



Article Type: Research Paper

Disclosure of Internal Audit Functions of Islamic Banks in Indonesia

M. Nur A. Birton*, Ari Ermawati, Ektinahati, and Muhammad Muttaqin



AFFILIATION:

Postgraduate Program in Accounting, Universitas Muhammadiyah Jakarta, Banten, Indonesia

*CORRESPONDENCE:

nur_birton@yahoo.com

DOI: 10.18196/jai.v24i1.16388

CITATION:

Birton, M. N. A., Ermawati, A., Ektinahati, E., & Muttaqin, M. (2023). Disclosure of Internal Audit Functions of Islamic Banks in Indonesia. *Journal of Accounting and Investment*, 24(1), 237-251.

ARTICLE HISTORY

Received:

02 Oct 2022

Revised:

15 Nov 2022

Accepted:

08 Dec 2022



This work is licensed under a Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International License

JAI Website:



Abstract

Research aims: In the massive emerging development of the Islamic financial industry, the role of the internal audit function is in the spotlight as governance is the main issue of this industry's sustainability. This study, therefore, aims to reveal the role of the internal audit function of Islamic banks in Indonesia.

Design/Methodology/Approach: The study employed secondary data from annual and Good Corporate Governance (GCG) reports from Islamic banks in Indonesia to be analyzed with the qualitative content analysis by Schreier.

Research findings: The researchers highlighted that the GCG and annual reports could uncover the role of internal audits in Islamic banks. The scope of an internal audit is divided into three essential activities: preparation of work program plans, implementation, monitoring, and follow-up on findings. In comparison, the authority is to communicate with the board of directors, board of commissioners, and audit committee, including the Sharia Supervisory Board (SSB), regarding sharia compliance.

Theoretical contribution/Originality: Sharia compliance ensures the soundness and credibility of the Islamic finance industry. This study identified the role of the internal audit functions of Islamic banks using qualitative content analysis for the first time. Therefore, this study is unique in how the disclosure of internal audit function is presented.

Research limitation/Implication: This study was limited in a deeper understanding of the findings as it was based on secondary data analysis. However, the researchers provide vital insights on control conduct of the role played by internal auditors of Islamic banks to satisfy every qualification needed as the role played by internal auditors is vital to pursue GCG principles.

Keywords: Internal Audit; Islamic Banks; Sharia Compliance; Good Corporate Governance

Introduction

Islamic Financial Institutions (IFI) have experienced significant developments in both Muslim and non-Muslim countries (Kasim, 2010). The global financial industry grew from USD 0.639 trillion in 2007 to USD 2.2 trillion at the end of 2016 and reached USD 3 trillion in 2020. The Gulf Cooperation Council (GCC) countries, Iran and Malaysia, have become the growth centers of the global Islamic finance industry, including 83% of the market size (Kasi & Mahmood, 2019).

This industry covers a wide range of services. The total global Islamic financial assets reached US\$2.52 trillion in 2018, with a growth of 5.5% per year, and will reach US\$3.47 trillion in 2024, with the most significant portion of banking assets reaching 70%. Thus, citing the Global Report on Islamic Finance 2018 (Algabry et al., 2020), the banking sector is the main element of the Islamic financial industry. Specifically, Indonesia is ranked the seventh largest globally and has already reached US\$86 billion (Hidayah, 2020).

Nevertheless, the size of Islamic banks poses challenges to operations. Several cases occurred in various countries, such as the bankruptcy of the Islamic Bank of South Africa in 1997, with total debts ranging from Rand 50 million - Rand 70 million; Dubai Islamic Bank once lost about USD 300 billion (Najib & Rini, 2019); the bankruptcy of Ihlas Financial House, an IFI in Turkey in 2001, which according to Baklouti (2020), was all due to fraud. In 2012, a similar case occurred in Indonesia; the Bogor branch of Bank Syariah Mandiri (BSM) loaned 197 fictitious customers IDR 102 billion. This fraud involved four suspects, three of whom were BSM employees (Prabowo, 2019). In another case, customers filed a lawsuit against Bank Rakyat Indonesia (BRI) Syariah and Bank Mega Syariah for their loss of gold pawns (Najib & Rini, 2019).

Based on these problems, this study focuses on the role of the internal audit function of Islamic banks. Considering that one of its fundamental responsibilities is to ensure compliance with sharia, it needs to be preceded by strengthening the effectiveness of sharia governance (Algabry et al., 2020; Mardiyah & Mardian, 2016), primarily through internal audit and sharia function review (Algabry et al., 2020). Thus, the internal audit of Islamic banks bears the mission to ensure an effective internal control system that is strictly sharia-compliant to gain public trust (Mardiyah & Mardian, 2016).

The internal audit has a vital and complex role as a detector to reduce fraud and accounting scandals (Khalid & Sarea, 2018; Sutaryo & Sinaga, 2018). For an IFI, the internal auditors should meet the qualifications of knowledge of sharia. Significantly, according to Haniffa (2010), internal auditors must meet the requirements of personally having relevant knowledge about *fiqh muamalat*. Aside from having internal control duties, the sharia internal audit function also assists the Sharia Supervisory Board (SSB) in conducting a sharia compliance audit. To this extent, internal sharia audit supports and encourages the pursuit of good corporate governance (GCG) (Ardi, 2017; Yaya & Suprobo, 2019). However, the study of Kasim et al. (2009) uncovered the opposite fact that the stage of sharia competence possessed by internal auditors was still low.

Study on sharia audit has been grown by many. First, research on the general conceptual stage has been conducted by Kasim (2010), Haniffa (2010), Kasim et al. (2009), and Czerny (2020). Second, the sharia audit uses the perspective of *al-hisbah*, a special audit organization born and raised in Islamic civilization. For instance, Bello Dogarawa (2013) explored the role of *hisbah* on the economy, Baehaqi & Suyanto (2019) examined *hisbah* in commercial entities and internal audits for government agencies, and Sari & A. Birton (2019) investigated it in the Indonesian case. Third, the study on sharia audit from the perspective of SSB has been very well developed, like Faozan (2013), Injas et al. (2016), Mohd Ali et al. (2018), Kasi and Mahmood (2019), and Baklouti (2020).

Fourth, external audits for Islamic entities have a broad spectrum, as Suryanto (2016) researched the audit opinion of Islamic entities with a sample in Sumatra, Indonesia. Besides, Kooskusumawardani and Birton (2016) studied the competence and independence of external auditors of Islamic entities; Hanefah et al. (2020) and Ahmed Abdel Karim (1990) also scrutinized it. Fifth is internal audit for Islamic entities, such as studies by Ardi (2017), Baehaqi and Suyanto (2019), Algabry et al. (2020) on the duties of SSB, Khalid et al. (2017), and Yahya & Mahzan (2012). As a result, internal audit has a vital role as a detector to reduce fraud and accounting scandals, assist SSB in conducting sharia compliance audits, and ensure an effective internal control system by strictly following sharia. At the same time, internal audit plays a role in supporting and encouraging the process of realizing GCG.

Accordingly, this study aims to reveal the role of internal audits in fulfilling GCG principles for Islamic banks in Indonesia. By identifying the role of the internal audit function of Islamic banks using qualitative content analysis for the first time, this study is unique in how the disclosure of internal audit function is presented. Therefore, this study contributes to the literature by adding a new perspective on how the role of internal audit is portrayed.

Literature Review

Context of the emergence of GCG and its scope

The concept of GCG emerged as the correction of various companies' mega scandals across the globe, where the governance system's weakness was considered the main factor (Prabowo, 2019). The purposes of GCG are to control, improve performance, protect stakeholders' interests, and improve compliance with laws and ethical values (Faozan, 2013). Also, as Wolfensohn quoted in Prastiwi (2017), GCG aims to provide justice for all stakeholders through transparency and accountability.

GCG, according to Lannoo (1995), is the entire system of rights, the process of controlling the management of business entities to protect all stakeholders (Ibrahim et al., 2004; Lewis & Algaoud, 2001). The concept of GCG also seeks to clarify the relationship mechanism between organizational stakeholders. GCG requires the existence of structures and tools to achieve goals and monitor performance achievements. Well-implemented GCG can stimulate or incentivize both the board and management to achieve goals for the good of every stakeholder (Prastiwi, 2017).

Principles of GCG

The Organization for Economic Cooperation and Development (OECD) has compiled and highly recommends GCG principles in the hope that they can be used as reference material for state-owned and private companies, investors, and all stakeholders in every country. According to OECD (2016), the principles of GCG include (1) the legal basis needed to ensure the effective GCG implementation, (2) the rights of shareholders and the primary function of company ownership, (3) fair treatment of shareholders, (4) the

role of stakeholders in corporate governance, (5) the principle of transparent disclosure of information, and (6) responsibilities of the Governing Council.

GCG structure and mechanism

The governance structure is a framework for applying various governance principles to be distributed, implemented, and controlled. The governance structure must be designed to support the organization's activities in a responsible and controlled manner to be more specific and detailed (Endraswati, 2017). In its implementation, the GCG principles are stated in internal and external mechanisms. These mechanisms are needed so that the company's activities can run healthily in accordance with previously established directions. External mechanisms are influenced by external factors, such as investors, public accountants, banks, and legal institutions. Meanwhile, internal mechanisms are affected by factors within the company, consisting of (a) the board of commissioners, whose collective duties and responsibilities are to supervise and provide advice to the board of directors and ensure that the company implements GCG; (b) the audit committee, which is a committee formed by the board of commissioners to carry out the task of supervising the company management (Franita, 2019; Nguyen, 2021; Walsh & Seward, 1990).

The governance structure of sharia entities

The governance of an IFI has an obligation to comply with sharia principles in products, instruments, and management (Abdullah Saif Alnasser & Muhammed, 2012; Arif et al., 2018). Prabowo (2019) stated that the source of GCG in IFI is the Al-Quran and Hadith. The principles include *tauhid*, compliance, adherence, the center point of balance and justice, and the principles of benefit. All are infused within the business practices based on the sharia framework, where Allah (ﷻ) is the sole owner of the authority.

As one of the IFIs, Islamic banks must also be able to ensure that GCG principles have been implemented in every business activity and its individuals (Choiriyah, 2015). Its governance structure requires the SSB establishment to ensure transactions comply with Islamic principles. SSB also ensures sharia governance and sharia-compliant operations and supports and validates documents related to products and services and internal company policies. Each SSB member must be independent and have good skills in *muamalah*, economics, and banking, as well as other relevant abilities, such as adequate competence, integrity, and a well-maintained reputation (Abdullah Saif Alnasser & Muhammed, 2012; Faozan, 2013).

GCG and internal audit function of Islamic banks in Indonesia

The GCG implementations of Islamic business units in Indonesia are guided by the Regulations of Bank of Indonesia No. 11/33/PBI/2009. It contains four chapters and 93 articles on the primary responsibilities, functions, and working mechanisms of GCG members: commissioners (committees), directors, and SSB, including the internal audit committee. The internal audit is contained in article 53 in four points. (1) Islamic bank is required to implement an effective internal audit function as regulated by the Bank

Indonesia regarding the internal audit function implementation standards for commercial banks. (2) Islamic bank is obliged to carry out an internal audit function independent of the operational work unit. (3) The implementation of the internal audit function, as referred to in point 2, must be supported by adequate and competent personnel in their respective fields, with at least 1 (one) having knowledge and/or understanding of Islamic banking operations. (4) The internal audit report on sharia compliance is presented to SSB.

Critical perspective of the role of the internal audit function in Islamic banks

Critical accounting research calls for more in-depth exploration. Islamic accounting is theoretically contrasted with the conventional logic of accounting based on the social justice and accountability framework as opposed to decision-usefulness to serve capital markets. Therefore, conventional accounting and its processes are inappropriate for IFIs (Kamla & Haque, 2019).

Accordingly, the internal audit has the role of functioning in Islamic banks. Albeit its reference to conventional accounting, the internal auditors are responsible for reporting to SSB on sharia compliance of Islamic banking operations to the extent of GCG implementations. This crucial role of internal auditors in IFIs, especially Islamic banks, is the key to how sharia is highly respected in business operations.

Research Method

In the massive emerging development of the Islamic financial industry, the role of the internal audit function is in the spotlight as governance is the main issue of this industry's sustainability. The internal audit of Islamic banks covers the implementation of insurance activities, consultations for evaluation, and providing recommendations on the quality of company performance. Thus, to explore the role of the internal audit function bearing the mission to be strictly in compliance with sharia (Mardiyah & Mardian, 2016), this study employed a qualitative approach. Furthermore, to make sense in a very systematic way of the large amount of material that would invariably emerge in the process, this study utilized qualitative content analysis (Flick, 2020; Schreier, 2012).

Data collection and analysis

This study conducted data analysis using the eight steps of qualitative content analysis (Flick, 2020; Schreier, 2012). First, the researchers determined the context for disclosing the role of the internal audit function. The context was the GCG and annual reports. Second, the researchers collected secondary data from the GCG and annual reports of 2020 from Islamic banks directly from each official website. The researchers then established a sample of 14 Islamic banks registered in Indonesia's Financial Service Authority (FSA) with a complete internal audit structure. Then, the researchers narrowed the data down into specific parts as the researchers explored the text contained in the internal audit report to analyze the role of the internal audit function.

Third, the researchers built a coding framework for the role of internal audit as the main category and subcategories: 'internal audit' itself, as in the audit activity, and 'recommendation.' Fourth, to interpret in a meaningful way, the researchers segmented the work nature of 'internal audit' into 'planning,' 'implementation,' or 'audit sampling.' Meanwhile, the segmentation of 'recommendations' was 'compliance' and 'assurance.'

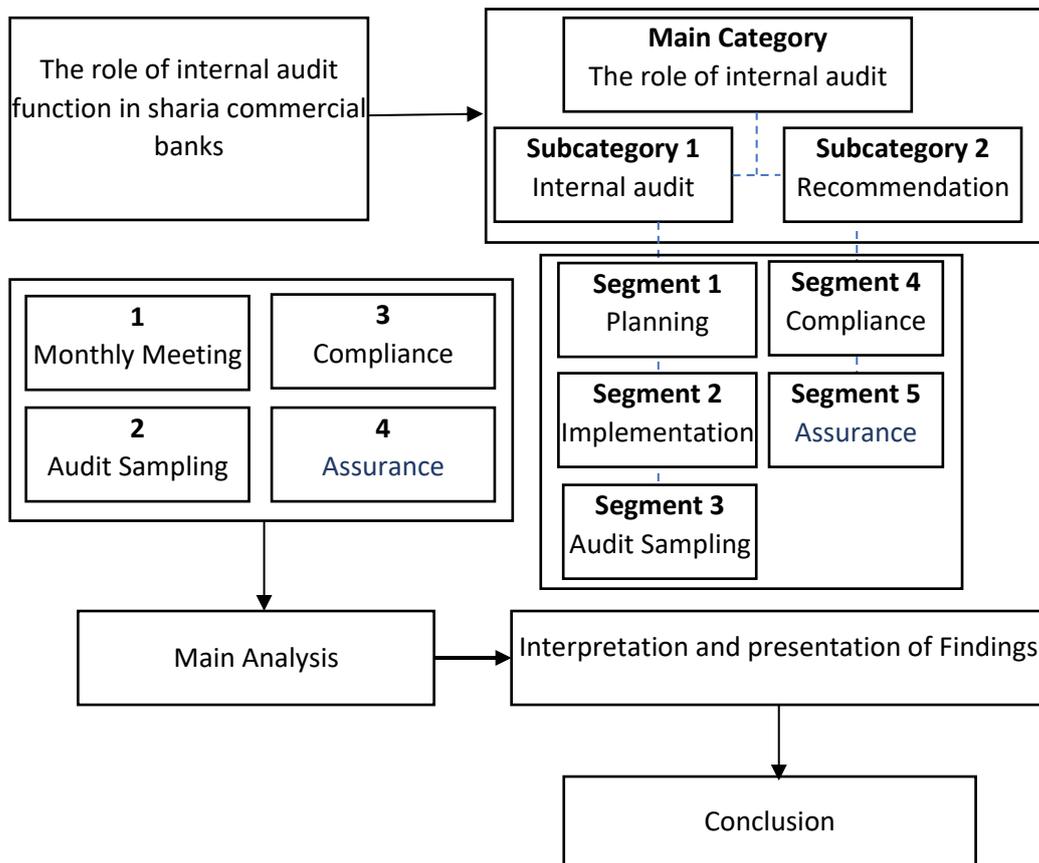


Figure 1 Qualitative Content Analysis of the Role of Internal Audit Function of Sharia Commercial Banks

Source: Flick (2020) and Schreier (2012)

Fifth, the coding framework was applied to the material for two rounds of coding. The researchers applied all segmentations to subcategories, the main category, and the other way around. Sixth, the researchers examined this study's data consistency and validity by evaluating and modifying the coding framework, resulting in a revision of this study's subcategories into 'monthly meeting,' 'audit sampling,' 'compliance,' and 'assurance' to adequately describe the role of the internal audit function in the next step of the main analysis. Seventh, the researchers conducted the main analysis, where all the materials were coded. This study's codes are as follows; 'monthly meeting' was coded as 1, 'audit sampling' as 2, 'compliance' as 3, and 'assurance' as 4. Eighth, this study's findings were interpreted and presented in the next section.

Result and Discussion

From the GCG and annual reports of 2020, the researchers drew an additional illustration of this study's findings in tabular data summary (Flick, 2020; Schreier, 2012), as follows.

Table 1 Internal Audit Activities

No	Bank	Report			
		Annual	Page	GCG	Page
1	Bank Aceh Syariah	1	19	1	17
2	Bank BPD Nusa Tenggara Barat Syariah	1	5	1	6
3	Bank Muamalat Indonesia	1	9	1	9
4	Bank Victoria Syariah	1	3	1	3
5	Bank BRI Syariah	1	14	1	1
6	Bank Jabar Banten Syariah	1	7	1	4
7	Bank BNI Syariah	1	9	1	7
8	Bank Syariah Mandiri	1	13	1	13
9	Bank Mega Syariah	1	6	1	5
10	Bank Panin Dubai Syariah	1	4	1	5
11	BCA Syariah	1	8	1	8
12	Bank Tabungan Pensiunan Nasional Syariah	1	5	1	3
13	Bank Net Indonesia Syariah	1	7	1	4
14	Bank Syariah Bukopin	1	7	-	-
Total		14		13	

Table 2 Internal Audit Composition

No	Bank	Position			Total
		Head of Division	Leader of Division	Staff	
1	Bank Aceh Syariah	1	1	24	26
2	Bank BPD Nusa Tenggara Barat Syariah	-	-	-	-
3	Bank Muamalat Indonesia	1	3	17	21
4	Bank Victoria Syariah	-	-	-	-
5	Bank BRI Syariah	-	-	-	-
6	Bank Jabar Banten Syariah	1	3	13	17
7	Bank BNI Syariah	1	19	130	150
8	Bank Syariah Mandiri	1	7	46	54
9	Bank Mega Syariah	1	3	30	34
10	Bank Panin Dubai Syariah	1	3	5	9
11	BCA Syariah	1	1	27	29
12	Bank Tabungan Pensiunan Nasional Syariah	-	-	-	-
13	Bank Net Indonesia Syariah	1	-	-	-
14	Bank Syariah Bukopin	1	2	14	17
Total		10	42	306	357

In 2020, 14 Islamic banks submitted reports related to their internal audit activities. Of 14, 13 banks issued their activities in the annual and the GCG reports. Bank Syariah Bukopin was the only one that did not issue the GCG report for the internal audit activities documentation. In addition, not all Islamic banks in this study provided the same space

for reporting on internal audit activities. Bank Aceh Syariah provided information on the role of internal audit in a total of 36 pages, 19 pages in the annual report and 17 pages in the GCG report. On the other hand, Bank Victoria Syariah was the least disclosed, with six pages, three pages in the annual report, and three in the GCG report (Table 1).

Table 2 provides an overview of the strength of the Internal Audit Unit (IAU). It is implied that from the strength of the personnel, Bank BNI Syariah had the information about the complete organizational structure and very considerable personal strength, with a total of 150 people. However, because Bank BPD Nusa Tenggara Barat Syariah, Bank Victoria Syariah, Bank BRI Syariah, and Bank Tabungan Pensiunan Nasional Syariah did not inform their personnel, the strength of their internal audit personnel was not disclosed.

Moreover, to get a further understanding of this study's analysis (Gioia et al., 2013; Warner & Wäger, 2019), the researchers draw additional illustrations of the findings of this study in Table 3.

Organization and internal audit authority

The function and role of an internal audit are to assess the adequacy and effectiveness of internal controls and the implementation of internal audits, including the provision of insurance, consulting, and investigation services. More specifically, the internal audit of Islamic banks covers the implementation of insurance activities, consultations for evaluation, and providing recommendations on the quality of company performance, adequacy, effectiveness, efficiency, risk management, and corporate governance, as well as compliance with sharia principles. Before conducting an internal audit, Islamic banks must prepare an internal audit charter, establish an IAU, and prepare internal audit guidelines. IAU's main tasks are supervision, analyzing, and assessing finance, accounting, operations, and activities. In addition, it also has the task of improving and increasing the efficiency of the allocation of resources and funds, as well as providing suggestions for improvement and objective information about the examined activities.

Each internal audit result has been monitored through the Sharia Enterprise Audit (SEA) application to ensure that the audit results can be completed immediately. Related to sharia activities, internal audit must ensure the implementation of sharia principles is guided by SSB and reviews the *fatwas* issued by the SSB, which will significantly impact bank operations.

Moreover, internal audit is directly accountable to the director and can communicate directly with the board of commissioners in supervising the implementation of sharia principles compliance within banks' activities. In this context, an internal audit, alongside the governance body, will provide independent objective assurance and business advisory intended to add value and lead to business improvement of the Islamic banks (Botez, 2012; Cioban (Lucan) et al., 2015; Yaya & Suprobo, 2019). The internal audit is realized in Islamic banks through well-adapted ways of resources and culture whose authority is applied to insurance and counseling activities (Cioban (Lucan) et al., 2015).

Birton, Ermawati, Ektinahati & Muttaqin
Disclosure of Internal Audit Functions of Islamic Banks in Indonesia

Table 3 Internal Audit Categorical Analysis

No	Bank	Category			
		Monthly Meeting	Audit Sampling	Compliance	Assurance
1	Bank Aceh Syariah	Undisclosed	Five divisions at six branch offices	A compliance work unit exists.	Structurally qualified
2	Bank BPD Nusa Tenggara Barat Syariah	Undisclosed	Nine head offices, 21 branch offices, and 12 work units	Based on compliance with the operating information system and Bank Indonesia National Clearing System (BI-NCS) and Bank Indonesia Real Time Gross Settlement (BI-RTGS)	Structurally qualified
3	Bank Muamalat Indonesia	Undisclosed	Eight regular audit activities and 31 special audit activities	The compliance work unit enforces compliance with laws and regulations.	Structurally qualified
4	Bank Victoria Syariah	Undisclosed	Nine branch offices and eight divisions	Compliance with Bank Indonesia Payment Systems	Structurally qualified
5	Bank BRI Syariah	15 meetings	Undisclosed	Systematic organizational compliance culture	Structurally qualified
6	Bank Jabar Banten Syariah	Undisclosed	47 regular audit activities, 11 special audit activities, and two audit activities at the head office	Undisclosed	Structurally qualified
7	Bank BNI Syariah	Undisclosed	71 branch offices, two work units, and 24 divisions	The compliance work unit enforces compliance with sharia law and principles.	Structurally qualified
8	Bank Syariah Mandiri	Undisclosed	46 regular audit activities and 51 investigative audit activities	Undisclosed	Structurally qualified
9	Bank Mega Syariah	Undisclosed	63 branch offices, 19 head offices, and 19 joint financing units	Undisclosed	Structurally qualified
10	Bank Panin Dubai Syariah	Undisclosed	Regular audit for all branch offices and special audit with director's instruction	Focus on banking information system	Structurally qualified
11	BCA Syariah	Undisclosed	18 regular audit activities at nine branch offices and nine head offices, and eight regulatory audit activities	The compliance department enforces compliance with banking regulations.	Structurally qualified
12	Bank Tabungan Pensiunan Nasional Syariah	Undisclosed	Undisclosed	Systematic organizational compliance culture	Structurally qualified
13	Bank Net Indonesia Syariah	Undisclosed	Regular audit at seven areas and four Surprise Cash Count activities	Undisclosed	Structurally qualified
14	Bank Syariah Bukopin	Undisclosed	Undisclosed	Undisclosed	Undisclosed

Primarily, the authority of the internal audit is to communicate with the board of directors, the board of commissioners, and the audit committee. They can also request, examine, and evaluate data and information regarding bookkeeping, employees, resources, and meetings, conduct investigations for indications of fraud, provide consultation for internal parties, coordinate with external auditors, and attend strategic meetings even without voting rights. However, only five banks specifically explained the role of internal audits related to sharia activities. They were BNI Syariah, BSM, Net Syariah Bank, Panin Dubai Syariah Bank, and Mega Syariah Bank.

Internal audit performance

The scope of IAU's performance is divided into three essential activities: preparation of work program plans, implementation, monitoring, and follow-up on findings. The IAU must develop an annual work plan or program and obtain approval from the president director and board of commissioners. The audit implementation further includes three crucial aspects: (1) the audit method approach to be applied, (2) audit implementation, and (3) the report. There are several approaches to carrying out IAU tasks, such as on-site (fieldwork, quick review) and off-site (continuous auditing, on-desk review). Exposure to methods also includes using resources from internal and external audits such as joint audits.

Furthermore, the method of audit implementation is divided into branch office audit and head office audit. A branch office audit is based on inherent and control system risk indicators. Its objectives are to identify, evaluate, and minimize risk; ensure that the division has implemented a management control system; division performance measurement; ensure that the division complies with internal and external regulations; assess the head of division in carrying out management functions; the amount and number of financial transactions; legal notice from regulators, total revenue and cost center expense, audit findings, number of cases revealed, and the level of operational complexity of a business unit.

The IAU report contains the scope and basis of the examination, risk profile, asset quality, management, and recommendations. The auditor must know and understand very well the management and internal control system in such a way as to identify and assess the risks corresponding to the operation of the Islamic banks and the specific risks of the activity being carried out (Algabry et al., 2020; Cioban (Lucan) et al., 2015). Then, the audit report is distributed to directors, compliance directors, commissioners, and audit committees as internal parties and the FSA as external parties. The final part of the internal audit performance is to periodically monitor the number and percentage of follow-ups on findings to determine that the auditee has implemented the recommendations of internal and external audit results within the notified time. It includes assessing aspects of the adequacy and effectiveness of the internal control system in all bank activities and the performance of the auditee work unit. In monitoring, follow-up on audit results ensures that corrective actions on audit findings have been carried out by the auditee while carrying out further examinations regarding difficulties or obstacles to follow-up on findings.

Information variety of internal audit activity

In addition to the general pattern of information in the annual report, several banks add variations of internal audit information. However, the information contained in the audit activity is not always responding faithfully to the requested information, and in some cases, its quality does not rise to the standards imposed by the activity carried out (Cioban (Lucan) et al., 2015; Haniffa, 2010). Furthermore, practically, the focus and scope of the audit tend to be on financial statements rather than the broader concept of shariah audit, which involves the audit of all activities of IFIs based on *maqasid al-shariah* (Haniffa, 2010). Thus, two main things should become the center of attention: (1) competence and (2) work and ethical guidelines. Also, internal control is needed to maximize the Islamic accounting procedures on its process and implementation (Daniela & Attila, 2013; Shafii et al., 2014).

Further, the shared information and organizational tasks are used for the sharia audit and performance control. Information regarding the competence of internal auditors covers internal audit certification for banks, anti-fraud certification, audit certification, and risk management certification. In addition, work guidelines are contained in the internal audit charter, which also encompasses ethical guidelines, such as integrity, objectivity, independence, confidentiality, and competence principles.

Conclusion

The role played by internal auditors is vital in pursuing the principles of good corporate governance. The first is regarding the organization and authority of internal auditors. In this regard, IAU is a part of management regulated through POJK No. 1/POJK.03/2019, dated January 28, 2019, concerning implementing the Internal Audit Function in Commercial Banks. The primary duties of IAU include implementing assurance activities, consultation for evaluation, and providing recommendations on the quality of the company's performance, adequacy, effectiveness, efficiency, risk management, and corporate governance, as well as compliance with sharia principles. The authority of IAU is to communicate with the board of directors, board of commissioners, and audit committee, including SSB. With this authority, IAU may request, examine, and assess data and information regarding bookkeeping, employees, resources, and meetings, investigate fraud indications, provide consultation for internal, coordinate with external auditors, and conduct strategic meetings.

Second, the scope of IAU's performance is divided into three essential activities: preparation of work program plans, implementation, monitoring, and follow-up on findings. The IAU must develop an annual work plan or program and obtain approval from the president director and board of commissioners. In addition, the audit implementation consists of three crucial aspects: (1) the audit method approach to be applied, (2) audit implementation, and (3) the report. There are several approaches to carrying out IAU tasks, such as on-site (fieldwork, quick review) and off-site (continuous auditing, on-desk review). Exposure to methods also encompasses using resources from internal and external audits, such as a joint audit. Thus, internal auditors should be able to identify and

assess the risks corresponding to the operation of Islamic banks and the specific risks of the activity being carried out (Algabry et al., 2020; Cioban (Lucan) et al., 2015).

Third, Islamic banks have more variations of internal audit information. Two main things become the center of attention: (1) competence and (2) work and ethical guidelines. Several banks share this information within organizations and tasks, while others use it as a performance control. However, the information contained in the audit activity is not always responding faithfully to the requested information, and in some cases, its quality does not rise to the standards imposed by the activity carried out (Cioban (Lucan) et al., 2015; Haniffa, 2010). Therefore, it is vital to know the information regarding the competence of internal auditors, including internal audit certification for banks, anti-fraud certification, audit certification, and risk management certification. Besides, work guidelines are contained in the internal audit charter, which also comprises ethical guidelines, such as integrity, objectivity, independence, confidentiality, and competence.

References

- Abdullah Saif Alnasser, S., & Muhammed, J. (2012). Introduction to corporate governance from Islamic perspective. *Humanomics*, 28(3), 220–231. <https://doi.org/10.1108/08288661211258110>
- Ahmed Abdel Karim, R. (1990). The Independence of Religious and External Auditors: The Case of Islamic Banks. *Accounting, Auditing & Accountability Journal*, 3(3), 09513579010004097. <https://doi.org/10.1108/09513579010004097>
- Algabry, L., Alhabshi, S. M., Soualhi, Y., & Alaeddin, O. (2020). Conceptual framework of internal Shari'ah audit effectiveness factors in Islamic banks. *ISRA International Journal of Islamic Finance*, 12(2), 171–193. <https://doi.org/10.1108/IJIF-09-2018-0097>
- Algabry, L., Alhabshi, S. M., Soualhi, Y., & Othman, A. H. A. (2020). Assessing the effectiveness of internal Shari'ah audit structure and its practices in Islamic financial institutions: a case study of Islamic banks in Yemen. *Asian Journal of Accounting Research*, 6(1), 2–22. <https://doi.org/10.1108/AJAR-04-2019-0025>
- Ardi, M. (2017). Peran audit internal terhadap pelaksanaan good governance di perbankan syariah. *DIKTUM: Jurnal Syariah Dan Hukum*, 15(2), 169–176. <https://doi.org/10.35905/diktum.v15i2.433>
- Arif, M. I. A. M., Markom, R., & Hanapi, H. (2018). The Principles of Shariah Governance in Statutory Duties of Shariah Advisory Council in Malaysian Islamic Banking System: A Way Forward. *International Journal of Business Marketing and Management*, 3(2), 2456–4559. Retrieved from www.ijbmm.com
- Baehaqi, A., & Suyanto, S. (2019). Audit Internal Lembaga Keuangan Syariah dalam Perspektif Al-hisbah. *Jurnal Riset Keuangan Dan Akuntansi*, 4(2). <https://doi.org/10.25134/jrka.v4i2.1694>
- Baklouti, I. (2020). Is the Sharia supervisory board a friend or an enemy of Islamic banks?. *Journal of Islamic Marketing*. <https://doi.org/10.1108/JIMA-04-2020-0118>
- Bank-Aceh-Syariah. (2020). *The Annual and GCG Reports*. Retrieved from <https://www.bankaceh.co.id/?cat=9>
- Bank-Mega-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://www.megasyariah.co.id/#article5>
- Bank-Muamalat. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://www.bankmuamalat.co.id/hubungan-investor/laporan-tahunan>

Birton, Ermawati, Ektinahati & Muttaqin
Disclosure of Internal Audit Functions of Islamic Banks in Indonesia

- Bank-Net-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://www.maybanksyariah/laporan-tahunan-2020.pdf>
- Bank-Nusa-Tenggara-Barat-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://www.bankntbsyariah.co.id/Perusahaan/laporan>
- Bank-Panin-Dubai-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://www.paninbanksyariah.co.id/index.php/mtentangkami/laporankeuangan?id=205>
- Bank-Syariah-Bukopin. (2020). *The Annual Report*. Retrieved from <https://www.syariahbukopin.co.id/id/laporan/2020>
- Bank-Victoria-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://bankvictoriasyariah.co.id/page/sub/tahunan>
- BCA-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://www.bcasyariah.co.id/laporan-tahunan>
- Bello Dogarawa, A. (2013). Hisbah and the promotion of ethical business practices. *International Journal of Islamic and Middle Eastern Finance and Management*, 6(1), 51–63. <https://doi.org/10.1108/17538391311310743>
- BJB-Syariah. (2021). *The 2020 Annual and GCG Reports*. Retrieved from <https://bjbsyariah.co.id/annual-report>
- BNI-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://www.ir-bankbsi.com/misc/AR/AR2020-BNIS-ID.pdf>
- Botez, D. (2012). Internal Audit and Management Entity. *Procedia Economics and Finance*, 3, 1156–1160. [https://doi.org/10.1016/S2212-5671\(12\)00289-4](https://doi.org/10.1016/S2212-5671(12)00289-4)
- BRI-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from https://www.ir-bankbsi.com/annual_reports.html
- BSM. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://www.ir-bankbsi.com/misc/AR/AR2020-BSM.pdf>
- BTPN-Syariah. (2020). *The 2020 Annual and GCG Reports*. Retrieved from <https://btponsyariah.com/documents/20182/21371/2020.pdf/94d2aca8-62b6-4f63-8299-00c1314ab4b3?version=1.3>
- Choiriyah. (2015). Good Corporate Governance dalam Lembaga Keuangan Islam. *Islamic Banking: Jurnal Pemikiran Dan Pengembangan Perbankan Syariah*, 1(1), 31–38. <https://doi.org/10.36908/isbank.v1i1.12>
- Cioban (Lucan), A. N., Hlaciuc, E., & Zaicéanu, A. M. (2015). The Impact and Results of the Internal Audit Activity Exercised in the Public Sector in Romania. *Procedia Economics and Finance*, 32, 394–399. [https://doi.org/10.1016/S2212-5671\(15\)01409-4](https://doi.org/10.1016/S2212-5671(15)01409-4)
- Czerny, M. (2020). Muslim auditors' ethics. *Zeszyty Teoretyczne Rachunkowości*, 108(164), 229–240. <https://doi.org/10.5604/01.3001.0014.3604>
- Daniela, P., & Attila, T. (2013). Internal Audit versus Internal Control and Coaching. *Procedia Economics and Finance*, 6, 694–702. [https://doi.org/10.1016/S2212-5671\(13\)00191-3](https://doi.org/10.1016/S2212-5671(13)00191-3)
- Endraswati, H. (2017). *Struktur Islamic Corporate Governance Dan Kualitas Pengungkapan Laporan Keuangan Pada Bank Syariah Di Indonesia*. Endraswati, Hikmah.
- Faozan, A. (2013). Implementasi Good Corporate Governance Dan Peran Dewan Pengawas Syariah Di Bank Syariah. *La_Riba*, 7(1), 1–14. <https://doi.org/10.20885/lariba.vol7.iss1.art1>
- Flick, U. (2020). The SAGE Handbook of Qualitative Data Analysis. In U. Flick (Ed.), *Defending Qualitative Research*. <https://doi.org/10.4324/9780429464232-6>
- Franita, R. (2019). *Mekanisme Good Corporate Governance dan Nilai Perusahaan: Studi untuk Perusahaan Telekomunikasi*. Lembaga Penelitian Dan Penulisan Ilmiah Aqli.
- Gioia, D. A., Corley, K. G., & Hamilton, A. L. (2013). Seeking Qualitative Rigor in Inductive Research. *Organizational Research Methods*, 16(1), 15–31. <https://doi.org/10.1177/1094428112452151>

- Hanefah, M. M., Kamaruddin, M. I. H., Salleh, S., Shafii, Z., & Zakaria, N. (2020). Internal control, risk and Shari'ah non-compliant income in Islamic financial institutions. *ISRA International Journal of Islamic Finance*, 12(3), 401–417. <https://doi.org/10.1108/IJIF-02-2019-0025>
- Haniffa, R. (2010). *Auditing Islamic Financial Institutions*, in *Islamic Finance: Instruments and Markets*. QFinance.
- Hidayah, A. A. (2020). *Aset keuangan syariah Indonesia peringkat 7 dunia, Iran nomor 1. Lokadata*. Retrieved from <https://lokadata.id/artikel/aset-keuangan-syariah-indonesia-peringkat-7-dunia-iran-nomor-1>
- Ibrahim, S. H. M., Wirman, A., Alrazi, B., Nor, M. N. B. M., & Pramono, S. (2004). Alternative Disclosure and Performance Measures for Islamic Bank. *Second Conference on Administrative Sciences: Meeting the Challenges of the Globalization Age*, King Fahd University of Petroleum & Minerals, Dhahran, Saudi Arabia.
- Injas, M. M. Y., Haron, M. S., Ramli, R., & Injas, R. A. (2016). The Importance of the Shari'ah Supervisory Boards (SSBS) in the Islamic Banking System. *South East Asia Journal of Contemporary Business, Economics and Law*, 9(2), 25–31.
- Kamla, R., & Haque, F. (2019). Islamic accounting, neo-imperialism and identity staging: The Accounting and Auditing Organization for Islamic Financial Institutions. *Critical Perspectives on Accounting*, 63, 102000. <https://doi.org/10.1016/j.cpa.2017.06.001>
- Kasi, B. R., & Mahmood, N. (2019). Composition and Working of the Sharia Supervisory Boards in Bahrain's Islamic Banks. *Economy*, 6(2), 76–81. <https://doi.org/10.20448/journal.502.2019.62.76.81>
- Kasim, N. (2010). Auditing from the Islamic Perspective. *Accountants Today*, 3, 28.
- Kasim, N., Ibrahim, M., Hameed, S., Ibrahim, M., & Sulaiman, M. (2009). Shariah Auditing in Islamic Financial Institutions: Exploring the Gap Between the “Desired” and the “Actual.” *Global Economy & Finance Journal*, 2, 127–137.
- Khalid, A. A., Haron, H. H., & Masron, T. A. (2017). Relationship between internal Shariah audit characteristics and its effectiveness. *Humanomics*, 33(2), 221–238. <https://doi.org/10.1108/H-11-2016-0084>
- Khalid, A., & Sarea, A. (2018). The role of shariah supervisory board on internal Shariah audit effectiveness: Evidence from Bahrain. *Academy of Accounting and Financial Studies Journal*, 22(5).
- Kooskusumawardani, N., & Birton, M. N. A. (2016). Pengaruh Kompetensi Dan Independensi Auditor Dalam Pelaksanaan Sharia Compliance Di Lembaga Keuangan Syariah (LKS). *Simposium Nasional Akuntansi XIX*, 1–20. Retrieved from http://mvdw.org/images/arsip/akuntansi/Nadia_Kooskusumawardani_M_Nur_A_Birton.pdf
- Lannoo, K. (1995). *Corporate Governance in Europe: Report of a CEPS Working Party* (K. Lannoo (ed.)). Centre pour l'Etude des Politiques Publiques Europeennes.
- Lewis, M. K., & Algaoud, L. M. (2001). *Islamic Banking*. Edward Elgar Publishing.
- Mardiyah, Q., & Mardian, S. (2016). Praktik Audit Syariah di Lembaga Keuangan Syariah Indonesia. *Akuntabilitas*, 8(1). <https://doi.org/10.15408/akt.v8i1.2758>
- Mohd Ali, N. A., Shahimi, S., & Shafii, Z. (2018). Knowledge, Skills and Characteristics Requirements for Shari'ah Auditors. *Asian Journal of Accounting and Governance*, 9, 171–185. <https://doi.org/10.17576/AJAG-2018-09-15>
- Najib, H., & Rini, R. (2019). Sharia Compliance, Islamic Corporate Governance Dan Fraud Pada Bank Syariah. *Jurnal Akuntansi Dan Keuangan Islam*, 4(2), 131–146. <https://doi.org/10.35836/jakis.v4i2.23>

- Nguyen, Q. K. (2021). Oversight of bank risk-taking by audit committees and Sharia committees: conventional vs. *Islamic banks*. *Heliyon*, 7(8).
<https://doi.org/10.1016/j.heliyon.2021.e07798>
- OECD. (2016). G20/OECD Principles of Corporate Governance. In OECD Publishing. OECD Publishing. <https://doi.org/10.1787/9789264257443-tr>
- Peraturan Bank Indonesia Nomor 11/33/PBI/2009 tentang Pelaksanaan Good Corporate Governance Bagi Bank Umum Syariah dan Unit Usaha Syariah, (2009) (testimony of Bank-of-Indonesia).
- Prabowo, M. S. (2019). *Good Corporate Governance Dalam Perspektif Islam*. *QISTIE*, 11(2).
<https://doi.org/10.31942/jqi.v11i2.2592>
- Prastiwi, I. E. (2017). Pengaruh Independensi Dewan Pengawas Syariah dalam Mewujudkan Good Corporate Governance untuk Meningkatkan Kinerja BMT. *Jurnal Ilmiah Ekonomi Islam*, 3(01), 77. <https://doi.org/10.29040/jiei.v3i01.101>
- Sari, A. P., & A. Birton, M. N. (2019). Contextualization of Al Hisbah to Build A Government Internal Control System. *KnE Social Sciences*.
<https://doi.org/10.18502/kss.v3i26.5416>
- Schreier, M. (2012). *Qualitative Content Analysis in Practice*. In *Qualitative Content Analysis in Practice*.
- Shafii, Z., Ali, N. A. M., & Kasim, N. (2014). Shariah Audit in Islamic Banks: An Insight to the Future Shariah Auditor Labour Market in Malaysia. *Procedia - Social and Behavioral Sciences*, 145, 158–172. <https://doi.org/10.1016/j.sbspro.2014.06.023>
- Suryanto, T. (2016). Islamic Work Ethics and Audit Opinions: Audit Professionalism and Dysfunctional Behavior as Intervening Variables. *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah*, 8(1), 49–64. <https://doi.org/10.15408/aiq.v8i1.2508>
- Sutaryo, S., & Sinaga, D. (2018). Government Internal Control System Maturity: The Role of Internal Guidance and External Control of Local Government in Indonesia. *Journal of Accounting and Investment*, 19(1), 24–35. <https://doi.org/10.18196/jai.190189>
- Walsh, J. P., & Seward, J. K. (1990). On the Efficiency of Internal and External Corporate Control Mechanisms. *The Academy of Management Review*, 15(3), 421.
<https://doi.org/10.2307/258017>
- Warner, K. S. R., & Wäger, M. (2019). Building dynamic capabilities for digital transformation: An ongoing process of strategic renewal. *Long Range Planning*, 52(3), 326–349. <https://doi.org/10.1016/j.lrp.2018.12.001>
- Yahya, Y., & Mahzan, N. . (2012). The role of internal auditing in ensuring governance in Islamic financial institution (IFI). In: *International Conference on Business and Economic Research, March*, 1108–1134.
- Yaya, R., & Suprobo, H. S. (2019). Determinants of Weaknesses in Internal Control of Provincial Government in Indonesia. *Journal of Accounting and Investment*, 20(3).
<https://doi.org/10.18196/jai.2003130>