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Islamic auditing: principles, success drivers, challenges, and future direction – a systematic literature review

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ABSTRACT
The globalization of auditing makes it one of the most relevant economic developments of the modern age. Auditing provides systems of accountability and transparency, ensuring an organization's integrity. Conventional auditing relies heavily on financial reporting, compliance, and standards-based auditing. In contrast, Islamic auditing incorporates ethics, social responsibility, and the religious dimension of Shariah. This study examines available theories, empirical work, and research gaps in Islamic auditing, particularly the holistic accountability framework based on the concepts of amanah, hisab, and ihsan. Using qualitative content analysis, the study assesses Islamic auditing and the obstacles it faces, drawing on the Quran, Hadith, literature, books, and reports from different entities. Islamic auditing supports transparency, ethical and governance compliance, and social justice in Islamic financial institutions. However, several challenges – including a lack of Shariah auditors, independence of the auditors, and Shariah-based, non-standardized auditing frameworks – inhibit Islamic auditing. This study argues that Islamic auditing would be more effective if it embraced modern auditing techniques and incorporated multidisciplinary approaches.

Keywords
Accountability, Governance, Islamic Auditing, Shariah Compliance, and Transparency.

1. Introduction

Auditing serves a critical role in facilitating accountability and transparency in business organizations. The auditing approaches of Flint (1988) and Arens and Loebbecke (1998) show that compliance audit structures are designed to confirm that a business accurately reflects its financial position and complies with related reporting mandates, while also attempting to reduce information asymmetry between management and stakeholders. These approaches focus chiefly on economic and contractual relationships. As Islamic financial institutions expand, traditional audit models appear unable to meet the ethical and religious needs of Islamic finance (Alsalih, 2025).

Islamic auditing provides financial, ethical, and social accountability, all in accordance with Shariah. Shahul and Yaya (2005) emphasized that the objectives of Islamic accounting and auditing seek to realize the Maqasid al-Shariah. These objectives include justice, transparency, and social welfare (Abdulrahman et al., 2023). Environmental impacts: Syed Alwi (2007) argues that Shariah auditing should include not only financial systems but also employee products. This reflects the Islamic way of looking at the world, whereby accountability is not only to people but also to Allah. In this sense, it enhances the ethics and integrity of organizations.

Hisbah further strengthened the principles underpinning Islamic auditing, which in early Islamic societies served as a form of regulation (Algabry et al., 2020). The muhtasib, for instance, had big responsibilities in overseeing market operations and ensuring a market free from immoral and unethical acts. This idea shows Islamic auditing is not solely a matter of finances, but a whole other system of governance that incorporates socio-political issues and ethical aspects (Salleh et al., 2024). As stated in the accompanying research, Islamic auditors should assess management behavior, observance of contract terms, and unethical and immoral acts such as fraud, abuse of monopoly power, and waste of resources.

Despite its firm theoretical underpinning, Islamic auditing faces several practical difficulties. Empirical research has shown that the issues of independence of the auditors, lack of independence, lack of auditing competency, and lack of the other components of the frameworks that are required for the various ingredients of auditing (Kasim et al., 2009; Haniffa, 2010). Furthermore, the auditing activities that can be done are limited by the lack of adequately trained personnel who can combine their training in accounting and in Islamic (Shari'ah) as noted by Rahman (2011) and Sulaiman (2011). These deficiencies highlight the chronic disparity between theory and practical. More research and the development of adequate institutions are required.

However, the available literature on Islamic auditing shows an absence of a coherent and comprehensive Shariah auditing framework. In the opinion of Dusuki (2006) and Kasim et al. (2009), a wide gap exists between what is expected of Shariah auditing and what is offered, especially regarding audit scope, audit framework, and auditor independence. In addition to the existing literature, the attached study highlights the need to develop a comprehensive Shariah audit framework to enhance auditing practices in Islamic financial institutions.

The literature gap concerning Shariah auditors is the lack of Shariah auditors with cross-disciplinary skills. Most literature states that auditors lack either the accounting or Shariah knowledge needed to conduct thorough audits. Rahman (2011) and Sulaiman (2011) highlighted the need for specific educational and training initiatives to address this concern. This paper argues that improving audit effectiveness requires integrating financial, legal, and religious knowledge. Another gap persists in auditor independence and the systemic framework. The overarching concerns about the independence and objectivity of auditors who are appointed and paid by the organizations they audit are of great concern. The current study suggests that, to address this concern, the Islamic Auditing Foundation (IAF) be established to improve the transparency and accountability of audit work. However, the fact that this idea has not been empirically researched or widely practiced shows the gap that exists between theory and practice.

Studies on integrating Islamic auditing with modern practices and developing financial environments remain limited. Islamic auditing incorporates conventional techniques, provided they do not contradict Shariah principles. However, few, if any, studies examine the systematic methodological integration of these techniques within Islamic perspectives. The accompanying study argues that Islamic auditing must scrutinize modern practices based on the Qur'an and Sunnah, yet practical means for this integration remain inadequate. This is why this study seeks to address these gaps by deepening and integrating understanding of Islamic auditing principles and practices.

Given this background, this study aims to investigate Islamic auditing theoretically and empirically, concentrating on its concepts, issues, and shortcomings. The study attempts to address how Islamic auditing differs from other audits, what drives its success, and the potential for improving existing models. The study aims to address these questions to develop a model of Islamic auditing that aligns with Shariah and the contemporary financial world.

2. Review of literature and hypothesis development

Empirical review

Research on Islamic auditing shows that Shariah auditing practices develop alongside Islamic financial institutions. Regarding Shariah auditing, Kasim et al. (2009) noted a lack of audit framework comprehensiveness, limited audit scope, and issues with auditor qualification and independence. Haniffa (2010) also noted auditor independence issues attributed to Shariah Supervisory Boards (SSB). The absence of clear roles, as noted by Khalid et al. (2021), weakens review and audit effectiveness.

In a positive sense, Islamic auditing in various studies contributes to organizational accountability and governance. Shariah-compliant auditing standards, such as the AAOIFI (2010) framework, boost stakeholder confidence. The framework also governs and strengthens the organizational internal control systems and finances ethically. Islamic auditing emphasizes fair transactions, contract fulfillment, and the absence of unethical practices (social injustice), tatfif (fraud in measurement), and ihtikar (hoarding) (Ab Ghani, 2015).

The empirical literature also demonstrates the downsides and limitations of Islamic auditing. One notable issue is the insufficient competency of Shariah auditors. Rahman (2011) and Sulaiman (2011) contend that insufficient

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interdisciplinary knowledge in both accounting and Shariah negatively impacts audit quality. The accompanying study aligns with this observation, stating that audit practitioners with accounting knowledge tend to lack Shariah knowledge, and vice versa, creating a deficit in effective auditing practice. Moreover, the lack of independence attributed to organizational structures also diminishes the effectiveness of Shariah auditing.

Regarding Islamic auditing, empirical research has produced mixed findings. Some authors among which include Ab Ghani (2015); Haridan (2018) Tawfik (2020) among others stated that credit Shariah auditing improves governance and accountability, while others like Yasoa (2020); Khelassi et al. (2024) among others says that due to their institutional and regulatory settings, its influence is limited. For instance, the AAOIFI Standards offer some guidance; however, they are not uniformly applied worldwide. Another issue is the independence of Shariah auditors. Although independence is generally acknowledged as an important auditing principle, this paper underscores that Shariah auditors do not seem to have much power to influence an organization beyond the board of directors. This mixed result reflects that Islamic auditing is a function of not just the governance system, but also its regulatory system and the system of professional auditing activities.

Theoretical review

The theory behind Islamic auditing integrates conventional auditing with Islamic principles from the Qur'an and Sunnah. Classical auditing theory, as discussed by Flint (1988) and Arens and Loebbecke (1998), focuses primarily on checking financial statements, compliance, and mitigating information asymmetry between management and stakeholders. However, this classical framework is more economic and contractual in nature and focuses on accountability to shareholders, without considering broader ethical or theological aspects. As noted in the accompanying study, conventional auditors focus on clients and are not obligated to consider management choices from a socio-religious viewpoint.

On a different note, Islamic auditing has a broader theoretical scope, integrating accountability to Allah, society, and stakeholders. This is influenced by Islamic principles of hisab (accountability), amanah (trust), and ihsan (excellence). Islamic accounting and auditing aim to achieve the objectives of Shariah (Maqasid al-Shariah), which are justice, transparency, and social welfare; this is how Shahul and Yaya (2005) put it. In the same vein, but with a different approach, Syed Alwi (2007) and Zakaria et al. (2019) argued that Shariah auditing should embrace all aspects of the organization, not just the financial statements. This includes systems, people, and the organization's impact on its surroundings.

The most important theoretical angle the paper brings out is hisbah, which has conventionally served as a predecessor to modern-day regulatory and supervisory mechanisms, but in this case, within the structures of Islamic civilizations. A muhtasib (auditor) would oversee market behavior and ensure equitable and ethical conduct. This is a far more comprehensive accountability approach than the traditional one, where an auditor primarily concerns themself with financial adherence. As this paper has established, Islamic auditors should scrutinize management, ensure compliance with contracts, and avoid unethical conduct such as monopolies, fraud, and extravagance.

The Islamic accountability framework is the most appropriate for this study because it most comprehensively captures the essence of Islamic auditing. While other theories focus on financial and contractual relationships, Islamic accountability is more holistic as it incorporates ethical, social, and spiritual relationships. This better suits the objectives of Islamic auditing, which seek to determine compliance with financial and Shariah dimensions. For this reason, this study incorporates the Islamic accountability framework, as it best captures the essence of auditing in Islamic banking.

3. Methodology

This study adopts a conceptual research methodology based on a systematic review and critical synthesis of findings from prior empirical and theoretical studies. Unlike empirical research, the present study does not involve primary data collection, sampling, or statistical hypothesis testing. Instead, it builds upon established knowledge in the existing literature to develop and propose an integrated conceptual framework.

Therefore, this paper analyzes previous empirical studies of Islamic auditing that drew on both primary and secondary sources. The first set of primary sources includes the Qur'an and the Hadith. From these, the present study derives Islamic concepts regarding the accountability and ethics of auditing processes. The second set of sources includes publications from the Accounting and Auditing Organizations of Islamic Finance and the Islamic

Finance Service Board. This study uses secondary sources, including published works and institutional reports. The data revealed challenges in governance, accountability, Shariah compliance, and the practice of Islamic auditing. The study highlights the challenges of Islamic auditing in relation to the Shariah principles of Islamic finance and the regulatory principles of conventional auditing.

4. Results

This study finds that compared to conventional auditing, Islamic auditing offers greater and more comprehensive accountability. Conventional auditing focuses on the accuracy of financial statements and compliance with laws, whereas Islamic auditing considers the ethical, social, and religious obligations enshrined in Shariah. The study's findings suggest that Islamic auditing is built on the concepts of amanah, hisab, and ihsan. The principles of Islamic auditing broaden auditors' responsibilities from verifying financial statements to appraising organizational ethics, fairness of transactions, fulfillment of contracts, and compliance with Islamic provisions. Furthermore, the study argues that Islamic auditing promotes transparency, justice, and society's overall welfare within the framework of the Maqasid al-Shariah in Islamic financial institutions.

This study also finds that Islamic auditing strengthens organizational governance and improves stakeholder confidence. Based on the existing literature, adopting Shariah auditing frameworks and AAOIFI standards strengthens an organization's internal framework, builds transparency, and enhances trust. Historical hisbah is also a major influence on the development of modern Islamic auditing. The muhtasib's traditional role in overseeing market ethics and preventing unethical practices closely relates to the modern Islamic auditing function of enforcing ethics and social responsibility. From this perspective, Islamic auditing is both a system of financial monitoring and an instrument of moral and organizational governance.

This research shows that, while Islamic auditing offers clear benefits, it still has shortcomings. One major drawback is the lack of universally accepted Islamic auditing frameworks in Islamic financial institutions. While institutions such as AAOIFI and IFSB have established frameworks, governance frameworks have been implemented inconsistently. The research also identifies issues related to the independence and authority of Shariah Auditors, the forms of support they receive, and the appointment protocols used in Shariah Auditing. Governing and auditing inconsistencies stem from distinct regulatory and Shariah Auditing frameworks. The research also noted an inadequate number of trained Shariah auditors as another major constraint in the overall Islamic auditing process. While many Shariah Auditors are proficient in either conventional accounting or Shariah, few are proficient in both. The findings suggest the need for intensive training and professional programs that teach Shariah Auditors the interrelated and complex fields of Shariah, Auditing, and Accounting. The research emphasizes the need for various, diverse Shariah Auditing frameworks, independent auditing support, and unified regulatory frameworks. Shariah auditing can support positive governance and provide a framework, but only if the field has adequate independent support, Shariah Auditing, and qualified professionals.

5. Conclusion

Islamic auditing has brought greater improvements to auditing than conventional auditing by adding ethical, social, and religious aspects. While conventional auditing focuses on financial accuracy and compliance, Islamic auditing broadens this focus to include accountability to Allah, the public, and stakeholders. This framework is grounded in Islamic values such as amanah, hisab, and ihsan, as well as the institution of Hisbah. In that sense, Islamic auditing is more than a financial audit; it is an audit for justice, transparency, and ethical business behavior. The results show that Islamic auditing can improve governance and accountability at Islamic financial institutions. Adopting AAOIFI (2010) standards can improve transparency and adherence to Shariah compliance, but Islamic auditing's effectiveness is limited by a lack of auditor independence and competence, and by missing regulatory frameworks.

Moreover, the study identifies additional gaps in practice and the literature. These areas include insufficient unified frameworks for Shariah auditing, lack of contemporary auditing methods, and the need for more interdisciplinary auditing training. The attached study's concept of an independent Islamic Auditing Foundation could address independence and accountability and may help close these gaps, but more empirical work is needed.

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