Level of Maqāsid ul-Shari'āh's in financial reporting standards for Islamic financial institutions

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Received 29 March 2020
Revised 21 April 2020
5 August 2020
20 September 2020
10 October 2020
Accepted 28 October 2020

Abstract

Purpose – This study aims to measure levels of Sharīʿah-compliance in Islamic financial institutions (IFIs) financial reporting standards with the objective to investigate the application of Maqāsid ul-Sharīʿah as a compliance measure reflected in the reporting standards.

Design/methodology/approach – This paper adopts Maqāsid ul-Sharīʿah's model to measure levels of Sharīʿah-compliance amongst three available financial reporting frameworks and presentation standards; international financial reporting standards (IFRS), accounting and auditing organization for Islamic financial institutions (AAOIFI), Pernyataan Standar Akuntansi Keuangan (PSAK) Syariah. NVivo 10 software is used in this paper to help measure quantitatively the compliance level of each standard.

Findings – The findings suggest that the use of Maqāsid ul-Sharīʿah leads to a more complete understanding of how the meaning of Sharīʿah and its values can be integrated into the demands of financial reporting, and hence, offering greater convergence between ethics and accounting regulations amongst IFIs.

Originality/value – It documents different context of content analysis that takes examples of Islamic financial reporting studies and uses both classical and contemporary theoretical bases. The main outputs are designed for standard setters and policymakers with expectation for Sharīʿah objectives (i.e. Maqāsid ul-Sharīʿah), to be embedded in the preparation of financial reporting standards for the IFIs. Hence, they will be able to show their full accountability then gain better trust from the stakeholders.

Keywords Islamic finance, Content analysis, Financial reporting, IFRS, AAOIFI, PSAK syariah

Paper type Research paper

1. Islamic financial institutions and financial reporting

Islamic Financial Institutions (IFIs) operate under an ethical business framework drawn by Sharīʿah [1] reinforcing the responsibility imposed on them by the very title they carry (Haniffa and Hudaib, 2007; Asutay, 2012). Therefore, it is expected that financial transactions and contracts underline fairness in economic activities and behaviour amongst all parties. However, in practice, ethical principals are not fully embedded in all parts of business operations, including accounting. In practice, Duska *et al.* (2011) argue that both individuals and the system give in to temptations, and both must be guarded with serious treatise on ethics. They portrayed this argument with the example of the Arthur Andersen case in 2002 where it succumbed to a systemic temptation; a collaboration between individuals and the system. The corporate scandals demonstrate the need for modifying accounting standards with more weight towards accounting ethics. Ethical considerations that determine whether accounting treatments are not reflected in the regulation of accounting (Carter, 2007, p. 5). For instance, ethics prohibits the practice of certain

Author would like to express her gratitude to Prof. Thankom Arun and Prof. Mohammad Hudaib for commenting the earlier version of this paper. She is also indebted to the journal editors and anonymous reviewers for their constructive views.

Journal of Islamic Accounting and Business Research
Vol. 12 No. 1, 2021
pp. 60-77

1759-0817
DOI 10.1108/JIABR-03-2020-0090

accounting treatments such as tax evasion, political donation and aggressive earning management. Although the reporting standards are linked to efficient markets and better resource coordination arguments, the corporate scandals indicate a genuine argument to integrate ethical elements into the accounting standards and financial reporting.

IFIs centre their commercial activities based on products that are socially balanced and Islamically vested. IFIs are prohibited from charging or paying all forms of interest (*riba*), and are not allowed to engage in speculation, therefore they introduce a risk-sharing model (Beck *et al.*, 2013). The Islamic commercial transactions replace interest with cost plus mark-up *(Murābahah)*, forward sales and manufacturing contracts with margins (*Salam* and *Istisnā)*, partnership with profit-loss sharing *(Mudhārabah/Musyārakah)*, rent with rental charge *(Ijārah)* and fee-based services *(Wakālah)*. Besides having different and unique transactions, the IFIs are urged to disclose unethical transactions known as "non-halal income" and perform social roles in society through payment of *Zakat* and mobilising finance programmes to enhance real sector-based-economy. Haniffa and Hudaib (2007) argue that IFIs are not only financially but also morally accountable for their business behaviour, and are expected to communicate evidently on a number of commitments in their annual reports. Therefore, there is a need to present IFIs' operation in a specific financial reporting mechanism.

Currently, most IFIs prepare their financial reports based on an eclectic set of accounting standards carefully borrowed from the International Financial Reporting Standards (IFRS) and the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards. Countries with the fastest growing IFIs, such as Malaysia, Iran, Saudi Arabia and the UAE, strictly follow their national commitment of full adoption of IFRS. Surprisingly, although it is amongst the fastest group, Indonesia has opted to exclusively adopt the locally developed financial reporting standards, PSAK Syariah [2]. It means, at least there are three formats of financial reporting for IFIs i.e. IFRS, AAOIFI and local standards such as PSAK Syariah that lead to confusion amongst the users on which standards must be followed.

As IFIs are bound to show their commitment to Sharīʿah, thus their financial reporting standards should be measured on which level they convey the message of Sharīʿah using *Maqāsid ul-Sharīʿah* (the ends or objectives of Sharīʿah). Sharīʿah's ontology of constituting reality and leading individuals to understand the existence and purpose of life has an epistemology referred to as *Maqāsid ul-Sharīʿah*, which helps guide individuals with day-to-day activities and fulfils Sharīʿah' ontological objectives. In this paper, *Maqāsid ul-Sharīʿah* offers evidence on the choice of financial reporting standards the users should be in favour of.

Then, a research question of this paper is to what extent does the application of *Maqāsid ul-Sharīʿah's* model measure levels of Sharīʿah-compliance in IFIs financial reporting standards? The objective is to shed light onto the diversity of reporting standards amongst IFIs to fulfil the Sharīʿah requirement in their operation, and the challenges in formulating a set of accounting guidelines to observe the elements of Sharīʿah in its intended spirit. This paper adopts content analysis approach but it is different from other content analysis studies (Unerman, 2000; Guthrie and Abeysekera, 2006; Steenkamp and Northcott, 2007; Krippendorff, 2012) because the examination uses both classical and contemporary theoretical bases.

The article proceeds as follows. It begins by a discussion on the conceptual framework for financial reporting standards amongst IFIs, followed by Section 3 on ethics and *Maqāsid ul-Sharīʿah* as the analytical framework of the study. Section 4 discusses the results through content analysis, followed by a discussion in Section 5. Finally, Section 6 presents a conclusion and recommendation for future study.

2. Conceptual framework for financial reporting standards amongst Islamic financial institutions

A conceptual framework is regarded as the main parameter by which to judge the quality of financial reporting standards, which determines the direction of the standards. The main purpose of the conceptual framework is to provide useful information to various users, particularly investors, in making decisions (Nobes and Parker, 2012). It must be frequently updated to cater for changes in the accounting environment, such as national regulations. Usually, the framework describes the current scope and aims of published financial reports, public accountability, working concepts, users of the reports, principles that rule in and rule out and means of measuring and reporting (Karim, 1995; Alexander and Britton, 2001; Ohlson *et al.*, 2010).

In September 2010, the International Accounting Standards Board (IASB) revised the first chapter of the conceptual framework and decided to replace the prudence concept with the neutrality principle. This decision invited criticism because prudence (or conservatism) means verification before making a legal claim to a profit. However, as prudence also expresses conservatism worried the IASB because prudence can lead to excessive conservatism [3]. If this occurs it creates two problems i.e. during an economic upturn, profits are artificially depressed and investors might miss out on a good investment opportunity; and during the downswing of the economic cycle, where hidden reserves can be used to artificially increase an entity's earnings (Hoogervorst, 2012). However, as neutrality means free from bias, these assumptions (i.e. the effect of economic upturn and downswing) will be neutralised with professional judgements introduced by IFRS. Nevertheless, the European Union Parliament (EUP) expressed its disagreement on the write-off of the prudence concept and urged IASB to bring in the concept into the IASB's conceptual framework (PwC, 2020). EUP demanded the IASB to take into consideration the voice of EUP members as they are the main sponsor of IASB (contributing €7.1m or one-third of IASB stipend). The UK Financial Reporting Council also urged IASB to reintroduce the prudence concept to ensure all losses and liabilities are reflected promptly and gains are not recognised except where there is adequate evidence (FRC, 2020). This is to show how the accounting concept really matters when it comes to the commercial interest of one's party. Nevertheless, for the purpose of this research with regard to IFRS, prudence and its replacement (neutrality), as well as conservatism are still included in the analysis as both meanings are still relevant. Besides prudence, faithfully represented is re-emphasised in the IFRS and this characteristic covers the old meaning of reliability.

In regard to AAOIFI conceptual framework, it came into effect on 1 January 2011 supersedes the Statement of Financial Accounting No. 1: Objectives of Financial Accounting for Banks and Financial Institutions, and Statement of Financial Accounting No. 2 (amended): Concepts of Financial Accounting for Banks and Financial Institutions. As for the PSAK Syariah framework (PSAK for Islamic Business Entity), the last edited revision was on 1 January 2008 when it replaced the PSAK framework for Islamic Banking.

IASB, AAOIFI and IAI [4] have their unique histories when it comes to formulating their conceptual frameworks. For example, the challenges faced by IASB such as the controversy on the prudence concept were not experienced by the other two standard setters. However, the differences exist between AAOIFI and PSAK Syariah standards on the terms used, such as Zakat, *Qard* and charity. AAOIFI is of the opinion that Zakat can be combined with other donations, while IAI opts that the Zakat fund should be treated separately as it is dedicated solely to certain recipients as indicated in the PSAK Syariah No. 101 (para 70). On the other hand, AAOIFI explicitly mentions the *Qard* fund without it being merged with other types of charity funds, while IAI treats it as a general charity fund covering donations other than Zakat and *Qard* funds. Although both standard setters offer financial reporting standards for IFIs but they come up with their own preferences. These differences indicate the need for IFIs to adhere to a unified Sharīʿah-based reporting standard otherwise the users cannot compare IFIs' financial reports (comparability as one of accounting characteristics).

Sarea and Hanefah (2013) argue that AAOIFI's standards are ideal for IFIs as they disclose adequate information to the users vs the adoption of IFRS by IFIs, which has not been fully accepted and ignores issues in measurement, recognition and presentation of Islamic financial activities. For IFIs, adopting IFRS cannot embrace any part of other standards such as AAOIFI or PSAK Syariah as IFRS states its exclusiveness in IAS 1. In general, these three standards have initially different purposes i.e. IFRS is presented for all commercial entities, AAOIFI is prepared only for IFIs, while PSAK Syariah is offered for Islamic business entities.

Given the apparent significant differences and purposes amongst the three frameworks adopted by IFIs worldwide, an instrument of assessment is constructed for each framework on the content of financial reporting. In countries such as Malaysia, Iran, Saudi Arabia and the United Arab Emirates, IFIs need to amend the accounts with additional Islamic financial parameters required by the local regulatory agencies in relation to ethical reporting and Sharīʿah requirements. This has led the argument to adopt a converged framework based on Sharīʿah and to detach the IAS/IFRS standards from the existing practice altogether. However, amending IFRS-based financial statements would be a challenge because of the Sharīʿah values, which do not permit practical amendments, but a converged framework would address the issues of comparability, reliability and compliance (Karim, 2001; White, 2004; Triyuwono, 2004; ACCA, 2010; Wan Abdullah *et al.*, 2011; Sarea and Hanefah, 2013). The debate about the conceptual framework between AAOIFI and other standard setter also exists. Sori and Ramadili (2019) argue that AAOIFI is a standard setter established specifically to address financial reporting issues of IFIs, while, the Malaysian Accounting Standards Board (MASB) is a national standard setter that addresses accounting issues of all industries. Thus, MASB's conceptual framework ensures that all industries (not only IFIs) would provide information for capital providers to assess future net cash flows and estimate the value of the reporting entity.

3. Ethics and Maqāsid ul-Sharīʿah in financial reporting

Emile Durkheim (1858–1917) perceives ethics in an evolutionary approach where society and its structures influence individuals through social norms and facts, common sentiments and social currents. Furthermore, he argues that ethical theory must begin with facts, and not moral judgements found in societies because they would hardly be disputed. Durkheim treats moral phenomena as conditioned both socially and historically (Ginsberg, 1951), but never confronted the content of the ethical code, and recognised the relativism of the ethical code that reflects the interest of a society.

In Islam, the ethical life represents the ways in which moral categories are organised and legitimated by a society and its members. Ethical life refers to the pattern these moral categories take, and form a structure of values and norms, habits and practices that orient individuals, their actions, sanction certain institutions, condition their social practices, etc., based on the ways the structure of moral categories are binding upon them. The terms that lead to the definition of "moral" are *al-khuluq,* which means *al-thab'u* (character), *al-sajiyyah* (behaviour) and *al-din* (religion) (Arif, 2009). Islam considers ethics as one-third of religion, along with belief (*aqidah*) and Islamic teachings (Sharīʿah). Belief is the essence of Islamic teaching in which Sharīʿah and ethics are meaningless without it. Sharīʿah is a practical side or manifestation of belief, which governs the physical activities and human dealings with others. It strengthens the belief and without it, both belief and ethics are ineffectual. Ethics govern the spiritual and physical activities that are directed by Sharīʿah (manners of trading, organising, managing, arranging and reporting).

Both Sharīʿah and *Maqāsid ul-Sharīʿah* are imbued with a spirit of belief and ethics that will be able to measure how effectively the three financial reporting standards have achieved the objectives of Sharīʿah, which are principally known as *Maqāsid ul-Sharīʿah* as firstly coined concept by Al-Ghazali (1058–1111). The primary needs *(dharūriyyah)* approach suggests the preservation and safeguarding of five principles, namely, protection of religion (*dīn*), protection of life *(nafs),* protection of intellect *(ʻaql),* protection of lineage *(ansab)* and protection of wealth *(māl)* (Chapra, 2008a; Abdullah and Furqani, 2012). These principles are important in every human's life to ensure long-term sustainability and prosperity of the economic development and welfare of the people. Globally, the Sharīʿah ruling is endorsed by international agencies such as the International Islamic Fiqh (IIF) Academy and AAOIFI, while at the national level the authority falls under an agency called the Board of Sharīʿah scholars. According to Abdurrachman (2008), a mechanism to issue a ruling can be achieved in several ways, for example, based on needs *(lil hajāh),* welfare of society *(lil maṣlahah)* and the objectives of Sharīʿah *(lil maqāsid al-shari'ah)*, but all must refer to the main sources of canon, i.e. Al-Qur'an and Sunnah. Figure 1 portrays *Maqāsid ul-Sharīʿah* within the whole Islamic governing system.

Figure 1 illustrates the vital position of *Maqāsid ul-Sharīʿah* and how it leads to interpret relevant Sharīʿah values in the policymaking process, including financial reporting standardisation. Islam as a religion consists of three components such as *Aqidah* (faith and belief), Sharīʿah (practice and activities) and *Akhlaq* (moralities). The role of Sharīʿah has

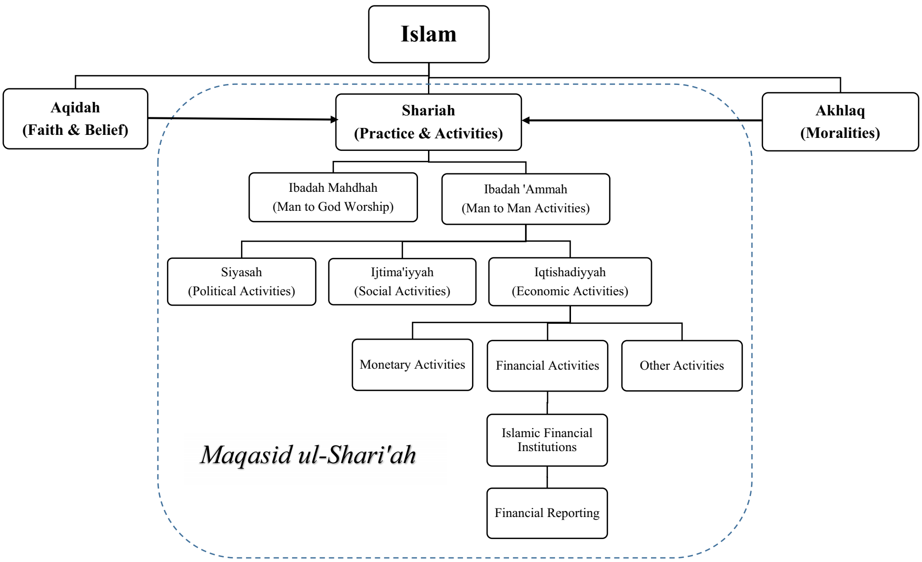

Figure 1.
Maqāsid ul-Sharīʿah

Source: Current study

been clearly stated by Al-Qur'an, which guides mankind in all aspects of life, i.e. QS Al-Maidah (5): 3: [. . .] *this day I have perfected for you your religion and completed my favour upon you and have approved for you Islam as religion* [. . .]. This verse explains that Islam serves as the most comprehensive religion. Its perfectness is shown in the Al-Qur'an as the main reference that covers worldly and after life matters, see QS An-Nahl (16): 89: [. . .] *and we have sent down to you the Book as clarification for all things and as guidance and mercy and good tidings for the Muslims* [. . .] The following verse confirms that Al-Qur'an does not abandon any issue concerns life and death, see QS Al-An'am (6): 38: *[. . .] we have not neglected in the Register a thing* [. . .] Thus, Figure 1 shows three major elements of Islam i.e. Aqidah, Sharīʿah and Akhlaq. Sharīʿah where it is the main focus in this paper governs political, social and economic activities as explained in QS Al-Maidah (5): 48: [. . .] *to each of you We prescribed a law and a method* [. . .] Further, the economic activities are divided into monetary, financial and other activities that are connected with financial matters including financial reporting of IFIs that must fulfil the objectives of Sharīʿah.

Previous scholars such as Al-Ghazali (1058–1111), Al-Qurtubi (1214–1273) and Al-Shatibi (1320–1388) emphasised the five principles (i.e. protection of religion (*dīn*), protection of life *(nafs),* protection of intellect *('aql),* protection of lineage *(ansab)* and protection of wealth *(māl)* considered as supplementary dimensions (Abdullah and Furqani, 2012), but did not suggest any quantitative or qualitative measures to proxy for these necessities (Bedoui and Mansour, 2015). Another view of *Maqāsid ul-Sharīʿah* comes from Abu Zaharah who identified three classes, namely, *tahzib al-fard* (educating individuals), *iqāmah al-'adl* (establishing justice) and *jalb al-mashalah* (ensuring the welfare of society) (Abu Zaharah, 1997, p. 364). According to this view, the existence of Sharīʿah law is for the benefit of all people in this world and without restriction; any society can adopt and impose Sharīʿah law to increase benefits and minimise harms (Laela *et al.*, 2018).

Auda (2008) asserts that the principles of *Maqāsid ul-Sharīʿah* differ according to the context, such as economics, philosophy, politics and society. Considering the scope of rulings it covers, *Maqāsid ul-Sharīʿah* is divided into three levels, namely, general *Maqāsid*, specific *Maqāsid* and partial *Maqāsid*. In the context of this paper, the classification of *Maqāsid ul-Sharīʿah* recognises the economy and social category that relates to the ethical conduct of the IFIs towards society, with a specific level of *Maqāsid* focussing on education, justice and public interest. These three focussed objects are operationalised into dimensions and elements that must exist in the financial reporting standards of IFIs. Thus, educating individuals, establishing justice and promoting public interest, are further broken into several elements and dimensions, as shown in Table 1.

Following Abu Zaharah (1997), the key components of *Maqāsid ul-Sharīʿah;* educating individuals, promoting justice and catering for public interest are used as the main dimensions for content analysis in this paper. The content analysis is used to reinterpret Sharīʿah in the language of financial reporting, exercising the conceptual framework and standards on presentation and disclosures of IFRS, AAOIFI and PSAK Syariah.

3.1 Educating individuals

As users may not have adequate knowledge of financial reporting standards, creating awareness and advancing their knowledge is important in educating individuals. Here, the qualitative characteristics suggested by Nobes and Parker (2012) are used to explain creating awareness through faithful representation, prudence, completeness, neutrality, free from error, variability, materiality and more disclosures, while advancement of knowledge covers relevance, comparability, consistency, timeliness and understandability. Haniffa and Hudaib (2007) argue that Sharīʿah upholds its accountability not only to investors but also

Concepts (objectives)	Dimensions	Elements	Sources
1.Educating the individuals	1.1 Creating awareness	1.1.1 Faithful representation 1.1.2 Prudence 1.1.3 Completeness 1.1.4 Neutrality 1.1.5 Free from error 1.1.6 Veriability 1.1.7 Materiality *1.1.8 More disclosures*	IFRS framework, IAS 1, AAOIFI conceptual framework, AAOIFI FAS 1, ISSFAS framework, ISSFAS no. 101
	1.2 Advancement of knowledge	1.2.1 Relevance 1.2.2 Comparability 1.2.3 Consistency 1.2.4 Timeliness 1.2.5 Understandability	
2. Establishing justice	2.1 Fair recognition	2.1.1 Substance and form 2.1.2 Market price	IFRS framework, IAS 1, AAOIFI conceptual framework, AAOIFI FAS 1, ISSFAS framework, ISSFAS no. 101
	2.2 Elimination of injustice	*2.2.1 Margin* *2.2.2 Rental* *2.2.3 Fee* *2.2.4 Profit sharing* *2.2.5 No interest rate, gharar, maysir, haram*	
3. Promoting public interest	3.1 Profitability	3.1.1 Commercial purposes 3.1.2 Going concern 3.1.3 Cash basis 3.1.4 Accrual basis 3.1.5 Dividend	IFRS framework, IAS 1, AAOIFI conceptual framework, AAOIFI FAS 1, ISSFAS framework, ISSFAS no. 101
	3.2 Distribution of income	*3.2.1 Non-halal* *3.2.2 Zakah* *3.2.3 Qard* *3.2.4 Charity*	
	3.3 Users	3.3.1 Investors 3.3.2 Public *3.3.3 Zakat institutions* *3.3.4 Qard or Zakat providers* 3.3.5 Auditors *3.3.6 Sharīʿah advisor* 3.3.7 Regulators 3.3.8 Tax agency 3.3.9 Employees 3.3.10 Customers 3.3.11 Creditors *3.3.12 Investment account holders* 3.3.13 Management	

Note: Terms in italic indicate the proposed Sharīʿah elements
Source: Adapted from Antonio *et al.* (2012)

Table 1.
Maqāsid ul-Sharīʿah category matrix

to God and society, and more transparency is required. The essence of ethics is reflected in most of the components. Other ethical category that is binding the institution is to disclose more elements such as Statement of Sources and Uses of Zakat, Statement of Sources and Uses of Benevolent Loan and Statement of Restricted Investment Account Holders.

3.2 Establishing justice

In the concept of Ibn Khaldun (1332–1406), justice is considered as a core element to establish Islamic civilisation (Chapra, 2008b, p. 165). The two dimensions, which promote justice in society are fair recognition and rejection of injustice. As Islamic business transactions cover both technical and ethical rules, the issues of substance and form carry equal degrees of importance (Karim, 2001). Zakat has been treated as one important disclosure in the Islamic-based economy, therefore the elements of fair recognition cover market price as the basis of valuing assets and Zakat calculation amongst IFIs. Furthermore, the application of usury *(riba')*, uncertainty *(gharar),* speculation *(maysir)* and unlawful practice *(haram)* have been banned as they promote injustice at the expense of the weak. Alternatively, the rejection is replaced by introducing Sharīʿah-based transactions such as contracts on the basis of margin, rental charge, profit or loss sharing and service fees. *Riba',* which is discussed in this section refers to the element of interest (usury) where conventional banking uses in its contract while profit margin refers to the contract such as trading (*Murābahah)* that replaces usury. It is clear that the application of ethics is applied in this section where justice is parallel with the promotion of ethical conducts. For instance, the application of usury in financial institutions is regarded as unethical, and ideally, IFIs must replace interest-based transactions with profit sharing, rental, fee and margin.

3.3 Promoting public interest

Welfare has become a significant term in the development of both conventional and Islamic finance. Sharīʿah-based institutions run their operation not in the pursuit of profitability *per se*, but mostly to sustain the welfare of society. Measuring and recognising profit is a central issue in the development of financial reporting standards. Generating profit adds to the concerns of IFIs where the method for the recognition of profit needs to be appropriate by ensuring the correct basis of calculation, i.e. the timing of accrual and cash accounting. On the other hand, when IFIs distribute their income, they consider social obligations such as payment of Zakat and Charity, distribution of *qard* funds and disbursement of non-*halal (haram)* income. In addition to the users, the financial reporting information of IFIs serves Zakat institutions, *qard* and Zakat providers, Sharīʿah supervisors and investment account holders. The institutions are considered as ethical, once they promote social activities and giving away Zakat and disburse impermissible (non-halal) income as charity.

4. Content analysis

Studies have used a range of measurements to capture the Islamic value of financial products, for instance, Haniffa and Hudaib (2007) used the ethical identity index (EII), which consists of components such as personality, behaviour, communication and symbolism to measure the levels of Sharīʿah. They applied EII on the performance of Islamic banks. In the same vein, Belal *et al.* (2014) documented ethical disclosures of Islamic Bank Bangladesh Limited, which showed an overall increase during 1983–2010. On Islamic other Islamic banking studies, Ibrahim *et al.* (2004) proposed an Islamic disclosure index (IDI) and Islamic performance index (IPI). IDI is derived from Sharīʿah compliance, corporate governance and the social environment and IPI consists of seven indicators such as profit-sharing financing, Zakat, directors-employees welfare, Islamic vs non-Islamic investment, Islamic vs non-Islamic income and AAOIFI index. Further studies show a more detailed approach by taking the *Maqāsid ul-Sharīʿah* perspective in formulating the indices and indicators (Antonio *et al.*, 2012; Bedoui and Mansour, 2015; Laela *et al.*, 2018). These papers propose and apply the *Maqāsid* index based on their understanding of Abu Zahara's perspective of *Maqāsid ul-Sharīʿah* that emphasises the three components identified above. However, these studies do not address the compliance of financial reporting standards for IFIs towards *Maqāsid ul-Sharī'ah*, whereas this current study uses weightings to measure the compliance level of Sharī'ah in the financial reporting standards.

This study adopts a content analysis approach that directly diagnoses the financial reporting standards or called as text or transcripts of human communication (Weber, 1990, p. 10). In this case, the human communication is in the form of written financial reporting standards with the same medium of instructions. A number of researchers have used the content analysis approach for their works, particularly on the extent of disclosure of annual reports such as chairman's statement, president's letter, operating and financial review and other accounting related communication (Steenkamp and Northcott, 2007). Some conduct narrative research on social and environment (Unerman, 2000; Guthrie and Abeysekera, 2006). There are several components in content analysis such as unitizing, sampling, recording/coding, reducing, inferring and narrating (Krippendorff, 2012, p. 83–85). The first four components are referred as data making where raw or unedited texts are entered into computable data. Unitizing is the systematic distinguishing of segments of text available in financial reporting standards. Method of unitizing is by finding common terms in all financial reporting standards to be observed that are related to three dimensions specified earlier (*Maqāsid ul-Sharī'ah* components). All data are derived from the conceptual frameworks and presentation standards. Recording or coding is formulated based on the *Maqāsid ul-Sharī'ah* and sentence messages in the sampling. Steps in abductively inferring refer to contextual phenomena and bridge the gap between descriptive texts and their meanings. Abductive inferences (unlike deductive or inductive approach) require warrants backed with evidences and this distinguish content analysis with other mode of inquiry. Finally, narrating is the analysis part that explains the result from the diagnose and deep investigation.

The empirical analysis began with a pilot study of the three conceptual frameworks, using a sentence-based coding instrument through the content analysis approach. The *Maqāsid ul-Sharī'ah* concepts are broken down into the dimensions and elements presented in Table 2. The coding exercise started in the introductory section of the conceptual framework; every word and sentence is thoroughly examined to see whether it relates to any of the coding rules. If any of the words or sentences match, that particular word or sentence is coded in the respective node structured in NVivo 10 software. The reading material

No.	Standards	Date of issuance/Effective date	No. of words
1	IFRS framework (IAS-Plus, 2013)	01 September 2010	11,508
	IAS 1 (presentation of financial statements) (IAS-Plus, 2013, IAS-Plus, 2020)	01 January 2007	14,384
2	AAOIFI conceptual framework (AAOIFI, 2010, 2015)	22 July 2010	12,998
	FAS 1 (presentation and disclosure) (AAOIFI, 2010)	01 January 1996	6,121
3	PSAK framework (IAI, 2006, 2020)	27 June 2007	11,468
	PSAK 101 (presentation)** (IAI, 2006)	01 January 2008	6,184

Notes: The above word counts include titles, tables of contents, page numbers and footnotes, but exclude appendices. **PSAK Syariah 101 was revised in 2011 but has not been translated into English; the only available English publication is that of 2006, as used for this research

Table 2.
Sampling from financial reporting standards

specified for content analysis are the conceptual frameworks and standards that deal with the presentation of financial reports produced by IASB, AAOIFI and IAI.

Further to this, each objective is expanded under a coding rule into seven dimensions and 42 elements as shown in Table 3 [5]. The following table shows three examples as representative of how the coding exercise was carried out during the study.

The whole set of coding rules has been confirmed by two researchers working in the field of Islamic accounting and finance, who accepted 90% of the coding rule classification. Their main concern was why profitability is considered as a dimension within *Maqāsid ul-Sharīʿah* under the objective of promoting public interest. The response to this concern has been addressed in Section 3 above (see promoting public interest).

The coding rules cover all classifications of *Maqāsid ul-Sharīʿah*, however, sub-nodes render specific meanings that can be found in the conceptual framework and financial reporting standards. NVivo 10 helps to code sentences that relate to elements in the financial reporting standards in node forms. After the pilot study, a reliability check was conducted to ensure the coding rules. Although the reliability process came up with 90% similarities, the volunteers highlighted several issues, such as creating a special node for investment account holders and the need for consistency in the terms used in the nodes. After the revisions, the coding exercise was repeated, reading every page of the conceptual frameworks and disclosure standards.

5. Discussion: assessing the discrepancies in Maqāsid ul-Sharīʿah

Table 4 presents the coding results, showing that IFRS obtained the highest scores in educating individuals and promoting public interest (36% and 43%, respectively), and has the lowest score on establishing justice (19%). AAOIFI earned almost equal scores with IFRS for its educating individuals (35%) and achieved 29% and 24% for its establishing

Elements	Definition	Coding rules	Examples
Verifiability	Different observers should be able to come to approximately the same view about whether a faithful representation is being given by the information. So, information must be able to be checked in various ways (Nobes and Parker, 2012, p. 135)	This characteristic must be expressed in the conceptual framework and standards on presentations or disclosures *Exclusion:* Excluding information about those phenomena from financial reports	Classifying, characterising and presenting information clearly and concisely, makes it understandable (IFRS Framework, QC30, p. A36)
Profit sharing	Profit-and-Loss-Sharing. The term used to describe a mode of financing modes based on the principle of interest-free lending and featuring the use of *Mudhārabah* and *Musyārakah* (IIBF, 2020)	Another form of income is profit sharing and must be coded	It including sales, fees, *profit distribution* (conceptual framework, Indonesian PSAK syariah, p. 30, line 7)
Zakat	Another reason to disclose financial reporting is to meet social objectives such as fulfilling obligation of Zakat (Haniffa and Hudaib, 2007)	Zakat must be stated either as an entity disclosed in a separate statement or declared otherwise	The financial statements should provide sufficient details to meet the users' need for information about sources and uses of funds in the Zakat fund (AAOIFI Conceptual Framework, p. 27)

Table 3. Sample of coding rules

A	B	C	D
A : Educating individual	*References*	*Total*	*(%)*
1 : IFRS conceptual framework	53		
2 : IAS 1 presentation and disclosure	311	364	36
3 : AAOIFI conceptual framework	124		
4 : AAOIFI FAS 1 presentation and disclosure	236	360	35
5 : PSAK syariah framework	57		
6 : PSAK 101	243	300	29
Total	1,024	1,024	100
B : Establishing justice			
1 : IFRS conceptual framework	9		
2 : IAS 1 presentation and disclosure	8	17	19
3 : AAOIFI conceptual framework	20		
4 : AAOIFI FAS 1 presentation and disclosure	6	26	29
5 : PSAK syariah framework	37		
6 : PSAK 101	11	48	53
Total	91	91	100
C : Promoting public interest			
1 : IFRS conceptual framework	122		
2 : IAS 1 presentation and disclosure	102	224	43
3 : AAOIFI conceptual framework	83		
4 : AAOIFI FAS 1 presentation and disclosure	43	126	24
5 : PSAK syariah framework	100		
6 : PSAK 101	74	174	33
	524	524	100

Notes: Column B = number of references to *Maqāsid ul-Sharīʿah* constructs coded in each document, Column C = total of each standard, Column D = total in percentage

Table 4.
Coding results of *Maqāsid ul-Sharīʿah* constructs

justice and promoting public interest, respectively. PSAK Syariah, on the other hand, achieved the highest score on establishing justice (53%), but has the lowest score on education individual (29%), while its score on promoting public interest is recorded at 33%.

The results indicate that each standard has its unique strength, for instance IFRS is sturdy in promoting public interest (43%) and educating individuals (36%), AAOIFI is advanced in educating individuals (35%) although it is quite closed to IFRS's score, while PSAK Syariah is convincing in establishing justice (53%). It is quite subjective however, for instance, IAS 1 consists of 14,384 words as opposed to FAS 1 (6,121 words) and PSAK 101 (6,184 words), which could lead to biased results. To control, the authors observe each component rather than the total of each category, which is explained in the next paragraph.

This finding indicates that IFRS receives the highest score in promoting public interest elements but quite low in educating individuals and establishing justice. IFRS has the highest score in promoting public interest because of the elements of users (3.3), namely, investors (3.3.1) and tax agency (3.3.8). For comparison, AAOIFI is robust at educating individuals but is required to enrich elements of establishing justice and promoting public interest. The elements in educating individuals that AAOIFI is strong are at creating awareness (1.1), which are free from error (1.1.5) and more disclosures (1.1.8). As for PSAK Syariah, although it is more dominant in establishing justice, it is necessary to improve its weaknesses i.e. educating individuals and promoting public interest. The elements of establishing justice that are more prevailing are under elimination of injustice (2.2), namely, profit sharing (2.2.4) and no interest rate, gharar, maysir, haram (2.2.5). See Table 1 for categories of concepts, dimensions and elements. It is not surprised that from the above results, each standard has its own emphasis. IFRS seems to highlight the importance of investors and tax agency as the users of the standards.

The combination of three standards show highest number of words on educating individuals (1,024 references), followed by promoting public interest (524 references) and establishing justice (91 references). This implies that all standards focus more on educating individuals such to disclose faithful representation and more disclosures such as Statement of Sources and Uses of Zakat, Statement of Sources and Uses of Benevolent Loan and Statement of Restricted Investment Account Holders. Promoting public interest that record the second-highest indicates the standards on disclosing profitability, Zakat and disbursement of impermissible (non-halal) income. While establishing justice with the least number of references shows that all standards in particular AAOIFI and PSAK Syariah emphasising on eliminating interest-based transaction, *maysir*, *gharar*, *haram* activities by replacing them with profit sharing, rental, fee and margin. The ranking suggests that the standard setters need to improve the contents that are related to promoting public interest and establishing justice. In an ideal situation, the three concepts are expected to be more balanced.

5.1 Sharīʿah messages in the financial reporting standards published by international financial reporting standards, accounting and auditing organisation for Islamic financial institutions and PSAK syariah

To re-interpreting the meaning of Sharīʿah and its values in the context of financial reporting, the analysis starts from the weight of each standard. The collective result is presented in Table 5.

Of the three means for the *Maqāsid ul-Sharīʿah* categories, IFRS shows more dominant weight in educating individuals and promoting public interest. However, none of the three categories demonstrate significant differences with the results of Levene's test, presented in Table 6.

Dimensions/elements	Standards	*N*	Mean	SD	Std. error mean
1. Educating individuals	IFRS	2	0.18	0.12	0.08
	AAOIFI and PSAK syariah	4	0.16	0.061	0.03
2. Establishing justice	IFRS	2	0.09	0.05	0.04
	AAOIFI and PSAK syariah	4	0.20	0.23	0.11
3. Promoting public interest	IFRS	2	0.23	0.14	0.10
	AAOIFI and PSAK syariah	4	0.13	0.09	0.05

Table 5. *Maqāsid ul-Sharīʿah* means (IFRS with AAOIFI and PSAK syariah)

	t-test for equality of means				
Maqāsid ul-Sharīʿah categories	*t*	df	Sig. (two-tailed)	Mean difference	Std. error difference
1. Educating individuals	0.23	1.27	0.85	0.02	0.09
2. Establishing justice	−0.92	3.58	0.41	−0.11	0.12
3. Promoting public interest	0.85	1.46	0.51	0.09	0.11

Table 6. *Maqāsid ul-Sharīʿah* significant values (IFRS with AAOIFI and PSAK syariah)

There are 16 variables consisting of two dimensions and 13 elements in the category of educating individuals. The element with the highest mean is indicated by "faithfully represented", that is an average of 30% repeated in both the conceptual framework and IAS 1. This is consistent with a clause in the IFRS conceptual framework that indicates "faithfully represented" as a fundamental qualitative characteristic of IFRS besides relevance (IFRS, QC5, p. A33), while both AAOIFI and PSAK Syariah consider it an assumption under reliability. There are 26 variables under promoting public interest; one element that shows the highest means is "tax agency", which explains that IFRS is more concerned about the obligation of the entity to pay tax, as opposed to Zakat and *qard* as promoted by AAOIFI and PSAK Syariah.

The practice of accounting is evidenced by the coherence and legitimacy of key ideas reflected in the IASB's and the Financial Accounting Standards Board's (FASB) current projects on the conceptual framework of IFRS. In the joint effort between IASB and FASB on "framework 2010", several issues are discussed concerning the current conceptual framework, including replacement of the term "reliability" by "faithfully represented", "other comprehensive income" and mispricing the risk of financialisation (Zhang and Andrew, 2014). Finally, the result is comparable with that of Merkl-Davies *et al.* (2014) in the power to communicate their own ideology, and how that power is achieved and maintained. Next, AAOIFI is examined if it has more messages regarding Sharīʿah dimensions than PSAK Syariah.

Table 7 shows that AAOIFI has cumulative means, which are lower than PSAK Syariah's. This explains that there are more repetitive messages regarding Sharīʿah objectives and dimensions in the PSAK Syariah conceptual framework and PSAK Syariah No. 101, than in the AAOIFI conceptual framework and FAS 1. This result is surprising as PSAK Syariah initially referred to AAOIFI when developing its standards [6]. Nevertheless, none of the differences are significant according to Levene's statistical results in Table 8.

The highest mean in "educating individuals" is indicated by the "prudence" concept. It argues that PSAK Syariah explains more repetitive messages with regard to this concept, which also means conservative. The element with the highest mean in "establishing justice" is indicated by "no interest rate, *maysir*, *gharar* and *haram*". This shows that PSAK Syariah gives more detail on the prohibition of these elements in its conceptual framework and

Table 7. *Maqāsid ul-Sharīʿah* means (AAOIFI and PSAK)

Dimensions/elements	Standards	*N*	Mean	SD	Std. error mean
1. Educating individuals	AAOIFI	2	0.15	0.04	0.03
	PSAK syariah	2	0.17	0.09	0.07
2. Establishing justice	AAOIFI	2	0.10	0.08	0.06
	PSAK syariah	2	0.31	0.31	0.22
3. Promoting public interest	AAOIFI	2	0.08	0.05	0.03
	PSAK syariah	2	0.19	0.11	0.08

Table 8. *Maqāsid ul-Sharīʿah* significant values (AAOIFI and PSAK Syariah)

	t-test for equality of means				
Maqāsid ul-Sharīʿah categories	*t*	df	Sig. (two-tailed)	Mean difference	Std. error difference
1. Educating the individual	−0.244	1.422	0.838	−0.01788	0.07336
2. Establishing justice	−0.922	1.138	0.511	−0.2140	0.2323
3. Promoting public interest	−1.172	1.365	0.406	−0.1025	0.0874

standards. Finally, "*Qard* and Zakat providers" has the highest mean and this argues that the emphasis in the PSAK Syariah includes "*qard* and Zakat providers" as one of the main users of the financial reporting information. This is in line with the discussion in Section 1 about the differences in the understanding of Zakat and *qard* reporting between AAOIFI and PSAK Syariah.

There is a significant difference in one element that highlights the differences between IFRS, AAOIFI and PSAK Syariah, namely, "profit sharing". This is parallel with the underlying assumption of the most distinguishing characteristic between conventional and Islamic finance, i.e. the profit-sharing mechanism. From this result, IFRS apparently does not emphasise the message of "profit sharing" (under the category of establishing justice) in its standards, unlike AAOIFI and IAI.

Table 9 indicates the significant results of 'profit sharing' as the most distinct characteristic differentiating IFRS from AAOIFI and PSAK Syariah. Overall, the results show that IFRS, AAOIFI and PSAK Syariah emphasise different aspects in designing their respective standards. The words "relevance" and "faithfully represented" are commonly repeated in the IFRS conceptual framework, as well as in its standards. If the IASB accepts the argument proposed by the EU that the "prudence concept" must be reintroduced in standards, it will give a different emphasis to the IFRS framework, although "neutrality" is considered a better replacement. AAOIFI is in the midst of revising its conceptual framework in its response to IASB's call for a world review of conceptual frameworks. IAI seems consistent in its route after delivering three phases of design standards for the IFIs. However, pressure from the industry to follow the "generally accepted accounting standards" known as IFRS have become stronger over recent years.

In pursuit of accelerating the recent development of the industry, the Islamic banks in Indonesia have been permitted to trade in the capital market and all traders must abide by the regulations in producing annual reports based on IFRS. This means that IFRS will take precedence over PSAK Syariah, eventually affecting the content of *Maqāsid ul-Sharīʿah* in PSAK Syariah. IFIs in fact are not free from pressures, which is indicated with the case of IFRS influence. With the promise for international comparability, IASB has gone the extra mile to make sure that IFRS fits to all entities including IFIs (one size fits all principle). By implementing IFRS, the IFIs may find more challenges in implementing their social mission.

From the above findings, this study shows a similar spirit with the previous works that adopt *Maqāsid ul-Sharīʿah* perspective (Antonio *et al.*, 2012; Bedoui and Mansour, 2015; Laela *et al.*, 2018). However, they have a different focus, which is to measure the level of Sharīʿah-compliance on the IFIs financial performance while this study focusses on the financial reporting standards. To the best of the author's knowledge, this study is the first of its kind.

6. Conclusions and recommendation for future research

The research question of this paper is to what extent does the application of *Maqāsid ul-Sharīʿah's* model measure levels of Sharīʿah-compliance in IFIs financial reporting

			t-test for equality of means		
Elements	*t*	df	Sig. (two-tailed)	Mean difference	Std. error difference
Profit sharing					
Equal variances not assumed	−3.97	3	0.03	−0.25	0.063

Table 9. Profit sharing significant values (IFRS with AAOIFI and PSAK syariah)

standards? The IFIs posits that they are ethical financial institutions, but in reality, they follow different guidelines in financial reporting standards that are grounded upon economically secularised rationality. The findings suggest that the use of *Maqāsid ul-Sharīʿah* framework leads to a more understanding of how the flexibility meaning of Sharīʿah and its values are interpreted and integrated into the demands of financial reporting, and hence, offering greater convergence between ethics and accounting regulations amongst IFIs. The ethical nature of IFIs can guide other financial institutions to act ethically in their operations and financial reports. This argument is parallel with Hopwood and Miller (1994), who argue that accounting is no longer considered a neutral device that merely captures and reports the facts of economic activity. It means accounting is influenced by various factors, including political and economic interests of particular groups in society (Cooper, 1980; Lehman and Tinker, 1987; Susela, 1999). The study, therefore would encourage policymakers to blend the reporting standards with ethical values (i.e. *Maqāsid ul-Sharīʿah*), which facilitate a greater financial inclusion of faith-based groups in the financial system. Once it is achieved, the IFIs will be able to show their full accountability in their financial reportings hence, they will gain better trust from the stakeholders. Nonetheless, Mukhlisin and Fadzly (2020) assert that IFIs could only show their full accountability by collaborating with all organisations under International Islamic Financial Architecture (IIFA). There should be a concerted effort to eliminate gaps amongst IIFA's constituent organisations as each of them promotes its own religion logic (commitment to Al-Qur'an and prophetic traditions), market logic (profit and social orientation) and corporate logic (neoliberalism vs Islamic economic system).

Finally, there are several limitations in this research such as examination of standards are only on their conceptual frameworks and presentation standards in which they are not representative enough. For instance, the level of *Maqāsid ul-Sharīʿah* in other standards may show different rankings. The interpretation of the compliance level should cater different perspectives such as from critical view. Thus, this study eventually entails further research on how to combine meaning-oriented content analysis with discourse analysis to increase legitimacy and flexibility of narrative reporting following Zhang and Andrew (2014) on their critique on the process of "neo-liberalisation" in the FASB-IASB conceptual framework project. A different methodology such as critical discourse analysis approach seems appropriate to unveil the hegemony within the vein of neo-liberalisation. This approach concerns on the analysis about who has the power to communicate their own ideology and how that power is achieved and maintained (Merkl-Davies *et al.*, 2014) that could be discussed using the theory of political economy that stems from Islamic political dimension, termed as "Islamic Political Economy of Accounting" theory as proposed by Mukhlisin *et al.* (2015). In contrast, *Maqāsid ul-Sharīʿah's* model maintains specific values for financial reporting standardisation that do not place a disproportionate economic burden on IFIs nor diluting the Islamic label carried by every IFI when doing business.

Notes

1. Sharīʿah, as used in this paper, is the term commonly used in English literature referring to Islamic financial and business teaching, while the term PSAK Syariah refers to the Sharīʿah-based Statement of Financial Accounting Standards. The term Sharīʿah in *Maqāsid ul-Sharīʿah [the ends or objectives of* Sharīʿah*]* is the Arabic words referring to a divine injunction that regulate the conduct of human beings in their individual and collective lives. Some general rules related to this code are matters of belief and worship, matters for disciplining one's self, socio-economic and legal systems, obligations and prohibitions.

2. *Pernyataan Standar Akuntansi Keuangan Syariah*/Sharīʿah-based Statement of Financial Accounting Standards.
3. For example, cookies jar accounting, a term that referred by Hans Hoogervorst, IASB Chairman in many of his speeches on this issue.
4. The Indonesian Institute of Accountants, Indonesian Sharīʿah Accounting Standards Board.
5. The details of the coding rule are available from the authors, and only a few examples are presented in the Table.
6. AAOIFI standards later became the basis of national accounting standards in several jurisdictions.

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