



**ADVISORY COMMITTEE OF EXPERTS (ACE) AND INTERNAL SHARI'AH
AUDITORS' CHARACTERISTICS ON INTERNAL SHARI'AH
AUDIT EFFECTIVENESS OF NON-INTEREST
FINANCIAL INSTITUTIONS IN NIGERIA**

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Abstract

The study examined the effect of Advisory Committee of Experts (ACE) and internal shari'ah auditors' characteristics on the internal shari'ah audit effectiveness of non-interest financial institutions in Nigeria. The study adopted a survey research approach which assumes positivist paradigm. A self-administered questionnaire was used to collect data from 35 shari'ah auditors of the 4 full-fledged non-interest banks and 4 Islamic insurance firms (takaful operators) in Nigeria. These data were analyzed with multiple regression using Partial Least Square Structural Equation Model (SmartPls 4). The results of the findings shows that internal shari'ah auditors' competence and advisory committee of expert have positive significant effect on internal shari'ah audit effectiveness while internal shari'ah auditors' independence has an insignificant positive effect on internal shari'ah audit effectiveness. The study therefore recommended that the management of the banks should make an effort to adhere to Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) guidelines regarding the appointment process based on qualifications and competence, which explicitly state that the internal Shariah auditor must be free from improper management influence and maintain a high degree of independence to preserve the trust of users who rely on their report.

Keywords: internal shari'ah audit effectiveness, advisory committee of experts, internal shari'ah auditor, competence, non-interest financial institutions

1. Introduction

Globally, the internal audit and control functions have received a very wide attention by the majority stakeholder group such as shareholders, managers, government, customers, investors, researchers among others in every organization. This is following its resultant role played during

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the global financial scandals which led to the collapse of companies like German payment processor Wirecard, which was exposed for accounting fraud, leading to a €1.9 billion shortfall in year 2020, Steinhoff corporate fraud in 2019, Samsung accounting scandal in 2018, Wells Fargo and Co. in 2018, Nissan in 2018, Tesla corporate scandal in 2018 and Gupta scandal in 2017 (Falope et al 2023).

The post-scandal in multinational corporations has enhanced the need to strengthen corporate governance structures, including independent compliance committees and regular audits by expert third parties. Therefore, this highlighted the critical importance of credible, high-quality financial reporting and audit quality as a major role of the internal auditor. In addition, this has demonstrated the importance of considering the role of audit quality in the broader context of financial reporting quality. This audit function is considered as an ideal process and practice that can bring a robust monitoring system which would enhance and preserve the public's confidence in the operations and activities of every industry (Yaacob & Donglah, 2012).

The Non-interest or Islamic Financial Institutions (IFIs) are also not left behind in the keen interest in the internal audit and control, being one of the fast-growing industries in the world in term of product and asset with expectant to ensure compliance beyond the conventional audit and control but also with respect to Shari'ah compliance audit and review. This shows that the internal Shari'ah audit function of many Islamic financial institution is being performed by internal auditors in some developing countries as seen from several studies (Shafii et al., 2013, Khalid et al., 2018).

In this case the departmental audit function focused more on the internal audit effectiveness considering several restricting factors which includes limited resources (budget, staff, technology), lack of independence or objectivity, inadequate management support, and insufficient training and competence of internal audit staff. Additionally, reliance on manual processes, lack of accurate data, and the complexity of the organization's structure can also pose challenges to this role and coupled with the objective of these department as a separate entity.

The Islamic finance sector in Nigeria has been experiencing significant growth, particularly with the establishment of non-interest banks that operate under Shariah principles. These banks adhere to a unique set of ethical guidelines and financial practices that differentiate them from conventional banks (Umar & Abdullahi, 2022; Yusuf & Bello, 2023). Ensuring compliance with Shariah principles requires a robust internal audit system tailored to the specific needs of Islamic banking. Internal Shariah audits play a critical role in this context, as they are responsible for assessing the bank's adherence to Shariah laws, which cover all aspects of its operations, including transactions, product offerings, and overall governance (Olaniyi, & Abdulkareem, 2023).

Internal Shari'ah audit implemented non-interest financial institution (NIFIs) to achieve the following objectives: to fulfill maqasid al-Shari'ah (objectives of Islamic law); to avoid possible Shari'ah non-compliance risks; and to gain the trust of stakeholders by establishing strong Shari'ah governance, which requires internal control tools such as internal Shari'ah audit. Consequently, it is considered essential that NIFIs enhance their Shari'ah audit framework and ensure that all their transactions and products are Shari'ah-compliant (Masruki et al., 2020).

Considering the growth and success of Islamic banking and finance, IBs have a responsibility to make sure that all their activities and transactions are following Shari'ah rules and this has led to a call for detailed development of Shari'ah audit (Aziz et al., 2019). It is in this

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context that this research is studying the advisory committee of expert characteristics and internal Shari'ah audit such as competence and independence on internal Shari'ah audit effectiveness of non-interest financial institutions in Nigeria.

Competency of an internal Shariah auditor is one of the major factors that assist in improving the internal Shariah audit effectiveness. It is difficult to have a qualified internal Shariah auditor because there is lack of specialized education, skill, or training programs on Shari'ah audits, such as Certified Shari'ah Auditor and Advisory (CSAA) that would fulfill the needs of the IFIs and regulations (Kasim, 2009).

According to Accounting and Auditing Organization for Islamic Financial Institutions Auditing Standards (2010), the auditor should be knowledgeable about Islamic Shariah rules and principles. However, he/she would not possess the same level of knowledge as that of SSB members and thus the auditor shall not be expected to provide interpretation of these (Islamic) rules and principles. However, internal Shariah auditors are not reliable due to the poor knowledge or their dependence on bank management (Shafii et al., 2014). Hence, this study aimed at evaluating the effect of internal Shari'ah auditors' competence on internal shariah audit effectiveness of non-interest financial institutions.

The independence of internal Shariah auditor plays a crucial role in effective discharge of his duties and profession. He occupies a unique position, as he appointed by the management but also review the conduct of the same management, which potentially places him in a position of conflict and thus his independence while conducting his work. This gives significant tension to the internal auditor as he does not find himself independent from the management (Agarwal & Medury, 2014).

Without independence, the internal auditor simply becomes a part of the management team, losing the ability to offer a fresh perspective through an objective evaluation (Flesher & Zanzig, 2000). An auditor is essential to be independence in both fact and appearance. However, Mautz and Sharaf (1961) delineated independence to be real independence of the individual practitioner in his performance of his work; and the apparent independence of auditors as a professional group. Independence is the cornerstone of the auditing profession; without independence the auditor's opinion is suspect. In case of independence, the Shariah auditors' integrity is further promoted by the stakeholders in IFIs for the Shariah auditors to be independence enough to give opinions on the situations of IFIs in the term of Shariah compliance in all its portions.

Despite the growing importance of Shariah audits, there are several challenges in ensuring their effectiveness. These challenges include maintaining the competence, independence and objectivity of Shariah auditors, ensuring comprehensive coverage of all relevant aspects, and addressing any conflicts that may arise between management and auditors. The role of the Advisory Committee of Experts (ACE) becomes crucial in this regard, as it can provide the necessary oversight and guidance to enhance the effectiveness of Shariah audits (Mohd, et al., 2024).

The ACE, comprised of individuals with deep knowledge of Shariah law and finance, that are expected to work on mitigating risks, resolving conflicts, and ensuring that the internal audit functions are aligned with Shariah principles (Alam, et al., 2023; Yaş & Aysan, 2023). Thus, this study aimed at investigating the effect of advisory committee of experts (ACE) on internal shariah audit effectiveness of non-interest financial institutions.

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Existing literature such as Ab Ghani et al (2019), Khalid et al (2021), Khalid (2020), Shafii et al. (2014) highlighted significant aspects of Shariah audit practices within Islamic financial institutions but reveals notable gaps, particularly concerning the independence of Shariah auditors and the role of advisory bodies. Abdullah et al. (2024) emphasize the necessity for Shariah auditors to maintain independence from management influence, but lack discussion on mechanisms that can reinforce this independence. Similarly, Alkharabsheh and Obedat (2024) underscore the importance of institutional governance in improving audit quality but do not delve into the specific impact of advisory bodies like the Advisory Committee of Experts (ACE) on enhancing this quality. This present study aimed at filling an empirical gap suggest by previous authors by investigating how ACE can bolster auditor independence and audit quality.

Also, Alqahtani et al. (2024) highlight the significant influence of Shariah committees' perceptions and role in risk management within Islamic banks in Saudi Arabia. However, their study does not address how the presence of ACE might enhance these perceptions and practices. Kamaruddin et al. (2024) identify challenges in Shariah audit practices within Malaysian Shariah-based sectors but fail to analyze how advisory committees can address these issues. This presents an opportunity to investigate the synergistic effects of ACE and Shariah committees in managing Shariah compliance risks and mitigating audit challenges.

Furthermore, Kamaruddin et al. (2024) examine Shariah governance practices in Malaysian Islamic cooperatives, noting the lack of focus on the role of advisory committees. Mishref and Sa'ad (2024) provide a comprehensive literature review on Shariah governance and audit but do not specifically address ACE's role. These studies point to a research gap where the impact of ACE on enhancing Shariah governance and audit effectiveness, particularly in diverse Islamic banking environments, remains unexplored.

This gap underscores the need for focused studies on ACE's contribution to Shariah governance and audit practices. Therefore, this study investigated the effect of internal auditors' competence, independence, and advisory committee of experts (ACE) characteristics on the internal shariah audit effectiveness of non-interest financial institutions in Nigeria. It serves as a useful guide for the shareholders, board of directors and advisory committee of Expert (ACE) of this non interest financial institution in order to institutionalize a robust Shariah governance mechanism that is commensurate with the complexity and size of the institution through the assessment of the internal shari'ah audit effectiveness of their owned financial institution.

This study aimed at achieving the following specific objectives;

1. To assess the effect of internal shariah auditors' competence on internal shariah audit effectiveness of non-interest financial institutions in Nigeria.
2. To examine the effect of internal shariah auditors' independence on the internal shariah audit effectiveness of non-interest financial institutions in Nigeria.
3. To investigate the effect of the advisory committee of experts (ACE) on the internal Shari'ah audit effectiveness of non-interest financial institutions in Nigeria.

Based on the specific objectives of the study, the following hypotheses were formulated:

H₀₁: Internal Shariah auditors' competence has no significant effect on internal Shari'ah audit effectiveness of non-interest financial institution in Nigeria.

H₀₂: Internal Shariah auditors' independence has no significant effect on the internal Shari'ah audit effectiveness of non-interest financial institution in Nigeria.

H₀₃: Advisory Committee of Experts (ACE) has no significant effect on the internal Shari'ah audit effectiveness of a non-interest financial institution in Nigeria.

2. Literature Review.

Conceptualization

Internal Shari'ah Auditors' Competence

Competency can be classified as a dimension of behaviour which are related to superior job performance where certain people can conduct better than others. Competencies deal with behaviour that need to display in order to do the job effectively. Competencies are also linked to technical skills, and knowledge to perform job professionally (Woodruffe, 1993). According to Ali et al. (2021) competency can be generic or organization-specific. Organization-specific competency refers to competencies related to certain managerial roles; a list of universal competencies for top management as well as supra competencies (such as planning and organizing). Drejer (2001) proposes that competencies consist four generic elements namely: competency in the form of technology represents the tools that human being use to do the activities; human beings as the focal point for competency development; an organization which prescribed management systems; and culture refer to the informal organization of the firm.

The Fatwas, rulings and guidance issued by the SSB form the basis on which the auditor considers whether the IFI has complied with the Islamic Shari'ah rules and principles. The auditor shall also use this as a basis for concluding whether the financial statements of the IFI have been prepared in accordance with the Islamic *Shari'ah* rules and principles.

The internal *Shari'ah* auditors shall possess the disciplines, knowledge and skills essential to the performance of the internal *Shari'ah* audit. Proficiency in Islamic *Shari'ah* rules and principles in general, and *Fiqh al-muamalat* in particular, is required in performing internal *Shari'ah* audit. The internal *Shari'ah* auditors shall maintain their technical competence through continuing education; also, they shall participate in training their IFI's employees and other interested members of the public by holding regular meetings, courses and seminars. They may also explain the principles of *Fiqh al-muamalat* in general and in particular *Fatwa*, guidelines and instructions issued by SSB about the products and services offered by their IFI (AAOIFI, 2010). Till now, the lack of both Shari'ah and accounting knowledge has hindered the crucial needs of the internal *Shari'ah* auditor. Those with accounting knowledge tend not to have *Shari'ah* knowledge and vice versa (Yaacob, 2012).

Shafii et al. (2013) found that the competency of *Shari'ah* auditor shall be determined by each of the IFI, well equipped with both accounting and *Shari'ah* knowledge. It should be noted that an internal *Shari'ah* auditor must have both a good knowledge in accounting and *Shari'ah* to be able to understand and audit the IFIs. Another study done by Haron et al. (2004) examined the criteria used by external auditors to evaluate the work of internal auditors found that the competency of internal auditors was an important criterion for external auditors to judge the reliance of internal audit work, they used professional certification or qualification and training program as the proxy of competence.

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Internal Shari'ah Auditors Independence

The concept of audit independence has a long history and still remains contentious concept today. Hence, independence was assumed to mean integrity, honesty, and objectivity, including freedom from the control of those whose records are being reviewed (Hudaib & Haniffa, 2009). As all definitions of internal audit contain the word 'independence' thus it is an important characteristic that has to be included to ensure that internal audit is sufficiently effective. The more independent the internal audit, the more likely it will be able to perform their duties freely and objectively otherwise, it has little use. Therefore, independence of internal audit will determine the level of autonomy of internal audit activity that facilitates individual auditors' objectivity (Mihret & Yismaw, 2007).

The internal *Shari'ah* auditor must carry out their task with independence and objectivity as it is their responsibility to ensure IFI's compliance with *Shari'ah* laws and principles. Lack of independence of Internal *Shari'ah* Auditors will affect the credibility of internal *Shari'ah* auditors and which could result in lack of worth of the assurance given by the internal *Shari'ah* auditor. The full benefit of *Shari'ah* auditors cannot be realized if they are not wholly and truly independent as the social purpose will be frustrated. The self-review threat may occur as there is no clear line of separation of duties being determined (Kasim et al., 2013).

An independent auditor must be free from restrictions or bias if he is to be totally independent (Shafii et al., 2015). Rahman (2011) argues that one of the challenges in implementing *Shari'ah* audit would be to produce competent and independent *Shari'ah* auditors. Objectivity of internal *Shari'ah* auditor is equally important. Objectivity will ensure that the internal *Shari'ah* audit is conducted professionally without any preconception (Besar et al, 2009). An internal *Shari'ah* auditor needs to be perceived as independent by the stakeholders of Islamic finance (Yaacob, 2012). It is a common practice of the *Shari'ah* auditors to rely heavily on or follow the advice of the SSB who are more competent in *Shari'ah* related matters. *Shari'ah* audit in Islamic finance is argued to be one of the social functions that need to be performed as it is for the benefit of the Ummah (Society).

Advisory Committee of Experts (ACE)

The globally recognized terminology for the *Shari'ah* Supervisory Board (SSB) and *Shari'ah*. Advisory Council (SAC) is FRACE and ACE in Nigeria (Mahmud et al., 2021). Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) in Muneza (2014) describes ACE as an independent body entrusted with the duty of directing, reviewing, supervising the activities of IFIs for the purpose of *Shari'ah* compliance and issuing legal rulings pertaining to Islamic Banking and finance.

Similarly, Islamic Financial Services Board (IFSB) defined ACE as "a body comprised of a panel of *Shari'ah* scholars who provide *Shari'ah* expertise and acting as special supervisors to the institutions". Ayedh, and A. Echchabi, (2015) opined that Advisory Committee of Expert ACE is frequently considered as the essential player in the *Shari'ah* Governance of Non interest Financial Institution (NIFIs) to monitor the daily operation of NIFIs. The *Shari'ah* Board also (SB) also known as ACE need to certify that *Shari'ah* principles and rules have been observed in all NIFIs services and activities. Malkawi (2013) further clarify that ACE is an independent group assigned with the duty of supervising, reviewing, and directing the activities of NIFIs to be compliant with *Shari'ah* principles.

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In Nigeria, Central Bank of Nigeria [CBN] (2015) also stated that all institutions offering non-interest (Islamic) financial services under the purview of the Central Bank of Nigeria (CBN), herein designated as Non-Interest Financial Institutions (NIFIs) in Nigeria are hereby required to establish an advisory body as part of their governance structure to be known as “Advisory Committee of Experts” (ACE). To effectively play its role, the ACE shall operate as an independent body, with the principles of competence, integrity, confidentiality and consistency properly enshrined in its operations and it is expected that an independent ACE will engender public confidence, thereby promoting the growth and development of the industry

Empirical Review

Internal Shari’ah Auditors’ Competence and Internal Shariah Audit Effectiveness

Ab Ghani and Abdul Rahman (2022) conducted a study on effectiveness of internal shari’ah audit Function in Malaysian Islamic financial institutions. The study evaluates the extent of internal Shari’ah audit function effectiveness in Malaysian IFIs through a quantitative research method using a survey questionnaire distributed to the Heads of Shari’ah audit of 47 IFIs in the year 2016. The results of the findings shows that the majority of IFIs have established an effective level of internal Shari’ah audit function which constitutes a positive development in strengthening Shari’ah governance in IFIs in Malaysia.

Islam and Bhuiyan (2021) conducted a study on determinants of the internal shari’ah audit effectiveness of Islamic Banks in Bangladesh. The study aimed to examine the factors influencing effectiveness of the Shariah-based audit system by gathering data from Shariah auditors, members of the Shariah board and audit committee of six private Islamic banks in Dhaka, Bangladesh. The study adopted a quantitative measure and collected data only through primary sources by administering to 136 respondent using convenience sampling techniques which was latter analyze using multiple regression which was run by Statistical Packages for Social Science Statistical SPSS. The results of the findings reveal that auditor’s work autonomy, level of competency, and work performance significantly impact the Shariah-based internal audit effectiveness.

Fatih et al. (2020) also conducted a study on moving forward of Shariah Audit Practices in Malaysia. They assess the extent of practitioners’ awareness and perceptions of Shariah audit, the possible challenges associated with it as well as its future implications referring to Shariah Governance Framework issued by Bank Negara Malaysia in 2010 which categorically made Shariah audit function as one of the required functions in IFIs in addition to Shariah Review, Shariah Research and Shariah Risk Management. The study used questionnaire to generating the data from 83 practitioners in various IFIs external audit firms that are involved in Shariah audit services through purposive sampling procedure. The results of the findings showed that practitioners’ awareness is satisfactory, as majority of them know about Shariah audit through an educational programme, which opportunity to express the desirable practice of Shariah audit and also that the lack of the independent Shariah audit report, the standalone Shariah audit framework and the inadequate competent Shariah auditors are among the main concerns in the practice. Moreover, the findings also showed that Shariah audit will have a high potential to take up as a marketable career in future.

Ghani et al. (2019) conducted a study on the measurement of effective Internal Shari’ah audit function in Islamic financial institutions. The paper aimed at examining the measurement of effective internal Shari’ah audit function in IFIs by critically reviews the emerging literature on

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the importance of eight components which includes Shari'ah audit objective, Shari'ah audit scope, Shari'ah audit and governance, Shari'ah audit charter, competency of internal Shari'ah auditors, Shari'ah audit process, reporting requirements and independence for measuring effective internal Shari'ah audit function. The study employed literature review method and also performs a structured interview with Islamic financial experts to validate the measurement which was later analyzed empirically. The results of the finding shows that highly effective internal Shari'ah audit function leads to inclusive opinion on reasonable assurance of Shari'ah compliance.

Azam et al. (2018) worked on the competency and effectiveness of internal Shariah audit in Islamic financial institutions. The paper aimed to presents the conceptual relationship between competency and effectiveness of internal Shariah auditors in Islamic financial institutions (IFIs) using Maqasid al Shariah theory to understand linkages between competency and effectiveness of internal Shariah audit complemented with the roles and responsibilities of internal Shariah auditors in IFIs. The results of the findings proposes that competency in term of knowledge, skill and training can influence the effectiveness of internal Shariah auditors in IFIs.

Yazid and Suryanto (2016) conducted an investigation of factors influencing audit quality from Islamic audit using Jakarta Islamic Index. The study examines the influence of the education of auditors, audit period, and the auditors' experience on the quality of audits using quantitative method using multiple linear regression analysis on 49 companies listed in the Jakarta Islamic index from 2008 to 2014. The results of the findings revealed a negative significant relationship between past audits, auditor's experience and audit quality while auditors' education has a positive significant relationship with audit quality.

Internal Shari'ah Auditors' Independence and Internal Shariah Audit Effectiveness

Rashid and Ghazi (2021) carried out a study on factors affecting Shari'ah audit quality in Islamic banking institutions of Pakistan. The study is a theoretical framework which intends to assess the definitions and meanings of the Shari'ah audit quality and as well identify the factors that affect it. The study employed critical literature review of the current literature in audit quality of conventional and Islamic finance to propose the theoretical framework for internal shari'ah quality. The result of the findings showed factors like internal control, shari'ah audit risk and other corporate governance mechanism as means to shari'ah audit quality and therefore suggests that for a better Shari'ah compliance at Islamic banking institutions (IBIs), the role and competency of audit practitioners is indispensable. The paper being a conceptual research paper also proposes a theoretical framework to the Shari'ah audit quality and determining the factors that are significant in affecting the Shari'ah audit quality in the IBIs of Pakistan.

Karim and Shetu (2020) conducted a literature review research approach on Shariah audit in Islamic Financial Institutions (IFIs). The paper conducted an extensive literature and theoretical review on Shariah Audit practiced in Islamic Financial Institutions and Islamic agency theory. using secondary data. The results of the findings shows that Shariah Audit provides higher level of assurance through adherence to the rules and regulations of Islamic Shariah. It also revealed that Shariah is the overarching framework for Shariah Audit, which ensures all the activities of the Islamic Financial Institutions (IFIs) comply with Shariah. This study is one of the recent few studies on shariah audit however the study secondary database research only and this call for a need of empirical study using primary data with the aims to provide more practical insight in the field of study.

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Rahman (2013) conducted a study on the current perception and practice of Shariah auditing in Bangladeshi Islamic Banks. The study examined the understanding and interpretations of Shari'ah Auditing in Islamic Banks by accounting academicians, audit practitioners and Shari'ah scholars in Bangladesh by measuring the respondents' idea on Shari'ah Audit as a discipline and to know the existence and implementation of proper shariah audit with internal shariah review in various banks. The study combines quantitative and qualitative research approaches adopting both primary and secondary method of data with the aid of survey questionnaire and 'open-ended' and 'close ended' interview questions which was administered among the accounting academicians, audit practitioners and Shari'ah scholars in Bangladesh. The results of the findings shows that the respondents had varying experience of awareness about shariah auditing and that shariah auditing should be a separate discipline.

Badara and Saidin (2014) conducted an empirical research study on evidence of Antecedents of Internal Audit Effectiveness. The study aimed to present the empirical evidence of antecedents such as risk management, effective internal control system, audit experience, cooperation between internal and external auditors and performance of internal audit effectiveness from the Nigerian perspective. It is a quantitative research study that adopt primary method of data with the aid of survey questionnaire to collect data from 500 respondents which cut across internal auditors, audit committee and chairman of local government or their representatives within the sampled local government using a stratified random sampling method from six geo- political zones in Nigeria which was later analyzed using Statistical Package for Social Science (SPSS) version. The result of the findings revealed that all antecedents have a significant positive relationship with internal audit effectiveness.

Advisory Committee of Experts (ACE) and Internal Shariah Audit Effectiveness

Khalid (2020) conducted a research study on the role of audit and governance committee on internal shariah audit effectiveness in Islamic banks in Bahrain. This an empirical paper which examined the role of audit and governance committee (AGC) on internal Shariah auditing's effectiveness in Bahrain's Islamic banks using two-stage approach which involved data collection and analysis using questionnaire and also the use of interviews and literature review on AGC and internal Shariah auditor being the major respondents who are considered important to Islamic banks. The result of the study revealed the roles, duties and responsibilities of audit and governance committee and how it can assist in building internal Shariah audit effectiveness. It also real the internal shariah audit conceptual and theoretical framework showing the relationship Islamic bank's auditors and governance committees and how it can enhance internal Shariah audit effectiveness. The study actual contributes to the body of knowledge about AGC and internal shariah audit effectiveness using exploratory research through unstructured interview and questionnaire however in order to generalize the research there is need to carried out empirical research using structured questionnaire and interview in other countries outside the Arab league who are Islamic finance hub.

Haddad et al. (2021) also conducted a study to assess the impact of audit committee quality on the financial performance of conventional and Islamic banks. Their study aimed at comparing the impacts of the audit committees' quality on the financial performance of Islamic and conventional banks between 2010 and 2019. The financial performance measures and audit committees' determinants of the conventional and Islamic banks of 112 banks data were collected

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across four continents which includes America, Asia, Africa, and Europe and the Impacts were analyzed compared using Generalized Least Squares (GLS) analysis. The results of the findings revealed that the audit committee reduced the profitability of some bank types and also harmed the conventional banks' efficiency but reported an unclear effect within Islamic banks however it has a positive impact on the conventional banks' liquidity, its effect on the Islamic banks' liquidity was ambiguous and there is positive significant relationship between solvency and the audit in conventional banks as it affected that of Islamic banks.

Azam (2016) also carried a research study on moderating effect of Shariah Supervisory board on the relationship between internal Shariah audit characteristics and its Effectiveness on Islamic financial institutions in Bahrain. The study aimed mainly to examining the relationship between internal Shariah audit characteristics (independence; competency and work performance of internal Shariah audit) and its effectiveness in Islamic Financial Institutions in Bahrain and also to assess the role of Shariah supervisory board as a moderating effect in the relationship between internal Shariah audit characteristics and its effectiveness. The study employed primary method of research using survey questionnaire administered to the Head of internal Shariah audit department of 52 IFIs registered under central bank of Bahrain which was analyzed using structural equation method via SmartPLS. The result of the findings revealed that the competency and work performance of internal Shariah was positively associated with internal Shariah audit effectiveness. The remaining two variables; internal Shariah audit independence and Shariah supervisory board were found to be positively related to internal Shariah audit effectiveness, but their contribution to the internal Shariah audit effectiveness were statistically not significant.

Theoretical Framework.

Islamic Agency Theory

Islamic Agency Theory was derived from the popular agency theory of Jensen and Meckling (1976). It was first used by Safieddine (2009), he opined that Islamic banks and their conventional counterparts share a similar agency relationship because both are a part of the banking industry. Due to the ownership and control being separated in Islamic banks, there is a risk that managers or agents will put their own interests ahead of those of the shareholders. So, Islamic banks' agency structures differ significantly from those of conventional banks due to the need to adhere to *Shari'ah* principles.

An agency theory defines a contract under which one or more persons (principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976). The principal is the owner or managers of the organization who delegate and transfer responsibilities or capital to the agent. The agent is the managers/employees of an organization who manage the firm's business transactions for the owner/principal. Jensen and Meckling (1976) Proponents of the agency theory, define the agency relationship as a contractual relationship between the shareholder as the principal and the managers as the agent who are given some authorities to perform services on behalf of the principal.

Agency problem is more intense in the case of Islamic banks as while investors in conventional banks have a level of certainty in their returns, in Islamic banks the profit as well as possible incurred loss and consequently the risk is shared between the banks and its investors (Siddiqui, 2001). The agency contract is subject to regulations where the essential elements of the agency contract as the same as the general Islamic contract, except the nature and scope of the authority are subject to certain conditions. As a principal (muwakeel), he is obligated to give his

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authority to an appointed agent, which must be sane and mature person. This because an insane or a minor principal cannot be part of any agency contract. However, a minor person can appoint an agent for the performance that can benefit the minor but not so for transactions that entail for the minor (Shamsuddin & Ismail, 2013).

Shamsuddin and Ismail (2013) also opined the conventional agency theory dominates self-interest and individualism, this is because he tries try to maximize its own utilities and consequently creates agency problems that cannot be resolved. This is the main point of contrast between the conventional and Islamic agency theory contract with special concept of Tawhid, Unity and also social features of Ikhlas (sincerity). Other features are Itqan (knowledge), Amanah (truthfulness), Syura (mutual consultation), justice and implementing activities in accordance with Islamic teachings based on epistemological source of Islam; Quran and Hadith. Therefore, it can be stated that, the Islamic agency theory uses the Quran and Hadith to determine the features and framework of the economic relationship practices in the IFIs. The successful practices of the Islamic agency theory should contribute to the development of the Islamic economic system. As Haneef (2005) reported that Islamic economics, “is an approach to and (process of) interpreting and solving the man’s economic problems based on values, norms, laws and institutions found in and derived from, all sources of knowledge (in Islam)”.

The Islamic agency theory teaches partnership among members to practice respect, gratitude, patience, tolerance and also to believe not only in the economic reward/outcome as in the conventional agency theory but also in spiritual rewards (blessings from Allah). The practice of lying, shirking, conceit and jealousy must be avoided by each party. This acquires continuous Islamic teachings and training of the partnership member for them to be educated with spiritual knowledge. Islam recognizes the knowledge process of each individual, seeking knowledge is a continuous process in Islam.

Furthermore, the spreading of knowledge has been encouraged by the Prophet Mohammed (P.B.U.H). “Allah illuminates a man who hears hadith from me preserves it carefully and passes it on to other”. Therefore, it is crucial to implement the Islamic training which emphasizes on the importance of knowledge, individual development and ethical –oriented practices in the organization. Such it can be stated that the Islamic agency theory uses the *Qur’an* and *Hadith* to determine the features and framework of the economic relationship practices in IFIs, the development of the Islamic economic system will be successful when Islamic agency theory practices. Therefore, in a study of this nature the internal Shari’ah auditors (ISA) competence, independence and advisory committee of expert (ACE) are not only agent to the shareholders but also agent to *Allah* on the trust of ensure shari’ah compliance issue all dealings and contract of the Islamic (non-interest) financial institutions.

3. Methodology

A quantitative approach which assumes positivist paradigm was adopted in the present study using a cross-sectional survey research design. A structured five Likert scales questionnaire was used to collected a primary source data from the Shariah Auditors’ and the member Advisory Committee of Experts (ACE) of the various non-interest financial institutions in Nigeria. These non-interest financial institutions include non-interest banks (Jaiz, Lotus, TAJ and the Alternative

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Bank) and takaful insurance companies (Hilal Takaful, Jaiz Takaful, Noor Takaful and Salaam Takaful Insurance Ltd) which were randomly selected.

The questionnaire was adapted from work Azam et al. (2018). It comprises two sections: the first section was designed to gather demographic and personal information about the respondent. In contrast, the second section is meant to source the response of the respondents on the effect of shariah auditors' competence and independence on internal shariah audit effectiveness of non-interest financial institution using a five-point Likert scale ranging from Strongly Disagree to Strongly Agreed. Construct on Shariah auditors' competence, independence and internal shariah audit effectiveness used in the questionnaire were adapted from the work of Azam et al. (2018).

The target population of the study made up of shariah auditors of various non-interest financial institution in Nigeria as at 31st December, 2024 which cut across the banking and takaful companies. Because of the time and to ensure the respondents sampled matched the purpose of the study, non-probability convenience sampling technique was used to ensure the collected data were from valid sources. This sampling technique was used in order to cover the large sample as adopted by previous similar studies of (Abdullah & Dusuki, 2016; Audu, 2016; Abdullah et al., 2017).

Furthermore, Pallent (2001) suggested that for regression analysis, the sample can also be considered to fall between five and ten times the number of the independent variables. A total of 35 questionnaires were administered to the shariah auditors of the selected non-interest financial institution as a pilot study and 32 copies were returned fully and appropriately filled. After initial screening, 28 copies were retained for data entry and further analyses. Partial least squares structural equation modeling was adopted to perform measurement model and structural model assessments. The Likert scale was used to measure responses from 1= Strongly Disagreed to 5= Strongly Agree which investigated the effect of internal shariah auditors' competence independence, and advisory committee of expert (ACE) on internal shariah audit effectiveness of non interest financial institution.

4. Results and Discussion Questionnaire Rate of Response

The study distributed 35 questionnaires to the shariah auditors of non-interest financial institutions. The whole thirty (30) questionnaires were returned and valid with no missing value. This is shown in the table below:

Table 1

Questionnaires Response Rate

Questionnaires	Frequency	Percentage
Total distributed questionnaires	35	100
Total returned questionnaires	30	85.7
Total valid questionnaires	30	85.7
Total rejected questionnaires	0	0
Total Number Analyzed	30	85.7

Source: Field Survey (2024)

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Demographic Profile of the Respondents

The data presented in the descriptive statistics are from the survey and these include gender, type of institution working for, Position, educational qualification, professional qualification, work experience and functional as well as the percentage responses of the questionnaire returned from the respondent in Nigeria. For the purpose of clarity and ease of understanding, the data obtained from the field survey were presented in tables and charts.

Table 2

Demographic Distribution of the Respondents

Demographic	Category	Frequency	Percentage (%)
a. Gender	Male	23	76.67
	Female	7	23.33
	Total	30	100.00
b. Type of Employer Institution	Islamic bank	22	73.33
	Islamic Insurance	8	26.67
	Total	30	100.00
c. Position	ISA	21	70.00
	Head of ISA	9	30.00
	Total	30	100
d. Educational Qualifications	Degree	22	73.33
	Master	5	16.67
	PhD	3	10.00
	Total	30	100
e. Professional Qualifications	ICAN	17	56.67
	CIPA	3	10.00
	CSAA	10	33.33
	Total	30	100
f. Working Experience	Less than 5 years	15	50.00
	6 - 10years	9	30.10
	10 -15 years	3	10.00
	Above 15	3	10.00
	Total	30	100

Source: Field Survey (2025)

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From table 2a, gender of the respondents is evenly distributed between male and female. It reveals that 23 representing 76.67% of the respondents were male while 7 of the respondents which represent 23.33% were female. This implies that majority of respondents are more of male than the female. Table 2b shows the distribution of the type of institution where are respondents. Out of the 30 respondents, 22 representing 73.33% work in non-interest (Islamic) bank while the remaining 8 respondents which represent 26.67 work in the takaful insurance respectively. This implies that majority of the respondents fall works in the banking industry.

In this survey as seen table 2c, 21 of the respondents are Internal Shariah Auditors (ISA) which represents 70% while the remain are head of Internal Shariah Auditor accounts for 30% representing 9 respondents. Also, table 2d above revealed that 22 of the respondents have completed bachelor degree which represents 73.33% while the Master degree holder accounts for 16.67% representing 5 respondents and the remaining 3 respondents are terminal degree holder accounted which represent 10.0% of the respondents.

In this survey as seen table 2e, at least 3 of the respondents are Certified Islamic Professional Accountant (CIPA) in to the they hold which represents 10% while those with Certified Shariah Advisor and Auditor (CSAA) accounts for 33.33% representing 10 respondents and majority of the respondents are qualified Chartered accountant of ICAN accounted 17 respondents which represent 56.67% of the respondents.

Finally, table 2f revealed the working experience distribution of the respondents. Out of the 30 respondents, 15 representing 50% fell in between less 5years working experience while 9 people representing 30% of the respondents were within working experience 6–10. The respondents that fall within the limit of 10-15years experience working were 3 which represent only 10.0% of the respondents while those above 15 years working experience were also 3 respondents which represent 10%. This implies that majority of the respondents fall within the range less than 5 years working experience.

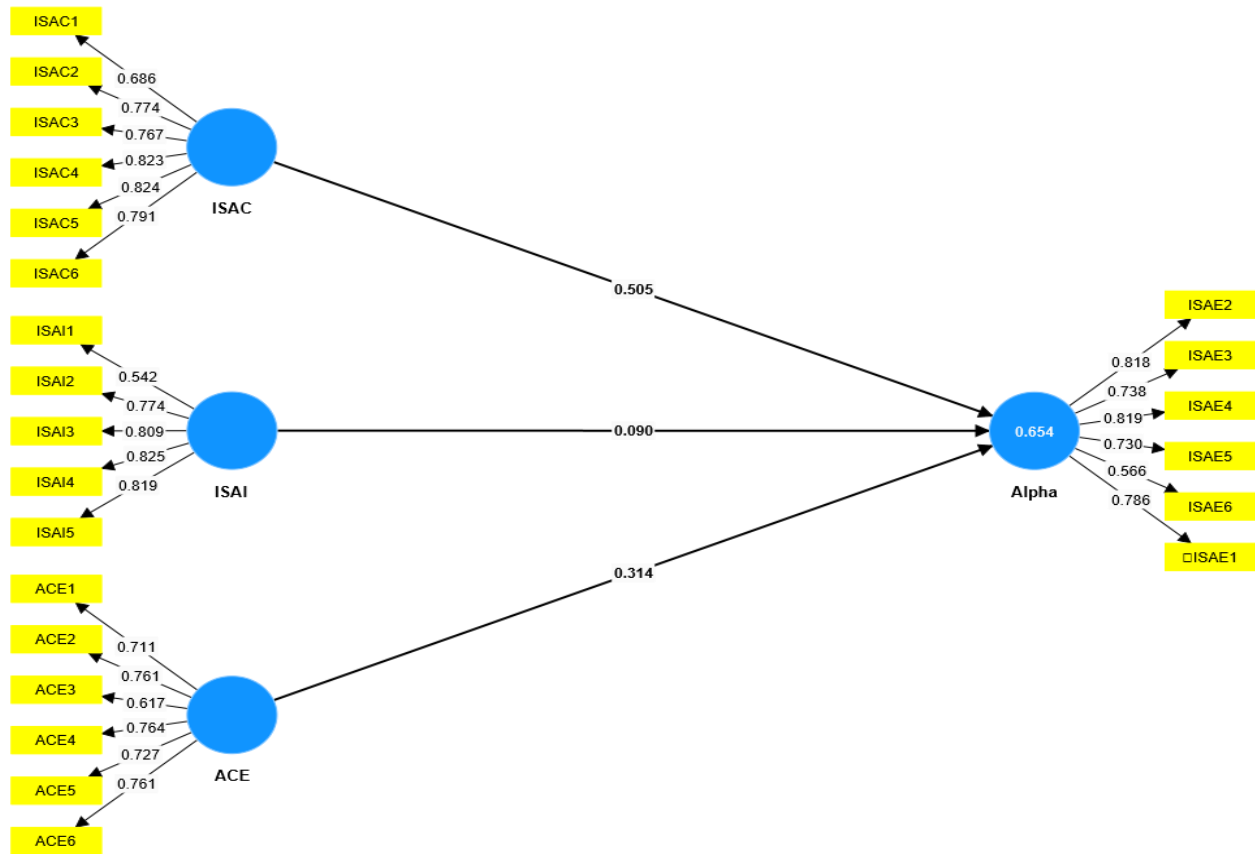


Figure 1: Measurement Model

Note: ISAE represents Internal Shariah Audit Effectiveness; ISAC represents Internal Shariah Auditors' Competence; ISAI represents Internal Shariah Auditors' Independence; ACE represents Advisory Committee of Expert;

The measurement model shows the indicators loading on their intended factors. The simple factor structure, by rule of thumb taken to mean that composite reliability should be greater than 0.7 and average variance extracted should be greater than 0.5. (Garson, 2016).

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Table 3

Construct Reliability and Validity

Constructs	Items	Loadings	CA	CR	AVE
Internal Shariah Audit Effectiveness	ISAE1	0.818	0.838	0.883	0.56
	ISAE2	0.738			
	ISAE3	0.819			
	ISAE4	0.73			
	ISAE5	0.566			
	ISAE6	0.786			
Internal Shariah Auditors Competence	ISAC1	0.686	0.869	0.87	0.606
	ISAC2	0.774			
	ISAC3	0.767			
	ISAC4	0.823			
	ISAC5	0.824			
	ISAC6	0.791			
Internal Shariah Auditors Independence	ISAI1	0.542	0.817	0.871	0.58
	ISAI2	0.774			
	ISAI3	0.809			
	ISAI4	0.825			
	ISAI5	0.819			
Advisory Committee of Expert	ACE1	0.711	0.819	0.869	0.526
	ACE2	0.761			
	ACE3	0.617			
	ACE4	0.764			
	ACE5	0.727			
	ACE6	0.761			

Note: AVE represents Average Variance Extracted; CR represents Composite Reliability; CA represents Cronbach's Alpha

Table 3 shows the Factor Loading, Cronbach Alpha, Composite Reliability (CR) and Average Variance Extracted (AVE) values for all latent constructs after Pooled CFA has been performed. All constructs have achieved the minimum estimation required; 0.70(Cronbach Alpha), 0.60 (CR) and 0.50 (AVE). Therefore, it can be concluded that Convergent Validity (AVE $\geq$ 0.5), Internal Reliability (Cronbach Alpha $\geq$ 0.6) and Construct Reliability (CR $\geq$ 0.60) of all constructs had been achieved. Therefore, the model is good enough for the analysis.

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Table 4

Fornell-Lacker Discriminant Validity

Construct	Advisory Committee of Expert	Internal Shariah Audit Effectiveness	Shariah Auditors Competence	Shariah Auditors Independence
Advisory Committee of Expert	0.725			
Internal Shariah Audit Effectiveness	0.692	0.748		
Internal Shariah Auditors Competence	0.609	0.751	0.779	
Internal Shariah Auditors Independence	0.778	0.643	0.611	0.761

Source: PLS-SEM (2024)

The Fornell-Lacker criterion (1981) is a common and conservative approach to assess discriminant validity and it can be applied in PLS-SEM. The diagonal value (in bold) is the square root of AVE, while other values are the correlations between the respective latent construct. The discriminant validity is achieved when a diagonal value (in bold) is higher than the values in its row and column. Referring to the above table 4, it can be concluded that discriminant validity for all constructs is achieved.

Bootstrapping Analysis (Structural Model)

Bootstrapping analysis is conducted to determine the direct effect size of each endogenous latent construct on the predictor variable. This was done by using 1000 subsamples with 35 cases as presented in figure 2.

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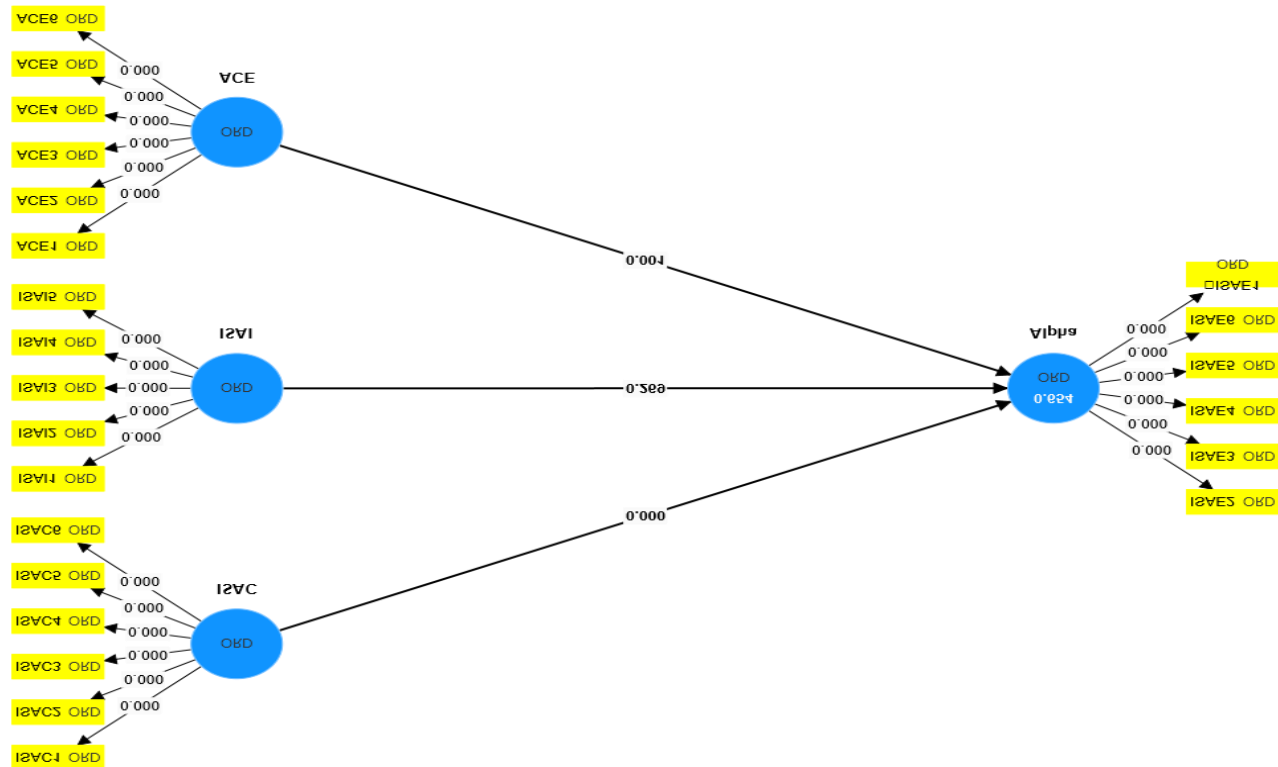


Figure 2: Structural Model

Structural equation model was used to determine the relationship between; internal shariah auditors' competence, internal shariah auditors' independence, advisory committee of experts and internal shariah audit effectiveness of Non interest financial institution in Nigeria.

Table 5

Path Coefficient i.e. Test of Hypotheses

R Square: 0.654									
Hypotheses					Beta Value	Standard Deviation	T Statistics	P Values	Decision
ISAC	->	Internal Shariah Audit Effectiveness			0.505	0.089	5.863	0.000	Reject
ISAI	->	Internal Shariah Audit Effectiveness			0.090	0.081	1.119	0.264	Fail to Reject
ACE	->	Internal Shariah Audit Effectiveness			0.314	0.096	3.26	0.001	Reject

Note: ISAE represents Internal Shariah Audit Effectiveness; ISAC represents Internal Shariah Auditors' Competence; ISAI represents Internal Shariah Auditors' Independence; ACE represents Advisory Committee of Experts;

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From table 5, it was revealed that internal shariah auditors' Competence and advisory committee of expert have positive and significant effect on internal shariah audit effectiveness with (mean value of 0.505 and p value $0.00 < 0.1$) and (mean value of 0.314 and p value $0.00 < 0.5$) while internal shariah auditors' independence has a positive and insignificant effect on internal shariah audit effectiveness with (mean value 0.090 and p value $0.00 > 0.5$) As a result the null hypotheses which stated internal shariah auditors' Competence and advisory committee of experts have no significant relationship on internal shariah audit effectiveness are rejected while the one that stated that internal shariah auditors' independence has no significant relationship on internal shariah audit effectiveness is fail to be rejected.

Also, the coefficient of determination (R^2) was also assessed. From the PLS Path model estimation diagram (see Figure 1), the overall R^2 is found to be relatively strong. Threshold value of 0.25, 0.5 and 0.7 are often used to describe a weak, moderate, and strong coefficient of determination (Hair et al., 2017). In this case, the three constructs internal shariah auditors' Competence, internal shariah auditors' independence and advisory committee of expert can jointly explain 65.4% of the variance of the endogenous construct internal shariah audit effectiveness while other factors outside the model of the study explain the rest.

5. Conclusion and Recommendations

Based on the findings, the study concluded that internal shariah auditors' Competence and advisory committee of experts have a positive significant effect on internal shariah audit effectiveness, while internal shariah auditors' independence has a positive insignificant effect on internal shariah audit effectiveness.

This result shows the reveals the convergence important of those factors to the effectiveness of internal shariah audit unit of non interest financial institution. Therefore, it is recommended that management of those banks should endeavor to follow AAOIFI guideline on the appointment on the basis of competence and qualification which make it clear that the internal Shariah audit must be free from inappropriate influence from management and the Internal Shariah auditor should also maintain a high level of independence to keep the confidence of user relying on their report, and direct.

Also, ACE members which is referred to Shari'ah Standard Board (SSB) in the governance standard of AAOIFI, are expected to be independent of management, shareholders and also possess relevant skills to reviews audit charter regularly.

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