

The Role of Shari'ah Auditing in Catalyzing Corporate Transparency: A Descriptive-Analytical Inquiry into Zakat and Waqf Institutions

Mahmoud Salih Elias^{1*}, Prof. Dr. Qusay Musaher Mohammed² & M. Dr. Mohammad Salih Elias³

^{*1-2-3}Department of Islamic Financial and Banking Sciences, Imam Al-Azam University College, Iraq

Corresponding Author: *Mahmoud Salih Elias* (Department of Islamic Financial and Banking Sciences, Imam Al-Azam University College, Iraq)

Received: 02/03/2026

Accepted: 01/04/2026

Published: 13/04/2026

Abstract: This research aims to analyze the pivotal role of Shari'ah auditing in bolstering institutional transparency within Zakat and Waqf institutions, recognizing them as key non-profit entities with profound religious and social dimensions. Adopting a descriptive-analytical methodology, the study synthesizes classical jurisprudential literature with contemporary frameworks, examining Shari'ah and accounting standards alongside relevant empirical studies.

The findings demonstrate that Shari'ah auditing serves as a critical governance mechanism that facilitates financial and religious disclosure, strengthens institutional accountability, and mitigates information asymmetry between management and stakeholders. Furthermore, the results indicate a positive correlation between the efficacy of Shari'ah auditing and the level of institutional transparency. However, several challenges impede its full activation, most notably restricted independence, the absence of standardized frameworks, and a shortage of specialized expertise.

The study recommends the necessity of developing robust Shari'ah audit frameworks, enhancing auditor independence, and institutionalizing periodic Shari'ah reporting to solidify institutional trust and fulfill the Maqasid al-Shari'ah (Objectives of Islamic Law).

Keywords: *Shari'ah Auditing, Institutional Transparency, Shari'ah Governance, Zakat, Waqf.*

Cite this article: Elias, M. S., Mohammed, Q. M. & Elias, M. S. (2026). The Role of Shari'ah Auditing in Catalyzing Corporate Transparency: A Descriptive-Analytical Inquiry into Zakat and Waqf Institutions. *MRS Journal of Multidisciplinary Research and Studies*, 3(4), 17-25.

Introduction

Despite their growing importance in achieving social development and promoting economic solidarity, Zakat and Waqf institutions face increasing challenges related to transparency, particularly regarding financial resources, disbursement mechanisms, Waqf asset management, and stakeholder accountability, including donors and Zakat payers.

In this context, Sharia auditing has emerged as a modern supervisory tool that ensures compliance with Islamic Sharia principles and enhances institutional trust. However, a review of previous literature reveals that most research has focused on the role of Sharia auditing in Islamic financial institutions from a profitability perspective. There is a clear limitation in studies addressing Zakat and Waqf institutions as nonprofit entities with their own specific Sharia and regulatory characteristics.

Furthermore, many current Sharia auditing practices in these institutions are formalistic or incomplete, failing to activate their full potential in promoting transparency, disclosure, and accountability. This raises fundamental questions about their true effectiveness and the factors influencing their performance.

Sharia auditing plays a pivotal role in enhancing transparency within Zakat and Waqf institutions by ensuring compliance with

Islamic law. The audit process involves a thorough review of financial data, policies, and procedures to confirm that these institutions are operating in accordance with Sharia guidelines. Applying Sharia audit standards and frameworks helps organizations establish clear policies and procedures that promote accountability and transparency. This structured approach builds trust among stakeholders and strengthens the integrity of Zakat distribution mechanisms, ensuring funds are allocated effectively to eligible beneficiaries. Integrating Sharia auditing fosters a culture of transparency, which is essential for the credibility and sustainability of Zakat and Waqf institutions in achieving their mission of reducing poverty and inequality.

There is a growing interest in governance and institutional transparency issues in the Muslim world, particularly within Islamic financial institutions such as Zakat and Waqf. These institutions are among the most important economic and social pillars of Muslim societies, playing a pivotal role in achieving social justice and sustainable development. To gain the trust of donors, beneficiaries, and regulatory bodies, they require high levels of transparency and accountability. Sharia auditing is an effective tool for verifying financial and accounting soundness, ensuring compliance with Islamic law, and promoting transparency. Sharia auditing also provides practical

recommendations for improving Sharia audit and oversight mechanisms, thereby enhancing institutional transparency and raising the standards of good governance.

Problem of the Study:

The gap between the theoretical framework of Sharia auditing and its practical application affects the transparency and accountability levels in these institutions.

There is a lack of comprehensive analytical studies that establish a direct explanatory relationship between Sharia auditing and institutional transparency.

Applied studies tend to focus on for-profit financial institutions, such as Islamic banks, while neglecting non-profit institutions, such as Zakat and Waqf.

Studies combining the governance and Sharia-compliant objectives dimensions to analyze transparency are limited.

Theoretical approaches presenting Sharia auditing as a mechanism for enhancing disclosure and bridging the information gap between management and stakeholders in the Islamic nonprofit sector are scarce.

This issue raises the following question:

What role does Sharia auditing play in enhancing institutional transparency in Zakat and Waqf institutions, and how effectively does it support disclosure and accountability in light of Sharia governance principles?

Importance of the Study:

This study is significant for several reasons.

1. Strengthening adherence to Islamic principles in financial resource management.
2. Improving the efficiency with which charitable organizations utilize financial resources.
3. Building trust between donors, beneficiaries, and institutions
4. Developing governance and internal control systems
5. Highlighting the importance of Sharia auditing as a mechanism for building trust in Islamic institutions
6. Clarifying the relationship between Sharia auditing and institutional transparency. This is achieved by analyzing the role of Sharia auditing in promoting transparency within Zakat and Waqf institutions. This analysis uses a descriptive and analytical framework that combines governance and objective-based perspectives.

Study Objectives:

The objectives of this study are as follows:

1. Define the concept of Sharia auditing, its objectives, and its principles.
2. Clarify the concept of institutional transparency and its dimensions.
3. Analyze the relationship between Sharia auditing and institutional transparency.
4. Examine the current state of Sharia auditing in Zakat and Waqf institutions.
5. Identify the challenges facing Sharia auditing.

Methodology of the Study:

Due to its suitability for studying institutional phenomena and analyzing relevant theoretical and jurisprudential frameworks, the research is based on the descriptive analytical method.

Previous studies: An Analytical Framework

Contemporary literature has shown an increasing interest in governance and transparency in Islamic financial institutions. However, the focus has varied among administrative, organizational, and supervisory aspects without comprehensively addressing the role of Sharia auditing in Zakat and Waqf institutions specifically.

Hassan and Noor's (2023) study aimed to analyze the impact of corporate governance mechanisms on transparency in Waqf institutions. The study adopted a quantitative approach, using regression models to analyze data from Waqf institutions. The results revealed a statistically significant positive correlation between robust supervisory structures and higher levels of financial disclosure. However, the study focused on general governance and did not address Sharia auditing as an independent mechanism that influences transparency.

Ascarya and Yumanita (2022) designed an institutional model to improve Zakat institution performance and transparency by developing organizational structures and disclosure mechanisms. The study adopted an institutional analytical approach and concluded that clear administrative structures and periodic disclosures contribute to greater performance efficiency and public trust. However, the study did not address Sharia auditing as an independent analytical variable, nor did it include Waqf institutions.

In a different context, Abdul Rahman and Nor (2016) examined the challenges of implementing Sharia auditing in Islamic financial institutions using a qualitative approach based on in-depth interviews. The results revealed issues of independence, expertise, and the absence of unified standards. However, the study's scope was limited to for-profit financial institutions and did not extend to nonprofit Zakat and Waqf institutions.

The aim of a study on developing clear standards for Sharia auditing in Zakat operations is to create a standardized institutional mechanism that promotes compliance with Sharia principles, as well as enhances accountability and transparency within Zakat institutions. The study identified a set of criteria based on jurisprudential principles, such as comprehensiveness, priority, and data completeness. It also suggested empowering trained personnel and utilizing information systems to support the effectiveness of Sharia auditing. The study also emphasizes the importance of an institutional Sharia framework as a cornerstone for ensuring the credibility of processes and standardizing practices across institutions.

Sharia Auditing in Zakat Institutions: Challenges and Prospects in Indonesia

This study explores and assesses the challenges to the effective implementation of Sharia audit frameworks in Indonesian Zakat institutions, such as the ambiguity surrounding the boundaries between Sharia auditing and financial auditing and the weakness of supporting regulatory frameworks. The findings suggest that Sharia auditing is in its early stages and needs improvements to its legal and institutional framework to promote transparency and

accountability within Zakat institutions rather than merely serving as a formal administrative procedure.

Previous literature has focused on governance without Sharia auditing, addressed Sharia auditing within the context of for-profit institutions, or limited itself to one institution (Zakat or Waqf). These limitations underscore the need for an analytical study that links Sharia auditing with institutional transparency in Zakat and Waqf institutions.

Section One: Theoretical Framework and Basic Concepts

Requirement One: The Concept of Sharia Auditing

First: Definition and Historical Origins

The origins of Sharia auditing can be traced back to the earliest roots of the Islamic economic system. The concepts of oversight and accountability were linked to the principle of hisbah, which was practiced in the early Islamic state. The Hisbah system aimed to monitor transactions and markets, ensure compliance with Sharia rulings, achieve justice, and prevent fraud and violations of rights. The Hisbah system established the first practical framework for Sharia oversight, although the term "Sharia auditing" in its modern form was not yet in use. With the development of financial transactions and the emergence of modern Islamic financial institutions in the second half of the twentieth century, there was a need for more organized, institutional oversight mechanisms. This led to the development of the concept of Sharia auditing, which gave it a professional and systematic character. Sharia auditing evolved from individual fatwas to an independent oversight function that verifies the compliance of activities, products, and policies with Islamic Sharia provisions, according to clear standards and controls.

The rise of Islamic financial institutions in the second half of the 20th century made Sharia auditing a pressing need. These institutions recognized the need for a specialized mechanism to verify compliance with Sharia principles in all their operations. Sharia auditing is a natural extension of traditional accounting auditing, incorporating a distinct ethical and Sharia dimension (Al-Sharqawi, 2019).

International bodies, most notably the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), have contributed to the development and codification of Sharia auditing by issuing accounting and Sharia standards. These standards have strengthened the role of Sharia auditing as a component of Sharia governance and as an effective tool for achieving transparency and accountability in Islamic institutions, including Zakat and Waqf institutions (AAOIFI, 2021).

Second: Sharia Auditing:

Sharia auditing is defined as: "A systematic examination and evaluation of all the financial and administrative operations and transactions of an institution to ensure their compliance with the provisions of Islamic Sharia and Islamic ethical standards" (Al-Zuhaili, 2018).

It is also defined as: Sharia auditing is an independent and systematic examination and evaluation process of the operations of Islamic financial institutions, with the aim of ensuring their adherence to the provisions of Islamic Sharia in all their transactions and operations. Sharia auditing relies on reviewing documents, contracts, administrative decisions, and financial

transactions to verify their legitimacy according to the principles of Islamic Sharia.

Sharia auditing is a fundamental component of the Sharia governance system for Islamic institutions. It refers to a systematic and independent examination and evaluation process of all activities, transactions, and policies to verify their compliance with the provisions and principles of Islamic Sharia, according to approved controls and standards. Sharia auditing is not limited to financial aspects alone, but extends to include administrative, organizational, and investment aspects. The audit involves comparing the institution's operations with the audit manual it has adopted and ensuring their accuracy and conformity with AAOIFI standards.

Third: Types of Auditing:

1. Depending on their purpose and the type of institution, there are various types of auditing.
2. Financial Auditing: A certified public accountant examines the records, books, and financial statements to provide an impartial and professional opinion on their accuracy.
3. Administrative auditing: An administrative auditor reviews the administrative aspects of an institution to ensure that it achieves maximum benefit at the lowest possible cost.
4. Internal auditing: An internal auditor examines the institution's procedures and processes to ensure compliance with financial policies.
5. Legal auditing: A legal auditor verifies that the institution adheres to applicable regulations, bylaws, and laws.
6. Sharia Auditing: A certified Sharia auditor verifies the institution's compliance with Islamic Sharia standards and principles. The presence of a Sharia auditor distinguishes Islamic financial institutions from other institutions and sets them apart from auditors in other financial institutions. Sharia auditing is divided into two main types:
 - External Sharia Auditing: This is conducted by independent Sharia auditors from outside the organization. It aims to provide stakeholders with assurance that the organization complies with Islamic Sharia principles.
 - Internal Sharia Auditing: This type is conducted by a specialized team within the organization. It focuses on monitoring daily compliance and evaluating the adequacy of compliance and control programs.

Fourth: Objectives and Principles:

Sharia auditing seeks to achieve the following key objectives:

- Verifying the institution's compliance with Islamic law in all its operations
- Ensuring the integrity of financial and accounting processes in accordance with Islamic law
- Enhancing trust and credibility among stakeholders
- Providing reliable reports on the institution's compliance with Islamic law

Sharia auditing is based on a set of fundamental standards and principles, including independence, objectivity, professional competence, and confidentiality (Almutairi & Quttainah, 2017).

The second requirement is: International Sharia Auditing Standards:

Specialized international bodies have developed unified Sharia auditing standards, most notably those of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These standards cover multiple aspects of the Sharia audit process, including planning, execution, and reporting (AAOIFI, 2021).

Sharia auditing standards are a set of professional rules and controls that regulate the examination and evaluation of institutions' adherence to the provisions and principles of Islamic Sharia at the levels of financial transactions, administrative policies, and operational activities. The standards aim to ensure consistency, objectivity, independence, and the quality of Sharia audit outputs, thereby enhancing institutional transparency and accountability.

First: Types of International and Local Standards that Enhance Sharia Auditing

a. Local Standards:

These standards vary by country and local legislation. Most countries incorporate external Sharia auditing into the mandatory annual audit within the framework of Sharia governance. Local standards usually base their practices on AAOIFI international standards, adapting them to local regulations and legislation.

B. Sharia Governance Standards:

These standards emphasize the necessity of a robust organizational structure that includes a board of directors as the primary responsible authority, an independent Sharia supervisory board, and internal Sharia audit and compliance functions. These standards focus on the independence of Sharia boards and their freedom from executive management influence, ensuring effective communication among all parties (Al-Shammari, 2021, p. 112). (Al-Shammari, 2021, p. 112).

C. AAOIFI Standards:

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards are among the most important international standards for Sharia auditing. AAOIFI Auditing Standard No. 6 includes comprehensive requirements for external Sharia auditing, including ethics, planning, evidence gathering, documentation, and reporting requirements. This standard is based on the International Standard on Assurance Engagements (ISAE) 3000, with specific Sharia-related modifications.

AAOIFI has played a pioneering role in codifying these standards and issuing Sharia and accounting standards that serve as the primary reference for Sharia auditing in Islamic institutions.

First: The Standard of Independence and Objectivity:

This standard requires the Sharia auditor to be entirely independent of executive management and free of any conflicts of interest that could affect their impartiality as a professional. Independence is essential for ensuring the credibility of audit results and enhancing stakeholder confidence. Independence enhances the reliability of Sharia reports and prevents administrative influence on audit results, thereby impacting transparency. This stems from the

auditor's professional, impartial, and independent character. (Rahman & Nor, 2016).

Second, the Standard of Competence and Professional Qualification states that:

Sharia auditors must have specialized knowledge of Sharia, as well as familiarity with the accounting, financial, and administrative aspects of Zakat and its contemporary applications. They must also be familiar with the laws governing Waqf (endowment) and its investments. This enables them to examine complex transactions, particularly within zakat and waqf institutions, and apply the conditions stipulated by the endower in a manner that strengthens the spirit of waqf and its applications in investment and development.

The higher the auditor's level of competence, the higher the quality of Sharia disclosure and the greater the accuracy of the reports, impacting transparency.

Third, the scope of the Shariah audit standard is as follows:

Shariah auditing encompasses more than just reviewing contracts, fatwas, and the use of endowment funds and Zakat expenditures. It also includes:

- Sources of funds: zakat, endowments, and donations.
- Spending and investment channels.
- Internal policies and procedures.
- Compliance with Shariah objectives.

The broad scope of the audit contributes to uncovering shortcomings and enhancing comprehensive disclosure in terms of its output, application, and impact on transparency.

Fourth: The systematic planning and implementation standard:

This standard requires planning the Shariah audit process using a clear methodology. This includes defining objectives, assessing Shariah risks, gathering sufficient evidence, and documenting results.

Systematic auditing reduces randomness and increases the consistency and verifiability of results, thereby impacting transparency.

Fifth, the Shariah Reporting and Disclosure Standard emphasizes the preparation of clear and periodic Shariah reports that include:

This standard emphasizes preparing clear, periodic Shariah reports that include:

1. The extent of Shariah compliance.
2. Discovered violations.
3. Corrective recommendations.
4. The Path to Applying the Standard on Transparency: In Sharia reports, transparency is the primary tool for disclosing information to stakeholders.

Sixth: The Follow-up and Correction Standard: Sharia auditing is incomplete without following up on the implementation of recommendations and addressing discovered Sharia violations. This ensures continuous improvement of institutional performance. Follow-up enhances accountability and prevents the recurrence of violations.

Due to the specific nature of applying Sharia auditing standards in Zakat and Waqf institutions, these institutions require consideration of the following:

- a. Strict adherence to the legitimate categories of Zakat recipients according to their beneficiaries.
- b. Preserving and developing Waqf assets without exposing them to illegitimate risks or negligence.
- c. Considering the objectives and social dimensions of Zakat and Waqf auditing processes and their pillars. (Abdul Rahman & Nor, 2016, p. 350).

Section Two: Institutional Transparency

First Requirement: The Concept, Importance, and Dimensions of Transparency

Institutional transparency is a fundamental pillar for ensuring the efficiency and effectiveness of Zakat and Waqf institutions. These institutions are involved in managing public, Sharia-compliant funds that are allocated to achieve specific social and economic objectives and are subject to particular laws.

Institutional transparency enhances trust between institutions and their stakeholders, including Zakat payers, Waqf donors, and beneficiaries, by clearly disclosing fund sources, management mechanisms, and disbursement methods in accordance with Sharia principles.

Furthermore, transparency mitigates the risks of corruption and mismanagement by supporting oversight and accountability systems, enabling regulatory bodies—including Sharia auditors—to fulfill their roles effectively. Transparency also improves the efficiency with which resources are allocated, ensuring that Zakat funds reach their intended recipients and preserving and sustainably developing Waqf assets. This helps achieve Sharia's objectives of safeguarding wealth and realizing social justice. This demonstrates that nonprofit organizations that adopt high levels of corporate transparency enjoy greater public credibility and achieve better financial sustainability than those with weak disclosure and accountability. Therefore, enhancing corporate transparency in Zakat and Waqf institutions is fundamental to their success in fulfilling their religious and developmental missions (Cordery & Sim, 2018). Corporate transparency can be achieved through several mechanisms, including: Sharia and financial auditing; periodic disclosure of information; the presence of independent oversight committees; and effective communication with stakeholders.

First: A general definition of corporate transparency:

Corporate transparency is defined as the clarity and accessibility of information related to an organization's objectives, policies, decisions, and financial and administrative performance. This enables stakeholders to review and objectively evaluate the information. Transparency is a fundamental pillar of good governance, contributing to enhanced accountability, reduced corruption, and improved organizational performance.

According to modern management literature, transparency encompasses not only financial disclosure but also the disclosure of organizational structures, decision-making mechanisms, control systems, and adherence to ethical values (Bushman et al., 2004).

Corporate transparency is also defined as follows: "Clarity and candor in disclosing an organization's financial and administrative

information, enabling stakeholders to make informed decisions" (Healy & Palepu, 2001, p. 405). Transparency is particularly important in Islamic institutions because it aligns with Islamic principles of justice, integrity, and accountability. The Holy Quran emphasizes the importance of clarity and fairness in financial transactions: "O you who have believed, when you contract a debt for a specified term, write it down" (Al-Baqarah: 282).

Second: Institutional Transparency from an Islamic Legal Perspective

Institutional transparency is a fundamental ethical value based on trustworthiness, honesty, accountability, and the prohibition of deception and concealment. Islamic law emphasizes clarity in transactions and accountability for public funds, particularly when the rights of the poor and beneficiaries are concerned, as in the case of Zakat and Waqf funds. Institutional transparency is closely linked to the objectives of Islamic law, particularly preserving funds from loss or misappropriation.

Transparency also aims to ensure fair distribution, prevent corruption and misuse, and foster trust between fund managers and owners or beneficiaries. The absence of transparency in institutions with an Islamic legal character constitutes a breach of the principle of trustworthiness and weakens public confidence. (Al-Zuhaili, 2006).

Third: Dimensions of Corporate Transparency

Corporate transparency encompasses several integrated dimensions.

Financial transparency: Full disclosure of financial status, transactions, sources of funds, expenditures, and periodic financial statements and reports.

b. Administrative transparency: This refers to the clarity of organizational structures, policies, procedures, and decision-making mechanisms. The clarity of an institution's organizational structure is reflected in clear procedures that adopt a path for implementing administrative transparency.

1. Document administrative policies and procedures.
2. Public announcement of the criteria for selecting administrative leaders.
3. Clarity of authorities and responsibilities.
4. The existence of an approved, accessible procedures manual.

C. Sharia Transparency: Adherence to and disclosure of Sharia rulings. This includes making the results of financial, Sharia, and internal control audits available. The presence of an independent Sharia audit unit clarifies the standards that must be met. This includes:

1. Clarity of the Sharia auditor's duties and powers.
2. The issuance of periodic Sharia audit reports.
3. Disclosure of discovered Sharia violations.
4. Follow up on the implementation of Sharia audit recommendations.
5. Publish approved fatwas and Sharia rulings.
6. Disclose the mechanisms for Sharia decision-making.
7. Disclose cases of noncompliance and address them.

B. Information Transparency: This includes the ease of accessing accurate and timely information, especially for external stakeholders. (Saiti, B., Bacha, O. I., & Masih, M., 2019, p. 191).

1. Provide an updated official website.
2. Publish institutional reports and data electronically.
3. Ensure that the language used in reports is clear and easy to understand.
4. Respond promptly to information requests.
5. Use multiple channels to disseminate information.

C. Social Transparency: Disclose social programs and projects, as well as their impact on serving the community and ensuring equal opportunities for eligible recipients to access services. It is crucial because Zakat and Waqf have social and solidarity-based effects that benefit society and individuals by providing economic and social advantages.

The second requirement: The importance of institutional transparency in Zakat and Waqf institutions, as well as the role of Sharia auditing in enhancing transparency.

Due to the nature of the funds managed by these institutions, which are Sharia-compliant funds with a religious and social dimension, institutional transparency in Zakat and Waqf institutions is of exceptional importance, requiring the highest levels of disclosure and accountability. Transparency enables stakeholders, including Zakat payers, donors, and beneficiaries, to understand how financial resources are managed and verify adherence to specified Sharia-compliant channels. This enhances public trust and increases institutional effectiveness (OECD, 2015). Transparency is pivotal in promoting accountability within nonprofit institutions, including Zakat and Waqf institutions. Publishing information related to performance, periodic reports, and decision-making mechanisms enables stakeholders to evaluate institutional performance and increases management's commitment to social responsibility. Furthermore, a lack of transparency undermines the institution's ability to earn public trust and support, which are crucial for funding and sustainability (Cordery & Sim, 2018).

Sharia auditing plays a pivotal role in enhancing the transparency of Zakat and Waqf institutions. It examines compliance with Sharia principles in all financial and administrative activities, verifying the legitimacy of funds and expenditures. Sharia auditing also identifies instances of noncompliance, provides corrective recommendations, and critically scrutinizes and monitors their implementation. These efforts directly impact the level of disclosure and clarity in institutional reports, particularly within Waqf institutions and their investment bodies.

According to contemporary literature, an independent and professional Sharia audit system improves the reliability of published financial and Sharia information, reducing the information gap between management and stakeholders or donors and supporting financial and oversight transparency. Furthermore, Sharia audit reports are a key disclosure tool that strengthens institutional accountability and supports achieving Sharia objectives of preserving wealth, preventing corruption, and avoiding misuse. Therefore, enhancing transparency in Zakat and Waqf institutions is impossible without the interpretive oversight of Sharia auditing, which contributes to controlling institutional performance, improving disclosure quality, and consolidating community trust. This supports the sustainability of these

institutions and their ability to achieve their Sharia and developmental goals.

Due to the unique nature of Zakat and Waqf institutions, institutional transparency is of paramount importance. It relates to the following (Pitchay, Thaker, & Mydin, 2020, p. 203):

- a) Protecting the legitimate funds allocated to eligible beneficiaries.
- (b) enhancing donor confidence, increasing the volume of zakat and waqf collections, and ensuring that work is completed according to the conditions stipulated by the donor; thus promoting the principles of justice and social service; and (c) achieving the institutional sustainability of waqf.
- c) Achieving institutional sustainability of Waqf.
- (d) Supporting the ethical and legal accountability of those managing Waqf and Zakat funds. This builds trust and increases public engagement with non-profit institutions, which have suffered from a decline in public trust.

Contemporary studies have shown that weak transparency in nonprofit institutions leads to a decline in public trust, reduced financial support, and an increased risk of mismanagement (Cordery & Sim, 2018).

Sharia auditing is one of the most important practical mechanisms for enhancing institutional transparency because it verifies the legitimacy of revenues and expenditures and ensures adherence to designated Zakat funds and compliance with the donor's stipulations.

- c) Enhancing the reliability of reports and Sharia-compliant disclosures.
- d) Bridging the information gap between management and stakeholders.

Thus, effective institutional transparency in zakat and waqf institutions is only achieved through an independent, professional Sharia audit system operating within a comprehensive Sharia governance framework. (Bushman et al., 2004).

Third Requirement: The Institutions of Waqf and Zakat, as well as the Role of Sharia Auditing in Strengthening Them.

Contemporary zakat and waqf institutions emerged in response to Muslim societies' need for the professional organization and management of these resources. These institutions are responsible for collecting zakat and waqf funds, distributing them to eligible recipients, and managing and developing endowed assets (Al-Sharqawi, 2019).

First: Waqf in Islamic Law:

Waqf is defined as "the dedication of the principal and the allocation of its proceeds."

It is one of the most important social and economic institutions in Islam. Waqf institutions manage and invest endowed funds, distributing their returns to eligible recipients according to the donors' stipulations and Islamic law. Managing waqf requires a high degree of transparency and integrity to ensure its continuity and achievement of its objectives.

Throughout history, waqf has served as an effective tool for achieving sustainable development, economic growth, and supporting public services in the fields of education, health, and

social welfare, making it one of the most prominent financial and social institutions in Islamic civilization. The endowment system is based on holding the principal and dedicating the benefit in a way that ensures the continuity of the resource, achieves public or private benefit, and is consistent with the objectives of Islamic Sharia in preserving money, achieving the public interest, and ensuring equality of opportunity for individuals in the Muslim community. (Al-Shammari, 2021, p. 90).

Contemporary Waqf institutions in some countries have undergone a qualitative transformation in their management styles, shifting from traditional individual management to organized institutional management based on modern administrative structures, financial systems, and governance mechanisms. This shift has created challenges related to management efficiency, protecting Waqf assets, and ensuring adherence to donors' stipulations. These challenges underscore the need to enhance institutional transparency and implement Sharia-compliant oversight and accounting tools (Cizakça, 2011).

Transparency is particularly important in Waqf institutions due to the nature and long-term value of Waqf assets. Inadequate disclosure or oversight can result in asset depletion or a departure from their intended Sharia purposes. Thus, Sharia auditing plays a crucial role in ensuring the integrity of Waqf transactions, verifying the legitimacy of investments, and confirming compliance with donors' conditions and Islamic Sharia provisions. This strengthens public trust and achieves Waqf sustainability (Mohsin, 2013). Thus, studying endowments within their modern institutional framework necessitates an integrated approach linking governance, institutional transparency, and Sharia auditing as components that contribute to the development and maximization of endowment institutions' performance and developmental impact. This is a critical starting point for examining the role of Sharia auditing in promoting institutional transparency in Zakat and endowment institutions.

Second are Zakat institutions.

Zakat is one of the most important financial systems in Islamic law. It is a fundamental pillar of Islam and a legitimate tool for achieving social solidarity and economic justice. It was established as a religious financial system to redistribute wealth, reduce poverty, and achieve social equilibrium by transferring a portion of the wealthy's wealth to eligible recipients according to categories defined in definitive Islamic legal texts.

In the modern era, zakat has acquired a growing institutional dimension as it is now managed by official or non-governmental institutions that are responsible for collecting, distributing, and investing it within complex regulatory and administrative frameworks. This institutional transformation has given rise to governance, oversight, and transparency challenges, necessitating effective mechanisms to ensure the sound management of zakat funds and adherence to its legal objectives (Al-Zuhaili, 2006).

From this perspective, the importance of institutional transparency and Sharia auditing in Zakat institutions becomes clear. These tools contribute to strengthening public trust by ensuring that Zakat funds reach their rightful recipients and by achieving efficiency in financial and administrative performance. This is in line with the objectives of Sharia in preserving wealth and achieving social justice (Qardawi, 2011).

Contemporary studies show that designing Zakat institutions according to governance and transparency standards improves their performance and increases disclosure of financial resources and spending. Regularly disclosing Zakat sources, disbursement methods, and distribution procedures enhances institutions' credibility and reduces suspicions of mismanagement. Furthermore, adopting independent evaluation mechanisms and periodic reports strengthens donor and community trust and enables stakeholders to monitor compliance with Sharia and administrative regulations (Ascarya & Yumanita, 2022).

Zakat and waqf are two of the most important pillars and institutions in Islam. Zakat, the third pillar of Islam, is a financial obligation imposed on Muslims under specific conditions. Waqf, on the other hand, is the dedication of wealth to a charitable cause, considered one of the greatest acts of worship in Islam (Ibn Qudamah, 2004).

As Allah Almighty says in (At-Tawbah 103), "Take from their wealth a charity by which you purify them and cause them to increase [in goodness]." The Prophet (peace and blessings be upon him) said, "Waqf is subject to the judgment of Allah Almighty" (narrated by Abu Dawud). Zakat is one of the five pillars of Islam and a financial obligation for Muslims under specific conditions. Zakat institutions collect zakat from those who are obligated to pay it and distribute it to those who are entitled to it, according to Islamic law. These institutions are particularly important because they deal with sacred funds that are governed by specific legal rulings in the Holy Quran and the Sunnah (Prophetic traditions). These two institutions share several characteristics, the most important of which are:

- a. Religious and ethical character: These institutions deal with sacred funds that are governed by specific legal rulings.
- b. Social objective: They focus on achieving social justice and solidarity given their role in economic and social development.
- c) Financial sustainability: They require wise financial management to ensure their continuity and achievement of objectives, including sound investment practices and diligent monitoring of fund growth and investments.
- d) Social responsibility: They have a significant responsibility to donors, beneficiaries, and the community.

These two institutions face several challenges in their work:

- a. Weak disclosure and transparency in financial operations
- b) Lack of standardized procedures and transactions among different institutions.
- c) A shortage of qualified personnel who specialize in Sharia auditing, limited awareness of Waqf law, and an inability to manage Waqf assets to ensure their sustainability and development.
- d) Weak oversight systems and procedures

Inadequate legislation and regulations governing investments in Zakat or Waqf funds conflict with general investment laws in some countries.

- (f) The absence of mandatory Sharia auditing legislation in some countries.

The role of Sharia auditing in enhancing institutional transparency is evident in the following:

(a) Verifying the legitimacy of sources: Sharia auditing examines an institution's sources of funds to ensure their legitimacy and the absence of prohibited or questionable funds. This includes verifying the absence of usurious transactions, rejecting funds from prohibited sources, and adhering to the conditions stipulated by donors and founders. This strengthens the confidence that the institution only deals with permissible funds.

B. Verifying the legality of expenditures: Sharia auditing ensures that funds are disbursed in accordance with Islamic law. For zakat, for example, it ensures that it is distributed to its eight designated categories: the poor, the needy, those employed to collect it, those whose hearts are to be reconciled, those in bondage, debtors, those striving in the cause of God, and wayfarers. For waqf (endowment), it ensures that the proceeds are distributed according to the donors' stipulations and in accordance with Islamic law.

C. Verifying Contracts and Agreements: Sharia auditing reviews all contracts and agreements entered into by the institution to ensure they comply with Islamic law and are free from prohibited conditions. This includes contracts related to investments, financing, insurance, purchases, sales, and leases (Bushman, Piotroski, & Smith, 2004, p. 2004).

B. Enhancing Disclosure and Reporting: Sharia auditing contributes to the issuance of clear and comprehensive Sharia reports that demonstrate the institution's commitment to Islamic law. These reports include the Sharia auditor's opinion on the institution's adherence to Sharia, as well as observations and recommendations for improving Sharia compliance. This enhances transparency and increases stakeholder confidence (Hassan & Noor, 2023, p. 45).

C) Raising Awareness of the Work of Waqf Institutions: Waqf institutions play a leading role in advancing nations in scientific and research fields, sustainable development, and the growth of national economies, and they are not limited to mosques or cemeteries.

Conclusion

This study found that Sharia auditing is a vital governance mechanism for promoting transparency within Zakat and Waqf institutions. These institutions manage funds with devotional and social dimensions and require the highest levels of Sharia compliance and ethical accountability, making Sharia auditing essential. The analysis revealed a direct relationship between Sharia auditing and institutional transparency. Sharia auditing supports financial and Sharia disclosure, enhances accountability, and bridges the information gap between management and stakeholders (Cordery & Sim, 2018, p. 77). The research also showed that the effectiveness of Sharia auditing extends beyond verifying the legitimacy of transactions. It also encompasses regulating institutional performance, improving the quality of reports, strengthening public trust, and achieving Sharia's objectives of preserving wealth and preventing corruption and misuse. However, the study revealed several challenges that limit the effectiveness of Sharia auditing in Zakat and Waqf institutions. These include weak independence, a shortage of specialized expertise, an absence of a unified standard framework, and limited binding legislation in some regulatory environments. Therefore, implementing a Sharia audit system within a comprehensive Sharia governance framework is crucial to enhancing institutional transparency, ensuring the sustainability of Zakat and Waqf

institutions, and enabling them to fulfill their Sharia and developmental missions.

Results

The research yielded several key Results:

1. There is a positive correlation between the effectiveness of Sharia auditing and the level of institutional transparency in Zakat and Waqf institutions.
2. Sharia auditing enhances financial and Sharia disclosure by issuing clear, professional periodic reports.
3. The independence of the Sharia auditor is crucial to ensuring the credibility of reports and strengthening institutional trust.
4. Expanding the scope of Sharia auditing to include sources of funds, disbursements, and internal policies improves transparency overall.
5. A shortage of specialized Sharia auditing expertise is one of the most significant obstacles to implementation.
6. The absence of unified, binding Sharia auditing standards in some countries leads to variations in oversight quality.
7. Integrating Sharia auditing with financial auditing and internal control improves corporate governance.
8. Institutional transparency in zakat and waqf institutions directly correlates with donor trust and increased financial sustainability.

Based on the preceding findings, the research recommends the following:

1. Developing a unified, standardized framework for Sharia auditing in Zakat and Waqf institutions, based on AAOIFI standards and adapted to the specific characteristics of the non-profit sector.
2. Enhancing the independence of the Sharia auditor by linking them to the board of directors, an independent audit committee, or the Supreme Waqf Council, rather than to the executive management.
3. Establishing specialized internal Sharia audit units within Zakat and Waqf institutions, while activating periodic external audits.
4. Developing specialized professional training and qualification programs for Waqf auditors that combine jurisprudential foundations with accounting expertise and governance principles.
5. Mandating that Zakat and Waqf institutions publish periodic Sharia audit reports detailing identified violations and corrective measures.
6. Strengthening the integration of Sharia auditing with internal control systems and corporate governance.
7. Developing regulatory legislation that mandates non-profit institutions with a Sharia-compliant structure to implement a clear Sharia audit framework.
8. Employing modern technologies to enhance information transparency and disseminate institutional data in an accessible manner to stakeholders.
9. Eradicating illiteracy among community members regarding the various aspects of endowments (waqf) and their contemporary applications, as reflected in scientific research, thereby increasing knowledge, expanding investments, and highlighting their role in

economic and social development, given their impact on individuals, society, and the state, which is not limited to specific areas.

10. Organizing scientific workshops and training centers to qualify and educate those working in non-profit institutions of a religious nature, fostering an understanding of their unique characteristics to contribute to their development and preserve their distinctiveness.

11. Raising awareness among endowment staff and regulating the relationship between the endowment administrator, endowment departments, and their employees.

References

1. Abdul Rahman, A., & Nor, S. M. (2016). Challenges of Shariah audit in Islamic financial institutions: Evidence from Malaysia. *Journal of Islamic Accounting and Business Research*, 7(4), 350–365. <https://doi.org/10.1108/JIABR-09-2014-0038>
2. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). (2021). *Shariah standards*. Manama, Bahrain: AAOIFI.
3. Almujaed, H., & Alfraih, M. (2020). Corporate transparency and disclosure
4. Almujaed, H., & Alfraih, M. (2020). Corporate transparency and disclosure quality: Evidence from emerging markets. *International Journal of Disclosure and Governance*, 17(4), 254–269. <https://doi.org/10.1057/s41310-020-00087->
5. Almutairi, A. R., & Quttainah, M. A. (2017). Corporate governance and Shariah compliance in Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management*, 10(4), 542–562. <https://doi.org/10.1108/IMEFM-12-2016-0190>
6. Al-Qaradawi, Yusuf. (2011). *Zakat Jurisprudence: A Comparative Study (Volumes 1–2)*. Cairo, Egypt: Al-Risalah for Publishing.
7. Al-Shammari, Fahd bin Saad. (2021). Waqf Governance and its Role in Enhancing Transparency and Accountability. *Journal of King Abdulaziz University: Islamic Economics*, 34(2), 85–112.
8. Al-Sharqawi, Muhammad Abdul Rahman. (2019). *Waqf Institutions Governance and its Role in Achieving Sustainable Development*. Cairo, Egypt: Dar Al-Salam for Printing and Publishing.
9. Al-Zuhaili, Wahba. (2006). *Islamic Jurisprudence and its Evidences*. Dar Al-Fikr.
10. Ascarya, & Yumanita, D. (2022). Designing zakat institutions for better performance and transparency. *International Journal of Islamic and Middle Eastern Finance and Management*, 15(2), 304–322. <https://doi.org/10.1108/IMEFM-02-2020-0069>
11. Bushman, R. M., Piotroski, J. D., & Smith, A. J. (2004). What determines corporate transparency? *Journal of Accounting Research*, 42(2), 207–252. <https://doi.org/10.1111/j.1475-679X.2004.00136.x>
12. Cizakca, M. (2011). *Islamic capitalism and finance: Origins, evolution and the future*. Cheltenham, UK: Edward Elgar Publishing.
13. Cordery, C. J., & Sim, D. (2018). Dominant stakeholders, activity and accountability discharge in the CSO sector. *Financial Accountability & Management*, 34(1), 77–96. <https://doi.org/10.1111/faam.12136>
14. Hassan, A., & Noor, A. M. (2023). Governance and transparency in waqf institutions: Empirical evidence. *Journal of Islamic Accounting and Business Research*, 14(1), 45–63. <https://doi.org/10.1108/JIABR-06-2021-0184>
15. Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31(1–3), 405–440. [https://doi.org/10.1016/S0165-4101\(01\)00018-0](https://doi.org/10.1016/S0165-4101(01)00018-0)
16. Ibn Qudamah, Abdullah bin Ahmad. (2004). *Al-Mughni* (3rd ed.). Cairo, Egypt: Dar Al-Hadith.
17. Kamla, R., Gallhofer, S., & Haslam, J. (2020). Islamic accounting and accountability: Critical perspectives. *Accounting, Auditing & Accountability Journal*, 33(5), 1025–1050. <https://doi.org/10.1108/AAAJ-02-2019-3875>
18. Mohsin, M. I. A. (2013). *Financing through cash-waqf: A revitalization to finance different needs*. New York, NY: Palgrave Macmillan.
19. Obaidullah, M., & Shirazi, N. S. (2021). Islamic social finance: The way forward. *Journal of Islamic Accounting and Business Research*, 12(5), 707–724. <https://doi.org/10.1108/JIABR-03-2020-008>
20. OECD. (2015). *G20/OECD principles of corporate governance*. Paris, France: OECD Publishi
21. Pitchay, A. A., Thaker, M. A. B. M. T., & Mydin, A. A. (2020). Factors influencing waqf governance and transparency. *ISRA International Journal of Islamic Finance*, 12(2), 203–220. <https://doi.org/10.1108/IJIF-04-2019-0055>
22. Saiti, B., Bacha, O. I., & Masih, M. (2019). The role of waqf in sustainable development. *Humanomics*, 35(2), 191–205. <https://doi.org/10.1108/H-12-2018-0085>