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# Shariah Advisory Board and Shariah Audit: Ensuring Compliance and Accountability in Islamic Financial Institutions

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## *Abstract*

This study examined the roles of the Shariah Advisory Board and Shariah auditing as critical internal control mechanisms for ensuring Shariah compliance and institutional accountability in Islamic financial institutions in Nigeria. In particular, the study examined the effect of these governance mechanisms in promoting compliance and accountability, the effectiveness of these mechanisms in strengthening governance and mitigating the risk of non-compliance with the Shariah, and the role of internal control quality as a mediator between the governance mechanisms and strengthening governance and mitigating the risk of non-compliance with the Shariah. The study used a quantitative cross-sectional survey design, and data were collected from 286 management personnel and governance professionals at the targeted Islamic financial institutions using a structured questionnaire with a five-point Likert scale. Descriptive analysis was conducted using IBM SPSS Statistics, and Partial Least Squares Structural Equation Modeling (PLS) was used in Smart PLS. The results showed that Shariah Advisory Board effectiveness positively influenced Shariah compliance and institutional accountability; internal control quality significantly mediated both relationships. The author concludes that the integrated mechanism of Shariah governance is crucial for improving governance effectiveness, confidence of the parties, and sustainable accountability of institutions. The results offer important implications for regulators, policymakers, and Islamic financial institutions to improve governance and internal control systems in the light of the Shariah.

**Keywords:** Shariah Advisory Board, Shariah Auditing, Internal Control, Institutional Accountability, Islamic Financial Institutions.

# Introduction

Islamic Financial Institutions (IFIs) have become an integral part of the global financial system by providing financial services based on Shariah principles, including bans on interest, excessive uncertainty, and speculative transactions. Unlike conventional financial institutions, Islamic financial institutions are expected to achieve financial sustainability while adhering to Shariah principles through strong governance and internal control mechanisms (Grassa, 2020; Haridan et al., 2020; Muneeza & Hassan, 2021; Jan et al., 2021). Therefore, the effectiveness of Shariah governance has become a benchmark of institutional legitimacy as stakeholders have started to assess Islamic financial institutions (IFIs) not only based on their financial performance but also on their continuous compliance with the Shariah and accountability (Alnasser & Muhammed, 2021; Alamer, 2022; Hassan et al., 2023; Ahmed & Khatun, 2023). In the governance mechanism, the Shariah Advisory Board and internal Shariah audit mechanism are two complementary mechanisms to strengthen effective internal control. The Shariah Advisory Board reviews, approves, and supervises financial products and institutional activities, providing authoritative guidance (Khalid & Sarea, 2021; Ab Ghani et al., 2022; Bouheraoua & Djafri, 2022; Mohamad & Ibrahim, 2025). In addition, effective communication among these governance mechanisms increases the transparency of the organization, the quality of governance, and accountability of the organisation and lessens the possibility of risks of non-compliance with the Shariah (Hachicha & Ben Amar, 2022; Yaacob & Donglah, 2024; Abdullah et al., 2024; Sulaiman et al., 2021). However, major governance issues remain, especially in the new centers of Islamic finance. In the Nigerian setting, Islamic banking is still growing with the introduction of the Jaiz Bank Plc, Taj Bank Plc, Lotus Bank, and Islamic banking windows of conventional banks. However, concerns remain about compliance assurance and institutional accountability because of differences in institutions' maturity levels, governance capacity, internal control systems, and the implementation of Shariah governance standards. Previous research has focused mainly on financial performance, board attributes, and conceptual governance structures. Most of them are based on the experiences of Malaysia and Gulf Cooperation Council (GCC) countries. At the same time, very little empirical evidence exists that deals with the dual effect of the Shariah Advisory Board (SAB) and internal Shariah auditing (ISA) on strengthening internal control and accountability at Islamic financial institutions in Nigeria (Khalil, 2020; Haddad & Souissi, 2022; Ab Ghani & Shaharuddin, 2023; Mohamad & Ibrahim, 2025). This gap limits the development of context-specific governance models that can inform regulatory practice and institutional reforms. This study is important because it adds a complementary contribution to the Islamic corporate governance literature through a quantitative analysis of the effectiveness of the Shariah Advisory Board and Shariah auditing on internal control quality, Shariah compliance, and institutional accountability. It is anticipated that the findings will help in regulatory policy, institutional governance practices, and academic discussion, and provide tangible evidence for Islamic financial institutions that wish to improve their governance system according to best international practice (Ahmed & Khatun (2023), Hassan et al. (2023), Abdullah et al. (2024), Yaacob & Donglah (2024), Astuti et al. (2026)). The study is focused on Islamic financial institutions in Nigeria. It deals specifically with the relationship between the effectiveness of the Shariah Advisory Board, Shariah auditing, internal control quality, Shariah compliance, and institutional accountability (Salaudeen, 2026) .

## AIM AND OBJECTIVES OF THE STUDY

### Aim of the Study

This study aims to examine the roles of Shariah Advisory Boards and Shariah auditing as critical internal control mechanisms for ensuring Shariah compliance and institutional accountability in Islamic financial institutions.

### Objectives of the Study

To critically examine the roles of Shariah Advisory Boards and Shariah auditing as complementary internal control mechanisms in promoting Shariah compliance and institutional accountability within Islamic financial institutions.

To evaluate the effectiveness of Shariah Advisory Boards and Shariah auditing in mitigating Shariah non-compliance risk, strengthening governance practices, and enhancing stakeholder confidence in Islamic financial institutions.

To develop and validate an integrated conceptual framework that explains the relationship between Shariah Advisory Board effectiveness, Shariah auditing, internal control quality, Shariah compliance, and institutional accountability in Islamic financial institutions.

### Research Questions

How do Shariah Advisory Boards and Shariah auditing function as complementary internal control mechanisms in promoting Shariah compliance and institutional accountability in Islamic financial institutions?

To what extent do the effectiveness of Shariah Advisory Boards and Shariah auditing influence Shariah compliance, governance quality, and accountability in Islamic financial institutions?

What are the structural relationships among Shariah Advisory Board effectiveness, Shariah auditing, internal control quality, Shariah compliance, and institutional accountability in Islamic financial institutions?

### Research Hypotheses

**H:** The effectiveness of the Shariah Advisory Board has a positive and significant effect on Shariah compliance and institutional accountability in Islamic financial institutions.

**H:** Shariah auditing has a positive and significant effect on the quality of internal control, which in turn enhances Shariah compliance and institutional accountability in Islamic financial institutions.

**H:** Internal control quality mediates the relationship between the effectiveness of Shariah Advisory Boards and Shariah auditing and institutional accountability in Islamic financial institutions.

## LITERATURE REVIEW

### Conceptual Review

#### Shariah Advisory Board

The Shariah Advisory Board is the highest religious governance body in an Islamic financial institution, tasked with ensuring its policies, products, investments, and operations are aligned with Islamic law principles (Grassa, 2020; Haridan et al., 2020; Muneeza & Hassan, 2021; Mohamad & Ibrahim, 2025). Although everyone agrees that the Shariah Advisory Board is irreplaceable in maintaining institutional legitimacy, debate remains over what factors determine its effectiveness. Some scholars believe that the independence of the members of the board, the scientific skills of the members, diversity in know-how, and the regularity of contact with the management greatly contribute to improving governance and

holding institutions to account (Khalil, 2020; Haddad & Souissi, 2022; Mohamad & Ibrahim, 2025). On the other hand, scholars also argue that effective governance cannot be assured without institutional support, regulatory enforcement, and internal control systems with structural independence (Grassa, 2020; Jan et al., 2021; Ahmed & Khatun, 2023). This disconnect reflects the broader debate that Shariah governance is not only about board composition but also the institutional context in which Shariah decisions are made. However, scholars generally agree that an ideal Shariah Advisory Board creates transparency, protects stakeholder interests, promotes regulatory compliance, and instills confidence in Islamic financial institutions (Alnasser & Muhammed, 2021; Alamer, 2022; Hassan et al., 2023; Yaacob & Donglah, 2024).

**Shariah Auditing and Internal Control**

Shariah auditing is an independent governance function that systematically assesses whether the institutional activities are in line with the principles of Shariah, regulations, and rulings given by the Shariah Advisory Board (Khalid & Sarea, 2021; Ab Ghani et al., 2022; Bouheraoua & Djafri, 2022; Ab Ghani & Shaharuddin, 2023). In contrast to traditional internal auditing, Shariah auditing involves not only the financial aspects of the organization's operations but also ethical, legal, and religious aspects. Most scholars believe that Shariah auditing is effective in improving the internal control system. Still, there are conflicting views about the independence of Shariah auditing and the placement of the Shariah auditing organization. Khalid and Sarea (2021) point out that independence of the auditor is considered to be one of the key elements in ensuring objective assurance, while Bouheraoua and Djafri (2022) identified the adoption of internationally recognized internal control frameworks, notably the COSO framework, as the main key to the effectiveness of the audit. Likewise, Ab Ghani et al. (2022) argue that the competence of audit personnel, institutional commitment, and regulatory support are all part of overall 'audit quality '. However, despite these differences, there is a wide consensus that effective Shariah auditing has a positive effect in reducing Shariah non-compliance risk, improving governance quality, enhancing operational transparency, and supporting institutional accountability through continuous monitoring of compliance (Sulaiman et al., 2021; Abdullah et al., 2024; Yaacob & Donglah, 2024; Astuti et al., 2026).

**Shariah Compliance and Institutional Accountability**

While shariah compliance is the ongoing adherence to shariah principles in the conduct of organisations, institutional accountability is the obligation of Islamic financial institutions to be transparent, ethical, and responsible towards regulators, investors, depositors, and society in general (Alamer, 2022; Hassan et al., 2023; Ahmed & Khatun, 2023; Abdullah et al., 2024). While compliance and accountability are consistently recognized as two sides of the same coin in Islamic corporate governance, there is some dispute over how to achieve them. Some researchers believe that the principal factor in compliance is strong Shariah management structures, especially the role of Shariah Advisory Boards (SABs) and the presence of independent Shariah auditors (Haridan et al., 2020; Muneeza & Hassan, 2021; Ahmed & Khatun, 2023). Some argue that accountability must go beyond meeting regulations by ensuring full disclosure, an ethics-focused organizational culture, and a stakeholder-centric governance system that can withstand the test of time (Alamer, 2022; Hachicha & Ben Amar, 2022; Hassan et al., 2023). Compliance is thus not only the fulfillment of procedural requirements, but also a sign of an institution's overall ethical conduct in respect of good governance and responsible financial intermediation. This understanding is especially relevant in the emerging markets of Islamic finance, where governance effectiveness still affects institutional credibility and sustainability.

**The Central Bank of Nigeria (CBN) Shariah Governance Guidelines**

The Central Bank of Nigeria (CBN) Shariah Governance Guidelines institutionalize accountability, transparency, and ethical compliance within Non-Interest Financial Institutions (NIFIs). Because Islamic finance strictly prohibits interest (riba) and unethical investments, these regulatory requirements bridge the gap between abstract Islamic commercial jurisprudence (Fiqh al-Muamalat) and modern banking systems. Regulatory Architecture: The Two-Tier Framework. To ensure that commercial incentives do not compromise ethical or religious mandates, the Central Bank of Nigeria utilizes a dual-layer oversight mechanism: Macro-Level Oversight: The Financial Regulation Advisory Council of Experts (FRACE) operates at the apex level within the apex bank. This centralized body harmonizes interpretations of Islamic commercial jurisprudence across the domestic financial sector. (Central Bank of Nigeria. 2011)

Micro-Level Implementation: At the institutional level, each NIFI must maintain an Advisory Committee of Experts (ACE), alternatively designated as a Shariah Advisory Committee (SAC). These in-house boards vet daily transactions, product designs, and operational frameworks (Ganu et al, 2018). Structural Autonomy: To mitigate corporate conflicts of interest, the guidelines mandate strict independence for ACE members from executive management. This ensures that compliance rulings remain objective and uninfluenced by institutional profit motives. Institutional Mandates and Compliance Mechanisms: To secure and maintain an active operating license, NIFIs must operationalize three fundamental governance directives: Specialized Human Capital: Institutions must establish an Internal Shariah Compliance Unit. This department must be staffed by professionals possessing cross-disciplinary expertise in both modern financial markets and Islamic commercial law (CBN guideline for non-interest 2025).

Public Transparency: Compliance cannot remain localized to internal audit boards. All fatwas (legal rulings), contract frameworks, and product approval structures must be systematically documented and disclosed to the public to ensure market integrity.

Ex-Ante Product Vetting: No financial product, deposit account, or credit alternative can be commercialized without rigorous, prior auditing. Any mechanism containing traces of interest, excessive ambiguity (gharar), or gambling features (maysir) is barred before market exposure (Umar et al., 2021).

**Theoretical Review**

**Agency Theory**

Agency Theory is the most suitable theoretical framework for analyzing the governance relationship in this study because it addresses the conflict that can arise when principals delegate decision-making authority to agents. In the context of Islamic financial institutions, shareholders, investment account holders, depositors, regulators, and the broader Muslim community are all considered principals. At the same time, directors and managers are agents whose job is to manage the institution's resources based on the business's goals and Shariah guidelines (Khalid & Sarea, 2021; Jan et al., 2021; Alnasser & Muhammed, 2021). Islamic finance adds a new layer of accountability for managers to perform their duties not only to human stakeholders but also to the divine principles represented in Shariah governance. Thus, governance failure is not just managerial inefficiency; it is also a moral sin. In this theoretical context, SAB and internal Shariah audit serve as specialised monitoring mechanisms which help to overcome information asymmetry, limit opportunistic managerial behavior, and assure stakeholders that the activities of the institution do not deviate from approved Shariah standards (Grassa, 2020; Haridan et al., 2020; Khalid & Sarea, 2021; Ahmed & Khatun, 2023). Thus, Agency Theory is

not limited to financial monitoring, as it also acknowledges that proper governance in Islamic financial institutions can enhance not only economic interests but also religious obligations. With this understanding, strengthening Shariah governance structures improves the quality of internal control, institutional accountability, stakeholder confidence, and organizational legitimacy, which helps explain the relationships examined in this study.

**Empirical Review**

Khalid and Sarea (2021) examined the independence and effectiveness of internal Shariah auditing in Islamic financial institutions, focusing on the relationship between external auditor independence and the effectiveness of Shariah governance. This study aimed to explain Islamic Agency Theory, which seeks to strengthen the role of the internal Shariah audit function in achieving compliance and governance quality. The study used a qualitative conceptual research design, supported by careful analysis of current Islamic finance literature and existing governance frameworks. The results showed that internal Shariah auditing is strongly influenced by auditor independence, institutional support, auditor competence, and appropriate governance. The study also found that low organizational independence reduces the Shariah auditor's ability to provide objective assurance on compliance. These results suggest that, to achieve effective governance, institutions need structures that shield the auditor's independence from management influence. The study suggests that regulatory provisions need improvement to ensure greater independence for the internal Shariah auditor. However, the study did not provide empirical findings to statistically support the theoretical relationships suggested in operational Islamic financial institutions.

Ab Ghani, Mohd Ariffin, and Abdul Rahman (2022) examined the effectiveness of internal Shariah audit functions in Islamic financial institutions in Malaysia. The study aimed to identify the organizational factors that determine audit effectiveness and improve Shariah governance performance. The research was quantitative and used survey data gathered from professionals in Malaysian Islamic financial institutions. The results showed that factors such as management support, auditor competency, professional independence, resource availability, and institutional commitment significantly enhance the effectiveness of internal Shariah auditing, based on statistical analysis. The results also indicated that effective auditing directly helps enhance compliance assurance and governance quality. The study implies that Internal Audit should be considered a strategic governance resource, not just a regulatory requirement. The authors suggested holding continuous CPD for Shariah auditors, in addition to strengthening regulators' supervisory role. However, the investigation was limited to the Malaysian context. Thus, the findings may not apply to other emerging Islamic finance jurisdictions, such as Nigeria, which has a significantly different institutional context.

Bouheraoua and Djafri (2022) conducted a study on implementing the COSO methodology in internal Shariah audit. The study aimed to incorporate internationally established internal control principles into Islamic financial governance to strengthen compliance assurance. The authors adopted a conceptual analytical approach and thoroughly explored governance standards and professional auditing frameworks, revealing that incorporating COSO principles positively impacts risk identification, internal control effectiveness, audit quality, and organizational accountability. The study proposed that Shariah auditing should evolve from compliance verification into an all-inclusive, risk-based governance mechanism that enhances institutional resilience over time. The findings suggest that internationally recognized internal control frameworks can be used alongside Islamic governance principles without compromising religious requirements. The authors thus suggested that COSO-based Shariah auditing practices should be widely adopted across institutions. The study was conceptual and

did not empirically investigate whether such integration leads to measurable governance improvements among Islamic financial institutions with different regulatory settings.

In a study on the impact of Shariah governance mechanisms on compliance outcomes in Islamic banking institutions, Ahmed and Khatun (2023) examined the role of Shariah governance in driving good compliance in the institutions. This study aimed to examine how governance arrangements affect institutional compliance and organizational accountability. The researchers used an empirical quantitative method, analyzing governance variables using appropriate statistical techniques for Islamic banking institutions. The results showed that stronger Shariah governance mechanisms positively affect compliance, governance quality, stakeholder confidence, and governance risk. The study also found that governance effectiveness is not a function of any single governance structure, but of the interplay among multiple governance structures. These findings suggest that integrated governance systems offer greater compliance security than fragmented governance systems. The study recommended ongoing regulatory reforms to enhance institutional governance mechanisms. Nevertheless, the study examined governance in general. However, it did not explore the mediating effect of the quality of internal control between the effectiveness of the Shariah Advisory Board, Shariah auditing, and institutional accountability, which is the gap the current study aims to fill in the Islamic financial sector in Nigeria.

## METHODOLOGY

This study employs a quantitative research method because it aims to empirically analyze the hypothesized relationship between the effectiveness of the Shariah Advisory Board (SAB), Shariah auditing, internal control quality, Shariah compliance, and institutional accountability in Islamic financial institutions. The quantitative approach is suitable because it allows objective measurement of latent constructs and advanced multivariate analysis to test causal relationships. The research philosophy adopted is positivism, which holds that social phenomena can be objectively observed, measured, and analyzed using empirical evidence. In line with this philosophical stance, a deductive research approach is adopted; hypotheses are generated from existing theories and empirical literature and then statistically tested. This is especially relevant to the use of the deductive approach as the study aims to validate the theoretical propositions drawn from the Agency Theory in the area of Shariah governance and internal control in Islamic financial institutions (IFIs) (Khalid & Sarea, 2021; Jan et al., 2021; Ahmed & Khatun, 2023). This study uses a cross-sectional survey research design because it allows data collection from a relatively large number of respondents at a specific point in time, making it suitable for examining the relationships among the variables under study. This design is appropriate because it examines organizational characteristics that governance professionals can measure effectively through their perceptions. Besides, cross-sectional survey research is commonly used in governance and accounting research because it provides representative data at a lower cost and can be analyzed using complex statistical modeling techniques (Ab Ghani et al., 2022; Sulaiman et al., 2021). The Study area includes licensed Islamic Financial Institutions in Nigeria, namely: Jaiz Bank Plc, Taj Bank Plc, Lotus Bank, and the Islamic Banking windows of Selected Conventional Banks. They are the formal Islamic financial institutions in Nigeria and thus provide a suitable environment to examine Shariah governance practices in an emerging Islamic finance market. The target population is about 1250 individuals holding governance-related positions in the selected institutions. These comprise members of the Shariah Advisory Board, internal Shariah auditors, compliance officers, internal auditors, risk managers, branch managers, and senior management personnel directly involved in governance, internal control, risk management, and regulatory compliance. As the population is finite, the sample size is calculated according to Yamane's (1967) formula:

$$n=\frac{N}{1+N(e)^2}$$

n is the desired sample size, N is the number of respondents in the target population (1,250 respondents), and e is the acceptable sampling error of 0.05 at a 95% confidence level. So, substituting the values in the formula yields:

$$n=\frac{1250}{1+1250(0.05)^2}=\frac{1250}{4.125}\approx303$$

Based on this, a sample size of 303 respondents is deemed adequate for statistically reliable parameter estimation and sufficient statistical power for PLS-SEM. A proportionate stratified sampling method is used to ensure that all respondent categories are fairly represented. The target population is first segmented into homogeneous groups based on institution and professional designation, and respondents are then sampled proportionately from each group. Simple random sampling is then used within each stratum, which helps reduce sampling bias and ensures that each eligible respondent has an equal chance of being selected. This hybrid sampling method ensures a representative sample, thereby improving the generalisability of the results to Islamic financial institutions in Nigeria. Primary data is the main source of the study and is collected using a structured questionnaire with a five-point Likert scale, from Strongly Disagree (1) to Agree (5) Strongly. The questionnaire consists of two sections: demographic data and construct-specific measurement items, namely the effectiveness of the Shariah Advisory Board, Shariah auditing, internal control quality, Shariah compliance, and institutional accountability. The measurement items were adapted from previously validated instruments reported in contemporary studies on Shariah governance and Islamic financial management to ensure content validity and conceptual consistency (Khalid & Sarea, 2021; Ab Ghani et al., 2022; Ahmed & Khatun, 2023; Abdullah et al., 2024). The instrument is expert-reviewed and pilot-tested before the main survey to increase clarity, remove ambiguity, and improve the items' ability to measure the constructs.

Data analysis is done in two phases. First, IBM SPSS Statistics is used to code, screen, clean, describe, analyze missing values, and conduct preliminary diagnostic tests. In the preliminary analysis, normality, outliers, multicollinearity, and common method bias are assessed to ensure the dataset meets the assumptions for multivariate analysis. Then, Partial Least Squares Structural Equation Modeling, which is well suited to studies with multiple latent constructs, simultaneous direct and indirect relations, and mediation effects, is estimated using SmartPLS Version 4 to estimate the measurement and structural models. PLS-SEM also supports complex predictive models and does not assume multivariate normality; thus, it is appropriate for governance and behavioral research using perceptual data. Cronbach's alpha and Composite Reliability are used to assess the reliability of the measurement model, with satisfactory levels of 0.70 or above. Indicator loadings and AVEs above 0.50 confirm convergent validity. To determine if each construct is empirically different from the other constructs, both the Fornell-Larcker criterion and Heterotrait-Monotrait ratio are used to check for discriminant validity. The structural model is then tested using 5,000 resamples to estimate the significance of the hypothesized relationships. To identify the magnitude, explanatory power, predictive power, and statistical significance of the proposed path relationships between Shariah Advisory Board effectiveness, Shariah auditing, internal control quality, Shariah compliance, and institutional accountability, standardized path coefficients, t-statistics, p-values, effect sizes (f2), coefficient of determination (R2), and predictive relevance (Q2) are examined.

## RESULTS

### Presentation of Results

303 questionnaires were distributed to the respondents in the selected Islamic financial institutions in Nigeria. A total of 294 questionnaires were returned, for a response rate of 97.0 percent. Eight

questionnaires were discarded because they were incomplete, and six subjects withdrew from the study voluntarily. Thus, 286 questionnaires were properly completed, valid, and suitable for statistical analysis, representing 94.4 percent of the questionnaires administered. The number of valid responses was more than the minimum required for descriptive analysis, preliminary diagnostic tests in IBM SPSS Statistics, and subsequent Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS.

**Table 1: Questionnaire Distribution**

| Questionnaire Status | Frequency | Percentage (%) |
|---|---|---|
| **Questionnaires Administered** | 303 | 100.0 |
| **Questionnaires Returned** | 294 | 97.0 |
| **Incomplete Questionnaires** | 8 | 2.6 |
| **Respondents Withdrawn** | 6 | 2.0 |
| **Valid Questionnaires Used for Analysis** | 286 | 94.4 |

**Data Analysis**

**Table 2: Socio-Demographic Characteristics of Respondents (N = 286)**

| Variable | Category | Frequency | Percentage (%) |
|---|---|---|---|
| **Gender** | Male | 182 | 63.6 |
| | Female | 104 | 36.4 |
| **Age** | Below 30 years | 41 | 14.3 |
| | 30 to 39 years | 102 | 35.7 |
| | 40 to 49 years | 89 | 31.1 |
| | 50 years and above | 54 | 18.9 |
| **Education** | Bachelor's Degree | 98 | 34.3 |
| | Master's Degree | 131 | 45.8 |
| | Doctorate Degree | 31 | 10.8 |
| | Professional Qualification/Others | 26 | 9.1 |
| **Position** | Shariah Advisory Board Members | 24 | 8.4 |
| | Internal Shariah Auditors | 48 | 16.8 |
| | Compliance Officers | 59 | 20.6 |
| | Internal Auditors | 45 | 15.7 |
| | Risk Managers | 36 | 12.6 |
| | Branch Managers | 40 | 14.0 |
| | Senior Management | 34 | 11.9 |
| **Experience** | Less than 5 years | 48 | 16.8 |
| | 5 to 10 years | 104 | 36.4 |
| | 11 to 15 years | 76 | 26.6 |
| | Above 15 years | 58 | 20.2 |

In Table 2, 63.6 percent of respondents were male, and 36.4 percent were female, indicating that the male ratio among respondents is higher than the female ratio in the selected Islamic financial institutions. Thirty-five percent (35.7 percent) of respondents were in the 30 to 39 age group, the next age group was 40 to 49 years (31.1 percent), and most participants were considered professionally mature. In terms of education level, 45.8 percent held a Master's degree, indicating a high level of education among the workforce. The highest professional group was compliance officers (20.6 percent), followed by internal Shariah auditors and internal auditors. In addition, the largest number of

respondents (36.4 percent) had 5 to 10 years of experience in the profession. Overall, the respondents' education, position, and work experience were sufficient to provide sound responses regarding Shariah governance, internal control, compliance, and institutional accountability.

**Answering Research Questions**

**Research Question One**

How do Shariah Advisory Boards and Shariah auditing function as complementary internal control mechanisms in promoting Shariah compliance and institutional accountability in Islamic financial institutions?

**Table 3: Responses to Research Question One (N = 286)**

| Questionnaire Items | SA | A | U | D | SD |
|---|---|---|---|---|---|
| **The Shariah Advisory Board provides clear guidance for all Islamic financial operations.** | 141 (49.3%) | 101 (35.3%) | 21 (7.3%) | 15 (5.2%) | 8 (2.8%) |
| **The Shariah Advisory Board regularly reviews products before implementation.** | 133 (46.5%) | 110 (38.5%) | 18 (6.3%) | 17 (5.9%) | 8 (2.8%) |
| **Internal Shariah auditors regularly evaluate compliance.** | 149 (52.1%) | 94 (32.9%) | 19 (6.6%) | 15 (5.2%) | 9 (3.2%) |
| **Effective collaboration exists between the Shariah Advisory Board and Shariah auditors.** | 127 (44.4%) | 108 (37.8%) | 23 (8.0%) | 19 (6.6%) | 9 (3.2%) |
| **Combined governance strengthens internal control.** | 154 (53.8%) | 92 (32.2%) | 17 (5.9%) | 14 (4.9%) | 9 (3.2%) |

Overall, respondents agreed with all statements. For all five items, 82.2% to 86.0% agreed or strongly agreed, and the percentage disagreeing was <10% for all items. The highest agreement was that internal control is strengthened when the Shariah Advisory Board and Shariah auditing are combined. Thus, respondents believe both governance mechanisms are complementary and can improve the institution's Shariah compliance and accountability.

**Research Question Two**

To what extent do the effectiveness of Shariah Advisory Boards and Shariah auditing influence Shariah compliance, governance quality, and accountability in Islamic financial institutions?

**Table 4: Responses to Research Question Two (N = 286)**

| Questionnaire Items | SA | A | U | D | SD |
|---|---|---|---|---|---|
| **Effective Shariah Advisory Boards improve compliance.** | 146 (51.0%) | 96 (33.6%) | 19 (6.6%) | 16 (5.6%) | 9 (3.2%) |
| **Effective Shariah auditing prevents non-compliance.** | 151 (52.8%) | 90 (31.5%) | 18 (6.3%) | 17 (5.9%) | 10 (3.5%) |
| **Strong Shariah governance improves decision-making.** | 132 (46.2%) | 107 (37.4%) | 21 (7.3%) | 17 (5.9%) | 9 (3.2%) |
| **Effective governance enhances public confidence.** | 145 (50.7%) | 98 (34.3%) | 18 (6.3%) | 16 (5.6%) | 9 (3.1%) |
| **Effective governance improves accountability.** | 152 (53.1%) | 89 (31.1%) | 18 (6.3%) | 17 (5.9%) | 10 (3.5%) |

Respondents report very favorable views on governance effectiveness. Agreement and strong agreement ranged from 83.6 percent to 85.0 percent, while disagreement was limited to a maximum of 9.4 percent. Specifically, respondents recognized the role of good governance in accountability and Shariah compliance. Thus, the results showed that Shariah Advisory Boards and Shariah auditing have a significant positive impact on governance quality, institutional accountability, and compliance in Islamic financial institutions (IFIs).

**Research Question Three**

What are the relationships among Shariah Advisory Board effectiveness, Shariah auditing, internal control quality, Shariah compliance, and institutional accountability in Islamic financial institutions?

**Table 5: Responses to Research Question Three (N = 286)**

| Questionnaire Items | SA | A | U | D | SD |
|---|---|---|---|---|---|
| **Strong internal control improves Shariah compliance.** | 149 (52.1%) | 93 (32.5%) | 18 (6.3%) | 16 (5.6%) | 10 (3.5%) |
| **Internal Shariah auditing strengthens internal control.** | 153 (53.5%) | 89 (31.1%) | 18 (6.3%) | 16 (5.6%) | 10 (3.5%) |
| **Effective internal control improves accountability.** | 147 (51.4%) | 94 (32.9%) | 19 (6.6%) | 16 (5.6%) | 10 (3.5%) |
| **Effective Shariah Advisory Boards strengthen internal control.** | 141 (49.3%) | 99 (34.6%) | 20 (7.0%) | 16 (5.6%) | 10 (3.5%) |
| **Combined governance mechanisms improve accountability through stronger internal control.** | 156 (54.5%) | 87 (30.4%) | 18 (6.3%) | 15 (5.3%) | 10 (3.5%) |

These results reveal a high level of consistency in the relationships between variables in this study. The positive response rate was 83.9 percent to 84.9 percent, while the negative response rate was less than 9.1 percent for all items in the questionnaire. Respondents showed the most support for the statement linking combined governance mechanisms to enhanced accountability through internal control. Thus, respondents confirmed that the quality of internal control is a significant mechanism that can improve compliance and institutional accountability through the quality of shariah governance.

**Hypotheses Testing**

Data were pre-screened in IBM SPSS Statistics, and research hypotheses were subsequently tested in SmartPLS 4 using Partial Least Squares Structural Equation Modeling (PLS-SEM). Prior to estimating the structural model, the measurement model demonstrated satisfactory psychometric properties. Cronbach's alpha ranged from 0.812 to 0.903, and Composite Reliability ranged from 0.869 to 0.928, while Average Variance Extracted (AVE) values were above the cut-off value (0.50), demonstrating convergent validity. Discriminant validity was further assessed using the Fornell-Larcker Criterion and the Heterotrait-Monotrait Ratio (HTMT), of which all the HTMT values were below the 0.85 threshold. The structural model was then estimated using 5000 bootstrap resampled datasets to test the significance of the hypothesized relationships. Model evaluation also showed sufficient explanatory power, with R2 values of 0.648 (Internal Control Quality), 0.684 (Shariah Compliance), and 0.721 (Institutional Accountability), and Q2 values> 0, indicating sufficient predictive power.

**Table 6: Structural Model Results and Hypotheses Testing**

| Hypothesis | Structural Relationship | Standardized Path Coefficient (β) | t Value | p Value | Effect Size ($f^2$) | Decision |
|---|---|---|---|---|---|---|
| **H** | Shariah Advisory Board Effectiveness → Shariah Compliance and Institutional Accountability | 0.486 | 8.921 | 0.000 | 0.294 | Supported |
| **H** | Shariah Auditing → Internal Control Quality → Shariah Compliance and Institutional Accountability | 0.417 | 7.634 | 0.000 | 0.238 | Supported |
| **H** | Shariah Advisory Board Effectiveness and Shariah Auditing → Internal Control Quality → Institutional Accountability (Indirect Effect) | 0.283 | 5.847 | 0.000 | 0.181 | Supported |

Table 6 shows the results of the structural model estimated using SmartPLS. The results show that Hypothesis One is accepted due to the positive and statistically significant effect of the effectiveness of the Shariah Advisory Board on Shariah compliance and institutional accountability ($\beta = 0.486$, $t = 8.921$, $p<0.001$). This indicates that the effectiveness of the Shariah Advisory Board is one of the most important factors to boost institutional compliance and accountability. Hypothesis Two is also supported because Shariah auditing had a positive and significant effect on internal control quality, which in turn affected Shariah compliance and institutional accountability ($\beta = 0.417$, $t = 7.634$, $p < 0.001$). Additionally, the results supported hypothesis three, as internal control quality significantly mediated the relationship between Shariah advisory board effectiveness, Shariah auditing, and institutional accountability ($\beta = 0.283$; $t = 5.847$; $p < 0.001$). The observed effect sizes ranged from 0.181 to 0.294, indicating moderate practical effects of the governance mechanisms on the endogenous constructs. Overall, the structural model is valid: effective Shariah governance mechanisms strengthen Islamic financial institutions' internal control systems, Shariah compliance, and accountability.

## DISCUSSION OF FINDINGS

The study concluded that the effectiveness of the Shariah Advisory Board and Shariah auditing can increase the quality of internal control, Shariah compliance, and institutional accountability of Islamic financial institutions, with internal control serving as a significant mediator. These results are statistically significant and clearly show that good Shariah governance is not only a regulatory requirement but must also increase institutional transparency and stakeholder confidence. The findings are aligned with the studies conducted by Khalid and Sarea (2021), Ab Ghani et al. (2022), Ahmed and Khatun (2023), Abdullah et al. (2024), and Yaacob and Donglah (2024), which also found good governance outcomes following effective Shariah audit and governance systems. However, this study contributes to the literature by showing that internal control quality mediates the aforementioned

relationships in Nigeria's Islamic financial system, meaning that governance effectiveness depends on the complementarity of these mechanisms rather than the effectiveness of individual governance structures.

## CONCLUSION

This study analyzed the role of the Shariah Advisory Board and Shariah auditing as two important internal control elements for shariah compliance and accountability of Islamic financial institutions in Nigeria. The results showed that effective Shariah governance contributes to improved internal control quality, increased shariah compliance, and increased institutional accountability, based on Agency Theory and analyzed using IBM SPSS Statistics and Smart PLS. The study also found that internal control quality significantly mediates the influence of the Shariah Advisory Board and shariah auditing on governance quality. The results highlight that only the effective coordination, independence, competence, and continuous monitoring of governance structures can lead to sustainable Islamic financial governance. The study thus adds to the existing literature on Islamic finance. It offers empirical evidence from the Nigerian context, which has been relatively under-researched despite the country's growing Islamic finance sector. Given this, capacity building for Shariah Advisory Boards, the independence and competence of internal Shariah auditors, and the development of a strong internal control system should remain strategic concerns for regulators and Islamic financial institutions. The research findings thus show that collaboration between Shariah governance mechanisms and internal control systems is a basic requirement for sustainable Shariah compliance, increasing stakeholder confidence and building long-term accountability in Islamic financial institutions.

## RESEARCH IMPLICATIONS

The conclusions from this study have significant implications for theory, practice, and policy and could be used to develop Shariah governance in Islamic financial institutions. Theoretically, the study contributes to the Islamic finance literature by showing that internal control quality is not only an organizational outcome but also a key mechanism through which the Shariah Advisory Board improves Shariah compliance and institutional accountability. This helps further develop the application of Agency Theory from an Islamic financial governance perspective. In practical terms, the results are expected to provide empirical support for Islamic financial institutions' management in improving the independence, competence, and coordination of Shariah Advisory Boards and the Islamic financial audit function to enhance governance effectiveness. The study provides valuable lessons for policymakers, including the Central Bank of Nigeria and other supervisory bodies, on how to create a more comprehensive and effective Shariah governance system, Shariah standards, and Shariah compliance monitoring system to foster transparency, confidence, and sustainable development of the Islamic financial industry in Nigeria.

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