DEVELOPMENT OF ISLAMIC ACCOUNTING STANDARDS: IMPLEMENTATIONS AND CHALLENGES

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ABSTRACT

This paper intended to explore the development and expansion of the Islamic accounting standards developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). It also identifies the implementation and challenges of adoption these standards by the Islamic financial institutions. Data was collected for this purpose through examination of documents and conducting interviews with some key players involved in the preparation of Islamic accounting standards. This paper found that there is limited knowledge of Islamic accounting standards by Islamic financial institutions and the accounting standards included a political component indicating that those regulating the systems of accounting protected their interests to the possible disadvantage of accounting and financial report users. This led to the suggestion that accounting staff in Islamic financial institutions will require more training sessions which will involve a major expenditure to be incurred to adopt AAOIFI accounting standards.

Keywords: AAOIFI, IFRS, Shari'ah, GCC

INTRODUCTION

The development of an Islamic accounting standard issued by AAOIFI has a unique history and is closely related to the development of the Islamic financial institutions. In light of the facts, the need for a separate Islamic accounting system was thought of by the financial experts of the Islamic institutions. Islamic accounting standards were necessary for the establishment of a financial structure that could emulate several economic principles laid down by the Shari'ah law (Khan & Hussin, 2013). Islamic institutions in the Gulf Cooperation Council (GCC) such as Dubai International Financial Centre (DIFC) has decided to use these standards as well. Presently, the United Arab Emirates (UAE), Bahrain and Malaysia are the leading Islamic finance centres (Savona & Mofakhami, 2009). Islamic finance has considerable potential to become a vital element in the GCC's aspirations to be a global financial service centre in the world. It has the potential to facilitate further innovation and competition in the wholesale and retail banking sectors and to support their commitment towards credit market expansion. The research underpinning this paper is primarily concerned with the development of Islamic accounting standards. The Islamic finance industry in the GCC countries is under significant pressure to enhance practices, improve risk management systems and protect investors (Deloitte & Touche, 2012).

PURPOSE AND RESEARCH OBJECTIVES

The overall aim of this paper was to provide an understanding of the Islamic accounting standards developed by the accounting and auditing organization for Islamic financial institutions and expound the benefits that flow of these standards. This paper also highlighted the implementations and challenges of adopting the AAOIFI accounting standards by the Islamic institutions. This paper will contribute to existing knowledge and practices not only in Islamic

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countries but also in western countries in terms of a deeper understanding of the development of the Islamic accounting standards and clarify the main challenges associated with these standards. Thus, the findings were primarily sought from the key people engaged in AAOIFI standards in different Islamic institutions. Their opinions were also sought about the internal or external issues of applying the Islamic financial transactions that might arise during their work experience.

LITERATURE REVIEW

A detailed discussion of literature is provided to identify the accounting and auditing organization for Islamic financial institutions. It focuses on the most relevant published studies to provide a brief overview of Islamic accounting beginning with the accounting standards applied in the GCC countries.

Many researchers have the view that the objective of conventional accounting is not in full harmony with Islamic socioeconomic objectives. In particular, Ahmed & Hussainey (2015) state that some conventional accounting standards are contradictory to the principles of Islamic accounting. Principles such as conservatism and the concept of historical cost have no importance in Islamic accounting. Ahmed & Hussainey (2015) further affirm that the matching concept of conventional accounting standards contradicts principles of Shari'ah because it considers revenue-expenses rather than the asset-liability approach. One of the main objectives of accounting in Islam is to uphold the accountability through Zakat, which is a concept in Islam that deals specifically with the measurement of assets.

The Islamic financial institutions face accounting and transactional problems that are unable to be satisfactorily dealt with using ongoing or current accounting practices in accordance with the prevailing conventional accounting standards (El-Khatib, 2018). Accounting standards such as international financial reporting standards, and generally accepted accounting policies more specifically known as GAAP, are structured with Western commercial institutions in mind, dealing with their problems and solutions. In other words we can say that these liberal accounting standards and accounting policies are not able to be applied to Islamic financial transactions (Hidayat, 2011). For example, transactions conducted under Shari'ah are prohibited from carrying interest charges, though no such prohibition exists in conventional accounting standards and policies, giving rise to a significant accounting problem.

Islamic investors frequently require additional information which is not mandated by International Financial Reporting Standards (IFRS), such as the amount of Zakat on which they should pay in respect of their shares. In most cases Islamic financial institutions are likely to provide this information voluntarily. For example, the UK's European Islamic Investment Bank provided a figure computed using AAOIFI's standards in its 2009 accounts (Amin, 2011). In particular, the United Kingdom has become the leading non-Muslim Islamic finance centre after introducing regulatory changes, including changes to the taxation of Islamic finance products (Sadiq & Black, 2012).

There are some forms of accounting that show incompatibility with Islamic principles. The Islamic principles that condemn Riba and such other practices were the primary reasons behind the modification of several banking operations' and rules regarding accounting treatments and disclosure requirements for international financial institutes such as the World Bank and International Monetary Fund (Abdullah, 2010).

The Islamic accounting standards became necessary for Islamic nations because of the non-applicability of some IFRS in Islamic institutions since IFRS were designed primarily for addressing the accounting problems of European and other western institutions (Hidayat, 2011). The IFRS were oriented more towards the conventional institutions, conventional product structures and practices and thus were inadequate in addressing the problems related to typical Islamic

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financial transactions (Ansari & Tabraze, 2018). The two main issues that create problems in the application of conventional accounting standards for Islamic financial institutions; the differences in the objectives of the users of accounting information and the differences in the contractual relationship between financial institutions and their stakeholders (Mustafa, 2003).

Sori (2017) stated in his research that AAOIFI separated the objective of financial reporting into objective of financial accounting and objective of financial reports. Consistent with Shari'ah requirements, objective of financial accounting mainly focus on the rights and obligations of all interested parties through providing information such as reports to enable them to make decisions, while the objective of financial reporting focus on determining of rights and obligations of all interested parties, to ensure all activities are in compliance with Shari'ah principles and to provide useful financial information to all stakeholders of Islamic financial institutions.

The accounting and auditing organization for Islamic financial institutions is used to prepare as well as issuing auditing, corporate governance, and accounting standards. Most important to note is that auditing and accounting body for Islamic finance maintains ethical issues and standards of Shari'ah concerning Islamic financial institutions (Guthrie & Lee, 2018). Since Accounting and Auditing organization about Islamic finance institutions is a private standard body was formed to promulgate auditing, standards of governance, and accounting standards basing on Shari'ah concepts. Most important to note is that such organizations have mandated and recognized to strengthen ethics, governance, accounting and auditing standards concerning standards of Shari'ah (Hassan et al., 2016). All these standards are practiced to alter reliable, transportable, and comparable information of auditing and accounting. The adoption and formulation of Islamic accounting and auditing standards in particular countries is done to enhance foreign investments, and strengthen the confidence of investors. In particular, the standards are practiced to establish financial statements in transparent manner for the users to prepare with ease. Furthermore, accounting and auditing organization for Islamic financial institutions are meant to establish thoughts of contemporary accounting to test consistence of Islamic Shari'ah laws (Hassan et al., 2016).

THEORETICAL FRAMEWORK

This section explains the philosophical basis on which the research project took place, and establishes the relationship between the theoretical aspects and practical components of this research investigation regarding the development of Islamic accounting standards issued by AAOIFI.

Background of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

The AAOIFI is a non-profit international organization which develops accounting standards, governance standards, auditing standards and ethics standards for Islamic financial institutions (Deloitte, n.d.). This organization was set up in 1991 for Islamic financial institutions which were established under an agreement of association. This agreement of association was signed by the Islamic financial institutions on 26 February 1990 in Algiers. This agreement of association was registered on 27 March 1991 in the state of Bahrain (AAOIFI, n.d. (e)). AAOIFI's standards have been adopted in the Kingdom of Bahrain, Dubai International Financial Centre, Dubai International Financial Centre (DIFC), Jordan, Lebanon, Sudan and Syria; such adoptions supported the implementation of AAOIFI's standards (AAOIFI, n.d (b)). The accounting organization was established on international level primarily not to gain profits, but to develop issuance of financial standards in Islamic industry around the globe. More than 100 standards have been issued in fields

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of accounting, Shari'ah, ethics, governance, and auditing for international Islamic finances (El-Hawary et al., 2017).

The AAOIFI has been supported by many institutional members, including 200 members from approximately 45 countries so far. The members list is inclusive of central banks, Islamic financial institutions, and it also includes other members such as Islamic banks and Islamic financial institutions that are serving the public all around the world (AAOIFI n.d.(b)). Some relevant authorities in different countries such as Australia, Indonesia, Malaysia, Pakistan, Kingdom of Saudi Arabia, and South Africa have issued guidelines based on AAOIFI's standards and pronouncements which include accounting, auditing, governance, ethics and Shari'ah-compliance (Ullah, 2013). International financial institutions have some liberty when implementing the opinions of their Shari'ah advisors, and the advice itself can be different between advisors. In this context, Austrade's (2010) publication on Islamic finance and the government's growing interest in accommodating Islamic financial products and services in Australia, recommended that interpretation by individual scholars will always play a role and the AAOIFI will help guide rule standardization and convergence (Austrade, 2010). The Accounting and Auditing for Islamic Financial Institutions is built on several members of institutions which involves auditing and accounting firms, legal firms, financial institutions, regulatory authorities, and central banks in over 40 states. However, the standards are currently practiced by most Islamic financial institutions around the globe. Islamic financial institutions have established high level of harmony of practices by international Islamic finance (Guthrie & Lee, 2018).

The Development of Islamic Accounting Standards Issued by AAOIFI

The AAOIFI establishes, prepares and issues accounting standards according to Shari'ah and their exposure drafts and composition with the help of a system which has a due process and uses the expert knowledge of the industry's practitioners (Ahmed, 1994). The AAOIFI's standards now include 86 standards in total in the areas of accounting, auditing, ethics, governance and Shari'ah (AAOIFI, n.d. (b)). The AAOIFI's standards have emphasized that the Shari'ah committee is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic financial institutions in order to ensure that they comply with Islamic Shari'ah rules and principles. Their role in financial accounting is to present the information which users of the financial statements of Islamic financial intuitions depend on to assess the bank's compliance with the precepts of Shari'ah. Thus, in order for the Islamic financial institutions to perform their role successfully, accounting standards need to be developed and complied with Islamic financial institutions. The progress of such standards must be based on clear objectives of financial accounting and established upon definitions of its concepts (Abdul Rahman, 2010).

AAOIFI carries out these objectives in accordance with the Shari'ah Law. This activity is intended both to enhance the confidence of users of the financial statements of Islamic financial institutions in the information that is produced about these institutions, and to encourage these users to invest or deposit their funds in Islamic financial institutions and to use their services (AAOIFI, n.d (b)). The adoption of accounting standards depends on the nature of financial institutions transactions as to where those standards are to be applied. In Islamic financial institutions there are four functions which are: investment management, investment, financial services, and social services. Based on these functions, AAOIFI designs its standards which are also consistent with the Shari'ah Law (Al-Abdullatif, 2007).

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Objectives and Characteristics of AAOIFI Accounting Standards

The objective of the AAOIFI standards is to promote the Islamic accounting system and organize the transfer of Islamic institutions and finance activities across national and regulatory contexts (Maurer, 2002). The AAOIFI has been successful in promoting its standards to Islamic financial institutions globally. Papers by the AAOIFI have proposed various objectives such as decision usefulness, stewardship, accountability of organizations towards society as main objectives of Islamic accounting standards (AAOIFI, n.d. (b)).

Ahmad (1987) noted the similarities and dissimilarities of these financing techniques in various institutions and she claimed that Islamic financial institutions is more interesting and complex than conventional financial institutions as the practices of Islamic financial institutions are more diverse and complex than those of conventional financial institutions. For example, Islamic financial institutions have been able to offer various kinds of financial products even though they are in the area of assets rather than liabilities. Ahmad (1987) added that Islamic financial institutions have been able to offer various types of financial techniques such as Murabaha, Mudharaba financing, Musharaka, profit and loss sharing basis, and Qard Hasan (Benevolent loan) which are the most widely used technique in Islamic financial institutions.

Ahmad (1995) analyzed the socioeconomic consequences of adopting the Islamic system of banking and finance. He illustrated that with the theoretical developments, the practice of Islamic finance has been growing rapidly, and there have been a number of contributions shedding light both on the operating procedures of Islamic financial intuitions as well as the results achieved in terms of deposit mobilization, profitability and achievement of Islamic socioeconomic objectives. Moreover, IFRS have been implemented and adopted by various Islamic financial intuitions. However, the Islamic financial intuitions specific requirements were not met by the IFRS (Khan & Hussin, 2013). As a result, in order to provide support to Islamic financial institutions, AAOIFI standards were developed. The standards for the AAOIFI have been created and developed in consultation with, and guided by, many well-known Shari'ah scholars, and has been accepted and implemented in several countries. Although the standards established by the AAOIFI are not binding on its members, over the last few years the organization has made significant progress in encouraging the widespread adoption of the standards (Hellriegel & Slocum, 1974).

To determine the obligations and rights of the parties emanating from incomplete transactions concerning the Islamic Shari'ah principles with fairness, compliances, and charity values of Islamic business (Mardini et al., 2018). Besides, AAOIFI is meant to safeguard the assets of Islamic institutions, as well as the rights of other institutions. The accounting and auditing organization for Islamic financial institution enhances productive and managerial abilities for Islamic banking. Also, it encourages the compliance of the policies and goals established in events and transactions of Islamic Shari'ah. Most important to note is that the accounting and auditing organization for Islamic financial institution is meant to provide thorough financial statements with reliable information to the users (Mardini et al., 2018). However, such financial reports enable the stakeholders to make effective decisions concerning Islamic financial institutions.

Conceptual Framework of AAOIFI Accounting Standards

The AAOIFI attempts to come up with a conceptual framework for Islamic accounting or accounting for Islamic financial institutions, which comprises qualitative characteristics and elements of financial statements, is much like the IASB's framework (Amin, 2011). In July 2010 the AAOIFI released its conceptual structure edition with the goal of incorporating the main objectives and basic principles of financial accounting (Mohd, 2016). The AAOIFI has a framework similar to the IASB's conceptual framework. The AAOIFI provides general rules for the

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Accounting Standards, which are more or less applicable to the Islamic financial institutions. The Conceptual Framework of AAOIFI shows that the qualitative characteristics in the conceptual framework are identical to most of the things found in the old version of the Conceptual Framework of IASB, *i.e.*, prior to the 2008 revision; the qualitative characteristics of AAOIFI consisted of five items: high quality, pertinence, reliability, comparability and prudence (AAOIFI, 2015).

The conceptual framework of AAOIFI ' identifies consumers and specifically specifies the financial reporting goals, their values, the components and the high-level principles behind the identification and assessment laws ' (Sutton et al., 2015). The framework of the AAOIFI includes coverage of objectives of financial accounting for Islamic financial institutions (Kelly, 1982).

The AAOIFI stressed that the reason for issuing the conceptual framework is threefold: first, establishing a common framework and demonstrating that the IFIs are compliant with Shari'ah in all material respects; second, providing Special partnership between IFIs and parties compared to conventional financial institutions where IFIs comply with Shari'ah rules and principles such as riba, gharar and maisir prohibitions; third, The information needs of IFI users are unique and complex and, thus, IFIs must generate financial reports that reflect these requirements (MASB, 2016).

Furthermore, Iqbal (1997) stated that the basic framework for an Islamic financial system is a set of rules and laws, collectively referred to as Shari'ah, governing economic, social, political, and cultural aspects of Islamic societies. Iqbal (1997) identified that the basic principles of an Islamic financial system which should be addressed by AAOIFI accounting standards can be summarized as follows:

a) Interest prohibition;
b) Money as potential capital;
c) Risk sharing;
d) Prohibition of speculative behaviour;
e) Sanctity of contracts;
f) Shari'ah approved activities

Key Parties Involved in the Preparation of AAOIFI Accounting Standards

Lewis (2001) defined Shari'ah as the path to the source of life ' is used as a legal system based on the code of conduct set out in the Holy Qur'an and the Hadith. The Islamic Financial Institutions (IFIs) industry has seen impressive developments in the last years. Such institutions were founded to fulfil Shari'ah obligations in serving Muslims forbidden to pay and receive Riba (Al-Ajmi, Saleh & Hussain, 2011).

AAOIFI in particular, is responsible for changing the face of Islamic finance and accounting. AAOIFI is an international autonomous not-for-profit Islamic corporate body that devises and sets accounting standards for various Islamic banks and Islamic financial institutions. AAOIFI takes into account the advice and suggestions conveyed to it by its institutional members. It then issues guidelines, principles and standards pertaining to accounting, auditing and ethics (AAOIFI n.d. (b)). The Kingdom of Bahrain was the main supporter and authority figure behind the launching of Islamic accounting standards; it produced 60 AAOIFI accounting, auditing, and governance and Shari'ah standards (Napier, 2009; Khan, 2010). Then later it was supported by the governments and financial experts from countries such as Jordon, Lebanon, Syria, Pakistan, Sudan, Malaysia and Indonesia (AAOIFI n.d. (e)).

On the other hand, Chua & Taylor (2008) stated that the existence of IASB contributed indirectly to the development of international Islamic accounting standards. If this institution was not in existence, there would have been no foundation and no groundwork for the development of

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Islamic accounting standards. The structure of accounting and auditing organization for Islamic financial institutions involves Board of Trustees, General Assembly, accounting and auditing board of standards, General secretariat, and Board of Shari'ah. The most crucial point to note is that accounting and auditing for Islamic financial institution builds some alternative Islamic standards in case; a) the equivalence of IFRS is not adopted by Islamic banks; b) absence of IFRS from IASB to recover particular practices of Islamic finance and banking (Marston & Shrives, 2015). Such standards made by Islamic financial institutions include; Ijarah versus IAS 17.

AAOIFI Accounting Standards and Persistent Challenges

The accounting and auditing organization for Islamic financial institutions closely followed Shari'ah principles while devising the accounting principles for Islamic countries. Due to the differences between other financial institutions and Islamic financial institutions, there are various challenges and issues of auditing in IFIs. AAOIFI, in particular, tackled the following four issues (Abdullah, 2010):

a) Misperception and unanimity in understanding Shari'ah law;
b) The lack of knowledge of in-depth finance opportunities;
c) Inadequate number of Islamic financial experts on accounting subjects; and
d) Shortage of literature and research on Islamic accounting and banking.

An important point to note is that from the very beginning, Islamic financial institutions suffered from their inability to handle the accounting irregularities, launch proper risk management practices and protection of investors' rights. So in order to safeguard these practices, Islamic financial institutions did feel the need for a new accounting standards system (Nor et al., 2018). It is assumed that the primary objective of accounting should be to help users make important investment decisions. Accounting can be regarded as a religious duty and in order to perform this duty, one must use divine accounting methods. Thus Shari'ah is considered as very important for an Islamic accounting system (Nor et al., 2018).

Kamla, Gallhofer & Haslam (2006) stated that financial institutions have sought to endorse their particular brand of corporate social and accounting responsibilities. They argued that accounting would not be limited to a specific financial basis and there is nothing to restrict the form of accounting. However, there are many differences in the accounting standards set by IASB and AAOIFI. AAOIFI accounting standards differ from the IFRS on issues such as leases, restricted contracts, and specialty investment accounting (Romzie et al., 2016). Differences between IASB and AAOIFI give rise to issues related to Islamic principles. Islamic financial institutions emphasize the fact that in order to carry out Shari'ah-compliant transactions, they need to follow an Islamic accounting system and standards as these are based on religious beliefs and principles (Romzie et al., 2016). Other issues regarding Islamic accounting are substance versus form, liability & equity, interest & dividend and ownership in Sukuk & Sukuk default (Karim, 2001). According to Boolaky (2004), some Muslim countries have adopted IFRS in its complete form, without modification, whereas some countries have only partially adopted these standards, making modifications based on local needs, such as Malaysia (Deloitte, 2010).

Auditing practices with sufficiency Shari'ah standards. The Islamic financial institutions are bound with the Shari'ah principles, which in turn depict desired elements of business transactions. However, such predicament has enabled Islamic banks to introduce their own financial report processes that are not regulated (Nadzri, 2019). The auditing standards insufficiency that guides the principles of Shari'ah may alter to misinterpretation of the rulings. This, therefore, creates platforms of legitimacy to act against the law of Islamic financial institutions.

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Furthermore, there is absence of direct influence by top management since Shari'ah auditors act independently. However, the Shari'ah auditor's integrity is yielded in case they have independent opinions against Islamic financial institutions. Most important to note is that the Shari'ah Supervisory Board has to implement strategies of governance for effective transactions with strict principles of Shari'ah adhered accordingly. Also, the nature of independence by the Shari'ah supervisory board involves the supervision of Islamic financial institutions' operation and products as they conduct audits of Shari'ah at the same period (Naim et al., 2016). In particular, there is absence of separation of duties that is entailed in the practices of Islamic good governance. Therefore, the Islamic financial institutions have to re-monitor the needs of management independence to prevent issues of misperception of Shari'ah auditors and Shari'ah supervisory board stakeholders.

Besides, Shari'ah auditors have inadequate qualifications. The auditors in this case are supposed to offer services to Islamic society by putting emphasis on other contemporary issues. This is because the auditors in Shari'ah community are not only meant to account for the transparency of financial statements, but also to ensure proper utilization of funds in Islamic financial institutions. Therefore the auditors must fulfill the qualifications of accounting issues sin both conventional and Shari'ah auditing (Naim et al., 2016). The Shari'ah auditors have to possess sufficient knowledge in all accounting and finance related fields to fulfill their roles in Islamic financial institutions. According to research, there are few practitioners of auditors that have full qualifications in Shari'ah auditing. The absence of qualified Shari'ah auditors in both conventional and Shari'ah auditing may hinder the industry of Islamic finance. The mission and vision of Shari'ah may fail due to inexperienced auditors to match with the guidelines and regulations of Islamic financial institutions (Ousama & Fatima, 2017).

RESEARCH DESIGN AND METHODS

This section discusses the research methods employed in this study to achieve the research objectives. Description and understanding of the methodology is required for scientific research, in order to achieve the results (Gauch, 2003).

Unstructured Telephone Interviews

Telephone interviews were selected as a data collection approach for this study providing a greater volume and depth of data to enhance the research. The interviews were conversational in tone during which the researcher and participants exchanged information about the topic of research and their views on the matter. According to (King & Horrocks, 2010) conversational interviews give opportunity to derive unexpected information. Unstructured interviews were deemed the most appropriate for this study. In the unstructured interviews, the questions concentrated on a number of particular points, but offered certain flexibility and scope for the interviewer to elicit further information from the interviewee (Bryman, 2007). Unstructured interviews also allowed the interview questions to vary according to the role of the interviewee and their particular experiences. This method provided opportunities to discover issues not considered previously and then helped to answer the research questions (Kosonboov, 2004).

The interviews which were used in this research phase were conducted *via* telephone with twelve of the key people engaged in Islamic accounting standards in different Islamic institutions. The researcher maintained careful control over the interviews. The interviewer noted down responses to the questions on the interview guide, and any diversions from the telephone interview guide were noted, along with the answers given.

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Design of Interviews

Interview appointments were arranged and conducted by telephone. At the beginning of each interview session the researcher explained the purpose of the study and the contributions that interviewees could make to the study. Each interview lasted between 15 to 30 minutes. During the interviews attempts were made to answer all the interview questions; issues that were expected to be sensitive were left until the end of the interviews, as according to (Healey & Rawlinson, 1993) the longer that interviewees are in discussion with the researcher the more likely it is that their trust and confidence will increase. Although the researcher tried to adhere to the sequence of the interview themes, the content of the interviews was largely governed by the flow of the interviewees' thoughts. Occasionally the researcher would probe for more explanation, or interrupt to ensure the interview session remained on track. Throughout all the interviews, the researcher made notes, with the permission of the interviewees.

Following were the main questions used in the interviews:

- What were the reasons behind the introduction of AAOIFI standards?
- Identify the key parties involved in implementation of AAOIFI accounting standards
- What is the appropriateness of AAOIFI accounting standards
- What are the Potential benefits of AAOIFI accounting standards
- What are the problems of implementing AAOIFI accounting?

Population, Sampling and Interviewees

The target population for the study was substantially limited. It consisted of some of the key persons involved with AAOIFI standards and Islamic institutions transactions in the GCC countries, comprised of members of the Fatwa and Shari'ah Supervisory Board, litigation managers in the Islamic banking sector and members of the board of trustees of AAOIFI. Guest, Bunce & Johnson (2006) suggested that saturation often ensures around twelve participants in consistent groups. This was consistent with our research. Twelve interviewees were selected because they were involved with Islamic financial institutions on a daily basis and it was expected that they had an understanding of the Islamic accounting standards.

Background of Interviewees

The following table shows a list of the interviewees with their general background outlined. Seven of them have a PhD degree and five participants have a Master degree. Also, all the interviewees have more than 14 years' work experience.

Table 1
INFORMATION ABOUT INTERVIEWEES

Sl. No.	Level of education	Experience	Current Financial Institution	Current Position
1	PhD	26 years	Dubai Islamic Bank	Member of the Fatwa and Shari'ah Supervisory Board
2	Master Degree	14 years	Dubai Islamic Bank	Legal Manager
3	PhD	19 years	Sharjah Islamic Bank	Member of the Fatwa and Shari'ah Supervisory Board
4	PhD	16 years	Sharjah Islamic Bank	Head of Litigation
5	PhD	19 years	Abu Dhabi Islamic	Member of the Fatwa and Shari'ah Supervisory

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			Bank	Board
6	Master Degree	15 years	Dubai International Financial Centre	Litigation Manager
7	PhD	18 years	Bahrain Islamic Bank	Member of the Fatwa and Shari'ah Supervisory Board
8	MBA	20 years	AAOIFI	Member of the board of trustees- Board Member Kuwait Accountants and Auditors Association
9	PhD	17 years	AAOIFI	Member of the board of trustees – Saudi Organization for Certified Public Accountants
10	Master Degree	18 years	AAOIFI	Member of the board of trustees – Partner Deloitte & Touche - Middle East

DESCRIPTION OF RESULTS

It was difficult to analyze and interpret the qualitative data as it was unstructured in nature. Indeed, dependability and credibility, rather than reliability, was considered to be a more appropriate determination for qualitative research; that is, under this criterion, the ability of the researcher to conduct the research credibly, and the credibility of the outcomes, served as a determining factor in reliability. Tracy (2010) proposed a framework of criteria for determining the reliability and validity of qualitative research. These criteria have been applied in this study, and these include "(a) worthy topic, (b) rich rigor of the study, (c) sincerity the researcher, (d) credibility of the researcher, (e) resonance of research, (f) significant contribution, (g) ethics, and (h) meaningful coherence" (Tracy, 2010). According to Gravetter & Forzano (2011); validity is achieved in qualitative research when the data is collected in depth. The data in this study was analyzed to identify and explore the various themes arising from the interviews. This shows that all the findings generalized from the qualitative data were authentic and thus formed a basis from which to derive valid conclusions and obtain answers to the research questions. The following sections discuss the qualitative findings of the research generated from in-depth unstructured interviews. These findings will serve to examine in further detail the significant issues relating to the role of key players of AAOIFI.

Reasons for Introduction of AAOIFI Accounting Standards

The first question asked related to the reasons for the introduction of AAOIFI Accounting Standards. In general the issue of the introduction of Islamic Accounting Standards in the GCC countries arises because the GCC are predominantly an Islamic countries and like all other Islamic countries, its people put a high emphasis on religious principles. This is why when it comes to the Islamic principles of Riba, Zakah, Mudharaba, Musharaka, and so on, Islamic financial institutions feel compelled to discard the accounting principles set by the IASB and use Islamic principles. The majority of interviewees illustrated that both Shari'ah principles and the commercial law have influenced Islamic financial transactions within Islamic financial institutions. It was clear from the interviewees' comments that AAOIFI standards were developed to support compliance with Shari'ah principles and Islamic culture and to follow the commercial law.

The interviewees stated that as the whole of the Islamic world was coming into prominence with phenomenal economic growth, it became imperative for the financial experts in this part of the world to develop a new unified accounting standards system that would cater for the whole region. Some interviewees mentioned that the reason for introducing the Islamic accounting standards in the GCC countries is the growing demand by some Islamic institutions for AAOIFI standards. They also mentioned the influence of some institutions in neighboring countries, such as the influence in

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the Gulf area which has already introduced the Islamic accounting standards and this has an impact on the institutions in the GCC countries due to the strong partnership of GCC with these countries. One interviewee also stated that the GCC countries are not a member of the International Federation of Accountants (IFAC) which means it did not have to submit to the international pressure to adopt IFRS and can abandon the IFRS principles later and then adopt the Islamic accounting standards.

Other interviewees stated that Islamic authorities all over the world had gradually started opting for Islamic accounting standards developed by the AAOIFI. Being a vital supporter of the Islamic world, GCC countries too had to show compatibility with the standards. In 2004, with the introduction of the Dubai International Financial Centre (DIFC), the GCC gave its approval to the adoption of the AAOIFI Islamic accounting standards. The interviewees also pointed out that Islamic accounting standards are based more on Islamic beliefs than on the technicalities of accounting; every practising Muslim does look for a Shari'ah-followed transaction. That is why AAOIFI came into existence with its Shari'ah-abiding laws that were suited well to the nature of financial transactions taking place in the GCC countries. The interviewees stated that with the adaptation of Shari'ah law-based accounting principles, GCC's several Islamic banks and other prominent financial institutions would start applying these principles in domestic and international transactions. Domestic transactions, in particular, would be benefitted by its adoption as the concerned natives would start believing that their transactions were now Islamic.

Identification of Key Parties Involved in Implementation of AAOIFI Accounting Standards

The second question asked was about the key parties involved in the implementation of AAOIFI Accounting Standards in the GCC countries. It has been indicated by the interviewees that the Dubai International Finance Centre (DIFC) were the first organizations that followed Islamic Standards in the UAE. One interviewee illustrated that DIFC is an independent corporate entity and has its own financial risk regulator. This regulator is known as the Dubai Financial Services Authority or (DFSA). DIFC together with other autonomous independent authorities such as the DIFC courts and Dubai Financial Services Authority (DFSA) lobbied regulators and accounting standards setters in the UAE to adopt Islamic accounting standards to establish legislation that economically benefited its business operations. Thus, evidence exists which suggests that interest groups lobbied for the adoption of AAOIFI accounting standards.

Another interviewee said that together with other autonomous independent authorities such as the DIFC courts and DIFC, DFSA amplifies the business operations of several prominent business corporations. The other noteworthy authorities that were instrumental in the introduction of Islamic accounting standards were AAOIFI and the Finance Ministry. However, it seemed to be an absence of knowledge of Shari'ah principles in the GCC financial institutes. In this way, the whole process of the implementation of Islamic accounting standards in the GCC countries would be taken care of.

Appropriateness of AAOIFI Accounting Standards

The third question asked was about the Appropriateness of AAOIFI Accounting Standards Previous studies, such as Hitchins, Hogg & Mallett (2001); argued that the AAOIFI standards creation was based on Shari'ah principles. It was commented by some interviewees that Islamic financial intuitions should cease adoption of IFRS with which Muslims investors in the Islamic environment were unfamiliar, and instead use the standards of the AAOIFI which take into account the Shari'ah requirements. Some interviewees remarked that Islamic financial intuitions must follow the rules set out in the Shari'ah principles; the applicability of IFRS is difficult to implement in particular financial transactions, such as Riba, Zakat, Mudharaba and Musharaka which were

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designed to follow Islamic principles. So, the findings suggest that AAOIFI standards will gain advantage from the specific issues involved in applying IFRS with respect to the identified Islamic financial transactions in Islamic financial intuitions. Therefore, the interviewees opined that the AAOIFI standards were based on the objective of implementing Shari'ah principles in accounting practices with regard to these issues.

The findings also reveal that there were some sectors in the GCC economy that prefer to implement AAOIFI accounting standards where financing was prohibited, and to support financing in other areas with the use of instruments such as Murabaha (Profit sharing), Ijarah (Lease financing) and Istisnah (Advance purchase). An interviewee also, illustrated that in other sectors such as the real estate development sector; some developers in the GCC countries are leading the global Islamic economy with serviced apartments that are Shari'ah compliant from their direct financing to their properties. Some developers also launched the fully certified Shari'ah-Compliant serviced apartment hotels in the GCC countries.

Potential Benefits of AAOIFI Accounting Standards

The forth question asked was about the potential benefits of AAOIFI Accounting Standards. Some interviewees claimed that AAOIFI was created for Islamic financial institutions and it's more acceptable to the Muslim communities. Other interviewees also indicated that AAOIFI accounting standards will lead to a representation of Islamic financial products in Islamic financial intuitions and cover all Islamic financial transactions. Moreover, one interviewee indicated that AAOIFI accounting standards are compatible with the beliefs and culture of local investors, and abide by the principles of Shari'ah.

Another significant issue was highlighted in the interviewees' comments. It was pointed out by the interviewees that AAOIFI standards promote the concepts of fairness, justice and social balance, as suggested in the Shari'ah principles. Shari'ah law embodies principles of justice and fairness and aims to secure a balanced society in an Islamic community. Hence interest rates, gambling and taking excessive risk, were prohibited to protect the social lives of Muslims.

Moreover, some interviewees mentioned that the adoption of AAOIFI standards will enhance the confidence of investors regarding Islamic financial institutions in the GCC countries, and it will benefit and increase the size of its investments. A member of the Fatwa and Shari'ah Supervisory Board stated that AAOIFI standards solved most of the common requirements of GCC's Islamic banks and other financial institutions. These accounting standards are very transparent and easy to follow. Simultaneously, these accounting principles were in accordance with the holy teachings of Quran, thus it won the trust and confidence of investors and native citizens of the GCC countries.

Implementation of AAOIFI Accounting Standards

The fifth question asked was about the implementation of AAOIFI accounting standards and the related problems. In this light, some interviewees indicated that the accounting and auditing organization for Islamic financial institutions will be beneficial in adopting its accounting standards as there seemed to be an absence of knowledge of Shari'ah principles amongst the majority of the professionals and employees in Islamic financial intuitions. Some interviewees also suggested that AAOIFI should take guidance from IASB, create an advisory group, provide education to the accounting professionals of Islamic financial intuitions and engage professionals from the finance industry to meet its goals of both timeliness in completing projects on its agenda and adopting a rigorous due process in developing its standards.

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Shari'ah principles were a major source of guidance in the development of the AAOIFI standards. The findings indicated that the extent, to which Shari'ah principles are observed within the settings of AAOIFI accounting standards, is dependent on the efforts of AAOIFI key players. The development of AAOIFI accounting standards was based on Muslim societies' religious needs to solve accounting problems. Thus, in the light of an increased number of operations at an international level, where the Islamic financial intuitions are contributing significantly to international trade with other Muslim countries, some interviewees mentioned that the development of AAOIFI standards is beneficial because these can provide clear guidelines to record the Shari'ah financial transactions in an Islamic way in the Islamic financial intuitions.

Problems of Implementing AAOIFI Standards

Financial statements prepared under accounting standards that differ from IFRS will possibly give rise to problems of comparability, creditability and reliability relative to financial statements prepared globally (Lovett, 2002). Some interviewees mentioned that the adoption of AAOIFI accounting standards would not be an optimal solution for Islamic financial institutions. Because, the issue of implementation of AAOIFI standards will give rise to economic and accounting problems, for example, they will increase restrictions on foreign investments and international transactions. Other interviewees also indicated that even with the current level of training offered by AAOIFI, the number of training sessions and their appropriateness are still not adequate. Islamic financial institutions need to develop an accurate understanding of the Islamic Shari'ah principles by providing proper education and training to their employees related to Islamic accounting and banking, and encouraging more research to be undertaken on these issues which will involve extra costs of training and the need for adaptation of appropriate IT systems and consultancy services.

CONCLUSION

The findings indicate that even though many countries of the GCC region had already started complying with the AAOIFI standards which were progressively gaining support from different institutions, and served the needs of accounting at the local level with respect to religious and cultural purposes. It was found that factors related to economic issues are over-ridden by religious and cultural factors in the accounting systems of Islamic financial institutions. Additionally, the accounting standards included a political component indicating that those regulating the systems of accounting protected their interests to the possible disadvantage of accounting and financial report users. The findings also indicate that there is limited knowledge of AAOIFI standards by Islamic financial institutions professionals, and that can be attributed to their ineffectual education and training. Thus, the research findings show unanimity with regard to the difficulty in understanding Shari'ah principles and Islamic standards, the lack of in-depth knowledge of Islamic financial transactions, the inadequate number of interested candidates and Islamic financial experts engaged in accounting and a shortage of literature and research available on the subject of Islamic accounting and banking. This led to the suggestion that accounting staff in Islamic financial institutions will require more training sessions which will involve a major expenditure to be incurred by these Islamic banks to adopt AAOIFI accounting standards.

It was also revealed from an analysis of the interviewees' answers that there are deficiencies in accounting practices reflected in the environment and culture of Islamic financial intuitions locally, as well as the influence of western culture on the regulations in Islamic financial intuitions. Furthermore, the findings ensure an awareness of issues that may develop when Islamic financial intuitions commence the transition to AAOIFI standards, such as the prevention of FDI, affecting

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the relationship with the big four accounting firms, giving rise to certain costs of time and sources and limiting the comparability with financial statements of other financial institutions. Henceforth, this study highly recommends that before the adoption of AAOIFI standards, the related costs should be questioned.

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