

Auditing in Islamic Perspective and Auditing as Practiced in some selected Islamic Banks Operating in Bangladesh

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Abstract: *The study is on “Auditing in Islamic perspective and auditing as practiced in some selected Islamic banks operating in Bangladesh”. The study was conducted on total number of 5 Islamic banks operating in Bangladesh. The study was based on primary data, collected by interview method on the basis of a structured questionnaire. The main findings of the study are: i) identifying objectives and principles of Islamic auditing, ii) analysing the procedures of conducting auditing in the selected banks, iii) focusing on the major responsibilities and role of an auditor in the eye of Islam, iv) identifying qualities of an auditor in the eye of Islam such as righteousness, trustworthiness, professional behaviour, fairness, proficiency and efficiency, honesty and confidentiality etc., v) identifying major problems involved in conducting Islamic auditing in the selected banks are reported as: auditors specially external are not very much familiar with rules and regulation of Shari’a Council, the bank authority disagree that auditors (external) are quite independent body, the concerned management feel discouraged to help the auditors by providing necessary information and data as well as document, non-standardization of Shari’a compliance and regulation for Islamic finance. Not well equipped with knowledge of Shari’a Council on the part of*

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the employees, accounting systems and procedure are not fully in compliance with Islamic Shari'a, vi) The probable measures to overcome the problems are identified as : proper implementation of accounting systems as permitted by Islamic Shari'a, proper training to the accounting personnel regarding knowledge of Islamic Shari'a, supplying the auditors necessary information and data willingly by the Accounts personnel, recognizing purity of transaction, proper standardization of Shari'a Council rules and regulations etc.

Index Terms: Auditing, Islamic Auditing, Auditors responsibility.

1.0: Statement of The Problem

Islam does not recognize the separation between spiritual and temporal affairs, and considers commerce as a matter of morality and subject to the precepts of *Shariah* [1]. Hence Islamic banks (and indeed any Islamic business organizations) must abide by *Shariah* precepts in all their business and financial transactions.

In Islamic history, the institution of *Hisbah* and the role of the *Muhtasib* –to monitor, control and prevent fraudulent exploitations on consumers in the marketplace go back to the time of Prophet Muhammad (SAW) and the first four Caliphs. The function was linked to *Quranic* verses that urge Muslims to promote right and prevent wrong.

For instance in *Quran* [2]:

“Let there arise out of you, a band of people, inviting to all that is good, enjoining what is right, and forbidding what is wrong: They are the ones, to attain felicity.”

According to Imam Ghazali, the *Hisbah* practice must be seen as a *fard kifayah* for Muslims; where every Muslim is expected to play a positive role in the propagation of good (*maaruf*) and suppression of evil (*mungkar*). However, it has been made an obligation on a section of society to remain engaged in it. The *Muhtasib* is the official appointed by the ruler to implement *Hisbah* on behalf of the state. Note that the institution of *Hisbah* moved along with Muslims into the Western provinces of Spain and remained an integral part of the state [3]. However, according to him, with the arrival of Western colonialism and the simultaneous eclipse of Islamic political strength,

most of the Muslim institutions underwent drastic decline. The institution of *Hisbah* also declined in effectiveness and virtually disappeared. The effectiveness of *Hisbah* was directly related to the strength of governance.

The audit function in an Islamic state is thus important and mandatory as it reflects the accountability of the auditor not only to the users of the financial statements, but more importantly, to the Creator, *Allah SWT*. This is because Muslims believe that one's actions and thoughts are always being watched by *Allah* (Muraqabah). Fundamental to Islam is the edict that "...surely *Allah* takes account of all things" Quran [4]. It is to be noted that these references to "account" are in the generic sense i.e. reference to one's obligation to "account" to God on all matters pertaining to human endeavour for which every Muslim is "accountable" [5]

Against the above backdrop, it is imperative to examine the audit practice in case of the Islamic financial institution of Bangladesh. To this end, the present study on "Auditing in Islamic perspective and auditing as practiced in some selected Islamic banks operating in Bangladesh" is an attempt, which is the part and parcel of Islamic financial institutions.

2.0: Objectives of the Study

The main objective of the study is to examine the "Auditing in Islamic perspective and auditing as practiced in some selected Islamic banks operating in Bangladesh". To achieve the main objective the following are the specific objectives:

1. To know the objectives & principles of Islamic auditing.
2. To examine the procedure of conducting audit in the selected banks.
3. To examine the auditors responsibility.
4. To identify the qualities of an auditor in the eye of Islam.
5. To identify the problems while conducting Islamic auditing in selected banks.
6. To suggest probable measures to remove the aforesaid problems.

3.0: Methodology:

The present study was limited to five Islamic banks operating in Bangladesh. These are: i) Islami Bank Bangladesh Ltd. (IBBL), ii) Social Islami Bank Ltd. (SIBL), iii) Shahjalal Islami Bank Ltd. (SHAHJABANK), iv) First Security Islami Bank Ltd. (FSIBL), v) Al-Arafa Islami Bank Ltd. (AIBL). Out of the total number of 7 Islamic Banks independently working in the country, five (5) banks have been selected for study, thereby comprising 71.42% of the total Islamic banks. The banks were selected purposively for the easy and smooth collection of information.

The study was mainly based on primary information. The required primary information were objectives of Islamic auditing, responsibility of auditors in case of fraud and errors, qualities of auditors and compliance, the problems in conducting auditing and proposed measure to overcome these. All the information's were collected with the help of a structured questionnaire by direct interview method. The interview was conducted on a total number of 20 (twenty) respondents, taking four from each selected banks. Their rank and status were senior executives of the Accounts Department of these respective banks. Moreover, 5 (five) external auditors taking one from each selected banks were also interviewed to know the problems and the suggestions to remove the same. The main secondary sources of information were Al – Hadith, Al – Qur'an, published articles, and paper and text books on the related topics. The collected information's were processed manually. These information were analysed critically and also in an analytical manner in order to make the study informative and valuable to the readers.

4.0: Findings & Their Analysis

4.1: Objectives and Principles of Islamic Auditing:

Self responsibility, organizational responsibility as well as the responsibility to the Almighty Allah in hereafter should be the guidelines of Islamic auditing.

Allah said, 'That man can have nothing but what he strives for that the fruit of his striving will soon come in sight. Then will be rewarded with a complete reward' [6].

Therefore, the objectives and principles of Islamic auditing are as follows:

Objectives: To enable the auditor to express an opinion as to whether the financial statements are prepared, in accordance with Shari'a Rules and Principles and the accounting standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Principles: The auditor should comply with the Code of Ethics for Professional Accountants which include: righteousness, integrity, trustworthiness, fairness, honesty, independence, objectivity, professional competence, due care, confidentiality, professional behaviour and technical standards.

4.2: Procedures of Conducting Audit:

While auditing the books of accounts and affairs of an organization, we are to identify the procedure of conducting audit. It is reported that there are generally two ways of conducting auditing and these are:

- i. Internal Auditing
- ii. External Auditing

Internal Auditing:

Internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

The Institute of Internal Auditors Statement of Responsibilities of Internal Auditing indicates that internal auditors should do the following [7]:

- Review the reliability and integrity of financial and operating information and the means used to identify measure, classify and report such information.
- Review the systems established to ensure compliance with those policies, plans, procedures, laws, regulations and contracts, which could have a significant impact on operations and reports and should determine whether the organization is in compliance.
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Appraise the economy and efficiency with which resources are employed.

- Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

Internal Control:

Self Monitoring or Control: Self Audit is the best Audit; it indicates that self accountability to almighty Allah (SWT) is the best and beneficial guide for auditing. If a person is appointed as an auditor in any organization for auditing, he always feels that there is no scope for any fraudulent activities for the fear of punishment as the almighty Allah (SWT) always sees him, rather he can perform well for his Allah fearing accountability.

Regarding the self audit, there are a lot of evidences in Al-Qur'an and Al-Hadith. In the Holy Qur'an Allah (SWT) says,

“Truly nothing is hidden from Allah (SWT), in the earth or in the heaven” [8]

“He is with you where so ever you may be” [9].

In the Hadith Prophet (SAW) said,

“Judge yourself before you will be judged and weight your deeds before you will be weighted.”

However, the following are the procedures of Internal Control as followed in the selected banks:

- i. Inspection by the internal auditors in authority. Responsibility for the performance of the job must be clearly stated so that there may be no room for doubt or confusion subsequently
- ii. Internal audit done by them who are not involved in any way with the work or project being monitored and refer to both internal and external checks.
- iii. To attain desires and happiness in this world and the next, success, prosperity, freedom from anxiety and others. Achievement of desire and happiness in this world & thereafter is a must for every Muslim. The success, prosperity, freedom are the pre-requisites of desire and happiness.
- iv. To achieve the goal, Islam has laid down well defined guidelines. Clear and well defined rules should be laid down and

practically followed relating to dealing of the cash, ordering, receiving and issuing goods etc. instruction should be in written in the form of accounting manuals.

- v. Proper organizational structure. The arranged of the work should be in such a manner that written record of the part played by each employee should be maintained and the work should pass through several hands in a well-defined manner.
- vi. Division of work, specialization and responsibility. These are the important principles of management. These must be followed for the success any work or job whether accounting, auditing and so on. Rotation principle relating to transfer for an employee from one job to another should be the inflexible guiding rule. This is an effective safeguard against collusion and is recognized as an important canon of sound organization.
- vii. Check the work of account only to ensure that their reports are complete and accurate as applied in Baitul Maal. Complete and accurate audit reports are the core of audit works in any organization whether banks or others. Therefore accountant's works should ensure completeness and accuracy in the report which are applied in Baitul Maal
- viii. Muslims are encouraged to take advantage of all advances in knowledge for one's benefit as long as this is not forbidden in religion. Mechanization of the work wherever feasible and practicable, should be restored to. Mechanical devices such as cash register, recording time clocks, calculation machines etc., should be introduced.
- ix. To supervise every employees work by the other employee may be his/her immediate senior or boss. Employee must be in bond so that the tempted employee must be deterred from committing fraud and employer being protected.
- x. Every transaction regarding process is related with minimum two employees. The work should be so arranged that work done by one employee should be promptly checked by another independent employee. Such continuous and constant checking goods moral control and the errors and the frauds cannot go undetected.

External Auditing:

This is complied by conducting external auditing which is performed by Chattered Accountant farms of our country. This is the usual practice of Bangladesh. It is reported that the management of the organization is of the view that external auditors have nothing to do in respect of Shari'a Council. Shari'a Advisory is the final authority in respect of approval of financial statement of organization. The fact that an audit is carried out may act as a deterrent, but the auditor is not and cannot be held responsible for prevention of fraud and error, however, the auditor shall be held responsible for negligence and misconduct. Regarding to external auditing there are a lot of evidences in Al-Qur'an. In the Holy Qur'an Allah (SWT) says,

“And cover not Truth with falsehood, nor conceal the Truth when ye know (what it is)” [10].

“But verily it is Truth of assured certainty” [11].

“O ye who believe! If a wicked person comes to you with any news, ascertain the truth, lest ye harm people unwittingly and afterwards become full of repentance for what ye have done” [12]

4.3: Auditor's Responsibility:

The following are the major responsibilities of an auditor:

First, the auditor is directly liable to his clients, who are owners of an organization. He has no liability towards creditors or financiers of the business (except in the limited sense). It is not his liability to see whether the money extended by the lenders is safe and protected - or that other people's money has been utilized prudently.

Second, the auditor has no social obligations imposed by the norms of society. An organization may enter into such areas of business which may harm the collective interests of the society or lead to depletion of non-renewable resources, or add to ecological pollution or generate socio-economic externalities. The auditor has no responsibility to comment on these policies.

Third, the auditor reports on compliance with the secular laws of the land. He is not guided by any religious law. Nor has he to report on compliance with any revealed religious code, so that he has not to

comment on the ethical aspects of policies and practices of an organization.

Fourth, the auditor is not responsible to report on the prudence and propriety of policies of an organization. The organization may handle its affairs in any manner it chooses and its decisions may lead to unwise and improper actions but the auditor is not required to comment on them.

Role of Auditors in the Eye of Islam:

Role of Auditors in the Eye of Islam is discussed below:

- Allah SWT says in Quran that “Allah doth command you to render back your trusts to those to whom they are due; And when ye judge between people that ye judge with justice” [13].
- According to the code of ethics for accountants and auditors, auditing is one of the professions that were required by Shari’a as a Fard Kifaya.
- In the other words it is a duty which, if performed by some, would exempt others in the society. Otherwise, the whole society will be sinful.

4.4: Qualities of an Auditor in the Eye of Islam:

The auditor should comply with the “Code of Ethics for Professional Accounts” issued by Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) and the International Federation of Account which do not contravene Islamic rules and principles. The ethical principles governing the auditor’s professional responsibilities include:

Righteousness: An auditor should be righteous in regard to his duty. Regarding to righteousness there are a lot of reference in Al-Qur’an and Al-Hadith. In the Holy Qur’an Allah (SWT) says,

“He will direct you to do righteous good deeds and will forgive your sins. And what so ever obeys Allah and his messenger has indeed achieved a great achievement” [14].

There is a Hadith narrated by Abdullah Ibn Masud relates to the Prophet (SAW) used to supplicate,

“Allah I beg of the three guidance of righteousness, chastity, and self-sufficiency” [15].

Trustworthiness: Without this quality, a person cannot be a good auditor. It is the prerequisite of an auditor. In the Holy Qur’aan Allah (SWT) says,

“And put your trust in the ever living one who dies not” [16].

Allah (SWT) also says,

“Allah (SWT) is sufficient for him who puts his trust in him” [17].

Hazrat Umar (R) relates that he heard the Prophet (SAW) said,

“Were you to put your complete trust in Allah (SWT), He provides for you as He provides for the birds,” [18].

Professional Behaviour: In Islam, there are ample evidences about how the professional behaviour should be in particular job field. In this regard, we may mention the following two Hadiths about excellence in profession.

“Allah Almighty wants that when one of you doe a job, he/she do it well” [19].

“Allah has decreased excellence for everything, when you kill, do it in the best way; and when you slaughter (an animal for sacrifice), does it in the best way. So, every one of you should sharpen his knife and let the slaughtered animal die comfortably” [20].

Fairness: A person who works for another person, a firm or an institution, has been commended by Allah (SWT) to perform his work efficiently and honestly.

In the Holy Qur’an Allah (SWT) says “Oh you who believe! When you contract a debt for a fixed period writes it down” [21].

Proficiency and Efficiency (Ihsan): Ihsan is commonly understood as doing marginally more than the minimal requirements. Islam urges Muslims to do their jobs without any lapse or omission and to the best of their efficiency and competence. The Qur’an urges the believers to

gain control over the universe and to move full use of its natural resources.

Sincerity (Iklas): Sincerity is the key to all virtue because one cannot genuinely perform a task without sincerity. When an auditor is sincerely undertaking the task; he has to make sure that it is completed with the best of his ability [22].

Passion for Excellence: The most important ingredient for excellent performance is the existence of inherent passion within the individuals. Excellence is not achievable through impressive organizational charts, lofty positions or even handsome perk alone. Islam does not admit only excellence as a virtue but also encourages its adherence to excel in everything that they do [23].

Professional Competence: The auditor must be competent about the audit. He should have the ability to make any judgment on any occurring situation. For that he needs proper education, training and sufficient guidelines. In Islam, every profession is a trust to particular employee. It is religious duty for every Muslim jobholder to gather knowledge about his profession [24].

Honesty: The base of Islam is founded on honesty. In his childhood the Prophet (SAW) was well-known as ‘Sadik’ and ‘Al-Amin’. He said,

“I am sent to explain in detail what honest character is.”

The Qur’an has expressly forbidden the dishonesty:

“Oh Ye who believe! Betray not the trust of God and the Postle, nor misappropriate knowledgably things entrusted to you” [25].

Confidentiality: During the audit period auditor should keep secret his observation. It is required for the effective audit. In the holy Qur’an Allah (SWT) says,

“Whether you publish a good deed or conceal it or cover evil with pardon verily Allah both bolt out (sins) and hath power in the judgment of value” [26].

4.5: Problems Involved in Conducting Islamic Auditing:

While conducting Islamic auditing in the selected banks, it is reported that the following major problems are involved:

- i. The management of the selected banks is of opinion that the auditors should go by the rules and regulation as framed by Shari'a Council since they were not very much familiar with.
- ii. The Islamic bank authority does not want to agree that external auditors are quiet independent than that of management and Shari'a Council.
- iii. The concerned management is not willing from its own to help the auditor by providing books of accounts and other affairs including any
- iv. explanation desired by the auditor.
- v. The bank management does not believe in the purity of transactions which in the long run ensures reliance of their customers in the model of Islamic financing and banking.
- vi. Till today standardization of Shari'a Compliance and regulation for Islamic finance has not been possible in Bangladesh.
- vii. All of the employees of the selected banks are not well equipped with the knowledge of Shari'a Council, which is a must in case of accounts department of the banks.
- viii. It is reported that the accounting system and procedure are not fully in compliance with Islamic Shari'a. This is because of a dearth of knowledge of accounting personnel in this field.

4.6: Probable Measures to overcome the Problems:

In our questionnaire, we have requested our respondents to put forward some suggestions in order to remove the problems involved in conducting audit.

Their major suggestions are as follows:

- i. Proper implementation of accounting system and procedure as permitted by Islamic Shari'a. By shari'a based accounting systems both the cash basis and accrual basis of accounting is meant. Again Shari'a based procedures, the procedures which are approved under Islamic Shari'a are meant.

- ii. Proper training should be given especially to the accounts personnel as regards the knowledge of Shari'a Council in respect of practicing accounting system and procedure.
- iii. The management of the selected banks should believe that the auditors are independent than that of management and Shari'a Council also. This mint that the concern management should recognize the auditors as independent agents other than the management & Shari'a.
- iv. The accounts personnel must provide the auditors with the books of accounts and others affairs of the banks. They should also give explanation to the auditors as and when required by them.
- v. The purity of transactions should be recognized by the accounts personnel who will ensure the reliance of the customers. The purity of transaction refers to correctness, validity and also accuracy of the transactions.
- vi. The banks authority should standardize the Shari'a Compliance and regulation for the banks as early as possible.

Conclusion

It is true that Islamic ways of auditing are not followed, in the real sense of the term, in our selected banks. The auditors both internal and external fail to possess all the qualities of an auditor in the eye of Islam. Therefore, in order to ensure the Islamic practice of auditing fully the management of the bank should be sincere and committed. Moreover, in order to strengthen the Islamic auditing practice in the selected banks the probable measures to overcome the problems as identified in this study should be undertaken by the management, as early as possible.

Auditing is an important task for every organization. If it is not done effectively and efficiently, the main theme of an organization as well as its position cannot be determined. For this efficient and effective audit the Holy Qur'an and Hadith can be the best guide to perform it. A man with Qur'anic knowledge as well as traditional knowledge on auditing can do it well. Now-a-days, Islamic Financial Institutions are growing rapidly with success. This is an initial approach that Islamic auditing may play a vital role there. But there is a need for more comprehensive works for pious person. A separate compilation should be developed with the reference of selected Qur'an and Sunnah.

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