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## THE ROLE OF SHARIA AUDIT IN THE IMPLEMENTATION OF ISLAMIC SOCIAL FINANCE DURING THE COVID-19 PANDEMIC

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### ABSTRACT

Islamic social finance has an important role as an alternative solution to handling economic problems during the Covid-19 pandemic through zakat, infaq, alms and waqf (ZISWAF). In managing ZISWAF, a supervision and control system is needed in the form of a sharia audit. This study focuses on the role of sharia auditing in Islamic social finance governance during the Covid-19 pandemic. The study was conducted through a literature study with a qualitative descriptive method. The results of this study indicate that sharia auditing has the role of (1) ensuring the governance of Islamic social finance in the form of ZISWAF in accordance with the guidelines stipulated by Islamic law; (2) Assessing the extent to which the goals and objectives that have been set for the implementation of Islamic social finance programs are achieved effectively and efficiently in accordance with predetermined rules; and (3) As a form of accountability from Islamic social finance management institutions to stakeholders.

**Keywords: Shariah Audit, Implementation Islamic Social Finance**

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### INTRODUCTION

The Covid-19 outbreak that is currently sweeping the world has had a significant impact on the joints of human life. Almost all countries in the world are feeling the effects of this pandemic, including from the economic side. According to the World Bank, the economic impact of the Covid-19 pandemic will stop the businesses of nearly 24 million people in East Asia and the Pacific and the worst- case scenario is that the poverty rate around the world shot up to 922

million (Baldwin, 2020). Bank Indonesia (BI) in a press release on 19 March 2020 explained that the results of the BI Board of Governors meeting had adopted policies to mitigate risks in maintaining economic stability. Among the policies taken by the government were to strengthen the intensity of the triple intervention policy to maintain the stability of the rupiah exchange rate and to add to the policy of distributing “Bantuan Langsung Tunai” (BLT) to people who are categorized as prone to being affected by the Covid-19 pandemic (Takidah, 2020).

However, this policy issued by the government is considered insufficient to maintain economic stability, as seen from data from Kementerian Koperasi dan Usaha Kecil Menengah (Kemenuk) which shows that during the pandemic period there were around 37,000 MSMEs that were very seriously affected (Pakpahan, 2020). Islam as a religion has a set of shari'a that is able to provide solutions to every problem faced by humans in various conditions, times and places. In this pandemic condition, Islam offers a solution through Islamic social finance in the form of orders to issue zakat, infaq, alms and waqf (ZISWAF) which function not only as a manifestation of obedience to Allah Azza Wa jalla but also as a form of empathy, love each other and foster a sense of humanity (Iskandar A, 2020). In the implementation of zakat, infaq, alms and waqf, supervision and controlling system is needed in the form of sharia audits of ZISWAF management institutions such as the Amil Zakat Institute (LAZ) to realize the principles of good amil governance based on Peraturan Pemerintah Nomor 14 tahun 2014 (Warno & Setiyanti, 2015).

Sharia audit in Islamic financial institutions means the accumulation and evaluation of evidence to determine and report the level of conformity between the information and the criteria that have been set for the purpose of sharia compliance. The audit must be carried out by a competent and independent person (Tugiman, 1996). To perform an audit, there must be information in a verifiable form and some standards (criteria) by which the auditor can evaluate the information. Information is obtained and taken from all fronts. Shari'ah auditors perform audits on two objectives of objective information (eg profit sharing financial information) and subjective information (shari'ah information) to ensure shari'ah compliance with Islamic financial institutions

This research was conducted to describe the role of sharia auditing in Islamic social finance governance during the Covid-19 pandemic that is currently hitting the world.

## **LITERATURE REVIEW**

### **Sharia Audit Concept**

In Islam, the concept of examination has been contained in the Holy Quran, among the verses relating to this, namely in the QS. Al Hujurat verse 6:

"O you who have believed, if there comes to you a disobedient one with information, investigate, lest you harm a people out of ignorance and become, over what you have done, regretful."

This verse shows the importance of careful examination of information because it could be a cause of disaster. In the context of sharia auditing, examination of financial reports and other financial information is also very important, considering that both can be a source of economic disaster in the form of crises and so on if not managed optimally.

Sharia auditing can be interpreted as a process to ensure that activities carried out by Islamic financial institutions do not violate sharia or sharia compliance testing as a whole to the institution's activities. The purpose of the sharia audit is to ensure the conformity of all bank operations with sharia principles and rules which are used as guidelines for management in operating their activities (Warno & Setiyanti, 2015).

Sharia Audit guidelines or evidence is to carry out sharia audits in determining audit evidence. Sharia audit guidance or evidence can be defined as any information used by the auditor to determine whether the audited information is stated in accordance with the criteria of the Sharia Audit Guidelines or evidence is to carry out sharia audits in determining audit evidence. Sharia audit guidance or evidence can be defined as any information used by the auditor to determine whether the audited information is stated in accordance with established criteria for sharia underwriting purposes. The criteria for evaluating information vary depending on the information being audited. In an audit of historical financial statements by an auditor, the criteria are usually financial reporting standards (FRS).

Harahap (2002) explains that the process of sharia audit services, the criteria can be developed based on a written opinion from the Sharia Supervisory Agency (SSC), product manuals and standard operating procedures (SOP). Instructions or evidence in sharia audits include: oral testimony from auditors, written communication with outside parties, observations by auditors, and electronic data

transactions. Sharia audit will develop a systematic and comprehensive audit program.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued auditing standards that apply to Islamic financial institutions which have become references in various countries. The AAOIFI Auditing Standards for audits of Islamic financial institutions include five standards, namely objectives and principles of auditing, auditor's report, terms of audit engagement, sharia supervisory board), and sharia review.

The brief explanation of the five standards is as follows:

The first is related to goals and principles. The purpose of a financial statement audit is to enable the auditor to convey an opinion on certain financial statements in all material respects and in accordance with Islamic rules and principles, AAOIFI, relevant national accounting standards, and practices in countries operating financial institutions. The principles of professional ethics include truth, integrity, trustworthiness, fairness and fairness, honesty, independence, objectivity, professional ability, working prudently, maintaining confidentiality, professional behavior and mastering technical standards.

The second is related to the auditor's report. Basic elements of the auditor's report (title, address, opening or introductory paragraph, scope of paragraphs (description of the audit), ASIFI references and relevant national standards or practice, description of the auditor's work, Opinion paragraph containing an expression of opinion on the financial statements, Date Report, Auditor Address and Auditor Signature. Regarding the scope of the paragraph, the auditor's report must describe the scope of the audit by stating that the audit has been carried out in accordance with ASIFI and the relevant national standards or practice is appropriate and does not violate Sharia rules and principles. Scope refers to the auditor's ability to perform audit procedures deemed necessary in that respect. This assures readers that the audit has been carried out according to established standards and practices. Besides that, it is also in accordance with national auditing standards or the practice of following the country where the auditor is located, this can be seen in the address of the auditor. The report includes a statement that an audit has been planned and carried out to obtain reasonable assurance as to whether the financial statements are free material misstatement.

The third is related to the provisions of the audit engagement. The auditor and client must agree to the terms of the agreement. The

term agree needs to be conveyed in the audit assignment letter according to the contract. The basic content of the agreement letter is the appointment letter document and confirms the auditor's responsibility for the client and the form of any reports that the auditor will provide.

The fourth is related to the shari'a supervisory board, which basically contains the appointment, composition and report of the Dewan Pengawas Syariah (DPS).

The fifth is related to the Sharia review (shari'a review). Shari'ah review is a broad test of the Sharia compliance of an LKS, in all of its activities. This test includes appointments, approvals, policies, products, transactions, memoranda (warning letters), and articles of association of the association, financial reports, reports (especially internal audit and central bank supervision), circulation, etc. The purpose of a shari'a review is to ensure that all activities carried out in the Islamic financial institution (LKS) do not breaking the sharia rule. DPS is responsible for creating and expressing an opinion from a Islamic financial institution regarding its compliance with Sharia.

From that explanation, it can be understood that the sharia audit framework meets the following elements:

- a. Sharia audits are carried out with the aim of testing compliance.
- b. Sharia banking is based on the principles and rules of sharia in its products and business activities so that the sharia auditors can provide a clear opinion on whether the shari'ah compliance or not the sharia bank that has been audited.
- c. Sharia audits are conducted with reference to audit standards set by AAOIFI.
- d. Sharia audits are carried out by SAS certified auditors (Sharia Accounting Certification)
- e. The results of the sharia audit have a strong effect on the sustainability of the Sharia banking business and the trust of all parties in the existence of Islamic Finance Institution.

In general, the differences between sharia and conventional auditing can be concluded as follows:

Table 1

Difference between Islamic Audit and Conventional Audit		
No	Audit Syariah	Audit Konvensional
1	The object is LKS or Bank and Bank Financial Institutions	The object is Bank and Non-Bank Financial Institutions that do not operating with Sharia principles
2	Requires a Sharia Supervisory	Not requires a Sharia Supervisory

	Board (DPS) role	Board (DPS) role
3	The audit is carried out by a SA certified Auditor (Sertifikasi Akuntansi Syariah)	The audit can be carried out by a certified Auditor without SAS
4	Use AAOIFI Auditing Standard	Use IAI Auditing Standards
5	Opinion contains about Shari'a Compliance of Islamic Finance Institution	Opinion contains without Shari'a Compliance of Islamic Finance Institution

Source: Minarni (2014)

The theory of auditing is relevant to this study because the substance of the role of DPS is actually the same as that of the auditor (Karim, 1990). There are several similarities between their roles such as checking the conformity of bank transactions with sharia regulations, both issuing reports for company owners. DPS assesses the suitability of sharia on inslimic finance institution activities and external auditors confirm whether the bank's financial statements have shown the condition of the bank's actual financial position. Therefore, sharia supervision needs to be reviewed from the audit side.

Arens, Elder and Besley (2014) stated that auditing is an activity to collect and evaluate information in order to determine and report how much information is received with predetermined criteria. Seeing this definition, it can actually be said that DPS plays the role of sharia auditors in the Islamic banking system.

## RESEARCH METHODS

This type of research is a literature study using secondary data obtained from research results, articles and reference books that discuss topics related to the research theme. In this case, the topics studied were sharia auditing and Islamic social finance in the form of zakat, infaq, alms and waqf (ZISWAF). This study uses a descriptive qualitative approach that describes the role of sharia auditing in the implementation of Islamic social finance during the Covid-19 pandemic. Furthermore, the data is then processed and analyzed descriptively and adjusted to the theme of this research.

## RESULT AND DISCUSSION

The Role of Sharia Audit in the Implementation of Islamic Social Finance during the Covid-19 pandemic

The important roles of sharia audit in the implementation of Islamic social finance are:

First, to ensure the implementation of Islamic social finance in the form of zakat, infaq, alms and waqf (ZISWAF) in accordance with the guidelines stipulated by Islamic law.

Among the things that differentiate between conventional auditing and sharia auditing is that sharia audit does not only examine from the financial side, but also pays attention to the issue of compliance with sharia rules which is the basis for implementing ZISWAF. Therefore, a Dewan Pengawas Syariah (DPS) is needed which carries out the function of monitoring and analysis related to the conformity between the operational activities and practices of the ZISWAF management institution with Islamic law. Antonio (2009) states that the Shari'ah Supervisory Board must make periodic statements that the supervised financial institutions are running in accordance with sharia provisions. This statement is published in the annual report of the bank concerned.

Compliance with sharia guidelines is very important because ZISWAF is a sharia product that has certain and binding rules. For example, zakat regulates the amount that can be spent by muzaki and which parties are entitled to receive the zakat. Therefore, in the management of zakat, starting from the process of receiving to distributing it becomes a part that must be monitored so that it does not go out of the rules established by Islamic law.

Adherence to sharia provisions has a significant impact on the level of public trust in the ZISWAF management institution. So that if there are cases of non-compliance with sharia compliance, it will tarnish the reputation of the institution and reduce the trust of the public and other stakeholders. Therefore, the sharia audit process can help maintain credibility, reputation, and reduce the risk of sharia non-compliance issues that can cause harm if the ZISWAF management institution is subject to legal action for failing to address the issue of sharia non-compliance appropriately.

Hussainey (2016) indicates that governance that is supervised by the Sharia Supervisory Board is better than when only supervised by the board of directors. This is based on the fact that the supervisory standards issued by AAOIFI which are carried out are only mandatory and do not provide direct supervision of the implementation of standards that are in accordance with sharia rules or not. The existence of the DPS will have a more significant impact because in addition to carrying out comprehensive supervision, it also has a role in the presentation of reports on sharia compliance. However, those who are part of the Sharia Supervisory Board should not only understand from the perspective of jurisprudence, but also have an understanding of economics, modern finance and other supporting matters related to the operations of Islamic financial institutions (Umam, 2015).

Second, assessing the extent to which the goals and objectives that have been set for the implementation of Islamic social finance programs are achieved effectively and efficiently in accordance with predetermined rules.

This role is related to the control system and internal audit carried out by the Islamic financial institution. Referring to the Shariah Governance Framework issued by the Central Bank of Malaysia (BNM), in the context of ZISWAF management, sharia audits can be interpreted as an assessment that provides assurance and validates that the internal control of the ZISWAF management institution has been running effectively and efficiently and complies with sharia principles (Suprayogi, 2016). Effective is meant by measuring success in achieving predetermined goals (Hessel, 2005). While efficient means how to use the minimum resources in order to get optimum results.

To ensure the achievement of an effective and efficient Islamic social finance program, the management institution's internal audit must take a big role as defined by Sawyer (2005) that internal audit is to use all company suggestions to ensure that the company's goals are achieved. Furthermore, according to IAI in Paristu (2014) the objectives of internal audit include three things, namely:

- a. Reliability of financial statements
- b. The effectiveness and efficiency of operations, and
- c. Compliance with laws and regulations

In terms of effectiveness and efficiency, internal control is a tool to prevent waste of unnecessary activities in all aspects, as well as preventing inefficient use of resources and handling of assets and their records (Paristu, 2014). Violita and Handarbeni (2015) suggest that internal control efforts in the company are carried out by means of preventive (ex-ante) and curative (ex-post). Preventive (ex-ante) internal control is carried out by complying with various applicable regulations to reduce or minimize the risk of the company's business activities. Meanwhile, curative (ex-post) is carried out after the implementation of the activity.

This internal control will then be reviewed through internal audit along with the implementation of the accounting process and financial information management including the organization's non-financial controls (Baehaqi & Suyanto, 2019).

Audit is able to detect the implementation of the ZISWAF management program effectively and efficiently by looking at program achievements and including the ability of the ZISWAF management agency to adapt to changes that occur. For example, the condition of the Covid-19 pandemic requires the ZISWAF institution to move quickly and take a role in dealing with conditions like this through careful planning, proper programming, and supervision and control system periodically.

Third, as a form of accountability from Islamic social finance institutions in the form of Zakat, Infaq, Alms, and Waqf (ZISWAF) to stakeholders.



Basically, all sources from public funds must be transparent and accountable. Moreover, the funds that come from zakat, donations and alms. Accountability for these funds is vertical and horizontal. Vertical responsibility is responsibility to Allah Azza wa Jalla. Meanwhile, horizontal accountability is the responsibility of the community who provides the funds (Nuchaliza, 2020).

Horizontal accountability is manifested in the form of reports supported by concrete evidence related to all matters relating to the ZISWAF funds obtained. Sharia Financial Institutions including ZISWAF managers must periodically make financial reports that describe the financial conditions of the LKS at the time. Financial statements are records of a company's financial information during an accounting period that can be used to describe the company's performance. These financial statements are part of the financial reporting process. Complete financial reports include:

- a. Balance sheet
- b. Comprehensive income statement
- c. statement of changes in equity
- d. cash flow statements
- e. Notes and other reports as well as explanatory material that are an integral part of financial statements.

One of the components in the financial statement notes are disclosures relating to the application of the sharia concept (Hadi, 2017).

For example, the Amil Zakat Institute (LAZ) must be audited for sharia and finance then report the implementation of ZISWAF management to the Regional Government and the National Amil Zakat Agency (BAZNAS) every six months (PP 14/2014). Furthermore, the results of this reporting will be conveyed to the public openly through print or electronic media (UU 23/2011).

So, the sharia audit at the ZISWAF institution is an important instrument to increase accountability and build trust from stakeholders. This is because stakeholders need certainty whether the ZISWAF they have paid has been managed properly and is in accordance with sharia.

## **CONCLUSION**

In the Covid-19 pandemic period, Islam offers solutions to help deal with current economic problems through Islamic social finance such as zakat, infaq, alms and waqf (ZISWAF). Furthermore, the implementation of Islamic social finance governance during the Covid-19 pandemic requires a control, monitoring and evaluation system in the form of sharia audits that have roles: (1) To ensure the governance of Islamic social finance in the form of zakat, infaq, alms and waqf. (ZISWAF) in accordance with the guidelines stipulated by Islamic law; (2) Assessing the extent to which the goals and objectives that have been set for the implementation of Islamic social

finance programs are achieved effectively and efficiently in accordance with predetermined rules; and (3) As a form of accountability from Islamic social finance management institutions in the form of Zakat, Infaq, Alms, and Waqf (ZISWAF) to stakeholders. The next research could focus more on the impact of covid-19 on the implementation of sharia auditing, both from the regulatory perspective to the audit results.

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