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A QUALITATIVE ANALYSIS OF THE EFFECTIVENESS OF SHARIA AUDIT IN REDUCING COMPLIANCE RISK IN INDONESIAN ISLAMIC COMMERCIAL BANKS

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ABSTRACT

This study is motivated by the high level of compliance risk in the operations of Islamic banks, which has the potential to cause violations of Sharia principles and reduce public trust. The focus of this study is the effectiveness of Sharia audit in reducing compliance risk. The research question is directed at examining the extent of the role of Sharia audit and the factors influencing its effectiveness. This study employs a descriptive qualitative approach with data collection techniques through literature review sourced from scientific journals, regulations, and related documents. The results show that Sharia audit plays an effective role in minimizing compliance risk through the implementation of risk-based auditing, strengthening internal control systems, and synergy between internal auditors and the Sharia Supervisory Board. However, the effectiveness of Sharia audit is still influenced by limited human resources, the complexity of Islamic financial products, and the lack of standardized audit frameworks.

Keywords: Sharia Audit, Compliance Risk, Islamic Banking, Audit Effectiveness, Sharia Governance

INTRODUCTION

The development of the Islamic banking industry in Indonesia has shown a positive trend in recent years, marked by asset growth and an increase in the number of customers. However, this growth is not free from challenges, particularly regarding compliance with Sharia principles. Sharia compliance is a fundamental element that distinguishes Islamic banks from conventional banks; therefore, all operational activities must be free from interest (riba), uncertainty (gharar), and gambling (maysir). In this context, failure to maintain compliance not only has legal implications but can also damage the reputation and public trust in Islamic financial institutions. This indicates that compliance risk is one of the main risks that must be seriously managed within the Islamic banking system (Putri Aprilya Rahmawati & Fauzatul Laily Nisa, 2024).

Compliance risk in Islamic banking arises as a consequence of the complexity of financial products and transactions that must comply with both Sharia principles and modern banking regulations. In practice, Islamic banks face not only financial risks such as credit and liquidity risks but also risks of non-compliance with Sharia principles that may threaten their operational legitimacy. Previous studies show that compliance risk is closely related to the bank's ability to identify, measure, and control potential violations of applicable regulations (Rahmayanti et al., 2020). Therefore, compliance risk management is a crucial aspect that cannot be separated from Islamic banking governance.

Furthermore, field phenomena indicate that despite the existence of supervisory systems, there are still practices that deviate from Sharia principles. Several studies have revealed manipulative transactions and practices that contradict Islamic values in banking operations, indicating that compliance implementation is not yet fully optimal (Saputra & Suwardi, 2023). This condition confirms that regulation alone is not sufficient; an effective supervisory mechanism is required to ensure comprehensive compliance. In this context, Sharia audit serves as an important instrument to ensure that all banking activities comply with Sharia principles. Sharia audit functions not only as an evaluation tool but also as a preventive mechanism to detect potential violations at an early stage. Its role is increasingly significant as it involves internal auditors and the Sharia Supervisory Board (SSB), which are responsible for maintaining operational integrity. Studies show that risk-based auditing can help Islamic banks identify and manage risks more effectively, including compliance risk (Yusra et al., 2024).

In addition, Sharia audit also strengthens the Islamic corporate governance system, which serves as the foundation for transparency and accountability. In some cases, weak supervision and auditing may contribute to fraud in Islamic banks, ultimately harming various stakeholders. Empirical studies indicate that Sharia compliance is related to fraud risk levels, making the strengthening of audit systems a strategic step to minimize potential deviations (Rizki Dwi Anggraini, 2024). This confirms that Sharia audit has a direct contribution to the stability and credibility of Islamic financial institutions.

However, the effectiveness of Sharia audit in practice still faces several challenges. Limited human resources with expertise in Sharia auditing, lack of auditor independence, and the complexity of Islamic financial products are factors that hinder optimal audit implementation. In addition, coordination between internal audit units and the Sharia Supervisory Board is often not fully effective. This indicates a gap between the ideal concept of Sharia audit and its practical implementation.

On the other hand, studies show that effective compliance risk management requires integration between audit functions, internal control systems, and the active role of the SSB in supervision. Islamic banks that implement a comprehensive supervisory system tend to be more successful in minimizing compliance risk through continuous monitoring mechanisms, both before and after transactions (Imam Mustofa, 2024). This indicates that the effectiveness of Sharia audit is highly influenced by the quality of the control system implemented.

Based on the above explanation, the main problem addressed in this study is the suboptimal effectiveness of Sharia audit in reducing compliance risk in Islamic banks. This issue is important because it is directly related to the sustainability, credibility, and public trust in the Islamic banking industry. Therefore, this study aims to analyze the extent to which Sharia audit plays a role in minimizing compliance risk and to identify the factors influencing its effectiveness, in order to contribute to the development of better Islamic banking governance.

1. Audit Effectiveness

Audit effectiveness reflects the ability of the audit function to achieve its objectives, namely identifying, preventing, and correcting irregularities within an organization. In Islamic banking, audit effectiveness is not only measured by the ability to detect errors but also by the success in ensuring that all operational activities comply with Sharia principles. An effective audit plays an important role in strengthening internal control systems and improving the quality of Islamic financial governance.

Sharia audit effectiveness is influenced by auditor competence and independence. Muhammad (2024) shows that Sharia auditor competence plays an important role in supporting audit effectiveness in Islamic financial institutions (Muhammad & Sunita, 2024). This is in line with Lathifah and Taufik (2025), who emphasize that auditors' ability to understand both Sharia and technical auditing aspects is a key factor in improving audit quality (Lathifah & Taufik, 2025). Auditor independence is also crucial in maintaining objectivity. Rahmadhani and Arif (2025) state that challenges in implementing Sharia audit in Indonesia may reduce effectiveness if independence is not properly maintained (Rahmadhani & Arif, 2025).

Audit effectiveness is also strengthened by the implementation of risk-based auditing. Ayu, Pratiwi, and Aryuna (2024) show that this approach improves the accuracy of identifying potential irregularities (Ayu et al., 2024). In addition, the use of technology and structured audit systems also enhances effectiveness. Amanda and Ramadan (2025) found that limited technology utilization remains an obstacle to Sharia audit effectiveness in Indonesia (Amanda et al., 2025). Thus, audit effectiveness is the result of a combination of auditor competence, independence, and system and technological support.

2. The Concept of Sharia Audit

Sharia audit is a systematic, independent, and documented examination process to ensure that all institutional activities comply with Sharia principles. It has a broader scope than conventional audit because it covers contracts, products, and operations in accordance with Islamic law. Therefore, Sharia audit is an essential part of Islamic financial governance.

Rahmadhani and Arif (2025) explain that Sharia audit in Indonesia still faces implementation challenges, particularly in maintaining consistent compliance (Rahmadhani & Arif, 2025). Agustin and Mardian (2026) emphasize its importance in improving accountability in Islamic financial institutions (Agustin & Mardian, 2026). Umiyati and Febriansyah (2024) show that Sharia audit is effective in detecting deviations in Islamic financial products (Umiyati & Febriansyah, 2024). Firmansyah and Muhammad (2024) further state that audit quality determines supervisory success (Firmansyah & Muhammad, 2024).

3. Compliance Risk in Islamic Banking

Compliance risk refers to the risk arising from the failure of an institution to comply with regulations and Sharia principles. In Islamic banking, it is more complex because it includes legal and religious dimensions, affecting both sanctions and reputation.

Yusra and Nurnasrina (2024) show that effective supervision by the Sharia Supervisory Board reduces compliance risk (Yusra et al., 2024). Andriani et al. (2025) state that product complexity increases compliance risk (Andriani et al., 2025). Weak internal control systems and limited Sharia knowledge also contribute to this risk. Compliance risk can reduce public trust; therefore, effective audit systems are required.

METHOD

The author uses a descriptive qualitative approach focusing on Sharia audit effectiveness in reducing compliance risk. The discussion begins with identifying theoretical concepts through literature review, followed by analysis of audit implementation in banking practice. Secondary data such as audit reports, regulations, and previous studies are used to evaluate audit effectiveness. The analysis also assesses independence, auditor competence, and internal control systems, as well as supporting and inhibiting factors. The data are analyzed systematically through identification, evaluation, and interpretation to produce comprehensive conclusions.

RESULTS AND DISCUSSION

1. Implementation of Sharia Audit in Islamic Banks

The research findings indicate that Sharia audit has become an integral part of the internal control system in Islamic banks, aimed at ensuring that all operational activities comply with Sharia principles. The audit is implemented through systematic stages, including audit planning, audit execution, reporting, and follow-up of audit results. In practice, Sharia audits cover the examination of contract (akad) compliance, transaction validity, and adherence to Sharia Supervisory Board fatwas and applicable regulations.

Hameed et al. (2017) emphasize that Sharia audit does not only function as a post-audit evaluation tool, but also as a preventive mechanism (pre-audit) through procedural review before transactions are executed (Tuzzahroh & Laela, 2022). This shows that Sharia audit has a more comprehensive nature compared to conventional audit because it integrates legal compliance and Sharia values. In addition, Abdullah et al. (2019) found that Islamic banks with well-structured and properly documented audit systems tend to have higher compliance levels and are more capable of significantly reducing potential violations (AZIZ et al., 2019). Thus, optimal implementation of Sharia audit becomes a fundamental foundation in maintaining the operational integrity of Islamic banks.

Compliance risk in Islamic banking refers to the risk arising from a bank's inability to comply with Sharia provisions and applicable regulations. Based on the findings, this risk originates from several main factors, including inconsistencies in contract implementation, weak internal control systems, and insufficient understanding of Sharia principles among human resources. Yahya and Mahzan (2018) explain that compliance risk in Islamic banks is more complex than in conventional banks because it simultaneously involves legal, ethical, and religious dimensions (Malahayatie, 2018). This risk not only leads to regulatory sanctions but also reduces public trust, which is essential for the sustainability of Islamic banks. Furthermore, Farook et al. (2021) found that a weak compliance culture within organizations is one of the dominant factors increasing the likelihood of violations (Imam et al., 2025). In this context, business target pressure often drives deviations from Sharia principles, thereby increasing compliance risk. Therefore, risk identification is a crucial step in mitigation processes carried out through Sharia audit.

2. Analysis of Sharia Audit Effectiveness in Reducing Compliance Risk

The main finding of this study indicates that Sharia audit is significantly effective in reducing compliance risk, especially when implemented using a risk-based audit approach. This approach allows auditors to focus supervision on areas with the highest level of risk, making the audit process more efficient and targeted.

Abdullah et al. (2019) show that the implementation of risk-based audit improves the effectiveness of violation detection and accelerates decision-making in risk mitigation (AZIZ et al., 2019). In addition, Nurul et al. (2025) emphasize that the integration of Sharia audit with risk management systems enhances overall supervisory quality (Fadilah et al., 2025). However, the findings also show that Sharia audit effectiveness is still relative. In some cases, audits focus only on administrative aspects without deeply examining substantive Sharia compliance. This indicates that audit effectiveness is not only determined by procedures but also by the quality of analysis and auditor professionalism.

The Sharia Supervisory Board (Dewan Pengawas Syariah/DPS) plays a strategic role in strengthening Sharia audit effectiveness. DPS acts as an independent body that supervises the implementation of Sharia principles and ensures that audit results comply with applicable provisions. Grassa (2018) found that Islamic banks with active and competent DPS tend to have higher compliance levels and lower violation risks (Avitariani et al., 2023). Furthermore, Kristanti et al. (2023) confirm that coordination between DPS and internal auditors improves the effectiveness of internal control systems (Kristanti et al., 2019). Thus, synergy between DPS and internal auditors is an essential element in creating an effective and sustainable supervisory system.

The study identifies several factors supporting Sharia audit effectiveness. First, auditor competence, including understanding of Sharia principles and modern audit techniques. Multidisciplinary auditors are more capable of identifying risks comprehensively. Second, management support, reflected in commitment to Sharia principles and provision of adequate resources. Third, the use of information technology, which enables faster and more accurate audit processes. Al-Matari et al. (2020) show that technology usage in auditing improves transparency and data accuracy (Nirwana & Permana, 2025). These factors collectively serve as key drivers in improving Sharia audit quality.

On the other hand, several inhibiting factors also affect audit effectiveness. Limited human resources with Sharia audit expertise remain a major constraint. Haniffa and Hudaib (2007) state that the shortage of experts is a significant obstacle in Sharia audit development (Rizky Fatmawati, 2020). In addition, the increasing complexity of Islamic financial products makes auditing more challenging. The lack of standardized Sharia audit frameworks also leads to differences in interpretation during audit implementation, reducing consistency in supervisory outcomes.

3. The Role of Regulation in Strengthening Sharia Audit

Regulation plays an important role in strengthening Sharia audit effectiveness. Policies issued by the Financial Services Authority (Otoritas

Jasa Keuangan/OJK) provide clear guidelines on audit implementation and compliance risk management.

Muneeza et al. (2020) show that strong regulations improve governance quality and significantly reduce compliance risk (Karbhari et al., 2020). Thus, regulation is a critical external factor supporting Sharia audit effectiveness.

Overall, the findings indicate that Sharia audit plays a vital role in reducing compliance risk in Islamic banks. Its effectiveness is influenced by various internal and external factors such as auditor competence, management support, technology, and regulation. However, several challenges remain, particularly regarding limited human resources and the increasing complexity of Islamic financial products. Therefore, continuous efforts are needed to improve Sharia audit quality through competency strengthening, standard development, and technology utilization so that Sharia audit can function optimally in maintaining compliance and stability in the Islamic banking industry.

CONCLUSION

This study shows that Sharia audit plays a crucial role in minimizing compliance risk in Islamic banks through a systematic and continuous supervisory function. Sharia audit not only serves as an evaluation tool for operational compliance with Sharia principles but also acts as a preventive instrument capable of identifying potential deviations at an early stage. Its effectiveness becomes more evident when supported by adequate auditor competence, the implementation of a risk-based audit approach, and strong synergy with the Sharia Supervisory Board. This combination fosters transparency, accountability, and improved governance quality, thereby strengthening public trust in the Islamic banking industry. However, the implementation of Sharia audit still faces several challenges that may affect its effectiveness, such as limited human resources with specialized Sharia expertise, increasing complexity of financial products, and the lack of standardized audit frameworks. Therefore, continuous strategic efforts are required, including auditor capacity building, regulatory strengthening, and the utilization of technology in audit processes. By optimizing these aspects, Sharia audit is expected to function more effectively in reducing compliance risk and supporting a stable, credible, and sustainable Islamic banking system.

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