Shariah Governance Framework of the Islamic Banks in Malaysia

ABSTRACT

Purpose: The current paper aims to summarize the current practice of Shariah Governance within the context of Islamic banks and financial institutions in Malaysia. The paper highlights the major challenges faced by such organizations in implementing Shariah Governance. The paper intends to address the role of the Shariah board, the committee and the management relation in this regard.

Methodology: Exploratory research method is applied within the field of Islamic banking and finance to address the Shariah Governance practice in Malaysia. In this regard, numerous relevant articles are reviewed featuring Shariah banking practices by Islamic organizations. Comparative study method is applied to understand the difference between the Shariah banking practices and corporate governance system applied by conventional financial institutions.

Findings: As found in this study, majority of the shariah governance practices are faced with challenges of shortage of knowledge within Islamic scholars. The lack of established standard, the failure of management to differentiate between conventional corporate governance and Shariah governance, difficulties in understanding Shariah based laws, misinterpretation of rules and such are some of the key findings of this study.

Research Limitation: This paper is typically limited to the exploratory method of analysis within the context of Shariah Governance practice by Islamic banks in Malaysia. Additionally, this paper is only limited to the study within Malaysian organizations, while other Islamic institutions in neighboring countries that are practicing similar laws are excluded.

Originality of the paper: The paper subjectively addresses the problems and prospects of Shariah banking practice within Malaysian organizations along with comparison with conventional banking organizations. Therefore, the study stands out as a quite original piece of work staying in line with its main subject.

Keywords: Shariah Governance, Islamic banking, Corporate Governance, Islamic Scholar, Malaysia.

The objective of this paper is to summarize the current practice of Shariah governance framework of the Islamic banks in Malaysia comprises of the challenges faced by such institutions. This paper highlights a comparative study between Islamic banks and other conventional banks in terms of corporate governance practices. This paper discusses about the challenges faced by Islamic banks typically due to the lack of established standards and corporate governance which are in line with Shariah teachings. Firstly, the paper discusses on the element of the corporate governance in Islamic banks for continuation of the function of the Shariah governance system. In the next sections, laws and regulation of the central bank of Malaysia are discussed. As concluding remarks, the challenges and prospects of good governance establishment for Islamic banks are discussed.

INTRODUCTION

Islamic banks and other financial institutions play very important role in the economy of Malaysia. Islamic financial services such as Islamic banks operate under a different structure of corporate governance from the one used in the conventional banking. For the purpose of supervision, an Islamic bank is mandated to create a board represented by Islamic scholars named as Shariah Supervisory board. Shariah principles are the foundation of Islamic banking
operations. Adoptions of Shariah principles help Islamic Banks to differentiate themselves from regular financial institutions.

Corporate governance as defined is the process to guide, control or govern an organization. Corporate governance plays a crucial role for the governance of Islamic banking corporations. A proper framework of corporate governance is crucial to differentiate Islamic financial institutions from conventional organizations since they are largely similar. The basic difference however is that the Islamic banking organizations need to abide by the compliance with the Shariah principles in its overall organizational activities. Existence of corporate governance would ensure such activities are properly undertaken.

Principle 3.1 of the “IFSB Guiding Principles on Corporate Governance” states that an appropriate mechanism must be created to ensure the compliance with the Shariah principles. Additionally, principle 7.1 from IFSB guideline states that a board of Shariah supervisors is required to ensure compliance with the Shariah laws.

Shariah principles provide legitimacy to the practices of Islamic banking & finance. It also boosts the confidence of the shareholders and ensures compliance of all financial activities according to the Shariah law. If there is any existence of a non compliant element of Shariah principles, it may endanger the existence of the Islamic FI and can also expose the organization to various fiduciary and reputational risks. Adherence to the principles of Shariah banking will allow firms to avoid such risks.

Nowadays, Islamic banks are criticized for non adherence to the Shariah principles because of complicacy within their corporate governance structure. Much qualitative research was conducted to find out the relationship amongst Shariah managements with their shareholders. However, in Malaysia, the corporate governance statement disclosure by various Islamic banking organizations is challenged. Previous studies also argued that Islamic characteristics and values espoused on corporate governance are dealt with exceptional case in Malaysia. There exists a need of few scholarly studies to highlight the challenges faced by the Malaysian Islamic Banking organizations, the conflicts of interests faced by the board of Shariah principles and the contrasting pictures between the governance system/structures between Islamic FI and regular banks.

OBJECTIVE OF THE STUDY:

Therefore, the main objective of the paper is to find out the present challenges of Shariah governance faced by the Malaysian banks due to lack of scholars and flexibility in their governance structure. The paper may prove to be significant to improve the efficiency of the current governance structures of Shariah principles. Additionally, the paper would like to address differences between Islamic Banks in Malaysia and conventional financial institutions by comparing Shariah governance structures with the regular governance practices imposed by such organizations. Additionally the paper is aimed to subjectively address the role of the board, Shariah committee and the management relation to Shariah matters.

METHOD:

This study is based on the qualitative research method to see the challenges that Islamic banks are facing regarding the standards. The previous research studies give a wider look to the study. In the current context qualitative research and descriptive analysis applied here, makes the strengths and attributes of this study to be more appropriate.

LITERATURE REVIEW

According to Hassan & Christopher (2005), corporate governance may refer into two senses. First one can be defined as a formal system in of responsibility of upper level in management to shareholder while the second one is the social responsibility of management from whole perspective, described as formal to informal activities of company. In Islamic perspective, there are not many differences in regard to the
activities of a corporate organization, however some activities would clearly distinguish the Islamic firms from conventional organizations.

According to Hassan & Christopher (2005), the concept of Islamization in corporate governance practices are yet to be translated into tangible documented behavior. Their study on Bank Islam Malaysia Berhad (BIMB), Malayan Banking Berhad (MBB) and Public Bank Berhad (PBB) showed different behavior by BIMB. There are two roles of leader (board of directors) as the concept of servant leader defined by Carver and carver’s (2004). First, the servant leader or chairman of the board members should seek the welfare of his followers and guide them toward good. Secondly he should protect the community from coercion and encourage God consciousness and taqwa and promote justice. (Beekun and Badawi, 1999). Referred by Ibrahim & Hameed (2007), the functions and the contracts usage in the Islamic financial institutions are totally exceptional from conventional practices. Islamic bank prohibits riba under Shariah law and earns profit where as conventional banks aim to mobilize the deposit and earn interest on loans. As a result, there are different set of standards for governance structure.

Hasan (2008, 2009 & 2010) provides numbers of literature review featuring the corporate governance structures of Islamic organizations and how those differ from regular organization's governance models. He argued that the Islamic corporate governance model can be distinguished by "the aspects of episteme, corporate objective, the nature of management, the management board and the capital-related ownership structure" (Hasan, 2008:14). From the regulatory framework perspective, he classified Malaysian Islamic governance systems as being pro-active rather than adopting self-regulated environment (Saudi Arabia and UK), due to the efforts done by regulators and government in strengthening Islamic regulatory framework in the country. The effort to provide sound and conducive legal environment in Islamic banking industry has been studied by Shaharudin A. (2011). He discussed the new Shariah governance framework issued by BNM classified under three important entities namely National Shariah Advisory Council (NSAC), Shariah Committee and internal Shariah department. At the end of the paper, the author suggested future research to study the public perception on the development of regulatory framework in the country.

3.0 ELEMENTS OF CORPORATE GOVERNANCE IN ISLAMIC BANKING

As derived from Islam, corporate governance should be prioritized on accountability, transparency and trustworthiness. The concept of Tawhid has been used to establish the shariah governance system for IFIs where Muslims fear Allah and avoid all the harmful deeds that may cause harm to any living being. Supporting the notion, the Qur'an describes: "O you who believe! Fear Allah (God) and give up what remains of your demand for interest, if you are indeed a believer." (Qur'an 2:278). Therefore corporate governance is an important part of IFIs to follow up that Islamic financial institutions comply with shariah law followed by Quran and Sunnah. This governance system regulates bank transactions and operations along with monitoring and supervising the roles of all players within the Islamic banking system. The most important elements of corporate governance should include investor relationship management, relationship to stakeholders such as customers, public pressure groups and employees. The main element of governance system is the Shariah board that plays the dual role of supervision and consultation. This Shariah board consists of Shariah scholars and committee of religious scholars. The duty of the Shariah board is to make sure that Islamic banks avoid Riba (interest) in all forms and no exploitation or injustice takes place to stakeholders.

4.0 OBJECTIVE OF THE SHARI’AH GOVERNANCE

In the context of financial services sector, the objective of corporate governance is to provide an established organizational structure and arrangement to ensure corporate fairness, transparency in disclosure and accountability. Hasan Z. (2009: 279) in his paper stated that “the apex objective of the corporate governance is to ensure fairness not only to shareholders but to stakeholders to be attained through greater transparency and accountability". Shariah principles or Maqasid al-Shari’ah1 is the ultimate objective of

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1 Maqasid al-Shari’ah means protection of the welfare of the people, which lies in safeguarding their faith, life, intellectual, posterity and wealth.
The Shariah Committee member also acts as member of Islamic transaction/commercial law (Fiqh al-Muamalat) and Islamic transaction/commercial law (Fiqh al-Muamalat) in its corporate governance which is to ensure effective independent oversight of Shariah compliance over every practice in IFIs. Credibility of IFIs in term its accountability and trustworthiness can be build through efficient Shariah governance framework.

5.0 FUNCTIONS OF SHARIAH GOVERNANCE SYSTEM

The functions of shariah governance system are too broad and challenging to Islamic financial institutions. The shariah non compliance risk is a special risk to IFIs. The risk arises when the Islamic Financial Institutions become unsuccessful in complying with the regulations imposed by the Shariah authority. (IFSB, 2006 pg.26). Shariah governance system is a risk management tool to ease shariah non compliance risk, liquidity risk, rate of return risk, shariah risk, and so on. Operational and regulatory risk can arise due to different opinions among scholars. Most three famous cases are the organization of the Islamic Conference (OIC)Fiqh academy’s declaration on the impermissibility of tawarruq ,the Malaysian high court’s judgment on the issue of bay bithaman ajil and AAOIFI shariah board chairman statement declining sukuk issuances, the main function of shariah governance. AAOIFI accounting standards confirm that IFIs must be transparent in their financial performances. IFSB (2002) mentioned that, only a sound and proper shariah governance system can manage the shariah risk as the part of operational risk. Therefore, shariah governance system helps to avoid shariah non compliance risks in IFIs that may cause negative credibility as well loss to IFIs. In shariah governance system, shariah advisors play the role to advise Islamic financial institution on matters pertaining to shariah issues. They monitor the activity and proceeds of the institutions. Advisors not only develop products and underlying contracts, but they also may act as referees for shariah matters. Most important role is to conduct Shariah audit exercise for the IFI's.

6.0 GOVERNANCE OF ISLAMIC BANKS - MALAYSIAN MODEL

Bank Islam Malaysia Berhad in 1983 successfully established the first Shariah board in Malaysia. Ten years later, BNM took special initiative to establish interest free banking scheme only for Islamic banking products. Other banks also started to introduce their own Islamic windows and appointed selective Muslims as members of their Shariah board. Hence, in 1st May 1997, SAC was established under BAFIA to ensure the focus and to monitor Islamic financial activity.

The essential part in Islamic banking and finance governance is to ensure all the guidelines and regulatory is under Shariah framework. Bank Negara Malaysia (BNM) made some amendments in the central Bank of Malaysia provision for functional efficiency of Shariah Advisory Council (SAC). SAC is the sole advisory for Islamic finance. SAC provides guidelines for Islamic banking, finance and also defends takaful sector against any special complaints raised by the court.

A Shariah Committee is important in every Islamic financial institution. According to Banking and Financial Institution Act 1989 (BAFIA), financial institutions practicing Islamic banking have the authority to set up their own Shariah committee. However, any takaful practitioner under this group needs to establish their own Shariah Committee stipulated under the Takaful Act 1984 (TA).

All the appointments of Shariah Committee selected by the Board of Directors are required to obtain prior approval by BNM and shall remain valid only for two years. In terms of qualifications, a Shariah Committee is subjected to represent an individual person and not any institution. The Shariah Committee member is also required to possess knowledge and need to be experienced in Islamic jurisprudence principals (Usul al-Fiqh) and Islamic transaction/commercial law (Fiqh al-Muamalat). A minimum of the minimum of three people is required to represent a Shariah Committee.

The Shariah Committee members have the responsibility to advise the Board on Shariah issues in its operational activities. The committee shall provide the guidelines for institutional adherence to Shariah principles. The guidelines are required to be prepared with exact specifics on Shariah meeting arrangements and the procedure of compliance with Shariah rules. Additionally, the Shariah Committee members also

2 Islamic Financial System, Principles & Obligations, by ISRA ,2012
need to ensure that the financial institutions under their supervision are actually complying with Shariah principles in all aspects. They are also required to assist others such as legal practitioners, auditors, consultants from Islamic financial institutions for advice upon request. The Shariah committees also have the additional responsibility to refer any unsolved issue to the Shariah Advisory Council (SAC) which was not previously addressed.

Shariah Committee needs to record their opinions when a financial institution is seeking for SAC advice or when an idea of any new product is proposed. Shariah Committee members are required to assist SAC in reference for advice to resolve issues and provide recommendations for a decision supported by relevant jurisprudential literature from trusted sources. Once the SAC have approved a decision, the Shariah Committee is required to ensure that the decision is followed by Islamic financial institutions.

7.0 LAWS AND REGULATION OF CENTRAL BANK OF MALAYSIA

Islamic corporate governance combined with Shariah governance, needs establishment of robust and sound regulatory framework. Regulatory infrastructures for conventional governance system in Malaysia are proven to be effective with the effort done by regulatory body, Central Bank of Malaysia (BNM). Thus, similar risks of corporate governance in IFIs can be mitigated through existing corporate governance framework. However, as IFIs have distinctive features leading towards unique Shariah risk, current framework is modified to address those risks and to ensure its co-ordination with corporate governance. Hasan (2010), in his study mentions that there are five models of Shariah governance namely *reactive, passive, minimalist, pro-active and interventionalist*. He concludes that the BNM’s concerted efforts in enhancing Shariah governance framework has put Malaysia in a *pro-active model* category that differs from self-regulation type of Saudi Arabia and the UK. With the introduction of Central Bank Act (CBA 2009), BNM has given the strongest recognition to the role of Shariah governance and Shariah scholars, by elevating National Shariah Advisory Council (NSAC) to a special stature. This is further enhanced by timely updated guidelines on Shariah governance, resolution of Shariah Advisory Council (SAC), and other related corporate governance guidelines. In order to ensure convergence of Shariah regulatory framework standard internationally, Malaysia also adopted Auditing and Accounting Organization for Islamic Finance Institution (AAOIFI) and Islamic Financial Services Board (IFSB) standards. Basically, every financial institution in Malaysia is governed by Banking and Financial Institution Act (BAFIA 1989). Apart from that, IFIs are specifically and additionally governed by Islamic Banking Act (IBA 1983). However, implementing full Shariah governance framework in dual-systems is dealt with difficulties in legal proceedings. Malaysian Federation’s judicial system only allows Shariah court to deal with cases of family and religion issues such as marriage, inheritance, religious conversion and custody. Therefore, financial cases are required to be dealt with proper hearing in the civil court. BNM with a cooperation of judicial bodies have worked together to set up a special High court in the Commercial Division known as the Muamalah bench to address this issue.

8.0 CHALLENGES AND PROSPECTS

**Challenges of Governance System**

One of the most crucial challenges of corporate governance in Islamic banks is to have their own shariah boards with local Imam and Shariah scholars as members. There are cases where their opinions did conflict with the top notch international shariah advisors. Fiqh al-muamalat is still in developing phase and a complicated part of Islamic law. Sometimes, local Imams and Shariah scholars may not be familiar with the depth of the Fiqh muamalat concepts appropriately. There are different Madhabs (schools of Islamic law) in the world with different interpretations of Shariah laws contradicting with each other. Therefore, it is not always possible to standardize Shariah across the world. Globally, the role of shariah scholars needs to be transparent due to the conflicts of interest amongst Shariah scholars. Lack of human capital in Islamic finance is the most challenging issue in Shariah governance. Rahman (2006), argued in his article that the limitation of product knowledge and practical banking exposure could create difficulties for Shariah Scholars to pursue synchronization amongst financial products and activities. The conventional governance system largely differs from the Islamic bank’s management. Conventional governance or management is not obliged to follow advice or regulations given by their legal advisers whereas Islamic bank’s management
are required to follow the decision and advice made by their Shariah advisors. Therefore, the challenge is to differentiate amongst the Shariah regulatory, legal, finance and tax requirements in the growth of Islamic finance. In the current development of Islamic finance, banks may lose their customers if they fail to achieve satisfactory growth with their new products. A new product in the market needs to be free from riba, zulm and gharar. It is important for banks to get approval from their Shariah scholars regarding new product launch. This can be challenging since majority of the Shariah scholars may not have the familiarity with such proceedings due to the lack of knowledgeable human capital. Islamic finance is in developing phase, with flexibility provided for ‘exceptional need’ since strict Shariah regulations may affect the rapid development of Islamic finance. The challenges of shariah governance are to move towards innovations and to provide Islamic based services and products while competing with mature conventional products. It can be difficult for a person to give a comprehensive Shariah compliance audit of the operations of full-fledged Islamic financial institution while ensuring secrecy and confidentiality.

Agency problem

One of the most crucial challenges in Shariah governance system is the agency problem. Mudharabah and Musharakah are two famous contracts in Islamic financial system. Islamic banks represent an agency relation between the depositors or clients and bank. Mudarabah contact may create a complex agency problem. The conflict arises since the bank as Mudarib works as an agent for the investment holders while the management protects the shareholder interest. Racha Ghayad, (2008) mentions in his article that, Mudarabah financing practice in current context does not give investment account holder any authority to vote or assign the external auditor. As a result, investment account holders become less influential in this regard. This may also damage the principal agent relationship in conventional banks with governance system. The author also argues that the limited rights create imbalance in the governance structure of IFIs. In the Quran, Allah says, “Then We put you, [O Muhammad], on an ordained way concerning the matter [of religion]; so follow it and do not follow the inclinations of those who do not know.”(Surah al-Jathiyah: Ayat 18) and “…surely Allah takes account of all things” (Surah al-Nisa’: Ayat 82).

Prospects of Governance System

Nowadays, the IFIs are facing problem in business, market and operations. Some of the financial products are difficult to understand. Some products have high market potential but non compliant with Shariah laws. Therefore, Islamic banks need to ensure availability of Islamic expertise who is knowledgeable in such field (Rahman, 2006).

The development of Shariah banking practitioners is crucial for future generation. The growth of numbers of Shariah practitioners are essential to keep pace with the numbers of bank professionals.

This may resolve misunderstanding of Shariah code amongst banking practitioners as well as improve our moral and ethical standards with the participation of Shariah scholars. Moreover, today, Shariah scholars are strongly in high demand in the market because of their limited numbers. Therefore, training of the new Shariah scholars can ensure development of Shariah banking practice.

IFIs are more flexible compared to traditional financial institutions because of the risk sharing and profit sharing activity. Therefore, the significance of responsibility in lending money is high in such institutions. With the economic downturn, financial markets receive adjustment that impacts Islamic banks as well.

That is why, capital buffers, risk management and sound governance practices are required. Firms need to manage higher liquidity in order to be more flexible with their borrowing practices. Also, it's important to mention here that, Islamic financial institutions were less affected during previous financial crisis since they

3 How Islamic banks complying with the shariah requirement? By Ust Hj Zaharuddin Hj Abd Rahman (2006)
are closely related to the real world economy. The development of Islamic financial sector must be supported by strong Shariah governance by the knowledgeable Shariah expertise.

In another area, it is recommended that Shariah Supervisory Board (SSB) should include a very knowledgeable person skilled in Arabic language for others to understand the Holy Quran and Hadith properly. SSB should be centrally managed for opinion sharing. The central SSB shall observe each member of SSB in each institution to avoid misinterpretations of the rules.

Additionally, Shariah governance should be able to educate the clients about the most significant part of the Shariah law. In conjunction of that, SSB should organize trainings for clients to provide extra knowledge for better understanding of ethical business. Otherwise, the client will depend mostly to the SSB due to the absence of self-monitoring which may prove very risky for them.

### 9.0 COMPARISON AND CONTRAST GOVERNANCE OF ISLAMIC BANKS AND CONVENTIONAL BANKS

#### Episteme

Episteme, as derived from Greek word, is the domain of opinion, common belief or knowledge. Western perspective of corporate governance model is generally based on rationalism and rationality. This model largely differs from the basic context of Islamic corporate governance. Islamic scholars put Tawhid or oneness of Allah s.w.t as the main foundation for Islamic model of corporate governance. Allah s.w.t says in Quran (51:56), “And I created not the Jinn mankind except that they should worship Me”. Thus, it is understood that from Islamic corporate governance context, we as mankind should recognize Allah’s right in every activities in our life. In the context of corporate governance, Tawhid will always remain as the main episteme so that any rationality and rationalism when needed will not prevail over our responsibilities to Allah s.w.t.

#### Objectives

Establishment of corporate governance system is crucial for organizations to achieve their goals and objectives. The system should be able to protect shareholder's interest and stakeholder rights. However, Islamic model of corporate governance puts some limitations to the conventional governance system. Jurisdiction of Shariah widely covers on Muamalah matters that include corporate governance. Thus, Islamic corporate governance promotes effort to protect rights and interest of all stakeholders even though it is subjected to the rules of the Shariah. Considering from broader perspective, corporate goals in conventional governance model is entirely based on shareholders’ profit or social welfare. Hasan (2009) stated that the western perspective on corporate governance supported by UK and USA, described as Anglo-Saxon model acknowledged that the ultimate goal of corporations is to maximize Shareholder’s investment.

Meanwhile for the European model, social welfare is more important compared to shareholders’ profit. This is distinguishable from the context of Islamic model of corporate governance since Maqasid al-Shariah become the ultimate goals for corporate, apart from shareholders’ profit objective.

#### Nature of Management

The management philosophy of Islamic bankers from those of conventional bankers should be differentiated on some crucial aspects. Although, the current banking practices in few Islamic banks in some countries do not fully demonstrate the compulsory philosophical differences between the two banking system. Islamic banks should be managed within the framework of Islamic Shariah that requires the bank managers and the owner to try fulfill certain objectives.

The commercial engagement of a Muslim, or any kind of engagement by any individual are needed to be defined according to the broad definition of the objectives of Shariah (Maqasid of Shariah). This implies that, except for profit maximization, the banks also pursue other objectives such as promoting Islam, protecting the wealth of people, protecting the reasoning, protecting posterity, preserving the life of people.
and so forth. Therefore, the Islamic banks should also consider the above mentioned objectives along with their profit maximization objectives.

If IFIs can pursue these objectives, they are going to be able to fully comply with the Shariah principles and guidelines. The contractual agreements with the customers, various types of deposit products and other financial products should be designed according to Shariah jurisdiction.

On the other hand, the management philosophy, vision, mission and objectives of traditional banks should attempt operate within the generally acceptable human morality the management of Islamic banks should be guided by revelation instead of human instincts.

**Management Boards**

Mostly, the structural set of the two types of banking organizations are supposed to be similar. However, in the case of Islamic bank, a Shariah advisory board should be enacted to guide the bank’s operation to ensure Shariah compliance.

**Capital and Ownership Structure**

Capital investments for the conventional banks have lesser restrictions in terms of interest. However, Islamic banks cannot obtain capital from sources involving in borrowed money with interest, either in the form of bank loans or preferential shares. The leverage of the bank should be minimized and the capital structure should be fundamentally equity based.

**10.0 CONCLUSION**

Corporate governance refers to the method by which a corporation is directed, administered or controlled. The current study summarizes the current practices of Shariah governance framework in the Islamic banks in Malaysia and challenges faced by them.

It can be argued that the challenges faced by the Shariah governance system is typically due to the lack of a proper establishment of Shariah law in the system. Islamic banks have their own Shariah boards consisting local Imam and Shariah scholars whose opinions do not match with the international Shariah advisors. Therefore, Islamic banks need to clarify the role of the board, the Shariah committee and the management relation to Shariah affairs. At the same time, they need to develop the Fiqh al-muamalat since it is still in developing phase by Islamic jurisdiction. The knowledge of the Imams and Shariah scholars are also needed to develop in this regard.

There are different Madhabs (schools of Islamic law) in the world with different interpretations of shariah law that contradicts with each other. As a result, it is impractical to fulfill the demand for standardization or uniformity of Shariah across the world. Therefore, Shariah community needs to come up with unique standards that are in the line with the Shariah law and to be practiced across the world.

Conventional banks have higher significant concern for the shareholder's money over social welfare. Therefore, it largely differs with Islamic model of corporate governance, since Maqasid al-Shariah remains the ultimate goals for corporate limiting shareholders’ profit concern. Corporate governance plays significant role to ensure specific goals and objectives of corporation achieved. It is important to note that the corporate governance system should be able to protect the rights and interest of stakeholders or shareholders.

Islamic banks should be managed within the framework of Islamic Shariah which requires the bank managers and the owner to fulfill certain objectives. The commercial engagement of a Muslim, or any kind of engagement for that matter, must be based on the broad definition of the objectives of Shariah (Maqasid of Shariah). The management of Islamic banks should be guided by revelation while conventional banks are guided by human instincts.
In concluding remarks, it can be argued that the governance systems of Islamic banks have greater impact on their performance. In terms of disclosure and shareholder relationship, Islamic banks should not follow the same managerial values similar to those of conventional banks. The shariah board should include members with qualification in banking and commerce to ensure better quality of supervision and consultation from Islamic perspectives.

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