

---

**Internal sharia'h auditors' competence, independence, reporting requirements and sharia'h audit effectiveness of non-interest financial institutions in Nigeria**

\*SAKA, Oluwasegun Sikiru<sup>1</sup>, DIKKI, Anietie Charles<sup>2</sup>, AHMED, Aliyu Abdullahi<sup>3</sup>,  
UMAR, Salisu<sup>4</sup>

<sup>1,2,3</sup>Department of Accounting

Ahmadu Bello University Zaria Business School, Nigeria

<sup>4</sup>Department of Business Administration,

Ahmadu Bello University Zaria Business School, Nigeria

\*Corresponding Email: [Saka.oluwasegun@yahoo.com](mailto:Saka.oluwasegun@yahoo.com)

---

**Abstract**

*The study examined the effect of internal shari'ah auditors' competence, independence and reporting requirements on the internal shari'ah audit effectiveness of Islamic (Non-interest) financial institutions in Nigeria. The study adopted a cross-sectional survey research design which assumes positivist paradigm. A self-administered questionnaire was used to collect data from 35 shari'ah auditors of the four (4) full-fledged non-interest bank (NIBs) and four (4) takaful operators in Nigeria, analyzed with multiple regression using Partial Least Square Structural Equation Model (PLS-SEM). The results of the findings shows that internal shari'ah auditors' independence and internal shari'ah audit reporting requirement have positive significant effect on internal shari'ah audit effectiveness while internal shari'ah auditors' competence has positive non-significant effect on internal shari'ah audit effectiveness. The study therefore recommended that the bank management should follow AAOIFI guidelines for appointment of internal Shariah auditors, ensuring competence, qualification, and independence to maintain user confidence and maintain independence.*

**Keywords:** Internal Shari'ah audit effectiveness, Internal Shari'ah Auditor, Shari'ah compliance, Non-interest financial institutions, Shari'ah governance.

---

**1. Introduction**

Globally, the internal audit and control functions has received a very wide attention by majority stakeholder group such as shareholders, managers, government, customers, investors' researchers among others in every organization. This is following its resultant role played during the global financial scandals which led to the collapse of companies like German payment processor Wirecard, which was exposed for accounting fraud, leading to a €1.9 billion shortfall in year 2020, Steinhoff corporate fraud in 2019, in 2018, Samsung, Wells Fargo and Co., Nissan, and Tesla faced

significant corporate scandals and Gupta scandal in 2017 among others. These are another notable case after Enron scandal, involving dubious accounting practices that led to the energy company's 2001 bankruptcy.

The post-scandal in multinational corporations have been enhance the need to strengthening corporate governance structures, including independent compliance committees and regular audits by expert third parties (Falope, 2024). Therefore, this study underscored the crucial role of internal auditors in ensuring credible, high-quality financial reporting and audit quality, emphasizing the need to

consider audit quality within the broader financial reporting context. The audit function is viewed as an ideal process for establishing a robust monitoring system, thereby enhancing and preserving public confidence in industry operations and activities (Yaacob & Donglah, 2012).

The Islamic (Non-interest) financial institutions (IFIs) are also not left behind in the keen interest in internal audit and control, being one of the fast-growing industries in the world in term of product and asset with expectant to ensure compliance beyond the conventional audit and control but also concerning Shari'ah compliance audit and review. This shows that internal Shari'ah audit function of many Islamic financial institution is being performed by internal auditors in some developing countries as seen from several studies (Shafii et al., 2014, Khalid et al., 2018). In this case the departmental audit function will focus more on the internal audit effectiveness considering several restricting factors to this role and coupled with the objective of these department as a separate entity

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

In NIFIs, Internal Shari'ah audit aims to achieve Islamic law objectives, prevent

non-compliance risks, and gain stakeholder confidence through proper Shari'ah governance through internal control mechanisms. Thus, NIFIS must improve its Shari'ah audit system to ensure that all transactions and products are compliant to Shari'ah (Masruki et al., 2020). Due to the rapid development and booming of Islamic banking and finance, there is increasing pressure on IBs to ensure that every activity undertaken is Shari'ah compliant, which has prompted the need for more robust Shari'ah audit systems (Aziz et al., 2019). This study is focused on the aspects of internal Shari'ah audit concerning competencies, independence, and reporting, as these pertain to the effectiveness of internal Shari'ah audits in Non-interest financial institutions in Nigeria.

The internal Shariah audit's effectiveness can be improved by the competency of an internal Shariah auditor due to employing interdisciplinary techniques (Kahlid, 2016). Finding a qualified internal Shariah auditor is quite difficult due to the absence of specialized education, skills, or training programs targeted specifically towards Shariah audits which would satisfy the needs of the IFIs and their governing regulations (Kasim, 2009). "An auditor must at least have general knowledge of Islamic Shariah rules and principles. He or she will not have the level of knowledge possessed by members of the SSB, therefore, the auditor should not be expected to provide interpretation of these (Islamic) rules and principles," these statements are provided by AAOIFI Auditing Standards (2010). Still, Shafii et al. (2014) asserts that most internal Shariah auditors are not dependable because they lack solid knowledge and rely on the management of the bank. Hence, this present study aimed to assess the impact of internal Shari'ah auditors' competence on the effectiveness of internal shariah audits in non-interest financial institutions.

The independence of internal Shariah auditor is essential to the efficient performance of his job and profession. He holds a special position because, in addition to being appointed by management, he also reviews the management's actions, which could put him in a conflict and compromise his independence. Due to his lack of independence from management, this causes the internal auditor a great deal of stress. (Agarwal & Medury, 2014). The internal auditor loses the ability to provide an objective evaluation when they lose independence from the management team (Flesher & Zanzig, 2000). An independence both in fact and appearance is essential for an auditor. However, Mautz and Sharaf (1961) defined independence as the real and apparent independence of individual practitioners and auditors as a professional group, forming the foundation of the auditing profession. Stakeholders in Islamic Financial Institutions (IFIs) promote the independence of Shariah auditors, ensuring their ability to provide opinions on IFIs' compliance situations. Thus, this study aimed at evaluating the effect of internal Shari'ah auditors independence on internal shariah audit effectiveness of non-interest financial institutions.

Khalid et al., (2018) opined that the internal Shari'ah audit reports offer assurance about the effectiveness of an organization's internal control in achieving its goals, covering engagement planning, performance, and communication of results. Therefore, Islamic financial institutions must establish reporting requirements to communicate Shari'ah audit findings to the board of directors through the Board Audit Committee and Shari'ah Standard Board Committee members (Bank Negara Malaysia, 2010). Ab Ghani et al. (2022) emphasize the importance of reporting internal Shari'ah audit findings to gauge the effectiveness of the internal Shari'ah audit function in

Islamic financial institutions. An efficient internal Shari'ah audit function will inform the appropriate parties of the risks of Shari'ah non-compliance and provide remedial measures (Abdul Rahman, 2011). Additionally, the internal Shari'ah auditors monitored the progress of corrections, made sure the Shari'ah audit report was submitted on time, and then offered their assessment of the objective assurance pertaining to Shari'ah issues and the efficacy of the internal control system.

The Shari'ah audit report evaluates financial statements, organizational structure, people, processes, information technology application system, and Shari'ah governance process (Ab Ghani et al., 2022). In line with the purpose of ensuring transparency and accountability on the part of the Islamic (Non-interest) financial institutions as well as to protect the interest of the society, Shari'ah auditing needs to consider the attestation in relation to social and environmental reporting in its audit scope. It is expected that property and quality Shari'ah auditing procedures and processes will result in the effectiveness of internal Shari'ah audit units. Therefore, the study assessed the effect of internal shari'ah audit reporting requirement on internal Shari'ah audit effectiveness of non-interest financial institutions.

The existing literature in Nigeria highlights significant aspects of *Shari'ah* audit practices within Islamic financial institutions but reveals notable gaps, particularly concerning the independence of *Shari'ah* auditors and the role of advisory bodies. Abdullah et al., (2024) emphasize the necessity for *Shari'ah* auditors to maintain independence from management influence but lack discussion on mechanisms that can reinforce this independence. Similarly, Alkharabsheh and Obedat (2024) underscore the importance of institutional governance in improving audit quality.

Other studies carried out includes the work of Kurfi and Haron (2023) on Digitalizing

Shari'ah Auditing System in Halal Industry: Issues, Challenges, and Needs, and another on Institutional Mechanisms and Audit Shari'ahness among Nigerian Islamic Banks by the same authors and Mahmud et al (2021) Shari'ah Governance in Islamic Financial Institutions in Nigeria: An Empirical Study, , Hamman (2018) on effect Advisory Committee of Experts' role on product development of NIFIs in Nigeria, Hamman (2016) on Effect of Shari'ah Review and Fatawa on Product Development of Non-interest Financial institutions in Nigeria; Mustafa and Ibrahim (2013) on the emergence and challenges of Islamic banking and finance in Nigeria: A stakeholder perception, Muhammed (2014) on determinants of customer patronage of Islamic bank in Nigeria using Jaiz bank as case study and; Sani and Abubakar (2021) on A proposed framework for implementing risk-based Shari'ah audit among others, while other are on risk based audit and internal audit quality. Other study conducted are Ab Ghani & Abdul Rahman (2022, & 2019), Khalid, (2018), Khalid et al, 2018 on internal Shariah auditors competence, independence of Shariah auditors, reporting requirement and internal Shari'ah audit effectiveness are carried in middle east countries such as Malaysia, Bahrain, Pakistan among others which are Muslim dominated nations. This reveals notable gaps both empirically and theoretically, particularly concerning the competence, independence of Shariah auditors and reporting requirement. Abdullah et al (2024) emphasize the necessity for Shariah auditors to maintain independence from management influence but lack discussion on mechanisms that can reinforce this independence. These gaps suggest a need for further investigation into how reporting through the advisory committee of experts (ACE) can bolster auditor independence, competence and audit quality.

## **2. Literature review and theoretical framework**

### **Ho1: Internal Shariah auditors' competence has no significant effect on internal shariah audit effectiveness of Non-interest financial institution in Nigeria**

The efficacy of internal Shari'ah audit functions in Malaysian Islamic financial organizations was investigated by Ab Ghani and Abdul Rahman in 2022. The study used a quantitative research approach using a survey questionnaire given to the heads of Shari'ah audit of 47 IFIs in 2016 and analyzed with SPSS to assess the degree of internal Shari'ah auditor competency on internal Shari'ah audit function effectiveness in Malaysian IFIs. According to the findings, the majority of IFIs in Malaysia have created an efficient internal Shari'ah audit function, which is positively and significantly impacted by the competency of internal Shari'ah auditors.

Ab Ghani et al (2019) also conducted another study on the measurement of effective Internal Shari'ah audit function in Islamic financial institutions. The assessed the internal Shari'ah auditor' competence which was measured in terms of adequate knowledge and skills to apply internal auditing standards, accounting principles and relevant Shari'ah audit tests, as a measurement of internal Shari'ah audit function effectiveness in IFIs through critical reviews the past literature. The study employed literature review and structural interview method for Islamic financial experts to validate the measurement. The results of the interview findings revealed that the internal Shari'ah auditor' competence has significantly contributed to the effectiveness of internal Shari'ah audit function of the IFIs.

Khalid et al. (2018) also worked on the competency and effectiveness of internal Shari'ah audit in Islamic financial institutions. The paper aimed to presents

the conceptual relationship between competency and effectiveness of internal Shari'ah auditors in Islamic financial institutions (IFIs) using Maqasid al Shari'ah theory to understand linkages between competency and effectiveness of internal Shari'ah audit complemented with the roles and responsibilities of internal Shari'ah auditors in IFIs. The results of the findings proposes that competency in term of knowledge, skill and training can influence the effectiveness of internal Shari'ah auditors in IFIs.

Alam and Hassan (2017) carried out research on the problems and difficulties pertaining to Pakistani Shari'ah auditors' ability. According to the framework of Shari'ah auditors, the article looked at fundamental elements including knowledge, skills, and other abilities (KSOA), which are supposed to improve the auditors' present performance and tend to strengthen the Islamic financial system. By gathering data from earlier research, the study used a mix-based approach to present a new model for Shari'ah auditors in Pakistan's Islamic Financial Institutions. It also presented a model for selecting Shari'ah auditors based on their expertise, competencies, and other relevant skills in IFIs. The findings provided a summary of the current state of affairs with regard to the demands placed on Shari'ah auditors in Pakistan's Islamic Financial Industry. They also showed that internal auditors conduct Shari'ah audits in IFIs in accordance with the Shari'ah governance framework provided by State Bank of Pakistan (SBP) and that many Shari'ah auditors employed by IFIs lack the necessary training and experience in Shari'ah audit and Islamic banking.

Syed and Shahul Hameed (2013) also conducted a study on professionalizing the role of Shari'ah Auditors and the Economic benefits in Malaysia. The paper assess the need for inventing the profession of Shari'ah auditing and why Malaysia should take the lead to create an Association of

Chartered Shari'ah Accountants and Auditors (ACSAA) that can result in long run economic benefits for the country. Critical literature review examines export of accounting and auditing professional membership globally, highlighting shortcomings in Islamic qualifications suppliers in creating holistic Shari'ah accountants/auditors for ideal Islamic economies. The result and conclusion of the findings proposed 2 models toward the achievement of this ACSAA.

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

Khalid (2016) also carried a research study on moderating effect of Shariah Supervisory board on the relationship between internal Shariah audit characteristics and its Effectiveness on Islamic financial institutions in Bahrain. The study aimed mainly to examining the relationship between internal Shariah audit characteristics (independence; competency and work performance of internal Shariah audit) and it is effectiveness in Islamic Financial Institutions in Bahrain and also to assess the role of Shariah supervisory board as a moderating effect in the relationship between internal Shariah audit characteristics and its effectiveness. The study employed primary method of research using survey questionnaire administered to the Head of internal Shariah audit department of 52 IFIs



registered under central bank of Bahrain which was analyzed using structural equation method via SmartPLS. The result of the findings revealed that the competency and work performance of internal Shariah was positively associated with internal Shariah audit effectiveness. The remaining two variables; internal Shariah audit independence and Shariah supervisory board were found to be positively related to internal Shariah audit effectiveness, but their contribution to the internal Shariah audit effectiveness were statistically not significant.

**Ho<sub>2</sub>: The independence of Internal Shariah auditors' has no significant effect on internal shariah audit effectiveness of Non-interest financial institution in Nigeria**

A study on the effectiveness of internal Shari'ah audit functions in Malaysian Islamic financial institutions was carried out by Ab Ghani and Abdul Rahman in 2022. Using a quantitative research approach and a survey questionnaire given to the heads of Shari'ah audit at 47 IFIs in 2016, the study looked at how the independence of Shari'ah auditors affected the efficacy of internal Shari'ah audit functions at Malaysian IFIs. The findings showed that the independence of Shari'ah auditors and the efficacy of the internal Shari'ah audit function of the majority of Malaysian IFIs were positively and significantly correlated.

Another research study conducted by Ab Ghani et al (2019) was on the Internal Shari'ah audit function effectiveness measurement of Islamic financial institutions in Malaysia. The paper assessed Shari'ah Auditors' independence as a determinant of effective internal Shari'ah audit function in IFIs through critical reviews of existing literature. Literature review and structured interview approach was employed to validate the Islamic financial experts measures of shari'ah audit effectiveness. The descriptive results of the structure finding

shows that Shari'ah auditors' independence measured by freedom from interference in determining the Shari'ah audit scope, performing Shari'ah audit work and communicating the Shari'ah audit findings has positive significant impact on the effectiveness of internal Shari'ah audit function of the IFIs.

Khalid and Sarea (2018) also conducted a study on the impact of Independence on Effectiveness Internal Shari'ah Audit functions using Islamic Agency theory approach. Based on Islamic agency using Islamic Agency theory approach. Based on Islamic agency theory, the study is a conceptual article that sought to investigate the connection between internal Shari'ah audit effectiveness and independence in IFIs. According to the research, the conceptual framework on the efficacy of internal Shari'ah audits might be constructed using Islamic agency theory as a theoretical basis. According to the notion, it was suggested that an impartial internal Shari'ah audit may increase its effectiveness.

Kurfi and Haron (2023) conducted a study on Issues, Challenges, and Needs on Digitalizing Shari'ah Auditing System in Halal Industry. This study examined issues, challenges, and the needs for digital Shari'ah auditing in the Halal industry as the second fastest-growing Islamic industry after the Islamic finance industry using a library research method. The results of the findings revealed that issues and challenges associated with digitalizing Shari'ah audit in the industry. The results also revealed the relevance and need for digitalizing Shari'ah audits in the Halal industry. Thought, the study being a conceptual paper contributes to knowledge by demonstrating the importance of emerging technologies in the context of the Shari'ah auditing system but there also need to explore the characteristics and effectiveness of the Shari'ah auditing which this current is considering to take into consideration.

**H03: Internal Shari'ah Audit reporting requirement has no significant effect on internal shariah audit effectiveness of Non-interest financial institution in Nigeria**

Kurfi and Haron (2023) also did a study on Institutional Mechanisms and Audit Shari'ahness among Nigerian Islamic Banks. The study examined institutional mechanism that can be used to ensure audit Shari'ahness among Nigerian Islamic banks, using institutional "Coercive", "Normative" and "Mimetic" mechanism and Maqasid ul Shari'ah theories, to investigate the relationship between institutional mechanisms and audit Shari'ahness among 142 stakeholders in Nigerian Islamic banks. The study implored Partial Least Squares (PLS) and the Structural Equation Modelling techniques to test the hypotheses. The results of the findings supported the hypothesized direct effects of institutional mechanisms of "Coercive" and "Normative" as having direct positive influences while the institutional mechanism of "Mimetic" is statistically significant but with a contrary influence on audit Shari'ahness.

Ab Ghani and Abdul Rahman (2022) who carried out research on the efficiency of Malaysian Islamic financial institutions' internal Shari'ah audit functions. The study looked into how Malaysian IFIs' internal Shari'ah audit function performed in relation to Shari'ah audit reporting requirements. Using a quantitative research approach and a survey questionnaire sent to the heads of Shari'ah audits at 47 IFIs in 2016, it looked at how Shari'ah audit findings should be communicated to the members of the Board Audit and Shari'ah Committee. The findings showed that the efficacy of the internal Shari'ah audit function carried out by IFIs in Malaysia is significantly impacted by Shari'ah Audit reporting requirements.

Badara and Saidin (2014) carried out an empirical investigation into the evidence

supporting the effectiveness of internal auditing. The study sought to provide empirical evidence of antecedents from a Nigerian perspective, including risk management, an efficient internal control system, audit experience, collaboration between internal and external auditors, and the effectiveness of internal audit performance. Using a stratified random sampling method from six geopolitical zones in Nigeria, 500 respondents—including internal auditors, audit committees, and local government chairman or their representatives—were selected for this quantitative research study using a survey questionnaire. The data was then analyzed using the Statistical Package for Social Science (SPSS) version. The result of the findings revealed that all antecedents have a significant positive relationship with internal audit effectiveness.

Ab Ghani et al (2019) conducted a study on the measurement of effective Internal Shari'ah audit function in Islamic financial institutions. He examined the Shari'ah audit reporting requirement measured by proper communication of Shari'ah audit findings to the Board Audit and Shari'ah Committee members as a measurement of internal Shari'ah audit function effectiveness in IFIs by critically reviews the emerging literature. The study employed both literature review and structured interview with the Islamic financial experts to validate the measurement. The results of the finding show Shari'ah Audit reporting requirements has a significant impact on the effectiveness of internal Shari'ah audit function of IFIs in Malaysia.

Rashid and Ghazi (2021) also carried out a study on factors affecting Shari'ah audit quality in Islamic banking institutions of Pakistan. The study is a theoretical framework which intends to assess the definitions and meanings of the Shari'ah audit quality and as well identify the factors that affect it. The study employed

critical literature review of the current literature in audit quality of conventional and Islamic finance to propose the theoretical framework for internal shari'ah quality. The result of the findings shows factors like internal control, shari'ah audit risk and other corporate governance mechanism as means to shari'ah audit quality and therefore suggests that for a better Shari'ah compliance at Islamic banking institutions (IBIs), the role and competency of audit practitioners is indispensable. The paper being a conceptual research paper also proposes a theoretical framework to the Shari'ah audit quality and determining the factors that are significant in affecting the Shari'ah audit quality in the IBIs of Pakistan.

### 3. Methodology

A quantitative approach which assumes positivist paradigm was adopted in the present study using a survey and cross-sectional research design. A cross-sectional study is a one-off study that gathers data just once in a time. It analyses data at a single point in time unlike longitudinal study which collect data for two or more times (Sekaran & Bougie, 2016; Wang & Cheng, 2020). The cross-sectional research design is more appropriate for this study than longitudinal research design. This is because the period of the study under consideration might not be adequate for the longitudinal study.

The data was collected using primary source through the use of structured five Likert scales questionnaire, which was administered by hand to the Shariah Auditors of the various financial institution in Nigeria which include non interest bank (Jaiz, lotus, TAJ and the Alternative Bank) and takaful insurance companies (Hilal Takaful, Jaiz Takaful, Noor Takaful and Salaam Takaful Insurance Ltd). The questionnaire was adapted from two sources. The questions to measure internal *shari'ah* auditors' competence and internal *shari'ah* audit effectiveness were adapted

from the work Khalid, (2018) while questions measuring reporting requirements and internal *shari'ah* auditors' competence were adapted from the work Ab Ghani et al., (2022). It comprises two sections: the first section was designed to gather demographic and personal information about the respondent. In contrast, the second section is meant to source the response of the respondents on the effect of shariah auditors' competence, independence and reporting requirement on internal shariah audit effectiveness of non-interest financial institution using a five-point Likert scale ranging from Strongly Disagree to Strongly Agreed.

The target and population and sample of the study made up of shariah auditors of various non interest financial institution in Nigeria as at 31st December, 2024 which cut across the banking and takaful companies. Due to the nature of the study, only few numbers make up the entire population, therefore, the study employed a census approach by making use of the entire subjects of the population. Because of the time and to ensure the respondents sampled matched the purpose of the study, non-probability convenience sampling technique was used to ensure the collected data were from valid sources. This sampling technique was used in order to cover the large sample as adopted by previous similar studies of (Abdullah & Dusuki, 2016; Audu, 2016; Abdullah et al. 2017). Furthermore, Pallent, (2001) suggested that for regression analysis, the sample can also be considered to fall between five and ten times the number of the independent variables.

A total of 35 questionnaires were administered to the shariah auditors and shari'ah review officer of the selected non-interest financial institution and 32 copies were returned fully and appropriately filled. After initial screening, the entire 32 copies were retained for data entry and further analyses. Partial least squares structural equation modeling was adopted



to perform measurement model and structural model assessments. The Likert scale was used to measure responses from 1= Strongly Disagreed to 5= Strongly Agree which investigated the effect of internal shariah auditors' competence, independence, and reporting requirements on internal shariah audit effectiveness of non interest financial institution.

#### 4. Results and discussion

##### Questionnaire rate of response

The study distributed 35 questionnaires to the shariah auditors of non-interest financial institutions and thirty-two (32) questionnaires were returned and valid with no missing value. This is shown in the table below:

**Table 1: Questionnaires response rate**

Questionnaires	Frequency	Percentage
Total distributed questionnaires	35	100
Total returned questionnaires	32	85.7
Total valid questionnaires	32	85.7
Total rejected questionnaires	0	0
<b>Total Number Analyzed</b>	<b>32</b>	<b>85.7</b>

**Source: Field Survey (2024)**

##### Demographic Profile of the Respondents

The data presented in the descriptive statistics are from the survey and these include gender, type of institution working for, Position, educational qualification, professional qualification, work experience and functional as well as the

percentage responses of the questionnaire returned from the respondent in Nigeria. For the purpose of clarity and ease of understanding, the data obtained from the field survey were presented in tables and charts.

**Table 2: Demographic Distribution of the Respondents**

Demographic	Category	Frequency	Percentage (%)
a. Gender	Male	23	76.67
	Female	7	23.33
	<b>Total</b>	<b>30</b>	<b>100.00</b>
b. Type of Employer Institution	Islamic bank	22	73.33
	Islamic Insurance	8	26.67
	<b>Total</b>	<b>30</b>	<b>100.00</b>
c. Position	ISA	21	70.00
	Head of ISA	9	30.00
	<b>Total</b>	<b>30</b>	<b>100</b>
d. Educational Qualifications	Degree	22	73.33
	Master	5	16.67
	PhD	3	10.00
	<b>Total</b>	<b>30</b>	<b>100</b>

e. Professional Qualifications	ICAN	17	56.67
	CIPA	3	10.00
	CSAA	10	33.33
	<b>Total</b>	<b>30</b>	<b>100</b>
f. Working Experience	Less than 5 years	15	50.00
	6 - 10years	9	30.10
	10 -15 years	3	10.00
	Above 15	3	10.00
	<b>Total</b>	<b>30</b>	<b>100</b>

**Source: Field Survey (2025)**

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

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

are internal shari'ah auditors of the non-interest financial institution.

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

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

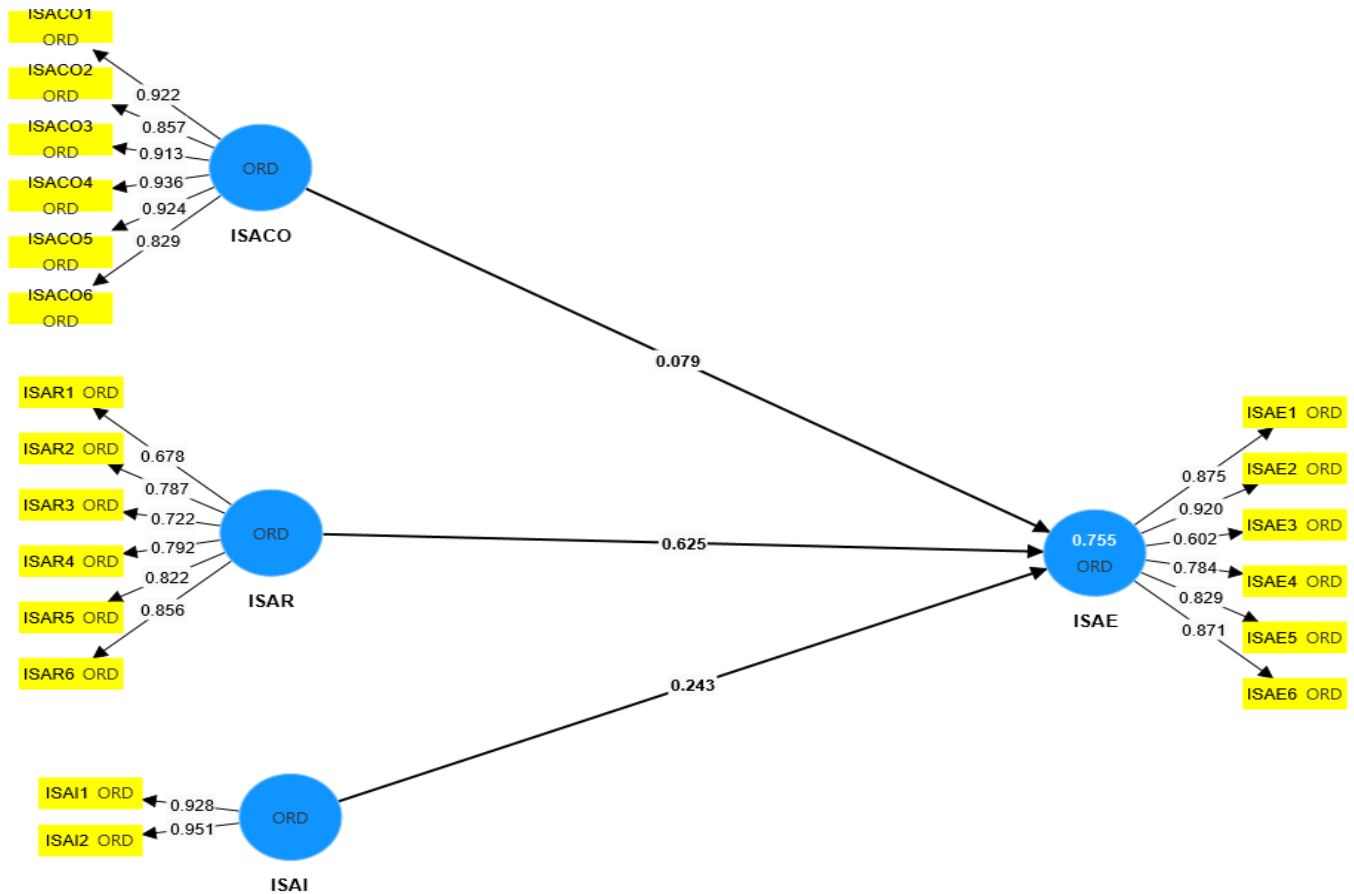


Figure 1: *Measurement Model*

The measurement model shows the indicators loading on their intended factors. The simple factor structure, by rule of Table:3 *Construct Reliability and Validity*

thumb taken to mean that composite reliability should be greater than 0.7 and average variance extracted should be greater than 0.5. (Garson, 2016).

Constructs	Items	Loadings	CA	CR	AVE
Internal Shariah Audit Effectiveness	ISAE1	0.875	0.899	0.924	0.672
	ISAE2	0.92			
	ISAE3	0.602			
	ISAE4	0.784			
	ISAE5	0.829			
	ISAE6	0.871			
Internal Shariah Auditors Competence	ISAC1	0.922	0.952	0.969	0.806
	ISAC2	0.857			
	ISAC3	0.913			
	ISAC4	0.936			
	ISAC5	0.924			
	ISAC6	0.829			
Internal Shariah Auditors Independence	ISAI1	0.928	0.868	0.889	0.833
	ISAI2	0.951			
Reporting Requirement	ISAR1	0.678	0.868	0.874	0.606

ISAR2	0.787
ISAR3	0.722
ISAR4	0.792
ISAR5	0.822
ISAR6	0.856

In the above table 3, the construct is shown in the first column, which is followed by the items measuring each construct, loadings, Cronbach alpha (CA), composite reliability (CR), and average variance extracted (AVE) values for all latent constructs. There has been a pooled CFA. The study's constructs were measured using items whose loadings above 0.5, the lowest criterion suggested by Hair et al. (2018). However, components such as

Table 4: *Fornell-Lacker Discriminant Validity*

Construct	Internal Shariah Auditors Competence	Internal Shariah Audit Effectiveness	Internal Shariah Auditors Independence	Reporting Requirement
Internal Shariah Auditors Competence	<b>0.898</b>			
Internal Shariah Audit Effectiveness	0.617	<b>0.820</b>		
Internal Shariah Auditors Independence	0.666	0.737	<b>0.940</b>	
Reporting Requirement	0.602	0.844	0.706	<b>0.779</b>

ISAI3, ISAI4, and ISAI5 that did not meet this criterion were eliminated. A minimum estimation of 0.70 (Cronbach Alpha), 0.60 (CR), and 0.50 (AVE) has been attained by all constructs. Consequently, all constructs had Convergent Validity (AVE  $\geq$  0.5), Internal Reliability (Cronbach Alpha  $\geq$  0.6), and Construct Reliability (CR  $\geq$  0.60) attained. Therefore, the model is good enough for the analysis.

The Fornell-Lacker criterion (1981) is a conservative method for assessing discriminant validity in PLS-SEM, where the diagonal value is the square root of AVE, indicating that discriminant validity is achieved for all constructs.

#### **Bootstrapping Analysis (Structural Model)**

To ascertain each endogenous latent construct's direct effect size on the predictor variable, bootstrapping technique is used. This was accomplished utilizing 35 cases and 1000 subsamples, as shown in figure 2.

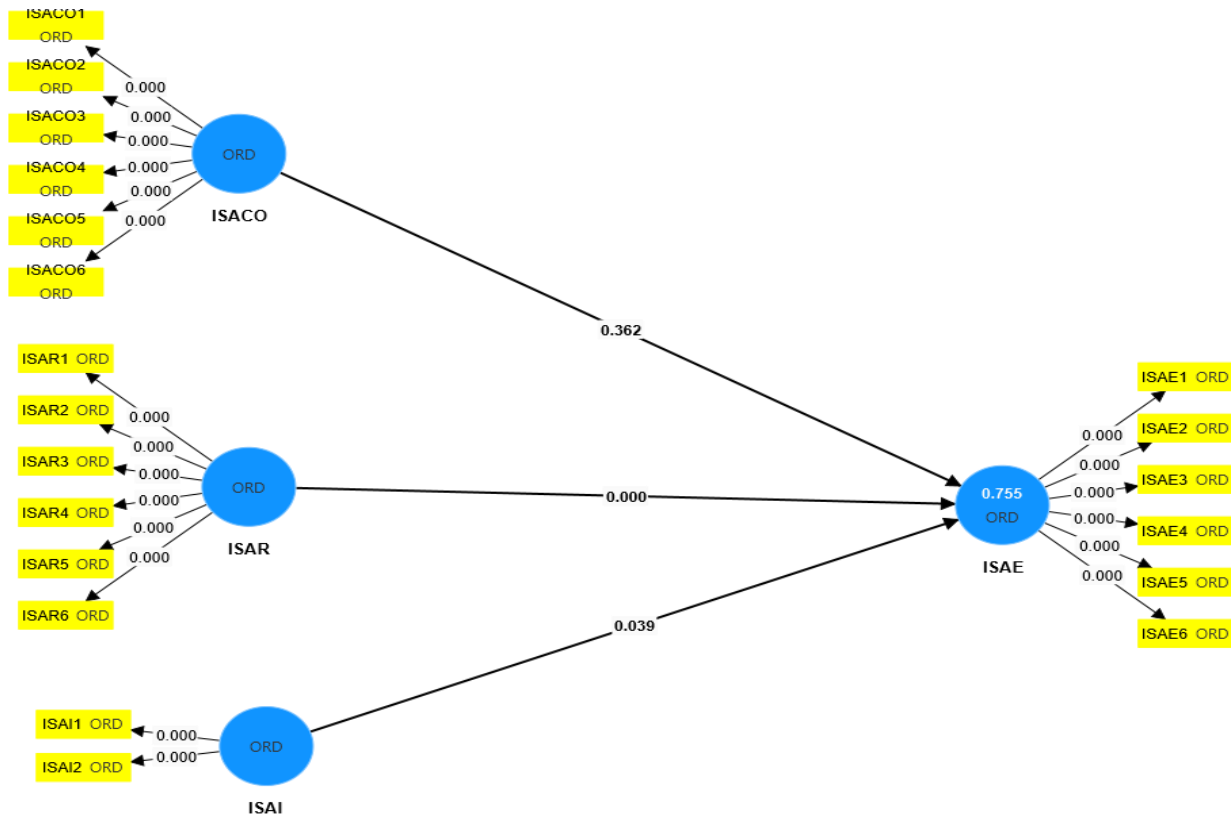


Figure 2: *Structural Model*

Structural equation model was used to determine the relationship between; internal shariah auditors' competence,

internal shariah auditors' independence, reporting requirement and internal shariah audit effectiveness of Non interest financial institution in Nigeria.

Table 5: *Path Coefficient i.e. Test of Hypotheses*

**R Square: 0.755**

Hypotheses	Beta Value	Standard Deviation	T Statistics	P Values	Decision
ISAC -> Internal Shariah Audit Effectiveness	0.079	0.086	0.911	0.362	Fail to Reject
ISAI -> Internal Shariah Audit Effectiveness	0.243	0.117	2.068	0.039	Reject
ISAR -> Internal Shariah Audit Effectiveness	0.625	0.111	5.627	0.000	Reject

**Note:** ISAE represents Internal Shariah Audit Effectiveness; ISAC represents Internal Shariah Auditors' Competence; ISAI represents Internal Shariah Auditors' Independence; ISAR represents Reporting Requirements;

From table 5, it was revealed that internal shariah auditors' independence and reporting requirement have positive and significant effect on internal shariah audit

effectiveness with (mean value of 0.243 and p value  $0.00 < 0.5$ ) and (mean value of 0.625 and p value  $0.00 < 0.1$ ) while internal shariah auditors' Competence has a positive and non-significant effect on internal shariah audit effectiveness with (mean value 0.079 and p value  $0.00 > 0.5$ ) As a result the null hypotheses which stated internal shariah auditors' independence and reporting requirement have no



significant relationship on internal shariah audit effectiveness are rejected, while the one that stated that internal shariah auditors' competence has no significant relationship on internal shariah audit effectiveness is fail to be rejected.

This outcome contradicts the findings of Ab Ghani, et al. (2022), Khalid (2018) and Khalid et al., (2016) who found positive and significant relationship between internal shari'ah auditors' competence and internal shari'ah audit' effectiveness. Also, it finding can be substantiated by Ab Ghani et al., (2022) who reported positive and significant relationship between shari'ah audit independence, reporting requirement and internal shari'ah audit effectiveness, while it contradicts the finding s of Khalid. (2016) who found positive and non-significant relationship between shari'ah audit independence and internal shari'ah audit effectiveness.

Also evaluated was the coefficient of determination ( $R^2$ ). Overall, the  $R^2$  is rather high, according to the PLS Path model estimate diagram (see Figure 1). It is common practice to employ threshold values of 0.25, 0.5, and 0.7 to denote weak, moderate, and strong coefficients of determination (Hair at el., 2017). In this case, the three constructs internal shariah auditors' Competence, internal shariah auditors' independence and reporting requirement can jointly explain 75.5% of the variance of the endogenous construct internal shariah audit effectiveness while other factors outside the model of the study explain the rest.

## 5. Conclusion and Recommendations

Based on the findings, the study found that while the competency of internal shariah auditors has a positive but negligible impact on the effectiveness of internal shariah audits, the independence of internal shariah auditors and their reporting requirements have a positive and significant impact.

The study highlights the importance of factors influencing the effectiveness of internal Shariah audit units in non-interest financial institutions. It recommends following AAOIFI guidelines for appointment, ensuring independence and trust in the auditors. ACE members, also known as Shari'ah Standard Board, should be independent and possess relevant skills.

## References

- AAOIFI. (2010). Accounting, Auditing and Governance standards for Islamic financial institution. Manama, Bahrain.
- Abdullah, E. A. M., Hassan, S. A., & Bahari, Z. (2024). The Independence Of The Internal Sharia Audit In Islamic Banks. *al-Qanatr: International Journal of Islamic Studies*, 33(3), 491-499.
- Ab Ghani, N.L. & Siti, S. (2023). Internal Control System and Effective Internal Shari'ah Audit Function: A Conceptual Framework, *International Journal of Islamic Economics and Finance Research*, 6, 121-137. 10.53840/ijiefer106.
- Ab Ghani, N.L., Ariffin, N. M., & Abdul Rahman A. (2022) Effectiveness of Internal Shari'ah Audit Function in Malaysian Islamic Financial Institutions, *International Journal of Economics, Management and Accounting* 30(2), 311-347
- Ab Ghani, N.L., Ariffin, N.M. and Rahman, A.R.A. (2019), "The measurement of the effective internal Shari'ah audit function in Islamic financial institutions", *International Journal of Economics, Management and Accounting*, 27 (1) pp 141-165.
- Agarwal, G. K., & Medury, Y. (2014). Internal Auditor as Accounting Fraud Buster. *IUP Journal of Accounting Research & Audit Practices*, 13(1).

- Alam T. & Hassan, T. (2017) Competency of Shari'ah auditors: issues and challenges in Pakistan, *Journal of Internet Banking and Commerce*, 22(2).
- Aziz, R.A., Rahman, A.A. and Markom, R. (2019), Best practices for internal Shari'ah governance framework: lessons from Malaysian Islamic banks, *Asian Journal of Accounting and Governance*, 12 (1), 37-49.
- Badara, M. a. S., & Saidin, S. Z. (2014). Empirical Evidence of Antecedents of Internal Audit Effectiveness from Nigerian Perspective. *Middle-East Journal of Scientific Research*, 19(4), 460-471.
- Bank Negara Malaysia (BNM) (2010). Shari'ah Governance Framework for Islamic financial institutions. Kuala Lumpur: Bank Negara Malaysia.
- Fatih, S.I., Noraini, M. A., & Nor Hafizah, Z. A. (2020). Shariah Audit Practices in Malaysia: Moving Forward. *Journal of Islamic Finance*, 9(2), 42–58. <https://doi.org/10.31436/jif.v9i2.48>
- Falope, F.J., Ogala, I.I. & James, O. (2024). Corporate Governance Mechanism on the Financial Statement Fraud among listed non-financial firms in Nigeria, *Journal of Global Accounting*, 10(1), 13 - 32.
- Flesher, D. L., & Zanzig, J. S. (2000). Management accountants express a desire for change in the functioning of internal auditing. *Managerial Auditing Journal*, 15(7), 331-337.
- Garson, D. G. (2016). *Partial Least Squares: Regression and Structural equation model* (3<sup>rd</sup> ed.). Asheboro; Statistical Publishing Associates
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2018). *Multivariate Data Analysis* (8th ed.). Hampshire: Cengage Learning EMEA.
- Hair, J. F., Hollingsworth, C. L., Randolph, A. B., & Chong, A. Y. L. (2017). An updated and expanded assessment of PLS-SEM in information systems research. *Industrial Management & Data Systems*, 117(3), 442–458.
- Hamman, A.M. (2018). Shari'ah Review and Product Development in Non Interest Financial Institutions in Nigeria: A Qualitative Approach, *ISER International Conference on Economics and Business Research*, Mecca, Saudi Arabia
- Kasim, N. (2009). Dynamics of Shariah Auditing in Islamic Institutions: A Study of the Malaysian Islamic Financial Sector. (Doctor of Philosophy in Accounting), International Islamic University Malaysia, Malaysia.
- Khalid A.A., & Sarea A.M.. (2018), Independence and Effectiveness of Internal Shariah Audit: An Islamic Agency Theory; *Proceeding of the 5th International Conference on Management and Muamalah*
- Khalid, A.A. (2016), "Relationship Between Internal Shariah Audit Characteristics And Its Effectiveness, Role Of Shariah Supervisory Board As A Moderator In Islamic Financial Institutions In Bahrain", *Thesis submitted in fulfillment of the requirements for the degree of Doctor of Philosophy*
- Khalid A.A., & Sarea A.S. (2018), Independence and Effectiveness of Internal Shari'ah Audit: An Islamic Agency Theory; *Proceeding of the 5th International Conference on Management and Muamalah*
- Khalid, A.A., Haron, H. & Masron, T.A. (2018), "Competency and effectiveness of internal Shari'ah audit in Islamic financial institutions", *Journal of Islamic Accounting and Business Research*, 9 (2), pp. 201-221.

- Khalid, A.A., Haron, H., Sarea, A.M., & Masron, T.A. (2018), "The role of Shari'ah supervisory board on Internal Shari'ah audit effectiveness: Evidence from Bahrain", *Academy of Accounting and Financial Studies Journal*, 22,(5)
- Mahmud, M., Abdulkareem, I., Ali, M., Fadah, I., & Arifin, A. (2021). Shari'ah Governance in Islamic Financial Institutions in Nigeria: An Empirical Study. Proceedings of the *International Conference of Management, Business, and Technology* (ICOMBEST 2021), 10.2991/aebmr.k.211117.024.
- Masruki, R., Hanefah, M.M. and Dhar, B.K. (2020), "Shari'ah governance practices of Malaysian Islamic banks in the light of Shari'ah compliance", *Asian Journal of Accounting and Governance*, Vol. 13 No.1, pp. 91-97.
- Mautz, R. K., & Sharaf, H. A. (1961). The philosophy of auditing: American Accounting Association
- Muhammed, A. (2014). Determinants of Customers Patronage of Islamic Bank in Nigeria: The Case of Jaiz Bank plc. *Proceedings of Postgraduate Seminar of Department of Business Administration*, Ahmadu Bello University, Zaria. 1(1) 363-375
- Mustafa D., & Ibrahim M.Y. (2013). The Emergence and Challenges of Islamic Banking and Finance: A Stakeholder Perception, *Essentials of Islamic Banking and Finance*, Bayero University Kano, 85-101
- Olaniyi, O., & Abdulkareem, R. (2023). The Impact of Shari'ah Compliance on Customer Trust in Nigerian Islamic Banks. *African Journal of Business and Economic Research*, 19(4), 101-115.
- Pallant, J. (2010). SPSS survival manual: A step by step guide to data analysis using SPSS: McGraw-Hill International.
- Rashid, A. and Ghazi, M.S. (2021), "Factors affecting Shari'ah audit quality in Islamic banking institutions of Pakistan: a theoretical framework", *Islamic Economic Studies*, Vol. 28 No. 2, pp. 124-140.  
<https://doi.org/10.1108/IES-07-2020-0025>
- Sani, S.D. and Abubakar, M. (2021), "A proposed framework for implementing risk-based Shari'ah audit", *Journal of Financial Reporting and Accounting*, Vol. 19 No. 3, pp. 349-368.  
<https://doi.org/10.1108/JFRA-02-2020-0041>
- Sekaran, U., & Bougie, R. (2016). *Research Method for Business: A Skill-building Approach (7th ed.)*. Chichester, West Sussex: John Wiley & Sons.
- Sekaran, U. (2004), *Research Methods for Business: A Skill Building Approach*, John and Wiley Inc., USA
- Shafii, Z., Salleh, S., Zakaria, N., Hanefah, M. M., Ali, N. A. M., & Yunanda, R. A. (2014). Shariah Audit Certification Contents: Views of Regulators, Shariah Committee, Shariah Reviewers and Undergraduate Students. *International Journal of Economics and Finance*, 6(5), p210.
- Syed, N., & Shahul Hameed M.I. (2013). Professionalizing the role of Shari'ah Auditors: How Malaysia can generate Economic benefits, *Pacific-Basin Finance Journal*, 28. 10.1016/j.pacfin.2013.10.009.
- Umar, M., & Abdullahi, S. (2022). Shari'ah Governance in Non-Interest Banks: An Analysis of Nigerian Practices. *Nigerian Journal of Islamic Economics and Finance*, 14(1), 22-35.



- Wang, X., & Cheng, Z. (2020). Cross-sectional studies. *CHEST*, 158 (1), 565-571.  
<https://doi.org/10.1016/j.chest.2020.03.012>
- Yaacob, H. & Donglah, N.K. (2012), “Shari’ah audit in Islamic financial institutions: the postgraduates’ perspective”, *International Journal of Economics and Finance*, Vol. 4 No. 12, pp. 224-239.
- Yusuf, A., & Bello, I. (2023). The Role of Advisory Committees in Enhancing Shari’ah Compliance in Nigerian Islamic Financial Institutions. *Journal of Islamic Governance*, 5(2), 48-63.