THE EXTENT OF COMPLIANCE WITH THE AAOIFI
ACCOUNTING STANDARDS BY ISLAMIC BANKS
IN BAHRAIN AND MALAYSIA

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May 2011
AUTHOR DECLARATION

I hereby declare that the work in this dissertation is the result of my own investigations, except where otherwise stated. I declare that it has not been previously or concurrently submitted as a whole for PhD degree at USIM or other institutions.

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In 2010 presented paper for 4th Islamic banking, accounting and finance conference (iBAF2010) entitled, “The adoption of the AAOIFI accounting standards: Diffusion of innovation” The conference was organized by Faculty of Economics and Muamalat Administration, Islamic Science University of Malaysia. 13 and 14 October 2010.
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ABSTRAK

TINGKAT PELAKSANAAN PIAWAIAN-PIAWAIAN PERAKAUNAN AAOIFI OLEH PERBANKAN-PERBANKAN ISLAM DI BAHRAIN DAN MALAYSIA

ABSTRACT

THE EXTENT OF COMPLIANCE WITH THE AAOIFI ACCOUNTING STANDARDS BY ISLAMIC BANKS IN BAHRAIN AND MALAYSIA

The accounting and auditing organization for Islamic financial institutions (AAOIFI) had taken a proper initiative to develop accounting, auditing, governance and ethics standards for Islamic Financial Institutions (IFIs). The AAOIFI standards serve as a guideline that may reflect the unique characteristics of IFIs and become a useful tool to meet the various needs of IFIs. Currently, one the major challenges facing Islamic Financial Institution (IFS) lies in the preparation of the financial statements under different accounting standards and which may result to problem of comparability, reliability and compliance level’s measurement. This has however resulted to a heated debate among scholars which has hitherto translated to the evolving existing literature surrounding the interpretation of the level of compliance with the AAOIFI accounting standards. This study therefore mainly investigates the level of compliance with the AAOIFI accounting standards by Islamic banks in Bahrain and Malaysia and thus provides answers to the current debate. The basis of the study was diffusion of innovation theory which states that, the perceived relative advantage, compatibility, complexity, trialability and observability influence the level of compliance or adoption. The investigation is however undertaken by employing a survey method which involved questionnaire as primary data and annual reports as secondary data. The data was later analyzed using descriptive statistics, regression analyses and t–test. The t-test was conducted to verify the mean differences among the respondents in Islamic banks. The finding of the study therefore indicates that, sample mean of banks in Bahrain is slightly higher in term of compliance with the AAOIFI accounting standards compared to Malaysia. Even though such difference is not so significance based on the fact that, β > 0.05. Moreover, the results revealed that, although the AAOIFI accounting standards are not mandatory in Malaysia, there are some similarities between the perceptions of Islamic banks in Malaysia and Bahrain on certain aspects related to the responsibility to comply with the AAOIFI accounting standards. The findings from the current study therefore contribute towards a better understanding and acceptability of the AAOIFI accounting standards.
ملخص البحث

 مدى التزام البنوك الإسلامية في البحرين وماليزيا بمعايير المحاسبة للمؤسسات المالية الإسلامية

 لقد بادر مجلس معايير المحاسبة للمؤسسات المالية الإسلامية بالعمل على تطوير معايير المحاسبة، والمراجعة، والصراع، وعمل على تأكيد المعايير الاختلافية والشرعية للمؤسسات المالية الإسلامية، كون هذه العناصر مجتمعة هي من الأهمية يمكن بالنسبة إلى عمل وطبيعة ودور المؤسسات المالية الإسلامية. ومع ذلك فإن موضوع إعداد القوائم المالية تحت معايير محاسبية مختلفة نتج عنه إشكالية تتعلق بالتبليغ هذه القوائم للمقارنة أو الملاءمة مع الأصول الشرعية التي ينبعي مراحتها عند إعداد القوائم المالية وفق معايير المحاسبة للمؤسسات المالية الإسلامية، هذا من ناحية ومن ناحية أخرى اظهرت الدراسات السابقة فروقات في درجة الالتزام بمعايير المحاسبة للمؤسسات المالية الإسلامية. إذا فقد هدفت هذه الدراسة إلى قياس مدى التزام البنوك الإسلامية في البحرين وماليزيا بمعايير المحاسبة للمؤسسات المالية الإسلامية، وقد اعتمد الباحث على نظرية (انتشار الاعتقاد) التي تبحث في أثر الاحمية النسبية، والقابلية للتفاعل، ودرجة التعيق، والتجربة والقابلية للملاحظة على مستوى الالتزام بمعايير المحاسبة للمؤسسات المالية الإسلامية، كما اعتمد الباحث كذلك على الدراسات السابقة في الموضوع وذلك لتكوين رؤية واضحة ويسطيق الفجوة بين الإطار النظري والتطبيق العملي لمعايير المحاسبة للمؤسسات المالية الإسلامية، وفي الجانب العملي اعتمد الباحث لتحقيق هدف الدراسة على بيانات رئيسية (الإنسانية)، وبيانات ثانيةية (التقارير المالية)، وقد قام بتحليل هذه البيانات، وفق طريقة المنهج الوصفي التحليلي، وقام تحليل الانتشار والارتقاء بالإضافة إلى تحليل T-test. وقد خلصت الدراسة إلى أن البنوك الإسلامية البحرينية تلتزم في وسطها الحسابي، ودرجة عالية، بمعايير المحاسبة للمؤسسات المالية الإسلامية في حين تلتزم البنوك الإسلامية الماليزية بهذه المعايير بدرجة أقل، على الرغم من أن T-test أظهر عدم وجود دلالة احصائية كبيرة حيث إن 0.05 > β. ويمكن إرجاع هذه النتيجة إلى أن المشروع البحريني أزم البنوك الإسلامية بمعايير المحاسبة للمؤسسات المالية الإسلامية بينما تركها المشروع الماليزي إلى الاختيار دون الإزار، ومع ذلك تظهر الدراسة أن هناك تشابه نحال كبير بين كلا البلدين في مسألة الالتزام بذلك المعيار، وقد اظهر هذا التشابه من خلال آراء المستجيبين حول مدى الالتزام البنوك الإسلامية بمعايير المحاسبة للمؤسسات المالية الإسلامية. وكتبت نتائج أخرى لدراسة، فقد ساعدت هذه الدراسة في فهم معايير المحاسبة للمؤسسات المالية الإسلامية والوقوف على أسباب قبولها من قبل المصارف الإسلامية في كل من البحرين وماليزيا، ومن ثم الالتزام بها وتطبيقها.
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<td>Accounting And Auditing Standards Board</td>
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<td>ADIB</td>
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<td>BAA</td>
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SUMMARY

This chapter presented a discussion of the findings and their implications as well as the limitations of the study and recommendations. Based on the test conducted, AAOIFI standards have reasonably slightly high compliance for Islamic banks of Bahrain and moderate levels of compliance with the AAOIFI for Islamic banks in Malaysia.

The respondents in Islamic banks of Bahrain and Malaysia are aware of the AAOIFI accounting standards based on the findings presented in previous chapters. In addition, respondent’s perceptions are positive regarding the compliance with AAOIFI accounting standards. This might be due to the fact that the AAOIFI standards have high potential of acceptability with more understandability among Islamic financial institutions.

In the last section, this chapter presented the implication of the findings in terms of theoretical implication and policy implication. The theoretical framework is concerned with the accountant’s perceptions in terms of diffusion and innovation theory which is the most well known models which concern on perception. On the other hand, the study concludes the findings on the policy implications in Bahrain and Malaysia. Thus, the results should guide the regulatory bodies such as Bank Negara Malaysia (BNM), Central Bank of Bahrain (CBB) and the setter of accounting standards for Islamic financial institutions to comply or adopt the AAOIFI accounting standards.
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