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Lukmon SERIKI¹, SALLEH²

Challenges of Shariah Audit in Nigeria

ABSTRACT

Shariah audit serves as an important governance mechanism within the Shariah governance system of Islamic banks. Its implementation remains challenging as it gives rise to the issue of dispute in its scope and the level of Shariah compliance with the practices and principles of Islamic banking. The Islamic Bank in Nigeria has witnessed a gradual growth with four full-fledged and a window Islamic bank. Key challenges undermining its efficacy in Nigeria are unclear frameworks, inadequate infrastructure, shortage of skilled personnel and inconsistent regulations. This research seeks to explore and address challenges facing in Shariah audit in Islamic banks in Nigeria. The aim of this paper is analyse the issues Shariah auditors encountered in Nigeria Islamic banks. This study adopts a qualitative methodology using focus group discussions of Shariah auditors form Islamic banks, regulators, and retired regulators officials. Findings from this study reveal significant gaps in the adoption and implementation of Shariah audit practices, including regulatory inconsistencies, limited technological integration, and a lack of clarity in operational guidelines. The research highlights the urgent need for a domesticated Shariah audit framework tailored to the Nigerian context, drawing lessons from global best practices while addressing local challenges.

Keywords: Shariah Audit, Islamic Banking, Shariah Compliance, Nigeria, Regulators

JEL Codes: G20

Nijerya'da Şeriat Denetiminin Zorlukları

ÖZ

İslami bankaların Şeriat yönetim sistemi içerisinde önemli bir yönetim mekanizması olarak Şeriat denetimi öne çıkmaktadır. Ancak uygulaması çeşitli zorluklar barındırmakta ve bu durum, İslami bankacılığın uygulamaları ile ilkeleri arasındaki Şeriat uyum düzeyinde tartışmalara yol açmaktadır. Nijerya'daki İslami bankacılık sektörü, dört tam teşekküllü İslami banka ve bir katılım penceresi ile kademeli bir büyüme yaşamıştır. Ancak Nijerya'da Şeriat denetiminin etkinliğini zayıflatan temel sorunlar; belirsiz çerçeveler, yetersiz altyapı, nitelikli personel eksikliği ve tutarsız düzenlemeler olarak öne çıkmaktadır.

Bu araştırma, Nijerya'daki İslami bankalarda Şeriat denetiminin karşılaştığı zorlukları incelemeyi ve bu sorunlara çözüm önerileri getirmeyi amaçlamaktadır. Çalışmanın hedefi, Nijerya'daki İslami bankalarda Şeriat denetçileri tarafından yaşanan meseleleri analiz etmektir. Nitel araştırma yöntemi benimsenmiş olup, İslami bankalardaki Şeriat denetçileri, düzenleyiciler ve emekli düzenleyici yetkililerle yapılan odak grup görüşmeleri kullanılmıştır.

Çalışmanın bulguları, Şeriat denetimi uygulamalarının benimsenmesi ve hayata geçirilmesinde önemli boşluklar bulunduğunu ortaya koymaktadır. Bunlar arasında düzenleyici tutarsızlıklar, sınırlı

¹ Mr., Universiti Sains Islam Malaysia (USIM), Nilai, Malaysia, Faculty of Economics and Muamalat, seriki.lukmon@gmail.com, ORCID: 0009-0004-4833-869X

² Dr., Universiti Sains Islam Malaysia (USIM), Nilai, Malaysia, Faculty of Economics and Muamalat, chuyah@usim.edu.my, ORCID: 0000-0003-2929-0841

teknolojik entegrasyon ve operasyonel yönergelerdeki belirsizlikler öne çıkmaktadır. Araştırma, Nijerya bağlamına özgü bir Şeriat denetim çerçevesine acil ihtiyaç olduğunu vurgulamakta; bunun için küresel en iyi uygulamalardan dersler çıkarılması, ancak yerel zorluklara da uyum sağlanması gerektiğini belirtmektedir.

Anahtar Kelimeler: Şeriat Denetimi, İslami Bankacılık, Şeriata Uyum, Nijerya, Düzenleyiciler

JEL Kodları: G20

INTRODUCTION

Islamic banking in Nigeria operates under the regulation of the Central Bank of Nigeria (CBN), in line with the Banks and Other Financial Institutions Act (BOFIA) 2020. The industry now has assets worth over ₦500 billion, but their percentage of banking assets in the country's dual banking system is meagre at 0.99% (IFSB, 2025). Growth aside, governance challenges more specifically, Shariah compliance guarantee remain to restrain development in the industry.

The background of the history of Shariah auditing in Nigeria can be traced to the reintroduction of Shariah law into civil and criminal matters in several Northern States from 1999. These states established Shariah courts and auxiliary institutions such as Shariah Commissions, Zakat Commissions, and Hisbah corps. The proliferation of Islamic banking and finance in recent years has also contributed to strengthening the call for Shariah audit practices.

In Nigeria, Shariah audit as a mandatory requirement is strictly applicable to the Islamic banking sector only. Other regulators that deal with the non-interest side of the financial sector have not yet made it a requirement. For example, while the National Insurance Commission (NAICOM) also mentions Shariah audit as part of its Takaful guidelines, it combines the role with Shariah compliance, and not as an independent audit function. In reality, the majority of Takaful operators do not employ a specialized Shariah auditor, and this function is either not being performed or becoming part of general compliance activities. This regulatory lack restricts the uniformity and strength of Shariah governance beyond Islamic banking.

In July 2023, the CBN issued comprehensive corporate governance guidelines to all commercial, merchant, non-interest, and payment service banks as well as financial holding companies. Though providing a uniform set of governance precepts, these guidelines did not specifically lay down Shariah governance provisions, though still being obligatory for non-interest financial institutions. Other CBN-approved regulations focused on Islamic finance include:

- Guidelines on the Regulation and Supervision of Non-Interest (Islamic) Microfinance Banks
- Guidelines on Non-Interest Windows and Branch Operations of Conventional Banks and Other Financial Institutions, and
- Guidelines on the Governance of the Financial Regulation Advisory Council of Experts (FRACE) and Advisory Committees of Experts (ACE) for Non-Interest Financial Institutions.

The guidelines localise the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards into Nigeria and offer Shariah boards at the national (FRACE) and institutional (ACE) levels.

Shariah auditing plays the critical role of enforcing Shariah corporate governance through independent assurance of internal controls quality and effectiveness, risk management, governance processes, as well as overall compliance with Shariah principles (Yahya, 2016; Shafii et al., 2013). The absence of a uniform Shariah audit framework in Nigeria has led to diversity in practice, affecting audit quality and comparability between institutions (Shafii et al., 2015). This is, however, compounded by inadequacies in auditors' competencies, knowledge, experience, and autonomy (Basiruddin & Ahmed, 2019; Nawal Kasim, 2013).

These unresolved issues have stifled industry growth and limited capacity development for Shariah auditors. Absent some specified procedure, some Islamic banks may perform their operations just like traditional banking, to the detriment of stakeholder confidence.

Against such a backdrop, this study takes into consideration the main issues for Shariah auditors in Nigerian Islamic banks. It seeks to ascertain particular gaps in the application of Shariah audit and propose means of enhancing Shariah audit practice. In tackling these areas, the study helps add to governance, guaranteeing industry credibility, and supporting the sustainable development of Islamic banking in Nigeria.

1. LITERATURE REVIEW

1.1. Sharia Audit

Shariah Audit refers to the assessment and evaluation of an Islamic Financial Institution's (IFI) conformity with Shariah norms and principles (AAOIFI, 2020). It is a technique of obtaining, examining, and verifying that an Islamic bank's transactions, processes, conduct, services, and transaction reporting are all Shariah compliant. (Shafii, Abidin, & Salleh, 2015).

A comprehensive Shariah audit includes several components, such as financial statement auditing, compliance audits of the organization's structure, people, and information technology (IT) application systems, and analysis of the Shariah governance framework suitability are all part of a Shariah audit. (Rohman, 2008, Bahari & Baharudin 2016). This elaborate process in the approach will ensure that the Islamic bank operation is in alignment with the Shariah principles at all level and strengthening overall integrity and credibility of IFI.

The aim of a Shariah audit is to assure stakeholders, such as investors, customers, and regulators that the institution is functioning in accordance with Shariah principles. This process fosters trust and confidence within the Islamic financial sector. Furthermore, Shariah audits assist institutions in recognizing and addressing risks related to Shariah non-compliance, thereby safeguarding their reputation and financial health (Algabry et al., 2020).

1.2 Islamic Banking in Nigeria

In 1956, an effort was made to create an Islamic bank in Lagos, Nigeria, under the name "Muslim Bank". Without the government's aversion to everything "Islamic" at the time, which resulted in the suffocation of this commendable financial innovation in its infancy, Nigeria should have deserved the distinction of holding the world's first Islamic banking and finance organisation. The bank's operating licence was finally terminated in 1968 under the Muslim Bank (Revocation of Licence) Order.

The Central Bank of Nigeria (CBN) Act of 2007 designates the Central Bank as the primary authority responsible for issuing licenses, regulating, and overseeing the operations of all banks in Nigeria. Consequently, Islamic Banking, like all other banks in the country, falls under the supervision and guidance of the CBN. All banks, including Islamic banks, operate within the regulatory framework established by the CBN Act of 2007 (Bambale, 2007). This Act coordinates the activities of financial institutions nationwide and establishes its governing body. Additionally, the Act created the position of the CBN Governor, granting him the authority to issue guidelines, thereby delegating law-making powers to the Governor, who periodically issues directives to regulate economic policies and interest rates for effective oversight of banking and related matters (CBN Act, 2009).

In 2003, Jaiz Bank International Plc (now Jaiz Bank PLC), received approval in principle (AIP) to operate fully-fledged interest-free (Islamic) bank. Jaiz was unable to begin operations because to teething challenges, some of which were not unrelated to the then CBN's 2004 bank consolidation and recapitalisation programme. After years of tenacious work to realise their

ambition of establishing a non-interest financial institution, the owners of the Jaiz Bank met all of the CBN's requirements in 2011 after the issuance of the guideline and were therefore granted the licence to commence operations (Uche 2010, Alaro 2013, Alaro 2021).

The 2023 CBN corporate governance guideline for commercial, merchant, non-interest and payment services banks in Nigeria introduced the role of Internal Shariah Audit. The guideline includes the duties and responsibilities of an Head of the Internal Shariah audit. It also includes the appointment and removal process for the Head of Shariah audit. Before the issuance of this guideline, the practise of Shariah audit can be found in the ACE annual report of Jaiz Bank, which is the only public limited company among the three current full-fledged and Sterling Bank's annual report, which is operating a window. The Shariah audit undertaken by the banks is mentioned in the report of the ACEs of these institutions. The three other full-fledged banks are private limited and their annual report is not publicly available, the report of ACE could not be seen to determine if there are reference Shariah audit in their report.

The Companies and Allied Matters Act (CAMA) 2020, Nigeria establishes a detailed framework for regulating businesses, highlighting the differences between Public Limited Companies (PLCs) and Private Limited Companies (LTDs). CAMA 2020 brings several reforms designed to align Nigerian company law with global best practices, improve corporate governance, and streamline business operations. The distinctions between PLCs and LTDs under CAMA 2020 are important, affecting areas like share capital, disclosure obligations, and corporate governance.

According to Marimuthu and Ismail (2016), Public limited companies (PLCs) and private limited companies (Ltd) are two different types of corporate entities that differ in several significant ways. One of the main differences between them is that PLCs are publicly traded on a stock exchange, while ltd are not. Because of this, PLCs have to follow stricter rules and give their stakeholders, including the public, more financial and non-financial information.

One of the biggest differences between public and private limited companies' annual reports is how much information they give. PLCs are required to share a lot of information about how they run, how well they do financially, and how they make decisions. This information includes details about their management and board of directors, as well as the pay of their top executives, how they handle risks, and how their internal control systems work. They are also required to share information about how they affect the environment and society, as well as how they follow laws and rules.

Private limited companies, on the other hand, don't have to give out as much information. According to de Lange et al. (2019), even though they still have to make annual financial statements and file tax returns, they don't have to give as much information as PLCs.

In the context of Shariah audits, this means that the annual reports of private limited companies may not provide the same level of detail on their Shariah compliance as PLCs and this information may not be publicly available. This can create challenges for stakeholders who are interested in getting information on Shariah compliance in private limited companies, as they may not have access to the same level of information as they would with PLCs.

At the moment, there are no documented guidelines or frameworks that have been released by CBN on scope, independence, competency, processes, reporting, ethics, and IT.

1.3 Shariah Audit Practices in Nigeria Islamic Banks

The scope of Shariah audit for Islamic financial institutions (IFIs) is an important aspect that determines the extent of the auditor's work procedures. The scope of an audit can range from simple to complicated procedures and varies depending on the type of audit and other considerations. Therefore, it is essential for internal auditors to carefully assess the scope of the engagement to ensure that it covers an adequate range to satisfy the objectives. This gives them

a solid understanding of how to best match the scope to the objectives (The Institute of Internal Auditors, 2017).

It is the auditor's responsibility to determine the scope of audit necessary to conduct an audit in accordance with Auditing Standards for Islamic Financial Institutions (ASIFIs), taking into consideration the requirements of applicable Shariah guidelines, ASIFIs, relevant auditing bodies and standards that do not conflict with Shariah, and, where applicable, the terms of audit engagement (AAOIFI, 2020).

The financial statements of the IFI are the initial focus of a Shariah audit, according to Abd Rahman, N et al. (2018). All financial transactions are examined by the auditor to make sure they are appropriately recognised, measured, and reported. The transactions must also take into account the rights and duties that result from the different contracts. However, Lahsasna et al. (2013) contend that the scope of a Shariah audit should encompass all activities of IFIs, including economic transactions that go beyond the financial statements. Consequently, the scope of a Shariah audit should include various facets, such as Shariah compliance, governance, risk management, and ethical standards (AAOIFI, 2020).

In conclusion, the Shariah audit scope for Islamic financial institutions should be comprehensive, encompassing various aspects beyond financial statements, and should adhere to applicable Shariah regulations and auditing standards.

The Internal Shariah Audit report assesses Shariah compliance systems and processes. It will also identify improvements and corrective actions. Conflicts between management and internal Shariah auditors are resolved by the IFI's Shariah Board. A key instrument for evaluating Shariah compliance systems and procedures is the internal Shariah audit report. The report highlights areas in need of improvement and remediation. The results of the internal Shariah audit occasionally give rise to disputes between management and the Shariah auditors. However, the IFI's Shariah Board, which is in charge of monitoring the IFI's conformity with Shariah, usually settles such disputes (AAOIFI, 2010).

The Audit Committee provides strategic direction, support, and responsibility, with input from the Shariah Board in the form of recommendations and corrections for the report. This dual reporting structure between the CEO and the head of internal audit highlights how crucial it is for IFIs to maintain Shariah compliance (Zurina et al., 2019).

The two main organisations that develop standards for Islamic finance are the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Both organisations have offered instructions about the Shariah auditor's reporting line. IFSB-3 states that "the internal auditor must maintain a direct line of reporting to the Shariah supervisory board, and must report functionally to the audit committee and administratively to senior management" (IFSB, 2007). The internal Shariah auditor shall report administratively to senior management and functionally to the Shariah supervisory board, according to AAOIFI Shariah Standard No. 10. (AAOIFI, 2010).

The Shariah Board and the Audit Committee play critical roles in directing pertinent corrective action based on the report's findings, and the Internal Shariah Audit Report is an important instrument for evaluating the Shariah compliance of IFIs. The independence and efficiency of the Shariah audit process are guaranteed by the head of internal audit's dual reporting structure. The recommendations made by IFSB and AAOIFI on the Shariah auditor's reporting line are consistent with the industry's view of the value of upholding Shariah compliance in IFIs.

Fundamentally, internal audit has a dual reporting relationship, with the head of internal audit reporting to the Shariah board for aid in formulating guidance and correction of the report,

and to the audit committee for strategic direction, reinforcement, and responsibility (AAOIFI and IFSB). IFSB and AAOIFI seems to agree on the reporting line of the Shariah auditor.

2. METHODOLOGY

This study seeks to explore and address challenges facing in Shariah audit in Islamic banks in Nigeria. The aim of this paper is analysing the issues Shariah auditors encountered in Nigeria Islamic banks. This study adopts a qualitative methodology using focus group discussions of Shariah auditors form Islamic banks, regulators, and retired regulators officials.

The population for the study consists of Shariah audit experts from Nigeria, selected from multiple roles within the industry. A combination of voices from NIFIs and from the CBN was chosen to be included in the population. The sample for this study an individuals employed in NIFIs. The sample includes two individuals from the CBN Supervision Department, one individual from the Policy and Regulation Department. In addition, two independent Shariah audit experts will be included in the sample. In total, making six participants.

Due to limitations in the availability of participants, and the geographical distance separating them, not all participants were sampled together, nor did they all take part in the same research activity. Three participants, including representatives of CBN, participated in a focus group – namely CBN representatives and CBN examiners – both of which represent the regulator. This grouping allowed the research to examine how the regulator approaches Shariah audit compliance.

The focus group sample was chosen to make it possible for regulators to appreciate and comprehend the necessity and importance of a Shariah audit in the context of ensuring that all players in the sector achieve Shariah compliance. Table 3.1 provides details about the participant profiles. The small sample size is representative and justified, due to the limited number of Shariah audit experts in Nigeria. When recruiting participants, it became evident that it was not feasible to sample multiple participants from each NIFI, since individuals were cautious about disclosing internal practices without the shield of anonymity.

Table 2.1: Profiles of Focus Group Participants

Participant	Roles	Other Credentials	Relevant
1	<ul style="list-style-type: none"> A staff of CBN under other Financial Institution Supervision Department. 	<ul style="list-style-type: none"> Certified in Shariah Advisor and Auditor (CSAA) Certified Islamic Professional Accountant 	
2	<ul style="list-style-type: none"> A staff of CBN under the Banking Supervision Department An Examiner for all the Non-Interest (Islamic) Bank in Nigeria 	<ul style="list-style-type: none"> A PhD researcher at International Islamic University of Malaysia Area of Research Shariah Governance A chartered Accountant 	

Participant	Roles	Other Credentials	Relevant
3 Participant	<ul style="list-style-type: none"> • A staff of CBN under the Financial Policy and Regulation Department • A staff of division of the licensing the NIBs • A member of the secretariat of Shariah Board of CBN • Work as a member of those in charge of issuing policies and guidelines for NIB 	<ul style="list-style-type: none"> • A PhD holder in Islamic Finance • A chartered Accountant • Certified Islamic Professional Accountant 	

The remaining three participants were interviewed one-on-one. This group consisted of representative of NIFIs and retired but highly experienced sector regulators. This composition intends to provide a comprehensive view, idea, insight and gather information in all aspect of the industry as it relates to Shariah audit – but where participants may (for reasons of poor level of compliance) be unable to be open and honest speaking in front of current regulators – for fear it may damage the reputation of their institution. This will provide insight into any regional differences and provide evidence for contrast of best practices.

Table 2.2: Profiles of One-to-one Interview Participants

Participant	Roles	Other Credentials	Relevant
4 Participant	<ul style="list-style-type: none"> • Shariah Auditor Jaiz Bank Plc 	<ul style="list-style-type: none"> • A PhD holder in University of Abuja • Certified in Shariah Advisor and Auditor (CSAA) 	
5 Participant	<ul style="list-style-type: none"> • Retired CBN Director of Banking Supervision Department 	<ul style="list-style-type: none"> • A PhD holder in INCEIF University 	
6 Participant	<ul style="list-style-type: none"> • Retired Staff of Bank Surveillance of National Depositor Insurance Commission (NDIC) 	<ul style="list-style-type: none"> • A Masters in Islamic Finance Practices in INCEIF University 	

For all participants of both the focus group and the one-to-one interviews, after initial recruiting, participants had been issued with a summary of the research aims and an invitation to participate. In both the focus group and one-to-one interviews, the open-ended questions were used as prompts to stimulate discussion.

The focus group was conducted using an online method, which involves having the participants join virtually via video conferencing. This approach was chosen so that participants from all over the region can join and participate in the session, providing broad coverage at a low cost. The focus group discussion lasted approximately 150 minutes, with some additional time at the start to get virtual attendees in the session set up, and to make introductions, etc.

The one-to-one interviews took place with the Shariah experts from different NIFIs from all the regions of Nigeria, and the regulators. The average length of each one-to-one interview was thirty minutes. These interviews were all conducted virtually using video conferencing software.

FINDINGS AND DISCUSSION

This section discuss the findings on the challenges Shariah audit practices in Nigeria. It highlights issues, adapted to Nigeria's unique regulatory, institutional, and socio-cultural realities, as discussed in focus groups and interviews with Nigerian Islamic finance stakeholders. The key findings of this sessions are organized thematically below:

Regulatory Gaps and Absence of a Standardized Framework

One of the key concern among Nigerian participants was the absence of a dedicated Shariah audit framework. While Malaysia has faced similar issues where financial institutions rely sometimes on the general internal audit standards due to the lack of a Shariah-specific framework, Nigeria's regulatory gap is more pronounced. The 2023 CBN corporate governance guidelines introduced the concept of Internal Shariah Audit, but failed to define scope, processes, independence, or reporting lines, leading to varied interpretations across Nigerian Islamic Financial Institutions (NIFIs).

Furthermore, unlike Malaysia where dedicated Shariah audit units are emerging, Nigerian banks remain without enforceable CBN-level directives or a Shariah Audit Manual. This regulatory silence hinders effective, consistent implementation across the sector.

Shortage of Skilled and Certified Shariah Auditors

The participants echoes the Malaysian experience, stating that Nigerian Islamic banks face a critical shortage of qualified personnel. A large proportion of Nigerian shariah auditors lack dual qualifications in both auditing and Shariah knowledge, such as the Certified Shariah Advisor and Auditor (CSAA) which have now been revamp by AAOIFI to Certified Shariah Audit (CSA). Unlike in Malaysia, where internal auditors at least undergo general risk-based audit training, Nigeria lacks structured national training or CPD programs specific to Shariah audit.

This is one of these areas where there were no division among the participant except for a different dimension on one each individual relay the matter.. Unlike with other issue which presented a variants of perspective, this captures how individual participants have expressed the primacy of either collectivised set of qualities for the purpose of accountability. Skills-based participants emphasise the multiplicity of knowledge and capabilities that are needed to professionally conduct Shariah assurance, and the attitudes clearly demand a lifelong commitment to learning and a high degree of technical excellence.

The participants stressed the urgent need for capacity-building, also suggested partnerships with international institutions like INCEIF or IIUM to localize knowledge transfer and credentialing for Nigerian practitioners instead of reinventing the wheel, which could come at a high cost and time consuming.

Technological Deficiencies in Audit Tools and Processes

Technological adoption in Shariah auditing is limited in Nigeria. Where Malaysia has seen early efforts at digitalization including using internal audit software Nigerian Islamic banks mostly rely on manual processes, making Shariah audits less efficient, prone to error, and slow in reporting compliance issues. Many participants agreed that IT skills were a necessity for Shariah audits – with one participant asserting that Shariah auditors would actually find their job easier if they did more to embrace technology.

This lack of Regulated Technology tools hampers real-time monitoring and proactive Shariah compliance. Participants emphasized the potential of smart contracts and automated compliance checkers to enhance audit efficiency. They use this to underscores the significant challenges that Shariah auditors face in keeping up with the fast-paced innovations in financial products, technological advancements.

Governance Ambiguities and Reporting Conflicts

Nigerian Islamic banks operate with a dual reporting structure where internal Shariah auditors report to both the Shariah Board and Audit Committee. While this model also exists in global best practice (e.g., AAOIFI and IFSB standards), Nigeria's implementation lacks clarity, leading to confusion in oversight and conflicting priorities between Shariah and audit authorities.

Moreover, unlike in Malaysia where large institutions often publicly disclose Shariah audit findings Nigerian LTDs are not legally required to publish their audit reports, leading to transparency gaps and reduced stakeholder confidence in Shariah compliance.

Inadequate Public Oversight and Disclosure

The limited public visibility of Shariah audit practices in Nigerian Islamic banks especially among LTDs was a major concern. Compared to PLCs, which are obligated to provide detailed disclosures, private banks operate with less scrutiny, making it difficult for the public, regulators, and stakeholders to assess the robustness of their Shariah compliance practices.

Way Forward

The challenges of Shariah audit converge around five pillars: lack of a standardized framework, shortage of skilled auditors, inadequate technology, governance ambiguity, and limited transparency. However, Nigeria's context presents more acute structural weaknesses that must be addressed through immediate, coordinated action:

Regulators (CBN and FRACE) should urgently issue a national Shariah audit framework based on hybrid models from AAOIFI and IFSB, customized for local realities.

Banks should invest in technological upgrades and support staff participation in international certification programs.

Universities and training institutes should launch specialized certification and CPD programs in collaboration with international Islamic finance bodies.

Public disclosure obligations should be extended to all Islamic banks, regardless of company status, to boost accountability.

CONCLUSION

This study focuses on the challenges of Shariah audit practices in Nigerian Islamic banks, focusing on the findings, implications, and recommendations. It synthesises the research's results, reflecting on the objectives and addressing the gaps in practice and regulation. This study identifies the objectives, research questions, literature review and methodology of the study. The discussion explored historical background of Islamic Bank in Nigeria. It explored 2020 Banks and Other Financial Institutions Act (BOFIA which is referred as Non-Interest Bank (Islamic bank), which is a type of Bank under the Specialised banking model of Central Bank of Nigeria.

This study identified and discussed gap in the current Shariah audit practices with case studies from Stanbic IBTC Islamic bank window and Jaiz bank to emphasised the need for a robust Shariah audit framework. It lays the foundation on the important of having a robust Shariah audit framework for the effectiveness and efficiency and to improve the overall reputation of the Islamic bank.

Among the issues and challenges identified was the absence of a dedicated Shariah audit framework. A review of the current practices of Shariah audit in Nigeria indicates that though the industry continues to grow and a good and steady rate, there is a lot of gaps to be filled. Nigerian banks remain without enforceable CBN-level directives or a Shariah Audit Manual. This regulatory silence hinders effective, consistent implementation across the sector. Also, Technological adoption in Shariah auditing is limited in Nigeria. Despite the level of digitalization in some of the countries practicing Islamic banking, Nigerian Islamic banks still mostly rely on manual processes, making Shariah audits less efficient, prone to error, and slow in reporting compliance issues. The use of IT tools is recommended to help with conducting Shariah audit practices with the evolving technologies in the financial space. In addition, Nigerian LTDs are not legally required to publish their audit reports, leading to transparency gaps and reduced stakeholder confidence in Shariah compliance. The limited public visibility of Shariah audit practices in Nigerian Islamic banks especially among LTDs was a major concern.

Based on the findings, a number of strategies were proposed. Part of it was that there should be an increase in digitisation of auditing processes to allow Shariah auditors to cover more ground in the time available. Regulators (CBN and FRACE) should urgently issue a national Shariah audit framework based on hybrid models from AAOIFI and IFSB, customized for local realities. Shariah auditor training should be supported by a government backed national Shariah finance training organisation whose purpose is to provide ongoing skills training for Shariah banking staff (including primarily Shariah auditors). Banks should invest in technological upgrades and support staff participation in international certification programs.

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