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Integrating Islamic financial and audit governance for strengthening Merah Putih cooperatives in Indonesia

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ABSTRACT

Purpose – This study aims to develop an empirically informed conceptual model that integrates these dimensions into a coherent governance framework.
Design – A descriptive qualitative approach was employed using in-depth interviews, observations, and document analysis involving cooperative practitioners, a Sharia Supervisory Board, Sharia auditors, academics, and regulators. The data were analyzed through data reduction, categorization, thematic interpretation, and triangulation to identify recurring governance issues and relationships among the emerging themes.
Findings – The findings identify five interconnected components: Sharia Governance, Internal Control System, Sharia Compliance Audit, Financial Transparency and Accountability, and Continuous Monitoring and Evaluation. These components were synthesized into the Integrated Sharia Audit and Sharia Financial Governance (ISAFG) Model, which positions Sharia compliance as a central governance principle linking decision-making, internal control, auditing, reporting, and continuous evaluation.
Research Implications – This model provides a theoretical foundation for the development of a governance framework that can be tested in future research.
Originality – The study contributes an empirically informed conceptual framework for strengthening Sharia-based cooperative governance.

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INTRODUCTION

Cooperatives contribute to community-based economic development through participation, solidarity, and member empowerment. Indonesia's Merah Putih Cooperatives form part of a national programme to strengthen village and community economies; their inclusion in that programme does not, by itself, establish that they operate as Sharia cooperatives. Sharia governance and Sharia auditing are therefore relevant to Merah Putih Cooperatives only to the extent that particular activities are formally conducted under Sharia principles and the applicable institutional rules require or support such oversight. This study explores how those functions could be coordinated with internal control, financial accountability, and cooperative oversight where a Sharia-oriented arrangement is appropriate.

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Sharia-based cooperative activities raise governance questions that extend beyond the use of compliant contracts. Oversight responsibilities, financial records, risk controls, and independent assurance also need to be aligned with the relevant Sharia requirements (Zuhdi et al., 2025; Mulyany et al., 2021). Yet the institutional status of the cooperatives represented in this study must be distinguished from the professional experience of Sharia supervisors and auditors interviewed outside those institutions. The discussion therefore addresses a proposed governance arrangement rather than treating Sharia obligations as automatically applicable to every Merah Putih Cooperative.

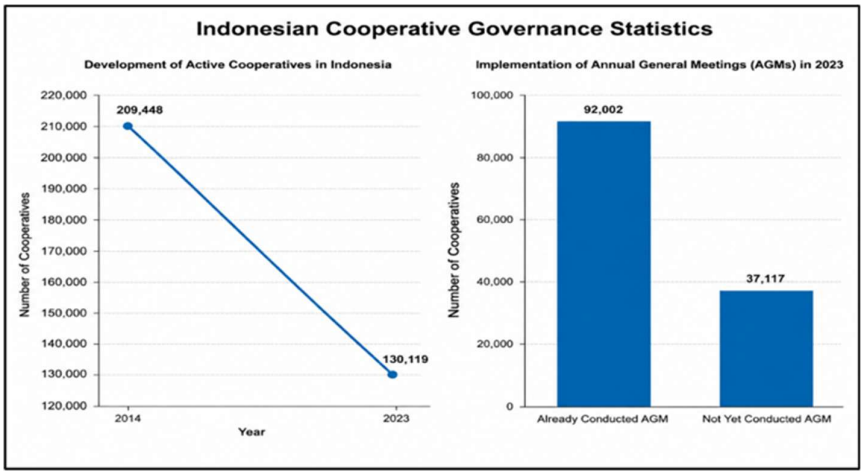


Figure 1. Statistics on Cooperative Governance in Indonesia
Source: Ministry of Cooperatives of the Republic of Indonesia, 2023

The broader cooperative sector provides useful context for this study. Ministry of Cooperatives data cited in Figure 1 show a decline in active cooperatives from 209,448 in 2014 to 130,119 in 2023 and report that 37,117 active cooperatives had not conducted annual general meetings (Ministry of Cooperatives of the Republic of Indonesia, 2023). These figures point to wider concerns about participation, reporting, and organizational accountability. They do not measure Sharia compliance, describe the governance of the newer Merah Putih programme, or establish that a particular cooperative lacks Sharia audit procedures. Figure 1 is consequently used as contextual evidence only; the argument for the proposed ISAFG Model rests on a separate conceptual discussion and the limited stakeholder accounts reported below.

Merah Putih Cooperatives have been promoted as part of Indonesia's effort to expand community access to financing, distribution, and productive economic activities. Governance arrangements are important in such a programme because managers hold resources on behalf of members and must account for their decisions within the cooperative's democratic structure. The balance between public support, organizational autonomy, and accountability has been discussed in research on the programme (Hasanudin et al., 2025; Kameo et al., 2026). For any cooperative undertaking Sharia-compliant activities, this member-based accountability must also be reconciled with the specific Sharia rules governing those activities.

Questions of institutional autonomy, member participation, and supervisory responsibility should therefore be examined alongside financial controls. Cooperative governance cannot simply be imported from corporate or banking settings: members own the institution collectively and exercise accountability through cooperative decision-making, including general meetings. Cornforth (2004) shows why cooperative governance involves tensions between managerial expertise, democratic control, and oversight. These features provide an institutional starting point for considering how Sharia-specific assurance might be incorporated, rather than presuming that a conventional corporate audit architecture will fit unchanged.

Existing research has already developed Sharia audit and governance frameworks. Sani and Abubakar (2021), for example, propose a risk-based Sharia audit approach, while Ab Ghani and

Shaharuddin (2023) discuss the role of internal control in supporting effective internal Sharia audit. The literature therefore cannot be characterised as having overlooked integration altogether. What remains to be specified in the present context is how applicable Sharia requirements, cooperative member accountability, managerial controls, and independent assurance could be coordinated without confusing their respective responsibilities.

The research gap is accordingly institutional and operational rather than the absence of an integrated diagram. Existing approaches to risk-based Sharia auditing address assurance practices in Islamic financial institutions (Sani & Abubakar, 2021), and established governance approaches already distinguish management responsibilities from independent auditing (Institute of Internal Auditors, 2020). The issue for Merah Putih Cooperatives is how such established principles should be adapted when member-based governance, limited operational resources, and potentially different Sharia business statuses are considered together. The ISAFG Model is presented as a context-sensitive proposal, not as the first framework to connect governance, control, compliance, and monitoring.

The proposed contribution is to specify how the five ISAFG functions might operate in a cooperative setting. First, the application of Sharia-specific requirements depends on actual legal and operational activities. Second, accountability flows not only to regulators and supervisors but also to cooperative members. Third, management is responsible for controls and ongoing monitoring, while an independent audit function evaluates those arrangements without operating them. Fourth, audit findings should lead to documented corrective action and reporting. These are conceptual design choices requiring practical examination, rather than improvements already demonstrated by this study (Cornforth, 2004; Khalid & Sarea, 2021).

This study therefore aims to develop an empirically informed conceptual framework through which Sharia governance, internal control, Sharia compliance audit, financial transparency and accountability, and continuous monitoring may be coordinated where applicable in Merah Putih Cooperatives. The evidence consists of a small set of stakeholder accounts considered alongside existing theory. The resulting ISAFG Model identifies questions of institutional scope, responsibilities, information flows, and implementation feasibility; it does not establish either a universal Sharia obligation for the programme or the effectiveness of the proposed arrangements.

METHOD

Research Design

This study used a descriptive, exploratory qualitative approach to examine how stakeholders understand cooperative governance and the possible role of Sharia-specific oversight. It combines accounts from cooperative managers with perspectives from Sharia supervision, audit practice, academia, and regulation. Because the conceptual domains of governance, internal control, audit, accountability, and monitoring were considered before the interviews were interpreted, the analysis should not be described as wholly inductive. The present account is best understood as a theory-informed thematic interpretation in which interview material was considered against existing conceptual categories (Braun & Clarke, 2006). It develops a framework for further testing rather than demonstrating causal relationships or conducting an institutional effectiveness evaluation.

Research Participants and Data Sources

Six participants were purposively selected for their differing positions in cooperative management, Sharia supervision, auditing, academia, and regulation. As Table 2 indicates, R1 and R2 were associated with Merah Putih Cooperative management, whereas R3-R6 contributed professional views from other institutional settings. Their perspectives are analytically useful but are not interchangeable: the external specialists cannot verify the internal practices of the cooperatives represented by R1 and R2. The sample was intended to bring together complementary perspectives, not to represent the population of Merah Putih Cooperatives. The information-power approach suggests assessing qualitative sample adequacy in relation to study purpose, participant specificity, interview quality, and analytic depth rather than asserting saturation from sample size

alone (Malterud et al., 2016). Within this scope, the sample permits an exploratory comparison of stakeholder concerns but does not, on its own, establish thematic saturation.

Table 1. Research Informant Categories and Data Sources

Informant Group	Criteria	Type of Data
Merah Putih Cooperative Management Board	Understanding cooperative operations and management	Governance systems, financial management, and implementation challenges
Sharia Supervisory Board	Possesses expertise in the field of Sharia supervision	Sharia compliance mechanisms and Sharia audits
Sharia Practitioner/Auditor	Experienced in auditing Sharia financial institutions	Audit processes, internal controls, and compliance evaluations
Academic	Expertise in the fields of cooperatives and Islamic economics	Development of conceptual models and academic validation
Regulator	Involved in the guidance and supervision of cooperatives	Policies, regulations, and development direction for the Merah Puti Cooperative

Data Collection Methods

This study employs a data triangulation approach utilizing in-depth interviews, structured observations, and comprehensive document analysis to ensure the validity of the research findings. The interview instruments are systematically designed to extract profound insights into five core pillars of organizational governance: institutional oversight, recording and reporting mechanisms, Sharia compliance levels, the effectiveness of internal control, and the implementation of public accountability. To maintain scientific objectivity, the analytical process strictly distinguishes between supporting contextual materials and objective primary data. All narrative data obtained from the interviews are comparatively examined by correlating the informants' professional assessments with direct operational evidence in the field, thereby yielding valid, empirical, and accountable research conclusions.

Data Analysis and Validity of Findings

Data interpretation was organized around five theory-informed domains that were established prior to the empirical investigation: Sharia Governance, Internal Control System, Sharia Compliance Audit, Financial Transparency and Accountability, and Continuous Monitoring and Evaluation. Rather than claiming a purely inductive discovery where themes emerged independently from open coding, the analytical approach employed a theory-informed abductive framework (Braun & Clarke, 2006). The pre-specified conceptual categories served as an a priori analytical lens through which the interview transcripts and documentary evidence were examined. The qualitative coding process specifically traced how field-level accounts, stakeholder concerns, and institutional practices fitted, qualified, or refined these theoretical domains. To ensure methodological transparency and address the relationship between predetermined categories and empirical material, the analytical process followed an explicit coding trail:

a. Reported Stakeholder Material: In-depth interview transcripts and professional accounts gathered from cooperative managers, Sharia supervisors, auditors, academics, and regulators.
b. Theory-Informed Coding: Open codes developed from the transcripts to identify operational realities, such as continuous monitoring gaps, audit scope limitations, and record-keeping practices.
c. Pre-Assigned Governance Domains: Mapping empirical codes onto the five established theoretical categories to evaluate alignment with existing literature.
d. Interpretive Refinement: Using field observations to adapt general banking-oriented concepts into cooperative-specific mechanisms, recognizing institutional capacities and legal constraints.

e. Proposed Conceptual Model: The final synthesis yielding the Integrated Sharia Audit and Sharia Financial Governance (ISAFG) Model as a conceptual framework for future empirical testing. This abductive refinement ensures that the ISAFG Model appropriately integrates predetermined theoretical foundations with empirical stakeholder insights without overstating the data as an exhaustive institutional evaluation.

RESULTS AND DISCUSSION

Characteristics of Research Informants

The study involved six purposively selected informants. Informants R1 and R2 offered perspectives linked directly to the management of Merah Putih Cooperatives, drawing on extensive general cooperative and financial experience (>10 years and 8 years, respectively) that spans prior operational contexts and their current institutional roles. Meanwhile, R3 was associated with Sharia supervision in a Sharia cooperative (>12 years of supervisory experience), R4 with Sharia audit practice (11 years of professional audit experience), R5 with higher education (>15 years in academic research), and R6 with a government agency (13 years in regulatory practice). This composition provides several professional viewpoints on a possible governance framework, explicitly distinguishing internal management practices from external professional expertise. These constraints regarding direct programme involvement versus broader sector experience determine how cautiously the findings should be interpreted.

Table 2. Characteristics of Research Informants and Data Contributions

Informant Code	Position/ Profession	Organization	Experience	Focus of Information
R1	Chairperson of the Merah Putih Cooperative	Merah Putih Cooperative	>10 years (General cooperative management experience prior to and within the programme)	Institutional governance and financial management of the cooperative
R2	Cooperative Treasurer	Merah Putih Cooperative	8 years (Financial recording experience within cooperative operations)	Financial record-keeping, reporting, and accountability systems
R3	Sharia Supervisory Board	Sharia Cooperative	>12 years (Sharia compliance and supervisory practice)	Implementation of Sharia compliance and Sharia supervision
R4	Sharia Auditor	Sharia Audit Practitioner	11 years (Sharia audit and control evaluation practice)	Sharia audit mechanisms and internal control systems
R5	Academic	Higher Education	>15 years ((Research in Islamic economics and governance)	Development of Sharia governance and audit models
R6	Regulator	Government Agency	13 years (Cooperative policy development and regulation)	Cooperative policy and institutional strengthening

The informants approached cooperative governance from different professional responsibilities. R1 and R2 discussed operational oversight and financial reporting; R3 and R4 supplied Sharia supervisory and audit perspectives; R5 and R6 contributed academic and regulatory considerations. Their accounts provide a basis for comparing concerns, but the available manuscript does not document the same experiences or institutional knowledge for all six participants. In particular, agreement about the value of good governance should not be interpreted as direct evidence that Sharia audit deficiencies exist in each Merah Putih Cooperative.

The reported interviews raise concerns about whether financial reporting, risk control, Sharia-specific supervision, and follow-up procedures are adequately connected. R1 refers to the absence of a continuing Sharia monitoring mechanism in the setting described in the quotation below, while R3 and R4 offer broader professional assessments of Sharia compliance and audit

practice. These statements support investigation of an integrated framework; without identified audit records or observations, they do not establish a programme-wide finding that existing Sharia audits are merely administrative or invariably reactive.

The available material points to a perceived need for clearer links among governance decisions, financial management, and compliance oversight. This interpretation depends mainly on stakeholder statements: no identifiable observation log, inspected control procedure, or audit report accompanies the evidence offered to substantiate a finding of systematic Sharia oversight failure. Where documentary evidence is not available, the findings are therefore described as participant concerns, not as confirmed organizational deficiencies.

The participants' professional emphases nevertheless suggest a useful conceptual distinction. Managers need procedures for recording transactions and following up operational risks; Sharia supervisors assess relevant Sharia requirements within their mandate; and independent auditors assure how the arrangements operate. An audit may report risks promptly and test preventive controls, but responsibility for operating those controls remains with management. Coordination among these functions is proposed here as a means of improving the clarity of oversight, not as an observed institutional outcome (Khalid & Sarea, 2021).

Table 3. Summary of Research Findings

Component	Current Conditions	Research Findings	Implications
Sharia Governance	R1 seeks clearer oversight; R3 stresses Sharia duties	Sharia status and DPS arrangements at R1/R2 institutions are not verified	Define the applicable mandate, decision authority and reporting lines
Internal Control System	R2 raises financial records; R4 discusses prevention	No tested SOPs or documented control failures are identified	Management-owned risk controls, authorisations and documentation
Sharia Audit	R4 advocates earlier attention to Sharia risks	Expert opinion is not evidence of an existing Merah Putih audit deficiency	Independent, risk-based audit against applicable criteria
Transparency and Accountability	R2 focuses on reporting; R3 links governance to trust	No independent assessment of reporting quality is presented	Accessible disclosure to members and appropriate oversight bodies
Ongoing Monitoring	R1 refers to a perceived gap in monitoring	No monitoring log or observation record is identified	Management-led tracking of findings, action owners and follow-up

Table 3 separates the concerns visible in the interview accounts from the design responses proposed in ISAFG. It does not establish causal relationships among the components. Management, Sharia supervision where applicable, reporting to members, independent audit, and corrective-action follow-up are analytically related functions; whether better coordination improves compliance or accountability remains an empirical question. The table should therefore be read as an evidence-aware conceptual synthesis rather than a validated diagnosis of Merah Putih Cooperatives.

Interview Findings

The interviews reveal overlapping concerns about accountability, but the participants speak from distinct roles. R1 focuses on coordination between operational reporting and oversight; R2 on reliable financial records; R3 on Sharia requirements across the governance process; and R4 on timely detection of non-compliance risks. R5 places greater weight on conceptual integration, while R6 raises the need for regulatory consistency. These emphases differ even if they share a general interest in stronger governance. The available quotations do not establish full agreement on audit authority, cost, reporting lines, or the duties of a Sharia Supervisory Board.

The Chair of the Merah Putih Cooperative (R1) explained that managing a cooperative requires guidelines that can integrate organizational governance, financial management, and Sharia

oversight. According to him, oversight conducted only at the end of a period is insufficient to anticipate various potential irregularities from the very beginning of the management process. "Up until now, we've focused more on ensuring that financial reports are properly prepared, but we haven't yet established a mechanism to monitor Sharia compliance continuously. Sharia audits should be an integral part of the management process, not just a review conducted after activities are completed." (R1)

R3, a Sharia Supervisory Board member associated with a Sharia cooperative, emphasised that contract compliance alone is insufficient if wider governance and reporting do not reflect the applicable principles: "Sharia principles do not end with the contract. Governance, oversight, and reporting processes must also comply with Sharia principles to maintain members' trust." (R3) This statement is used as professional insight into Sharia governance, not as direct evidence that the Merah Putih Cooperatives represented by R1 and R2 have failed to meet such requirements. R4's position on timely audit attention is considered separately below.

R4 described the need for audit work that helps identify non-compliance risks before they become entrenched: "A Sharia audit should not only identify errors but also prevent irregularities from occurring, from the planning stage through to reporting. In this way, the audit becomes an integral part of the organization's control system." (R4) The statement expresses a preventive objective, but it should not be read as assigning auditors responsibility for operating day-to-day controls. Continuous compliance monitoring belongs to management or designated compliance functions; independent auditors examine those controls through appropriately scoped, risk-based engagements (Sani & Abubakar, 2021; Institute of Internal Auditors, 2020).

The perspective of the cooperative treasurer (R2) complemented the views of the other practitioners by emphasizing the importance of reliable financial recording, reporting, and accountability mechanisms. From the financial management perspective, the effectiveness of Sharia governance requires financial information to be systematically recorded and reported so that management decisions can be monitored and evaluated. The academic informant (R5) emphasized the importance of integrating Sharia governance, auditing, and internal control within a coherent institutional framework. From an academic perspective, the development of the model requires a clear conceptual relationship among the governance components rather than treating Sharia audit as an independent function.

R6 emphasised conformity with the regulatory framework, while R5 stressed that the links among governance functions must be conceptually coherent. Together with the operational concerns of R1 and R2 and the Sharia-specific perspectives of R3 and R4, these accounts support a proposal for better defined duties and reporting. They do not, however, establish that all participants supported the same organisational design. Any actual disagreements recorded in the interviews should be reported from the transcripts rather than inferred from professional roles alone.

Development of the Integrated Sharia Audit and Sharia Financial Governance Model (ISAFG Model)

The interviews suggest several possible points of coordination among Sharia-specific oversight, internal control, financial reporting, and the follow-up of governance concerns. They do not provide a documented causal sequence in which weak Sharia oversight demonstrably causes weak internal control and, in turn, lower transparency. ISAFG therefore treats these connections as theoretical pathways that require future observation and testing, while distinguishing what participants reported from what the authors propose.

The five ISAFG components were identified in the prior conceptual discussion and used to organise the interpretation of the stakeholder material. The reported accounts draw attention to practical questions about who is responsible for monitoring, how financial information reaches members and supervisors, and how specialist Sharia assurance could be incorporated. The revised model uses these questions to clarify responsibilities and feedback rather than portraying the five familiar components as newly discovered themes or claiming agreement across all sources.

The Integrated Sharia Audit and Sharia Financial Governance (ISAFG) Model links five proposed functions while retaining their different purposes. Sharia Governance defines the relevant Sharia mandate where the cooperative's activities call for it. Management operates the Internal Control System and documents transaction and compliance risks. Sharia Compliance Audit provides independent, risk-based assurance, rather than running preventive controls itself. Financial Transparency and Accountability addresses disclosure to members and other authorised users, while Continuous Monitoring and Evaluation follows the implementation of management's corrective actions. This arrangement is a proposed allocation of responsibilities; the study did not observe its implementation or test its effectiveness.

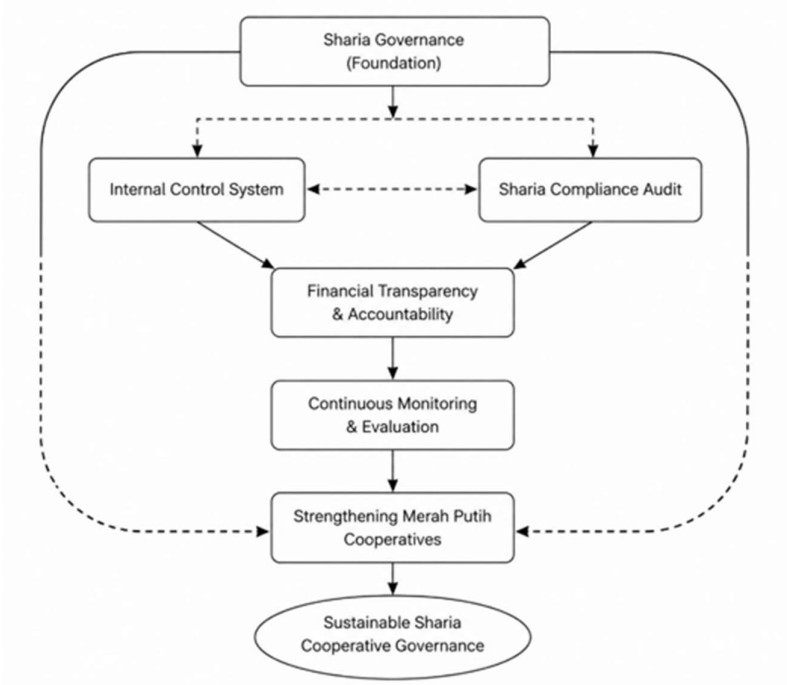


Figure 2. Integrated Sharia Audit Financial Governance (ISAFG) Model

Figure 2 presents five related governance functions, but the arrows should be interpreted as proposed lines of coordination and feedback, not as relationships demonstrated by causal analysis. Sharia Governance provides a normative direction only where applicable to the cooperative's activities. Managers own internal controls and routine monitoring; independent Sharia auditors, where engaged, evaluate compliance against documented criteria. Financial disclosure and accountability connect the governance process to cooperative members and the appropriate supervisory bodies. Monitoring reports should lead to recorded management responses and subsequent oversight review.

In operational terms, the sequence is not a transfer of control responsibility to auditors. Management establishes procedures and follows up exceptions; the Sharia supervisory function supplies specialist oversight within its mandate; and audit independently assesses the controls and reports findings. Feedback from monitoring and audit can inform revised policies and corrective action. These are mutually supporting but distinct activities, and their presumed benefits remain propositions for later empirical examination (Institute of Internal Auditors, 2020; Khalid & Sarea, 2021).

Each ISAFG component can be expressed in verifiable operational terms. For Sharia Governance, a cooperative must first establish whether Sharia-specific requirements apply and explicitly map its operations against relevant legal and normative criteria such as Ministry of Cooperatives and SMEs Regulation (Permenkop UKM) on Sharia Cooperative Governance and applicable DSN-MUI fatwas governing specific microfinance contracts (e.g., Murabahah,

Mudharabah, and Ijarah). Internal Control covers transaction authorization, segregation of duties, risk registers tailored to Sharia contract non-compliance risks, and management checks. Sharia Compliance Audit requires an independent audit scope, verifiable testing procedures (such as verifying physical underlying assets in sale-based financing), structured reporting, and systematic review of corrective actions. Financial Transparency and Accountability includes accessible financial statements to cooperative members and supervisory organs at Annual General Meetings (RAT), adhering to Indonesian Financial Accounting Standards for Sharia Entities (PSAK 101/SAS). Continuous Monitoring and Evaluation comprises management-owned monitoring logs, action owners, resolution deadlines, and verifiable evidence of issue closure. These proposed indicators provide practical guidance for implementation rather than procedures confirmed as fully operational across the sampled cooperatives (Sani & Abubakar, 2021; Ab Ghani & Shaharuddin, 2023).

Discussion

Integrating Sharia Auditing and Financial Governance to Strengthen the Merah Putih Cooperative

The interviews support a concern for clearer coordination between financial management, internal controls, and oversight, but they do not establish that all Merah Putih Cooperatives suffer from inadequate Sharia audits. That proposition would first require evidence that the institutions carry out Sharia-relevant activities and that the corresponding controls were examined. The ISAFG Model is therefore advanced as a conditional governance proposal. Its possible benefits for transparency and accountability are plausible objectives, not outcomes demonstrated by the present qualitative material.

Sharia audit literature already addresses the relationship between risk-based assurance, internal control, and institutional compliance. Sani and Abubakar (2021) propose a risk-based Sharia audit framework, while Ab Ghani and Shaharuddin (2023) discuss internal control as a prerequisite for an effective internal Sharia audit function. These studies provide more direct foundations for the proposed audit component than unrelated discussions of organisational management. They also show that the integration of audit and control is not, on its own, a new theoretical contribution.

The more specific issue is how those mechanisms fit a member-owned cooperative. Cornforth (2004) identifies distinctive governance tensions in cooperatives, including the relationship between democratic control and managerial expertise. ISAFG responds conceptually by retaining accountability to members and the General Meeting alongside Sharia-specific supervision where appropriate. It does not assume that banking-sector Sharia governance standards are automatically mandatory for every cooperative; the applicable obligations must first be matched to its legal status and actual transactions.

The proposed framework is thus an attempt to adapt existing Sharia governance and assurance concepts to cooperative decision-making. Its five components remain Sharia Governance, Internal Control System, Sharia Compliance Audit, Financial Transparency and Accountability, and Continuous Monitoring and Evaluation. Their proposed contribution is a clearer allocation of functions, criteria for Sharia applicability, and a pathway from audit findings to managerial follow-up and member accountability. Whether these arrangements are feasible in particular institutions requires further investigation.

Agency Theory explains why managers who control cooperative resources should account for their decisions to members, especially where information is unevenly distributed. Islamic Accountability adds ethical and Sharia-related obligations that extend beyond the conventional principal-agent relationship, but only where they are relevant to the institution's activities. Internal Control Theory addresses the procedures management operates, whereas Sharia Governance clarifies authority and normative criteria. Taken together, the theories suggest a proposition rather than a demonstrated effect: accountability may be stronger when member oversight, management controls, applicable Sharia supervision, and independent assurance have clearly separated yet coordinated roles (Cornforth, 2004; Khalid & Sarea, 2021).

A key distinction follows from this integration. Preventive monitoring takes place in everyday management and compliance activities; independent audit evaluates the quality of those activities and reports the result to an appropriate oversight body. For smaller cooperatives, independence may require periodic external support rather than a permanent audit unit. The proposed model therefore seeks proportional arrangements rather than assuming that every cooperative can sustain a full banking-style Sharia governance structure.

The integration of Islamic financial and audit governance in Merah Putih Cooperatives in Indonesia necessitates a strong alignment between normative accounting standards and operational realities in the field. Based on empirical findings, the implementation of Islamic accounting principles must extend beyond formal transactional record-keeping to thoroughly reflect the substantive transparency and accountability emphasized in institutional governance literature (Tonasa et al., 2025). In a broader context, the stability and resilience of Sharia-compliant financial institutions are profoundly influenced by how supporting instruments such as accounting standards and audit governance respond to both global and domestic economic uncertainty (Li et al., 2026). Therefore, strengthening the governance structure of Merah Putih Cooperatives requires an adaptive framework to ensure that sharia compliance goes hand in hand with the transparent protection of member and stakeholder interests. Furthermore, the effectiveness of this financial and audit governance integration must also be aligned with broader principles of social justice and sustainability, which correspond to the maqasid al-shariah approach within the modern Islamic financial ecosystem (Issa et al., 2025). A primary operational challenge in cooperatives often lies in the gap between administrative compliance and the implementation of substantive values, such as justice and public accountability. When confronted with market risk dynamics and policy uncertainties, institutional resilience can only be achieved if internal audit mechanisms and financial governance are capable of mitigating risks asymmetrically and responding effectively to external pressures (Issa et al., 2026). Consequently, reinforcing the governance of Merah Putih Cooperatives through the integration of Islamic finance and auditing will provide a more robust guarantee toward achieving inclusive, accountable, and sustainable governance.

The ISAFG Model as an Integrated Conceptual Framework

The ISAFG Model is an empirically informed conceptual proposal, not an evaluated governance intervention. Its starting point is the concerns reported by six participants and the literature on Sharia auditing, cooperative oversight, and internal control. The current material can support discussion of design priorities, but it cannot establish that particular audit weaknesses have caused financial reporting problems or that adopting ISAFG would improve organisational outcomes. The contribution should be assessed in terms of the framework's institutional specificity and logical coherence.

Established frameworks already integrate governance, controls, risk management, and audit. The Three Lines Model separates management's responsibility for risks and controls from the independence of audit (Institute of Internal Auditors, 2020), while risk-based Sharia audit literature sets out assurance approaches for Islamic financial institutions (Sani & Abubakar, 2021). Compared with those approaches, ISAFG proposes an explicit cooperative entry point: applicable Sharia duties, member-based accountability, separation of control and audit, and tracking of corrective action. These refinements are proposed adaptations, not evidence that integration itself originated in this study.

The proposal also avoids treating continuous Sharia audit and continuous monitoring as synonyms. An institution may monitor relevant indicators and compliance exceptions on an ongoing basis through management or a designated compliance function. Independent auditors can use those records to determine audit priorities, test controls and verify corrective action without assuming responsibility for operating the monitoring system. This separation is consistent with the concern for auditor independence discussed by Khalid and Sarea (2021).

Figure 2 should be read as a proposed governance cycle. Sharia Governance sets applicable compliance criteria; management translates them into controls and records; independent audit examines selected risks and compliance procedures; reporting communicates findings to the proper

supervisory body and cooperative members; and routine monitoring tracks management's corrective responses. The arrows indicate intended coordination or feedback, not established causal effects. A practical version of the model would need named action owners, deadlines, escalation rules, and evidence that recommendations have been addressed.

In a cooperative, those responsibilities sit within member-based governance. The General Meeting provides a forum for accountability, the elected management administers daily operations, and the supervisory arrangements scrutinise management within their legal mandate. Where Sharia activities are undertaken, specialist oversight should be connected to not substituted for, those cooperative functions. This institutional feature, rather than the mere presence of five governance boxes, provides the main direction for the ISAFG Model's conceptual contribution (Cornforth, 2004).

The proposed role of Sharia Compliance Audit is to assure explicit and applicable criteria. Before an engagement, the cooperative would identify the relevant transaction types and contracts, corresponding Sharia requirements and regulatory provisions, reporting standards, and indicators of non-compliance risk. Audit procedures would then test documented transactions and controls, report exceptions, and review management's response. Guidance developed for Islamic financial institutions can inform the design, but applicability to a Merah Putih Cooperative should be assessed rather than presumed (Mulyany et al., 2021; Sani & Abubakar, 2021).

The model's contribution is consequently narrower, but more defensible, than a claim to be the first integrated system of Sharia governance. ISAFG specifies a potential coordination framework for member-owned cooperatives that conduct Sharia-relevant activities, while recognising differences in institutional capacity and legal obligations. Further field testing is needed to determine whether the proposed relationships work in practice and whether the model improves accountability, compliance, or institutional sustainability.

Implications of the ISAFG Model for the Policies and Sustainability of the Merah Putih Cooperative

The practical significance of ISAFG depends on the size, business activities, and maturity of the cooperative. A small institution may begin by clarifying its legal and Sharia obligations, assigning control responsibilities, and preparing reliable records for members. A cooperative with more complex Sharia-related transactions may need more specialised supervisory advice and formal assurance. These are staged implementation options proposed by the authors, not interventions evaluated in this study.

Implementation would require more than a diagram: trained personnel, clear authorisation, accessible transaction records, a budget for independent review, and arrangements for reporting to members. Responsibility for monitoring should remain with management or designated compliance staff, while auditors review the arrangements independently. Where the necessary resources are limited, periodic risk-based assurance may be more practicable than a permanent audit function. The choice should follow the cooperative's risk profile and applicable requirements rather than a uniform prescription (Institute of Internal Auditors, 2020; Sani & Abubakar, 2021).

For policymakers and regulators, ISAFG could serve as a basis for considering proportionate governance guidance where Sharia-compliant cooperative activities are present. For supervisory personnel and auditors, it highlights the need to define authority, evaluation criteria, reporting lines, and independence safeguards. For managers and cooperative members, its principal practical proposal is a documented route from identified risks or audit findings to responsible corrective action and accessible accountability reports. Such arrangements are possible applications of the framework, not validated outcomes.

However, these implications should be understood as potential applications of the proposed model rather than evidence of demonstrated implementation effectiveness. Further empirical testing is required to determine whether the model can be effectively implemented across different organizational, geographical, and institutional characteristics of Merah Putih Cooperatives. Thus, the ISAFG Model is proposed as an empirically informed conceptual framework for strengthening Sharia-based cooperative governance. The model provides a

theoretically grounded basis for future implementation, refinement, and empirical validation. At this stage, the model should not be interpreted as a validated implementation guide because its effectiveness has not yet been tested across different Merah Putih Cooperative settings.

In relation to the existing regulatory framework, the findings of the ISAFG model demonstrate strong alignment with current national policies governing Sharia cooperatives in Indonesia. The integration proposed by the ISAFG model directly reinforces and operationalizes regulatory directives issued by the Ministry of Cooperatives and Small and Medium Enterprises (such as Permenkop UKM No. 11/2017 regarding supervisory standards for Sharia savings and loan cooperatives) as well as the governance and compliance guidelines established by the National Sharia Board–Indonesian Ulema Council (DSN-MUI). By embedding continuous Sharia auditing, structured internal controls, and transparent reporting into daily operations, the ISAFG model bridges the gap between formal legal requirements and practical management, ensuring that institutional activities strictly adhere to Islamic financial principles while maintaining state administrative compliance (Salleh et al., 2026).

However, the practical adoption of the ISAFG model at the grassroots level presents notable implementation challenges, particularly within rural cooperatives. In rural environments, institutional capacity is frequently constrained by limited human resources, insufficient digital infrastructure, and a shortage of personnel possessing dual expertise in both financial accounting and Sharia audit procedures (Zuhdi et al., 2025). These operational bottlenecks hinder the standardized execution of internal controls and continuous supervisory protocols. Addressing these rural-level challenges requires targeted capacity-building programs, simplified administrative tools, and proactive regulatory oversight from governmental and supervisory bodies to ensure that rural Sharia cooperatives can effectively operationalize the ISAFG framework without compromising institutional integrity.

CONCLUSION

This study develops the Integrated Sharia Audit and Sharia Financial Governance (ISAFG) Model as a conceptual response to concerns raised in a small set of cooperative and professional stakeholder accounts. The proposed model coordinates five familiar functions Sharia Governance, Internal Control System, Sharia Compliance Audit, Financial Transparency and Accountability, and Continuous Monitoring and Evaluation, while emphasising their different responsibilities. Its distinctive focus lies in adapting those functions to member-based cooperative accountability and specifying that Sharia-specific arrangements depend on an institution's legal status and actual business activities. The reported material supports questions about oversight, reporting, and the division of responsibilities; it does not verify all alleged weaknesses across Merah Putih Cooperatives or demonstrate that adopting the model improves transparency, compliance, or sustainability. The proposed links among the five components should therefore be regarded as conceptual propositions rather than established causal mechanisms. The study is limited by six informants with heterogeneous professional roles, limited documented evidence from cooperative operations, insufficient procedural detail in the submitted account, and the absence of implementation testing. Further research should verify institutional Sharia status, examine original governance documents and practices, explore disagreement between stakeholder groups, and pilot proportionate forms of the model before assessing its effectiveness across different types of cooperatives.

AI DISCLOSURE STATEMENT

The author declares that generative artificial intelligence (AI) tools were used solely to assist with language editing, grammar correction, and improving the clarity of the manuscript. All intellectual contributions, research design, data analysis, interpretation of findings, and conclusions remain the sole responsibility of the author. The author takes full responsibility for the content and integrity of this article.

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