
Roles of Stakeholders' Awareness, Understanding and Perception of *Shari'ah* Audit on the Relationships between Institutional Mechanisms and Audit *Shari'ah*ness in Nigeria

*Shafi'u Abubakar Kurfi, Lawal Ibrahim Ubandawaki, & Nabila Kabir

Department of Accounting, Umaru Musa Yar'adua University Katsina, Nigeria

*Corresponding Author: abubakarkurfishafiu@gmail.com

Abstract

The dire need for Shari'ah audits at the organizational and administrative levels has not been realized or appreciated until recently with the emergence of Islamic financial institutions (IFIs) across the world. Islamic banking is becoming more popular in Nigeria among the vast Muslim population; however, weaknesses do exist in the institutional mechanisms such as legal and regulatory framework, inadequate educational and a professional certifications and mimicking conventional auditing. Therefore, this study investigates the relationship between institutional mechanisms and audit shari'ahness with stakeholders' awareness, understanding, and perception of shari'ah audits as moderators among stakeholders of Islamic banks in Nigeria. The study adapts a survey research design; in which a total of 142 questionnaires were administered to stakeholders of Nigerian Islamic banks. The Partial Least Squares (PLS) and the Structural Equation Modelling techniques were used to test the hypotheses. The findings supported all three hypothesized direct effects of institutional mechanisms of "Coercive", "Normative", and "Mimetic" on audit shari'ahness. Furthermore, "Stakeholders' Awareness" moderated the relationship between the mimetic institutional mechanism and audit shari'ahness. The results showed that Islamic banks in Nigeria are responsive to institutional pressures stemming from shari'ah principles and rules, and other local laws and regulations. To ensure optimal audit shari'ahness in Nigeria, regulators such as the Central Bank of Nigeria (CBN), National Deposit Insurance Corporation (NDIC) and Financial Reporting Council of Nigeria (FRCN) should provide adequate specific shari'ah audit framework and/or Act.

Keywords: Stakeholder Awareness, Shariah Audit, Institutional Mechanism, Nigeria

1. Introduction

Shari'ah audit is as old as the revelation of the Holy Qur'an (Ahmed et al., 2019). Yet, the dire need for *Shari'ah* audits at the organizational and administrative levels has not been realized or appreciated until recently with the emergence and rapid development of Islamic financial institutions (IFIs) across the world (Puad et al., 2020). These usher significant changes in many spheres of business transactions and activities, including accounting, finance, and auditing (Yazkhiruni, et al.

2018), in ensuring conformity with *shari'ah* rules and principles. However, conventional auditing practices still manifest in *shari'ah* audits, limiting its *Shari'ah*ness. Audit *shari'ah*ness refers to the extent to which an act or activity complies with the requirements of the *Shari'ah* or Islamic law in the process of carrying out a *Shari'ah* audit assignment (Zulkifile, & Sabli, 2022). Also, it has been challenged heavily by scholars and practitioners (Aziz, et al. 2023) across the

world; with particular attention being paid to the fact that some of the products and or services offered by Islamic banks increasingly resemble conventional banks' items which are against the *Shari'ah* principles and rules (Abbas & Ali, 2019; Ahmed, 2014). In the Nigerian context, the guidelines published in 2011 by the CBN require all Islamic banks to abide by the Code of Corporate Governance, BOFIA of 1991, and Company and Allied Matters Act (CAMA) of 2020, as amended for Banks in Nigeria Islamic banks inclusive. However, all these coercive and normative mechanisms in the form of Laws, Acts, and Codes are originally developed for conventional banks. Hence these Acts, regulations, and rules do not adequately address all aspects of audit *shari'ahness* and *Shari'ah* audit obligations.

Aligned with the points, the current study noted a lack of institutionalization regarding the coercive and normative aspects of *Shari'ah* audit mechanisms as observed in Malaysian, Indonesian, and Bangladeshi practices within the Nigerian context. This absence raises concerns regarding the assurance of *Shari'ah* compliance in audits. For example, the Nigeria *Shari'ah* guideline under section 12.2 provided that all issues be referred to AAOIFI standards for any loopholes and gaps not covered therein. Therefore, Nigeria up to now has not developed unique guidelines that cover the basic issues related to the *Shari'ah* audit for Islamic banks in the country. Thus, it relies maximally on AAOIFI standards regardless of its peculiarities concerning the above-mentioned issues. Furthermore, noteworthy is the fact that the AAOIFI Standards on auditing, which is the Framework of Auditing, are not yet complete; are still in the draft stage; and continue to face numerous challenges in gaining institutional legitimacy. Therefore this poses challenges to the operations of IFIs in Nigeria. Furthermore, its standards

have not yet been updated to specifically address the problems and conceptual framework of the Shariah audit (Mulyany et al., 2021).

Hence, to solve the problem of weak audit *shari'ahness* in Nigerian Islamic banks, isomorphism pressures are conceived as institutional mechanisms of *Shari'ah* audit under institutional theory (DiMaggio & Powell (1983) to address the issue. This is because isomorphism under institutional theory believes that all institutions become the same over time or adopt the same strategies or laws that are like an institutional mechanism. Therefore, Nigerian Islamic Banks urgently need institutional mechanisms for *Shari'ah* audit processes. Additionally, extant literature documented three dimensions of institutional theory that can be utilized by this study to overcome the problem of audit *shari'ahness* in the sector. These are 'coercive' which can be utilized to attain legitimacy; 'normative,' for professionalization and 'mimetic' to eliminate the uncertainty. Also, 'coercive' originates from external pressures such as government regulations (DiMaggio & Powell, 1983; Carruthers, 1995). According to Carruthers (1995), the "normative" indicates how a group of people in related professions conduct their business in comparable settings. Meanwhile, the professions depend on these "normative" practices and work to create cultural norms that are pertinent to their objectives and viewpoints (Scott, 1995). For mimetic mechanisms, institutions are under pressure to "mimic" and institutionalize the operating procedures of successful businesses as a result of uncertainty (Puad et al., 2023; Carruthers, 1995). Therefore, to become successful in ensuring audit *shari'ahness*, stakeholders in the Nigerian Islamic Banking industry urgently need to deploy proper institutional mechanisms of *Shari'ah* audit, which is derived from these

three (3) dimensions of institutional theory (coercive, normative, and mimetic) and proper awareness, understanding and perception of the *Shari'ah* audit. Moreover, inability to urgently establish the scope and nature of audit *shari'ahness* in Nigeria, non-compliance risk will persist and hence Islamic banks tend to become conventional banks in reality.

However, there are mixed results regarding the relationship between institutional mechanisms of *Shari'ah* audit and audit *shari'ahness* (Omar, 2019; Sohail et al., 2021; Abbas & Ali, 2019). To this end, it is important to note that these institutional mechanisms do not operate in a vacuum; their effectiveness is affected by some features of stakeholders such as awareness, understanding and perception. In this regard, stakeholders' awareness, understanding, and perception play a strategic role in relating the institutional

2. Literature Review and Hypothesis Development

2.1 Coercive Institutional Mechanism of *Shari'ah* Audit and Audit *Shari'ahness*

Coercive institutional mechanisms stem from formal and informal compelling pressures (Puad et al., 2023). Informal pressures may come from the cultural forces and other expectations of the society in which the organization is formed. Formal pressure is related to pressures to comply with certain laws, and regulations issued by the regulatory authorities or organizations. Also, these pressures are characterized by the authorities and coercive power. Therefore, apt to institutional theory, the coercive mechanism assumes that Islamic banks must comply with *Shari'ah* rules and principles. Hence, many countries adopt and or adapt the Accounting Standards of Islamic Financial Institution No.6 (ASIFI 6), which comprehensively covers external *Shari'ah* audit (Independent Assurance Engagement on an Islamic Institution's

mechanisms of *Shari'ah* audit and audit *Shari'ahness*.

Based on the aforementioned, this study delves into the connection between the institutional mechanisms of *Shari'ah* audit and audit *shari'ahness* among Nigerian Islamic banks. The conceptual framework of this study operates on the premise that audit *shari'ahness* is increasingly recognized as essential for upholding the injunctions of Allah SWT and ensuring full compliance. In summary, the problem statement can be articulated as follows: What is the relationship between the institutional mechanisms of *Shari'ah* audit (coercive, normative, and mimetic mechanisms) and audit *shari'ahness* in the Nigerian context, taking into account the roles of stakeholders' awareness, understanding, and perception of *Shari'ah* audit?

conformity with *Shari'ah* Principles and Rules) and Governance Standards of Islamic Financial Institution (GSIFI 6) No. 3, which deals with internal *Shari'ah* review and other internal *Shari'ah* audit functions to maintain their legitimacy. Therefore, coercive isomorphism is conceived as one of the institutional mechanisms of *shari'ah* audit to ensure *shari'ahness* of audits. Moreover, the effectiveness of audit *shari'ahness* will increase if regulators judiciously enforce *Shari'ah* audit standards and frameworks (Rizqiani & Yulianto, 2020). Therefore, from the foregoing, this study hypothesizes that coercive mechanism as one of the institutional mechanisms of *Shari'ah* audit influences audit *shari'ahness* amongst Islamic banks.

Hypothesis 1: The influence of coercive mechanism of *shari'ah* audit positively influences audit *shari'ahness* amongst Nigerian Islamic banks.

2.2 Normative Institutional Mechanism of *Shari'ah* Audit and Audit *Shari'ahness*

Likewise, normative pressures, conceived as one of the institutional mechanisms of *shari'ah* audit under institutional theory assume that companies become more professional and follow guidelines specific to an industry (Puad et al., 2023). Therefore, *Shari'ah* rules and principles are specific guidelines that must be complied with by Islamic banks in all their operational activities. Heretofore, studies such as Isa (2012) revealed an adverse association between people who controlled the accounting field and people who controlled the *Shari'ah* field, indicating that the higher the number of people who controlled the accounting field, the lower their expertise in the *Shari'ah* field and vice versa. But for *Shari'ah* auditors to comply with *Shari'ah* rules and principles need to be cumbersome with all the two fields. In addition, audit *shari'ahness* with the institutional mechanisms of *Shari'ah* audit depends upon the qualifications, professionalism, and independence of *Shari'ah* auditors (Kasim & Sanusi, 2013). Therefore, from the foregoing, this study hypothesizes that normative mechanisms as one of the institutional mechanisms of *Shari'ah* audit influence audit *shari'ahness* amongst Islamic banks.

Hypothesis 2: The influence of the normative mechanism of *shari'ah* audit positively influences the audit *Shari'ahness* amongst Nigerian Islamic banks.

2.3 Mimetic Institutional Mechanism of *Shari'ah* Audit and Audit *Shari'ahness*

Mimetic isomorphism occurs whenever an organization faces a high level of uncertainty (Puad et al., 2023). It is the pressure that necessitates businesses in an environment of uncertainty in which they can adopt referenced behaviors of their sister organizations, industries, or countries to scale through. Therefore,

mimetic pressures conceived as one of the institutional mechanisms of *shari'ah* audit under institutional theory assumes that institutions and staff can imitate successful organizations that have common features. Also, the Islamic finance industry is growing rapidly due to its uniqueness in conformity with *Shari'ah* principles and rules. Part of such conformity is the utilization of institutional mechanisms of *Shari'ah* audits for ensuring audit *shari'ahness* which serves as one of the basic factors that leads to the success of many IFIs across the globe (Rashid & Ghazi, 2021). Therefore, many if not all Islamic banks in Nigeria engaged foreign intellectuals to ensure that audit *shari'ahness* is efficiently institutionalized to scale like their sister organizations across the world and simultaneously engaged auditors that have experience in the conventional banks to adopt similar processes while conducting *Shari'ah* audit assignment (Sapovadia, 2015). Therefore, from the foregoing, most of the prior studies proved that mimetic mechanism as one of the institutional mechanisms of *Shari'ah* audit influences audit *shari'ahness* amongst Islamic banks. Hence, this study proposes the following hypothesis:

Hypothesis 3: The influence of the mimetic mechanism of *shari'ah* audit positively influences audit *Shari'ahness* amongst Nigerian Islamic Banks

2.4 Stakeholders' Awareness of *Shari'ah* Audit, Coercive Institutional Mechanisms of *Shari'ah* and Audit *Shari'ahness*

Lessons from past experiences, such as how various corporate scandals and failures were caused by failing to thoroughly review financial audits, corporate governance, and risk management, have led to a growing awareness of the advantages of institutionalizing *Shari'ah* audits over conventional ones in IFIs (Yussof, 2013).

Therefore, many stakeholders such as academics, regulators, BoDs, Managers, etc. across the world such as Malaysia become more aware of the benefit of *Shari'ah* audit in ensuring audit *shari'ahness* due to the issuance and imposing Policy Document (SGPD, 2019) by Bank Negara Malaysia that explains more about the *Shari'ah* audit and imposed it to Islamic banks in Malaysia (Abd Rahman et al., 2020) for proper institutionalization.

Therefore, stakeholders' awareness of the *shari'ah* audit and its relevance because of imposing the *Shari'ah* guidelines by regulatory actors increases the chances of ensuring audit *shari'ahness*. Hence, this study proposes the following hypothesis. *Hypothesis 4: The relationship between the coercive mechanism of shari'ah audit and audit shari'ahness will be higher with Stakeholders' awareness of the Shari'ah audit.*

2.5 Stakeholders' Awareness of *Shari'ah* Audit, Normative Institutional Mechanisms of *Shari'ah* and Audit *Shari'ahness*

Studies proved that there is a growing awareness among Islamic banks' stakeholders of the need for *shari'ah* auditing due to the normative pressures from international Islamic standards setters, Islamic professional bodies, and higher institutions of learning (Tahir, 2018; Yahya, 2016). Also, previous studies have acknowledged the influence of the Stakeholders' awareness of the *Shari'ah* audit due to the Normative pressures for professionalizing the *Shari'ah* audit discipline (Ali et al., 2018). Moreover, stakeholders' awareness about engaging *Shari'ah* auditors that have Islamic accounting and auditing professional certificates like CSAA, and CSA would enhance *Shari'ah* conformity, because they believed that *Shari'ah* auditors would use their professional skills and expertise to detect the *Shari'ah* non-compliant items

in the financial and non-financial operations in the Islamic banks while carrying out their *Shari'ah* audit assignments (Omara, 2019). Therefore, this study proposes the following hypothesis:

Hypothesis 5: The relationship between the normative mechanism of *shari'ah* audit and audit *Shari'ahness* will be higher with Stakeholders' awareness of the *Shari'ah* audit.

2.6 Stakeholders' Awareness of *Shari'ah* Audit, Mimetic Institutional Mechanisms of *Shari'ah* and Audit *Shari'ahness*

Mimetic pressures conceived as one of the institutional mechanisms of *shari'ah* audit are primarily caused by an organization's perception of core rivals' performance (Liu et al., 2010). In the same vein, IFIs such as Islamic Banks and Takaful companies are encouraged to adopt certain practices such as the *Shari'ah* audit due to positive results gained by prior adopters (Yasoa et al. 2024; Puad et al., 2023). Also, stakeholders' awareness about *Shari'ah* audits may prevail due to *Shari'ah* auditors' reports of successful Islamic banks. Moreover, the mimetic mechanism comes from successful Islamic banks that already have practiced *shari'ah* audit functions across the world and may influence the stakeholders to become more aware of the relevance of *Shari'ah* audit in ensuring audit *shari'ahness* (Hoq et al., 2010). Therefore, the following hypothesis can be proposed:

Hypothesis 6: The relationship between the mimetic mechanism of *Shari'ah* audit and audit *shari'ahness* will be higher with Stakeholders' awareness of the *Shari'ah* audit.

2.7 Stakeholders' Understanding of *Shari'ah* Audit, Coercive Institutional Mechanisms of *Shari'ah* and Audit *Shari'ahness*

Stakeholders' understanding of *Shari'ah* audits involves audit *shari'ahness* by

Islamic banks especially on matters related to regulatory forces (Hassan & Haridan, 2019). Furthermore, prior studies such as (Arwani, 2018; Ahamad & Abikan, 2017) confirmed that stakeholders' understanding of *Shari'ah* audit studies influences audit *shari'ahness* due to the coercive mechanism from the regulatory actors. Therefore, from the foregoing, the prior studies proved that Stakeholders' understanding of *Shari'ah* audits due to the coercive mechanism from regulatory actors moderates the relationship between the institutional mechanisms of *Shari'ah* audit and audit *shari'ahness*. Therefore, this study posits the following hypothesis: Hypothesis 7: The relationship between the coercive mechanism of *Shari'ah* audit and audit *shari'ahness* will be higher with the Stakeholders' understanding of the *Shari'ah* audit

2.8 Stakeholders' Understanding of *Shari'ah* Audit, Normative Institutional Mechanisms of *Shari'ah* and Audit *Shari'ahness*

Understanding of the *Shari'ah* audit by the Stakeholders because of such awareness by the professionals and standard setters influences the Islamic banks to become cautious about audit *shari'ahness* in carrying out their operational activities (Muzammil & Siddiqui, 2020). Similarly, Ali et al. (2018) opined that understanding *Shari'ah* audit by *Shari'ah* internal auditors and *Shari'ah* scholars necessitates that Malaysian IFIs Islamic banks adopt a framework stipulated by International Standards Professional Practices Framework (IPPF) and Guidelines 10 on Minimum Guideline for internal Auditors (Ali et al., 2018; AICB 2016). Therefore, normative mechanism influences Islamic banks to adopt such professional standards to ensure audit *shari'ahness*. Similarly, Najeeb & Ibrahim (2014) revealed that *Shari'ah* auditors need not have academic certificates only, but professional certificates are also relevant so that they

would get technical and necessary exposure for preventing all possible *Shari'ah* non-compliant risks. Hence, this study proposes the following hypothesis:

Hypothesis 8: The relationship between the normative mechanism of *shari'ah* audit and audit *Shari'ahness* will be higher with Stakeholders' understanding of the *Shari'ah* audit.

2.9 Stakeholders' Understanding of *Shari'ah* Audit, Mimetic Institutional Mechanisms of *Shari'ah* and Audit *Shari'ahness*

The mimetic mechanism is one of the principal factors leading to institutionalization (Mizruchi and Fein, 1999). The Mimetic mechanism pushes organizations to emulate the systems or structures of other successful organizations (Elnihewi et al., 2014). Therefore, due to such comprehension, stakeholders such as the Board of Directors (BoDs) of Islamic banks in Nigeria in their efforts to imitate other successful Islamic banks seek the help of competent intellectuals from various nations to act as heads of their respective ACEs. For example, Ja'iz Bank Plc engaged Prof. Monzer Kahf from the USA, and TAJ Bank Plc employed Asst. Prof. Ziyaad

Mahomed from Malaysia and Lotus Bank engaged Shaykh Haytham Tamin from the UK and Dr. Marjan Binti Muhammad from Malaysia to lead their *Shari'ah* board (Sapovadia, 2015). Thus, the proper understanding of the relevance of *Shari'ah* audit in ensuring audit *shari'ahness*, stakeholders of Islamic banks in Nigeria struggle to mimic successful Islamic banks. Against this backdrop, this study suggests the following hypothesis:

Hypothesis 9: The relationship between the mimetic mechanism of *shari'ah* audit and audit *shari'ahness* will be higher with Stakeholders' understanding of the *Shari'ah* audit.

2.10 Stakeholders' Perception of Shari'ah Audit, Coercive Institutional Mechanisms of Shari'ah and Audit Shari'ahness

Studies confirmed that various stakeholders from different jurisdictions have diverse perceptions of the term "Shari'ah audit" in IFIs (Mulyany & Ibrahim, 2019). It was stressed by Rizqiani & Yulianto (2020) that IFIs' requirement for Shari'ah audit depends on several regulations guaranteeing audit shari'ahness which need to be perceived well by the stakeholders. As a result, the Shari'ah audit is extremely important for Islamic banks (Butt, 2022). Moreover, the regulations and standards by regulatory organs and standards setters stimulate stakeholders of Islamic banks like internal Shari'ah auditors, Shari'ah review officers, Managers, BoDs, Shari'ah experts, and academics to perceive well about the Shari'ah audit (Yahya et al., 2016). Similarly, Hanif et al. (2018) found that the perception of shari'ah audits by the stakeholders of Islamic banks in Malaysia boosts confidence in their minds. Still, in Malaysia, Shafii et al. (2013) found that a proper and unique Shari'ah framework from the regulators and standards motivates the stakeholders to understand and perceive the relevance of Shari'ah audit in detecting non-Shari'ah compliance in operations. Against these findings, this study suggests the following hypothesis:

Hypothesis 10: The relationship between the coercive mechanism of the Shari'ah audit and audit Shari'ahness will be higher with Stakeholders' perception of the Shari'ah audit.

2.11 Stakeholders' Perception of Shari'ah Audit, Normative Institutional Mechanisms of Shari'ah and Audit Shari'ahness

Scholars such as Najeeb and Ibrahim (2014) in their study found that professionalizing the role of Shari'ah

auditors in Malaysia and making Malaysia the hub for Shari'ah audits' professional certification arises due to the perception of the stakeholders in the country on the relevance of Shari'ah audit in ensuring audit shari'ahness amongst IFIs. Also, Shari'ah scholars as stakeholders perceived that curbing low audit shari'ahness amongst IFI Islamic banks can only be realized when Shari'ah audit assignments are conducted by Shari'ah professionals who possess both Islamic and financial certificates (Tahir, 2018). Similarly, Isa (2012) found that to audit shari'ahness, proper perception of Shari'ah audit by stakeholders such as SSB, Internal Shari'ah officers, internal and Shari'ah external auditors need to comply with professional standards, especially AAOIFI Shari'ah standards while conducting their assignments. Therefore, this study proposes the following hypothesis:

Hypothesis 11: The relationship between the normative mechanism of shari'ah audit and audit Shari'ahness will be higher with Stakeholders' perception of the Shari'ah audit.

2.12 Stakeholders' Perception of Shari'ah Audit, Mimetic Institutional Mechanisms of Shari'ah and Audit Shari'ahness

Studies confirmed that the mimetic mechanism influences stakeholders to perceive the relevancy of shari'ah audit. For example, in Saudi Arabia, Al-Twajjry (2003) found that the Mimetic mechanism influenced the stakeholders of Islamic banks in the country to perceive the functions of the Shari'ah internal audit towards the assurance of audit shari'ahness. Consequently, the author maintained that the mimetic mechanism influences the increasing number of organizations establishing Shari'ah internal audit departments in Saudi Arabia. Hence, against this backdrop, this study suggests the following hypothesis:

Hypothesis 12: The relationship between the mimetic mechanism of *shari'ah* audit and audit *Shari'ahness* will be higher with Stakeholders' perception of the *Shari'ah* audit.

2. 13 Underpinning Theories

Institutional and Maqasidil-*Shari'ah* theories are employed to underpin this study. The main concept of institutional theory is that all institutions become one of the same over time or adopt the same strategies or laws. This concept of the theory is called "isomorphism". It is a term introduced by DiMaggio and Powell (1983) to advance the ideas of Meyer and Rowan (1977) by adding isomorphism at the organizational and social levels of the institution. Thus, becoming the same over time can be attributed to three isomorphic pressures or mechanisms. These mechanisms are the coercive mechanism, mimetic mechanism, and normative mechanism. The coercive mechanism is utilized when the institution changes its practices or adopts certain rules due to the pressures from dominant stakeholders or actors (for example laws, guidelines, and or tax offices) added to gain more

Theoretical Framework of Audit *Shari'ahness*

Figure 1 shows the theoretical framework of this study and the variables that are examined based on the objectives of the study.

legitimacy. Also, normative under institutional theory means that companies become more professional and follow guidelines specific to an industry (Puad et al., 2023). Finally, mimetic pressures manifest as mechanisms when an institution observes that a competitor's strategies are successful and chooses to adopt the same or similar for their company to excel. Regarding the *Shari'ah* audits in IFIs, the Maqasidil *Shari'ah* theory is considered a unique means of revealing the objectives of the *Shari'ah* audit itself. This is because the main aim of the *Shari'ah* audit is to ensure the conformity of *Shari'ah* laws towards maintaining the affairs of the IFIs to achieve the highest objective of *shari'ah* (Maqasidil *shari'ah*). Therefore, the theories serve as the foundation upon which hypotheses are developed and tested, guiding the researcher in formulating predictions about how different factors interact. They provide the framework within which these variables are conceptualized, and their relationships are explained.

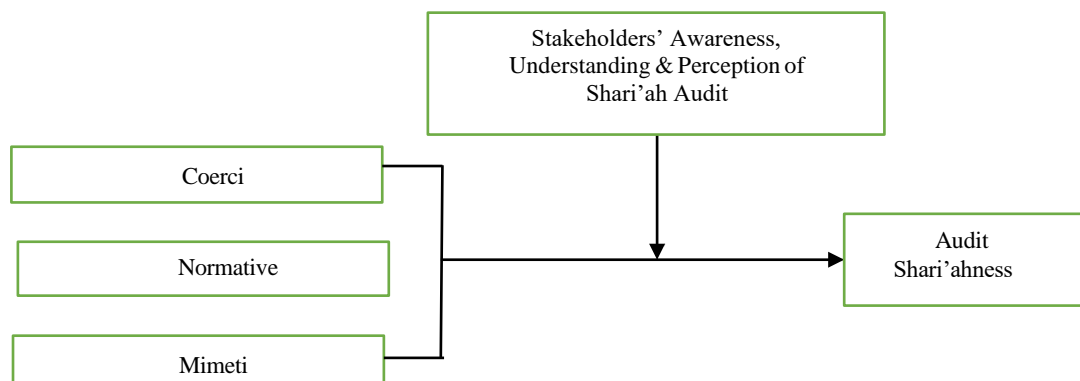


Figure 1: Institutional Mechanisms of *Shari'ah* Audit Towards Ensuring Audit *Shari'ahness*

Source: (Developed by the Authors)

Methodology

3.1 Population, sample size, and data collection

The targeted population is grouped into five strata, which comprise regulators (FRACE), Managers of Islamic Banks, *Shari'ah* scholars known as ACE, internal *Shari'ah* auditors, and other stakeholders, which include staff of the supervisory department at CBN and NDIC respectively. These groups of stakeholders were chosen since they are directly and or indirectly involved with the ground practice of *Shari'ah* audit in Nigerian Islamic banks. Additionally, staff of the supervisory department at CBN and NDIC

are chosen as other stakeholders due to their responsibilities to oversee the overall operational activities of IFIs in Nigeria.

The study also drew the sample using the Krijcie and Morgan, (1970) table of the samples which 136 samples were identified based on the population of 210. This population is proportionally allocated to the five strata as indicated in Table 3.1. where a proportionate stratified sampling technique in choosing the sample size of the population was chosen. After using the above sampling techniques 136 samples were identified. This population is proportionally allocated to the five strata as indicated in table 3.1.

Table Error! No text of specified style in document..1 Population and Sample Size

Bank	FRACE	ACE	Managers	Internal Auditors	Supervisors of CBN and NDIC	Pop.	Sample
Central Bank of Nigeria	09				45	54	35
Nigeria Deposit Ins. Corp.					7	07	04
Full Fledged							
Ja'iz		04	47	03		54	35
Taj		04	22	03		29	19
Lotus		03	29	03		35	23
Islamic Windows							
Sterling		04		03		07	04
Sun Trust		03	18	03		24	16
Total	09	18	116	15	52	210	136

Source: Developed by the Researchers

Moreover, to minimize the low response rate from uncooperative respondents, the current study increased the sample size of 136 by 10% as suggested by Dolnicar *et al.* (2016). The authors maintained that inadequate sample sizes result in suboptimal segmentation solutions; survey data biases have a strong negative impact on segment recovery; and increasing the

sample size can offset some biases. Therefore, by adding 10% to 136 the total sample to 150. Finally, a sample size of 150 was decided to account for cooperative respondents and unusable questionnaires. Therefore, Table 3.2 depicts the actual sample size of this study after the increment of 10%.

Table Error! No text of specified style in document..2 Actual Sample Size

Bank	FRACE	ACE	Managers	Internal Auditors	Others	Pop.	Sample
Central Bank of Nigeria	09				45	54	38
Nigeria Deposit Ins. Corp.					7	07	05
Full Fledged							
Ja'iz		04	47	03		54	39
Taj		04	22	03		29	21
Lotus		03	29	03		35	25
Islamic Windows							
Sterling		04		03		07	05
Sun Trust		03	18	03		24	17
Total	09	18	116	15	52	210	150

Source: Developed by the Researchers

In the foregone, though there were a limited number of banks offering Islamic finance services in Nigeria (only six). Table 3.3 shows the number of banks offering Islamic finance services in Nigeria

as at 31 July 2023. Also as shown in the last two columns of the table are the year of establishment and years of operation after formation.

Table Error! No text of specified style in document..3 List of Nigerian Islamic Banks as at 31st July 2023

S/N	Bank	Month & Year of Formation	Years of Operation after Formation
Full Fledged			
1	Ja'iz	November 2011	12
2	Taj	July 2019	04
3	Lotus	March 2021	02
4	The Alternative Bank Ltd	June 2023	01 Month
Islamic Windows			
5	Sterling	December 2013	04
6	Sun Trust	February 2019	03

Source: Developed by the Researchers

Therefore, for any Islamic bank in Nigeria to be included in this study it must have been in operation for at least six months after being formed as at 31st July 2023. The criterion is included to enable the researchers to have access to competent and experienced stakeholders who have an idea about the *Shari'ah* audit itself and the variables of this study. Therefore, after considering the criterion developed in this

section, one Islamic bank (The Alternative Bank Limited) was eliminated because it was formed on 31st June 2023 thereby not fulfilling the above condition of this study. This is consistence with the study of Kurawa and Kabara (2014). Hence, the researchers came up with the working population as presented in Table 3.4 below:

Table Error! No text of specified style in document..4 Working Population of the Study

S/N	Bank	Month & Year of Formation	Years of Operation after Formation
Full Fledged			
1	Ja'iz	November 2011	12
2	Taj	July 2019	04
3	Lotus	March 2021	02
Islamic Windows			
4	Sterling	December 2013	04
5	Sun Trust	February 2019	03

Source: Developed by the Researchers

Therefore, inclusion and exclusion criteria are considered in the choice of Islamic banks. Similarly, the population is heterogeneous, hence divided into five homogenous strata, in which all members have common characteristics. Therefore, simple random sampling techniques serve as a criterion for chosen respondents for this study.

3.2 Instrument and Measurement Items

This study is a survey in nature, it utilizes questionnaires as a method of collecting data from different stakeholders of Nigerian Islamic banks by using both nominal and Likert-scale measurement scales. Also, the questionnaire items are adapted from prior studies of Isa, (2012); Isa *et al.* (2020); Riaz, *et al.* (2017); Ab Ghani *et al.* (2015); Ringim, and Yussof (2014); Ringim, Yussof (2013), Kasim *et al.* (2009) and Mulyany and Ibrahim, (2009) to achieve the targeted objectives of the study. Therefore, for this study, the questionnaire is structured into four sections. Section one is the demographic profile (DEPR) of the targeted respondents, section two is the institutional mechanisms of *Shari'ah* audit (ISHA), section three deals with audit *shari'ah*ness (ASNE), and finally section four covers moderating variables, namely: stakeholders' awareness (STAW), stakeholders' understanding (STUG) and stakeholders' perception (STPC) of *Shari'ah* audit.

The study utilized a five-point Likert scale to gauge responses from the five groups involved, with options ranging from "strongly disagree" (1) to "strongly agree" (5). This conforms with the study of Riaz (2017). Additionally, the standard five-point is a popular response, with which most people are now familiar, was first developed in 1932 as five Likert scales (Allen, & Seaman, 2007). People are asked to rate how much they agree or disagree, approve, or disapprove, or think to be true or incorrect on a variety of measures that range from the least to the most (Yamashita, 2022). Alabi and Jelilim (2022) recommended that a five-Likert scale can be used to measure the opinions, feelings, attitudes, or behavior of certain phenomena. Moreover, Pimentel and Pimentel (2019) advocated the use of five-Likert odd numbers of response alternatives.

Therefore, to operationalize all constructs relating to three institutional pressures (coercive, normative, and mimetic) as the second segment of the measurement of this study following demographic segment, this study adapted questionnaires from prior studies such as Kauppi and Luzzini (2021), Alziady and Enayah (2019), Dubey *et al.* (2017), Munir and Baird (2016), Jalaludin *et al.* (2011); Rautiainen (2009), Zhang and Li (2009), Liang *et al.* (2007), Guerreiro *et al.* (2006), Hussain and Hoque (2002). Items are adjusted to suit the context of Islamic banks in Nigeria with an

instrument containing 15, 7, and 2 items for the coercive, normative, and mimetic respectively. The fourth segment via a five-point Likert scale ranging from "strongly disagree" to "strongly agree" measures Stakeholders' awareness, understanding, and perception of *Shari'ah* audit in Nigerian Islamic banks. This method allows respondents to express their level of agreement or disagreement with multiple items related to *Shari'ah* audit, providing a quantitative measure of their awareness, understanding, and perception.

3.2 Data analysis technique

To analyze the research model in this study, SPSS version 25 was utilized from onset to diagnose the data to ensure that it is suitable for the Partial Least Square Structural Equation Modelling (PLS-SEM), PLS approach constitutes a variance-based structural equation modeling technique ([Chin 1998](#)).

4. Results and Discussions

4.1 Results of the direct effect: Institutional Mechanisms on Audit *Shari'ahness*

The main aim of this study is to predict the outcome or influence of institutional mechanisms (coercive, normative, and mimetic) on audit *shari'ahness*. Results proved that the endogenous construct (audit *shari'ahness*) has R^2 Values of 0.65 as indicated in Table 1 explained by institutional mechanisms (coercive, normative, and mimetic). Moreover, scholars such as Chin (1998) contend that the PLS-SEM R^2 values of 0.67, 0.33, and 0.19, can be regarded as significant, moderate, and weak, respectively. This suggests that the three sets of exogenous latent variables (i.e., coercive, normative, and mimetic institutional mechanisms of *shari'ah* audit) collectively explain 65% only of the variance of the audit *shari'ahness*. Hence, Chin's (1998) criteria, the endogenous latent variable (audit *shari'ahness*) showed acceptable

Moreover, to operationalize the constructs of awareness, understanding, and perception, this study adapted from the studies of Isa (2012), Isa et al. (2020), Riaz, et al. (2019), Ab Ghani et al. (2015), Ringim & Yussof (2014), Ringim and Yussof (2013), Kasim et al. (2009) and Mulyany and Ibrahim (2009). Items were adjusted to suit the context of Islamic banks in Nigeria with an instrument containing 07 items for each of the stakeholders' awareness, understanding, and perception of the *Shari'ah* audit.

Similarly, SmartPLS 4 software was used in testing the measurement and structural model. This is because, the use of PLS as a 'second generation of multivariate analysis' ([Legate et al., 2023](#)) has been increasingly recommended to overcome the limitations of more traditional statistical analysis techniques due to its advanced features ([Waqar et al., 2023](#)).

levels of R^2 values, which were considered significant. Moreover, all significance levels are based on a 2-tailed test, and relationships with p-values less than 0.01 are considered significant in this analysis. Hence, H1 predicted that the influences of the coercive mechanism of *shari'ah* audit positively influence audit *shari'ahness* amongst Nigerian Islamic banks. Results from Table 1 indicated that coercive mechanism had a significant and positive relationship with Audit *Shari'ahness*" amongst Islamic banks, in Nigeria (H1; $\beta = 0.297$; $t = 3.239$, $p < 0.001$), supporting Hypothesis 1. Based on these results, this relationship is statistically significant and supported. Hence, the results revealed that coercive influences, such as *shari'ah* principles and rules, regulatory or legal pressures from the regulatory actors such as CBN and NDIC as government's coercive agencies for Islamic banks in Nigerian have a meaningful and positive impact on the level of ensuring adherence to *Shari'ah* principles & regulations as well

as other laws and regulations regarding auditing practices in Nigeria. This is in line with the finding of Puad et al. (2023) which proved that coercive institutional mechanism influences *Shari'ah* audit practice in Malaysian Takaful companies. Indeed, the findings corroborate with institutional theory, which posits that coercive mechanisms are employed when institutions modify their practices or adopt specific rules in response to pressures exerted by influential stakeholders or actors, such as laws, regulations, and regulatory bodies. Also, organizations often conform to external pressures and institutional norms to gain legitimacy and ensure their continued existence and acceptance within the broader institutional environment (Meyer & Rowan 1977; Zucker 1997).

The results underscore the responsiveness of Islamic banks in Nigeria to the institutional pressures stemming from *shari'ah* principles and rules, and other local laws and regulations, though they are inadequate laws and regulations governing IFIs including Islamic banks to the extent that they are required to refer to AAOIFI's standard where the local laws and regulation have no provisions.

The result indicating a significant relationship between coercive institutional mechanisms and audit *Shari'ahness* in Nigerian Islamic banks could be attributed to several factors. One explanation could be that Islamic banks in Nigeria are driven to adhere to coercive pressures due to the desire to tap into the sizable market for Islamic financial services, given the large Muslim population in the country. This motivation stems from the need to maintain credibility and legitimacy among Muslim customers who prioritize *Shari'ah* compliance in their financial dealings. Overall, the alignment between coercive pressures and audit *Shari'ahness* underscores the significance of regulatory enforcement and market demand in

shaping the behavior of Islamic banks in Nigeria. This allows them to record high financial and non-financial performance. For example, in 2022 Ja'iz Bank a pioneer Islamic bank in Nigeria recorded a PAT of N6.9 billion against N4.1 billion in 2021, this indicates that conforming to the *shari'ah* audit and other operational activities of Islamic banks is not an additional burden to them and ensure the protection of wealth of their stakeholders consistent with the Maqasidil *Shari'ah* theory.

Similarly, H2 postulated that the normative mechanism of *shari'ah* audit positively influences the audit *Shari'ahness* amongst Nigerian Islamic banks. Results from Table 1 indicated that the normative mechanism of *shari'ah* audit had a significant and strong positive relationship with audit *Shari'ahness* amongst Islamic banks, in Nigeria (H2: $\beta = 0.399$; $t = 5.144$; $p < 0.00$), supporting Hypothesis 2. The results prove that the top management of Islamic banks in Nigeria actively participate in discussions, share best practices, and benchmark their auditing procedures against industry standards. This helps them to align with prevailing norms and expectations in ensuring *shari'ah* audit practices. Top management also invests in ongoing training and education for *Shari'ah* audit professionals and staff to ensure a deep understanding of *Shari'ah* principles and rules and evolving industry norms. This will empower *shari'ah* auditors to make informed decisions that align with normative forces.

Based on the results, it revealed that the top management of the Islamic banks is very enthusiastic about enhancing the competency of their staff *shari'ah* auditors inclusive of attending related training, seminars, and courses related to their schedule of duties. This demonstrated the positive actions among the *shari'ah* auditors in Islamic banks in Nigeria which could reflect the functions of *Shari'ah* ah

in the Islamic banks industry in the country. The results also postulate that top management of Nigerian Islamic banks supports the *shari'ah* auditors significantly by allocating the necessary budget for courses or training or even making it compulsory for the *shari'ah* auditors to have any professional certificates such as CSAA which is related to their *shari'ah* audit assignment for ensuring audit *shari'ahness* in Nigerian Islamic banking industry this is in line with findings of Puad et al. (2023) who found that normative institutional mechanism has impact on *Shari'ah* audit practice in Malaysia. Also, the find of this study support the study of Khreis, et al. (2025); Ali and Kassim (2019) who found that top management's support for *shari'ah* auditors to have any related professional certificates contributes towards the increase in knowledge and skills of the *shari'ah* auditors and this tends to ensure audit *shari'ahness* in IFIs as well as achieving the Maqasidil *Shari'ah*, which is the target of Maqasidil *Shari'ah* theory.

Finally, H3 predicted that the mimetic mechanism of *shari'ah* audit positively influences audit *shari'ahness* amongst Nigerian Islamic banks. The results from Table 1 also indicated that the Mimetic relationship, had a significant and strong positive relationship with audit *Shari'ahness* amongst Islamic banks, in Nigeria (H3; $\beta = -0.246$; $t = 3.617$, $p < 0.000$), supporting Hypothesis 3. The results confirmed that imitating successful sister organizations by Islamic banks enhances and ensures audit *shari'ahness* in the country. Also, the results proved that Islamic banks in Nigeria have the required support for their mimetic practices from such hired expertise from other countries such as Malaysia, and hence, Nigerian Islamic banks should continue mimicking the good behavior, and strategies of other sister organizations in the context of ensuring *shari'ah* audit practices for making sure that interest, ambiguity and gambling are avoided, this is to ensure the protection of the faith and wealth of their stakeholders and this in conformity with the Maqasidil *Shari'ah* theory.

Table 4.1: Structural Model Assessment

Latent Variable/ Relationship	Std Beta	Std Error	t- Value	P Values	Variance Explained (R ²)	Decision
Audit <i>Shari'ahness</i>					0.654	
Coercive -> Audit <i>Shari'ahness</i>	0.297	0.091	3.257	0.001		Supported
Mimetic -> Audit <i>Shari'ahness</i>	0.246	0.068	3.617	0.000		Supported
Normative -> Audit <i>Shari'ahness</i>	0.423	0.088	4.827	0.000		Supported

Source: (PLS-SEM Output)

Note: *Significant at 0.01 (2-tailed)

4.2 Results of the Indirect Effect: Institutional Mechanisms and Audit *Shari'ahness*: Moderating Effects of Awareness, Understanding and Perception

In this study, the variables involved in the interaction terms have stakeholders'

awareness, understanding, and perception of *Shari'ah* audit moderating the relationship between institutional mechanisms of *Shari'ah* audit (coercive, normative, and mimetic) and audit *Shari'ahness*.

4.2.1 Moderating Effects of Awareness

The research hypothesis (H4) tests the first objective on the moderating effect of stakeholders' awareness of *shari'ah* audit as a moderator between coercive institutional mechanism and audit *shari'ahness*. The audit *shari'ahness* will be higher with stakeholders' awareness of the *Shari'ah* audit, such that the effect will be more significant when stakeholders' awareness of the *Shari'ah* audit is high, the PLS statistics indicate that the moderating role is insignificant on the coercive institutional mechanism and audit *shari'ahness* as contained in Table 2, (H4: $\beta = -0.040$, $t = 0.371$, $p < 0.355$). The insignificant interaction effect suggested that stakeholders' awareness of *Shari'ah* audit has a weaker value on the relationship between coercive institutional mechanism and audit *shari'ahness*. This means that when external forces or regulations (coercive factors) are applied to ensure audit *shari'ahness* in Nigerian Islamic banks, and stakeholders are aware of it, it may not necessarily lead to a

significant improvement in audit *Shari'ahness* amongst the Nigerian Islamic banks. Similarly, H5 tests the second objective on the moderating effect of stakeholders' awareness of *Shari'ah* audit between normative and audit *Shari'ahness*. The hypothesis was stated as H5: The relationship between normative institutional mechanism of *shari'ah* audit and audit *Shari'ahness* will be higher with Stakeholders' awareness of the *Shari'ah* audit, such that the effect will be more significant when Stakeholders' awareness of the *Shari'ah* audit is high. The results from the PLS Path Coefficient output of the moderating effects. As depicted in Table 2 an insignificant moderating effect (H5: $\beta = -0.087$, $t = 1.072$, $p < 0.142$). Therefore, the interaction effect of normative institutional mechanism on audit *Shari'ahness* is not statistically significant. In essence, these findings reveal that enhancing stakeholders' awareness of *shari'ah* audit through educational and professional training programs may diminish the impact of such initiatives on audit *shari'ahness*.

Table 4. 2: Hypothesis testing of the Moderating Variable (Stakeholders' Awareness) of the Moderating Variable (Stakeholders' Awareness)

Path	Std Beta	Std Error	t-Value	P Values	Decision
Coercive*Stakeholders awareness > Audit <i>Shari'ahness</i>	-0.040	0.107	0.371	0.355	Not Supported
Mimetic*Stakeholders' awareness > Audit <i>Shari'ahness</i>	-0.089	0.049	1.794	0.036	Supported
Normative*Stakeholders' awareness -> Audit <i>Shari'ahness</i>	-0.087	0.081	1.072	0.142	Not Supported

Source: (PLS-SEM Output)

Also, H6 tests the third objective of the moderating role of stakeholders' awareness of *Shari'ah* audit and the effect of the mimetic institutional mechanism of *Shari'ah* audit on audit *shari'ahness*. The hypothesis was stated as H6: The relationship between the mimetic institutional mechanism of *Shari'ah* audit

and audit *shari'ahness* will be higher with Stakeholders' awareness of the *Shari'ah* audit, such that the effect will be more significant when stakeholders' awareness of *Shari'ah* audit is high. The result of this analysis as contained in Table 2, proves that stakeholders' awareness of *shari'ah* audit as a moderator has a significant effect

on the relationship between mimetic institutional mechanism and audit *shari'ahness* (H6: $\beta = 0.089$, $t = 1.794$, $p < 0.036$). Hence, the result proved that this hypothesis is the interaction between "Mimetic" and "Stakeholders' Awareness" and has an impact on "Audit *Shari'ahness*". This outcome is supported because the p-value (0.036) is less than the typical significance level (0.05), indicating a statistically significant relationship. Figure 2 provides a more procedural analysis of this moderation effect. Specifically, a positive moderating effect is visible in Figure 2 (with stakeholders' awareness of the *shari'ah* audit as the moderating variable). This means that stakeholders' awareness of *Shari'ah* audit strengthens

4.2.2 Moderating Effects of Understanding

H7 tests the third objective of the moderating role of stakeholders' awareness of *Shari'ah* audit and the effect of the coercive institutional mechanism of *shari'ah* audit on audit *Shari'ahness*. The hypothesis was stated as H7: The relationship between the coercive mechanism of *Shari'ah* audit and audit *shari'ahness* will be higher with stakeholders' understanding of the *Shari'ah* audit, such that the effect will be more significant when the understanding of the stakeholders of the *Shari'ah* audit is

the relationship between the mimetic institutional mechanism of *Shari'ah* audit and audit *shari'ahness*. The results indicated that in the Nigerian context, *shari'ah* audit is a new field of study compared with the conventional counterpart which has been persistent for decades, thus this interaction proves that stakeholders' awareness of *shari'ah* audit as a result of the efforts made by top management of Nigerian Islamic banks, CBN and NDIC in imitating other successful Islamic banks for seeking the help of competent intellectuals from various nations to act as heads of their respective ACE and members of FRACE at industry and regulatory levels respectively.

high. The result from the PLS Path Coefficient output of the moderating effect shows an insignificant moderating effect of normative institutional mechanism on audit *shari'ahness* as contained in Table 3 (H7: $\beta = -0.240$, $t = 0.688$, $p < 0.492$). This provides empirical evidence to reject the hypothesis H7. Therefore, the results (Table 3) may be attributed to the insufficient understanding of crucial aspects of the *Shari'ah* audit, including its scope, objectives, governance structure, charter, process, and reporting requirements by stakeholders of Nigerian Islamic banks.

Table 4.3: Hypothesis testing of the Moderating Variable (Stakeholders' Understanding)

Path	Std Beta	Std Error	t-Value	P Values	Decision
Coercive*Stakeholders Understanding -> Audit <i>Shari'ahness</i>	-0.240	0.349	0.688	0.492	Not Supported
Mimetic*Stakeholders' Understanding -> Audit <i>Shari'ahness</i>	-0.150	0.137	1.098	0.272	Not Supported
Normative*Stakeholders' Understanding -> Audit <i>Shari'ahness</i>	0.454	0.422	1.076	0.282	Not Supported

Source: (PLS-SEM Output)

Also, H8 tests the fifth objective on the moderating role of stakeholders' understanding of *Shari'ah* audit and the

effect of normative institutional mechanisms of *shari'ah* audit on audit *Shari'ahness*. The hypothesis was stated as

H8: The relationship between the normative mechanism of *shari'ah* audit and audit *Shari'ahness* will be higher with Stakeholders' understanding of the *Shari'ah* audit, such that the effect will be more significant when Stakeholders' understanding of the *Shari'ah* audit is high. The result from as shows in Table 3 the PLS Path Coefficient output of the moderating effect shows an insignificant moderating effect (H8: $\beta = 0.454$, $t = 1.076$, $p < 0.282$). The lack of significant moderating effect of stakeholders' understanding of *Shari'ah* audit on the relationship between normative institutional mechanisms and audit *Shari'ahness* could indeed be attributed to the demographic profile of the respondents, particularly their educational and professional qualifications (refer to Appendix A). Therefore, if a significant portion of the respondents lacks the necessary accounting professional and *Shari'ah* qualifications, they may not possess the requisite understanding of *Shari'ah* audit practices to effectively moderate the relationship between normative institutional mechanisms and audit *Shari'ahness*. Hence, without a solid understanding of *Shari'ah* audit principles and procedures, stakeholders may be unable to assess the extent to which normative mechanisms contribute to audit *Shari'ahness* in Nigerian Islamic banks. Likewise, H9 tests the sixth objective on the moderating role of stakeholders' understanding of *Shari'ah* audit on the effect of mimetic institutional mechanism of *shari'ah* audit on audit *Shari'ahness*. The hypothesis was stated as H9: The relationship between mimetic mechanism of *shari'ah* audit and audit *shari'ahness* will be higher with Stakeholders' understanding of the *Shari'ah* audit, such that the effect will be more significant when stakeholders' understandings of the *Shari'ah* audit is high. The result from the PLS Path Coefficient output of the

moderating effect shows an insignificant moderating effect (H5: $\beta = -0.150$, $t = 1.098$, $p < 0.272$). Table 3 provide a deeper analysis of the moderation effect of normative institutional mechanisms on the audit *Shari'ahness*. Hence, the hypothesis depicted that the interaction between "Mimetic" and "Stakeholders' Understanding" has an impact on "Audit *Shari'ahness*" is not supported because the p-value (0.272) is greater than the typical significance level. The results of this study indicate that the degree to which Islamic banks in Nigeria imitate the strategies of prosperous Islamic banks in other nations, including Bangladesh and Malaysia, is not significantly influenced by stakeholders' comprehension.

4.2.3 Moderating Effects of Perception

Likewise, H10 tests the seventh objective on the moderating role of stakeholders' perception of *Shari'ah* audit on the effect of mimetic institutional mechanism of *shari'ah* audit on audit *Shari'ahness*. The hypothesis was stated as H10: The relationship between coercive mechanism of *Shari'ah* audit and audit *Shari'ahness* will be higher with Stakeholders' perception of the *Shari'ah* audit, such that the effect will be more significant when Stakeholders' perception of the *Shari'ah* audit is high. The result from the PLS Path Coefficient output of the moderating effect shows a negative significant moderating effect (H10: $\beta = -0.141$, $t = 0.527$, $p < 0.598$) as contained in Table 4. The result of the current study indicates that Islamic banks in Nigeria are primarily guided by regulatory mandates rather than the perception of their stakeholders in terms of adhering to Shariah principles and rules while conducting *shari'ah* audits.

Moreover, H11 is the eleventh objective on the moderating role of stakeholders' perception of *Shari'ah* audit on the effect of normative institutional mechanism of *shari'ah* audit on audit *Shari'ahness*. The hypothesis was stated as H11: The

relationship between the normative mechanism of *shari'ah* audit and audit *Shari'ahness* will be higher with stakeholders' perception of the *Shari'ah* audit, such that the effect will be more significant when stakeholders' perception of the *Shari'ah* audit is high. The result from the PLS Path Coefficient output of the moderating effect shows in Table 4, an insignificant moderating effect (H7: $\beta = -0.052$, $t = 0.282$, $p < 0.778$). This provides empirical evidence to reject the hypothesis H11. The possible reason for this finding is that; Islamic banks in Nigeria might prioritize ethical alignment such as intrinsic commitment to Islamic finance principles for ensuring audit *shari'ahness* rather than the perception of their stakeholders on *shari'ah* audit. This is because, Nigeria though a secular and pluralistic nation, most of it is population are Muslims with high enthusiasm for abiding by *shari'ah* rules and regulations in all their dealing with both spiritual and non-spirituals. This is supported by the findings of Abikan and Ahmad (2017) which proved that most of the operations of

businesses or products are accepted based on religion rather than economic benefits. Lastly, H12 is the twelfth objective on the moderating role of stakeholders' perception of *Shari'ah* audit on the effect of mimetic institutional mechanism of *shari'ah* audit on audit *Shari'ahness*. The hypothesis was stated as H12: The relationship between the mimetic mechanism of *shari'ah* audit and audit *Shari'ahness* will be higher with stakeholders' perception of the *Shari'ah* audit, such that the effect will be more significant when stakeholders' perception of the *Shari'ah* audit is high. The result from the PLS Path Coefficient output of the moderating effect shows an insignificant moderating effect (H7: $\beta = 0.040$, $t = 0.625$, $p < 0.532$) as contained in Table 4. This provides empirical evidence to reject the hypothesis H12. A more plausible reason for this result is that; there is a serious shortage of trained manpower in the *Shari'ah* auditing industry in Nigeria which can enhance the level of stakeholders' perception of *shari'ah* audit practice in the country.

Table 4.4: Hypothesis testing of the Moderating Variable (Stakeholders' Perception)

Path	Std Beta	Std Error	t-Value	P Values	Decision
Coercive*Stakeholders' Perception -> Audit <i>Shari'ahness</i>	-0.141	0.266	0.527	0.598	Not Supported
Mimetic*Stakeholders' Perception -> Audit <i>Shari'ahness</i>	0.040	0.064	0.625	0.532	Not Supported
Normative*Stakeholders' Perception -> Audit <i>Shari'ahness</i>	-0.052	0.185	0.282	0.778	Not Supported

Source: (PLS-SEM Output)

5 Conclusion

For the direct relationship, the findings of this study revealed a significant positive relationship between coercive institutional mechanisms and audit *shari'ahness*. Hence, based on this finding, the utilization of coercive mechanisms such as *shari'ah* principles and rules, and regulatory or legal pressures by the regulatory actors such as CBN and NDIC as government's coercive

agencies for Islamic banks in Nigeria are effective in ensuring *shari'ahness*. Similarly, the study found a strong positive relationship between "Normative" and "Audit *Shari'ahness*". Based on the findings; it concludes that enthusiastic commitments of top management of the Islamic banks about enhancing the competency of their staff *shari'ah* auditors inclusive of attending related training, seminars, and courses related to their

schedule of duties are effective in enhancing audit *shari'ahness* among Nigerian Islamic banks. Moreover, the study found that the Mimetic relationship has a positive impact on Audit *Shari'ahness*" amongst Islamic banks in Nigeria. This is because Islamic banks in Nigeria tend to mimic successful banks from other countries such as Malaysia by engaging experts to lead strategic positions in Nigerian Islamic banks.

On the indirect relationship, the study found that the moderating effect of "Stakeholders' Awareness" is supported for the "Mimetic" path, but not supported for the "Coercive" and "Normative" paths concerning their impact on "Audit *Shari'ahness*. This concludes that there is a high awareness of *shari'ah* audits among the stakeholders of Islamic banks in Nigeria. This is partly due to the intense debate in the process of establishing Islamic banks in Nigeria. Thereby increasing awareness about the operations of the Islamic banks' *shari'ah* audit inclusive, hence mimetic institutional mechanism strengthens.

Hence, this study stands as a novel contribution to the existing body of knowledge by delving into the relationship between institutional mechanisms and audit *shari'ahness* in Nigeria. In other words, this study has extended the theory by utilizing the three isomorphic pressures or mechanisms to investigate the influence of such pressures as mechanisms for ensuring audit *shari'ahness* in Nigerian Islamic banks so that to become the same overtime for achieving the highest objectives of *shari'ah* (Maqasidil-*Shari'ah*). Moreover, this study has extended the Maqasidil-*Shari'ah* theory as an umbrella theory encompassing all relational items in highlighting the need for institutional mechanisms of *Shari'ah* audit for ensuring audit *shari'ahness* in all the operations of IFIs to achieve the highest

objectives of *Shari'ah* in Islamic banking and finance industry in Nigeria.

To ensure sustainable audit *shari'ah* in Nigerian Islamic banks the following recommendations are hereby offered for standards setters, managers, regulators, and academic institutions and scholars in the field of Islamic finance based on the findings of this study:

- i. Since it is proved that Islamic banks in Nigeria were moved by formal pressures especially regulators when ensuring audit *shari'ahness*, it could be the best way out if the regulators should provide an adequate specific *shari'ah* audit framework or even Act like IFSA in Malaysia or to incorporate internal and external *Shari'ah* audits into BOFIA.
- ii. Islamic banks in Nigeria should continuously monitor the evolving regulatory landscape and ensure their auditing practices align with *Shari'ah* principles and comply with all relevant laws at regulatory levels and other standards from recognized Islamic standards setters such as AAOIFI and IFSB.
- iii. Top management of Islamic banks in Nigeria should not only concentrate on educational and professional certificates but also embrace technology solutions more especially in this contemporary day of Artificial Intelligence (AI) and all other necessary skills that aid in ensuring Audit *shari'ahness* in the country.
- iv. To have a better understanding and perception of *shari'ah* audit among stakeholders of Nigerian Islamic banks, courses on *shari'ah* audit should be designed and offered by high institutions of learning in the country.

However, as with most other empirical studies, there are also some limitations of this study as follows:

- i. One of the limitations of this study is the use of only two items to measure

the mimetic construct. Including more items could provide a more accurate assessment of the scale's validity. As a result, the limited number of items restricts the ability to fully capture the role of mimetic processes in this study.

- ii. The R2 of the current study was only able to explain 65% of the total variance in audit *shari'ahness*. This proved that the three sets of exogenous latent variables (i.e., coercive, normative, and mimetic institutional mechanisms of *shari'ah* audit) collectively explain only 65% of the variance of the audit *shari'ahness* while the remaining 35% was not able to be covered by this study which is also another shortcoming of this study.
- iii. From the theoretical angle, the current study was only able to use institutional, and Maqasidil *shari'ah* theories.
- iv. This study only covers members of FRACE at the regulatory stage, managers, members of ACE, internal *shari'ah* auditors, and other staff of supervisory sections of CBN and NDIC as the targeted respondents and used questionnaire as the instrument for data collection. Thus, the current study was unable to cover other crucial stakeholders such as customers of Islamic banks and Hallal industry, investors, local Islamic finance community (such as Islamic micro-finance banks and Islamic co-operative societies), Islamic public sectors (such as Hajj commission, Hisbah boards, Zakat and Waqaf agencies) community members, etc.
- v. This research also has a limitation in generalizing the moderating effect of stakeholders' awareness, understanding, and perception of the *shari'ah* audit.

This study hopes to inspire further research in this area to enrich the limited existing

knowledge and literature concerning the variables of this research.

- i. To enhance the measurement of mimetic processes, future studies should consider incorporating more than two items related to the mimetic construct.
- ii. Future studies are expected to incorporate more variables to be able to cover the remaining 35% which this study was unable to cover.
- iii. Future research may use other avenues to utilize underpinning theories other than institutional and Maqasidil *shari'ah* theories which can invariably give different dimensions of findings from the one obtained using other stakeholders and the same industry. For example, studying the level of *shari'ah* compliance via *shari'ah* audit using legitimacy theory.
- iv. Future research may evaluate the level of audit *shari'ahness* not only in the Nigerian Islamic banking industry but in other important Islamic sectors in Nigeria such as takaful industry, Islamic capital market, Islamic microfinance, Halal industries to mention but a few and cross-border studies for wider coverage and international analysis.
- v. Regarding the fifth limitation, future studies could delve into the specific factors at play, the level of stakeholders' awareness, understanding, and perception of the *Shari'ah* audit, and how these factors might be enhanced or adjusted to influence the moderating relationship between institutional mechanisms and audit *shari'ahness* literature.

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