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RESEARCH PAPER

Corporate Governance and Audit Quality in Islamic Banks in Emerging Asian Economies: A Literature Review

[1]Aiman Hussain Chohan and [2]Dr. Ayaz Ul Haq*

1. MS Scholar, Department of Management Sciences, Shifa Tameer-e-Millat University, Islamabad
2. VFM, Department of Management Sciences, Shifa Tameer-e-Millat University, Islamabad

***Corresponding Author:** drayaz@cbsr.com.pk

ABSTRACT

This systematic literature review explores the relationship between corporate governance and audit quality in Islamic banks within emerging Asian economies. It focuses on how governance systems like board independence, audit committee effectiveness, and Shariah supervisory boards influence audit reliability and stakeholder confidence. Islamic banks present a unique challenge as they integrate conventional corporate governance with Shariah principles. The review synthesizes peer-reviewed literature from 2010 to 2025, drawing on agency, stakeholder, institutional, and resource dependency theories. Findings indicate that while governance structures aligned with ethical and religious oversight improve audit quality, inconsistencies in regulatory frameworks and varying institutional capacities across countries serve as critical moderators. A notable gap is observed in empirical research regarding the impact of Shariah supervisory boards on audit quality and the lack of standardized audit quality metrics. The study recommends further empirical research on the role of Shariah boards and standardized audit measures, alongside practical steps to harmonize governance frameworks and enhance institutional capacity.

KEYWORDS Islamic Banking, Corporate Governance, Audit Quality, Shariah Governance, Asian Emerging Economies

Introduction

The remarkable growth of Islamic banking in recent years has significantly reshaped financial landscape, particularly across emerging Asian economies (Lebdaoui & Wild, 2016). Rooted in Islamic jurisprudence (Fiqh-al-Muamalat), Islamic banking provides interest (riba), speculative transaction (gharar) and investments in unethical industries such as gambling and alcohol. Instead, it emphasizes ethical investment, risk sharing transparency, and social justice (Alhejaili, 2025). These principles position Islamic banks not merely as financial intermediaries but as institution of embodying religious and moral values (Zainuldin et al., 2018). As Islamic language spend in scale, scope, and complexity, the importance of robust corporate governance has grown accordingly (Almutairi & Quttainah, 2017; Ayub et al., 2024). Effective governance ensures that banks with integrity, safeguards stakeholders' interests, and comply with both regulatory and shariah principles (Alam, Rahman, et al., 2022). Corporate governance in Islamic banks incorporate both conventional elements such as board independence, board size, and audit committees and Islamic specific components, notably the Shariah Supervisory Boards (Mollah & Zaman, 2015; Tashkandi, 2023).

The SSB plays a central role in ensuring compliance with Islamic law, serving as an additional layer of accountability and oversight (Muhammad et al., 2021). Audit quality also serves a pivotal function upholding financial credibility, identifying risk, and reinforcing investor confidence (Darmawan, 2023; Sapiri, 2024). In Islamic banking audit, practices are inherently complex due to the dual requirement of adhering to both conventional financial reporting standards and Islamic principles (Morshed, 2024; Mukhlisin & Fadzly, 2020). This necessitates that auditor possess not only technical financial expertise but also a sound of understanding of Islamic financial contracts and ethical norms (Karim & Shetu, 2020; Rafie, 2023). Despite its critical importance, audit quality in Islamic banks has not received as much scholarly attention as in conventional finance.

In Islamic breaking now plays a vital role in the financial development of any emerging economies, including Malaysia, Indonesia, Pakistan, Bangladesh, and various Gulf Cooperation Council (GCC) countries (Yusof & Bahlous, 2013). Unlike conventional banking, Islamic financial institutions operate under the ethos of Sharia, which promotes ethical finance, risk-sharing and the prohibition of interest and excessive uncertainty (Bashir & Gorton, 2023; Oladele, 2023). These foundational values necessitate distinct approaches to both governance and auditing practices in Islamic banks (Alhammadi et al., 2018; Iqbal & Mirakhor, 2020). Corporate governance, therefore, becomes a fundamental pillar in ensuring adherence not only to financial regulations but also to Islamic ethical standards (Mansour & Bhatti, 2018; Solihati et al., 2023). Sound governance structures comprising boards of directors, SSBs, and audit committees enhance stakeholder trust, promote transparency, support long term financial sustainability (Benichou, 2024; Efunniyi et al., 2024). However, maintaining, audit quality in Islamic banks is uniquely challenging, given the need to align practices with both regulatory framework and Sharia requirements (Mishref & Sa'ad, 2024; Rashid & Ghazi, 2021). Although substantial research addressed corporate governance and audit quality as separate domains mostly in the context of conventional banking there remains a significant gap in integrated studies exploring how these two dimension interacts specifically within Islamic banking institutions (Rashid & Ghazi, 2021; Wali et al., 2023). Moreover, most existing research is country specific and fails to capture the broader dynamics an institutional diversity across emerging Asian markets. As these regions undergo rapid economic transformation and regulatory reform, a deeper understanding of the governance audit Nexus in Islamic banks becomes increasingly critical (Amuda & Al-Nasser, 2024; Iqbal et al., 2024).

The review aims to bridge that gap by synthesizing empirical and contextual literature from 2010 to 2025, focusing on how corporate governance structures and audit quality jointly contribute to improved performance, transparency, and accountability in Islamic banks operating in emerging Asia. The goal is to identify underexplored areas of proposed research directions that support the evolution of robust the governance and auditing frame was aligned with having by investigating this intersection, that study provides valuable insight into the opportunities and challenges of improving governance and audit quality in Islamic finance. These findings are particularly relevant to policymakers, regulators, researchers and practitioners seeking to enhance institutional integrity and promote the sustainable development in the Islamic financial sector across Asia. While existing studies offer important perspectives on governance and audit quality relatively few have examined their interaction in the Islamic context (Alam, Rahman, et al., 2022; Rafie, 2023; Rashid & Ghazi, 2021; Muzaffar, & Choudhary, 2017).). Many are limited in scope rely on single country datasets, or lack the Islamic specific length needed to fully understand these institutions unique operational and regulatory challenges.

Literature Review

The exploration of corporate governance and audit quality within Islamic banks in emerging Asian economies has emerged as a subject of evolving academic inquiry (Khan & Zahid, 2020). Islamic banks functioned under our dual governance structure that combines conventional mechanisms such as board independence, board size, and audit committee with shariah governance, primarily led by Sharia Supervisory board (SSBs) (Alam & Miah, 2021; Saeed & Saeed, 2018). This distinctive structure differentiates Islamic bank from their conventional counterparts, embedding, ethical, legal and religious dimensions into financial operations (Abasimel, 2023; Hassan et al., 2022). Numerous empirical studies affirm the role of conventional governance mechanism in enhancing transparency reducing agency conflicts and boosting financial performance simultaneously SBS play a very vital role in ensuring compliance with Islamic jurisprudence, although the empirical evidence on their direct impact on audit quality remains fragmented and often country specific (Ayub et al., 2024; Hassan et al., 2022). Despite their critical oversight functions, effectiveness of SSB is influenced by jurisdictional differences in religious interpretation and regulatory enforcement (Alamer, 2021). Agency theory and stakeholder theory frequently underpinned governance related studies, suggesting that the effect structures align managerial interest with those shareholders and product stakeholders (Nyberg et al., 2010; Stoelhorst & Vishwanathan, 2024). However, findings remain inconsistent across geographies such as Malaysia, Indonesia, Pakistan, and Bangladesh largely due to disparities in institutional development, political stability, and regulatory maturity (Alam & Miah, 2024; Iqbal et al., 2024). In volatile environments governance mechanisms may face significant stress, though some research suggests that the risk sharing ethos and ethical foundation of Islamic finance foster institutional resilience (Abedeen & Salman, 2024; Alhammadi, 2024). Audit quality is another critical dimension, possibly associated with audit firm size, audit tenure, and constraints on earnings management (Imen & Anis, 2021).

In Islamic banks, however audit quality carries dual responsibilities: adherence to international accounting standards and conformity with Sharia principles (Alam, Ahmad, et al., 2022; Alam, Rahman, et al., 2022). Each obligation complicates the audit process demanding a unique blend of conventional audit expertise and Islamic financial knowledge (Khatib et al., 2022). Review shows that independent audit committees and strong governance frameworks tend to enhance audit quality, yet the interface between Sharia Governance and traditional audit oversight remains insufficiently explored (Mishref & Sa'ad, 2024; Muzaffar, et. al., 2023; Nguyen, 2021). Some studies draw open resource dependency theory to explain the value added to the SSBS and audit committees as strategic assets that influence governance outcomes (Alasmri, 2020; Said, 2024). However, empirical validation of these theoretical linkages is limited, especially within cross country context, Political instability, inconsistent enforcement of Sharia and international financial reporting standards and regulatory landscapes further challenge effective governance and audit quality (Amanamakh, 2024; Jaradat & Oudat, 2025). While saving banks often exhibit stronger ethical and accountability frameworks, their governance models vary widely across jurisdictions (Wali et al., 2023). This variation restricts generalizability and calls for deeper contextualized studies. Moreover, current literature largely fails to analyze the synergy of conflict between corporate governance and audit functions, particularly under dual compliance regimes (Wulandari & Anggraeni, 2024). Despite growing interest, significantly research gaps persist including limited theoretical integration, lack of empirical depth on Sharia governance mechanisms, and insufficient focus on auditor qualifications tailored to Islamic finance (Khatib et al., 2022; Mishref & Sa'ad, 2024). Hence, the review emphasizes the need for comprehensive, theory driven and cross-national investigation to better understand how governance and audit frameworks operate collectively under the unique financial system. Advancing this stream of research could inform both policy formulation and institutional reforms aimed at improving accountability, ethical compliance, and financial integrity Islamic banking across emerging Asian economies.

Dual governance in Islamic banking

Islamic banks operate under a hybrid framework combining conventional corporate governance with Sharia governance mechanism particularly through the Sharia supervisory board (Mollah & Zaman, 2015; Tashkandi, 2023). This layered system introduced ethical and legal complexities unique to Islamic finance.

- Review of literature on Sharia governance and audit in Islamic banks (Mishref & Sa'ad, 2024)

- Islamic corporate governance and organization and culture in Indonesia (Supriyanto & Agustine, 2025)

Governance and Risk Oversight

Risk governance has become central in managing uncertainty in Islamic banking. Effectiveness committees and board structures help maintain stability while adhering to Sharia (Alhammadi et al., 2020; Islam et al., 2025).

- Risk governance and financial stability in Islamic banks (Marnouch & El Khamlichi, 2024)
- Corporate governance and risk taking in GCC banks (El-Masry et al., 2016)

Internal Audit and Fraud Mitigation

Finance exchange beyond compliance are tools for promoting ethical behavior. Strengthened audit system size engine and fraud prevention (Bamigboye, 2020).

- The influence of internal audit and internal control on fraud prevention (Handoyo & Bayunitri, 2021)
- Islamic corporate governance and code of ethics in Indonesia (Supriyanto & Agustine, 2025)

Audit Quality and Financial Performance

Quality must meet both international and Sharia standards. Independent committees and ethics aware auditors are crucial to improving performance (Rafie, 2023).

- Impact of audit quality on financial performance in Islamic and conventional banks (Awan et al., 2025)
- Audit quality audit committee, and CSR Islamic banks (Alam, Ahmad, et al., 2022)

Ethics Innovation and Governance in SME Islamic finance

Islamic values when embedded in SME governance promote innovation and sustainability open innovation combined with Sharia principles leads financial growth (Raimi et al., 2025).

- Optimizing SME financial performance based on shariah Economy (Itang et al., 2023)

Post Crisis Institutional Resilience in Islamic banking

Resilience post financial crisis with regulatory gap persists across national differences complicate governance outcomes (Turk, 2014).

- Corporate governance practices post financial calamity (Hassan et al., 2024)
- Corporate governance and risk taking in GCC countries (El-Masry et al., 2016)

Table No 1
Summary of Literature Review

Domain	Key Focus Areas	Findings from Literature
Corporate Governance	Board of independence, audit committees, board size	Effective governance (esp. independent boards, active audit committees) enhances audit quality
Shariah Governance	Shariah Supervisory Boards (SSBs), ethical oversight, religious compliance	SSBs ensure compliance and ethical soundness; their effectiveness varies across countries

Audit Quality	Auditor size, tenure, Shariah audit capability, financial reporting accuracy	Big Four firms linked to higher quality, but lack of Islamic finance knowledge is a constraint
Regulatory Environment	IFRS implementation, Shariah standardization, legal frameworks, political stability	Weak enforcement and regulatory inconsistency undermine audit reliability
Governance-Audit Link	Interactions between governance and audit outcomes, dual governance synergy	Combined role of corporate governance and Shariah oversight improves audit outcomes
Institutional Context	Country-specific legal norms, institutional maturity, socio-political influences	Institutional differences lead to varied audit and governance effectiveness across Asian economies

Material and Methods

This study to investigate the relationship between corporate governance and audit quality in Islamic banks operating in developing economies. The SLR approach ensured a structured, transparent, and replicable synthesis of existing research, enabling A comprehensive examination of scholarly insights, recurring themes and gaps in literature. This research is qualitative in nature, focusing on both theoretical frameworks and empirical studies published between 2010 and 2025. The review emphasizes literature relevant of Islamic banking, corporate governance, audit quality, and Sharia governance, particularly in the context of countries such as Indonesia, Malaysia, Pakistan, Bangladesh, the United Arab Emirates, and other gulf corporation council nations. These countries were deliberately selected due to their well-established Islamic finance sectors and their share institutional and regulatory challenges as emerging market.

Analytical structure

The analysis is structured around key themes.

- Sharia governance structure
- Audit quality in Islamic context
- Regulatory and institutional environments
- Corporate governance mechanism in Islamic banks
- Competitive insights across emerging Asian economies.

Geographical Scope Constraints

The review primarily focuses on selected countries Malaysia Pakistan Indonesia Bangladesh and some gulf states instituting relevant insights from other emerging Islamic finance hubs like Jordan Nigeria and Turkey.

Lack of Quantitative Meta Analysis

The study employs a qualitative approaching does not include the method analysis of quantitative results which could have provided stronger statistical validation of trends or patterns subjectivity in study selection. Despite applying systematic criteria the selection and interpretation of studies may involve subjective judgment and researched bias.

Results and Discussion

Government Structure Islamic vs Conventional

Islamic banks operate under a dual governance system comprising traditional corporate governance such as board independence, audit committees, and risk oversighted Sharia governance mechanisms include Sharia supervisory boards. This duality contrasts with commercial banks which rely mainly on secular governance and financial oversight. While conventional banks focus on shareholder value and compliance with financial regulations Islamic banks must also align with ethical and legal principles of Islamic laws. This creates a more complex decision making and audit environment, requiring boards and auditors to integrate both legal and religious dimensions.

Regional variations in authority

- In Malaysia, a centralized Sharia board at the national level (under bank Negara Malaysia) overseas Islamic financial practices, offering standardized governance.
- In Pakistan and Bangladesh, SSBS operates at the institutional level with less centralized regulation, often resulting in inconsistency in compliance enforcement.
- Gulf countries particularly the UAE and Bahrain display hybrid models some central oversight exists, but institution often appoint their own SBS with varying qualifications and roles.

Regulatory Frameworks and Institutional readiness

Emerging Asian economy show variation in regulatory sophistication:

- Malaysia and Indonesia lead in Islamic finance regulation, with integrated governance frameworks and supported by legal clarity and policy innovation.
- Pakistan and Bangladesh face regulatory fragmentation, inconsistent implementation of international standards and political instability limiting the effectiveness of governance structures.
- The Dubai and Bahrain have advanced financial markets but still face challenges aligning their Islamic governance structures with global audit standards.

Legal Structures VS Sharia Compatibility

- Examines the conflict and alignment between national legal frameworks and Sharia principles in Islamic financial governance.

Institutional Resilience in Politically Volatile Economies

- Focuses on how Islamic banks maintain integrity and compliance amid regulatory uncertainty and political instability in emerging nation context.

Discussion

This study reveals that corporate governance and audit quality are intrinsically linked within Islamic banking institutions, especially in emerging Asian economies. A substantial number of studies confirmed that board independence, effective audit committees, and the presence of Sharia supervisory boards significantly enhance financial transparency, institutional performance, and compliance with Sharia law (Abidin et al., 2021; Alam & Miah, 2021; Bechihi & Nafti, 2025). These elements not only ensure operational integrity but also promote stakeholder confidence. Furthermore, the role of SSBs provide an added layer of accountability specific financial principles, highlighting the union dual governance structure of Islamic banks (Alam, 2022; Mnif & Tahari, 2021). Despite growing academic interests in Islamic banking their remains a lack of integrated and regionally comparative studies exploring the intersection of corporate governance and audit quality (Grassa & Matoussi, 2014; Mishref & Sa'ad, 2024). Most existing literature is either country specific or focused solely on one governance mechanism, thereby limiting generalizability. Additionally empirical insights into the effectiveness of SSBs, their interaction with conventional governance mechanisms, and required expertise of auditors in Sharia law are underexplored (Hudayati, 2023; Mishref & Sa'ad, 2024). The scarcity of cross borders analysis also leaves questions about how broader macroeconomic and institutional environments shape governance practices in diverse Islamic banking contexts (Amuda & Al-Nasser, 2024). Literature represents a range of conflicting findings. While some studies assert that traditional governance factors such as board size and audit committee composition significantly impact quality, others find no such association (Khudhair et al., 2019). Similarly, the influence of Sharia governance structures varies across jurisdictions (Buallay, 2019; Soualhi, 2016). In some ceremonial or symbolic these inconsistencies often stem from variations in regulatory enforcement, institutional maturity, and political stability. This divergence underscores the importance of contextualizing governance mechanism within specific social political frameworks (Alam & Miah, 2024; Karbhari et al., 2024). Past trends in literature highlight a shift toward using broader theoretical frameworks such as resource dependency theory and institutional theory to understand how external and internal factors influence governance effectiveness (Alam & Miah, 2024; Christopher, 2010; Karbhari et al., 2020).

Another notable development is the growing emphasis on dual skilled auditors professional equipped with both financial expertise and deep knowledge of shariah principles (Ali et al., 2015; Kamaruddin et al., 2023; Mohamad et al., 2023). In addition, technological integration, such as digital auditing tools and fintech innovations, is beginning to reshape governance and auditing practices in Islamic banks (Alsaghir, 2023; Haridan et al., 2023). These trends suggest a future results agenda focused on harmonizing modern auditing approaches with foundational ethics of Islamic finance (Rafie, 2023). Theoretically the review sports are blended use of agency theory, the stakeholder theory, and resource dependence theory to explain how governance structures function in Islamic banks (Jan et al., 2021; Mohammed & Muhammed, 2017). This multi-dimensional perspective offers a richer understanding of the ethical, social, and institutional dynamics unique to Islamic finance (Amuda & Al-Nasser, 2024; Asutay, 2013). Technically the findings emphasize the need for Islamic banks to strengthen the internal governance mechanisms and ensure that their audit committees and SSBS operates with Autonomy, competence and accountability (Mishref & Sa'ad, 2024). At the policy level, regulators in emerging Asian economies should prioritize the development of unified Sharia governance framework that complements international financial reporting standards (Kadi, 2025). Regional collaboration can facilitate the adoption of consistent policies that enhance both audit quality and governance integrity (Ogunsola et al., 2021).

Theoretical Contribution

Contextualize and extend the application of the following core theories.

- Agency theory by examining how dual governance structures (including Sharia boards) manage principal agent conflicts (Al-Nasser Mohammed & Muhammed, 2017; Kismawadi, 2025).
- Stakeholder theory by highlighting the broader set of stakeholders considered in Islamic finance, including religious bodies and the community (Alam, 2021).
- Institutional theory by analyzing how formal institutions (legal systems) an informal norms Sharia compliance interacts in different countries (Alam et al., 2021; Yilmaz, 2024).
- Resource dependence theory by exploring the role of audit committees and SSBS as resource providers for effective governance (Mohd Zain et al., 2025; Rahmawati et al., 2024).

Conclusion

The systematic literature review explores the convergence of corporate governance and audit quality within Islamic banks operating across emerging Asian economies. Drawing from an extensive range of empirical and conceptual studies the review highlights the distinctive governance architecture of Islamic banks shaped by dual compliance obligations involving both conventional regulatory norms and carrier principles for governance mechanisms, such as board independence, audit committees and particularly Sharia Supervisory Boards are found to play a vital role in enhancing financial transparency, institutional accountability, and the overall integrity of audit process. While audit quality is often assessed using conventional indicators such as auditor size tenure and independence Islamic contents demands are more layered approach that considers ethical obligations jurisprudential knowledge.

This Variation underscores the necessity for auditors who possess not only technical competence but also a strong grounding in Islamic legal and ethical traditions. Despite the importance of duals competence literature shows that this area remains mainly underexplored. A critical gap identified as the limited integration between studies on corporate governance and those on audit quality with most focus on these domains in isolation. Additionally, broader macro level factors such as political instability, regulatory inefficiency and various stages of institutional maturity significantly influence the effectiveness of governance and audit practices across countries. The review also observed a lack of standardized metrics for Islamic audit quality and an insufficient number of multi country analysis within the Asian region. These finding signal clear directions for future inquiries scholars should aim to develop integrated governance frameworks that reconcile Islamic ethical imperatives with global best practices. Moreover, constructing an Islamic audit quality index and expanding comparative regional studies will enrich understanding and applicability. By synthesizing existing knowledge and spotlighting persistent gaps this review not only maps the current research terrain but also provides a road map for advancing theoretical development and practical reform. Ultimately, strengthening audit quality and governance structures in Islamic banks is essential not only for ensuring regulatory compliance but also for fostering stakeholder trust institutional credibility, and sustainable financial growth in the evolving landscape of Islamic finance.

Recommendations

Based on synthesis of existing literature and identified research gaps, the following recommendations are proposed to advance host scholarly research and policy implementation in the domains of corporate governance and audit quality within Islamic banks:

Development of a Dual Lens Audit Quality Index

This is the critical need to cherish a comprehensive audit quality measurement framework that indicates conventional auditing benchmarks with Islamic jurisprudential requirements. This index should include components such as Sharia compliant auditing procedures, auditor expertise in Islamic financial instruments and ethical content aligned with Islamic values.

Strengthening the Role and Capacity of SSB

Future governance reform should focus on improving the independence, qualification, and participatory role of SSBS in the audit process. Regulatory bodies are encouraged to formalize the certification responsibilities, and evaluation criteria of SSB members to improve uniformity and accountability.

Comparative Region Analysis Across Emerging Asian Economies

Researchers should conduct cross country comparative studies to explore how diverse institutional, legal and political settings impact governance and audit quality outcomes in Islamic banking. Such comparative research would help identify context specific barriers and success factors, especially in countries like Malaysia, Pakistan, Indonesia, Bangladesh and the Gulf States.

Bridging Theory and Practice Through Interdisciplinary Collaboration

Islamic finance regulators and academic institutions should foster interdisciplinary collaboration between Islamic jurisprudence scholars and audit professionals. This synergy would support that development of audit frameworks that are both technically robust shariah compliant.

Capacity Building and Specialized Training Program

Tailored training programs on governance and auditing in Islamic finance should be introduced for board member SSBS auditors, and compliance officers. These programs should highlight the dual compliance environment and provide practitioners to uphold both international standards and Islamic laws effectively.

Resilience of Governance and Audit in Crisis Context

Future studies should investigate how Islamic banks governance and auto structured perform under conditions of financial or political crisis. Emphasis should be placed on examining the ethical foundation and which sharing mechanisms of Islamic finance as potential Resilience during the systematic shocks.

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