

## **DUTIES AND FUNCTIONS OF INTERNAL AND EXTERNAL AUDITORS OF SHARIA BANK**

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### **ABSTRACT**

The increase in the growth of sharia banking needs to be supported by the performance and existence of sharia auditors. This study aims to discuss the roles and competencies of Islamic auditors in supporting Islamic banking performance. This type of research uses a qualitative method, a descriptive approach with literature study data. The results of this study indicate that the competencies that must be possessed by sharia auditors include knowledge of Islamic law, fiqh muamalah, skills in accounting and auditing, as well as special characteristics as sharia auditors. These competencies are the key to maximizing the roles and competencies of sharia auditors in supporting the performance of Islamic banking. The roles of sharia auditors include independent auditors, internal auditors, and sharia supervisory boards. Sharia compliance testing on Islamic Financial Institution entities is part of the role of the sharia auditor.

**Keywords:** Duties, Functions, Auditors, Islamic Banks.

### **INTRODUCTION**

In general, Islamic and conventional financial institutions can be said to have the same function, namely collecting funds from the public and managing them in the form of equity participation, insurance, leasing and so on. However, in several respects, Islamic financial institutions have different treatment because the transactions that apply in Islamic financial institutions are very special when compared to conventional financial institutions (Umam, 2015). One of them, there is a guarantee that what they are doing is in accordance with the fulfillment of Islamic law and there is a belief that what has been done does not violate sharia principles (Ardi 2017). The economic sector in the field of Islamic banking in Indonesia began with the birth of Bank Muamalat Indonesia in 1992. Then, after the economic crisis in 1998, the next Islamic banking was born, namely Bank Syariah Mandiri. Furthermore, several laws (UU) were successively presented as a form of government support for the progress of the application of Islamic economics in Indonesia. The concept of Islamic sharia-based finance has been widely accepted in the world and is an alternative both for markets that require sharia compliance, or for conventional markets as a source of profit (profit source) (Fauzi and Supandi 2019) In the era of competition in the ASEAN economic community, many companies have developed. Various business opportunities are wide open for all business people, both in the service, trade, and manufacturing sectors.

Facing this era, many business people predict what will happen in the future, which in the future will bring challenges and difficulties that must be faced by business ventures. Even though the future brings challenges and difficulties, a company is still required to be effective in managing its company. Every company has operational activities that produce financial reports and accounting records as well as adherence to management policies and government regulations. Therefore, an internal audit is needed, the internal audit itself is an activity of examining and testing a statement, the implementation of activities carried out by an independent party to provide an opinion. This aims to help management achieve good performance by introducing a systematic approach to evaluate and improve the effectiveness of internal control and provide notes on deficiencies found during the evaluation.

## **RESEARCH METHOD**

The study of this research uses a literature review in which the literature is taken in accordance with the subject matter and is analyzed in depth so that conclusions and findings can be drawn in the research. Literature taken from books, journal articles both nationally and internationally and other literature (Hendriarto et al., 2021; Nugraha et al., 2021; Sudarmo et al., 2021; Hutagaluh et al., 2020; Aslan, 2017a; Aslan, 2019; Aslan, 2016; Aslan et al., 2020).

## **RESULTS AND DISCUSSION**

Duties and Functions of Internal and External Auditors 1. Duties and Functions of Internal Auditors a. Internal Auditor Duties According to Hudri Chandry, (2009: 10) the duties and responsibilities of internal auditors in an organization must also be clearly defined by the leadership. This task should give the internal auditor the flexibility to audit records, property, ongoing operations/activities and employees of the business entity. The Indonesian Institute of Accountants (IAI) states in more detail regarding the responsibilities of internal auditors in the Professional Standards for Public Accountants. Internal auditors are responsible for providing analysis and evaluation services, providing assurance, recommendations and information to entity management and the board of commissioners or other parties with equivalent authority and responsibility.

Internal auditors maintain objectivity with regard to the activities audited. In general, the responsibilities and responsibilities of an internal auditor in carrying out their duties are as follows: 1) Provide information and suggestions to management on the weaknesses it finds. 2) Coordinate activities within the company to achieve audit objectives and organizational or company goals. b. Functions of Internal Auditors The internal audit function is as a tool for management to assess the efficiency and effectiveness of the implementation of the company's internal control structure, then provide results in the form of suggestions or recommendations and provide added value to management which will be used as a basis for making decisions or further

actions. According to the Internal Audit Professional Organization Consortium, those in charge of the internal audit function must manage the internal audit function effectively and efficiently to ensure that the activities of this function provide added value to the organization.

The scope of internal audit should cover the adequacy and effectiveness of the organization's performance system in carrying out assigned responsibilities: 1) Reliability and supporting information 2) Comply with policies, plans, procedures, laws, regulations and contracts 3) Security of assets 4) Economical and efficient use of resources 5) Achievement of the set targets and objectives of the operating program)

2. Duties and Functions of the External Auditor

a. External Auditor Duties According to Mulyadi, (2004: 87) the auditor is a public accountant who provides audit services to the auditee to check the financial statements so that they are free from misstatements. External auditors are professional auditors who provide services to the general public, especially in the field of auditing financial reports prepared by their clients. Users of corporate financial information, such as investors, government agencies and the public rely on external auditors to produce information that cannot and are independent.

According to Messier, (2005: 231) Certified public accounting firms (public accountants) are also called external auditors or independent auditors. This accountant is responsible for examining or auditing the published financial statements of the organization and providing an opinion on the information audited. An external auditor may practice as sole proprietor or member of a public accounting firm. Called external because they are not employed by the entity being audited. External auditors audit financial reports for public and non-public companies. Auditing standards limit other types of audit services that can be provided by an external auditor to financial statement audit clients who are public companies.

The duties of the external auditor are: 1) Evaluate financial information or financial reports 2) Assess the accuracy and compliance of financial reports 3) Investigate internal systems and operations 4) Assess the company's risk management approach 5) Perform audits for other departments, if necessary 6) Report errors (errors) and fraud (fraud) 7) Provide feedback reports regarding its findings

b. Functions of Internal Auditors The external auditor is responsible for forming and expressing an opinion on the financial statements. Thus the external examiner must obtain reasonable assurance that the work performed by the internal examiner is adequate and reliable, taking into account that this assurance is obtained by first carrying out a general assessment.

### **Forms of Internal and External Audit at Sayriah Bank**

Given the need to ensure proper adherence to shari'ah auditing principles in operations and activities, the role of each of the main actors in the audit of an Islamic financial institution is critical. The perpetrators of auditing Islamic financial institutions are: 1. Internal Auditors According to Mohamad Nadrom, (2012: 166) the

inspections carried out by internal auditors are more detailed than those carried out by external auditors. The internal auditor does not provide an opinion on the fairness of the financial statements because the internal auditor is a person in the company who is not independent.

The internal auditor's report includes examination of fraud and irregularities, internal control weaknesses, and recommendations for improvement. Internal audit is divided into:

- a. The Audit Committee and Governance of Islamic Financial Institutions This Committee is responsible for the following functions, internal control systems, and the use of limited investment accounts in shari'ah uncles, temporary and annual accounts and accounting and auditing practices.
- b. The Sharia Supervisory Board is responsible for issuing fatwas, formulating policies according to the shari'ah, and providing sharia support with the products and services of Islamic Financial Institutions. Their basic role is as approval or stamping authority. The main function of the Sharia board is to act as an adviser and provide a booth for the Board of Directors of Buma as the organizer of the Sharia Commodity Market on matters related to sharia aspects in the implementation of the Sharia Commodity Market.
- c. Internal auditors are responsible for conducting internal audits and for ensuring Islamic Financial Institutions comply with the Shari'ah and all transactions and contracts are executed within the Shari'at framework. Some Islamic Financial Institutions also have their shari'at officers as a unit working together with the internal auditors or they are part of the internal auditors.

2. External Auditor External auditors are responsible for giving their opinion whether transactions and contracts are within the terms of regulatory policies and guidelines. Where internal and external auditors are also responsible for testing the shari'ah prowess of Islamic financial institutions. In addition, there is still ongoing debate on who should perform shariah audits. Kasim's study found that some respondents preferred the practice of shari'ah audits to be carried out by people who qualified in shari'a only. Others want shari'ah audits to be the responsibility of internal auditors or shari'ah departments of respective Islamic financial institutions or members of shari'a committees.

## **CONCLUSION**

The conclusion that can be drawn from the discussion above is that it is the external auditor's responsibility to provide their opinion whether transactions and contracts comply with the terms of the regulatory policies and guidelines. Where internal and external auditors are also responsible for testing the shari'ah prowess of Islamic financial institutions. The internal audit function is as a tool for management to assess the efficiency and effectiveness of the implementation of the company's internal control structure, then provide results in the form of suggestions or recommendations and provide added value to management which will be used as a basis for making decisions or further actions. The competencies that must be possessed by sharia auditors include, First, knowledge covering the fields of Islamic

banking, fiqh muamalah, auditing theory, conventional banking, risk management, mathematics, business accounting, related laws, internal controls, and risk mapping. Specific knowledge includes auditing knowledge, professional ethics, fraud awareness, mastery of sharia auditing standards, and understanding the type of industry or company. Second, accounting and auditing skills, namely: understanding international accounting standards adopted with accounting and auditing standards that apply in the national territory, as well as standards adopted by other Muslim countries if they want to work in other countries that have implemented sharia auditing; have an understanding with good knowledge in finance and business; understand management theory and practice; etc. Third, special characteristics include ethical responsibility, integrity, self-esteem, self-management, and professionalism. And the most important thing that must be possessed by an Islamic banking auditor is Islamic character, because with Islamic character, a sharia auditor will always feel that every work he does is supervised by Allah SWT and will be accounted for in the hereafter so that he is afraid to commit fraud. These three competencies are the key to maximizing the role and competence of the sharia auditor to support the performance of Islamic banking.

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