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External Shari'ah Audit Report

Islamic Finance Council

ISRA الأكاديمية العالمية للبحوث الشرعية
International Shari'ah Research Academy for Islamic Finance

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Foreword

Islamic Finance Council UK (UKIFC)

Modern Islamic finance has witnessed impressive growth over the last 20 years, but looking ahead, it faces interesting challenges if it is to see not only a continuation of the current growth rate but an expansion of the Islamic finance sector at an even quicker pace. These challenges include addressing the 'form over substance' debate, exploring the opportunities available in the ethical finance space, and also reinforcing the public's confidence that the products and services being offered conform with the Shari'ah. This latter challenge can be met, in part, by external Shari'ah audits.

The report reflects how different regulators are dealing with the establishment of an external Shari'ah audit requirement. The situation will vary from jurisdiction to jurisdiction, and this will be a reflection of various factors such as the sophistication of the general banking and regulatory environment and also the importance of Islamic finance in that jurisdiction. However, it is hoped that jurisdictions can learn from one another, whether that be about the practicalities of introducing an external Shari'ah audit, the exact functions of an external Shari'ah auditor, or the way in which the external Shari'ah audit will be reported.

This report covers key global Islamic finance hubs and is made possible due to the positive engagement and contribution of the various stakeholders interviewed from across the globe. Such positive collaborations in sharing thoughts and experiences are essential to creating a coherent and standardised global Islamic finance industry. As the UK's leading not-for-profit developmental Islamic finance body, the UKIFC aims to undertake such global research to encourage innovation and the sharing of best practices across the industry.

We would like to express our utmost thanks to all those who contributed to this report. It is hoped the report will stimulate debate and help establish external Shari'ah audit as the norm within the Islamic finance sector.

Richard de Belder and Omar Shaikh
Advisory Board Members, UKIFC

International Shari'ah Research Academy for Islamic Finance (ISRA)

Compliance with Shari'ah is the backbone of the global Islamic finance industry and a unique value proposition that the industry offers to its stakeholders. Various initiatives are being taken in different jurisdictions to ensure compliance and maintain the credibility of Islamic finance among stakeholders. External Shari'ah audit is one such initiative that provides Shari'ah assurance, and it does so with greater independence than others.

As pioneers in different arenas of Islamic finance, the UKIFC and ISRA have joined together in publishing a seminal report that explores the opportunities for external Shari'ah audit and its latest developments in the global Islamic finance marketplace. The first issue of this report was published in September 2012. Since then we have witnessed an increased focus on external Shari'ah audit, driven by regulatory requirements as well as initiatives taken by individual Islamic financial institutions. External Shari'ah audit is now mandatory under central bank guidelines in Oman and Pakistan, and it is anticipated to become mandatory in a number of other jurisdictions. This second issue of the report examines the policy development, practices and challenges associated with implementing external Shari'ah audit. The report is enriched by in-depth interviews conducted with standard setters, regulators, practitioners and others across four jurisdictions.

In line with the nature of our organisations, our work is designed to empower stakeholders and encourage progressive developments within the Islamic finance sector. The collaboration between ISRA with its applied Shari'ah expertise and the UKIFC team with its in-depth audit experience provides this report with valuable insights from both perspectives.

I express my heartiest gratitude to those who have contributed to the report. This marks another significant contribution from the UKIFC and ISRA in the development of the Islamic finance industry.

Prof. Dr. Mohamad Akram Laldin
Executive Director, ISRA

Sponsors' Welcome

Bahrain Institute of Banking and Finance (BIBF)

The Islamic finance sector has experienced tremendous growth over the past two decades and has started to enter the mainstream rather than being on the fringes of the global finance industry. As the industry grows, professional best practices need to evolve with it; therefore, it gives us great pleasure that the Bahrain Institute of Banking and Finance, through its Centre for Islamic Finance, is backing this very relevant External Shari'ah Audit Report. We strongly believe that the next step in creating robustness in this industry and in safeguarding all relevant stakeholders is an appropriate external Shari'ah audit framework—which many central banks, including the Central Bank of Bahrain, are considering introducing in the near future.

Shari'ah assurance is a keen area of interest for the Centre, which offers specialised qualifications for all individuals involved in the Shari'ah assurance process such as the Shari'ah Reviewer Development Program (SRDP) and the Advanced Diploma in Islamic Commercial Jurisprudence (ADICJ).

It is our strong conviction that the excellent effort by the UKIFC and ISRA in compiling this report will serve practitioners, regulators, Shari'ah scholars and all who are interested in exploring the area further, insha Allah. We commend and congratulate the team on this work.

Shariyah Review Bureau (SRB)

There is hardly a more important subject in the field of Islamic finance than external Shari'ah audit. As the industry undergoes change, this is the right time for the UKIFC and ISRA to present their report on something new: a new auditing framework, a new reporting mechanism, and new regulatory mandates. This is because a growing industry needs robust supervision to ensure its positive growth and future progress.

The UKIFC's focus on the development of external Shari'ah audit and the increased attention given to it by central authorities presents a valuable contribution to the interdisciplinary field of Shari'ah audit. For over a decade, Shariyah Review Bureau has remained focused on developing better transparency, accountability and accuracy in the Shari'ah compliance audit rather than serving only as a Shari'ah advisor to entities worldwide. With our substantial organisational and manpower resources, we have successfully institutionalised the Shari'ah supervisory process, and through close collaboration with all levels of the client organisation, we have been able to develop systematic procedures and internal mandates for Shari'ah audit exercises.

SECTION 1

Overview

Background

An Update on Current Assurance Frameworks Islamic Finance

Internal vs External Assurance

Internal vs External Assurance: Implications for Shari'ah Compliance

Overview

Background

In 2012, the UKIFC and ISRA collaborated to release a seminal report titled 'Enhancing Shari'ah Assurance'. The report adopted the approach of examining leading conventional external audit practices to identify selected issues that can be suitably transferred to and integrated with Shari'ah assurance. The report suggested potential areas for consideration by stakeholders, including regulatory authorities, to address some of the challenges and gaps within the practices of Shari'ah assurance current at that time. The 2012 report and other ISRA and UKIFC work have impacted regulations to encourage development of continuous professional development (CPD) as a mandatory requirement to maintain and develop competence amongst the current and future body of Shari'ah scholars. This has also prompted developments in the external Shari'ah audit (ESA) arena.

Using a similar approach, this second issue of the report builds specifically on the topic of ESA. The present report undertakes a detailed review exploring key issues, challenges and possible solutions associated with this contemporary development in Shari'ah assurance. It should be noted that at the time of drafting this report, the Central Bank of Oman (CBO) and the State Bank of Pakistan (SBP) are the only regulators that have issued specific guidelines for ESA.

The insights in this report are based on over 35 in-depth interviews with standard setters, regulators, practitioners, scholars and audit firms, conducted across four jurisdictions (Oman, Pakistan, Bahrain and Malaysia).

The report is organised in four sections. **Section 1** provides a contextual understanding of audit and of current practices within the Shari'ah assurance framework. **Section 2** explores the position of multilateral standard-setting bodies. **Section 3** provides an overview of the positions of select jurisdictions with regards to ESA. **Section 4** concludes the findings of the report and suggests the way forward.

An Update on Current Assurance Frameworks in Islamic Finance

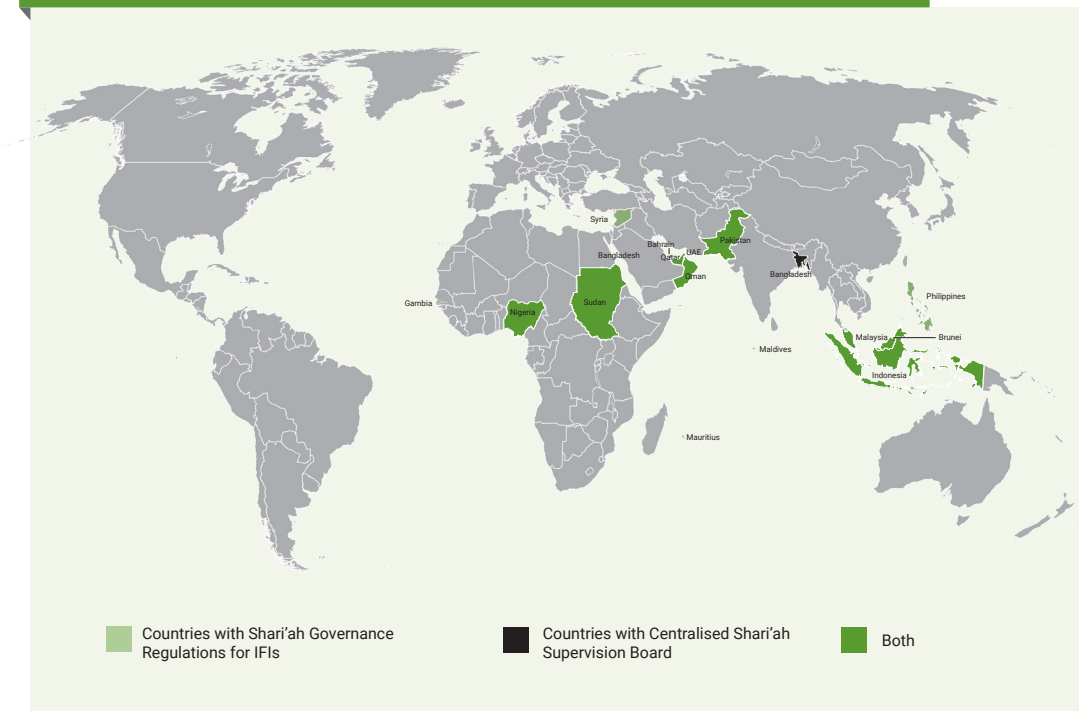
Shari'ah assurance frameworks for Islamic financial institutions (IFIs) have evolved over the past two decades, starting with IFIs establishing Shari'ah supervisory boards (SSBs). Shari'ah governance frameworks have been issued, SSBs have been set up at the central bank level in a number of countries, and ESA has become an emerging trend.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) remain the key international standard-setting bodies for IFIs. The International Islamic Fiqh Academy, established by the Organisation of Islamic Cooperation (OIC), has also been playing an important role in the issuance of fatwas on certain

financial structures. Alongside these multilateral bodies, central banks that set guidelines on Shari'ah governance and assurance typically do so by considering the guidance provided by AAOIFI and the IFSB. Most of the central banks in countries where Islamic banking is well established require IFIs to have an SSB and they have detailed its composition, the qualifications of its members, etc. They have also outlined the structure and reporting lines for internal Shari'ah review/audit functions, amongst other requirements. In addition, where central banks themselves have established an SSB, they regulate the centralised SSB's mandate as well as scope and level of binding authority over IFIs.

Regulators across jurisdictions have adopted different approaches; some are of the view that they have an obligation to oversee the Shari'ah activities of IFIs. On the other hand, some regulators see their regulatory role as a secular issue and refrain from involving themselves in Shari'ah matters.

Countries with Shari'ah Governance Regulations for IFIs and a Centralised SSB



Source: Adapted from ISRA (2016)

A detailed review of Shari'ah governance frameworks across jurisdictions can be found in ISRA Research Paper No. 50/2013 titled 'A Comparative Analysis of Shari'ah Governance in Islamic Banking Institutions Across Jurisdictions'.

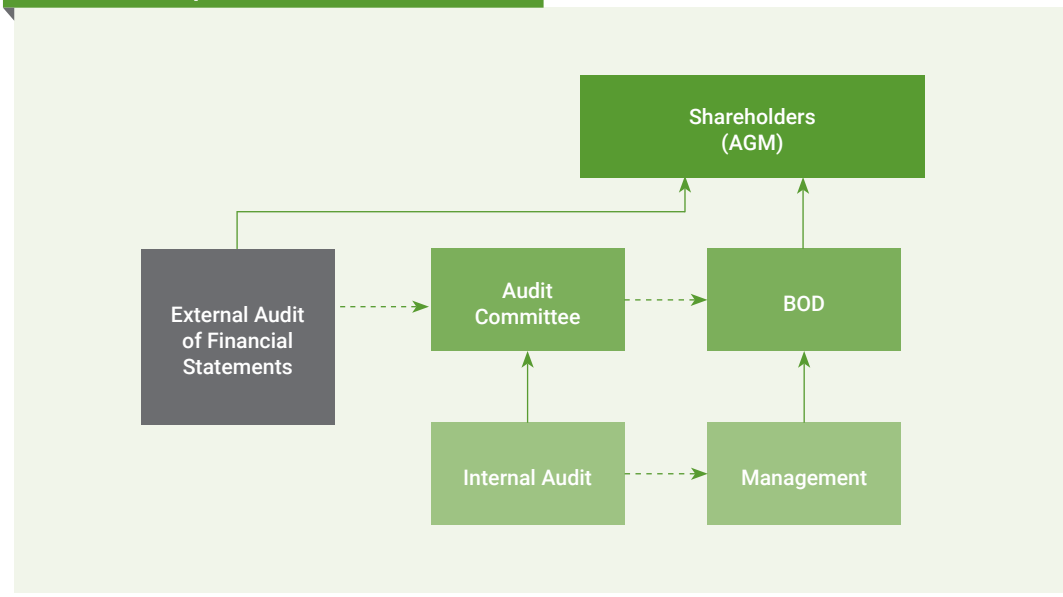
Internal vs External Assurance

An external financial auditor is appointed as an independent third party to conduct an audit of the financial statements of a company in order to conclude whether the information provided by the management in these statements gives a 'true and fair' view of the financial position and results of the company. The external auditors have their report included as part of the published annual report issued to the shareholders and, in the case of public limited companies, that generally is also made available to the public.

The scope of work of an internal auditor is broader than that of an external auditor as it includes supporting management in managing risks and ensuring compliance with the requirements of corporate governance and internal control processes. Although internal auditors have a responsibility to provide independent assurance, they are employees of the company. Unlike external auditors, they report only internally to the chief executive officer (CEO) and audit committee of the company.

External auditors are appointed and removed at the annual general meeting (AGM) by the shareholders and may be subject to a mandatory rotation requirement. On the other hand, internal auditors are appointed and removed by the management without any involvement of the company shareholders. This is the core difference in the independence of external and internal auditors.

Traditional Corporate Governance Structure



The independence of the auditor is fundamental in demonstrating the integrity and robustness of the opinion issued. Policies and procedures must be in place to ensure this. Accordingly, engaging an independent external party is a legal and regulatory requirement for conventional financial audits across jurisdictions. This provides stakeholders (shareholders, customers, etc.) assurance that the information being presented is not unduly skewed for the benefit of the management. Internal auditors are inherently impaired in providing impartial information due to the nature of their appointment and line of reporting.

Internal vs External Assurance: Implications for Shari'ah Compliance

In parallel to the conventional external auditor, it has been a common practice for the SSB of an IFI to issue an annual opinion certifying that the contracts, transactions and dealings of the IFI are in compliance with Shari'ah. In arriving at this conclusion, the SSB undertakes an audit but mostly relies on the work of the internal Shari'ah compliance unit/review department.

At present, there is no independent third party publicly reaffirming the view of the SSB on Shari'ah compliance. This immediately raises a number of questions, most fundamentally: Are the SSB members inadvertently in danger of being in an impaired position in that they are being asked to audit products they themselves have designed and signed off as compliant? Is there a need for an additional independent external check on Shari'ah compliance; and if so, then what should be its scope? If the work of internal Shari'ah auditors is to be relied on, how independent are they, and what is their level of expertise in conducting an audit?

The opinions issued by the external financial auditor and the SSB of an IFI are different yet complementary, according to the differing scope of their work. The perception of both parties' independence remains absolutely critical. Whilst the external auditor's role gives assurance to the users of financial statements, the SSB's role in providing assurance has additional nuances.

Along with shareholders wishing to ensure their investment is Shari'ah-compliant, IFI customers are materially influenced by the attesting body or individuals. Customers in different regions have preferences for certain scholars, often simply built around familiarity or religious group affiliation, etc. Ultimately, the end customers are relying on the SSB to validate that the product is truly Shari'ah compliant. This gives rise to an additional danger for the SSB members in that the SSB appointment might be used as a soft marketing tool.

It should be noted that in a few jurisdictions the relevant regulatory bodies conduct audits on the Shari'ah compliance of products and the conduct of IFIs. However, the depth and robustness of these audits vary, and their reports are not made publicly available.

SECTION 2

International Development of External Shari'ah Audit Standards

AAOIFI

IFSB

International Development of External Shari'ah Audit Standards

The development of Shari'ah governance frameworks in global Islamic finance has been greatly influenced by two multilateral standard setters: AAOIFI and the IFSB. This section provides an overview of their thinking on ESA.

AAOIFI

AAOIFI is the primary body responsible for centralising standards within the global Islamic finance industry. As at the time of writing this report, AAOIFI standards include 54 Shari'ah standards, 24 standards on accounting, five on auditing, seven on governance, two on ethics, and one guidance note. The auditing and governance standards are the centre of this section's discussion.

Current Position on ESA

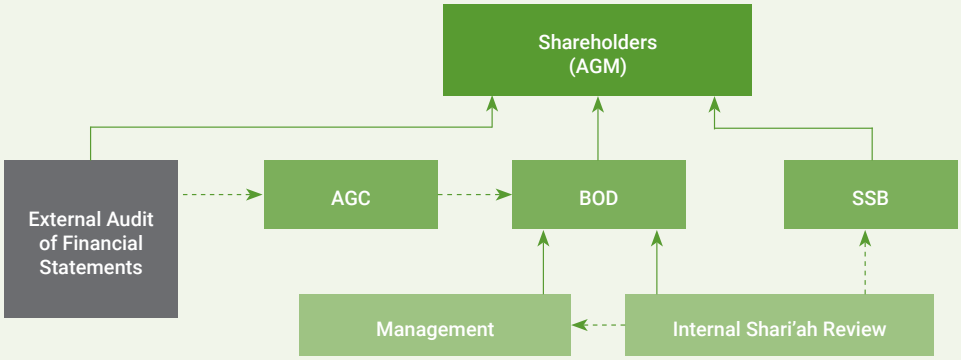
AAOIFI has embedded ESA within the external audit of financial statements rather than identifying it as a separate component of Shari'ah governance. The external auditor is expected to use the SSB's confirmation of Shari'ah compliance as the basis for whether the financial statements are prepared in accordance with the Shari'ah rules and principles.

AAOIFI requires external auditors of financial statements to have knowledge of Shari'ah rules and principles but with the pragmatic acceptance that they would not possess the same level of knowledge as the SSB members. Hence, AAOIFI expressly states that the auditors shall not be expected to provide interpretation of Shari'ah rules and principles. This responsibility lies with the SSB. AAOIFI further stipulates that the Shari'ah assurance provided by the auditors shall be on the basis of the fatwas, rulings and guidance issued by the SSB and that the auditors shall have no responsibility for assessing the competence of the members of the SSB, thus granting indisputable authority to the SSB rulings.

The inherent limitations to the current AAOIFI position include:

- The external financial auditor is relying on the opinion issued by the SSB and is thus not providing a robust third-party check.
- Since the issuance of the AAOIFI standards, there has been a concerted move towards central bank Shari'ah standards. The current approach does not require the external financial auditor to check compliance with central bank (or indeed AAOIFI) Shari'ah standards. A third-party check, which could be provided by an ESA, can examine both the robustness of the audit processes undertaken by the SSB in coming to its opinion and also check the opinions of the scholars against the stated Shari'ah standards of the central bank or multilateral bodies (such as AAOIFI). Whilst this would require base-level knowledge of Shari'ah structures, it does not mean that the external Shari'ah auditor would be required to provide an interpretation of Shari'ah rules and principles, as noted in the current AAOIFI standards.
- The opinion given by the external auditor of financial statements on Shari'ah compliance of the IFI can be deemed ancillary as this is not their primary scope of work.

Shari'ah Governance Structure Based on AAOIFI Standards



AAOIFI has adopted a four-tier approach towards Shari'ah governance: external audit of financial statements, SSB, audit and governance committee (AGC), and internal Shari'ah review.

External auditors of financial statements and members of the SSB are appointed (and also dismissed) by the shareholders in the AGM upon recommendation of the board of directors (BOD), taking into consideration local legislation and regulations. Their separate reports are published as part of the annual report of the IFI.

The AGC, also known as the audit committee, is the independent link between the IFI's management and its stakeholders, with the vested responsibility of enhancing public confidence in the IFI's application of the Shari'ah rules and principles. The AGC is established by the BOD from its non-executive members and is given sufficient authority to carry out its responsibilities with independence and integrity. The reports of the AGC are submitted to the BOD and copied at the same time to the CEO of the IFI.

The internal Shari'ah review is established within an IFI as an independent division/department or as part of its internal audit department, depending on the size of the IFI, to examine and evaluate the IFI's compliance with Shari'ah rules and principles issued by the SSB. If an independent division/department is set up, its authority must be equivalent to the authority of the internal audit/control department, and the head is responsible to the BOD. The internal Shari'ah review reports, prepared at least quarterly, are addressed to the BOD and copied to the SSB and management.

Source: Adapted from AAOIFI Auditing and Governance Standards

Moving forward

Since AAOIFI issued its auditing and governance standards, there have been developments at the central-bank level in a number of jurisdictions. Central Shari'ah boards evolved with their own Shari'ah rulings, guidelines and consultations, which may overrule the rulings given by the SSBs at the IFI level. Even though this practice is still limited to a small number of jurisdictions, we note that the global market is moving in that direction.

AAOIFI acknowledges that implementing ESAs will enhance stakeholder confidence by providing an additional independent assessment. AAOIFI has undertaken a comprehensive review of its structure and standards and, moving forward, it is deliberating whether to incorporate ESA as a separate function of the Shari'ah governance structure. The developments are expected to be released in due course following a robust process of consultation.

The current pragmatic approach of AAOIFI reflects its sound knowledge of the practical challenges facing the market, especially in the context of the capability and availability of scholars and Shari'ah compliance teams and the fact that conventional audit firms have limited exposure to Shari'ah standards and auditing. Factors AAOIFI indicated as being important include:

- The auditors must be professionals who are well versed in AAOIFI Shari'ah standards and the regulator's Shari'ah standards.
- The external audit team should look to include at least one fit and proper scholar who can assist in the review and training of the team. This will be particularly useful in complex transactions, where understanding Shari'ah principles will be critical and which in turn will give confidence to the SSB members that the auditors have the relevant Shari'ah expertise to analyse these complex transactions.

AAOIFI issuing standards and guidelines on ESA would be a welcome move and would play a key role in ensuring global adoption of ESA in the Shari'ah governance framework.

IFSB

The IFSB plays a unique role in developing prudential standards and guiding principles specific to the Islamic financial services industry. Unlike the standards of other multilateral bodies, the IFSB standards are targeted at regulators and supervisors for implementation in their respective jurisdictions. To date, the IFSB has issued 18 standards, six guidance notes and one technical note.

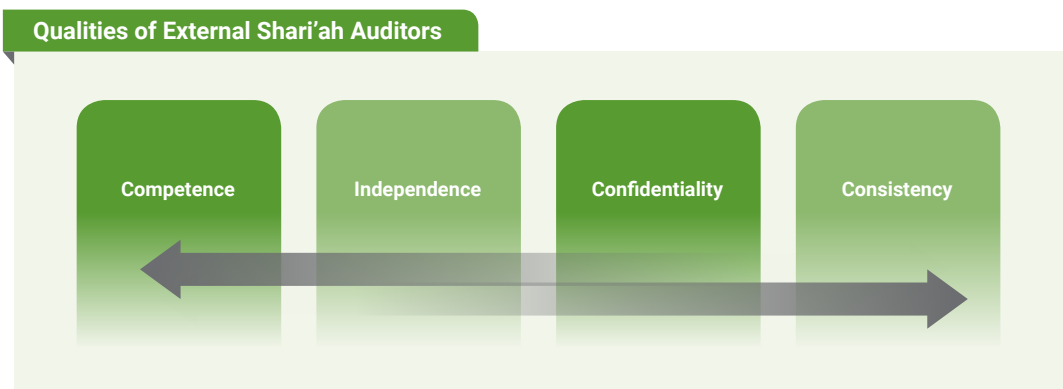
Current Position on ESA

From the very beginning the IFSB standards addressed the role of external auditors and other external entities in ensuring Shari'ah compliance of IFIs. However, being aware of differences in Shari'ah governance practices across jurisdictions, the IFSB has not identified this as the sole means of ensuring Shari'ah compliance; the roles of the SSB and of internal reviews are also clearly addressed in its standards. Further details are delineated in Appendix 1 on the roles identified within the IFSB standards that external auditors can play to ensure an IFI's Shari'ah compliance.

While the other standard setters look purely at the audit process and the role of the auditors, the IFSB focuses on the bigger picture seen by the regulators. The IFSB provides a broader framework, allowing national bodies of individual countries to decide on the framework best suited for their own market. For instance, different countries have adopted different approaches to SSBs, and not all countries have felt the need to establish a central Shari'ah board.

The IFSB has issued only one standard so far on Shari'ah governance: IFSB-10. This standard sets out how the Shari'ah governance process should take place from the regulatory perspective. IFSB-10 has mentioned ESA as a component of the Shari'ah governance system but, as we have seen, not every country is implementing this. Most countries are focusing on the roles of the SSB and internal Shari'ah audit and have institution-level internal Shari'ah audit frameworks.

IFSB-10 allows flexibility in terms of who can conduct the ESA. The SSB can take charge of this, or the task can be delegated to an appropriately competent external auditor or external Shari'ah firm. Whoever that might be, it should have the four qualities identified in IFSB-10: competence, independence, confidentiality and consistency.



Nonetheless, an ESA conducted by the SSB remains subject to scepticism, especially in jurisdictions where the status and independence of the SSB are not well defined and not well established. The question will be asked: can the SSB maintain its independence and objectivity in auditing an IFI when the operations and activities conducted by the IFI are based on their own resolutions and rulings?

The IFSB holds regular events on different issues, including Shari'ah governance. As a component of this, ESA is also covered. The IFSB furthermore assists countries in developing their own Shari'ah governance frameworks with materials that include case studies which they have developed internally. However, the IFSB does not cover only one item (e.g. ESA) of the Shari'ah governance framework, but rather, the whole spectrum. Nevertheless, its inclusion of ESA as part of the Shari'ah governance framework in IFSB-10 and its addressing the role of external auditors in ensuring Shari'ah compliance in several of its standards are indications that the working committee of the IFSB strongly feels the need for an external party to review an IFI's Shari'ah compliance.

Moving forward

The only IFSB standard on Shari'ah governance (IFSB-10) was issued almost seven years ago and the global Islamic finance industry has since developed significantly both in size and in its attitude towards Shari'ah governance. For instance, in Malaysia where the IFSB is based, Bank Negara Malaysia (BNM) has issued the Shari'ah Governance Framework for Islamic Financial institutions (SGF-BNM) 2010 and enacted a new law for the Islamic banking and takaful industry, i.e., the Islamic Financial Services Act (IFSA) 2013. Both have significantly impacted Shari'ah governance in the country. Similar regulatory advances came into effect in other countries, and ESA came into the mainstream in a few of them.

Whilst IFSB alludes to ESA at certain places in its standards, there is no detailed explanation around ESA's role, scope and execution, and how this fits into the broader guidance on Shari'ah governance. At present, the IFSB does not have any stated plan to issue detailed guidance on ESA. However, it should be noted that it aims to give guidance on minimum requirements and does not intend to give one prescription for all, as no one size fits all. The IFSB mentions ESA in IFSB-10 but leaves it to individual jurisdictions to decide if it should be obligatory and the way it should be implemented.

SECTION 3

Mind the Gap

Regulators Turning Their Attention to External Shari'ah Audit

Pakistan

Oman

Bahrain

Malaysia

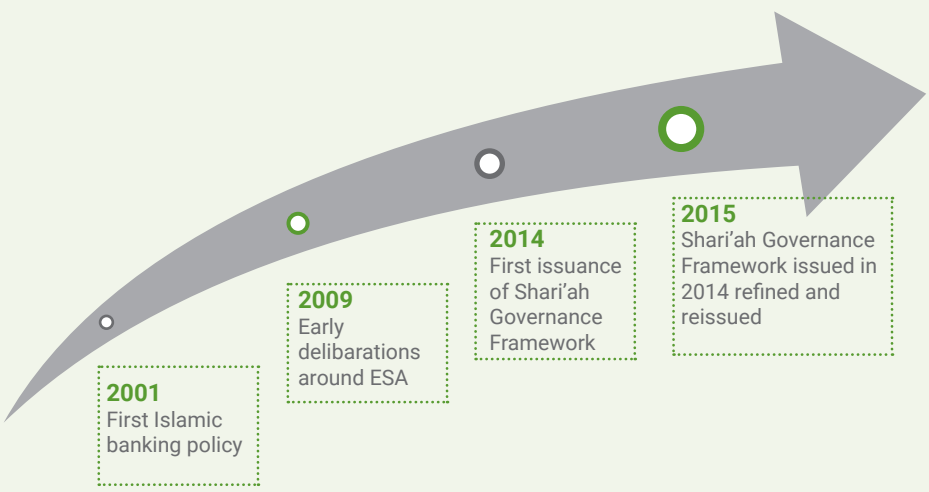
This section discusses the current position of Pakistan and Oman, where the respective regulators are currently implementing ESA, along with views from two other jurisdictions, namely Bahrain and Malaysia. The discussion is based on enacted legislation and in-depth interviews with officials from financial institutions, scholars and external auditors.

The comments in this report should be read only as initial observations and not as the definitive position of regulators, who are still in the process of developing or implementing their ESA frameworks.

Pakistan

The Islamic banking industry started in Pakistan three to four decades ago, but a renewed push only developed in 2001 when the SBP issued its first Islamic banking policy, which set out the promotion of Islamic banking alongside conventional banking. Subsequently, the SBP's Islamic Banking Department (IBD) issued circulars and guidance to regulate Islamic banking institutions (IBIs), and early deliberations around ESA took place in 2009. In April 2014, the SBP issued IBD Circular No. 03 of 2014 wherein the Shari'ah Governance Framework for Islamic Banking Institutions (SGF-SBP 2014) was notified. However, its implementation was deferred until the SBP issued IBD Circular No. 01 of 2015 in April 2015 wherein the SGF-SBP 2014 has been refined and superseded by the SGF-SBP 2015, which came into force on 1 July 2015.

Pakistan Initiatives Towards ESA



The SGF-SBP 2015 aims at elevating the standard of the Islamic banking industry and its practices in Pakistan and thus making it more competitive in the global market. Currently Pakistan has six licensed full-fledged Islamic banks and 13 Islamic windows operated by conventional banks.

SGF-SBP 2015

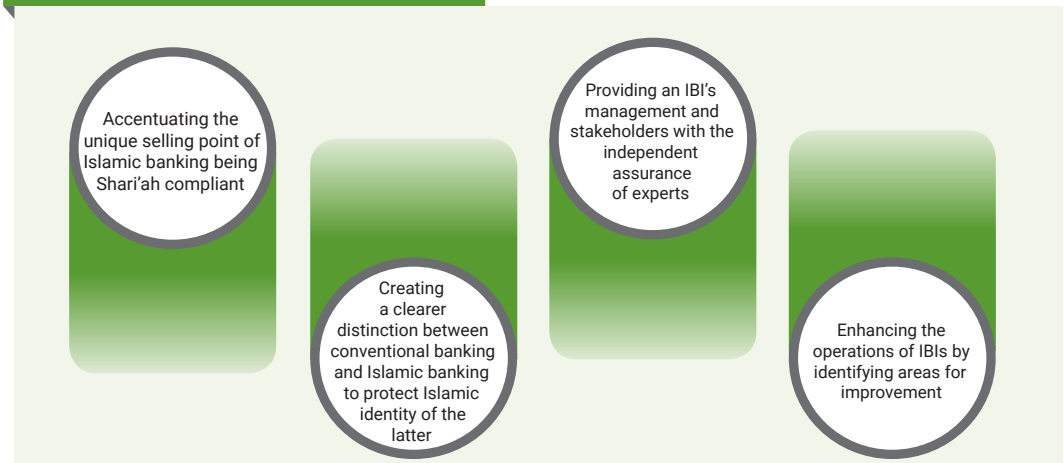
The main objective of SGF-SBP 2015 is to strengthen the control mechanisms around Shari'ah compliance by defining the related responsibilities of the BOD, executive management and Shari'ah compliance functions of IBIs.

Scope of SGF-SBP 2015

The most distinctive feature of SGF-SBP 2015 is the requirement for ESA, which aims to enhance public confidence in the Shari'ah integrity of the Islamic banking industry. The mandatory requirement of ESA in the framework is the result of a series of discussions and engagements among various stakeholders in the country's Islamic banking industry. The introduction of an independent annual review via ESA further enhances the regulatory framework of ensuring Shari'ah compliance, which is currently undertaken by the Inspection Department of the SBP on an occasional basis.

Pursuant to the ESA requirement, the SBP has engaged with the Institute of Chartered Accountants of Pakistan (ICAP) to conduct training programmes for auditors. In addition, the SBP developed a reporting template for external audit.

Value Adding Benefits Brought by ESA



Issues of ESA Implementation in Pakistan

Following the first year of ESA implementation in Pakistan, a few concerns have been raised by many of the interviewees. These concerns are:

1 Quality of External Shari'ah Auditors

A common concern raised by Pakistani interviewees is that the external Shari'ah auditors lack adequate knowledge and understanding of Islamic banking operations. This is evident when the external auditors raise business or operational issues as opposed to Shari'ah-related issues. They have to rely on the IBI's staff to perform their audit functions. Interviewees also indicated that it was almost a case of role reversal in comparison to a conventional financial audit. With a conventional financial audit, the external auditors have the up-to-date knowledge and expertise so they can help the financial institution in their reporting requirements.

This is a critical point which must be addressed since, without adequate knowledge and understanding of Islamic banking operations, the external auditor will be limited in developing audit programs that mitigate the risks associated with different products. Additionally, the external auditor's reliance on the auditee to obtain necessary information inherently trigger risks related to independence and accuracy of information. This could result in audit procedures being neither designed nor executed effectively.

2 Confusion about the Scope of ESA

Although the SGF-SBP 2015 sets out the scope of ESA, various stakeholders still expressed their confusion about it in interviews. Feedback included the following observations:

- The scope should be limited to reviewing products and ensuring compliance with an Islamic bank's SSB rulings and other guidelines.
- The scope of an external auditor's function requires clarification as it is not clear if external Shari'ah auditors should only be concerned with compliance or if they should consider other issues related to finance, IT, operations, etc.
- The aim should be to provide absolute assurance, and the external auditor should be performing third-party verification.
- How should the Shari'ah auditor audit the overall compliance/control environment?

SGF-SBP 2015 in Section 7 on ESA states that the scope shall be limited to assessing compliance of an IBI's financial arrangements, contracts and transactions with Shari'ah rules and principles. These rules and principles are defined as compliance with what has been issued by the SBP including the Shari'ah standards of AAOIFI as adopted by the SBP with suitable modifications, the rulings of the SBP's Shari'ah board, the rulings and approvals of the IBI's Shari'ah board which are in line with the rulings of the SBP's Shari'ah board, and Islamic Financial Accounting Standards as notified by the Securities and Exchange Commission of Pakistan (SECP).

Although this clearly limits the scope and can be interpreted as defining the role of the external Shari'ah auditor as being to provide assurance on compliance with the elements mentioned, Section 7 further sets out that the external Shari'ah auditor must also report on:

- The Shari'ah-compliance environment
- Shari'ah non-compliance risk
- Risk management systems for Shari'ah non-compliance risk
- How executive management and the BOD address Shari'ah non-compliance risk
- Other significant issues identified

These items can only be reported on if additional procedures are performed. This could be interpreted as increasing the scope of ESA, which may be contributing to the confusion reflected in the stakeholder feedback.

Furthermore, a review of the draft reporting template prepared by ICAP (obtained from ICAP in March 2016) for use by external Shari'ah auditors shows some disparity between what the SGF-SBP 2015 has set out and what external Shari'ah auditors are proposing to report on. Notably, other than reporting on compliance with Shari'ah rules and principles as set out above, the template does not set out other reporting responsibilities such as environment, risk, etc.

In view of these concerns, there is a pressing need for comprehensive guidelines or a framework for ESA. This is because, in addition to having fundamental skills, methodologies and techniques that are required to perform conventional financial audit, Shari'ah auditors must undoubtedly also master the requirements that are unique to Islamic banking.

3 Shortage of experienced Islamic finance scholars

The issue of the limited number of experienced Islamic finance scholars could result in independence risk, in that Shari'ah scholars may be part of the ESA team and thus potentially reviewing their own work at the IBI which is being audited. Additionally, the issue could lead to potential commercial risk in that confidential information might be shared when a Shari'ah scholar is part of the ESA team which audits another IBI.

4 No public disclosure of ESA results

Lack of public disclosure diminishes the potential of one of the perceived benefits of ESA: enhancing public confidence in the Shari'ah legitimacy of IBIs. However, it is recognised that ESA (and to an extent the Islamic finance industry) is at a nascent stage with neither external Shari'ah auditors nor Islamic banks yet ready to report publicly. In addition, there is a risk that public disclosure of any auditor recommendations could be misinterpreted by the public, resulting in an adverse reaction to that IBI in particular and to the development of IBIs and the Islamic finance industry in general.

Nonetheless, the industry needs to advance and improve. This means that external Shari'ah auditors must develop the capability to provide value-added comments and that IBIs must be open to acknowledge and respond to valid criticisms and recommendations.

5 Conflict resolution

The SGF-SBP 2015 does not specifically address how conflicts between the external Shari'ah auditor and the SSB are to be addressed. It is expected that a conflict resolution process would involve the SBP inspection team which would verify findings and, where the findings are upheld, instruct the IBI to take remedial action. If the SSB of an IBI believes its decision is valid and disagrees with the conclusion of the ESA, the matter could be elevated to the SBP Shari'ah Board whose decision would prevail.

Oman

The Islamic finance industry in Oman started to grow significantly after the issuance of the Islamic Banking Regulatory Framework (IBRF) in 2012 by the CBO and the subsequent launch of the first full-fledged Islamic bank, Bank Nizwa, in January 2013. As of March 2016, the Islamic banking market share stood at 7.1% of the overall financial assets in the Sultanate. Currently, Oman has two full-fledged Islamic banks and six conventional banks with Islamic windows.

IBRF 2012

The significant feature of IBRF 2012 is the emphasis on ESA. Under Title 2 on 'General Obligations and Governance', the Framework requires all licensed IBIs to formalise and establish both internal and external audits. It is mandatory for the Islamic banks to engage an independent third party to conduct ESA, or what is termed as 'external independent Shari'a audit', on an annual basis. In particular, the framework provides for the ESA findings to be reported to the BODs and the Central Bank, with a copy to the SSB and management of the bank.

Islamic Banking Regulatory Framework, Oman (2012)

2.5.1.22	The Licensees shall engage an independent third party to conduct an annual external independent Shari'a audit. The purpose of this audit is to add credibility to the internal Shari'a audit of the Licensees through an independent endorsement…
2.5.1.23	An independent Shari'a audit shall be similar in scope as internal Shari'a audit. It is not meant to provide an opinion on the Shari'a legitimacy of the SSB's decisions…
2.5.1.24	Independent Shari'a audit shall submit its report to the Board of Directors…

Its main objective is to enable IBIs to be perceived as Shari'ah compliant by stakeholders, including the general public. It is by providing an independent endorsement that ESA is considered to add credibility and confidence.

From the interviews conducted, the respondents recognise the benefits of ESA, which include the following:

- Independent assurance on the compliance of Islamic banks with the IBRF 2012
- Comfort to customers that their bank is operating as it purports to
- Increased credibility of Islamic banking that it is not a phony product
- Linkage to the philosophy and commitment of Islamic banking
- Providing an extra layer of control to the Islamic banks' operations

Issues of ESA Implementation in Oman

There are two main issues identified from the interviews with stakeholders in Oman, notably the unclear scope of ESA and lack of public disclosure of the ESA findings. These issues are therefore quite similar to the Pakistani experiences explained above.

1 Unclear Scope of ESA

Although the IBRF 2012 has been implemented for about four years, the key issue faced by the Islamic banking industry in the country is confusion about the scope of the ESA. This issue arises due to equating the scope of ESA with that of internal Shari'ah audit. The IBRF 2012 sets out the scope of the internal Shari'ah auditor:

> The scope of work of internal Shari'ah audit shall encompass the examination and evaluation of the adequacy and effectiveness of the Licensee's system of Shari'a compliance and the quality of performance in carrying out assigned responsibilities. The scope of internal Shari'a audit shall cover all aspects of the Licensee's business operations and activities, including review of the products, processes, agreements and systems for assessing the extent of implementation of the Shari'a guidelines and Fatawa issued by the SSB.

It is noted that by having a similar scope for the ESA and internal Shari'ah audit, the IBRF 2012 introduces a level of subjectivity and different interpretation or judgement on the role of an external Shari'ah auditor. Interviews with various stakeholders in Oman revealed the following points:

- The external Shari'ah auditor is supposed to provide an assurance report, but it is unclear whether it is limited assurance, reasonable assurance or absolute assurance.
- With the scope of the ESA and internal Shari'ah audit being similar, inevitably the external Shari'ah auditors will be duplicating the work of internal Shari'ah auditors.
- Terms of engagement could potentially vary among external Shari'ah auditors with some, for example, covering general controls and others not. Accordingly, this leads to material differences in the work performed by different external Shari'ah auditors.

This is therefore different from the conventional financial audit, which has a clear scope and distinct roles and responsibilities that distinguish between the external financial auditor and the internal auditor. Conventional external

financial auditors focus on the financial statements and reporting, and their scope of work is planned to obtain assurance and provide a true and fair view. In contrast, internal auditors have a far wider scope than financial reporting and their work is planned and agreed with management based on an assessment of risk being faced by the organisation.

2 Lack of Public Disclosure

The lack of public reporting by external Shari'ah auditors leads to a lack of transparency in both the scope and nature of the procedures performed. The provision of a standard reporting template for an ESA opinion would encourage consistency in the scope of work as external Shari'ah auditors would need to perform procedures that would support that opinion.

Public disclosure by the external Shari'ah auditor is clearly aligned with the perceived objectives of an ESA and, in particular, with providing independent assurance to customers and investors that the IBI is complying with the principles of Shari'ah.

Auditor's Statement in Shari'ah Audit Report

The Shari'ah audit report could include specific statements as to the opinion of the external Shari'ah auditor, such as:

- Transactions of the IBI have been executed in line with the product structures approved by the SSB and the CBO.
- The IBI has not benefited from impermissible income, with all impermissible income having been donated to approved Shari'ah-compliant charitable causes.
- The system or process of Shari'ah compliance is satisfactory.
- The IBI has complied with all aspects of Shari'ah except for Transaction X, which included the acquisition of conventional debt. However, this was remedied as soon as practically possible with the approval of the SSB.

Bahrain and Malaysia

As leading established global hubs for Islamic finance, the views of selected stakeholders, including regulators in Bahrain and Malaysia are presented in the following sub-sections, as their contributions are deemed to provide meaningful additional insights in understanding the possible future development of ESA. Bahrain is of particular interest as it is actively considering to introduce mandatory ESA.

Bahrain

The concept of the ESA has been welcomed by the Central Bank of Bahrain (CBB) and was publicly supported by HE Governor Rasheed Mohammed Al Maraj in December 2014. CBB sees ESA as an important addition to the Islamic assurance framework to improve current practice and provide an additional independent review on Shari'ah compliance. Currently the SSBs are placing heavy reliance on the work of the internal Shari'ah compliance unit (ISCU), who are employees of the IFI and are thus not deemed an independent third party.

On 1 September 2016 CBB issued a consultation paper titled 'Shari'a Governance Module'. The module splits the proposed legislation across six chapters, with chapter 5 relating entirely to ESA, termed as 'independent external Shari'a compliance audit'.

CBB Shari'a Governance Module, Consultation Paper (2016)

Chapter: SG-5
Independent External Shari'a Compliance Audit

SG-5.1 Principle

SG-5.1.1 Bahraini Islamic bank licensees must appoint, on an annual basis, an independent external Shari'a compliance auditor (IESCA) approved by the CBB…

SG-5.2 Roles and Responsibilities of Independent External Shari'a Compliance Audit

SG-5.2.1 The IESCA must conduct an annual independent external Shari'a compliance audit, to be completed before the issuance of the annual SSB Report…

SG-5.2.2 IESCA must assess the existence of relevant controls and their effectiveness in implementation by the Bahraini Islamic bank licensee's management of the policies, procedures and decisions of the SSB to achieve Shari'a compliance.

SG-5.2.3 The independent external Shari'a compliance audit report must be guided by International Standards on Assurance Engagements 3000, Assurance other than Audits or Reviews of Historical Financial Information…

Perspectives on ESA in Bahrain

The details noted below are the initial observations on select areas noted in the CBB consultation which should be considered as part of developing the ESA regulatory framework.

1 Scope and Approach

- The industry currently has different titles for effectively the same role/department; for example, the terms Shari'ah committee and SSB are often used interchangeably. We note the same issue appears in references to ESA. Currently Oman refers to it as 'external independent Shari'a audit' and the SBP uses the term 'external Shari'ah audit'. The CBB Consultation Paper uses the term 'independent external Shari'a compliance audit', as the focus of the scope is not to check the SSB fatwa/decision, but rather to audit the process of compliance using a controls-based approach. Consistency in terminology used is important in developing market understanding.
- The nature of the ESA being to provide reasonable assurance as opposed to an agreed procedures report. The CBB refers to the International Standards on Assurance Engagements 3000 as a benchmark for the IESCA report. Being a reasonable assurance report, it necessitates the requirement of a CBB-authorised audit firm to undertake the audit.
- SG-2.8.7 notes the need for management to prepare an annual report titled 'Management's Shari'a compliance and governance report' detailing their review of Shari'ah governance framework of the bank. This report forms the basis on which the IESCA would issue their report.
- The approach proposed is a control-based audit on the Shari'ah-compliance function and procedures of the bank. The scope is not to audit work of the Shari'ah scholars, and the IESCA has no responsibility to assess the competence of the SSB members.

2 Execution

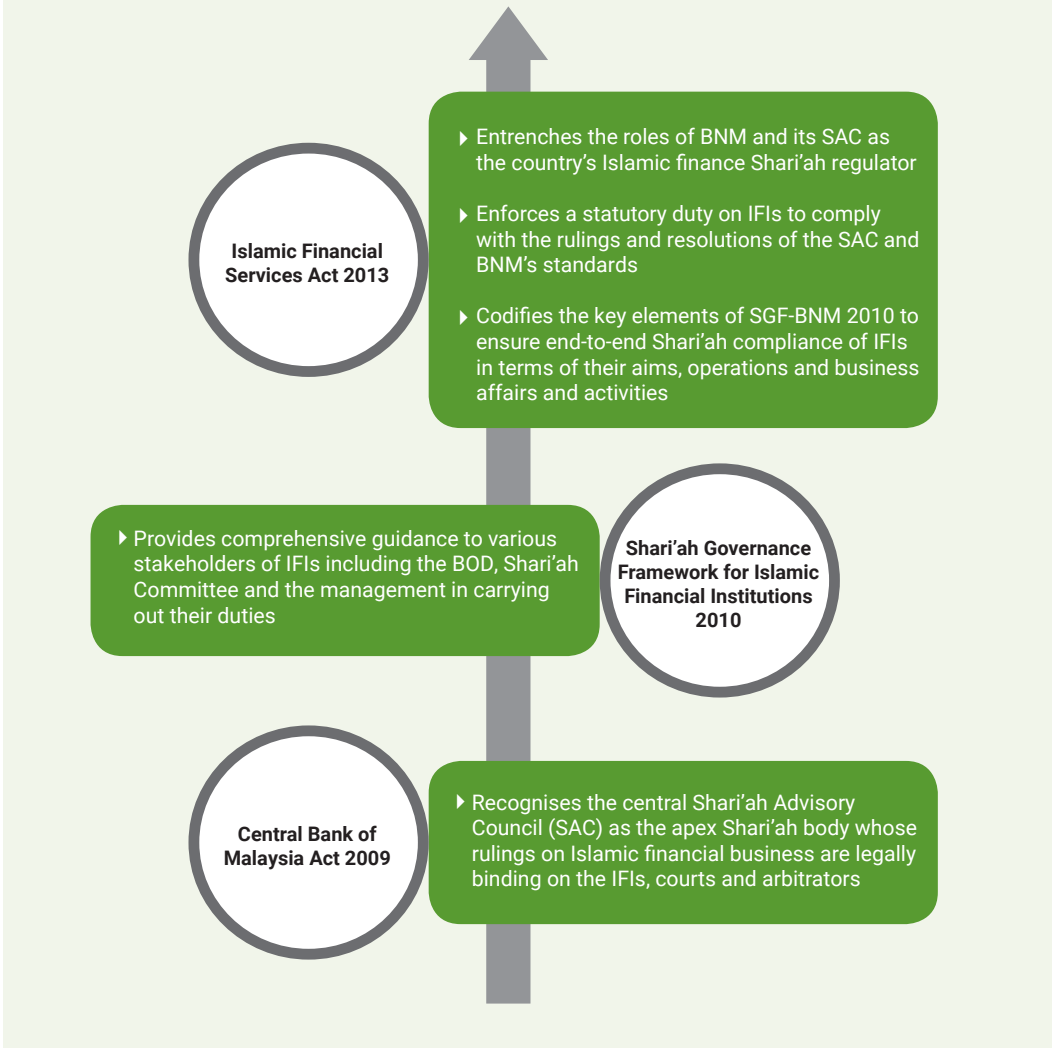
- Ensuring relevant skills for undertaking a control-based audit, including the need for the IESCA to have extensive relevant Shari'ah knowledge applicable to Islamic banking, is an inherent challenge. The CBB consultation notes the requirement for proficient staff having 'relevant qualifications and experience' but does not define 'relevant'.
- IESCA is expected to report to the audit committee and then to the SSB and bank management before the issuance of the annual SSB report. Public disclosure within the annual financial statements of the IESCA report is not explicitly stated in the current CBB proposals.

Introducing ESA to the market in a phased approach that recognises the difference between retail (window vs full-fledged) and investment banking institutions allows time for the market to develop capacity. CBB's definitive position will be finalised in due course following conclusion of its consultation process and formal issuance of their Shari'ah governance module.

Malaysia

Malaysia is one of the Islamic finance jurisdictions which rigorously emphasises legal and regulatory frameworks to ensure structured development of the industry.

Key Legislations and Framework in Malaysia for Shari'ah Compliance



Nonetheless, SGF-BNM 2010 and IFSA 2013 do not explicitly specify the ESA position. SGF-BNM 2010 notes that the role of the ISCU should be 'independently minded' with the aim to provide an independent assessment and objective assurance. Part IV of IFSA 2013 on 'Shariah Requirements' provides for the appointment of a person to conduct audit on Shari'ah compliance but is silent on ESA. This leaves the door open for BNM—at its discretion—to require an IFI to appoint an external auditor whom BNM approves to perform a Shari'ah audit when there are concerns about Shari'ah compliance. Whilst this is possible in theory, the provision can be read as something which is used by way of exception rather than as the norm.

Perspectives on ESA in Malaysia

From in-depth discussions with selected practitioners, varying views of ESA were noted.

Current practice in Malaysia focuses primarily on the internal Shari'ah audit, which has taken time to evolve to its current stage. Numerous challenges, including the limited availability of qualified resources, have been encountered. It is felt that the resource constraint is currently too great to allow successful implementation of ESA.

Existing practice by BNM includes a robust annual Shari'ah inspection of all IFIs. Global jurisdictions vary in the scope and frequency of their regulatory checks on Shari'ah compliance of IFIs. Accordingly, respondents felt that within the Malaysian market there is a robust third-party Shari'ah-compliance check being carried out by the regulator. It should be noted, however, that the results of the audit are in normal circumstances not communicated publicly.

Feedback in favour of ESA indicated various reasons for its need, which included:

- Providing additional integrity via the independent sign-off
- Identifying and addressing areas of weakness for IFIs with poor Shari'ah-control environments
- Adding value and external reassurance for an IFI with a strong internal Shari'ah-control environment

Interestingly, a major IFI interviewed is currently voluntarily implementing ESA using their existing external financial auditor. The IFI invested considerable resources in working with their external auditor to build capacity to effectively undertake the ESA. The basis for this voluntary adoption was rooted in the IFI's recognition of the importance of ESA and its desire to ensure best practice and consistency across the bank's conventional and Islamic banking arms. The IFI started implementing ESA in 2013, and in Malaysia, it can be regarded as something of a pioneer in this arena.

SECTION 4

Conclusion

Conclusion

The interviews conducted for this report have identified the increasing importance with which ESA is regarded. ESA enhances market confidence by providing third-party independent assurance on the Shari'ah compliance of an IFI's operations.

ESA is an emerging trend, with jurisdictions such as Oman, Pakistan and Bahrain issuing or actively considering regulatory guidance mandating ESA as part of the overall Shari'ah governance frameworks. In addition, multilateral standard-setting bodies such as AAOIFI have recognised the importance of ESA, and it is anticipated the trend of incorporating ESA will continue. It should be noted, however, that jurisdictions with strong existing Shari'ah governance frameworks, such as Malaysia, may see less immediate need for ESA.

Based on the series of interviews with various stakeholders across the four jurisdictions, a number of common issues and challenges were identified.

Firstly, variances in the scope of ESA exist across jurisdictions, and in some cases a lack of clarity about what it means. Some IFIs expect that the external Shari'ah auditor will be an expert to independently review, discuss and report any Shari'ah matters. In contrast, the selected regulators have set the external Shari'ah auditor's role to be one of a compliance check—not to evaluate the fatwas of Shari'ah scholars but to check the institution's compliance with those fatwas. An effective and fully functioning central bank Shari'ah board is a key prerequisite and enabler for a controls-based ESA approach.

Secondly, the current lack of a requirement for public disclosure of the ESA report limits the effectiveness of the ESA output by reducing its ability to enhance stakeholder confidence. Currently those regions with an ESA requirement have only minimal or no public disclosure of the ESA results. Whilst there are potential risks around conflicting opinions issued by the external Shari'ah auditor and SSB, the full benefit of ESA will only be realised when a consistent standard of public reporting is introduced.

Finally, the inherent challenge of effectively executing ESA will require a combination of, primarily, audit skills (where a controls-based approach is adopted) and a degree of Shari'ah knowledge relating to Islamic banking and finance contracts. Lack of qualified auditors who can perform such roles will be a challenge, and it is anticipated that incumbent financial auditors may need to train staff on Shari'ah issues and/or recruit Shari'ah auditors.

Along with the above, there remain structural considerations such as the lack of a professional body for Shari'ah scholars in Islamic finance, stipulation of specific qualifications for external Shari'ah auditors (e.g., AAOIFI qualification) and the development of illustrative qualified opinion paragraphs for use by external Shari'ah auditors. Whilst some of these factors were noted in our 2012 report, the development in ESA to date demonstrates particularly welcome positive progress.

Ensuring and maintaining the integrity of the Shari'ah is paramount to sustaining future confidence and growth in the Islamic finance sector. By providing an additional check, ESA can play an important role towards providing further reassurance to scholars, IFIs and customers. The UKIFC and ISRA remain committed to empowering scholars and encouraging better practice in the sector.

APPENDIX 1

Roles of External Auditors Identified within IFSB Standards

IFSB Standard (Issue Date)	Roles of External Auditors
IFSB-1 (December 2005)	▸ Annual Shari'ah-compliance review can be part of the external audit function.
IFSB-3 (December 2006)	▸ External Shari'ah-compliance review is part of recommended best practice. ▸ The audit committee should put their best efforts in ensuring that the external auditors are capable of accommodating ex-post Shari'ah-compliance reviews within their terms of reference. ▸ Where possible, the audit committee and the internal auditor/Shari'ah reviewer shall work closely with the external auditors to enhance the external auditors' capabilities for conducting Shari'ah-compliance reviews as part of their audits. ▸ Where appropriate, the external auditors are to rely on work carried out by internal auditors/Shari'ah reviewers.
IFSB-6 (December 2008)	▸ An Islamic Collective Investment Scheme (ICIS) should ensure that there is an ex-post external audit function which can independently verify the appropriateness and standard of work of the internal Shari'ah-compliance review. ▸ Terms of reference of external auditors can be expanded to play this role, which may require the governing body and the internal auditor/Shari'ah reviewer to work closely with the external auditor to enhance the external auditor's capabilities for conducting Shari'ah-compliance reviews. ▸ External auditors need to have full awareness of and adequate access to information relating to the purification process in order to ensure appropriate checks on any liquidation of the ICIS's assets and the justification for separating its earnings. ▸ External auditors are part of oversight, control and review to protect ICIS investors from any malfeasance or gross negligence, particularly in the cases of mudarabah and wakalah investments.
IFSB-8 (December 2009)	▸ The Shari'ah governance function of a takaful operator can be outsourced to a Shari'ah advisory firm.

IFSB-10 (December 2009)	▸ An appropriately competent external auditor or external Shari'ah firm can be assigned the task of annual Shari'ah-compliance review/audit for verifying that the internal Shari'ah-compliance review/audit has been appropriately carried out and that its findings have been duly noted by the Shari'ah board. ▸ ESA is a component of the Shari'ah governance system of an IFI. ▸ All minutes of the Shari'ah board meetings shall be made available to the external auditors upon their request.
GN-3 (December 2010)	▸ The scope of external audit may include verifying conformity of the IFI to approved policies and procedures relating to investment account holders' profit calculation and smoothing.
IFSB-12 (March 2012)	▸ External auditors may play a role in identifying significant breach in Shari'ah compliance which has the potential to transform into reputational risk.
IFSB-14 (December 2013)	▸ An external party can be involved in reporting matters related to Shari'ah compliance of the takaful operator.
IFSB-16 (March 2014)	▸ Supervisory authorities should issue guidelines for the ESAs and seek to enforce relevant Shari'ah audit standards in their respective jurisdictions. ▸ The supervisory authorities can require external auditors to report and communicate on any material Shari'ah non-compliance identified when auditing the IFI. ▸ Whistle-blowing by external auditors who may become aware of Shari'ah non-compliance by the IFI is identified as a mechanism for reporting Shari'ah non-compliance to the supervisory authorities.
IFSB-17 (April 2015)	▸ Ex-post processes cover internal and external Shari'ah review and Shari'ah governance reporting. ▸ Annual Shari'ah-compliance review can be part of the external audit function.
IFSB-18 (April 2016)	▸ External advisers can be appointed to provide advice on Shari'ah compliance of contracts or operations of retakaful operators.

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ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ADICJ	Advanced Diploma in Islamic Commercial Jurisprudence
ADIF	Advanced Diploma in Islamic Finance
AGC	Audit and Governance Committee
AGM	Annual General Meeting
BIBF	Bahrain Institute of Banking and Finance
BNM	Bank Negara Malaysia
BOD	Board of Directors
CBB	Central Bank of Bahrain
CBO	Central Bank of Oman
CEO	Chief Executive Officer
CPD	Continuous Professional Development
ESA	External Shari'ah Audit
HE	His Excellency
IBD	Islamic Banking Department of the SBP
IBI	Islamic Banking Institution
IBRF	Islamic Banking Regulatory Framework 2012 issued by the CBO
ICAP	Institute of Chartered Accountants of Pakistan
ICIS	Islamic Collective Investment Scheme

IESCA	Independent External Shari'ah Compliance Auditor
IFI	Islamic Financial Institution
IFSA	Islamic Financial Services Act 2013 of Malaysia
IFSB	Islamic Financial Services Board
ISCU	Internal Shari'ah Compliance Unit
ISRA	International Shari'ah Research Academy for Islamic Finance
OIC	Organisation of Islamic Cooperation
SAC	Shari'ah Advisory Council of the BNM
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SGF-BNM	Shari'ah Governance Framework for Islamic Financial Institutions 2010 issued by the BNM
SGF-SBP	Shari'ah Governance Framework for Islamic Banking Institutions 2015 issued by the SBP
SRB	Shariyah Review Bureau
SRDP	Shari'ah Reviewer Development Program
SSB	Shari'ah Supervisory Board
UKIFC	Islamic Finance Council UK

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NOTES

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Bahrain Institute of Banking and Finance (BIBF) plays a vital role in the training and development of human capital in the Middle East and North Africa. Our commitment to excellence has strengthened our position as the leading educational provider across all major business disciplines. We serve as a partner to numerous world-class institutions, delivering thought leadership, assessment and training in the areas of banking, Islamic finance, executive development, accounting & finance, academic, leadership & management, insurance, information technology and communication; resulting in a complete business solution.

The BIBF Centre for Islamic Finance was established in 1997 to assist in fostering the growth of the Islamic banking community throughout the Middle East. Drawing upon the support of the financial sector in Bahrain as a hub of Islamic finance, collaboration with institutions such as the AAOIFI and patronage of the CBB, the Centre ensures that all courses, both professional and academic, are current and in line with actual industry practices.

The Centre also has the privilege of initiating the oldest Islamic finance professional qualification in the world: the Advanced Diploma in Islamic Finance (ADIF), and the only such qualification which has a progression route into an MBA from the UK, whereby, ADIF graduates need to spend an intensive month at the University of Bolton campus along with doing a thesis, upon successful completion of which they are awarded an MBA in Islamic Finance from the University of Bolton. For further information about BIBF, please visit www.bibf.com.

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Shariyah Review Bureau (SRB) is the corporate world's leading Shari'ah advisor with scholarly presence in more than 12 countries from US, Europe, Africa, GCC and Asia. SRB provides professional Shari'ah advisory and Shari'ah audit services to public and private businesses, including commercial and corporate debt, sukuks and Islamic equity markets, initial public offerings screening & investment banking practice, energy firms and information providers. It serves multiple sectors of the financial industry with clients from Hong Kong, the US, UK, Canada, France, Switzerland and the GCC. In Saudi Arabia alone, it holds the market share of more than 26% of Saudi investment companies licensed by the CMA and more than 23% of the co-operative insurance firms listed on the stock exchange. Its service offerings span a broad set of complementary disciplines that include product certification, consultation, Shari'ah audit and equity screening. To learn more about SRB, please visit www.shariyah.com.

Islamic Finance Council UK (UKIFC)

The Islamic Finance Council UK (UKIFC) is a specialist advisory and development body focused on promoting and enhancing the global Islamic and ethical finance industry. The organisation was launched in 2005 by a group of like-minded professionals who sought to make a contribution to the development of the Islamic finance industry. The UKIFC specialises in four core areas: 1) ethical finance - helping to promote better co-ordination and understanding of the shared values between Islamic finance and the broader ethical finance arena; 2) advisory - specialist capability in advising government agencies, regulatory bodies and financial institutions on creating enabling frameworks for Islamic finance; 3) executive training – delivering bespoke capacity building programs aimed at practitioners and regulators focused on commercial issues; and 4) thought leadership – authoring reports, community education and providing industry comment towards influencing regulation and encouraging the development of the sector based on strong research and insights. Find out more information about UKIFC at www.ukifc.com.

International Shari'ah Research Academy for Islamic Finance (ISRA)

The International Shari'ah Research Academy for Islamic Finance (ISRA) was established by the Central Bank of Malaysia on 26 March 2008 as an initiative to promote applied research in the area of Shari'ah and Islamic finance. ISRA also acts as a repository of knowledge for Shari'ah views (fatwas) in the Islamic finance industry. Moreover, ISRA contributes to strengthening human capital development in Shari'ah expertise relevant to Islamic finance and provides a platform for greater engagement amongst practitioners, scholars, regulators and academicians via research and dialogue, in both the domestic and international arenas. Through pioneering research and rigorous intellectual dialogue, ISRA aims to promote innovation and dynamism and thus extend the boundaries of Islamic finance. For more information about ISRA, please visit www.isra.my.