

## **Audit Quality Framework's Input Factors: An Islamic Perspective**

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### **Abstract**

The International Federation of Accountants issued the Audit Quality Framework (AQF) in 2014. This framework portrays the factors that enable a quality audit as a systematic process. This paper provides an Islamic perspective to the AQF, specifically on the input factors. Since the analysis is from an Islamic viewpoint, primary Islamic sources are referred to. Moreover, a diagram of the main characteristics is included for simplification. The analysis reveals that although the AQF is reasonably comprehensive, there are some other considerations that Muslim auditors must make in performing an audit of quality, for example their intention. Then, the qualities of 'morality' and 'proficiency', have augmented significance compared to the original AQF. The proposed model could be useful to regulators and audit firms in Muslim countries. Also, these factors should be considered by Muslim auditors and practiced. Furthermore, researchers could test the model empirically in future.

**Keywords:** Audit quality framework; Islamic perspective

### *Article Progress*

Received: 15 September 2021

Revised: 02 November 2021

Accepted: 23 May 2022

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## 1. INTRODUCTION

The issue of audit quality is of continual concern amongst practitioners, academicians, and regulators. This is because poor audit quality could lead to audit failure as well as huge business scandals, for example in the cases of Enron and Worldcom (Caruana and Kowalczyk, 2021). Consequently, laws have been enacted and standards issued (e.g., Sarbanes-Oxley; International Standard on Quality Control (ISQC1)) to ensure that a certain level of audit quality is assured. These efforts were necessary to alleviate the occurrence of future audit failures and business scandals, as well as to re-establish the reputation of and confidence in auditors. One such effort by The International Federation of Accountants (IFAC), specifically the International Auditing and Assurance Standards Board (IAASB), was to issue the Framework for Audit Quality (AQF) in 2014.

It is important to mention that prior to the AQF of 2014, there have been other attempts to produce an audit quality framework (Francic, 2004; Watkins et al., 2004; Financial Reporting Council, 2007; Francis, 2011). It is quite logical to envisage that the AQF of 2014 has a wider coverage of factors contributing towards audit quality than its predecessors. The AQF depicts the factors that enable a quality audit as a systematic process, i.e., input factors, process factors and output factors. Such a depiction is useful to the provider of audit services as a guide to ensure higher audit quality, and to increase the awareness of stakeholders of the important factors that enhance audit quality (IAASB, 2014). Knechel et al. (2013) have compiled an academic review of prior audit quality literature. They also categorise audit quality into input, process and output factors based on their review of prior literature. However, Knechel et al. (2013) do not propose a framework. Moreover, the AQF by IFAC could be deemed more authoritative as it is issued by IFAC, and it is the most recent AQF.

This paper provides a brief overview of IFAC's AQF. Then, the input factors are analysed from an Islamic perspective. Also, the concepts from the Islamic perspective are depicted in a model for clearer understanding and ease of reference. Even though the AQF is reasonably comprehensive, the discussion on the input factors could gain added value in considering the Islamic perspective. This is because audit quality from an Islamic dimension would make the framework more relevant to Muslim auditors and should be of interest to regulators in majority Muslim countries, like Indonesia, as justified in subsequent discussion.

It is imperative to highlight three points before proceeding with the discussion on AQF from an Islamic perspective: First, it is worthwhile to differentiate between the statutory audit and *Sharī'ah* audit functions. The

former, as commonly known, is defined by International Standards of Auditing (ISA) 200 as auditors obtaining reasonable assurance as to whether financial statements are free from material misstatement and are compliant with relevant financial reporting framework (IAASB, 2010). On the other hand, *Sharī'ah* audit is defined by Haniffa (2010) as “a systematic process of objectively obtaining and evaluating evidence regarding assertions about religious and socioeconomic actions and events in order to ascertain the degree of correspondence between those assertions and those of the applicable financial reporting framework, including the criteria specified based on *Sharī'ah* principles as recommended by the *Sharī'ah* Supervisory Board (SSB) and communicating the results to all interested parties”. In analyzing the two definitions, statutory audit basically refers to compliance with accounting standards, whereas from Haniffa's (2010) definition, which reflects current practice, it could be said that *Sharī'ah* auditing is mainly about ensuring *Sharī'ah* compliance. Interestingly, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) requires external auditors of Islamic financial institutions to express an opinion on *Sharī'ah* compliance in addition to compliance with applicable accounting standards (GSIFI No. 1). The above distinction is important in order to frame the scope of this paper. This paper deals with the scope of audit quality in relation to statutory audit and is not confined to audits of Islamic financial institutions. The AQF promulgated by the IFAC is in relation to the statutory audit and tends to be from a contemporary Western perspective. This paper addresses input factors of IFAC's AQF from an Islamic perspective.

Second, it is important to clarify that there is a difference between ‘audit function’ and ‘audit quality’. The former refers to the roles and responsibilities upheld by auditors, whereas the latter refers to the characteristics that enable an audit of quality. Although interrelated, this paper focuses on the latter, and specifically on the human aspects and characteristics of an auditor, which encompasses the input factors under the IFAC's AQF.

Third, to reinforce the above, although all factors of the AQF are important, this study only focuses on the input factors. This is because the success of the other factors, i.e., the process and output factors are dependent on the input factors. The audit process and quality controls (process factors) can only be implemented properly when the input factors exist. Specifically, no matter how good the process or controls, if incompetent individuals carry out the process or unethical personnel override the controls, the process factors would become defective. Therefore, only when

the input factors exist, the process factors can be implemented properly, consequently leading to quality reports (output factors).

Critically analysing the AQF and considering the Islamic perspective may be beneficial in a number of ways. Firstly, when new regulation, guideline, or in this case framework is issued, it should be analysed from an Islamic perspective to determine to what extent it is in line with Islamic teachings. The analysis reveals the importance of the input factors in reference to Islamic sources and a model is proposed. The proposed model acts as a reminder to Muslim auditors, whether they are auditing *Shari'ah* compliant companies, Islamic financial institutions, other companies, or the public sector, that they bear a serious responsibility towards the society. Also, the requirement to attain a quality audit is more than a professional requirement but could be considered an obligation from an Islamic perspective.

Secondly, the regulators of the audit profession in Muslim majority countries and audit firms may consider these qualities in the proposed model and find means to support Muslim auditors in applying them. Furthermore, the discussion in this paper and the proposed model highlights these qualities, thus promoting their importance as desirable qualities. Striving to implement these qualities could enhance audit quality and deter actions that may compromise audit quality.

Finally, considering the input factors of AQF from an Islamic perspective, would contribute to the AQF literature. Since the paper is conceptual in nature, albeit based on primary Islamic sources, the proposed model could be tested empirically by future studies.

The paper is organized as follows. Section 2 discusses the methodology, and section 3 has a summary and brief discussion of IFAC's AQF. This is followed by Section 4, which describes accountability in Islam. Section 5 relates to audit quality from an Islamic perspective and Section 6 elaborates on the qualities in relation to morality (*Akhlaq*). Section 7 discusses the AQF more critically before concluding the paper.

## 2. METHODOLOGY

This study applied a comprehensive library research based for the IFAC's audit quality framework and related Islamic perspectives. Thorough and critical survey of the literature related to audit quality and Islamic literatures. Various online and offline resources were taken into consideration. The primary source of data collection for the review included research papers and review articles published by reputed publishers in audit quality. The IFAC audit quality framework from the International Auditing and

Assurance Standards Board (IAASB). In addition, Islamic traditional literature including the holy Quran, and main Sunnah books.

### 3. THE AUDIT QUALITY FRAMEWORK

The AQF (IAASB, 2014) has acknowledged that “audit quality is a complex subject and there is no definition or analysis of it that has achieved universal recognition. In the IAASB’s view, a quality audit is likely to be achieved when the auditor’s opinion on the financial statements can be relied upon ...” (pg. 10). The definition in the AQF seems quite general. On the other hand, one of the popular conventional definitions of audit quality (AQ) was offered by DeAngelo (1981) who defined audit quality as the joint probability of detecting and reporting material financial statement errors. This brings to attention the fact that in order to attain a quality audit, certain factors must exist so that material errors are not only detected but also reported. As mentioned before, the IAASB has organized these factors into input factors, process factors and output factors. These factors promote audit quality at the engagement, audit firm and national levels (Figure 1).

The input factors are of two main categories: (i) Values, ethics, and attitudes, and (ii) Knowledge, Skills, Experience & Time (Figure 1). At the engagement level, the focus is on the values, ethics, and attitudes as well as the competencies of the partner and the members of the audit team (IAASB, 2014). Then, at the firm level, it is reasonable that the firm culture would influence the audit team members and audit partners (IAASB, 2014). At this level, the ethics upheld in the firm and the competence level that is expected as part of the firm culture would set the tone for its employees. In addition, the firm’s practice of giving sufficient time for its auditors to perform an audit with due care and solve complicated issues is imperative for a quality audit (IAASB, 2014). Finally, at the national level, the professional requirements of qualification and competencies as well as the code of ethics would have an effect on the audit firm and its auditors.

**Figure 1: Input, Process and Output Factors**

Levels	Factors			
	Input		Process	Output
	<i>Values, Ethics &amp; Attitudes</i>	<i>Knowledge, Skills, Experience &amp; Time</i>	<i>Audit Process &amp; Quality Control</i>	<i>Various Reports</i>

			<i>Proce- dures</i>	
<i>Engage- ment</i>	Partner & members of the audit team		Auditing standards & ISQC 1	Auditor's Re- port
<i>Audit Firm</i>	Firm culture			Transparency Report
<i>National</i>	Regulation & codes			Overview of In- spections

*Source: Adapted from the AQF (IAASB, 2014)*

The process factors (Figure 1) comprise audit process and quality control procedures (IAASB, 2014). The focus at the engagement level is on performance; the audit must be compliant with auditing standards and ISQC 1 quality control procedures (IAASB, 2014). At the firm level, the proper implementation of these standards is paramount. Therefore, proper monitoring and review of audit work as well as effective quality control reviews are necessary (IAASB, 2014). At the national level, the enforcement of the standards and code of ethics by the profession is crucial. The outputs of the process are various reports (Figure 1). The principal output of the audit process is the audit report, mainly to the shareholders of the client company. Other reports are also listed as outputs by the IAASB.

The input, process and output factors seem to be the primary factors. Then, the AQF also takes into consideration the interaction between the auditor and stakeholders as well as contextual factors, which may be deemed contributory factors. The contributory factors are not included in Figure 1. Nevertheless, Figure 1 is adequate to illustrate that many factors play a role in influencing audit quality.

Based on the AQF, the input factors seem to have equal emphasis compared to the other factors. However, Section 4 of this paper argues that human beings are of primary importance from an Islamic perspective, hence the input factors are key in attaining a quality audit.

Before proceeding with the discussion on the AQF from an Islamic perspective, it should be pointed out that although there are limited studies (Kasim, 2010; Mohiuddin, 2012; Imran, Ahmad, Bhuiyan, 2012) that discuss auditing from an Islamic perspective, they do not specifically discuss audit quality or AQF. Therefore, audit quality has yet to be defined from an Islamic perspective. Thus, the paper extends the functional definition of audit quality as defined by DeAngelo (1981); audit quality from an Islamic perspective is 'proficient auditor(s) having the right intention of pleasing God by fulfilling his or her responsibilities diligently and being

accountable, hence detecting material misstatements in the financial statements and reporting them due to their moral obligation'. This definition does not include the characteristics of the auditors, which will be presented in the proposed model.

Other literature on audit quality mainly investigates the factors, indicators, and determinants of audit quality quantitatively (Al-Khaddash, Al Nawas and Ramadan, 2013; Hosseinniakani, Inácio and Mota, 2014; Eddine, 2015; Brown, Gissel and Neely, 2016), thus are not directly relevant to this study. The next section emphasizes the importance of accountability in Islam, as it is particularly relevant to the context of Muslim auditors in enhancing audit quality.

#### 4. ACCOUNTABILITY IN ISLAM

Accountability (Mūhasabah) is one of the basic faith values in Islam. It is a fundamental principle to all Muslims, including auditors. Allāh (God) said {*And say, "Work [righteousness], Soon will Allāh observe your work and His Messenger and the Believers. Soon will ye be brought back to the knower of what is hidden and what is open: then will He show you the truth of all that ye did."*} (9:105).

Although the translation is incomparable to the message conveyed by the original Arabic text, the message is clear. Interestingly, the choice of word in this *surah* is 'work' or 'act' (a'mal) instead of 'do' or 'deed' (faa'l). 'Work' is deemed to be purposeful 'action', and even though it includes single acts, it normally has a repetitive or habitual connotation. Then, since God is All Seeing and Knowing, the reference to 'soon' in "Soon will Allāh observe your work ..." is connected to "Soon will ye be brought back ...". These statements are a reminder to each and every individual, including auditors that this life is temporary and soon, normally sooner than we envisage, we will return to our Creator, where our actions will be judged. Finally, to bring home the point that God knows all, whether it is revealed or kept secret, the *surah* states that God will not need to ask but will show each person the true account of their actions and work on this earth. Therefore, this verse from the Qur'ān reminds Muslims that soon, they will have to answer for their deeds, thus they are accountable for all that they do.

Accountability in Islam has two aspects. The first is related to the responsibility to the society (Kaudah, 1998; Shahul Hameed, 2000; 2009; Kasim, 2010; Imran et al., 2012; Ayedh and Ihsan, 2013; Uddin, Ullah, Hossain, 2013). An individual Muslim must be aware of the society (*um-mah*) and the consequences of his or her deeds on the community. If an individual misbehaves, he or she might be apprehended by the society and

punished according to the law (Al-Ghazālī, 1980). Even if society is unaware of the individual's misconduct, God is fully aware of all actions, thus justice will be awaiting the individual on the Day of Judgment. This is due to the second accountability.

The second and more important is the individual's accountability to God (*Allāh*). An individual Muslim must be aware that Allāh is watching all deeds and knows all the thoughts of mankind. As such, a Muslim should observe and judge his or her deeds and thoughts before being judged by Allāh (i.e., self-judgment) (Al-Ghazālī, 1980; Zaid, 2000; Shahul Hameed, 2001). Allāh said *{(It will be said to him), "Read thine (own) record; sufficient is thy soul this day to make out an account against thee."}* (17:14).

Based on the above two accountabilities, an auditor is accountable to the society and ultimately to God. The auditor is accountable to the stakeholders, particularly the shareholders through contractual and legal obligations. However, in Islam, there is a wider scope of accountability, which is to the society and to God. Since every deed of an individual could have implications on the society, he or she has to take care and answer for any misconduct on judgement day.

On the other hand, Islam considers any good deeds as an act of worship (*Ibadah*), that merit rewards from *Allāh* in this world and the hereafter; just as bad deeds are recorded and will receive penalty and punishment in this life and the hereafter, especially those bad deeds that cause harm and destruction to the society. According to Al-Ghazālī<sup>1</sup>, Muslims must keep in mind that there is no separation between worldly and religious affairs in their life. Therefore, all worldly deeds such as trading, studying secular majors and working are considered as a form of worshipping *Allāh*, since they are in line with Islamic rules (*Sharī'ah Islāmiyyah*), which promote the seeking of human well-being (*falāh*) and a good life (*hayāt tayyibah*).

Therefore, Islam considers all professional activities (i.e., working) including auditing and accounting profession as acts of worship (*Ibadah*) (Zaid, 2000; Haniffa, 2002; Haniffa and Hudaib, 2004; Ayedh and Ihsan, 2013). It implies that if a Muslim carries out his or her responsibilities and assignments with good intention and effectively, he or she will be recompensed on the Day of Judgment by Allāh *{Then shall anyone who has done an atom's weight of good, see it}* (99:7).

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<sup>1</sup> Al-Ghazālī explained the Islamic philosophy of life in his famous book *Ihya'Ulūm al-Dīn*.



As part of the accountability to God, and due to the reward or punishment in the hereafter, one of the obligatory duties of every Muslim is the promotion of virtue and prevention of vice (Al-Ghazālī, 1980). Allāh said *{Let there arise out of you, a band of people, inviting to all that is good, enjoining what is right and forbidding what is wrong: They are the ones, to attain felicity.}* (3:104). This is strong evidence from the Qur'ān which indicates that prevention of vice is every individual's responsibility. This requirement definitely applies to the auditing function as it is one of the important tools to monitor, control and prevent vice (e.g., cheating, fraud and misreporting). This leads to righteousness and virtue. Thus, accountability is crucial to the auditing function. Not only does the accountability of the auditor help to monitor the management of the client company, but this accountability would require the auditor to also control himself or herself (Appendix 1).

In Islam, since accountability is a vital component of any individual's responsibilities, it is the basis of the discussion on audit quality and analysis of AQF's input factors from an Islamic perspective, as seen below.

## **5. AUDIT QUALITY INPUT FACTORS FROM AN ISLAMIC PERSPECTIVE**

In analysing the AQF, the framework seems to place similar weight on input factors, process factors and output factors, however, from an Islamic perspective, importance is placed on the human being (Qur'ān, 17:70). The primary focus is on the individuals, in this case auditors, because it is these individuals who would implement the process factors and oversee their implementation, as well as eventually prepare and present the output factors. Thus, the individual auditor is of significant importance, and is the focus of discussion below.

Broadly speaking, the distinction between conventional auditing and Islamic auditing lies in the main purpose of performing the audit. From a conventional point of view, auditing is a professional temporal work and does not consider religious perspectives in the process of auditing. Meanwhile in Islam, responsibility and accountability extend beyond the interested parties (i.e., shareholders and stakeholders) to God (Karim, 1990; Kaudah, 1998; Shahul Hameed, 2000; Shahul Hameed, 2009; Kasim, 2010; External Auditor's Guide, 2019) and society. The fact that performing audit work well, as part of a religious responsibility and due to accountability, is fundamental to Muslims in the profession. Hence, this fact

must be kept in mind in discussing the AQF's input factors from an Islamic perspective.

Recalling audit quality as defined from the Islamic perspective above, other than the intention and accountability of the auditor, it mirrors DeAngelo's (1981) definition in that the auditor must still detect and report material misstatements. To do so, two qualities are evident in the proposed model. They are proficiency (the expert capability to detect material financial statements errors) and morality (driven by a strong sense of accountability to report the detected material financial statements errors). These two qualities seem similar to the input factors in the AQF (IAASB, 2014); however, they have different connotations and emphasis in the Islamic context.

Firstly, the source of these two qualities is the Qur'ān, as they are clearly mentioned in *Surah Al-Qasas*. Allāh said {... *truly the best of men for thee to employ is the (man) who is strong and trusty*} (28:26). This pertains to the hiring process in Islam in which the strength (proficiency) and trustworthiness (morality) of the person are important. These two qualities also apply to the appointment of an auditor. In another verse Allāh said {(Joseph) said: "*Set me over the store-houses of the land: I will indeed guard them with full knowledge*".} (12:55). According to Al-Ghazālī (1973), this verse clearly indicates the two qualities where proficiency is implied in 'full knowledge' and to 'guard them' in such a manner shows trustworthiness (a moral dimension).

Further evidence from the Qur'ān is in the story of Talut (Saul), as Allāh Almighty has appointed Talut as a king over the Jews in the time of Goliath. However, the Jews argued that he is not one from the honoured tribes, neither is he wealthy. Then Prophet Daud (David) (peace be upon him) justified Allāh Almighty's decision due to Talut's knowledge and strong body. In verse (2:247), Allāh said {"*Allāh has chosen him above you and has gifted him abundantly with knowledge and bodily prowess: Allāh grants His authority to whom He pleases. Allāh cares for all and He knows all things.*"}. It is important to clarify that in the context of appointing a leader at the time of Saul, the qualities needed was not only knowledge, but physical strength. Hence, those were the proficiency criteria in those days. However, for an auditor of today, the proficiency criteria are competence and expertise.

This Qur'ānic evidence and argument are in line with the requirement of an auditor (reviewer) during the Islamic civilization. Zaid (2000) mentioned the requirements of an auditor or reviewer of the books (*Muhtasib*) who was appointed in the office of accounting (*Diwan Al-Hisbah*)

had to master the official language used in the *Diwan*<sup>2</sup> (i.e., eloquence), be competent in the records, be a memorizer of the Qur'ān, intelligent, wise, trustworthy and neither prejudiced nor inimical. This is obvious evidence that the two dimensions of audit quality (i.e., proficiency and morality) were visible earlier in the Islamic civilization through the requirements and qualifications of an auditor in an Islamic state.

Generally, regulators have imposed several conditions and restrictions to guarantee that only the qualified auditor is allowed to practice auditing. An external auditor must be licensed by a professional accounting body to be approved as an auditor (Kaudah, 1998; Shahul Hameed, 2009). In addition, an auditor should be competent and experienced (at least 3 years on the job experience) in auditing. Competency is crucial, hence both IFAC and AAOIFI codes of ethics have stated this dimension of audit quality (i.e., professional competence and due care). This notion has been supported by recent studies emphasise on the importance of professional competency and due care (Caruana and Kowalczyk, 2021; Rashid and Ghazi, 2021).

Islam encourages individual Muslims to be strong (proficient) in any aspect of life by enhancing his or her skills, experience, knowledge, and expertise. Likewise, Muslim auditors are encouraged to be strong in terms of enriching their knowledge in auditing and accounting, updating this knowledge, as well as have related qualifications. The strength in knowledge required by the profession is not just to attain the level of being competent, but to achieve proficiency. Moreover, Muslim professionals need strong Islamic knowledge especially in terms of Islamic policies in business matters (*fiqh muamalat*). Zaid (2001) argued that the accountant needs Islamic knowledge and ability to recall the Qur'ān to assist him in rationalizing and justifying his recommendations and judgments. Similarly, the auditor can apply this mental ability when required to give an opinion.

Proficiency is only one of the dimensions of audit quality; it enables the auditor to detect the errors in financial reporting process. However, it does not necessarily mean that these errors will be reported. The disclosing

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<sup>2</sup> In the initial stage of establishing these offices (*Diwans*) in Islamic state especially in the recent occupied lands (e.g. Iraq, Iran and Egypt) in that time, the official language used are the occupiers' language (e.g. Roman, Coptic and Persian languages), then later converted into the Arabic language to be harmonized with the central state in Damascus by the order of Caliph Abdul-Malek bin Marwan 73-86 H (693-705) (Zaid, 2000).

and reporting of detected errors and breaches require the auditor to be independent, which falls under the morality dimension of the AQF from an Islamic perspective.

Morality is a very important issue in the auditing profession. Independence is the crux of auditing quality; thus, it is given considerable weight in the IFAC code of ethics. Zaid (2001) argued that the moral requirements of appointment of accountants in an Islamic state are more important than the competency requirements. He justified his argument that technical competence would not suffice and may even be harmful when there is an immoral or dishonest attitude. It could be argued that technical competence might be gained through studying and practice, whereas morality needs to be ingrained. In other words, it is easier for an auditor to gain competency elements such as experience, knowledge and skills through training and practice compared to the morality elements. Upon analyses, the IFAC's AQF (IAASB, 2014) may have had a similar stand to Zaid (2001) as the input factors 'Values, ethics and attitudes' are placed and discussed first before 'Knowledge, Skills, Experience and Time'.

From an Islamic point of view, a Muslim's responsibility is derived from three types of rights, namely the rights of Allāh (Huququ-Allāh), the rights of society (Huququ-Ibad) and one's self rights (Huququ-l-Infid). According to Haniffa and Hudaib (2004) the priority of fulfilling this interest is according to Allāh's rights, as the ultimate priority, followed by the rights of the society, then finally the rights of oneself. This means that if an auditor faces a conflict between society and self-interest, he or she must fulfill the interests of the society regardless of oneself interest. In addition, as discussed above, auditors must always remember that they are accountable firstly to Allāh (SWT), then to the society, before themselves.

The obligation on Muslims to promote virtue and prevent vice requires Islamic values and good moral behaviour (*Akhlaq*). One of the missions of Prophet Muhammad (peace be upon him) is to enhance the *Akhlaq* of human beings (Al-Qaradawi, 1995). The Prophet (peace be upon him) said on one occasion in a hadīth narrated by Abu Hurayrah "*I was sent to perfect good character*", as stated in Al-adab al-Mufrad book by Al-Bukhārī (273-135) (Hamid, 2003; Al-Bukhārī, 2009). Allāh also mentioned in the Holy Qur'ān: {*And thou (stands) on an exalted standard of character*} (68:4).

According to Al-Ghazālī (1973), *Akhlaq* is an attribute (innate quality) that is ingrained in the soul and creates an automatic action without having to think. Islam considers that it is essential for a Muslim to have good character (*Akhlaq*) to be a good Muslim. As Prophet Mohammed

(peace be upon him) said in one hadīth, which was narrated by Abu Hurayrah “*The most perfect believer in respect of Faith is he who is best of them in manners. (Akhlaq)*” narrated by Abu Dawood (40-4665). Therefore, an auditor with *Akhlaq* would act morally in all his deeds including auditing.

*Akhlaq* comprises several characteristics (Al-Qaradawi, 1995), which will be elaborated on in the next section.

## 6. QUALITIES OF MORALITY (AKHLAQ)

It must be noted that the discussion of morality is in reference to the Divine Command Theory (DVT). Based on this theory, the concept of morality is not defined by individuals or cultural interpretations, but what is considered ‘moral’ is determined by divine command (Austin, 2006). In Islam, the divine command is clearly stipulated in the Qur’ān and elaborated by Hadith. Thus, what is deemed ‘moral’ is as spelt out by the *Sharī’ah*. Therefore, the qualities that are components of ‘morality’, as discussed below, are in accordance with the *Sharī’ah*. Hence, in analysing the input factors of IFAC’s AQF, only sources which are considered divine by Muslims, i.e., the Qur’ān and Hadith are referred to.

### 6.1 Piety (Taqwa)

*Taqwa* is the fear of Allāh. Allāh said {*O ye who believe! Fear Allāh and be with those who are true (in word and deed)*} (9:119). Ali bin Abi Talib the fourth caliph, defined piety (*Taqwa*) as the fear of Allāh, the compliance of deeds with Qur’ān and Sunnah, the acceptance of the wealth given by Allāh and the preparation for the life in the hereafter (Kaudah, 1998). Piety is the basis of all other characteristics (*Akhlaq*). Piety encourages Muslims to monitor themselves and to be accountable by reviewing their deeds in this life and asking almighty Allāh’s forgiveness before the Day of Judgment. This leads to self-control and self-judgment.

According to the principle of *Taqwa*, an auditor must be independent both in fact and in appearance, even if this might lead to losing a significant client along with the income. This is because Allāh promises to reward and provide other sources of income as a result of their piety (*Taqwa*) to Allāh. Allāh said: {*And for those who fear Allāh, He (ever) prepares a way out and He provides for him from (sources) he never could imagine. And if anyone puts his trust in Allāh, sufficient is (Allāh) for him. For Allāh will surely accomplish his purpose: verily, for all things has Allāh appointed a due proportion.*} (65:2-3). Thus, an auditor must conduct an audit with full independence and integrity regardless of the consequences of his or her self-interest.

### 6.2 Sincerity (*Ikhlas*)

Sincerity (*Ikhlas*) means fulfilling all duties perfectly for the sake of Allāh and not for the sake of others. In other words, meaningful acts should be sincere without any interference (from jealousy, arrogance, pride, etc). According to Al-Ghazālī (1973), the perfection of performing the duties requires the individual to work with sincerity and devotion. Allāh said: *{And they have been commended on more than this: To worship Allāh, offering Him sincere devotion, being true (in faith); to establish regular prayer; and to practice regular charity; and that is the Religion Right and Straight}* (98:5).

In terms of auditing, the auditor should fulfil his or her duties (audit work) sincerely (Mohiuddin, 2012) to satisfy Allāh through quality audit work and seek rewards from Allāh in this world and the hereafter first and foremost before seeking other forms of credit (e.g. reputation, money, satisfaction of society). According to Kaudah (1998), auditors should not rate their audit quality entirely by the fees, audit reputation and other worldly factors. They must sincerely perform audits in order to achieve the highest possible audit quality, and to seek Allāh's pleasure as a priority as He has exacting standards, which warrants the requisite to excel. Such a focus transcends worldly standards and benefits.

### 6.3 Trustworthiness (*Amanah*)

The basic concept of trustworthiness (*Amanah*) is vicegerancy (*Istikhlaf*). As a vicegerent (*Khalifah*), Allāh Almighty gives His trust to the entire human race to use all resources in the universe in line with Allāh's commandments. Allāh said: *{It is He Who hath made you [His] agents, inheritors of the earth: He hath raised you in ranks, some above others: that He may try you in the gifts He hath given you: for thy Lord is quick in punishment: yet He is indeed Oft-forgiving, Most Merciful.}* (6:165). In light of this, all an auditor's actions and deeds will be accounted by Allāh on the Day of Judgment as Muslim's are obligated to fulfill the role of a vicegerent that has been entrusted to them.

Al-Ghazālī (1973) argued that trustworthiness (*Amanah*) has broader semantics. With regard to the profession, he argued that trustworthiness (*Amanah*) starts by hiring the appropriate person with the relevant qualifications, skills, experience and ethics. Employees must then act trustworthily, honestly, and dutifully on what he or she is responsible for. Regarding the auditing profession, trustworthiness (*Amanah*) is one of the main values that enhances the reliability and credibility of an audit (Mohiuddin,

2012). In addition, an auditor is considered a trustee to several parties (i.e., shareholders, stakeholders, public and government). Therefore, an auditor must fulfil this trust placed upon him or her (Kaudah, 1998).

#### 6.4 Truthfulness (Saddiq)

Truthfulness (Saddiq) means being honest and truthful. According to Al-Ghazālī (1980) the Holy Prophet was asked how to reach perfection in life, for which the Holy Prophet replied: Truthfulness in speech and sincere action. There are many verses and hadīths in the Holy Qur’ān and Sunnah illustrating how Islam encourages Muslims to remain truthful. In a hadīth narrated by Abdullah: The Prophet said, *“Truthfulness leads to righteousness and righteousness leads to Paradise. And a man keeps on telling the truth until he becomes a truthful person. Falsehood leads to al-Fajur (i.e., wickedness, evil-doing). And al-Fajur (wickedness) leads to the (Hell) Fire, and a man may keep on telling lies till he is written by Allāh, a liar”* narrated by Al-Bukhārī (2009: 73-116).

Al-Ghazālī (1973) argued that an individual Muslim must always tell the truth as it is the basic value of having a healthy ethical society. Regarding auditing, an auditor must be truthful and be objective in providing an opinion on the financial statements regardless of the consequences (Kaudah, 1998). The importance of truthfulness is also acknowledged by Imran et al. (2012).

#### 6.5 Justice (Adalah)

Allāh Almighty has commanded the establishing of justice under all circumstances and in all aspects of life (Al-Qaradawi, 1995; Shahul Hameed, 2001). Justice is the primary mission of Prophet Mohammed (peace be upon him) as Allāh said: *{We sent aforetime our messengers with Clear Signs and sent down with them the Book and the Balance (of Right and Wrong), that man may stand forth in justice,}* (57:25). According to Al-Qaradawi (1995) justice in the Islamic economic scheme is to achieve social welfare. The justice principle leads Muslims to work with full objectivity.

With regards to auditing, the justice (*Adalah*) principle leads to objectivity and equitable treatment to all interested parties such as shareholders, creditors, society, professional bodies, and the government. In addition, Qurānic evidence emphasizes justice and forbids injustice. Allāh said: *{Allāh commands justice, the doing of good and liberality to kith and kin and He forbids all shameful deeds and injustice and rebellion. He instructs*

*you, that ye may receive admonition*} (16:90). According to *Tafsir Fi-Zilalil-Qur'ān* by Qutb (1995), in this verse (16:90), Allāh has commanded Muslims to fulfil all obligations with both justice and kindness. According to him, justice is righteousness in fulfilment of prescribed obligations. For this reason, Allāh directly mentioned benevolence and kindness (*Ihsan*) with justice (*Adalah*) for Muslims to be guided towards fulfilling all obligations and duties.

In the case of auditing, it is very important to have justice before issuing an opinion to the client. Justice requires an auditor to perform auditing objectively regardless of the negative impact to some parties (e.g., managers). Justice also ensures that the auditor is fair and can differentiate between errors and misstatements, which can be corrected prior to issuing an opinion and more serious issues that may not be so easily corrected.

#### 6.6 Unconcealed (*Katm Al-Sha'adh*)

Concealing evidence is forbidden in Islam. Allāh said {*Conceal not evidence, for whoever conceals it, His heart is tainted with sin. And Allāh Knoweth all that you do.*} (2:283). Islam considers an auditor as the witness who should give honest opinions about the financial statements of the clients. All parties, shareholders, investors, financial analysts rely on the auditor's opinion. Therefore, a Muslim auditor should be independent, and report all discovered breaches and errors with full integrity and objectivity in order to obtain Allāh's rewards in this world and the hereafter (Kaudah, 1998). Thus, an auditor is responsible not to hide any information about the financial statements as there may be consequences on stakeholders and the society.

#### 6.7 Adhere to contract (*Aufa Bil Uqad*)

The contract (*Uqad*) among various parties may be in the form of a signed document with the obligations evidently spelt out in writing or orally (Haniffa and Hudaib, 2004). Allāh said {*O you who believe! fulfil (all) obligations*} (5:1). In the auditing context, auditors have to fulfil their contractual obligations that have already been agreed upon with shareholders and the client company, as specified in the engagement letter. The auditors agree to carry out audit work and give their opinion with full independence, integrity and objectivity based on this contractual relationship. The reward for those who adhere to contracts is promised by Allāh: {*Those who faithfully observe their trust and covenants; and who (strictly) guard their prayers; these will be heirs; who inherit Paradise: they will dwell therein (forever)*} (23:8-11). It can clearly be seen from the Qur'ān that this adherence to contracts would result in a glorious reward.



Figure 2 below provides an illustration of the proficiency and morality dimensions in relation to audit quality.

## 7. DISCUSSION ON THE AQF'S INPUT FACTORS

Although there are several attempts to restrain problems of morality such as having the IFAC code of ethics and AAOIFI's code of ethics, morality remains an issue. Francis (2011) argued that it is insufficient to build the quality of an individual based solely on competence (e.g. education, skills, experience and qualification) as cognitive characteristics of the individual auditor could influence the level of audit quality. As mentioned before, this seems to be consistent with the AQF (IAASB, 2014) as both values and competence are promoted as input factors. This argument is also in line with Islamic philosophy, which emphasizes the role of the individual human being and his or her characteristics. This notion is also supported empirically by Christensen et al. (2015) who found that the auditor characteristics are the most important determinants of audit quality.

The AQF (IAASB, 2014) extends the values of the partner and members of the audit team (engagement level) to the firm level. This is in line with Al-Ghazālī's (1973) point that the regulation of groups and organizations are derived from an individual. Therefore, Islam stresses that individual human being's values and behaviour are the root of group values, organization's and even the society's values. By each individual being a good, moral and pious person (*Taqwa*), this leads to having a collection of good people thus creating an honest atmosphere in the organization and the society. A human being is likened to a cell in an organ, when all cells work perfectly, the organ functions smoothly. Similarly, when all individuals in the organization or community functions according to the *Shari'ah*, the whole organization or community will be successful.

The importance of ethics and morality is becoming more evident as ethics courses are increasingly being integrated into accounting education, as proposed by the International Accounting Education Standards Board of IFAC. It is essential that accounting education and professional qualification training accentuate that the profession requires new recruits into the profession to be ethical and not only have technical competencies (Ussahawanitchakit, 2012b; Kaveh, Khalili, Soroush, 2014). Unfortunately, there is comparatively little emphasis on morality by relevant parties on the auditor's qualification<sup>3</sup> or selection and hiring process. This might be

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<sup>3</sup> It refers to the education system of auditing students and pre-training of auditors.

because ethics and morality are difficult to appraise. Nevertheless, audit firms, the profession, regulators, and educators are burdened with the task of finding a solution to inculcate and assess morality<sup>4</sup>. This is because the case of Enron is a clear lesson that competence and experience, i.e., proficiency alone, will not save the audit profession. This is also supported by empirical evidence by Ussahawanitchakit (2012b). He found that ethics plays a significant role in determining, driving, and explaining audit quality, hence auditor's morality influences audit quality positively in Thailand. Furthermore, it is argued that morality is essential to the quality and credibility of the auditor's work and practice (Ussahawanitchakit, 2012a).

Figure 2 lists the qualities of *Akhlaq* to highlight the morality dimension. It includes the hiring and appointment of audit team members and partners with both proficiency and morality as human resources. However, even when the auditor is competent, a quality audit will not be achieved if due care and ample time is not provided in the 'Audit Effort'. The AQF (IAASB, 2014) has classified 'Audit Process & Quality Control Procedures' as process factors. Consistent with the AQF, Figure 2 has these as audit techniques. Figure 2 does not make a distinction between input and process factors as based on the Islamic perspective; it eventually leads to the individuals. It is up to proficient and moral auditors and the profession to perform, implement and enforce audit techniques and processes in accordance with auditing and quality control standards. Finally, with both proficiency and morality, material misstatements will not only be detected, but they will also be reported in audit reports, i.e., the output of the audit process.

Theoretically, from an Islamic perspective, the AQF could be strengthened by having more emphasis on the morality dimension. Therefore, this paper highlighted the quality of the individual auditor's character (*Akhlaq*). From an Islamic viewpoint, Muslim auditors must keep in mind that he or she is dually accountable to Allāh and the society (i.e., stakeholders). Therefore, for an auditor, considering his or her audit work as a form of worship (*Ibādah*) is acceptable by Allāh almighty. In addition, Muslim auditors should consider auditing as one of the tools of practicing the promotion of virtue and prevention of vice. Moreover, it is obligatory for Muslim auditors to use the qualities that they have been blessed with

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<sup>4</sup> Appendix 2 proposes three mechanisms to ensure audit quality within the audit firm.

by God for the benefit of the society. Based on these Islamic fundamentals, Muslim auditors would behave and perform to the best of their abilities and attain audit quality.

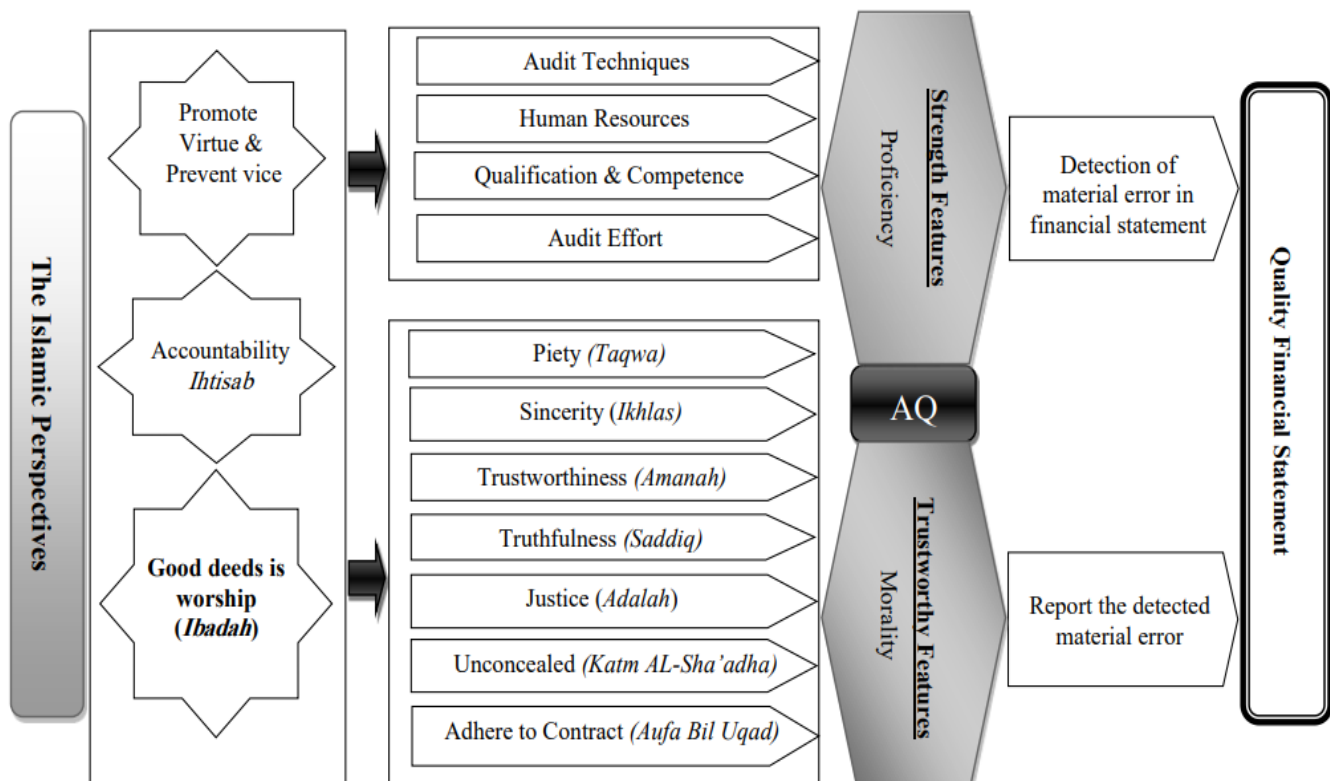


Figure 2: Audit Quality Framework from an Islamic Perspective

## 8. CONCLUSION

The paper summarizes the AQF's (IAASB, 2014) primary factors, which may be useful to educators and researchers in relation to teaching and conducting future research on audit quality. It discusses the AQF's input factors from an Islamic perspective and focuses on the dimensions of proficiency and morality. As mentioned before, this could be beneficial and of particular relevance to Muslim auditors in putting these qualities into practice in order to elevate audit quality. Muslim auditors are reminded of the heavy responsibility that they have towards society in fulfilling their duties

as an auditor, however there is a bountiful reward as the sincere performance of these duties are accepted as acts of worship in Islam and not just a job to earn a living.

This paper also highlights the need for the profession, regulators, and educators to remind auditors and students who aspire to become auditors on the importance of morality (Appendix 2). Therefore, these parties should coordinate a concerted effort to nurture, instil and assess virtues and ethical values, along with proficiency, in the profession in order to attain audit quality. Even though morality is difficult to assess, it eventually is revealed in an individual's action.

Based on the critical discussion of AQF input factors from an Islamic perspective, the paper extends the functional definition of audit quality by DeAngelo (1981), based on Islamic philosophy. This definition has been mentioned earlier but is restated here for ease of reference. Thus, from an Islamic Perspective, audit quality is 'proficient auditor(s) having the right intention of pleasing God by fulfilling his or her responsibilities diligently and being accountable, hence detecting material misstatements in the financial statements and reporting them due to their moral obligation'. The extended definition of audit quality from an Islamic perspective accentuates auditor's intention and accountability, consequently leading to the importance of proficiency and morality in detecting and reporting material misstatements in the financial statement and reporting them. This paper is a conceptual paper, hence similar to IFAC's AQF, the proposed model from an Islamic perspective has not been empirically tested. Nevertheless, future studies could test the proposed qualities. Furthermore, although the proposed qualities could also be applied to Sharī'ah auditing, there are other considerations to Sharī'ah audit that is not addressed by this paper. These considerations and application to Sharī'ah audit could be considered by future studies. Finally, the paper focuses on the input factors, thus future research could consider extending the analysis from an Islamic perspective to the process and output factors as well.

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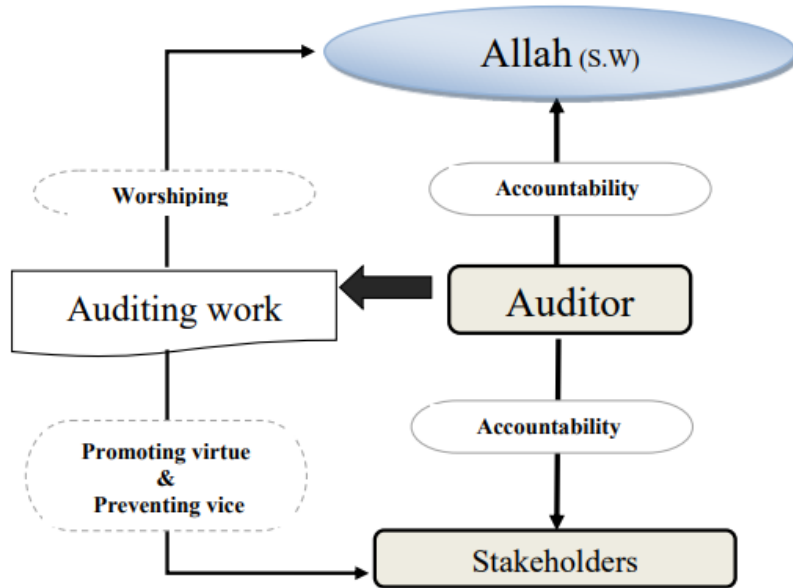
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Appendix 1:

Islamic Fundamentals of Auditing



Appendix 2:

Audit Quality Internal to the Audit Firm

***Audit Quality Suggested Scheme***

