Aims

The main aim of this paper is to examine the candidate’s knowledge and understanding of the basic principles of Islamic business ethics and its implications on the role of corporate governance and auditing for Islamic Financial Institutions (IFIs), including awareness of contemporary challenges related to governance and auditing practices.

Another aim of this paper is to examine candidate’s knowledge of AAOIFI’s Code of Ethics for Accountants and Auditors and AAOIFI’s Standards on Corporate Governance.

Learning Outcomes

Ethics

After successfully completing this section of the paper, candidates should be able to:
• discuss the basic principles of Islamic business ethics;
• explain the implications of Islamic business ethics on IFIs; and
• demonstrate an understanding of AAOIFI Code of Ethics for Accountants and Auditors.

Corporate Governance

After successfully completing this section of the paper, candidates should be able to:
• explain the various financial contracting and corporate governance theories;
• discuss agency issues related to IFIs and Islamic Insurance Institutions (Takaful);
• describe the governance mechanisms in IFIs, the role of the Shariah Supervisory Board (SSB), and contemporary mechanisms in dealing with governance constraints;
• explain the Shariah governance systems particularly the appointment of Shariah scholars to serve financial institutions, the qualification requirements in fiqh and knowledge in banking and finance and the regulatory restrictions on the number of institutions scholars may serve; discuss the workings of the Shariah committees including the decision taking process in the issuance of fatwa, the role of national Shariah boards versus those of particular institutions, the privatisation of Shariah compliance, in-house and outsourced Shariah compliance and the dangers of Shariah arbitrage and Shariah "shopping";
• discuss the relationship between corporate governance in IFIs and its implications on disclosure practices and corporate social responsibility;
• demonstrate an understanding of AAOIFI Standards on Corporate Governance including those specifically for Islamic Insurance Institutions (Takaful); and
• explain corporate governance implications on Islamic funds and trusts.
Auditing

After successfully completing this section of the paper, candidates should be able to:
- demonstrate an understanding of the objectives and principles of audit in IFIs;
- describe the role and duties of the audit and governance committees in IFIs;
- explain the process and role of Internal Shariah Review; and
- discuss the role of auditors in testing compliance with Shariah for IFIs.

Structure of the Paper

A three-hour paper consisting of two sections totalling one hundred marks.

Section A

This section comprises two compulsory questions, one covering Auditing and the other Corporate Governance. Both questions total sixty marks but the allocation of marks may not always be equal between the two questions.

Section B

This section comprises four questions and candidates are required to answer only two questions out of four. One of the questions in this section will cover the topic on Ethics. Both questions carry a total of forty marks, carrying equal marks of twenty each.

Syllabus

Ethics

Topic Weighting 20%
- Basic principles of Islamic business ethics
- Implications of Islamic business ethics on IFIs
- AAOIFI Code of Ethics for Accountants and Auditors

Corporate Governance

Topic Weighting 50%
- Financial contracting theories – agency, transactional economics and moral hazard
- Corporate governance theories – stewardship, stakeholder
- Agency issues related to IFIs and Islamic Insurance Institutions (Takafful)
- Governance mechanisms in IFIs
- Role of the Shariah Supervisory Board (SSB)
- Contemporary mechanisms in dealing with governance constraints
- Shariah governance systems
- Corporate governance in IFIs and its implications on disclosure practices
- Corporate governance in IFIs and its implications on corporate social responsibility
- Corporate governance implications on Islamic funds and trusts
- AAOIFI Standards on Corporate Governance
- AAOIFI Standards on Corporate Governance for Islamic Insurance Institutions (Takafful)
Auditing

Topic Weighting  30%

- Objectives and principles of audit in IFIs
- Role and duties of the audit and governance committees for IFIs
- Internal Shariah Review process
- Role of auditors in testing compliance with Shariah for IFIs

Basic Reading

AAOIFI Publications

Accounting, Auditing and Governance Standards for Islamic Financial Institutions

Sharia Standards for Islamic Financial Institutions

Books

Beekun, R. I. (1996), Islamic Business Ethics, International Institute of Islamic Thought

Articles


