, utilizing interpretive techniques for data processing. The analysis procedure comprised three key phases: (1) data reduction through selective filtering and simplification, (2) data display through thematic structuring and matrix development, and (3) synthesis-based conclusion drawing to formulate an integrative sharia audit model. To reduce potential interpretive bias, several validation strategies were implemented, including multi-source triangulation (academic journals, regulatory documents, and official institutional reports), literature cross-verification, contradictory evidence searching, critical analytical reflection, and peer consultation, thereby reinforcing the credibility and trustworthiness of the results.

To support methodological validity, this study substantiates the choice of a library research design through a comparative reflection against alternative literature synthesis approaches. The research process includes problem identification (legitimacy gaps and sharia non-compliance), keyword development and literature screening, data extraction, qualitative content analysis, and the formulation of a conceptual model for sharia auditing. Methodologically, the study contrasts the library research technique with systematic review and meta-synthesis approaches to justify the appropriateness of the selected method. This comparison demonstrates that the study incorporates the methodological rigour of systematic review while intentionally maintaining qualitative interpretive flexibility, which is essential for embedding normative constructs such as *divine accountability* within a technical audit model.

RESULTS AND DISCUSSION

The study indicates that the primary challenge in sharia compliance auditing is not limited to inadequate documentary verification, but lies in the underutilization of a substantive audit paradigm that prioritizes *syirkah* spirit, authentic ownership structures, transactional transparency, and equitable risk distribution. These findings corroborate prior literature, suggesting that current Islamic financing practices largely emphasize contractual administration rather than *maqāṣid-driven* sharia value realization, thereby creating potential gaps for non-compliance despite formal alignment with fatwa-based or PSAK requirements. (Faizin & Djayusman, 2023). The results further validate that mere adherence to formal requirements cannot guarantee substantive sharia compliance, emphasizing the need for sharia audits to adopt a substance-over-form assessment approach.

Based on the synthesis of relevant literature, sharia non-compliance in *murābahah* financing and similar contractual structures can be categorized into three primary forms:

1. Contractual deviation, referring to inconsistencies between the documented contractual terms and the actual practices occurring within the transaction.

The results indicate that one of the most substantial non-compliance issues within Islamic banking financing relates to contractual discrepancies, wherein the documented contract formally fulfils sharia provisions, but the transactional reality fails to uphold its intended substance. This includes the absence of genuine asset ownership (*al-tamlīk*) by the bank before executing *murābahah*, procedural manipulation in asset procurement, and instances where transactions mimic conventional loan structures rather than reflecting a legally valid sale in accordance with *fiqh al-muʿāmalāt*. These results corroborate the conclusion of (Al-Umar & Mansor, 2023) noting that in several financing cases, banks have prepared formal *murābahah* documentation while failing to execute a legitimate sale transaction, thus exemplifying a state of “documentary compliance without substantive compliance.” (Djumadi et al., 2025). This situation

aligns with the conclusions drawn (Haryati & Ughits, 2025) who observed persistent use of *murābahah* structures for liquidity financing purposes, absent any legitimate sale and purchase of tangible assets. Such practices deviate fundamentally from the essential requirements of *murābahah*, namely real asset ownership and the transfer of risk from the financial institution to the client.

This contractual non-compliance is compounded by the insufficient application of substantive verification procedures within sharia audits, where auditors and SSB members commonly emphasize administrative documentation review rather than empirical validation of real transaction flows, rendering instances of “fictitious contracting” difficult to identify. (Mutmainah & Apriliantika, 2023) The findings underline that a documentation-focused auditing paradigm may result in transactions that satisfy formal legal requirements but lack substantive sharia legitimacy, creating vulnerabilities to elements of *gharar*, *tadlis*, and hidden *ribā*. Furthermore, the limited availability of verifiable contractual evidence—such as authentic invoices, delivery confirmation records, and asset ownership transfer documentation—hampers auditors in confirming transaction validity. Therefore, this study concludes that contractual irregularities constitute a critically significant sharia compliance risk, with potential consequences including Islamic legal invalidation of contracts, non-halal income recognition, reputational decline, and erosion of institutional legitimacy within Islamic banking.

2. Procedural deviation, particularly concerning asset ownership, delivery processes, and negotiation mechanisms.

The research also identifies that sharia non-compliance frequently manifests not only in the contractual phase but also in the operational execution of *murābahah* financing, where the process is misaligned with Islamic transactional jurisprudence. Such deviations commonly occur during the asset ownership, delivery, and price negotiation stages, in which banks document the transaction as a valid sale while failing to conduct the transaction substantively in accordance with sharia regulatory procedures.

Moreover, the findings indicate that, in certain cases, price negotiation between the bank and the client is not carried out through transparent and consultative mechanisms; instead, prices are set unilaterally by the bank based on internal profit-margin policies. This practice conflicts with the ethical foundations of transactional equity (*al-‘adl wa al-ihsān*) and the principle of mutual consent (*riḍā bi al-riḍā*), which are central to the validity and spirit of *murābahah* contracts. (Mutmainah & Apriliantika, 2023) This analysis also highlights that opacity in margin-negotiation procedures may result in price inequity, underscoring the need for sharia auditors to evaluate negotiation dynamics rather than solely verifying the contractual margin figures. The findings confirm that such procedural deviation represents a substantive breach that poses greater risk than administrative irregularities, as it may shift the economic substance of a sale contract toward a quasi-loan structure. Thus, the sharia audit function must evolve toward a process-driven approach—encompassing substantive verification procedures, evidence tracing, delivery validation, and price-rationale auditing—to ensure full compliance with *ḥifẓ al-māl*, transparency, equity, and *maqāṣid al-sharī‘ah*-aligned outcomes.

3. Inaccurate classification and separation of halal and non-halal income sources.

The research confirms that inaccurate segregation of halal and non-halal income remains a major governance concern within Islamic financial practices, largely due to weak documentation systems, inadequate sharia risk evaluation procedures, and limited audit traceability of income

streams. This issue can result in material misstatements and jeopardize the fulfillment of *hifz al-māl*, which constitutes a core *maqāṣid al-sharīʿah* mandate in Islamic finance. Although policy frameworks on income purification and segregation are in place, their implementation is challenged by data reliability, computational precision, and audit consistency, creating the possibility that non-halal income is inadvertently incorporated into reported halal revenues. (Azmi, 2017). The evidence corroborates the work of (Mohd-Zulkifli et al., 2022) indicating that in some cases, *shubhah* income is recorded subsequent to annual audit exercises rather than via continuous internal audit monitoring, thus increasing the possibility of delayed post-factum identification and corrective action.

The challenge is aggravated by the lack of comprehensive and operationally detailed accounting guidance, particularly concerning the identification of *shubhah* transaction indicators, tolerance parameters (*taḥammul al-ghalaṭ*), and structured mechanisms for allocating non-halal income to charitable funds. In numerous Islamic financial institutions, income classification tends to rely on product-based identification instead of behavioural transaction assessment, despite the fact that violations predominantly emerge at the operational level, including incorrect margin application, delays in asset acquisition, and administrative fee structures that exceed equitable pricing standards. (Sulaiman, M., 2020) The study further explains that in many Islamic financial institutions, income-source assessment is predominantly conducted based on product categorization rather than transactional behaviour, even though most non-compliance issues arise at the operational level, such as margin miscalculation, delayed asset ownership transfer, or administrative fees exceeding fair-pricing boundaries. Moreover, sharia income auditing is often performed through documentary-based confirmation rather than substantive forensic analysis, making it vulnerable to overlooking income generated through transactions that do not fully comply with *fiqh al-muʿāmalāt* principles. Consequently, the findings assert that the issue of halal–non-halal income segregation is not merely a technical accounting matter, but also a governance, audit-capability, and spiritual-accountability concern. Therefore, there is a critical need to strengthen sharia auditing models through a *combined assurance* framework, enhance *fiqh-accounting* competence development, and establish real-time sharia-compliance detection–based accounting systems.

This study subsequently formulates a Four-Pillar Sharia Audit Model as a mitigation strategy designed to enable sharia auditing to function both as an accountability mechanism and a value-protection system. The four pillars consist of:

1. **A standardized sharia-norm-based checklist that integrates DSN-MUI fatwas, Sharia PSAK, and AAOIFI standards as the foundational audit instrument.**

The establishment of a standardized normative sharia compliance checklist forms the primary and most essential pillar of the newly proposed Sharia Audit Model, positioned as an immediate response to concerns raised about the overreliance on document-driven audit procedures in current sharia auditing practices. (Gunawan, H., 2020) An overly formalistic, document-centric auditing paradigm risks confining transactional evaluation to legal compliance alone, neglecting substantive verification and consequently increasing the probability of underlying *gharar*, *tadlīs*, and latent *ribā* exposure. (Malik et al., 2025). Accordingly, this pillar is designed to shift the audit paradigm from merely verifying administrative document completeness toward a value-driven verification instrument based on substantive sharia compliance. This instrument is operationalized through a trilateral normative integration that unifies three primary sources—DSN-MUI fatwas, Sharia-based PSAK standards, and AAOIFI international standards—as a single authoritative foundation for audit assessment.

Within this integration, DSN-MUI fatwas function as the highest legal-normative authority in Indonesia, defining the boundaries of permissibility (*ḥalāl*) and prohibition (*ḥarām*). Sharia-based PSAK provides the technical accounting and reporting framework necessary to ensure financial transparency and contractual clarity. Meanwhile, AAOIFI standards, particularly those relating to Sharia Governance and Auditing, introduce global benchmarks and a strong emphasis on transactional substance and ethical governance—often serving as the key differentiator between formal compliance and substantive compliance.

By integrating these three normative sources, the resulting checklist does not merely confirm the presence of documentary evidence (e.g., *murābahah* agreements), but also mandates verification of substantive elements such as: real asset ownership by the bank prior to sale (*milkiyyah* principle), the mechanism and timing of risk transfer, and the procedural integrity of price negotiation to prevent unilateral determination—thereby providing concrete enforcement of substantive sharia compliance. (Al-Umar & Mansor, 2023)

The primary focus of this integrated checklist is to ensure that the objectives of *maqāṣid al-sharī‘ah* are fulfilled at every stage of the financing process. In the case of *murābahah*—which represents the dominant financing instrument in Islamic banking—the audit tool must specifically assess whether the financing genuinely serves the customer’s real asset needs (e.g., home acquisition, productive business capital) rather than being utilised as a cash-liquidity facility (*murābahah for cash liquidity*) that potentially resembles disguised *ribā*. This assessment requires an analytical and investigative checklist rather than a simple administrative tick-box format.

For instance, the checklist should include verification of evidence that payment to a third-party supplier is executed directly by the bank (and not by the customer), proof of actual asset receipt and possession by the bank (rather than merely appointing an agent), as well as documented transparency and fairness in margin calculation. (Djumadi et al., 2025)

Consequently, this initial pillar moves beyond the provision of an audit instrument by stipulating baseline competency and compliance expectations for internal auditors and the SSB. The standards are intended to align documented legal compliance with substantive authenticity grounded in *al-‘adl* and *gharar-free* transactional principles, thus eliminating potential legitimacy gaps threatening the religious legitimacy of Islamic financial institutions. The development of this checklist constitutes a foundational milestone in shifting from rule-based sharia audit approaches to value-based compliance evaluation.

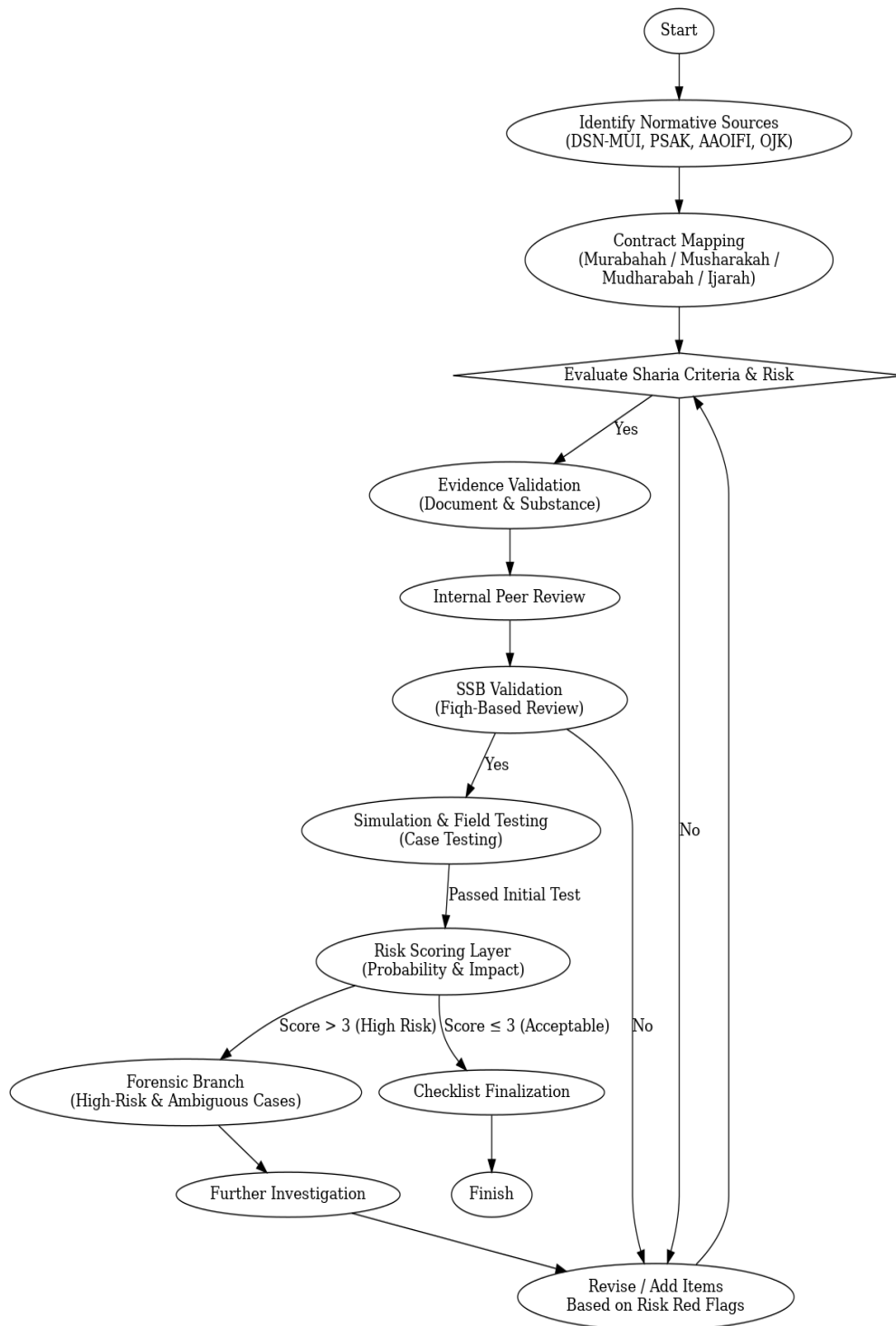


Figure 3: Audit Checklist Validation

2. Combined assurance between the Sharia Supervisory Board (SSB) and internal auditors.

The model advances a functional integration mechanism using a combined assurance approach between the Sharia Supervisory Board (SSB) and the Internal Audit (IA) function to mitigate supervisory fragmentation commonly observed in Islamic financial institutions. (Anwar & Hidayat, 2020). Conventionally, the SSB performs ex-post sharia conformity reviews and issues sharia opinions, whereas IA focuses on internal control structures and operational risk

management. This institutional separation has empirically produced a grey-zone blind spot where substantive sharia risks remain undetected, particularly during the pre-contractual stage. Such blind spots not only induce potential financial losses, but also heighten systemic risk that could erode market trust, as document-centric compliance gaps may persist undetected for prolonged periods before eventually emerging as fatwa-level non-compliance with severe reputational consequences.

The combined assurance concept seeks to merge these two lines of defense, ensuring that sharia supervision operates not only in a top-down manner (led by the SSB, which typically focuses on normative and theoretical oversight) but also bottom-up (driven by the Internal Audit unit, which is directly exposed to daily operational activities). Under this mechanism, the SSB is expected to move beyond a passive post-audit review approach by providing proactive strategic guidance and risk-focused direction to Internal Audit prior to the commencement of audit activities. Such guidance includes defining materiality thresholds for sharia-related risks (e.g., *gharar* or disguised *ribā*) and identifying high-risk areas of non-compliance, such as high-margin *murābaḥah* financing or financing structures involving complex third-party arrangements.

Accordingly, the SSB assumes a strategic leadership role in determining what should be tested and why, while Internal Audit functions as the technical executor responsible for substantiating compliance in real operating environments. This integration aims to achieve dual efficiency and effectiveness in risk mitigation. With continuous operational access and in-depth functional knowledge, Internal Audit is mandated to apply the integrated substantive audit checklist (as formulated under Pillar I) across all business processes, from marketing to disbursement stages. The involvement of Internal Audit within the second line of defense ensures that substantive compliance controls are embedded and executed by the first-line operational units.

Conversely, the SSB is no longer required to spend significant time reviewing basic documentation; rather, it focuses on independent verification and quality assurance of Internal Audit's findings and methodologies, emphasizing the interpretation of fatwa rulings, accuracy of sharia judgment, and alignment with *Maqāṣid al-Sharī'ah* principles.

The combined assurance function plays a critical role in reducing the likelihood of agency conflict, particularly when management or operational staff intentionally prioritize business targets over sharia compliance, by ensuring the presence of coordinated dual-layer oversight. Consequently, this model significantly strengthens vertical accountability (*Divine Accountability*), as all internal audit processes are aligned with the ethical and jurisprudential framework established by the Sharia Supervisory Board (SSB) (A. Abdullah & Asyraf, 2020). The implementation of this model ensures that compliance risks are detected, mitigated, and addressed in real time throughout the entire transaction cycle.

This approach not only minimizes potential reputational and financial losses resulting from ex-post fatwa-based non-compliance, but also reinforces overall sharia governance by positioning substantive compliance as a core institutional value rather than a mere administrative obligation. The integration between the SSB and Internal Audit represents a structural manifestation of Islamic financial institutions' commitment to bridging the legitimacy gap through a holistic and unified supervisory framework.

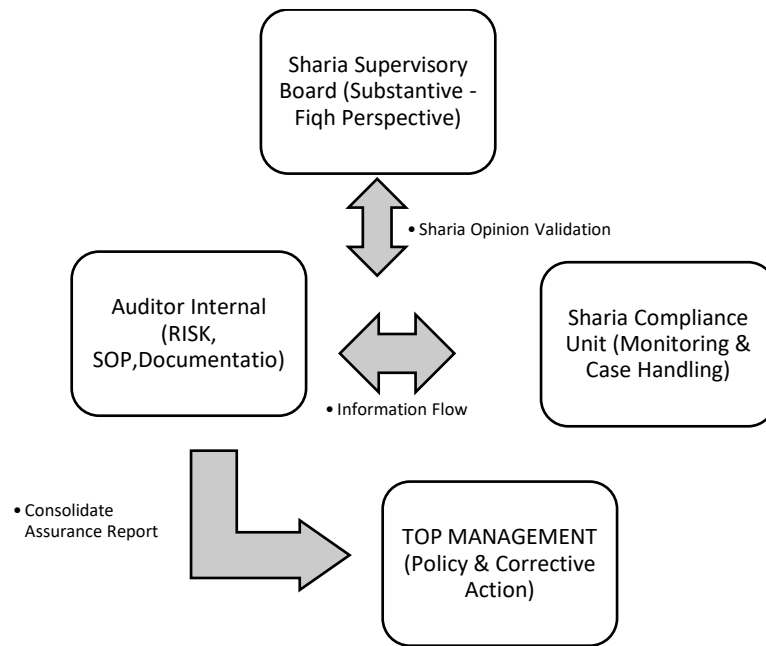


Figure 4: Conceptual Framework of the Combined Assurance Strategy

3. Auditor Competence and Professional Skepticism

The findings of this study demonstrate that auditor competence and professional skepticism are key determinants influencing the effectiveness of sharia audit implementation in Islamic financial institutions, particularly in detecting violations of the *hifz al-māl* principle within contract-based financing. Auditor competence in this context extends beyond technical knowledge of conventional auditing standards, requiring additional mastery of *fiqh al-mu‘āmalāt*, sharia-based accounting standards, sharia governance frameworks, and the ability to perform substantive analysis aligned with *maqāṣid al-sharī‘ah*. Competence in sharia auditing—which includes understanding sharia accounting, regulatory frameworks, and contract theory—has a significant impact on audit quality and the auditor’s ability to detect transactional irregularities that are not evident through formal documentation (document-hidden violations).

In addition, similar to auditors in the conventional sector, sharia auditors are required to uphold professional skepticism, characterized by critical inquiry, prudent judgment, and verification of all audit evidence prior to drawing conclusions (Nabila et al., 2023). Low levels of professional skepticism have been identified as a major contributor to audit misjudgment in Islamic financial institutions, particularly when auditors rely solely on document completeness without verifying transactional substance through fact-based evaluation (Kelly & Larres, 2023).

The study further reveals that weaknesses in sharia auditor competence are partly attributed to limited continuous professional development initiatives and the lack of multidisciplinary-based sharia audit certification curricula. In practice, sharia auditors are expected to possess *triple-knowledge competence*, consisting of: (1) *fiqh al-mu‘āmalāt* and *maqāṣid al-sharī‘ah* as the foundational legal framework; (2) sharia auditing and accounting methodologies as the basis for examination and evaluation; and (3) risk management and internal control systems as the governance and assurance framework.

These findings align with scholarly views suggesting that sharia auditor competence should not be regarded merely as a professional requirement, but also as an instrument for safeguarding ethical and spiritual value integrity within financial transactions. Accordingly, sharia

auditors must be equipped with *spiritual accountability competence* in addition to technical auditing capabilities, ensuring that audit judgments reflect both professional rigor and sharia value consciousness. (Amiruddin et al., 2025).

In addition, the study identifies a role-gap between the Sharia Supervisory Board (SSB) and internal auditors, which indirectly contributes to reduced levels of auditor skepticism. In several cases, internal auditors exhibit a low-skeptical attitude due to the perception that sharia-related aspects have already been validated by the SSB during the product approval stage. However, according to AAOIFI Governance Standard No. 2, the SSB is mandated to provide fatwa-based directives and substantively validate sharia compliance, whereas internal auditors retain full responsibility for conducting independent internal reviews. These findings reaffirm that professional skepticism must remain inherent to the audit function, even when preliminary opinions are issued by the SSB. Therefore, the research concludes that strengthening auditor competence and professional skepticism forms a central pillar within the four-pillar sharia audit model. Without adequate competence and skepticism, neither the existence of sharia checklists, AAOIFI-based standards, nor the combined assurance approach will be sufficient to produce an effective and solution-oriented sharia audit.

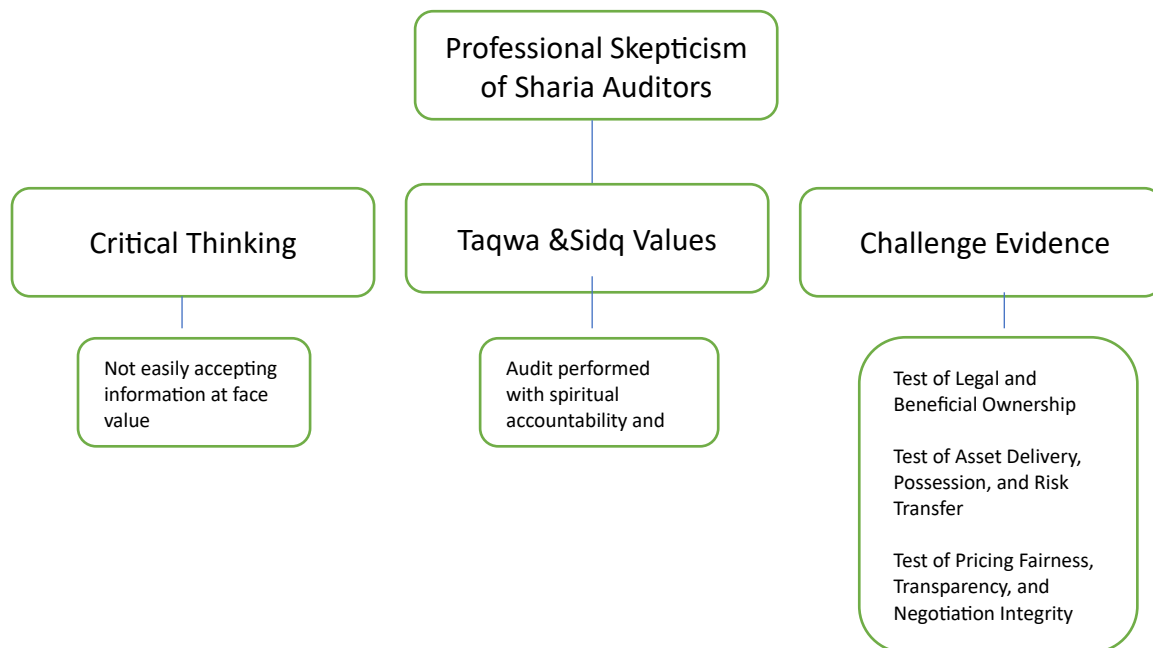


Figure 5 : ISLAMIC SKEPTICAL MINDSET FRAMEWORK

4. Risk-Based Audit Mapping

The study confirms that Risk-Based Audit Mapping (RBAM) represents a crucial strategic component in enhancing the effectiveness of sharia compliance audits within Islamic financial institutions, particularly in terms of early prevention, timely detection, and appropriate follow-up of sharia non-compliance across multiple contract structures. RBAM adopts a risk prioritization framework based on probability, potential impact, and risk materiality, shifting the audit paradigm from uniform, checklist-based inspection to a targeted and risk-focused review. This model is consistent with international developments in risk-based auditing, which advocate the concentration of audit resources on high-risk and high-materiality domains within organizational activities. (Faza & Badwan, 2024). In the Indonesian Islamic banking landscape, RBAM is of heightened importance given that financing portfolios are

largely dominated by particular contract structures—most notably *murābahah*, which represents the majority of financing distribution relative to partnership-based (profit-loss sharing) contracts. Such dominance increases the likelihood of substantive non-compliance risks if audit procedures are not strategically prioritized and risk-oriented.

This study further asserts that RBAM is not limited to normative auditing procedures, but also functions as a foundation for integrating sharia early-warning systems, evidence-chain tracking, and digital audit trails, particularly for transactions executed through digital banking platforms, embedded financing arrangements, and supply-chain-integrated financing. Accordingly, RBAM serves not only as a compliance monitoring tool, but also as a sharia-compliant risk management instrument that supports the implementation of Shariah Enterprise Risk Management (S-ERM).

Moreover, the RBAM model developed in this research incorporates a *Maqāṣid al-Sharī'ah Risk Index (MRI)* as a variable for measuring value-based sharia risk, especially potential violations against *ḥifẓ al-māl*, rather than focusing solely on administrative negligence. As such, sharia auditing practices must evolve beyond assessing contractual legality to also evaluating the societal impact and *maṣlaḥah* generated from financial activities, ensuring that sharia principles are implemented substantively rather than merely formalistically. (Faza & Badwan, 2024). Accordingly, the study proposes that upcoming sharia audit frameworks should integrate RBAM, maqāṣid scoring mechanisms, and a forensic audit component to ensure that sharia auditing evolves beyond retrospective assessment toward preventive, predictive, and corrective functions, consistent with contemporary audit methodologies that emphasize value creation and long-term sustainability.

Table 1. Interpretation of Sharia Audit Findings through Risk-Based Audit Mapping (RBAM)

Kode	Risk Zone	Concept of Audit	Control Actions
L	Low Risk Zone	Adequate Controls	Audit sampling & monitoring
M	Moderate Risk Zone	Potential <i>Shubhāt</i> Risk	Substantive testing + risk documentation
S	Significant Risk Zone	Potensi pelanggaran material	Audit mendalam + DPS concurrent review
H	High Risk Zone	Probable violation & systemic weakness	Combined assurance + enhanced audit program
E	Extreme Risk Zone	Major Sharia Violation	Forensic audit + redesign product + halt order

CONCLUSIONS

This study demonstrates that financing practices in Islamic banking, particularly those involving *murābahah* and profit-sharing contracts, continue to face sharia non-compliance risks across documentation procedures, transactional substance, and governance oversight. The findings indicate that administrative auditing alone is insufficient to detect such deviations comprehensively, thereby requiring an integrative audit strategy through a combined assurance framework involving both the Sharia Supervisory Board (SSB) and internal auditors. This approach must be supported by audit instruments aligned with fatwa-based rulings and Islamic accounting standards (PSAK Syariah), as well as auditor competencies that encompass technical expertise, *fiqh al-mu‘amalāt* proficiency, and a strong sense of professional scepticism.

The four-pillar audit model proposed in this study provides an operational framework grounded in normative compliance and risk-based audit mapping, offering practical guidance for Islamic financial institutions and regulators seeking to strengthen sharia audit effectiveness and uphold the principle of *ḥifz al-māl* in Islamic financial operations. The implications include the need for empirical validation of this model through case-based applications in selected Islamic banks, the development of an AI-driven digital sharia auditing dashboard capable of real-time compliance detection, and the expansion of the research scope to encompass non-bank Islamic financial sectors such as Islamic fintech providers, Baitul Maal wat Tamwil (BMT), and sharia-based cooperatives.

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