

Internal Audit Guidelines for Risk-Based Maqāsid Syariah

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Received : 15 November - 2025

Accepted : 17 December - 2025

Published online : 18 December - 2025

Abstract

This article develops a new conceptual framework for the Risk-Based Internal Audit of Sharia *Maqāsid* (IARBMS) by integrating the principles of risk-based internal audit (RBIA) and the normative objectives of *maqāsid* sharia as the foundation of sustainability-oriented governance. This study uses a qualitative approach based on conceptual, comparative analysis, and literature synthesis to formulate *maqāsid* risk indicators, risk assessment tables, and risk registers that are applicable to Islamic financial institutions. The results of the analysis show that the implementation of IARBMS not only improves the effectiveness of risk management and sharia compliance, but also strengthens governance, information integrity, asset security, and the socio-environmental contribution of institutions. This framework offers theoretical contributions through the elaboration of institutional *maqāsid* as well as practical contributions in the form of audit guidelines that can be adopted by internal auditors, regulators, and sharia supervisory boards. The implications of the research confirm the need for standardization of *maqāsid* audits in the global Islamic finance industry.

Keywords: Maqāsid Sharia, Risk Management, Risk-Based Internal Audit, Sharia Compliance, Sharia Governance.

1. Introduction

Internal audit is a key component in the governance of financial institutions, serving to assess the effectiveness of risk management, compliance, and internal controls. In Islamic financial institutions, audits have an additional dimension in the form of alignment with sharia principles which are the moral, legal, and social foundations (Ridha, 2020). Internal audit is an important function in ensuring the effectiveness of governance, risk management, and internal control (Zain et al., 2024). In Islamic financial institutions, this function requires an additional dimension in the form of alignment with Islamic principles. *Maqāsid* Shariah, as an Islamic legal goal oriented towards the protection and development of human values, provides a normative foundation for formulating holistic audit guidelines (Hassan et al., 2019).

The urgency of this research arises from three main perspectives. First, from the standpoint of practitioner and implementation needs, practitioners in the Islamic finance industry face increasingly complex operational challenges, including sharia compliance risks, ethics-based operational risks, ESG risks, and technology risks. Existing audit guidelines remain partial and tend to focus on formal compliance or conventional audits, highlighting the need for an integrated framework that systematically prioritizes risks while assessing their impact on sharia *maqāsid* (Ahmed & Khan, 2007).

Second, there are limitations within existing ulama fatwas and regulations, which, although essential as references, remain normative and general. Many fatwas do not provide



concrete technical implementation guidance for internal auditors, creating gaps between sharia principles and operational practices in Islamic financial institutions (Kaplan & Mikes, 2020). This underscores the need for an audit model that is operational and aligned with the *maqāṣid*.

Third, previous research is limited, as most academic literature focuses on conventional auditing or partial sharia compliance, and no study has fully integrated the risk-based internal audit (RBIA) approach with sharia *maqāṣid*. These limitations hinder the development of audit guidelines capable of simultaneously assessing institutional risk, compliance, and contributions to sharia objectives (*maslahah*).

In addition, the existing literature (Badwan, 2024; Khatib et al., 2022; Akhlaq & Asif, 2024) largely discusses conventional auditing approaches or examines sharia compliance only in partial or procedural terms. As a result, there is still no integrated framework that connects risk-based internal auditing with the objectives of sharia (*maqāṣid*). This gap highlights the need for guidelines that not only evaluate compliance and risk control, but also consider whether an institution's activities advance *maslahah* (benefit) and prevent *mafsadah* (harm). The present research contributes to this need by outlining how institutional and practical *maqāṣid* can be incorporated into a risk-based audit model, offering a structured way to strengthen governance, transparency, information reliability, asset protection, and socio-environmental responsibility in Islamic financial institutions.

The emergence of new risks in the Islamic finance ecosystem, such as sharia compliance risks, ethics-based reputation risks, ESG risks, and technology risks, demand that internal audits expand their assessment methodologies. Therefore, this article offers guidelines for Risk-Based Internal Audit of Sharia *Maqāṣid* (IARBMS) as an integrated approach to address these challenges. As such, this research is important because it offers an innovative theoretical and practical framework for the internal audit of Islamic financial institutions, while addressing the gap between regulations, practices, and academic literature.

2. Literature Review

2.1. Frame of Mind

Internal audit based on risk of sharia *maqāṣid* is an approach that integrates modern risk management principles with sharia normative foundations (Sani & Abubakar, 2021). The emphasis on being aware of risks, both visible and hidden, can be traced from the verses of the Qur'an and Hadith. The Qur'an explicitly emphasizes the importance of prudence and responsibility in every action, as reflected in the words of Allah: "And fear Allah, for Allah is Aware of what you do" (QS. *Al-Hasyr*: 18), which leads Islamic financial institutions to implement systematic and comprehensive internal supervision. This hadith also emphasizes the obligation of a believer to always be vigilant against potential threats and deception, which is relevant to the principle of auditing which demands proactive anticipation and mitigation of risks.

This research framework was developed through the integration of the risk-based internal audit (RBIA) approach, the principles of sharia *maqāṣid*, and the latest framework of the Three line Model introduced by the Institute of Internal Auditors (IIA) since 2020, with the aim of developing comprehensive and relevant audit guidelines for Islamic financial institutions. This conceptual model emphasizes that internal audit is not just a formal compliance tool, but also serves as a strategic mechanism to protect and maintain sharia values in all institutional operational activities.

Within the framework of the Three line Model, operational management (first line) is responsible for the identification, evaluation, and mitigation of daily risks, including risks that have the potential to hinder the achievement of *maqāṣid* (Zain et al., 2024), such as the risks of *hifẓ al-dīn*, *hifẓ al-nafs*, *hifẓ al-'aql*, *hifẓ al-māl*, and *hifẓ al-nasl*. The second line, which includes the risk management and compliance functions, serves as a strategic oversight mechanism to ensure the effectiveness of internal controls, compliance with regulations, and alignment of operational activities with the objectives of *maqāṣid*. The third line, namely internal audit, acts as an independent party that provides assurance and evaluation of the entire system, as well as verifying that operational practices support the achievement of *maslahah* and prevent *mafsadah*.

The concept of *maqāṣid* sharia itself, which includes the protection of religion, soul, intellect, descent, and property, provides a normative dimension that expands the scope of audits from mere technical compliance to a holistic assessment of the institution's contribution in achieving *maslahah* and avoiding *mafsadah*. Thus, internal audit of *maqāṣid* risk-based not only mitigates operational and compliance risks, but also encourages ethical, transparent, and sustainable governance (Almgrashi & Mujalli, 2024). This conceptual framework is in line with the demands of the increasingly complex global Islamic finance industry, where institutions are required to combine managerial efficiency, accountability, and Islamic values in one cohesive and practically operationalized system.

The framework also emphasizes the principle of vigilance as taught in the Qur'an and Hadith, which guides institutions to always be ready to face risks that threaten operational sustainability, reputation, and information integrity. The integration of RBIA, *maqāṣid* sharia, and the Three Line Model results in a conceptual framework that allows internal auditors to assess risks holistically, compile risk assessment indicators and tables, and develop applicable risk registers. All of these elements are directed to build ethical, transparent, and sustainable governance, so that Islamic financial institutions are able to manage the risks of the world and the hereafter in a balanced manner, in line with the principles of *maslahah* and *mafsadah* in sharia.

2.2. Conceptual Basis of Sharia Audit Standards According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

The auditing and governance standards published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) provide a relevant formal foundation for understanding the modern sharia audit framework (Hassan & Rabbani, 2023). AAOIFI offers a set of Sharia Standards, Governance Standards, and Internal Auditing Standards designed to ensure that Islamic financial institutions operate in accordance with Islamic law, are transparent, accountable, and maintain Islamic integrity in all business processes (El-Halaby et al., 2021).

In the context of audits, AAOIFI emphasized that sharia compliance is not only measured by the legality of the contract, but also by the governance process, the effectiveness of supervision, and the accuracy of financial reporting. The Standard Governance (GS) places the Sharia Supervisory Board (SSB) as a key actor in issuing fatwas, supervising sharia implementation, and assessing the quality of compliance. Meanwhile, the Internal Sharia Audit is required to examine operational procedures, risk policies, and transaction reconciliation so that there are no violations of sharia principles at the operational level.

AAOIFI also underlined the importance of transaction documentation, reconciliation between operational records and accounting statements, and testing the adequacy of internal

controls. All of these approaches are procedural, evidence-based, and emphasize process standardization, making it easier for financial institutions to maintain consistency in compliance.

2.3. Internal Operational Framework for Risk-Based Audit of *Maqāṣid Syariah*

This section describes the operational framework that connects the theoretical concepts of RBIA, sharia *maqāṣid*, and the Three Line Model into auditing practices that can be applied by Islamic financial institutions. This framework is designed to provide comprehensive guidance from risk identification, evaluation, control, to reporting and follow-up, so that the entire audit process not only ensures compliance, but also supports the achievement of *maqāṣid* goals.

1) *Maqāṣid*-Based Risk Identification

Risk identification is carried out by mapping risks to the five dimensions of *maqāṣid* according to Ibn Assyria, namely *hifz al-dīn* (religious protection), *hifz al-nafs* (protection of life), *hifz al-aql* (protection of intellect), *hifz al-māl* (protection of property), and *hifz al-nasl* (protection of offspring). In this context, each risk is evaluated based on potential material and non-material losses, including the impact on sharia integrity, reputation, socio-environmental sustainability, and stakeholder trust. Ibn Assyria's approach emphasizes that the measurement of risk should consider the *maslahah* obtained and the *mafsadah* avoided, so that the auditor can categorize the risk based on the level of urgency and priority of the intervention (Sofyan et al., 2019). The risks examined include contract violations, internal control failures, internal fraud, data leaks, reputational risks, and social injustice, with the understanding that any potential threats to *maqāṣid* must be proactively addressed.

2) Risk and Materiality Assessment.

Risk assessments are carried out after the identification process to determine their materiality and probability, by integrating quantitative and qualitative analysis. The foundation of the Qur'an explains the importance of accountability for small and major sins: "Whoever brings good deeds as heavy as *zarrah*, he will surely see them, and whoever carries evil deeds as heavy as *zarrah*, he will surely see them" (QS. *Al-Zalzalah*: 7-8). This principle serves as a basis for assessing the impact of risk from a sharia perspective, where any violation or weakness of internal control can have implications for the responsibilities of the world and the hereafter. The auditor assesses the risk not only based on financial losses, but also on potential sharia violations, reputational damage, and socio-environmental impacts. The results of these assessments form the basis for the most critical audit priorities, resource allocation, and risk mitigation strategies.

3) Process Audit and Sharia Compliance.

The process audit assesses the effectiveness of internal controls, conformity of practices with DSN-MUI regulations and fatwas, and operational consistency with sharia *maqāṣid*. The aspects examined include the suitability of contracts and products, the effectiveness of the Sharia Supervisory Board, the integrity of financial statements, and the application of ESG principles, in accordance with Allah's direction in QS. Ar-Rahman: 3-9 which emphasizes the balance of nature and justice. Emphasis is placed on holistic audits that include operational risks, technology, compliance, and socio-environmental impacts. This audit ensures that all operational practices not only meet formal compliance, but are also aligned with the sharia objectives and the principle of balance required in the Qur'an (Shafii et al., 2010).

4) Audit Reporting and Recommendations

The audit results are compiled in a systematic report, including risk identification, evaluation of control effectiveness, and *maslahah*-based recommendations. The report should be clear, measurable, and provide guidance on corrective actions, including improving procedures, strengthening controls, and optimizing governance that is aligned with the *maqāsid*. The report is also a strategic instrument for the management and the Sharia Supervisory Board to make decisions that improve the sustainability of the organization and mitigate risks in a balanced manner (Shafii et al., 2010).

5) Monitoring and Follow-up

The operational framework emphasizes continuous monitoring and evaluation mechanisms to ensure effective implementation of audit recommendations. Internal audits are responsible for ensuring that corrective actions are implemented and risks are minimized consistently. This monitoring also allows adjustments to control strategies in line with changes in the external environment and risk dynamics (Dueñas, 2009), so that the achievement of *maqāsid* is maintained. This approach strengthens the governance, accountability, and sustainability of institutions from the perspective of the world and the hereafter, in line with the principles of *maslahah* and *mafsadah* that are the foundations of *maqāsid* sharia.

With this operational framework, Islamic financial institutions have systematic, holistic, and risk-based audit guidelines, while ensuring the integration of sharia *maqāsid* principles in every decision-making and risk management process. This approach strengthens governance, increases accountability, and supports the sustainability of the organization from both a worldly and an afterlife perspective.

3. Methods

This study uses a qualitative, descriptive and conceptual approach with a focus on the development of an internal audit framework based on the risk of *maqāsid* sharia. This method was chosen to combine the analysis of academic literature, DSN-MUI fatwas, and sharia audit best practices, as well as formulate risk indicators and operational risk registers. The research process includes several main stages.

The first stage is a comprehensive literature and document study, including international journals, risk management theory books, Islamic financial regulatory documents, and related fatwas. The goal is to build a strong theoretical foundation, understand conventional and sharia audit practices, and trace the gaps that exist in the integration of RBIA and *maqāsid*.

The second stage involves comparative analysis and synthesis. Data from the literature and fatwas were analyzed to identify the relevant dimensions of *maqāsid*, potential risks that threaten the achievement of *maqāsid*, as well as adaptable risk-based audit principles. This approach uses the conceptual framework of the Three line Model to assess the effectiveness of control across three lines of the organization.

The third stage is the formulation of an operational framework. Based on the findings of the literature analysis and synthesis, *maqāsid* risk indicators, materiality assessments, risk evaluation tables, and applicable risk registers were developed. Each audit indicator and procedure is designed to ensure alignment between operational practices, sharia principles, and the goals of *maqāsid*, including the protection of religion, soul, intellect, property, and lineage according to Ibn Assyria.

The fourth stage includes conceptual validation. The developed framework is evaluated through discussions with sharia audit, risk management, and Sharia Supervisory Boards to ensure relevance, feasibility of implementation, and conformity with industry regulations and practices. This validation also considers the principles of prudence and normative responsibility based on the Qur'an and Hadith. The IARBMS framework developed, including *maqāṣid* risk indicators and risk registers, was evaluated through a series of Focus Group Discussions (FGDs) and in-depth interviews with a total of six key-informants from three main backgrounds: (1) Sharia Academics/Researchers (2 people): Ensuring the conformity of the framework with the principles of Islamic law, *uṣūl al-fiqh*, and contemporary *maqāṣid* sharia literature. (2) Sharia Supervisory Board (DPS) Members (2 people): Provide input on the feasibility of implementation, challenges in sharia supervision, and conformity with AAOIFI standards. (3) Internal Audit/Risk Management Practitioner LKS (2 people): Evaluate operational aspects, including ease of implementation of indicators, resource allocation, and integration with existing risk management systems.

Input from experts is used to fine-tune the framework. For example, based on the DPS's suggestion, the materiality categories are reclassified based on the concepts of *Kabā'ir* (large) risk and *Ṣaghā'ir* (small) risk to reflect the urgency of more precise sharia findings. This validation ensures that the resulting guidelines are not only theoretically robust, but also relevant and feasible to implement in the Islamic finance industry

This methodology allows the research to produce comprehensive, holistic, and practically applicable risk-based audit guidelines, while aligning compliance and risk management with the goals of sharia *maqāṣid*, accountability, and socio-environmental sustainability of Islamic financial institutions.

4. Results and Discussion

4.1. Integration of Sharia *Maqāṣid* as a Risk Assessment Basis

The discussion on the integration of sharia *maqāṣid* in risk-based internal audits departs from Ibn Assyria's view that *maqāṣid* is a basic principle that maintains the sustainability of human welfare through the protection of religion (*ḥifẓ al-dīn*), soul (*ḥifẓ al-naḥs*), intellect (*ḥifẓ al-'aql*), property (*ḥifẓ al-māl*), and offspring (*ḥifẓ al-nasl*). In the context of internal audits, these dimensions translate into risk parameters that can be mapped, evaluated, and mitigated. Thus, threats to the achievement of *maqāṣid* are articulated as operational risks, compliance, governance, and reputational risks that must be managed systematically.

This integration is significant because Islamic financial institutions are not only accountable to regulators and stakeholders, but also to Allah as the owner of sharia. The Qur'an explicitly warns the ummah to be wary of visible and invisible enemies, as well as against attempts that can shake the firmness of faith and moral order (QS. *Al-Baqarah* 208; QS. *Al-A'raf* 27). This normative message is understood by Ibn Ashur as a command to protect the system of life from damage (*maḥsadah*). In internal audits, this message is positioned as an ethical foundation in identifying vulnerable points, such as fraud, contract irregularities, report manipulation, or sharia non-compliance that has the potential to damage public trust and sharia values.

The integration of *maqāṣid* is strengthened through alignment with the Three line Model which emphasizes the collaboration of three lines of defense: management as the main risk manager, risk and compliance functions as monitors, and internal audit as independent guarantors. When *maqāṣid* is placed as a value framework, each line not only works to achieve technical compliance, but also maintains the sharia mandate as the ultimate objective which

relevant to the research by Laldin & Furqani (2013). Internal audit in this case plays an important role in ensuring that the entire line functions in harmony with *maqāṣid* through strategic, operational, technological, and compliance risk assessments (Pamungkas, 2022).

4.2. Risk and Materiality Assessment Based on *Maqāṣid* Values

Risk assessment in *maqāṣid*-based audits requires a materiality framework that assesses not only financial impacts, but also spiritual, social, ethical, and sustainability impacts. In the Islamic tradition, the concept of materiality can be analogized to the difference between minor sins and major sins in the Qur'an (QS. *An-Nisa'* 31), which shows that not all transgressions carry the same weight. This verse teaches the principle of proportionality, that major transgressions should receive greater attention, while small deviations should still be controlled so that they do not accumulate into major damage. This principle provides methodological inspiration in risk-based audits.

Therefore, materiality within the framework of *maqāṣid* is evaluated through four main dimensions: sharia materiality, operational materiality, socio-economic materiality, and environmental materiality. Risks that impact *ḥifẓ al-dīn*, for example, fatwa errors, contract defects, or negligence of the Sharia Supervisory Board, are classified as high material risks because they touch on the core of sharia governance. Risks that have an impact on *ḥifẓ al-māl* such as fraud, misuse of funds, or product fraud are also in the high risk category because they threaten public trust and the financial sustainability of institutions.

This approach helps internal auditors prioritize risks more comprehensively. In addition, *maqāṣid*-based materiality assessments allow internal audits to respond to contemporary issues such as sustainability risks, technology risks, data risks, and social risks through an adaptive sharia perspective, relevant with research by Sawari et al. (2025) This process is carried out on a significance scale that includes a combination of probability, sharia impact, and reputational impact.

4.3. Audit Aspects: Contracts, DPS, Financial Statements, and ESG Principles

The internal audit based on *maqāṣid* covers four main aspects: the suitability of contracts and products, the effectiveness of the Sharia Supervisory Board, the integrity of financial statements, and the application of ESG principles. This aspect is formulated based on the principle of maintaining balance as stated in QS. *Ar-Rahman* 3-9, which emphasizes the importance of *mīzān* (balance) to prevent injustice and inequality. This verse provides a normative basis that all human activities, including economic and business activities, must be carried out in fair, accurate proportions, and do not damage social and environmental balances.

In this context, the conformity of contracts and products is the main priority of the audit because it concerns the validity of sharia. Internal auditors are obliged to ensure that the contract does not contain *riba*, *gharar*, *maisir*, or misleading engineering. DPS as a sharia supervisor is examined in its capacity to issue fatwas, conduct periodic supervision, and ensure operational compliance through routine reviews. The integrity of financial statements is evaluated on the basis of honesty, accuracy, and transparency in order to fulfill *maqāṣid ḥifẓ al-māl* and avoid fraud that is expressly prohibited in the hadith ("honest merchants will be with the prophets and the righteous").

The implementation of ESG (environmental, social, and governance) is considered a modern embodiment of sharia *maqāṣid* (Zain et al., 2024). The environmental component is related to *ḥifẓ al-nasl* and the sustainability of the earth; the social component relates to distributive justice and community protection; The governance component is related to trust

and integrity. In audits, ESG aspects are examined through internal policies, sustainability reports, waste management, social inclusion, and ethical governance.

4.4. Evaluation of the Effectiveness of *Maqāṣid*-Based Control

The evaluation of the effectiveness of control is carried out by measuring the extent to which internal control supports the achievement of *maqāṣid* in the organization's operations. The control mechanism is not only seen from compliance with SOPs, but also from the values contained in it. For example, controlling transaction processing not only ensures the accuracy of data, but also ensures that transactions are in accordance with sharia contracts and do not harm customers.

This approach strengthens the collective accountability of the three defensive lines. The first line is assessed from ethical commitment, completeness of documentation, and compliance with the contract. The second line was evaluated from the effectiveness of sharia risk monitoring, compliance reporting, and response to DPS findings. The third line (internal audit) is analyzed from the independence, depth of audit procedures, adequacy of evidence, and quality of risk evaluation. When all lines work synergistically, internal control not only keeps the organization out of risk, but also gives birth to *maqāṣid* values such as fairness, transparency, and sustainability.

4.5. Preparation of Risk Register Based on *Maqāṣid*

The risk register is compiled as a strategic instrument to map risks according to the category of *maqāṣid* and prepare mitigation plans. Each risk is classified based on its relevance to the dimensions of *maqāṣid*, the level of probability, the level of impact of sharia, and the controls that are in place. Thus, the risk register serves not only as a list of technical risks, but also as a value map that helps determine audit priorities and strategic decision-making.

This approach results in a more comprehensive and value-added risk register because it captures moral, reputational, sustainability, and sharia risks that are often undetected in conventional audit models. Thus, Islamic financial institutions have stronger tools to maintain public trust, increase competitiveness, and ensure that businesses run in balance and fairness according to sharia guidance (Shahariman et al., 2024).

4.6. Implications for the Design of *Maqāṣid* Sharia Risk-Based Audit Stages

The conceptual and practical implications of this study confirm the need to establish an audit design that not only complies with conventional risk standards, but also internalizes the values and objectives of sharia *maqāṣid* as the foundation of the supervision of Islamic financial institutions. The finding that shari'i-related risks, such as contract irregularities, ethical violations, unfair value distribution, and institutional disregard for the humanitarian dimension, significantly affect operational integrity and sustainability, provide a direction that the audit cycle should be redesigned to systematically capture these non-financial risks as shown in Figure 1 below.

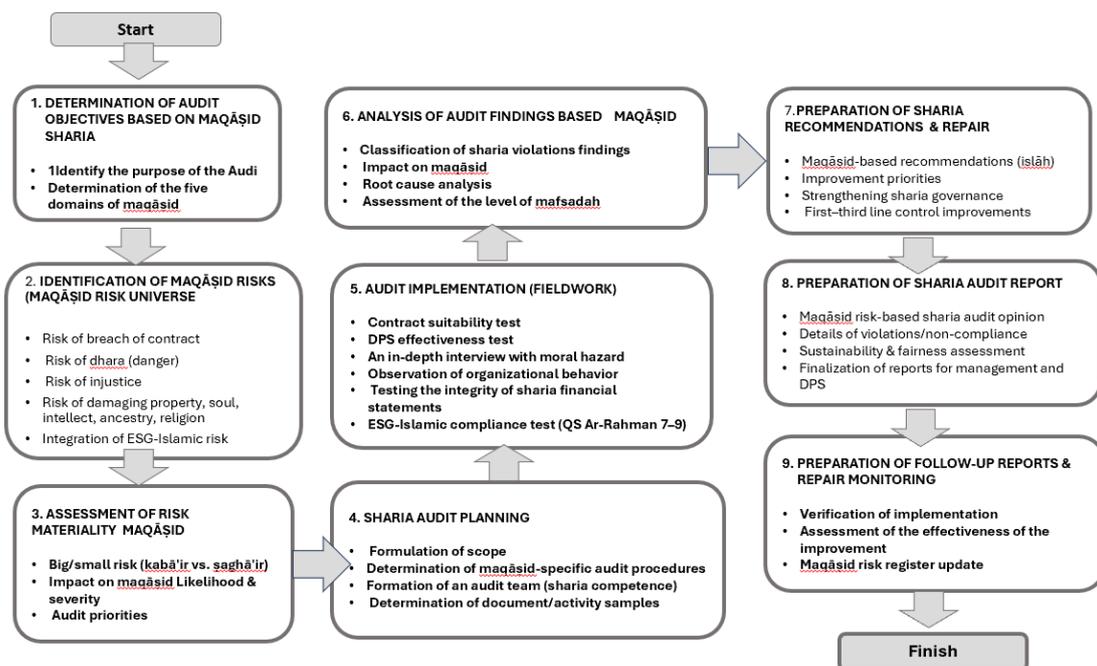


Figure 1. Stages of Risk-Based Audit of *Maqāṣid* Syariah

First, the most substantive implication is the need for a *maqāṣid*-based materiality-based audit planning stage, where the auditor not only identifies financial and operational risks, but also risks of violating sharia values that have the potential to undermine *hiḥfẓ al-dīn*, *hiḥfẓ al-naḥf*, *hiḥfẓ al-māl*, *hiḥfẓ al-'aql*, or *hiḥfẓ al-nasl*. Thus, the determination of audit priorities must consider the level of impact on sharia objectives, not just the amount of monetary value. This approach has implications for the need to develop sharia materiality indicators that can be measured and applied consistently.

Second, there are methodological implications for the implementation of audits (fieldwork). The findings of the study show that the risk of *maqāṣid* is often rooted in undocumented practices, organizational culture, decision-making bias, and an unbalanced relationship between management and customers. Therefore, the audit approach should be expanded from just compliance testing to behavioral and ethical auditing, including process observation, in-depth interviews, sharia reputation exposure assessments, and sharia supervisory board integrity reviews (DPS). Auditors need to be equipped with methodologies that are able to detect moral hazards, information asymmetry, and supervisory gaps that are not covered by conventional audit standards.

Third, important implications arise at the stage of evaluation and drawing conclusions of the audit. The results of this research indicate that sharia risks have a multi-level nature such as the concepts of *Kabā'ir* and *ṣaghā'ir* in the Qur'an, so auditors are obliged to distinguish the level of seriousness of sharia violations based on their impact on *maqāṣid*. Thus, the opinion of a sharia audit is not sufficiently based on the category of clean, qualified, or adverse, but needs to be expanded to include the level of violation of *maqāṣid*, its potential for damage (*mafsadah*), and the opportunity for improvement (*iṣlāh*). This makes the audit evaluation process more precise, proportional, and fair.

Fourth, strategic implications related to audit reporting and improvement recommendations. This study emphasizes that effective recommendations should be directed at strengthening sharia governance structurally, including ESG-Islamic integration,

improving sharia risk committees, strengthening the competence of auditors and DPS, and improving ethical decision literacy on all fronts. By adopting The Three Lines Model (Seidenfuss et al., 2023), the audit report needs to emphasize the role of each line in protecting the objectives of the sharia *maqāshid* in layers: management as the first line, the sharia risk function as the second line, and internal audit as the third line that verifies the overall effectiveness of the defense mechanism.

Fifth, there are long-term implications for the governance architecture of Islamic financial institutions. The *maqāshid* risk-based audit encourages institutions to expand the scope of the risk universe by including spiritual, ethical, social, and ecological dimensions as Allah's command maintains balance (QS. *Ar-Rahman*: 7–9). This leads institutions to a more holistic approach to risk (enterprise-wide shariah-compliant risk management) and builds a culture of sharia compliance that is not only based on rules, but also values.

Overall, the implications of this study on the design of risk-based audit stages suggest that the integration of sharia *maqāshid* not only allows for a more comprehensive audit structure, but also improves the quality of supervision, public trust, and sustainability of the sharia finance industry. Thus, the results of this research can be a conceptual basis for the preparation of sharia audit guidelines that are more adaptive, high-value, and relevant to the needs of regulators, auditors, and the industry.

4.7. Practical Implications: *Maqāshid* Risk-Based Audit Checklist Guidelines and AAOIFI Standards

As a form of practical implementation of this study, the following is an audit checklist guideline that integrates *maqāshid*-based risk with AAOIFI standards. This checklist aims to assist internal auditors and DPS in assessing sharia compliance, operational risks, ethical risks, and sustainability, while meeting the formal procedures required by AAOIFI.

Table 1. *Maqāshid* Risk-Based Audit Checklist Guidelines and AAOIFI Standards

Audit Stage	Activity	<i>Maqāshid</i> Indicator	AAOIFI Standard Reference
Audit Planning	Determination of audit objectives and scope	Compatibility with the five domains of <i>maqāshid</i> (<i>dīn, nafs, māl, 'aql, nasl</i>)	AAOIFI Standard on Governance & Internal Audit (2020)
Identify Risks	Identification of sharia and operational risks	Contract deviation risk, moral hazard, ESG, reputation	AAOIFI Standard on Risk Management & Shari'a Compliance (2020)
Materiality Assessment	Risk level analysis based on impact on <i>maqāshid</i>	<i>Kabā'ir</i> vs. <i>ṣaghā'ir</i> , the potential of <i>mafsadah</i>	AAOIFI Internal Audit Standard (2020)
Fieldwork Implementation	Transaction verification, DPS evaluation, organizational behavior observation	Impact on sharia balance and operational integrity	AAOIFI Internal Audit Standard (2020)
Analysis of Findings	Classification of findings and root cause analysis	Violation of <i>maqāshid</i> and ESG risks	AAOIFI Internal Audit Standard & Governance Standards (2020, 2021)
Recommendations & Reports	Preparation of improvement recommendations and audit reports	Improvements in accordance with <i>maqāshid</i> , risk priority, ESG integration	AAOIFI Standard on Governance, Shari'a Standards (2021)
Follow-up & Monitoring	Verify the implementation of recommendations	Effectiveness of <i>maqāshid</i> risk mitigation and AAOIFI compliance	AAOIFI Internal Audit & Compliance Standards (2020)

The checklist as in table 1 serves as an operational guide that allows internal audits to run systematically, layered, and value-based. The integration of *maqāṣid* indicators with AAOIFI's formal procedures ensures that Islamic financial institutions not only adhere to formal standards, but also maintain sharia goals and sustainability in daily practice.

4.8. Preparation of the Risk-Based Audit and *Maqāṣid* Universe

The audit universe is the entire audit object that is the basis for the annual planning of the internal audit function. In the context of Islamic financial institutions, the preparation of a risk-based audit universe and *maqāṣid* functions to ensure that all areas that have the potential to cause sharia violations, operational inefficiencies, or erosion of *maqāṣid* values can be identified and monitored systematically. The placement of the audit universe within the framework of the *maqāṣid* audit is very important because it provides a comprehensive structure of what should be examined, how risks are classified, and how audit priorities are determined based on their impact on the *maqāṣid* and in accordance with the AAOIFI standard.

In its compilation, the audit universe refers to the five domains of *maqāṣid* according to Ibn 'Āsyūr, religious preservation (*ḥifẓ al-dīn*), soul (*ḥifẓ al-nafs*), intellect (*ḥifẓ al-'aql*), property (*ḥifẓ al-māl*), and heredity/sustainability (*ḥifẓ al-nasl*). Each domain is translated into clusters of activities relevant to Islamic financial institutions, such as contract conformity, DPS governance, financial statement transparency, consumer protection, ESG governance, data and technology security, and reputation risk management. Thus, the audit universe does not only include organizational units, but also the value dimension inherent in the operational activities of Islamic banks.

The AAOIFI Standards, specifically the Governance Standards and the Internal Sharia Audit Standard, affirm that every Islamic financial institution is required to have an audit planning structure that covers business areas, operational functions, compliance activities, products, and technology. However, the *maqāṣid* approach enriches these standards by assigning ethical, moral, and spiritual priorities, ensuring that audit areas with a high potential for *maqāṣid* or *mafsadah* violations receive a higher allocation of attention than areas where the risks are administrative or technical. Thus, the integration of AAOIFI and *maqāṣid* creates a more holistic, valued, and sustainability-oriented audit universe framework.

This audit universe is the basis for establishing an annual audit plan, measuring risk levels (inherent and residual), and allocating auditor resources. With this model, auditors have a clear map of high-priority areas such as customer data security (*ḥifẓ al-nafs* and *ḥifẓ al-māl*), financial statement integrity (*ḥifẓ al-māl* and *ḥifẓ al-dīn*), governance and effectiveness of DPS (*ḥifẓ al-dīn*), to ESG and sustainability impacts (*ḥifẓ al-nasl*). This strategy ensures that audits do not just check administrative compliance, but actually maintain the sharia mandate in all Islamic banking processes and products.

The following is a visual diagram (conceptual flowchart) illustrating the structure of the Risk-Based Audit and *Maqāṣid* Universe for Islamic financial institutions. This diagram shows the relationship between the *maqāṣid* domain, the audit object, the risk, and the relationship to the AAOIFI standard.

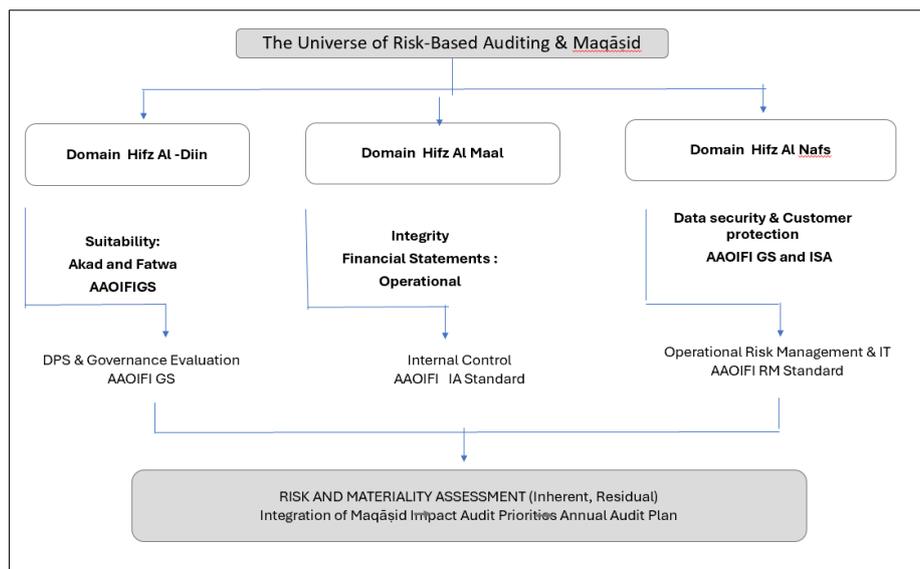


Figure 2. Audit Universe Visual Diagram

The diagram as in figure 2 shows that the audit universe starts from the five domains of *maqāsid*, which are then derived into the main audit objects relevant to Islamic financial institutions. Each audit object is mapped to the appropriate AAOIFI standard, forming an integrated structure that forms the basis for risk assessment and the preparation of annual audit plans.

The findings of this study are further supported by insights from the Focus Group Discussion (FGD) and in-depth interviews with six key informants consisting of academics, Sharia Supervisory Board members, and practitioners. Across these groups, there was a consistent view that existing internal audit practices in Islamic financial institutions remain heavily procedural and have not yet incorporated *maqāsid* considerations into risk assessment. Informants emphasized that several risks, such as ethical lapses in product design, weak DPS oversight, undocumented operational shortcuts, and gaps in ESG implementation, are often undetected in current audit cycles because they fall outside conventional financial or compliance indicators.

Practitioners particularly stressed the need for a *maqāsid*-based materiality scale to prioritize sharia-impact risks, while DPS members highlighted that contract defects and inadequate sharia documentation frequently create reputational vulnerabilities. Academics reinforced the importance of a behavior-sensitive audit approach, noting that cultural and organizational practices often shape sharia compliance more than formal procedures. These qualitative inputs collectively validate the necessity of integrating *maqāsid* into a risk-based audit model and confirm that the framework developed in this study responds directly to systemic gaps identified by stakeholders within the industry.

Table 2. Example of Sharia *Maqāṣid* Risk Indicators (Impact Measurement Matrix)

Domain <i>Maqāṣid</i>	Audit Object (Risk Area)	Types of IARBMS Risks	Example of Impact Measurement	AAOIFI Standard Linkage
1. <i>Hifz al-dīn</i> (Religious Protection)	DPS Governance & Adequacy of Contracts/Fatwa	Shariah Compliance Risks & Reputation	Frequency of <i>Shari'ah Violations Findings</i> ; The percentage of products that do not get DPS fatwa endorsement; Proof of <i>moral hazard</i>	Governance Standards (GS) & Shari'ah Standards (SS)
2. <i>Hifz al-māl</i> (Protection of Property)	Financial Statement Integrity & Internal Control	Fraud, <i>Financial</i> , & <i>Shariah Accounting</i> Risks	The level of material irregularities in sharia accounting reports; Financial losses due to <i>internal fraud</i> ; Dishonesty or lack of transparency in reporting	Financial Accounting Standards (FAS) & Internal Audit Standard (ISA)
3. <i>Hifz al-nafs</i> (Protection of Life / Welfare)	Consumer Protection & Data Security	Operational Risk (IT) & Ethics	The number of customer complaints related to unfair treatment; Data <i>breach</i> incidents or cyberattacks that threaten customer property or information	Governance Standards (GS) & Risk Management Standard (RM)
4. <i>Hifz al-nasl</i> (Protection of Descent/Sustainability)	ESG-Islamic (S&G) Implementation & Social Impact	Social Risk & Sustainability	Socio-economic impact assessment (distributive justice); Level of compliance with anti-discrimination and social inclusion policies; Consistency between ESG policies and practices.	Governance Standards (GS) & Shari'a Standards (SS)

The table 2 shows how the threat to *Maqāṣid* translates into a measurable risk. Internal auditors can use this indicator to determine the level of *mafsadah* (damage) caused by the audit findings, so that the recommendations for improvement (*iṣlāḥ*) are targeted and proportionate. For example, data breaches (violating *Hifz al-nafs* and *Hifz al-māl*) should be given high audit priority, as important as contract irregularities (*Hifz al-dīn*), as both threaten public integrity and trust.

5. Conclusion

This study set out to develop an Integrated Audit Risk-Based *Maqāṣid* System (IARBMS) that connects risk-based internal auditing with the objectives of sharia (*maqāṣid*). The findings demonstrate that the IARBMS provides a structured and operational approach to address gaps in current sharia audit practices, which often remain procedural, fragmented,

or detached from *maqāṣid* considerations. Through semi-structured interviews and FGD validation, the study identifies that practitioners require an audit model capable of capturing ethical, ESG-related, governance, and sharia-impact risks that are not adequately covered by existing audit guidelines. The main contribution of this research is the formulation of the IARBMS framework, which integrates (1) a *maqāṣid*-based risk identification structure, (2) a materiality scale that prioritizes risks with the highest sharia and societal impact, (3) audit procedures aligned with institutional and practical *maqāṣid*, and (4) indicators that support transparency, asset protection, information integrity, and socio-environmental responsibility. This integrated model offers a clear pathway for internal auditors to evaluate not only compliance and operational soundness but also the extent to which institutional practices contribute to *maslahah* and prevent *mafsadah*.

By articulating how *maqāṣid* principles can be embedded into each stage of the RBIA cycle, from planning and risk assessment to testing and reporting, the IARBMS advances both theory and practice. Theoretically, it expands the scope of Islamic auditing scholarship by positioning *maqāṣid* as a measurable and operational audit dimension rather than a purely normative ideal. Practically, it offers Islamic financial institutions a comprehensive tool that bridges regulatory expectations with real operational contexts. Future research is encouraged to empirically test the IARBMS across different institutional settings and regulatory environments. Such validation will help refine its indicators, enhance its applicability, and ensure that it continues to respond to emerging risks in the Islamic finance industry.

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