

Evaluating the Effectiveness of Senior Management Support for Shariah Audit Function in Malaysian Islamic Financial Institutions

Nur Laili Ab Ghani*

UKM-Graduate School of Business, Universiti Kebangsaan Malaysia, 43600 UKM Bangi, Selangor, Malaysia

*Corresponding Author

DOI: <https://dx.doi.org/10.47772/IJRISS.2024.8120277>

Received: 16 December 2024; Accepted: 20 December 2024; Published: 18 January 2025

ABSTRACT

Senior management holds crucial responsibility to ensure Shariah compliance over the daily operations and business activities in Islamic financial institutions (IFIs), at all times. This underscores an urgent need to strengthen the effectiveness of senior management function in managing Shariah non-compliance risks in the business activities of IFIs as mandated by Bank Negara Malaysia (BNM) in the Shariah Governance Policy Document (SGPD). Prior studies have demonstrated that various types of IFIs exhibit different levels of Shariah governance practices. However, extensive involvement of the senior management to effectively integrate Shariah compliance across all levels has been adequately examined. The main objective of this study is to evaluate the effectiveness of senior management support for Shariah audit function in Malaysian IFIs. The study employs quantitative methodology to gather the data using survey questionnaire distributed to the Head of Shariah audit in IFIs in Malaysia. Based on the findings, majority IFIs has established effective level of senior management support for the Shariah audit function especially in Islamic banks. However, the senior management support can be enhanced in terms of its function to establish the Shariah compliance culture and to provide adequate human resource for the Shariah audit function. The outcome of this study could enhance effective senior management support to ensure robust management of Shariah non-compliance risks in IFIs. The findings also contribute to further enhance the effectiveness of Shariah governance arrangement in various IFIs and encourage rigorous implementation of the Shariah compliance risk culture at all levels.

Keywords: Management, Shariah audit, Shariah governance, Shariah compliance, Islamic financial institution

INTRODUCTION

The rapid expansion of Islamic financial institutions (IFIs) worldwide has intensified the necessity for an effective Shariah governance structures to guarantee adherence to Islamic principles in all operational dimensions (Alam, Tajul Islam & Runy, 2021). The governance structure fundamentally relies on the essential support of senior management, which underpins the implementation and upholding of effective Shariah compliance processes, especially concerning Shariah audit functions (Bank Negara Malaysia, 2019). The senior management is accountable as the first line of defence while the Shariah audit function represents the third line of defence to ensure Shariah compliance in IFI's business operations. The commitment and involvement of senior management are crucial for fostering an organisational culture that emphasises Shariah compliance and provides essential resources for the Shariah audit function in providing objective assurance of Shariah compliance (Ab Ghani, Mohd Ariffin & Abdul Rahman, 2022).

Amidst the acknowledged significance of senior management support, IFIs has encountered numerous issues and concerns when it comes to upholding Shariah compliance. The issue of Shariah governance in IFIs has emerged as a prominent problem in recent years (Nazmi, Hassan & Abdul Rahman, 2022). It refers to the procedures, frameworks and supervisory systems that IFIs establish to guarantee adherence to Shariah principles. Maintaining rigorous Shariah governance has become increasingly complex due to the dynamic nature of financial markets as well improvements in technology and financial innovation (Abdul Aziz, Abdul-

Rahman & Markom, 2019). The absence of standardised framework for the respective control functions such as Shariah audit and Shariah risk management has resulted in diverse interpretations and practices (Ab Ghani, Mohd Ariffin & Abdul Rahman, 2022; Mohd Ariffin, 2022; Mohamad Puad, Abdullah & Shafii, 2020). Although Shariah governance in IFIs is widely practised, especially after the issuance of Shariah Governance Framework (SGF) in 2010 and later revised to the Shariah Governance Policy Document (SGPD) in 2019, there is a clear lack of empirical studies on the role and effectiveness of senior management support in ensure Shariah compliance. Current research frequently emphasises the current practices to comply with the regulatory requirements of Shariah governance arrangements in IFIs but lacks a thorough evaluation of the managerial aspects.

This study seeks to evaluate the effectiveness of senior management support for Shariah audit function in Malaysian IFIs. It aims to uncover essential aspects of senior management support that enhance successful Shariah audit objectives and to develop a comprehensive framework for assessing senior management effectiveness in this context. This research enhances the current literature by providing empirical evidence on the critical success factors for effective Shariah audit implementation, developing a practical framework for evaluating effective level of senior management support, and offering actionable recommendation to improve the senior management support for the Shariah audit function while maintain independence of both functions. This study is significant to contribute useful insights on the role of senior management in upholding Shariah compliance within IFIs.

Next section discusses the literature review covering the issues in Shariah governance arrangements to identify the research gaps. The study then elaborates the research methodology followed by the discussion of findings. Finally, the research concludes by highlighting the contribution of this study and emphasises the practical implication from the findings on the extent of effective senior management support for Shariah audit function in IFIs in Malaysia.

LITERATURE REVIEW

Bank Negara Malaysia (BNM) has issued the Shariah Governance Policy Document (SGPD) to regulate Islamic financial institutions (IFIs) in Malaysia (Bank Negara Malaysia, 2019). This document supersedes the previous Shariah Governance Framework (SGF) that was previously implemented (Bank Negara Malaysia, 2010). Since the implementation of SGF in 2010, Ab Ghani, Mohd Ariffin and Abdul Rahman (2022) argued that IFIs have successfully implemented the Shariah control functions. The functions encompass the Shariah risk management, Shariah review and Shariah audit. The objective of these functions is to ensure that the business activities of IFIs adhere to Shariah principles. The most recent issuance of SGPD has highlighted the importance of ensuring oversight responsibility of the Board, Shariah Committee members and senior management in establishing a robust Shariah governance arrangement (Bank Negara Malaysia, 2019).

To ensure an effective Shariah governance arrangement, the senior management demonstrates the key responsibilities in building a robust management structure, clear responsibility and well-defined reporting lines for the Shariah control functions (Bank Negara Malaysia, 2019). Effective senior management support is crucial as it encompasses various aspects of Shariah compliance functions, including resource allocation, manpower, human resource policies, employee training and development, as well as support for the Shariah Committee members. Therefore, it is crucial to have an effective senior management support in order to ensure the appropriate execution of IFI's business activities in accordance with Shariah principles (Bank Negara Malaysia, 2019).

There has been a collective discussion among academic scholars about the issues of Shariah governance and Shariah compliance across a variety of IFIs across different jurisdictions. Prior to the implementation of the SGF, it is believed that the full-fledged Islamic banks (IBs) in Malaysia already established the Shariah governance procedures relative to a regulatory framework (Bank Islam Malaysia Berhad, 2009). The Shariah Committee members were appointed from diverse backgrounds (Kachkar & Yilmaz, 2023) and the full-fledged IBs demonstrated an unwavering dedication to enhancing the effectiveness of internal Shariah audit function (Ab Ghani et al., 2022). In addition, the full-fledged IBs voluntarily disclosed the Shariah compliance

information in the annual reports, which was more than the minimum requirements (Ab Ghani, Mohd Ariffin & Ab Rahman, 2023; Abdul Rahim, Shahrudin & Mohd Suki, 2023; Masruki, Mohd Hanefah & Dhar, 2020).

However, various challenges related to Shariah governance has been identified in the Shariah compliance business activities of the conventional banks with Islamic subsidiaries, Islamic windows, non-commercial banks, Takaful and Retakaful operators. This includes lack of qualified internal auditors and efficiency issues (Tuzzahroh & Laela, 2022), reputational risk in IFIs due to Shariah non-compliance issues (Mohamad Puad et al., 2020) and Shariah compliance issues which affects the sustainability of IFIs (Zakaria, Mohd Ariffin & Zainal Abidin, 2019). In a qualitative study conducted by Yahya, Mahzan and Abu Hasan (2018), it is argued that the absence of management support has led to the difficulties in carrying out an effective Shariah control function. The lack of understanding among the management of IFIs regarding the significance of the Shariah control functions is the reason for this argument. Consequently, the management has failed to provide sufficient courses and training in Shariah and Islamic finance competence required at all levels (Yahya et al., 2018).

Previous studies found that factors such as management has influenced Islamic banks' performance and Shariah compliance quality in Bangladesh (Alam et al., 2022). Another study emphasised that top management support is one of the most important determinants in establishing an effective Shariah audit in IFIs (Zakaria et al., 2019). It is contended that there is a crucial need for a specific Shariah audit framework as a guideline for developing a standardised Shariah audit practices (Mohamad Puad et al., 2020).

Hence, this study argued that effective senior management support is crucial for ensuring robust implementation of Shariah compliance over daily operations of IFIs. It is also crucial to obtain the support of senior management for establishing a culture of Shariah compliance at all levels. This is important to ensure all employees have the same direction to achieve the Shariah compliance objectives within the IFI's business activities. This enhances the dissemination and implementation of Shariah principles among employees, specifically those who have the responsibility of conducting the Shariah control functions. In order to enhance the proficiency of Shariah officers, senior management have the authority to provide clear direction, resources and continuous training (Bank Negara Malaysia, 2019). This could enhance the efficiency of Shariah governance arrangements in IFIs. Although previous studies argued above on the challenges in establishing the Shariah governance arrangement, a research gap occurs on the extent to which the senior management in IFIs play an effective role in ensuring that Shariah compliance is embedded in every aspects of business operations and its people. Therefore, this study will provide a novel attempt to evaluate the effectiveness of senior management support for Shariah audit functions in IFIs which will be useful to enhance effective implementation of the Shariah governance arrangements as required by BNM in the SGPD (Bank Negara Malaysia, 2019).

RESEARCH METHODOLOGY

This study adopts quantitative approach using survey questionnaire to achieve the research objectives (Cooper & Schindler, 2014; Sekaran & Bougie, 2016). Survey questionnaire is adopted as one of an effective research instrument to collect quantitative data on the extent of effective senior management support for Shariah audit function in IFIs in Malaysia (Oppenheim, 2000). This study subsequently identifies the samples to reflect the target population and serve as the target respondents in this research (Cooper & Schindler, 2014). An appropriate sampling method is employed to select the most representative sample capable of delivering the data for this research (Sekaran & Bougie, 2016).

To achieve the research objective, this study evaluates the extent of effective senior management support for the Shariah audit function from the perspective of IFI as the unit of analysis and target population. In Malaysia, IFIs are subjected to stringent regulation by Bank Negara Malaysia (BNM) as the regulator. BNM is responsible for regulating and monitoring that the IFI's business operations adhere to the Shariah standards. Through the issuance of the Shariah Governance Policy Document (SGPD) in 2019, BNM mandates all IFIs to establish the Shariah governance arrangement which include outlining the roles and responsibilities of the senior management to ensure Shariah compliant in IFI's business activities (Bank Negara Malaysia, 2019). Hence, it is crucial to evaluate the degree to which each IFI has implemented an effective senior management

support for the Shariah audit function since Shariah audit function is the third line of defence that provides the objective assurance of Shariah compliance. This study concentrates solely on each IFI as the unit of analysis and seeks to evaluate the effectiveness of senior management support at the institutional level. This research does not intend to compare the perspective of regulators and Islamic financial practitioners concerning the effectiveness of senior management support.

The study noted that BNM has given license to a total of 47 IFIs to operate as an Islamic financial institution (IFI) in Malaysia. These IFIs includes 16 Islamic banks (IB), 10 Islamic windows (IW), six (6) non-commercial banks (NCB), 11 Takaful operators (TO) and four (4) Retakaful operators (RTO). These IFIs encompasses the whole of population of IFIs in Malaysia. By targeting the whole population of IFIs in Malaysia, this study will be able to evaluate comprehensive insights on the findings and identify all possible variations in different types of IFIs to achieve the research objective (Ahmed, 2024). Since this study aims to collect the responses from institutional perspective, a non-probability sampling method, such as purposive sampling, is employed to identify the participants who are the most qualified to contribute the data. Purposive sampling provides the method for a research to choose the targeted respondents based on specific criteria (Cooper & Schindler, 2014). Given the unit of analysis is IFI, only one (1) respective sample will be selected from each IFI. The single sample is considered representative of the IFI to provide the information regarding the effectiveness of senior management support for the Shariah audit function. The respective sample must meet the criteria i.e. the senior candidate who is accountable to oversee the Shariah audit function in each IFI and well-informed of the Shariah governance arrangements in the IFI. Based on these criteria, this study identified the Head of Shariah audit or the senior management overseeing the Shariah audit function to be the representative sample from each IFI.

This study then develops the survey questionnaire and adopts the SGPD issued by BNM in 2019 as the benchmark to develop the measurement and items (Bank Negara Malaysia, 2019). As the third line of defence in IFIs, it is important for the Shariah audit function to receive strong senior management support in conducting an effective Shariah audit process and provide objective assurance of Shariah compliance. The effectiveness of senior management support for the Shariah audit function is measured in two (2) components i.e. the function of senior management and the resources provided by the senior management. The senior management function includes the responsibilities to strengthen the Shariah audit function by addressing the Shariah audit findings, execute the Shariah decisions and highlight any Shariah non-compliant events to the attention of Shariah Committee members (Bank Negara Malaysia, 2019). Conversely, the resources component is measured by the senior management’s ability to provide unlimited access to information, allocate sufficient resources and personnel to establish the Shariah audit process as well as to provide the continuous Shariah training programmes to the key internal stakeholders in IFIs (Bank Negara Malaysia, 2019). Table 1 outlined the components and items used to evaluate the effectiveness of senior management support for the Shariah audit function in IFIs.

Table 1 Measurement of the Effectiveness of Senior Management Support for Shariah Audit Function

Components	Items to be implemented to indicate Effective Senior Management Support for Shariah Audit Function
Function of Senior Management	<ul style="list-style-type: none"> • Strengthen the Shariah audit function • Response to the Shariah audit findings • Implement Shariah rulings and decision made by the Shariah Advisory Council and the Shariah Committee • Identify and refer any Shariah issues to the Shariah Committee for decisions, view and opinions. • Ensure operations are executed according to the policies and procedures

	<ul style="list-style-type: none"> • Constant review and update of the policies and procedures to reflect current market practices and developments • Notify the Board and Shariah Committee members on any Shariah non-compliant event in the operations • Develop and adopt holistic Shariah compliance culture within the organisation
Resources Provided by the Senior Management	<ul style="list-style-type: none"> • Provide access of resources available to the internal Shariah audit function • Provide complete and accurate information and disclosure to the Shariah Committee in timely manner • Allocate adequate resources and manpower to support the Shariah governance arrangement • Provide continuous Shariah learning and training programmes to key internal stakeholders. • Ensure Shariah policies and procedures are accessible at all times to implement Shariah governance.

Source: Bank Negara Malaysia (2019)

The measurement used in the survey questionnaire is later validated by a total of ten (10) experts which was selected among the group of Shariah auditors, representative from BNM as the regulator and group of academicians in Islamic finance field. This is important to ensure that measurement used comply with the substantive validity assessment (Anderson & Gerbing, 1991). This study subsequently finalised the survey questionnaire to incorporate the components and items in measuring the effectiveness of senior management support for the Shariah audit function in IFIs, drawing on the constructive feedback from the respondents during the expert validation test. The final survey questionnaire is distributed to the Head of Shariah audit or senior management overseeing the Shariah audit function in each of the 47 IFIs as the whole target population.

Finally, this study examines the data obtained from the survey questionnaire by conducting the descriptive analysis using SPSS (Pallant, 2016). The effectiveness of senior management support for the Shariah audit function is measured on a Likert scale from '5' for highly effective to '1' for highly ineffective. The Head of Shariah Audit provides the responses to indicate effective score of the respective components. From the responses, the effectiveness level of senior management support for the Shariah audit function in the respective IFI is determined based on the implementation of each measurement components and items outlined in Table 1. Based on the Likert scale, this study evaluates that an IFI achieves highly effective level of senior management support if the respondent provides total mean score of 5 for the whole components, whereas the level will highly ineffective if the total mean score is 1.

FINDINGS AND DISCUSSION

In total, this research successfully gathered 39 out of 47 responses (82.98%) from the completed survey questionnaire. The response rate provides a thorough and comparative evaluation on the effectiveness of senior management support for the Shariah audit function among different types of IFIs in Malaysia. Table 2 summarised the mean score to indicate the effectiveness of senior management support for Shariah audit function according to each component and item. It is found that the function of senior management support for Shariah audit function across all IFIs is effective with the total mean score of 4.097.

However, it can be argued that the support provided by the senior management to establish the Shariah compliance culture within the IFI is satisfactory (somewhat effective), indicated by a mean score of 3.821 in Table 2. Additionally, the support given in terms of the adequate resources and manpower to establish the

Shariah governance arrangement can still be improved since the IFIs only achieve a total mean score of 3.949 for this item. The result reflects that the IFIs could have established an effective senior management support for Shariah audit function but yet to effectively integrate Shariah compliance mindset across all functions. This emphasises the crucial need for the IFIs to effectively set the tone at the top in establishing an effective Shariah compliance culture so that the underlying values, beliefs and attitudes of the employees at all levels are in line with the Shariah principles. Previous study argued that the full-fledged Islamic bank (IB) can be the best example for other IFIs in establishing the Shariah compliance culture at levels (Ab Ghani et al., 2022). IFIs also face the challenge to ensure sufficient human resources to perform the Shariah audit function and Shariah governance practices (Ab Ghani et al., 2022).

Table 2 Mean Score for Each Item of Effective Senior Management Support for Shariah Audit Function

Components	Items of Effective Senior Management Support for Shariah Audit Function	Mean Score
Function of Senior Management	Strengthen the Shariah audit function	4.103
	Response to the Shariah audit findings	4.205
	Implement Shariah rulings and decision made by the Shariah Advisory Council and the Shariah Committee	4.154
	Identify and refer any Shariah issues to the Shariah Committee for decisions, view and opinions	4.308
	Ensure operations are executed according to the policies and procedures	4.026
	Constant review and update of the policies and procedures to reflect current market practices and developments	3.974
	Notify the Board and Shariah Committee members on any Shariah non-compliant event in the operations	4.333
	Develop and adopt holistic Shariah compliance culture within the organisation	3.821
	Total Mean Score for the Function of Senior Management	4.115
Resources Provided by the Senior Management	Provide access of resources available to the internal Shariah audit function	4.103
	Provide complete and accurate information and disclosure to the Shariah Committee in timely manner	4.077
	Allocate adequate resources and manpower to support the Shariah governance arrangement	3.949
	Provide continuous Shariah learning and training programmes to key internal stakeholders	4.026
	Ensure Shariah policies and procedures are accessible at all times to implement Shariah governance	4.179
	Total Mean Score for the Resources Provided by the Senior Management	4.067
Total Mean Score for the Effectiveness of Senior Management Support for Shariah Audit Function	4.097	

Table 3 outlines the ranking profile on the extent of effective senior management support for Shariah audit function in each IFI in Malaysia, determined by the aggregate mean scores. The ranking analysis identifies the most effective practices for an effective senior management support for the Shariah audit function among many types of IFIs as the unit of analysis in this study. Based on the findings in Table 3, it is evident that four (4) IFIs achieved outstanding performance with a total mean score of 5.00. Highly effective senior management support is identified in three (3) Islamic banks (IB6, IB8, IB12) and one (1) Takaful operator (TO3). The research findings indicate that these IFIs have achieved remarkably high average scores in all components of senior management function and resources provided by the senior management. This achievement is attributable to the unwavering commitment of these IFIs in enhancing the effectiveness of the senior management support to allocating strategic resources towards strengthening Shariah governance arrangements (Zakarial et al., 2019).

The annual report indicates that IB6, a full-fledged Islamic bank (IB), has implemented its of Shariah governance arrangement to ensure Shariah compliance prior to the issuance of the Shariah Governance Framework (SGF) in 2010 (Bank Negara Malaysia, 2010). This emphasises that the Board of Directors and senior management of IB6 has been fostering a robust Shariah compliance culture and delineating a clear strategy for the implementation of an effective senior management support that ensures adherence to Shariah principles at all levels (Ab Ghani, Mohd Ariffin & Abdul Rahman, 2024). As a full-fledged IB, highly effective senior management support indicates that IB6 has empowered Shariah audit function to employ more sophisticated risk-based audit methodology, conduct comprehensive periodic evaluations, and enhance better working coordination with other control functions. Active engagement of senior management guarantees that Shariah audit recommendations are promptly addressed and provided with required resources for execution, resulting in a more agile and responsive Shariah governance arrangement (Khalid, 2020).

Table 3 Ranking Profile for the Effectiveness of Senior Management Support for Shariah Audit Function in each IFI in Malaysia

Islamic Financial Institutions (IFIs)	Components of Effective Senior Management Support		Total Mean Score	Ranking	Range	Total No. of IFIs
	Function	Resources				
IB6	5.00	5.00	5.00	1	5.00 (Highly Effective)	4
IB8	5.00	5.00	5.00			
IB12	5.00	5.00	5.00			
TO3	5.00	5.00	5.00			
IB14	4.86	5.00	4.92	2	4.00-4.99 (Effective)	22
TO7	5.00	4.83	4.92			
IW5	4.86	4.83	4.85	3		
IW10	5.00	4.67	4.85			
IW3	5.00	4.50	4.77	4		
NCB3	4.86	4.50	4.69	5		
IW6	4.29	4.67	4.46	6		
IB15	4.43	4.50	4.46			

IB7	4.29	4.50	4.38	7		
NCB4	4.71	4.00	4.38			
TO9	4.43	4.33	4.38			
TO1	4.29	4.17	4.23	8		
IB13	4.14	4.17	4.15	9		
NCB5	4.29	4.00	4.15			
IW1	4.00	4.00	4.00	10		
IW4	4.00	4.00	4.00			
IB9	4.00	4.00	4.00			
NCB1	4.00	4.00	4.00			
NCB6	4.00	4.00	4.00			
TO4	4.00	4.00	4.00			
TO8	4.00	4.00	4.00			
TO10	4.00	4.00	4.00			
IB4	4.14	3.50	3.85	11	3.00-3.99 (Somewhat Effective)	11
IW8	4.00	3.67	3.85			
TO5	4.00	3.67	3.85			
IB1	3.57	3.83	3.69	12		
NCB2	3.71	3.67	3.69			
TO11	3.86	3.33	3.62	13		
RTO1	3.86	3.17	3.54	14		
IB2	3.57	3.33	3.46	15		
TO2	3.71	3.17	3.46			
IB11	3.29	3.17	3.23	16		
RTO3	3.29	3.00	3.15	17		
IW7	2.57	2.83	2.69	18	2.00-2.99 (Ineffective)	2
IB16	2.14	2.00	2.08	19		

Additionally, IB8 and IB12 rank among the largest IBs in Malaysia, established as the Islamic subsidiaries of conventional banks. Meanwhile, TO7 is also one of the largest Takaful operator (TO), established as a joint

venture company with partial ownership by its parent firm based in the United Kingdom. As a leading and largest IB and TO in Malaysia, these Islamic subsidiaries possess exemplary practices from the banking Group and parent firm to establish highly effective senior management support for the Shariah audit function which is established as part of the Group Internal Audit Division. The findings indicate that these IBs and TO could have allocated sufficient resources and uphold well-structured Shariah training program for the key internal stakeholders to ensure continuous professional development in Shariah (Khalid, Haron & Masron, 2017; Zakaria et al., 2019). The investment in human capital results in more qualified Shariah audit teams and other control functions, leading to a robust management of Shariah non-compliance risks and enhanced understanding for management decision-making.

In a nutshell, Table 3 shown that 56.41% (22 out of 39 IFIs) has achieved an effective level of senior management support for the Shariah audit function. This includes five (5) out of six (6) non-commercial banks (NCBs) and the rest are among the IBs, Islamic windows (IWs) and Takaful operators (TOs). From a stakeholder perspective, an effective senior management support contributes to enhanced coordination among the Shariah governance functions within the IFIs. This encompasses Shariah Committee members, Shariah audit function, business units and other control functions. Effective function of senior management for deliberating Shariah compliance issues, dedicated Shariah Committee members for addressing Shariah audit findings and clear. The findings indicate that an effective senior management support provided through its function and resources could lead to a better management of Shariah non-compliance risks (Nazmi et al, 2022). When senior management, as the first line of defence actively supports Shariah audit function as the third line defence, there is typically a more comprehensive approach to identifying, assessing and managing Shariah non-compliance risks in IFI's business operations.

However, IW7 (Islamic window) and IB16 (Islamic bank) have been ranked the lowest to establish an ineffective senior management support for Shariah audit function as indicated in Table 3 with total means scores of 2.69 and 2.08, respectively. The ineffective senior management support in IB16 is due to the lack of holistic Shariah compliance culture within the organisation. As an Islamic subsidiary of conventional bank, the Shariah compliance culture in IB16 poses a considerable difficulty, as it frequently embodies a hybrid environment for the conventional bank and Islamic subsidiary. The dynamics of this organisational culture may cause the senior management to perceive Shariah audit function as an operational requirement rather than value-adding process, resulting in ineffective support for the enhancement of the control function (Yahya et al., 2018). On the other hand, the ineffective support from senior management in IW7 can be attributed to the small nature of Islamic windows operations within a predominantly conventional banking structure (Alam et al., 2022). Hence, senior management primarily focused on the conventional banking operations, often lacks dedicated commitment to Islamic windows operations, especially Shariah audit function. The secondary status of Islamic windows operations frequently results in inadequate organisational support, limited resource allocation and insufficient training for the Shariah control function.

CONCLUSION

This study offers detailed insights into the varying levels of effective senior management support for Shariah audit function across different types of Islamic financial institutions (IFIs). The findings indicate a notable difference in the effectiveness of senior management support between the full-fledged Islamic banks (IBs) and other Islamic banking structures, particularly Islamic subsidiaries and Islamic windows of conventional banks. While full-fledged IB demonstrates strong management commitment to establish holistic Shariah compliance culture and efficient resource allocation for Shariah audit function, Islamic subsidiaries and Islamic windows encounter significant challenges in obtaining effective senior management support. The challenges are largely due to the lack of Shariah compliance culture and conflicting priorities with conventional banking operations.

The findings of this study contribute the importance of establishing effective senior management support for the control function especially the Shariah audit to ensure Shariah compliance in IFI's business operations. In terms of the practical implication, the full-fledged IBs can leverage on its strong Shariah compliance culture by developing an effective framework as the best practices and benchmark for other types of IFIs in Malaysia. The Islamic subsidiaries of conventional banks which only achieve an effective level of senior management support can leverage their group-level capabilities to enhance the Shariah audit function while ensuring distinct

operational separation conventional banking operations. In addition, specialised Shariah training programs can be structured to utilise their parent bank's infrastructure while adhering to the Shariah principles. Meanwhile, the Islamic window can improve their ineffective level of senior management support by establishing a distinct resource allocation system and start formulating an extensive culture transformation initiative to set a clear direction for Shariah compliance in Islamic windows operations.

For the regulators, these findings indicate the crucial need for Bank Negara Malaysia (BNM) to formulate a tailored regulatory framework that address the distinct issues encountered by various types of IFIs, establish a minimum requirement for the senior management support for Shariah audit function and other control functions within the Shariah governance arrangement. Special consideration must be given to the Islamic windows, where specific requirement might be needed to accommodate the small Islamic windows operations and ensure adequate resource allocation and establish a proper Shariah compliance culture while functioning within the conventional banking structures.

This study is limited to the Shariah Governance Policy Document (SGPD) issued by BNM since the whole target population is IFIs in Malaysia. Hence, the findings can only be generalised to the whole IFI population in Malaysia since they are mandated to establish the Shariah governance arrangement based on the SGPD. This study argued that it is also relevant for future studies to evaluate the extent of effective senior management support for the Shariah audit function in IFIs in other jurisdictions. This includes the IFIs in the Middle East and North Africa (MENA) region since they are mandated to establish the Shariah governance arrangement based on the framework issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Comparative study can be conducted later to evaluate the best practices among all IFIs in different jurisdictions using both SGPD and AAOIFI.

This study achieved its research objectives by gathering the data from the institutional perspective with IFI as the unit of analysis. Hence, the findings are only evaluated from the perspective of one representative sample to provide the evaluation on the effectiveness of senior management support for the Shariah audit function in each IFI. Similar studies can be conducted to evaluate the effectiveness of senior management support based on different perspective of other group of Shariah officers in other control function within the Shariah governance arrangement. In addition, future qualitative studies can be conducted to evaluate the effectiveness of senior management support for Shariah governance arrangement by using different method such as focus group discussion and interviews. Specific case study method can be adopted on the full-fledged IB in Malaysia to develop the framework of Shariah compliance culture which can serve as the benchmark and best practice for the other IFIs. This shall contribute valuable insights for the regulators in establishing the standardised framework for the Shariah non-compliance risk culture as required by the SGPD.

ACKNOWLEDGEMENT

This paper is funded by the grant from UKM-Graduate School of Business, Universiti Kebangsaan Malaysia under "Geran Penyelidikan UKM-GSB 2024" (Project Code: GSB-2024-013)

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