

EFFECTIVENESS OF SHARI'AH SUPERVISORY BOARDS IN SRI LANKAN ISLAMIC FINANCIAL INSTITUTIONS

M.H.M. Muzlifa¹ & H.M.A. Hilmy²

Correspondence: m.muzlifa@gmail.com

ABSTRACT

The Success of Islamic financial institutions depends mainly on good governance and this governance relies mainly on effective Shari'ah Supervisory Boards. If Islamic financial institutions fail to ensure compliance with the Shari'ah rules, their position in the market will be affected negatively due to lack of customers confidence. Therefore, this study is carried out under the topic "Effectiveness of Shari'ah Supervisory Boards in Sri Lankan Islamic financial institutions". This study aims to evaluate the effectiveness of Shari'ah Supervisory Boards in the context of Sri Lankan Islamic financial institutions. This qualitative study has utilised the data collected from both primary and secondary sources to answer the research questions through the content analysis method. Accordingly, Primary data has been collected by semi-structured interviews with individuals of Sharia Supervisory Board of Sri Lankan and discussions with other Professionals and officials of Islamic financial institutions. Secondary data has been collected from review of literature on Shari'ah governance of Islamic financial institutions from books, previous researches related to the subject, articles, official websites and annual reports. Findings of this study show that the effectiveness of Shari'ah Supervisory Boards of Sri Lankan Islamic financial institutions are appreciable, but they all need more efficiency. Effective measures taken by Shari'ah Supervisory Board to strengthen Shari'ah Supervision of Islamic financial institutions seems to be acceptable. Anyhow, they need to develop their functions more to increase their effectiveness. Forming a national Shari'ah body to regulate the Islamic financial institution would be an effective solution for the existing issues. It is believed that this study would be a useful reference for future researches in the relevant area.

Keywords: Islamic banking and finance, Islamic financial institutions, Shari'ah Supervisory Boards

1. BACKGROUND OF THE STUDY

Shari'ah governance can be defined as the overall system that manages the conformity of the activities of Islamic financial institutions to the percepts of Shari'ah pertaining to transactions. Shari'ah governance as an important part of corporate governance of an Islamic financial institutions would lead to successful functioning of the institution compliant with Shari'ah. This Shari'ah governance is implemented within an organization through Shari'ah guidance and supervision.

The Shari'ah governance system of Islamic financial institutions comprises with the Shari'ah Supervisory Boards, the Shari'ah Supervisory Councils at national level and Internal Shari'ah compliance units. The Shari'ah Supervisory Board is the most visible organ of Shari'ah governance system of an Islamic financial institution. It functions as the heart of Shari'ah governance system reviewing processes, products, contracts and all other financial transactions. Being originated based on traditional concept of hisbah (market supervision) the new model of Shari'ah Supervisory Board plays both advisory and supervisory roles in ensuring Shari'ah compliance of procedures, products and processes. Shari'ah Supervisory Boards as an important element of this

¹ South Eastern University of Sri Lanka.

² Department of Islamic Studies, South Eastern University of Sri Lanka.

process must function well in order to achieve the objectives of Islamic financial operations.

The Shari'ah Supervisory Board is one of the Shari'ah governance mechanisms apparent in Islamic financial institutions all over the world. It is argued that the Shari'ah Board ensures the creditability of Islamic financial institutions by ascertaining the Shari'ah compliance of the institutional operations. (Ghyad, 2008) The mandatory duties of Shari'ah Supervisory Board is Supervising the implementation of the Shari'ah principles in the whole operations of Institutions. The Board has the right to veto any operation or activity in contradiction with the Shari'ah rule even the Board of Directors is subjected to the Shari'ah Supervisory Board's opinions and decisions. Islamic financial institutions positions in the market will be affected negatively if they fail to ensure compliance with the Shari'ah rule due to lack of customer confidence. (Hamza.H, 2013)

According to AAOIFI, the Accounting and Auditing Organization for Islamic financial institutions Shari'ah Supervisory Board is defined as "an independent body of specialized jurist in fiqh al mua'malat (Islamic commercial jurisprudence) However, the Shari'ah Supervisory Board may include a member other than those specialized in fiqh al mua'malat, but should be an expert in the field of Islamic financial institutions with the knowledge of fiqh al mua'malath. Their main responsibility is to provide direction, guidance, supervision related to the activities of the Islamic financial institution with the purpose of ensuring the institutions in compliance with Shari'ah rules and principles."

Sri Lanka one of the Muslim minority country and particularly one of the non-Islamic country to have legislation to this alternative form of financing after the amendments to the banking act no. 30 of 1988 in the year 2005. This step paved the path in Sri Lanka for establishment of fully fledged Islamic banks, Islamic banking windows in conventional banks and other financial institutions providing Islamic financial products and services. Along with the establishment of Amana investments in 1997, Central Bank of Sri Lanka made crucial steps to facilitate the industry this amendments to the banking act.

However, with a rapid growth Islamic banking and finance still it possess a very small market share compared to the conventional banking sector. According to a study (2016) on Islamic financial market players in Sri Lanka it has found that as a burgeoning industry in Sri Lanka Islamic banking and finance industry includes 40% of banking sector, 22% of consultancy, 10% of takaful, 10% of education, 8% of software and it, 5% of micro finance and 5% of publications (IFN Country Analysis, 2016).

Shari'ah Supervisory Board in the context of Sri Lankan Islamic financial institutions comprised with nearly 17 Shari'ah Supervisory Boards. This study attempt to evaluate effectiveness of Shari'ah Supervisory Board in the context

of Sri Lankan Islamic financial institutions. This study would consider on Board Size, Board Membership, Boards Educational Qualification, Board Independence, Board Expertise and Board Remuneration to analyse the effectiveness of Shari'ah Supervisory Boards in Sri Lankan Islamic financial institutions.

Shari'ah Supervisory Boards are mentioned by several other titles in different jurisdiction by different scholars for the consistency purpose researcher has used it as Shari'ah Supervisory Boards. Furthermore, the researches on effectiveness of Shari'ah Supervisory Boards is a new research area in the corporate governance field so only a few studies have studied it worldwide and also several researches have recommended the need for more researches in this area. (Endaya & Hanefa, 2013) And especially in Sri Lankan Islamic financial institutions there is no any researches found particularly in this topic. Therefore, this study on role and effectiveness of Shari'ah Supervisory Boards in Sri Lanka Islamic financial institutions would be a significant study.

2. RESEARCH METHODOLOGY

This research has been conducted by qualitative research method to achieve the research objectives. The researcher has found a growing interest in the literature on Islamic banking and finance studies and especially in Shari'ah governance of Islamic Financial Institutions. Therefore researcher has qualitative method and expects that it would help to answer the research question accurately. In accordance to the research objective researcher has collected data from both primary and secondary sources. Collected primary and secondary data have covered all aspects of the study. The researcher for the purpose of this research preferred content analysis to analyse the collected data.

3. PROBLEM STATEMENT

Since the emergence of the Islamic finance industry is to implement Shari'ah compliant financing practices, the effectiveness of Shari'ah Supervisory Board plays a significant role in the industry to ensure that it meets the objective of the Islamic Financial Industry.

If Islamic financial institutions fails to ensure compliance with the Shari'ah rules, their position in the market will be affected negatively due to lack of customers confidence. (Grassa, 2015) This is to say that success of Islamic financial institutions relies on the existence of effective Shari'ah Supervisory Boards.

Islamic Banking and finance in Sri Lanka comparing to the Country's total banking and finance industry is very small portion According to zereen (2018) it is noted that it is due to lack of support from regulatory authorities and absence of comprehensive Shari'ah governance framework. There are many

arguments raised regarding the Shari'ah Supervision in Sri Lankan Islamic Banking.

Therefore, this study will evaluate effectiveness of the Shari'ah Supervisory Boards in performing the Shari'ah Supervision in order to ensure the Shari'ah compliance of Islamic financial institutions.

4. RESEARCH OBJECTIVE

- To evaluate the effectiveness of Shari'ah Supervisory Boards in the context of Sri Lankan Islamic financial institutions.

5. RESEARCH QUESTION

- How effective is the Shari'ah Supervisory Boards in Sri Lankan Islamic financial institutions?

6. LITERATURE REVIEW

Effectiveness can be defined as degree, including quality to which established objectives are achieved. Most of the researcher agrees that a program can be seen as effective if its outcomes goes along with its objective (Ahmad, 2009). The researches on effectiveness of Shari'ah Supervisory Boards is a new research area in the corporate governance field so only a few studies have studied it worldwide and also several researches have recommended the need for more researches in this area. (Endaya & Hanefa, 2013). The non-compliance with the Shari'ah affects public confidence in Islamic finance and exposes the Islamic financial institutions to the incredibility risk. In this sense, Islamic financial institutions should have a Shari'ah Board to ensure the compliance of products and services offered to consumers and investors with the rules and principles of the Shari'ah.

Islamic financial industry in Sri Lanka still possess a very little portion comparing to the Country's total finance industry. According to zereen (2018) it is noted that it is due to lack of support from regulatory authorities and absence of comprehensive Shari'ah governance framework. There are many arguments raised regarding the Shari'ah Supervision in Sri Lankan Islamic Banking.

7. RESEARCH FINDINGS AND DISCUSSION

Researcher tries to evaluate the effectiveness of Shari'ah Supervisory Boards based on these factors.

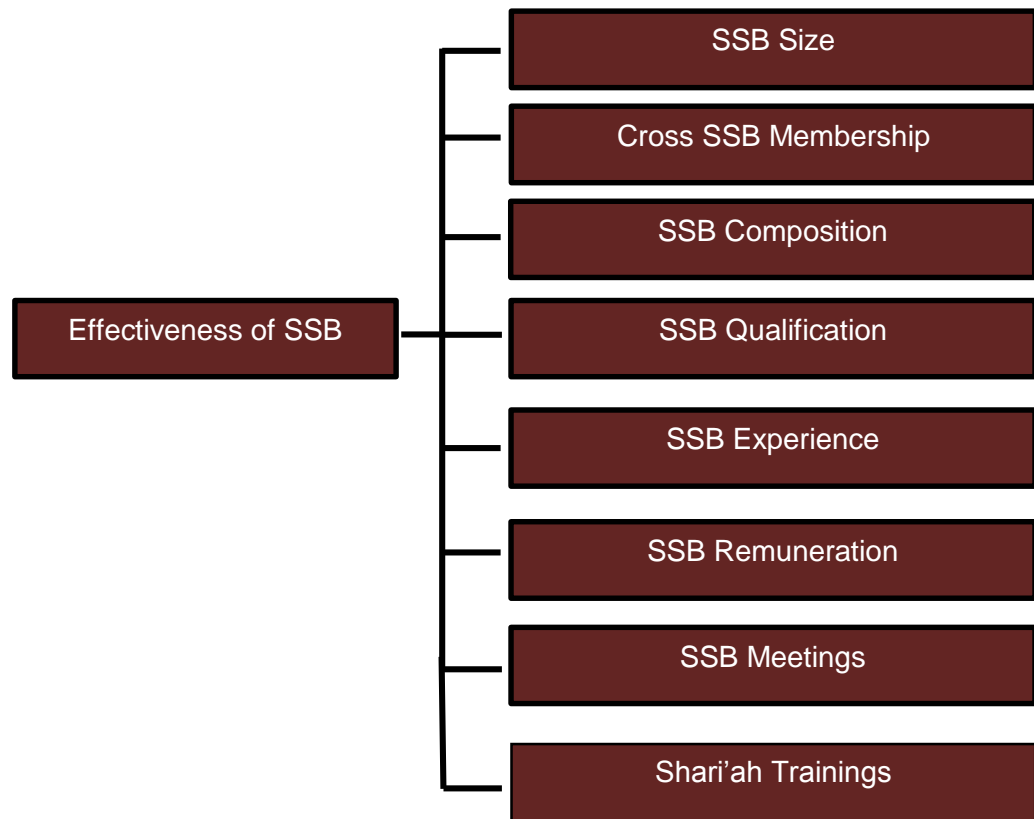


Figure 1. Effectiveness of SSB
 Source: Author Compiled

7.1 Board size

Table 01. Number of SSB Members

Islamic financial institution	No. of SSB Members	Compliant with AAOIFI
IFI 01	5	√
IFI 02	3	√
IFI 03	3	√
IFI 04	2	
IFI 05	4	√
IFI 06	3	√
IFI 07	3	√
IFI 08	3	√

Commonly it is recommended to have three to seven members in a board. In Sri Lankan Islamic financial institutions there are 2 to 5 members representing Shari'ah Supervisory Boards. Above table shows the Shari'ah Supervisory Board size of each institution. Most of the boards have included the minimum

number of Shari'ah Supervisory Boards members as it is expected by AAOIFI. Shari'ah Supervisory Boards of IFI 01 and IFI 05 consist more than 3 members and only one Shari'ah Supervisory Board is functioning with 2 members.

Number of Shari'ah Board Members of all institutions except one board consist the minimum requirement of AAOIFI that is three Shari'ah scholars in a board and it is noteworthy that two Shari'ah boards have included more than three members including international scholars in Islamic banking and finance. This makes them to increase their effectiveness in performing Shari'ah supervision. Further, it is recommended for that particular Shari'ah board with only 02 members to appoint someone else in order to consist at least 03 members.

7.2 Board Cross-membership

Allowing Islamic financial institutions to have their own Shari'ah Supervisory Boards have created a large demand for the limited supply of Shari'ah scholars available. The researcher has find the cross membership as follows

Table 02. Cross membership of SSB Members

SSB MEMBERS	NO.OF BOARDS REPRESENT
SSB Member 01	2
SSB Member 02	5
SSB Member 03	4
SSB Member 04	3
SSB Member 05	2
SSB Member 06	1
SSB Member 07	1
SSB Member 08	1
SSB Member 09	1
SSB Member 10	1
SSB Member 11	3
SSB Member 12	1
SSB Member 13	1

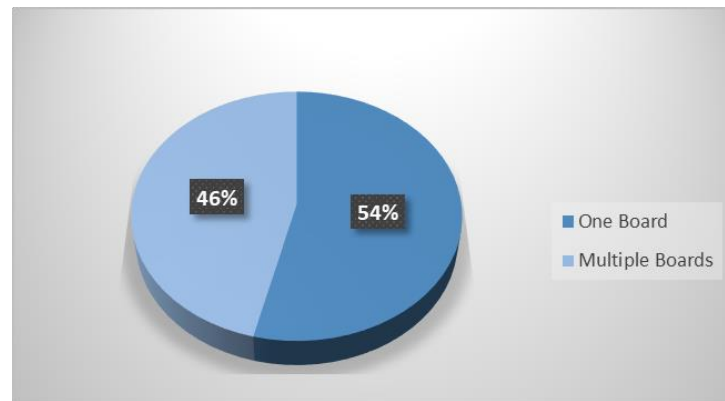


Figure 2. Cross membership of SSB members
 Source: Author compiled

As shown in the above figure and table 46% of the Shari’ah Supervisory Board members are being members of multiple boards and 53% represent only one Shari’ah Supervisory Board. And it shows that 02 of them are being Shari’ah Supervisors for more than three Islamic financial institutions. Further, from the data collected in the interview the researcher has found that these Scholars also represent more Shari’ah Supervisory Boards other than these selected 08 Islamic financial institutions. And the reason behind this is lack of Shari’ah scholars’ expert in both fiqh Al Mua’malat and banking and finance. This study also suggest it would be more effective and applicable if Shari’ah Board members can be instructed with a limitation in number of boards they shall represent by the regulators.

7.3 Duration of Board Service

Table below shows the duration of the Shari’ah Supervisory Boards and the agreed terms of their appointment. According to this it shows that most of the Islamic financial institutions have the same Shari’ah Supervisory Board since they started Islamic banking and financing services. There have been minor changes in very rare occasions in their board composition and they are also representing the institutions for a long period since their appointment. And only four Islamic financial institutions have agreed on the term of engagement with Shari’ah Supervisory Boards and have reappointed the same Shari’ah Supervisory Board.

In researchers point of view it would be more effective if the composition of the board would change in end of the terms. This may pave the path to fresh and dynamic views and opinions from new experts and qualified directors.

Table 03. Duration of Board Service

	Duration of Board Service	Renewal/ Reappointment
IFI 01	08 years	Every year
IFI 02	07years	Every year
IFI 03	03 years	Three years
IFI 04	05 years	Every year
IFI 05	11 years	Three years
IFI 06	07years	Every year
IFI 07	4 years	Every year
IFI 08	3 years	Not mentioned

Even though Sri Lankan Islamic financial institutions claims for Shortage of expert scholars in this field they may try to appoint new members in the board so that they can get trained and become experts in future to serve in different Shari'ah Supervisory Boards. Moreover, this also will bring solution to the issue in repetition of same scholar in various boards as discussed in section above.

7.4 Board qualification

In Sri Lankan context all of the Shari'ah Board members possess ijazah from a recognised institute of Islamic studies in the sciences of Shari'ah as required by IFSB. Moreover, the researcher has found their academic qualification in addition to this qualification.

Table 04. Educational qualification of SSB members

Diploma in IBF	02
Bachelor degree	11
Master degree	03
PhD	01
Mufthi	03

According to the Table 04 educational qualification of Shari'ah Supervisory Board members have minimum qualification diploma to doctorate qualification. It shows that 03 of them have mufti qualification, and only 01 reserves a PhD qualification and 03 of them have Master qualification and it is remarkable that 11 Shari'ah Board Members out of 13 members from selected boards have completed a bachelor's degree in a recognised university. Only 02 of them had

the only qualification of a diploma with a good experience in Islamic banking and finance.

Findings of this study reveal that qualification of Sri Lankan Shari'ah Supervisory Board has reached the minimum qualification stated by Ginena and Hamid (2015) by at least having bachelor's degree. And it is noted that 03 members have completed Masters and two of them also possess Mufthi qualification. And only one member is known to the industry with a PhD qualification. Further, the study found that 4 members out of these Shari'ah Board Members are international scholars who are expert in Islamic banking and finance and hold membership of so many other Shari'ah Supervisory Boards in various countries. And it is also remarkable that two of them are AAOIFI certified Shari'ah advisors.

According to these details it can be said that the qualification of Sri Lankan Shari'ah Supervisory Board is appreciable but need more scholars to come up with deeper knowledge and skills, holding doctorate degrees to seek solutions from Shari'ah rulings for complex financial transactions to be more effective.

7.5 Experience

As important as academic qualifications are for Shari'ah jurists, of equal importance is their practical exposure to the industry. Such experience is invaluable, as it presents them with real situations that move beyond hypothetical dialogue to practical issues

AAOIFI also fails to mention minimum experience requirements for Shari'ah supervisory boards, but broadly mentions conditions for fatwa issuers, such as competence in fiqh. The regulatory guidelines of different jurisdictions vary regarding the minimum years of experience needed by Shari'ah Supervisory Board members. However, IFSB advises that only a member of the Shari'ah Board who has at least three years' experience of making Shari'ah pronouncements/ resolutions, or at least four years' post-qualification experience in teaching or research in Islamic finance, should be appointed as Chairman of the Shari'ah Supervisory Board.

Shari'ah Board Members who were representing the 08 selected financial institutions by the researcher had experience in Islamic banking and finance above 03 years. Some of them have 08 to 10 years of experience. Since there were no specific number of years of experience required they were all accepted by the industry to serve as Shari'ah Supervisory Board members.

Even though this experience of board members is seem to be an effective measure researcher found that there is a negativity that the Islamic financial institutions fails to intake new members Shari'ah Supervisory Boards. Therefore, the researcher suggest that the Islamic financial institutions shall appoint new members into their existing Shari'ah Supervisory Boards so that

they can work with the experts as their trainers and get experience in this industry.

7.6 Remuneration

And shareholders shall authorize the board of directors to fix the remuneration of Shari'ah Supervisory Board (AAOFI, 2010). The impact of payment on performance could be positive which may confirm the role played by compensation in aligning managerial interests with those of the shareholders (Duffhues & Kabir, 2008). In contrast, some believe that board remuneration affect the firm performance negatively (Ferero.at.el 2012). By extending this argument to the Shari'ah Supervisory Boards, numerous observers claim that Shari'ah Supervisory Board scholars may not be fully independent in conducting their functions especially that Islamic banks shareholders and management suggest their rewards (Grais & Pellegrini, 2006) and nominate them (Nathan Garas, 2012) It also creates an implicit uneasy feeling of conflict of interest, because the bank pays the salaries of its Shari'ah Board members (Abdur Rahman, 2010).

Interviewees claimed that their remuneration has no impact on independence of Shari'ah Supervision of the Shari'ah Supervisory Board, and as an external independent body are paid a very small amount with regard to their board sittings per year. This study has found two issues from the response of interviews. One is that the very limited payments for the Shari'ah Supervisory Board would make them demotivated to deeply involve in Shari'ah supervision with commitments. On the other hand payments for them by the institution can lead to a bias in their independence.

The researcher believe that this issue can be solved by forming an independent general governing body which may act as a national Shari'ah governing body of the Islamic financial institutions of Sri Lanka as a whole. And they may instruct all the Shari'ah Supervisory Boards and can make arrangements to pay them through the national board in systematic way.

7.7 Board Meetings

The IFSB also advises the Shari'ah Supervisory Board to meet with the BOD at least once every six months to discuss developments (IFSB, 2009). The number of Shari'ah Committee meetings held in the year, as well as the attendance of every Shari'ah Committee member shall be disclosed in the IFI's annual report (Bank Negara Malaysia, 2010). BNM which requires the Shari'ah Supervisory Board to meet at least once every two months (Bank Negara Malaysia, 2010). The IFSB guidelines do not address the number of months between meetings: "The Shari'ah board shall meet regularly to carry out periodic reviews to monitor Shari'ah compliance of the operations of the IIFS" (IFSB, 2009).

Table 05.SSB Meetings

Islamic financial institution	SSB Meetings per year	SSB Meetings with BOD Per year
IFI 01	Minimum 3	1
IFI 02	4	1
IFI 03	4	1
IFI 04	4	1
IFI 05	4	2
IFI 06	12	1
IFI 07	12	4
IFI 08	4	1

According to the Table 05 Shari'ah Supervisory Board meetings of the Islamic financial institutions are held in most of the institutions quarterly. 02 institutions namely IFI 06 and IFI 07 are conducting Shari'ah Supervisory Board Meetings every month. IFI 01 conducts minimum 03 meetings per year and it may vary when needed. Shari'ah Supervisory meetings with the Board of Directors are mostly conducted annually, only IFI 07 is conducting quarterly discussions with their Shari'ah Supervisory Board. In addition to this IFI 01 has disclosed Shari'ah Supervisory Board meetings and the attendance detail in their annual report. In between the meetings, the Bank refers its Sharia issues in its daily operations to the Executive Committee of the SSC that is comprised of two (2) appointed members for guidance and decision. The decisions taken by the Executive Committee are tabled in the SSC meeting.

It shows that all the Shari'ah Supervisory Boards have conducted meetings in a scheduled manner. And it is an effective measure that has been practiced by the Shari'ah Supervisory Boards. However, there was a minor issue according to IFSB guidance which requires Shari'ah Supervisory Boards to meet BOD every six months.

7.8 Shari'ah training

The Shari'ah Supervisory Board is involved in the Shari'ah training of staff that is part of the bank-wide training plan. Shari'ah Supervisory Board participation is important, as it gives employees an opportunity to interact with the bank's jurists, learn the Shari'ah guidelines that govern products and services, and ask questions. Shari'ah training is an important preventative measure that serves as a means for equipping employees with the necessary knowledge needed to correctly execute Islamic banking activities. Shari'ah Supervisory Board members should participate in various seminars, workshops, and meetings with specialists in Islamic jurisprudence to debate existing and new Shari'ah rulings.

Table 06. Shari'ah training and awareness programs

	IFI 01	IFI 02	IFI 03	IFI 04	IFI 05	IFI 06	IFI 07	IFI 08
Shari'ah training for newly recruited staff	√	√	√	√	√	√	√	√
Shari'ah training for front line staff	√	√	√	√	√	√	√	√
Shari'ah training for branch staff	√	√	√	√	√	√	√	√
Shari'ah workshop for customer relationship managers	√	√	√	√	√	√	√	√
Awareness programs for academics, students, Islamic scholars	√							√
Awareness programs for customers & general public	√		√		√			√

Above table shows the training and awareness programs conducted by the Shari'ah Supervisory Boards. Almost every institution conduct training programs but only four institutions have conducted awareness programs. Further, from the interview results researcher found that IFI 03 Islamic banking unit conduct only 01 awareness program annually. IFI 01 conduct more than 20 awareness programs per year and currently they are carrying out training and awareness programs gradually through their knowledge marketing division. IFI 05 has also conducted nearly 8 awareness programs.

The researcher was able to get the following Training and awareness program details from IFI 01 annual report.

Programme	Audience	No. of Sessions	No. of Participants
Internal			
Introduction to Islamic Banking-Our Model	Newly Recruited Staff	4	109
Rules & Principles of Sharia on the Banks Products	Front Line Staff	1	49
Objective of Islamic Banking/Rules & Principles of Sharia on the Banks Products	Branch Staff	21	304
Sharia Workshop	Customer Relationship Managers	2	13
Subtotal		28	475
External			
Awareness Program on Islamic Banking & the Banks Products	Islamic Scholars	2	158
Awareness Program on Islamic Banking & Banks Products	Academics, Students, Customers, Islamic Scholars and General Public	22	1,270
Subtotal		24	1,428
Total		52	1,903

Figure 3. Training and awareness programs
Source: Annual report of IFI 01 (2017)

Findings of this study shows that the Sri Lankan Shari'ah Supervisory Boards are engaged in education and awareness as it is one of their duty. The researcher has found that there is still misunderstandings among public including educated people of the society. Also there is another issue that most of the Islamic bankers specially the first line managers are unable to clarify the doubts of the customers properly. Therefore, the Shari'ah Supervisory Boards need to take more concern in providing knowledge and awareness through more training and awareness programs.

Table 07. Research findings pertained to 3rd objective of the study

Identified Issues	Remarks	Accredited Practices
SSB Size	There was a board with only 2 members, not compliant with AAOFI's minimum size	Minor Issue Should ensure greater compliance with the standards they choose to follow
SSB Cross Membership	46% of SSB members have cross membership	Minor issue Should be given a limitation to avoid negative impacts
SSB Composition	Same SSB servers for a long period	Major Issue IFIs should try to appoint new members to their SSB
SSB Qualification	Only 03 members have more qualification than a Bachelor's degree	Major issue SSB members shall try to enrich their qualifications
SSB Experience	Existing members have good experience but failed to train and introduce new members to the industry	Major Issue Recruiting and training new members would solve issues in board size, cross membership and composition as well
SSB Remuneration	Remuneration through the IFI may influence the independence and a very low payment can also demotivate them to involve much	Minor Issue Better if all the SSBs can be monitored and compensated by a centralized body
SSB Meetings	SSB meetings were well scheduled but meetings with BOD mostly seems to be done annually	Minor Issue Would be more effective if they meet BOD at least twice in a yeas as it is stated in IFSB.
Shari'ah Trainings	Training programs were appreciable but there was a lack in conducting awareness programs	Major Issue Should concern more in awareness for educated community and general public to reduce the prevailing criticism on IFIs

Table above shows the overall findings pertained to the objective, evaluation of effectiveness of Shari'ah Supervisory Boards in Sri Lankan Islamic financial institutions. According to this it seen that there are few major and minor issues which impact the effectiveness of Shari'ah Supervisory Boards. Therefore, the researcher has presented the accredited practices to find solutions to these issues and enhance the effectiveness.

RECOMMENDATIONS

- Shari'ah Supervisory Board members shall ensure their independence in all aspects of Shari'ah Supervision so they may actively involve in monitoring the operations of Islamic financial institutions.
- Shari'ah Supervisory Board members should improve their qualifications through continuous learning and improve their knowledge and skills to support growth of this industry and strengthen the confidence of customers.
- Shari'ah Supervisory Board should develop their role in education and awareness in order to reduce the criticism on Islamic banking and finance in Sri Lanka.
- Islamic financial institutions shall appoint new members into their existing Shari'ah Supervisory Boards so that they can work with the experts as their trainees and get experience in this industry to serve in various Shari'ah Supervisory Boards in Sri Lanka.
- Islamic financial institution should demand more scholars to come up with deeper knowledge and skills, holding doctorate degrees to seek solutions from Shari'ah rulings for complex financial transactions to be more effective.

CONCLUSION

Shari'ah Supervisory Boards are important part of Shari'ah governance mechanism of Islamic financial institutions. Findings of this study found that the Shari'ah Supervisory Boards of Sri Lankan Islamic banking industry's practices are appreciable but they all need more efficiency. It is noted that they have taken efforts to implement standards and guiding principles issued by regulators like AAOIFI and IFSB in most of their operations and it would be much better if they try to follow the standards and guidelines in all their operations so that every institutions shall maintain uniformity in practices. Further, the research findings also provide indications of the effectiveness of Shari'ah Supervisory Boards.

REFERENCES

- AAOIFI. (2010). *Accounting and auditing standards for Islamic financial institution*. Manama, Bahrain: AAOIFI.
- Abdur Rahman, Y. (2010). *The Art of Islamic Banking and Finance*. Hoboken, New Jersey: John Wiley & Sons.
- Banaga. (1994). . External audit and corporate governance in Islamic banks: a joint practitioner-academic research study.

- Bank Negara Malaysia. (2010). *Shari'ah Governance Framework for Islamic financial institutions*. Retrieved from https://www.bnm.gov.my/guidelines/05_shariah/02_Shariah_Governance_Framework_20101026.pdf
- Duffhues, P., & Kabir, R. (2008). is the pay-performance relationship always positive?: Evidence from Netherland. *Journal of Multinational Financial Management*, 45-60.
- Endaya, K., & Hanefa, M. (2013). Internal audit effectiveness: An approach proposition to develop the theoretical framework. *Reseach Journal of Finance and Accounting*.
- Ferero-Ferero, I., Fernandez, M., & Torres, M. (2012). The impact of the board of directors charecteristics on corporate performance and risk taking before and during the global financial crisis. *Review of Managerial Science*, 207-226.
- Ghyad, R. (2008). Corporate governance and the global performance of islamic banks.
- Ginena, K., & Hamid, A. (2015). *Foundations of Shari'ah Governance of Islamic Bamks*. Cornwall, UK: Wiley.
- Grais, W., & Pellegrini, M. (2006). Corporate Governance and Shari'ah Compliance in institutions offering Islamic financial services. *WoldBank policy working paper*, (pp. 1-34).
- Grassa, R. (2015). Corporate governance and credit rating in Islamic banks: Does Sharia governance matters. *Journal of Management and Governance*, 1-32.
- Hamza.H. (2013). Sharia governance in Islamic banks: effeteness and supervisory model. *International journal of Islamic and Middle astern Finance and Management*.
- Haniffa, R., & Cooke, T. (2002). Culture, corporate governance and disclosure in Malasian corporations. *Abucus*.
- (2016). *IFN Country Analysis*. Sri Lanka.
- IFSB. (2009). *Guiding Principles on Shari'ah governance system in Institutios offering Islamic financial services*. Kuala Lumpur: IFSB.
- Nathan, Grass, S., & Pierce, C. (2010). Sharia Supervision of Islamic financial institutions. *Journal of Financial Regulation and Compliance*.