Disclosure of Internal Audit Functions of Islamic Banks in Indonesia

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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 segmentized the work nature of ‘internal audit’ into ‘planning,’ ‘implementation,’ or ‘audit sampling.’ Meanwhile, the segmentation of ‘recommendations’ was ‘compliance’ and ‘assurance.’

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

<table>
<thead>
<tr>
<th>No</th>
<th>Bank</th>
<th>Annual Page</th>
<th>GCG Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank Aceh Syariah</td>
<td>1</td>
<td>17</td>
</tr>
<tr>
<td>2</td>
<td>Bank BPD Nusa Tenggara Barat Syariah</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Bank Muamalat Indonesia</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>Bank Victoria Syariah</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Bank BRI Syariah</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>6</td>
<td>Bank Jabar Banten Syariah</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>Bank BNI Syariah</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>8</td>
<td>Bank Syariah Mandiri</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>9</td>
<td>Bank Mega Syariah</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>10</td>
<td>Bank Panin Dubai Syariah</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>11</td>
<td>BCA Syariah</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>12</td>
<td>Bank Tabung Pensiunan Nasional Syariah</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>13</td>
<td>Bank Net Indonesia Syariah</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>14</td>
<td>Bank Syariah Bukopin</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>14</td>
<td>13</td>
</tr>
</tbody>
</table>

Table 2 Internal Audit Composition

<table>
<thead>
<tr>
<th>No</th>
<th>Bank</th>
<th>Position</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Head of Division</td>
<td>Leader of Division</td>
</tr>
<tr>
<td>1</td>
<td>Bank Aceh Syariah</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Bank BPD Nusa Tenggara Barat Syariah</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Bank Muamalat Indonesia</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Bank Victoria Syariah</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Bank BRI Syariah</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Bank Jabar Banten Syariah</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>Bank BNI Syariah</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>8</td>
<td>Bank Syariah Mandiri</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>9</td>
<td>Bank Mega Syariah</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>10</td>
<td>Bank Panin Dubai Syariah</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>11</td>
<td>BCA Syariah</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>12</td>
<td>Bank Tabung Pensiunan Nasional Syariah</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>Bank Net Indonesia Syariah</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>14</td>
<td>Bank Syariah Bukopin</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>10</td>
<td>42</td>
</tr>
</tbody>
</table>

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).
Table 3 Internal Audit Categorical Analysis

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

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