

# Integration of Shariah Audit and Shariah Governance in Supporting ESG Compliance: A Systematic Literature Review

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## ABSTRACT

*The growing global emphasis on Environmental, Social, and Governance (ESG) practices has prompted Islamic financial institutions to reinforce sustainability-oriented governance and oversight mechanisms. Within Islamic finance, ESG principles are normatively aligned with maqasid al-shariah, which emphasize justice, public interest (maslahah), and accountability. Despite this alignment, research examining the integrated roles of Shariah audit and Shariah governance in advancing ESG compliance remains fragmented and insufficiently synthesized. This study conducts a systematic literature review (SLR) guided by the PRISMA framework, analyzing 162 Scopus-indexed articles through thematic synthesis complemented by bibliometric mapping. The review aims to examine how Shariah audit and Shariah governance are conceptualized in relation to ESG compliance and to identify prevailing research gaps. The findings reveal that Shariah governance serves as the primary structural foundation for ESG compliance, particularly by strengthening oversight mechanisms, transparency, and accountability processes. Its influence is more consistently observed in the social and governance dimensions, while environmental aspects receive comparatively less attention. In contrast, Shariah audit contributes mainly through assurance and credibility-enhancing functions, yet its integration within ESG frameworks remains limited due to competency constraints, scope restrictions, and the absence of standardized guidelines. Furthermore, although the integration of maqasid al-shariah and ESG presents a promising ethical governance paradigm, its operationalization into measurable and harmonized frameworks remains underdeveloped. Overall, this study underscores the strategic importance of aligning Shariah audit and governance mechanisms with global sustainability standards while calling for stronger regulatory harmonization, capacity development, and more robust empirical investigation.*

**Keywords:** Shariah Audit; Shariah Governance; ESG Compliance; Islamic Financial Institutions; Sustainability

## INTRODUCTION

Research on Shariah Audit and Shariah Governance in supporting Environmental, Social, and Governance (ESG) compliance has become increasingly prominent due to the growing emphasis on ethical and sustainable financial practices, both within Islamic financial institutions (IFIs) and across the broader financial sector (Wilson, 2009; Hanif & Haron, 2022; Boudawara et al., 2023). A number of studies further emphasize that strengthening governance architecture particularly through the role of independent Shariah Supervisory Boards (SSBs), enhanced competencies of Shariah auditors, and clearer reporting lines—contributes to the reinforcement of ethical conduct and consistency of compliance within IFIs (Haridan et al., 2018; Khalid, 2020; Algabry et al., 2020). The evolution of Shariah governance frameworks has also shifted from a predominantly compliance-oriented approach toward more integrated models, in which ethical oversight functions and institutional accountability are increasingly linked to sustainability agendas (Razak, 2018;

Alam et al., 2019; Hanif & Haron, 2022).

In this context, the social and practical relevance of this field has intensified, as Islamic finance operates within a large global market, while improved governance and reporting practices are perceived to strengthen the social and governance dimensions of institutional sustainability performance (Harun et al., 2020; Sencal & Asutay, 2021; Abdulrahman et al., 2024). Cross-country empirical evidence also indicates that the quality of Shariah governance is positively associated with ESG outcomes, particularly when internal accountability structures and Shariah audit mechanisms are implemented effectively and consistently (Boudawara et al., 2023; Issa et al., 2025; Fitrijanti et al., 2025).

Despite the various advances that have been achieved, challenges remain inherent in effectively integrating Shariah audit and Shariah governance mechanisms to fully support Environmental, Social, and Governance (ESG) compliance. The primary challenges lie in the limitations of existing operational frameworks and the inconsistent implementation of practices across Islamic financial institutions (Alam et al., 2020; Jan Wasim et al., 2021). In many contexts, Shariah audit continues to focus narrowly on formal compliance with Shariah legal requirements, without systematically accommodating broader sustainability objectives (Algabry et al., 2020; Yaso' et al., 2020).

Several studies also highlight knowledge gaps regarding the effectiveness of Shariah governance structures particularly the role of the Shariah Supervisory Board (SSB) in promoting environmental performance, with some findings indicating only a limited contribution to the ESG dimensions concerned (Haridan et al., 2018; Boudawara et al., 2023). These weaknesses are further exacerbated by recurring structural issues, including non-uniform audit procedures, limited competencies among Shariah auditors, and the absence of standardized audit frameworks capable of ensuring consistent and comparable Shariah compliance outcomes across institutions (Khalid, 2020; Puspitasari & Handayani, 2020).

Appointments, and insufficient supervisory independence have been identified as factors that undermine the effectiveness of Shariah oversight and audit functions (Kachkar & Yilmaz, 2023; Simanjuntak et al., 2025). The shortage of qualified Shariah auditors and the lack of integrated audit frameworks further constrain the establishment of sustainable and credible Shariah compliance assurance (Ali & Kasim, 2019; Alam et al., 2023). Within this context, academic debate has emerged regarding whether existing Shariah governance models are adequate to accommodate ESG integration or whether more fundamental reforms toward a value-based approach rooted in Maqasid al-Shariah are required (Mergaliyev et al., 2021; Sheikh et al., 2023). Such imperfections in integration may give rise to reputational risks while simultaneously resulting in missed strategic opportunities for Islamic finance to assume a leadership role in the global sustainable finance agenda.

Conceptually, Shariah audit refers to a systematic examination process aimed at ensuring that financial activities and operations comply with the principles of Islamic law, while Shariah governance encompasses a set of institutional structures, mechanisms, and processes designed to safeguard such compliance on a sustained basis (Wilson, 2009; Naysary et al., 2020). In a broader context, Environmental, Social, and Governance (ESG) compliance reflects the fulfillment of non-financial standards aligned with sustainable development goals and global accountability demands (Hanif & Haron, 2022; Ellili & Nobanee, 2023). The core linkage among these three concepts lies in the role of effective Shariah governance and Shariah audit mechanisms as drivers of ESG compliance, whereby Islamic financial institutions are expected not only to fulfill their religious mandates but also to contribute to social and environmental sustainability (Jan et al., 2019; Boudawara et al., 2023). Evidence from the reviewed literature indicates that the independence of Shariah auditors, the effectiveness of governance committees, and the presence of well-structured Shariah audit frameworks significantly enhance institutional accountability and ethical performance within Islamic financial institutions, thereby strengthening alignment with ESG principles (Khalid, 2020; Mansoor et al., 2020; Mohd Zain & Abdullah, 2025). This conceptual framework provides the foundation for the present systematic review to critically examine how Shariah audit and Shariah governance contribute to supporting ESG compliance in the context of Islamic finance.

The objective of this systematic review is to synthesize the existing literature on Shariah audit

and the role of Shariah governance in facilitating Environmental, Social, and Governance (ESG) compliance, while addressing the persisting gaps identified in operational effectiveness and integration with sustainability frameworks (Hanif & Haron, 2022; Boudawara et al., 2023). This study adds value by consolidating a wide range of empirical and conceptual findings across jurisdictions, highlighting structural and institutional challenges, and proposing strategic pathways to strengthen Shariah governance so that it becomes more responsive to the evolving demands of ESG (Abd Razak, 2018; Alam et al., 2022; Toumi & Hamrouni, 2025). By synthesizing insights from prior studies including evidence on the role of external Shariah audit in enhancing compliance quality and institutional credibility, the importance of internal audit structures aligned with control frameworks such as COSO, and the relevance of Islamic agency theory in reinforcing oversight functions—this review proposes more informed avenues for enhancing Shariah governance in responding to global sustainability (Khalid, 2020; Mansoor et al., 2020; Hassan et al., 2022). Ultimately, this review seeks to support policymakers, practitioners, and academics in strengthening the ethical, accountable, and sustainable foundations of Islamic finance, as reflected in recent developments in Shariah governance research and practice (Haron et al., 2022; Yusuf et al., 2024) (Haron et al., 2022; Yusuf et al., 2024).

## LITERATURE REVIEW

### **Maqasid al-Shariah as the Normative Foundation of ESG in Islamic Financial Institutions**

In the context of Islamic financial institutions, the alignment between Environmental, Social, and Governance (ESG) principles and Shariah values is rooted in the concept of Maqasid al-Shariah, which emphasizes the protection and promotion of public welfare (maslahah), justice ('adl), as well as accountability and social responsibility across all economic activities. The maqasid framework conceptualizes financial activities not merely as instruments for economic value creation, but also as mechanisms for safeguarding public interest, social stability, and long-term sustainability. These principles are conceptually aligned with the objectives of ESG, which call for environmental sustainability, social justice, and transparent and accountable governance (Wilson, 2009; Mergaliyev et al., 2021; Hanif & Haron, 2022).

Within the Islamic finance literature, ESG is generally understood not as an external concept adopted in a symbolic or instrumental manner, but rather as an operational manifestation of maqasid al-Shariah within institutional practices. This perspective positions ESG compliance as an integral component of the normative mandate of Islamic financial institutions, rather than merely a response to market pressures, stakeholder demands, or global regulatory requirements. Accordingly, ESG implementation is viewed as a mechanism to ensure that financial activities are not only formally Shariah-compliant, but also generate sustainable social and environmental impacts that are aligned with the broader ethical objectives of Islam (Belal et al., 2015; Jan et al., 2019; Sencal & Asutay, 2021).

### **Stakeholder theory and legitimacy in Shariah-based ESG compliance**

From the perspective of Stakeholder Theory, Islamic financial institutions (IFIs) have an obligation to meet the expectations of a wide range of stakeholders, including customers, investors, regulators, society, and the wider Muslim community. Within this framework, ESG compliance broadens the scope of accountability of IFIs, as they are not solely expected to achieve sound financial performance, but also to assume responsibility for social and environmental impacts that are consistent with Islamic values. The literature indicates that effective Shariah governance enables IFIs to respond to diverse stakeholder interests through enhanced oversight mechanisms, greater transparency, and more responsible disclosure practices, thereby strengthening institutional legitimacy and long-term sustainability (Hanif & Haron, 2022; Harun, 2020; Jan et al., 2019) (Hanif & Haron, 2022; Harun et al., 2020; Jan et al., 2019).

Aligned with this perspective, Legitimacy Theory explains that the implementation of Shariah governance and ESG disclosure functions as a mechanism for maintaining the social legitimacy of Islamic financial institutions (IFIs) in the eyes of the public and key stakeholders. ESG compliance that is grounded in Shariah principles strengthens perceptions that IFIs operate in an ethical, fair, and responsible manner, thereby enhancing public trust and social acceptance of Islamic financial

activities (Belal et al., 2015; Harun et al., 2020; Sencal & Asutay, 2021). However, the literature also highlights that in the absence of adequate oversight and assurance mechanisms—including effective Shariah audit functions and robust governance structures—ESG practices may become largely symbolic and vulnerable to greenwashing or Shariah-washing, where sustainability disclosures do not fully reflect actual operational practices (El-Halaby & Hussainey, 2016; Boudawara et al., 2023).

### **Shariah Governance as the Structural Foundation of ESG Compliance**

This study, Shariah governance is positioned as the primary structural foundation for promoting compliance with Environmental, Social, and Governance (ESG) principles within Islamic financial institutions. Theoretically, this strategic role can be explained through the integration of agency theory and institutional theory. From an agency theory perspective, Shariah governance, through the roles of the Shariah Supervisory Board, audit committees, and internal oversight mechanisms, functions to mitigate conflicts of interest between management and stakeholders by ensuring that operational decision-making remains aligned with Shariah principles and broader ethical objectives (Haridan et al., 2018; Khalid, 2020; Mansoor et al., 2020).

Meanwhile, institutional theory explains that the strengthening of Shariah governance and the adoption of ESG practices are also shaped by institutional pressures, including regulatory, normative, and cognitive forces, which encourage Islamic financial institutions to adapt their structures and practices in order to achieve legitimacy at both national and global levels (Abd Razak, 2018; Alam & Miah, 2024; Aspiranti et al., 2023).

From an agency theory perspective, Shariah governance reflected in the presence of the Shariah Supervisory Board (SSB), Shariah compliance policies, and internal control mechanisms functions as an instrument to monitor and mitigate conflicts of interest between management and stakeholders. Within this framework, the SSB serves as a monitoring mechanism that constrains managerial opportunism and provides assurance that the activities of Islamic financial institutions are conducted in accordance with Shariah mandates and the interests of fund providers as well as the wider society (Haridan et al., 2018; Hassan et al., 2022; Mansoor et al., 2020). In the context of ESG compliance, Shariah governance plays a critical role in ensuring that strategic and operational decisions remain aligned with sustainability principles, accountability, and Shariah values, thereby reducing the risk of ethical and operational deviations, including risks related to social and governance non-compliance (Boudawara et al., 2023; Fitrijanti et al., 2025; Issa et al., 2025).

Meanwhile, institutional theory explains that the adoption and strengthening of Shariah governance practices and ESG compliance are shaped by regulatory, normative, and cognitive pressures originating from the institutional environment. International standards, regulatory guidelines, and industry best practices encourage Islamic financial institutions to integrate ESG principles into their governance frameworks as a means of conforming to institutional expectations and securing institutional legitimacy (Razak abd, 2018; Alam, Rahman, et al., 2022; JAN WASIM et al., 2021). However, the literature indicates that the quality and depth of Shariah governance implementation vary across jurisdictions due to differences in regulatory design, institutional capacity, and normative interpretations of Shariah principles. These variations, in turn, have a direct impact on the effectiveness of ESG compliance and the consistency of sustainability practices adopted by Islamic financial institutions (Alam et al., 2019; Naysary et al., 2020; Arifin et al., 2025).

### **Shariah audit as an assurance mechanism and enhancer of ESG credibility**

#### **Conceptually, Shariah audit is understood as an assurance mec**

Conceptually, Shariah audit is understood as an assurance mechanism aimed at providing independent assurance regarding the level of Islamic financial institutions' compliance with Shariah principles in their operational activities (Khalid, 2020). Within the Three Lines of Defense framework, the Shariah audit function is commonly positioned as the third line of defense, with the role of assessing the effectiveness of internal control systems while also evaluating the overall quality of Shariah governance implementation (Algabry et al., 2020; Yaso' et al., 2020).

However, as reflected in the existing literature, the role of Shariah audit in supporting Environmental, Social, and Governance (ESG) compliance remains relatively limited (Algabry et al., 2020; Elgattani & Hussainey, 2021). Theoretically, this limitation is closely associated with the scope of Shariah audit, which has predominantly focused on examining contractual compliance, Shariah-based products, and transactions, without explicitly incorporating assessments of environmental impacts, social issues, or the quality of sustainability disclosures (Hanefah et al., 2020). Several studies indicate that this narrow focus of Shariah audit has resulted in ESG dimensions not being systematically integrated into Shariah assurance practices. Consequently, the potential of Shariah audit to enhance ESG credibility and accountability has not yet been fully leveraged within the context of Islamic financial institutions (Algabry et al., 2020; Boudawara et al., 2023).

### **Theoretical synthesis: pathways for integrating Shariah governance, Shariah audit, and ESG**

Based on the above theoretical framework, the literature indicates that ESG compliance in Islamic financial institutions is likely to be more effective when Shariah governance functions as a structural foundation that guides institutional policies, oversight, and accountability, while Shariah audit serves as a mechanism that reinforces the credibility and reliability of such implementation (Wilson, 2009; (Razak abd, 2018); Hanif & Haron, 2022). The lack of alignment between Shariah governance and Shariah audit arising from conceptual limitations, methodological divergences, and weaknesses in regulatory frameworks helps explain why the integration of Shariah audit, Shariah governance, and ESG compliance remains fragmented and has yet to be systematically embedded in the practices of Islamic financial institutions (Algabry et al., 2020; Khalid, 2020; Boudawara et al., 2023).

This literature synthesis highlights the need for a more integrated approach, in which Shariah governance not only serves as a normative and structural framework for promoting ESG compliance, but is also reinforced by Shariah audit capable of providing relevant, independent, and credible assurance over the sustainability practices of Islamic financial institutions (Wilson, 2009; Algabry et al., 2020; Khalid, 2020). Without Shariah audit that is effectively integrated with governance frameworks and ESG objectives, sustainability compliance risks becoming merely formalistic and may fail to fully reflect the ethical accountability and transparency expected within Islamic finance (Hanif & Haron, 2022; Boudawara et al., 2023).

### **Research Objectives and Research Questions**

The objective of this study is to synthesize the literature examining the integration of Shariah audit and Shariah governance in supporting Environmental, Social, and Governance (ESG) compliance within Islamic financial institutions. Specifically, the study seeks to explain how Shariah-based governance frameworks and audit practices contribute to strengthening institutional ESG compliance. This review is important because it lies at the intersection of Islamic ethical principles and contemporary sustainability imperatives, where Shariah governance is understood not merely as a mechanism of formal compliance, but also as a structural foundation with the potential to enhance accountability, credibility, and ESG performance in Islamic financial institutions (Wilson, 2009; Hanif & Haron, 2022). Through the synthesis of empirical and conceptual findings, this study aims to identify persisting gaps in the literature and to provide a more comprehensive understanding of the roles of Shariah audit and Shariah governance in promoting sustainable finance practices that are aligned with Islamic law and global ESG standards (Algabry et al., 2020; Khalid, 2020; Boudawara et al., 2023).

This study proposes research questions that focus on the roles, effectiveness, and limitations of Shariah audit and Shariah governance in the context of ESG compliance within Islamic financial institutions:

**RQ1.** How are Shariah audit and Shariah governance conceptualized in the literature to support Environmental, Social, and Governance (ESG) compliance in Islamic financial institutions?

**RQ2.** What integration mechanisms between Shariah audit and Shariah governance have been identified in the literature as drivers of ESG compliance in Islamic financial institutions?

**RQ3.** To what extent does the empirical evidence in the literature demonstrate the role and

effectiveness of Shariah audit and Shariah governance in strengthening ESG compliance in Islamic financial institutions?

**RQ4.** What conceptual, methodological, regulatory, and implementation-related limitations are identified in the literature, and what future research directions are proposed regarding the integration of Shariah audit, Shariah governance, and ESG compliance?

## RESEARCH METHODOLOGY

### Research Design

This study employs a Systematic Literature Review (SLR) approach to comprehensively synthesize the literature addressing Shariah audit, Shariah governance, and Environmental, Social, and Governance (ESG) compliance within Islamic financial institutions. The SLR approach is selected because it enables the systematic, transparent, and replicable identification, evaluation, and synthesis of findings from prior studies. The literature review process is conducted in accordance with the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines to ensure rigor, accuracy, and traceability throughout the article selection process.

### Data Sources and Search Strategy

Scopus was selected as the primary database for this study due to its reputation as one of the largest and most comprehensive bibliographic databases for internationally recognized scholarly publications. The literature search strategy employed combinations of keywords relevant to the research topic, encompassing the concepts of Shariah audit, Shariah governance, and Environmental, Social, and Governance (ESG). These keywords were combined using Boolean operators (AND/OR) to ensure a broad yet relevant search coverage.

The literature search was conducted without geographical restrictions in order to obtain a global overview of research developments related to the topic. The publication time frame was aligned with the objectives of the study, covering periods in which ESG issues and Shariah governance began to receive significant attention in the academic literature.

To ensure transparency and replicability, this study established explicit inclusion and exclusion criteria for article selection. These criteria are summarized in Table 1.

Tablet 1. Inclusion and Exclusion Criteria

Criteria	Details
<b>Inclusion</b>	
Database	Scopus
Search query	The search strategy was designed using a combination of keywords and Boolean operators applied to titles, abstracts, and keywords: (“Islamic bank*” OR “Islamic banking”) AND (audit* OR assurance OR compliance OR “shariah govern*”) AND (Shariah OR Islamic) AND (environment* OR social* OR governance*)
Publication period	No time restriction
Research areas	Shariah Audit, Shariah Governance, ESG Compliance
Document type	Journal articles
Language	English
Records identified	169 documents
<b>Exclusion</b>	
Not relevant	3 documents
Not accessible	4 documents
<b>Final SLR sample</b>	<b>162 documents</b>

Source; Authors’ own work, 2026

### Inclusion and Exclusion Criteria

Inclusion and exclusion criteria were established to select the articles included in this review. The inclusion criteria comprised peer-reviewed journal articles that examine Shariah audit, Shariah governance, ESG, or their combinations within the context of Islamic financial institutions; articles written in English; and publications with full-text accessibility. In contrast, the exclusion criteria covered conference proceedings, books, book chapters, editorials, and non-systematic reviews; articles that were not substantively relevant to the research topic; as well as publications with inadequate methodological quality or incomplete information.

### Study Selection Process

The study selection process followed several stages in accordance with the PRISMA guidelines, beginning with the identification stage, followed by screening, eligibility assessment, and final inclusion. During the identification stage, all articles retrieved from the initial search were compiled and duplicates were removed. The screening stage involved reviewing titles and abstracts to assess their preliminary relevance to the research objectives. Subsequently, the eligibility stage was conducted through full-text assessment to ensure that the articles met the predefined inclusion criteria. Through this systematic process, a total of 162 articles were identified as eligible and were included for further analysis in this study.

The detailed process of article selection is illustrated in Figure 1.

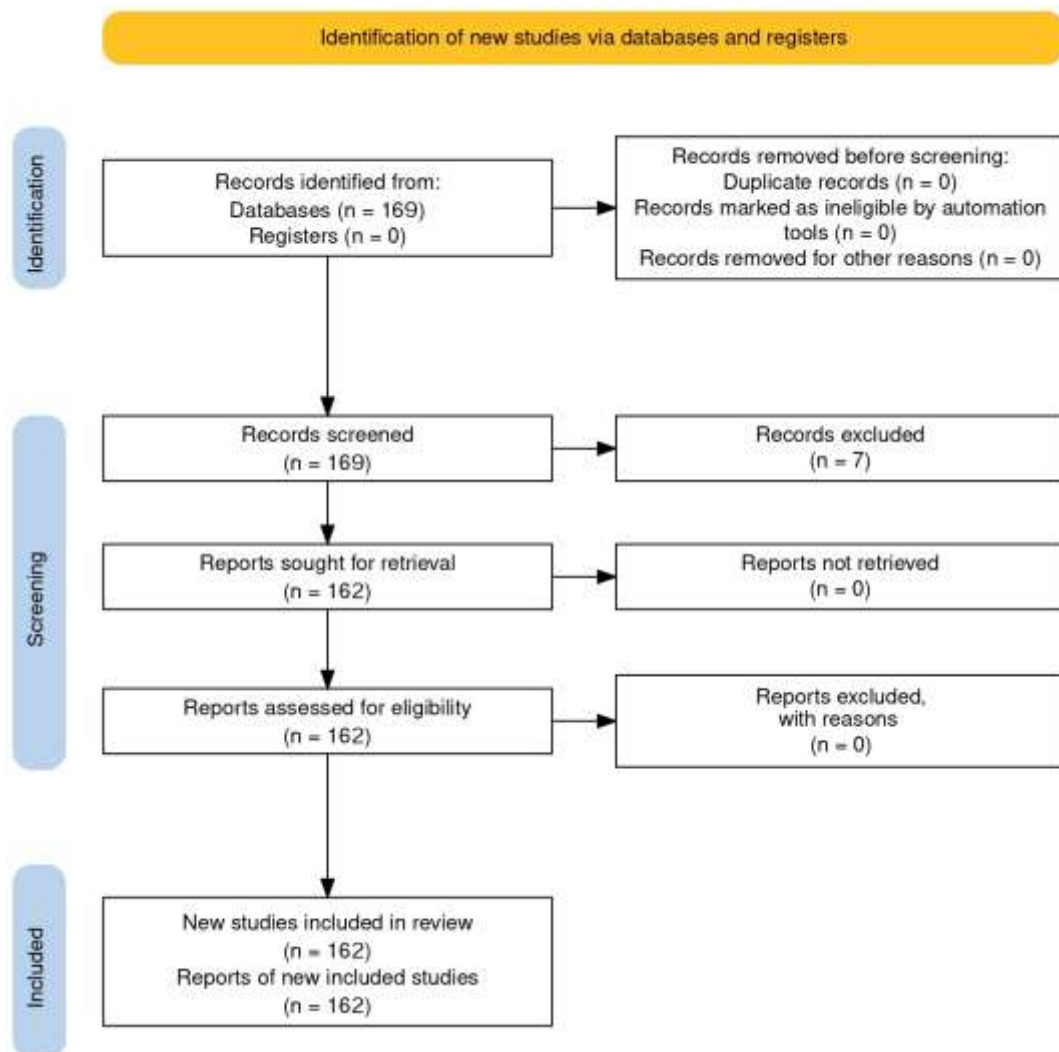


Figure 1. Screening Protocol  
 Source: Adapted from PRISMA 2020 flow diagram (Page et al., 2021)

### Data Analysis Techniques

A thematic synthesis approach was employed for data analysis, combined with bibliometric mapping. The thematic synthesis was used to identify, categorize, and interpret the main themes emerging from studies related to Shariah audit, Shariah governance, and ESG compliance. The coding and thematic grouping processes were conducted iteratively with the assistance of NVivo software to enhance the consistency and transparency of the qualitative analysis. In addition, bibliometric analysis was applied to map publication patterns, research trends, and conceptual relationships across topics within the literature. The integration of these two approaches enables a more comprehensive understanding of research developments, dominant thematic foci, and existing research gaps.

### Theoretical Framework and Its Linkage to the Research Questions

The analytical framework of this study is designed to directly address the formulated research questions. Thematic synthesis is employed to answer questions related to conceptualization, integration mechanisms, and empirical evidence (RQ1–RQ3), while a critical analysis of methodological and conceptual limitations is used to identify research gaps and directions for future studies (RQ4). Accordingly, the methodological approach adopted ensures coherence and alignment between the research objectives, research questions, and the outcomes of the literature synthesis.

## RESULTS

### Descriptive Overview of the Reviewed Studies

The PRISMA-based literature selection process resulted in 162 articles for further analysis. The reviewed publications show a significant increase over the past decade, in line with the growing attention to Shariah governance and sustainability issues within Islamic financial institutions. Most of the articles are published in journals classified under Business, Management and Accounting, as well as Economics and Finance, reflecting the dominance of governance- and compliance-oriented perspectives in the Islamic finance discourse. In terms of research design, the literature is largely dominated by conceptual studies and quantitative empirical research, while in-depth qualitative studies and mixed-method approaches remain relatively limited. This pattern indicates that the development of conceptual frameworks and the testing of statistical relationships have been prioritized over the exploration of implementation mechanisms at the operational level.

To provide an initial overview of the conceptual structure and thematic interrelationships within the analyzed literature, this study presents a keyword co-occurrence map generated using VOSviewer, as illustrated in Figure 2.

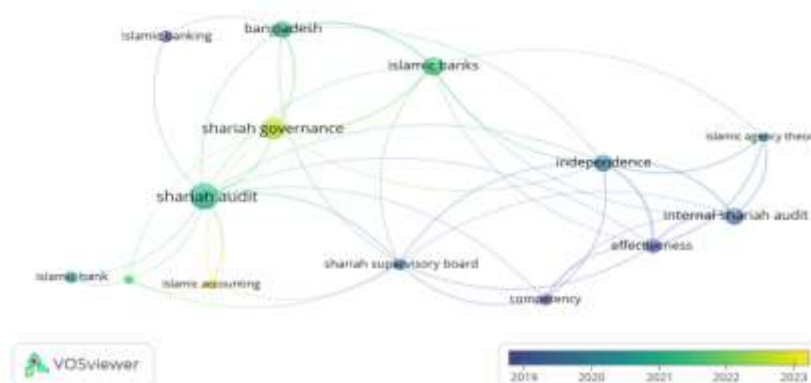


Figure 2. Keyword co-occurrence network of shariah audit and shariah governance literature  
Source: Authors' calculation from Scopus database, visualized using (Van et al, 2010)

### **Conceptualisation of Shariah Audit and Shariah Governance in Supporting ESG Compliance (RQ1)**

Thematic synthesis results indicate that Shariah governance is consistently conceptualized in the literature as the primary structural foundation for ensuring Islamic financial institutions' compliance with Shariah principles while simultaneously supporting sustainability values (Wilson, 2009; Hanif & Haron, 2022). Numerous studies emphasize the roles of the Shariah Supervisory Board (SSB), Shariah compliance policies, and internal control systems as key components that strengthen oversight mechanisms, enhance transparency, and ensure institutional accountability (Haridan et al., 2018; Alam et al., 2019). The presence and effectiveness of these elements are also viewed as contributing to organizational legitimacy, as they reflect Islamic financial institutions' commitment to ethical, responsible governance practices aligned with the sustainability agenda.

In contrast, Shariah audit in much of the literature is still predominantly understood as an assurance mechanism primarily focused on assessing compliance with Shariah-based contracts, products, and transactions (Khalid, 2020; Yaso'a' et al., 2020). The linkage between Shariah audit and the Environmental, Social, and Governance (ESG) dimensions is relatively rarely discussed explicitly, and when it does appear, it is generally presented indirectly as a by-product of Shariah compliance functions alone (Algabry et al., 2020). These findings suggest that while Shariah governance has evolved into a relatively well-established conceptual framework for supporting accountability and legitimacy in Islamic financial institutions, Shariah audit continues to operate within a limited scope and has not yet been systematically integrated into the sustainability and ESG compliance agenda.

### **Integration Mechanisms between Shariah Audit and Shariah Governance (RQ2)**

The synthesis identifies several integration mechanisms between Shariah audit and Shariah governance that have the potential to support compliance with Environmental, Social, and Governance (ESG) principles. These mechanisms include coordination between the Shariah Supervisory Board (SSB) and internal audit functions, the alignment of Shariah audit with risk management and compliance systems, as well as the role of governance policies in determining the scope, level of independence, and effectiveness of Shariah audit practices (Algabry et al., 2020; Khalid, 2020). The literature further emphasizes that such institutional configurations play an important role in strengthening oversight functions, enhancing accountability, and reinforcing the legitimacy of Islamic financial institutions, thereby indirectly contributing to the achievement of sustainability objectives and ESG compliance (Haridan et al., 2018; Hanif & Haron, 2022).

Nevertheless, existing studies also indicate that these integration mechanisms are generally not yet formalized with the explicit purpose of supporting the ESG agenda. Current forms of integration tend to be structural and normative in nature, relying heavily on the overall quality of Shariah governance rather than on clearly articulated operational frameworks that explicitly link Shariah audit to ESG measurement, disclosure, and assurance processes (Yaso'a' et al., 2020; iToumi & Hamrouni, 2025). This situation reveals a clear gap between the potential role of Shariah audit in strengthening ESG credibility and accountability and the prevailing practices, which remain largely confined to conventional Shariah compliance objectives (Boudawara et al., 2023).

### **Empirical Evidence on the Role and Effectiveness of Shariah Audit and Shariah Governance (RQ3)**

The reviewed empirical evidence indicates that Shariah governance tends to be positively associated with improvements in transparency, disclosure quality, and governance practices that align with Environmental, Social, and Governance (ESG) principles (Musleh Alsartawi, 2019; Hanif & Haron, 2022). A number of empirical studies consistently link the characteristics of the Shariah Supervisory Board (SSB)—such as independence, competence, institutional structure, and the intensity of oversight—with higher levels of Shariah compliance and improved reporting practices, particularly within the social and governance dimensions of ESG (Haridan et al., 2018; Boudawara et al., 2023).

In contrast, empirical evidence regarding the role of Shariah audit remains relatively limited and yields mixed findings. Several studies suggest that Shariah audit has the potential to enhance the

credibility and accountability of Islamic financial institutions through its assurance function (Khalid, 2020). However, the majority of existing research continues to position Shariah audit within a framework of formal compliance focused on Shariah-based contracts and products, without directly evaluating environmental and social impacts that are central to the ESG agenda (Algabry et al., 2020; Yasoa' et al., 2020). Consequently, the effectiveness of Shariah audit in supporting ESG compliance cannot yet be firmly established and requires further conceptual development as well as more robust empirical investigation.

#### **Matrix Analysis of Research Gaps (RQ4)**

The NVivo-based matrix analysis reveals that research gaps are not evenly distributed across the three main focal areas, namely Shariah governance, Shariah audit, and Environmental, Social, and Governance (ESG) compliance (Hanif & Haron, 2022). The matrix indicates that research gaps are most prominently concentrated within the Shariah governance literature, particularly with respect to conceptual clarity and divergent interpretations of Shariah governance in the context of sustainability (Wilson, 2009). In addition, a substantial portion of the identified gaps relates to implementation challenges at the practical level, as well as uncertainties arising from variations in regulatory frameworks and standards across jurisdictions. These differences ultimately affect the consistency of Shariah governance practices in supporting ESG compliance within Islamic financial institutions (Alam et al., 2019).

In contrast, Shariah audit exhibits a very limited number of references addressing research gaps across the analyzed categories, indicating that the role of Shariah audit within the context of Environmental, Social, and Governance (ESG) has received relatively little explicit attention in the academic literature (Algabry et al., 2020; Khalid, 2020). Moreover, ESG compliance is rarely discussed as a primary focus in research gap analyses, and is instead often positioned as a supplementary context or an indirect implication of Shariah compliance rather than as an independent analytical framework (Yasoa' et al., 2020; Boudawara et al., 2023). These findings highlight the fragmented nature of the existing literature and further reinforce the need for more integrative research approaches that systematically examine the interrelationships between Shariah audit, Shariah governance, and ESG compliance within Islamic financial institutions (Hanif & Haron, 2022; Toumi & Hamrouni, 2025).

The matrix coding analysis indicates that research gaps are most prominently concentrated within the domain of Shariah governance, particularly in the conceptual and regulatory dimensions, where divergent interpretations and institutional uncertainties across jurisdictions remain evident (Wilson, 2009; Alam et al., 2019; Hanif & Haron, 2022). In contrast, Environmental, Social, and Governance (ESG) compliance and Shariah audit exhibit relatively fewer identified research gaps, suggesting that these areas tend to possess more established conceptual and methodological foundations within the literature, albeit without being fully integrated with one another (Algabry et al., 2020; Khalid, 2020; Boudawara et al., 2023). Furthermore, methodological gaps are rarely articulated explicitly across the analyzed themes, thereby creating space for implicit methodological critiques and highlighting opportunities for more diverse and in-depth empirical research in future studies (Hanif & Haron, 2022; Toumi & Hamrouni, 2025).

### **Discussion**

#### **Shariah Governance as the Structural Foundation of ESG Compliance**

The findings of this study affirm that Shariah governance functions as the primary structural foundation in supporting Environmental, Social, and Governance (ESG) compliance within Islamic financial institutions. From a theoretical perspective, these findings are consistent with agency theory, which views governance mechanisms as instruments for mitigating conflicts of interest between management and stakeholders, as well as with institutional theory, which explains the adoption of governance practices as responses to regulatory and normative pressures arising from the institutional environment (Wilson, 2009; Mansoor et al., 2020; Alam & Miah, 2024). The results of the systematic literature review indicate that the structure, roles, and quality of Shariah Supervisory Boards (SSBs) including aspects of independence and oversight effectiveness are associated with enhanced transparency, accountability, and institutional legitimacy, all of which

constitute core pillars of the ESG framework (Haridan et al., 2018; Musleh Alsartawi, 2019; Hanif & Haron, 2022; Boudawara et al., 2023). Accordingly, Shariah governance provides an institutional framework through which sustainability values can be internalized within organizational decision-making processes

### **The Limited and Underdeveloped Role of Shariah Audit in ESG**

In contrast to Shariah governance, Shariah audit in the literature is still predominantly positioned in a narrow manner as a formal compliance mechanism focused on examining Shariah-based contracts, products, and transactions (Khalid, 2020; Yaso' et al., 2020). Empirical evidence and the results of the thematic synthesis reveal conceptual and operational limitations of Shariah audit in addressing broader Environmental, Social, and Governance (ESG) dimensions, particularly environmental and social aspects (Algabry et al., 2020; Hanif & Haron, 2022). The NVivo matrix findings further reinforce this argument by demonstrating the limited number of studies that explicitly link Shariah audit to ESG compliance within the existing literature (Hanif & Haron, 2022). This condition suggests that Shariah audit has not yet fully evolved from its traditional compliance-oriented role into a comprehensive sustainability assurance mechanism that is systematically integrated with the Shariah governance framework (Algabry et al., 2020; Boudawara et al., 2023).

### **Implications for Theory**

From a theoretical perspective, this study enriches the existing literature by affirming that maqasid al-shariah provides a strong normative foundation for the adoption of Environmental, Social, and Governance (ESG) principles within Islamic financial institutions (Wilson, 2009; Mergaliyev et al., 2021). However, the realization of these values in practice is highly contingent upon the quality of Shariah governance and the presence of effective assurance mechanisms at the institutional level (Hanif & Haron, 2022). The integration of agency theory and institutional theory helps explain why Shariah governance has developed more rapidly and become more established than Shariah audit in the ESG context, as regulatory and normative pressures have been more strongly directed toward governance structures than toward the expansion of audit functions (Algabry et al., 2020). These findings indicate a clear need to advance theoretical frameworks that position Shariah audit as an integral component of the sustainability governance system, rather than merely as a formal compliance instrument, so that Shariah audit can contribute more substantively to the achievement of ESG objectives.

### **Practical and Regulatory Implications**

From a practical perspective, the findings of this study indicate the need to redefine the scope of Shariah audit so that it does not focus solely on contractual and product compliance, but also explicitly incorporates the evaluation of ESG dimensions (Algabry et al., 2020). At the regulatory level, regulators and standard setters should consider strengthening guidelines and regulatory frameworks that more coherently integrate Shariah governance, Shariah audit, and sustainability reporting, thereby enabling oversight and assurance functions to operate in a consistent and mutually reinforcing manner (Khalid, 2020; Hanif & Haron, 2022) (Khalid, 2020; Hanif & Haron, 2022). Meanwhile, for Islamic financial institutions, enhancing the ESG-related competencies of Shariah auditors—alongside strengthening coordination with Shariah governance functions and risk management—represents a strategic step toward improving credibility, oversight quality, and the overall effectiveness of ESG compliance in institutional practice (Boudawara et al., 2023).

## **RESEARCH AGENDA**

Based on the findings and the matrix-based gap analysis, future research agendas should be directed toward: (1) the development of ESG-oriented conceptual frameworks for Shariah audit; (2) empirical studies examining the causal mechanisms underlying the integration of Shariah governance, Shariah audit, and ESG; (3) the exploration of qualitative and mixed-method approaches to better understand implementation dynamics at the operational level; and (4) cross-jurisdictional comparative studies to assess the influence of regulatory variations on the

effectiveness of such integration.

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