

THE DYNAMICS OF IMPLEMENTING SHARIA ACCOUNTING STANDARD IN SHARIA FINANCIAL INSTITUTION



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ARTICLE INFO

Article History:

Received: 28th October 2024

Reviewed & Revised: 28th October 2024
to 10th November 2024

Accepted: 10th November 2024

Published: 10th November 2024

Keywords:

Shariah Accounting Standards, Systematic Literature Review, Shariah Accounting Framework, Challenges of Shariah Accounting Standard.

JEL Classification Codes:

M4, M41, P43

Peer-Review Model:

External peer review was done through double-blind method.

ABSTRACT

This study investigates the dynamics of Sharia Accounting Standards (SAS) implementation in Indonesian sharia-compliant financial institutions. The adoption of SAS is essential for ensuring consistency and transparency in financial reporting within the Islamic finance sector. However, the process faces several challenges, including differences in practitioners' understanding and expertise of Sharia accounting principles. To explore these dynamics, a systematic literature review was conducted, focusing on publications related to SAS and its application in Islamic finance. The results reveal that multiple factors influence the adoption of SAS. Technical issues, such as varying levels of comprehension and expertise among practitioners, hinder effective implementation. Furthermore, governance issues, stemming from different models of Shariah compliance across countries and varying stages of growth in the Islamic finance sector, add complexity. Additional challenges include the alignment with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards, conflicts between multiple accounting frameworks, and the lack of a unified accounting structure. The study also highlights the disparities in SAS application across Islamic financial institutions. Some institutions exhibit high levels of compliance and effective integration, while others struggle with the implementation. Factors such as inadequate human resources, differences in interpreting SAS, and the need for adjustments to accounting systems further complicate the process. The findings suggest that while the implementation of SAS faces significant challenges, regulatory support, enhanced education and training, and increased collaboration among sharia financial institutions can improve the effectiveness of Sharia-compliant financial reporting in Indonesia.

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INTRODUCTION

The implementation of Sharia Accounting Standards (SAS) in Sharia financial institutions represents a crucial component in aligning financial reporting with Islamic principles. In Islamic finance, ensuring compliance with Sharia law is not only a religious obligation but also a requirement for fostering trust and legitimacy within the growing sector of Sharia-compliant financial services (A'yuni & Wahyudi, 2024). Islamic finance, which prohibits interest (*riba*) and emphasizes ethical business practices, necessitates a unique set of accounting standards distinct from conventional financial systems (Damanik, 2024; Anami, 2024). These standards are designed to ensure transparency, fairness, and compliance with Islamic law in financial reporting. However, the complexity of implementing these standards across various institutions has emerged as a significant challenge, particularly in countries where the Islamic finance sector is in a critical growth phase (Morshed, 2024; Sharairi et al., 2023). Indonesia, home to the largest Muslim population in the world, presents an important case study for understanding the dynamics of SAS implementation in a rapidly expanding Islamic financial market.

The Islamic finance sector in Indonesia has witnessed significant growth in recent years, fueled by increasing demand for Sharia-compliant financial services and the broader expansion of the global Islamic economy (Asni et al., 2024). However, despite this growth, the effective implementation of SAS remains an ongoing challenge. The importance of these standards lies in their role as the foundation for ethical financial practices that comply with Islamic principles, providing credibility to Sharia financial institutions (Jinan et al., 2024). Proper adherence to these standards is essential to protect stakeholders' interests, promote transparency, and build confidence in the system.

However, the inconsistent application of these standards across different Sharia financial institutions in Indonesia reveals a critical gap between regulatory intentions and practical execution. The central problem addressed in this research is the difficulty that Sharia financial institutions in Indonesia face in implementing SAS effectively (Faizatul et al., 2024;

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<https://doi.org/10.46281/ijibfr.v12i1.2272>

Panjaitan et al., 2024). Several issues complicate this process, such as technical challenges, varying levels of expertise, differences in interpretation, and governance models that differ across institutions. These problems are further exacerbated by Indonesia's adherence to both local and international frameworks, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which adds complexity to the standardization of Sharia accounting practices.

The primary objective of this research is to capture the dynamics of SAS implementation in Sharia financial institutions in Indonesia. By understanding the multifaceted challenges that these institutions face, this research aims to contribute to the development of strategies that can improve compliance and ensure more effective integration of these standards.

LITERATURE REVIEW

The implementation SAS in Islamic financial institutions has become an increasingly critical topic in both academic research and practical application. As the global Islamic finance industry expands, there is a growing need for robust, consistent, and Sharia-compliant financial reporting frameworks. This need is particularly pronounced due to the industry's adherence to Islamic law, which necessitates financial practices that align with specific religious principles. SAS, particularly those developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), play a pivotal role in ensuring that financial reporting practices conform to these principles. These standards aim to guarantee that financial transactions uphold key Islamic values such as fairness, transparency, and ethical integrity, while also strictly prohibiting practices like interest (*riba*), speculation (*gharar*), and investments in prohibited (*haram*) industries.

However, the adoption and effective implementation of these standards vary significantly across different jurisdictions. Several factors contribute to this variation, including differences in local regulatory environments, the maturity of the Islamic finance industry, the level of expertise among financial professionals, and the general level of awareness regarding Sharia-compliant practices. In countries where the Islamic finance industry is more mature, such as Malaysia and Saudi Arabia, the adoption of SAS and the alignment of financial reporting practices with Sharia law are more advanced. These countries often have well-established regulatory frameworks and a wealth of expertise, which facilitate the implementation of Sharia accounting standards. In contrast, in jurisdictions where Islamic finance is still developing, challenges related to regulatory oversight, expertise, and market readiness can slow down the adoption process.

Indonesia, as the country with the largest Muslim population in the world, offers a unique context for examining the development and implementation of SAS. The growth of the Islamic finance industry in Indonesia has been rapid, driven by both domestic demand and supportive government policies aimed at boosting Sharia-compliant financial services. The development of Sharia accounting standards in Indonesia began in earnest in the early 2000s, spearheaded by the Indonesian Institute of Accountants (IAI) and supported by the National Sharia Board (DSN-MUI). Over the years, Indonesia has developed its own set of SAS that are consistent with both local regulations and global Islamic financial principles, incorporating many of the guidelines issued by AAOIFI while also adapting them to Indonesia's specific economic and regulatory context.

Despite these advancements, challenges remain. The adoption of SAS in Indonesia is still not uniform across the financial sector, with varying levels of compliance depending on the institution's size, market focus, and familiarity with Islamic finance principles. Smaller Islamic financial institutions, in particular, may lack the necessary resources and expertise to fully implement SAS. Moreover, while Indonesia's regulatory framework supports the development of Sharia-compliant financial practices, ongoing efforts are needed to harmonize these standards with global frameworks and to ensure that they are consistently applied across all financial institutions.

Furthermore, the adoption and effective implementation of these standards vary considerably across different jurisdictions, influenced by factors such as local regulatory environments, the maturity of the Islamic finance industry, and the expertise of financial professionals. This literature review examines the existing body of knowledge on these challenges and highlights the gaps in research that this study seeks to address.

Sharia Accounting Standards and Their Global Implementation

SAS are designed to fulfil the specific needs of Islamic finance, differing significantly from conventional accounting frameworks. They place a strong emphasis on transparency, justice, and the prohibition of *riba*, as well as the requirement to avoid *gharar* (uncertainty) in financial dealings. AAOIFI has been instrumental in developing these standards, which are widely regarded as the benchmark for Islamic financial institutions globally. Nevertheless, despite their widespread recognition, the implementation of AAOIFI standards is not uniform across countries and institutions. Several studies, such as those by Morshed (2024) and Devi et al. (2024), have documented the challenges associated with the adoption of these standards in various regions, particularly in emerging Islamic finance markets.

For instance, Morshed (2024) highlight that one of the primary obstacles is variability in compliance levels with AAOIFI standards among Islamic banks in different countries, conflicts arising from differences in accounting treatments, and criticisms of AAOIFI standards for violating principles like the matching principle and faithful representation. Also, Devi et al. (2024) identify discrepancies between national accounting regulations and Sharia standards as another significant barrier, especially in countries where Islamic finance is still in its developmental stages. These discrepancies often lead to confusion and inconsistent application of the standards, which can undermine the credibility of financial reporting in Sharia-compliant institutions.

The Role of Regulatory and Institutional Frameworks

The regulatory environment plays a crucial role in shaping the successful implementation of Sharia accounting standards (SAS). In countries with strong regulatory frameworks, such as Malaysia and Indonesia, the adoption of Sharia-compliant financial reporting practices has been more robust and systematic. This success can largely be attributed to the presence of well-established regulatory bodies that oversee and enforce compliance with these standards. For instance (Akbar & Mukhlisin, 2024) emphasize the importance of strong regulatory oversight and institutional support in ensuring consistent adherence to Sharia accounting standards across the Islamic finance industry. Without such regulatory oversight, financial institutions may struggle to maintain the level of compliance necessary for the integrity of Sharia-compliant financial transactions. In Indonesia, the regulatory body Otoritas Jasa Keuangan (OJK) has played a pivotal role in promoting and enforcing the use of Sharia accounting standards among financial institutions. The OJK has implemented a range of policies designed to ensure that financial reporting practices in Indonesia's Islamic finance sector adhere to both Sharia principles and international best practices. Similarly, in Malaysia, the regulatory authority Bank Negara Malaysia (BNM) has developed a comprehensive framework that integrates Sharia accounting standards with conventional accounting principles. These tailored regulatory frameworks in Malaysia and Indonesia have facilitated a smoother and more consistent implementation of Sharia accounting standards, ensuring that Islamic financial institutions operate in a manner that aligns with both religious principles and global financial reporting requirements.

The role of these regulatory bodies is not just to enforce compliance but also to provide guidance and support to financial institutions. By offering clear regulations and frameworks that combine both Sharia and conventional accounting practices, they help mitigate potential conflicts between religious principles and the demands of modern financial reporting. This dual approach has proven effective in countries with strong regulatory systems, allowing for the development of a more mature and stable Islamic finance sector.

By contrast, countries like the United Arab Emirates (UAE) exhibit a more fragmented approach to implementing Sharia accounting standards. The UAE's diverse legal and regulatory environment, which includes both Islamic and conventional financial systems, complicates the process of standardization. As a result, the implementation of SAS in the UAE is less uniform, with financial institutions often operating under different sets of rules depending on their market focus and the regulatory body overseeing them. This creates a fragmented regulatory landscape that poses challenges to the widespread adoption of Sharia-compliant financial reporting practices.

Furthermore, Rahim et al. (2024) highlight Malaysia's more comprehensive approach to implementing SAS, which benefits from its well-developed regulatory and educational frameworks. These frameworks not only enforce compliance but also foster a greater understanding of Sharia accounting among financial professionals, ensuring that the standards are applied consistently across the industry.

Challenges in Interpretation and Application of Sharia Principles

Another major issue that arises in the implementation of SAS is the interpretation of Sharia principles themselves. The application of Sharia law varies depending on the different scholars of thought within Islam, such as Hanafi, Maliki, Shafi'i, and Hanbali, and this diversity can lead to varying interpretations of financial transactions. Countries with a longer history of Islamic finance, such as Saudi Arabia and Malaysia, tend to have more developed Sharia accounting practices. These nations have established frameworks to reconcile differences in interpretation and have created systems that support the consistent application of Sharia principles across institutions. This has enabled them to standardize financial reporting practices while maintaining adherence to Islamic ethical and legal principles. Their regulatory bodies have worked to provide clearer guidelines, thereby reducing the ambiguity that can arise from differing interpretations of key Sharia concepts.

In contrast, in regions where Islamic finance is relatively new, there is often a lack of consensus on how to interpret and apply these principles within the context of modern financial transactions. This lack of uniformity can result in significant inconsistencies in how Sharia accounting standards are implemented across different institutions, even within the same country. For example, some financial institutions may interpret certain types of transactions—such as those involving *gharar* (excessive uncertainty) or *maysir* (gambling or speculative risk)—as compliant with Sharia law, while others may view them as non-compliant. This divergence in interpretation not only complicates the landscape of Islamic financial reporting but also undermines the trust and consistency necessary for the continued growth of the Islamic finance industry. The inconsistency creates a fragmented environment, making it challenging for stakeholders to develop a unified approach to Sharia-compliant financial practices.

As the result, the lack of standardized interpretations of Sharia law in newer markets presents challenges for international investors and institutions seeking to engage in Islamic finance. Without clear and uniform guidelines, these investors may be reluctant to participate due to uncertainties regarding compliance with Sharia principles. This further hampers the development of a global Islamic finance market, where cross-border transactions require a shared understanding of Sharia rules and their application to modern financial instruments.

Educational and Professional Gaps

A recurring theme in the literature on Sharia accounting is the lack of sufficient education and professional training for financial professionals working in Sharia-compliant institutions. Dewi and Sawarjuwono (2019) highlight that many financial professionals, particularly in emerging markets, lack the necessary skills and knowledge to fully comprehend and

implement Sharia accounting standards. This knowledge gap is most pronounced in countries where Islamic finance is still relatively new, and where educational systems have not yet developed specialized training programs that focus on the unique requirements of Sharia-compliant financial reporting. The intersection of conventional accounting practices and Sharia principles requires a nuanced understanding, but this expertise is often missing due to the absence of targeted educational curricula and certification programs that adequately cover both areas.

The challenge of insufficient professional training is compounded by the rapid growth of the Islamic finance industry. As more financial institutions seek to offer Sharia-compliant products and services, the demand for qualified professionals has outpaced the development of training and education programs. In many cases, practitioners who are trained in conventional finance are tasked with implementing Sharia accounting standards without the requisite understanding of Islamic law and its application to financial transactions. This not only undermines the consistency and integrity of Sharia-compliant financial reporting but also exposes institutions to the risk of non-compliance with Sharia principles. Without proper training, financial professionals may misinterpret key concepts such as *riba* (interest), *gharar* (uncertainty), or *maysir* (gambling), leading to discrepancies in how transactions are reported and managed.

Dewi and Sawarjuwono (2019) argue that professional training programs are essential to bridging this gap, as they provide practitioners with the necessary tools to effectively implement Sharia standards in financial reporting. Such programs should focus not only on the technical aspects of accounting but also on the ethical and legal foundations of Sharia principles. In countries like Malaysia, significant progress has been made in this area. The establishment of dedicated educational programs, professional certifications, and institutions like the International Centre for Education in Islamic Finance (INCEIF) has contributed to the successful implementation of Sharia accounting standards. These programs are designed to equip financial professionals with a deep understanding of both conventional and Sharia-based financial practices, ensuring that they can apply the standards correctly and consistently.

Ahmad et al. (2023) and Yusof et al. (2024) further highlight Malaysia's proactive approach in developing a robust educational infrastructure for Islamic finance professionals. The availability of specialized degrees, diplomas, and certification programs in Islamic finance has helped to create a pool of qualified professionals capable of navigating the complexities of Sharia-compliant financial reporting. This has played a critical role in the country's leadership position in the global Islamic finance industry, where adherence to Sharia principles is rigorously enforced across financial institutions. The success of Malaysia's approach demonstrates the importance of integrating Sharia accounting principles into both academic curricula and continuing professional development programs for financial practitioners.

Nonetheless, in many other regions, such programs are either lacking or in their infancy. Countries where Islamic finance is still emerging often do not have the educational infrastructure or professional certification bodies needed to support the training of financial professionals in Sharia accounting. This limits the ability of financial institutions in these regions to effectively adhere to Sharia principles, as there is a shortage of personnel with the requisite expertise. The lack of qualified professionals poses a significant barrier to the growth of Islamic finance in these regions, as institutions struggle to develop Sharia-compliant products and services that meet the expectations of both regulators and consumers.

Gap in the Literature and Research Hypotheses

While the literature provides valuable insights into the challenges of implementing Sharia accounting standards, several gaps remain. First, there is limited research that focuses specifically on the dynamics of implementing these standards within the context of a rapidly growing Islamic finance sector, such as Indonesia. Although some studies have examined the challenges faced by individual institutions, there is a lack of comprehensive analysis that considers the broader institutional, regulatory, and educational factors that influence the adoption of Sharia standards. This study aims to fill that gap by providing a detailed elaboration of the dynamics of Sharia Accounting Standards implementation across Indonesian Sharia financial institutions.

MATERIALS AND METHODS

A literature review is a scholarly paper which provides an overview of current knowledge about a topic. It will typically include substantive findings, as well as theoretical and methodological contributions to a particular topic (Zawacki-Richter et al., 2019). In this study, a systematic literature review is employed to examine scholarly articles, documents, and publications related to the challenges of Sharia accounting standards.

Gap analysis is a critical tool used to identify the disparities between an organization's current situation and its desired outcomes (Kim & Ji, 2018). In this study, gap analysis is applied to explore the gaps between Sharia accounting standards compliance and their application in Islamic financial institutions. These gaps often arise from issues such as the lack of professional expertise in Sharia accounting and differences in governance models across regions. The results from the gap analysis reveal areas where improvements are needed, offering recommendations for enhancing the compliance and implementation of Sharia standards in these institutions. Through a gap analysis, the study identifies where discrepancies exist in compliance and application across different Islamic financial institutions, particularly highlighting areas where institutions have struggled to integrate these standards seamlessly.

Qualitative research plays a crucial role in this study, offering deeper insights into the real-world challenges faced by Sharia financial institutions in implementing accounting standards. Unlike quantitative research, qualitative data focuses on open-ended questions, exploring how and why certain processes unfold in specific contexts. The study uses

qualitative methods to capture the complex behaviors, experiences, and attitudes of professionals working in Islamic finance.

The study begins by clearly defining the research problem, which centers on the technical and governance challenges involved in the implementation of Sharia accounting standards. Data collection is conducted using secondary data from academic journals related to Islamic finance. The secondary data is analyzed through qualitative methods, exploring the "how" and "why" behind the gaps in standard compliance. By integrating grounded theory and qualitative research, the study aims to provide deeper insights into the practical issues affecting Sharia financial institutions and offer solutions to enhance compliance and integration of Sharia accounting

DISCUSSIONS

The findings of this study highlight several key factors influencing the adoption and implementation of SAS across various Islamic financial institutions. These factors include technical issues, governance challenges, and differences in the application of standards across different countries and institutions.

Technical Aspects and Practitioners' Expertise

One of the primary factors affecting the adoption of SAS is the significant variation in practitioners' comprehension and expertise in applying these standards across different financial institutions. As Saadah (2022), and Widuri et al. (2022) highlight, while some institutions are equipped with professionals who are well-versed in both conventional accounting practices and Sharia principles, many others struggle due to a lack of adequately qualified personnel. This knowledge gap is especially problematic in regions where Islamic finance is still in its developmental stages and where the educational infrastructure supporting Islamic finance and accounting is underdeveloped. In such cases, the availability of financial professionals with specialized knowledge in Sharia accounting is limited, which can lead to inconsistent or incorrect application of the standards.

The disparity in expertise is particularly evident in institutions located in countries with less developed Islamic finance sectors or those that lack robust training and educational frameworks for Islamic finance professionals. For example, in countries where Islamic finance is relatively new, institutions may not have access to professionals who are proficient in the complex intersection between conventional financial reporting and Sharia principles. Devi et al. (2024) and Najwa et al. (2023) all point out that institutions in these regions often face significant hurdles in implementing Sharia-compliant financial practices due to a shortage of skilled personnel. This lack of qualified practitioners hampers the institutions' ability to consistently apply Sharia accounting standards, resulting in discrepancies in financial reporting that can undermine the credibility and reliability of Sharia-compliant financial systems. The research suggests that the inconsistent application of SAS is not just a result of individual expertise but also reflects the broader systemic issues within the educational and regulatory frameworks of these regions. Akbar and Mukhlisin (2024), Barakat et al. (2023) and Zakaria et al. (2023) argue that countries with weaker educational infrastructures and less developed Islamic finance sectors are more prone to these challenges. These countries often lack the comprehensive training programs, certifications, and academic curricula that are essential for producing financial professionals capable of navigating the complexities of Sharia-compliant financial reporting. Without proper education and professional development, practitioners may struggle to interpret and apply the nuanced principles of Islamic finance, leading to varied practices and inconsistent reporting standards across institutions.

In addition, the lack of expertise in Sharia accounting has broader implications for the overall growth and development of Islamic finance. When institutions are unable to fully embrace Sharia-compliant financial reporting due to a shortage of skilled professionals, it not only affects their internal operations but also reduces investor confidence and hinders the industry's ability to compete on a global scale. Akbar and Mukhlisin (2024), Devi et al. (2024), and Morshed (2024) emphasize that enhancing the educational and training programs for practitioners is crucial to addressing this gap. Without well-structured education systems that focus on the dual aspects of Sharia and conventional financial practices, financial institutions will continue to face challenges in aligning their operations with globally accepted Sharia standards.

Indonesia, despite being one of the largest players in the global Islamic finance market, is not immune to these challenges. Although the country has a well-established regulatory framework and significant government support for Islamic finance, the shortage of qualified professionals with expertise in Sharia accounting remains a critical issue. As the demand for Islamic finance products and services continues to grow in Indonesia, there is a pressing need to develop more comprehensive education and training programs to ensure that the workforce can meet the sector's evolving requirements. Ahmad et al. (2023) highlight that while Indonesia has made strides in promoting Islamic finance education, the gap between the need for skilled professionals and the availability of such expertise still persists.

To bridge this gap, it is essential that both public and private sector initiatives focus on expanding access to education and professional certifications in Islamic finance. Countries with emerging Islamic finance markets, including Indonesia, could benefit from learning from the successes of nations like Malaysia, which has developed a robust system of education and training for Islamic finance professionals. By investing in education and creating opportunities for continuous professional development, these regions can help ensure a more consistent and effective application of Sharia accounting standards, thus strengthening the overall integrity and growth of the global Islamic finance industry.

Governance Challenges

Governance issues are fundamental in shaping the dynamics of SAS implementation, as highlighted by various studies (Akbar & Mukhlisin, 2024; Devi et al., 2024; Sharairi et al., 2023). The research underscores that different countries and financial institutions have adopted their own Sharia compliance models, which often leads to inconsistencies in how SAS is applied globally. For instance, countries like Malaysia and Indonesia have established robust Sharia governance frameworks that guide the implementation of Sharia principles in financial practices. However, this is not the case across all regions. Emerging markets, such as Kazakhstan and the Kyrgyz Republic, face significant challenges in developing a unified approach to Sharia compliance. This disparity in governance structures highlights the difficulty in achieving a consistent and universally accepted framework for Sharia governance (Almulhim et al., 2023; Devi et al., 2024; Sunarno, 2024).

The diversity in governance frameworks across countries often leads to varying interpretations of Sharia principles, which complicates the uniform application of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards. This situation is further exacerbated by the presence of multiple accounting frameworks within many countries, which may conflict with SAS. For instance, while some countries may prioritize conventional accounting principles, others might attempt to integrate Sharia standards within their existing frameworks, leading to inconsistencies and challenges in harmonization (Ahmad et al., 2023; Alqassar, 2022; Wasim & Zafar, 2023). The necessity for a unified accounting structure that aligns with Sharia principles is becoming increasingly apparent. Such a framework would facilitate the smoother integration of Sharia principles across various jurisdictions, enabling more consistent and effective implementation of SAS on a global scale.

Compliance with AAOIFI Standards

As mention above about the governance issues, the research highlights the fact that various countries and financial institutions have developed their own Sharia compliance models, resulting in significant inconsistencies in the application of SAS (Akbar & Mukhlisin, 2024; Devi et al., 2024; Sharairi et al., 2023). These disparities are driven by differences in governance structures, regulatory approaches, and the historical development of Islamic finance in each region. Countries like Malaysia and Indonesia, which have well-established Islamic finance sectors, benefit from clearly defined Sharia governance frameworks that support the consistent application of these standards. These frameworks ensure that financial institutions in these countries operate under a unified understanding of Sharia principles, thereby reducing ambiguities in financial reporting. In contrast, emerging markets such as Kazakhstan and the Kyrgyz Republic face significant challenges in developing and maintaining a unified approach to Sharia compliance (Almulhim et al., 2023; Devi et al., 2024; Sunarno, 2024). The relative novelty of Islamic finance in these regions, coupled with weaker regulatory infrastructures, has led to a fragmented governance landscape. As a result, financial institutions in these countries often struggle to apply Sharia accounting standards uniformly, and the lack of a cohesive regulatory framework further complicates the integration of Sharia principles into their financial reporting systems. This lack of standardization not only undermines the credibility of Islamic finance in these regions but also creates challenges for cross-border financial transactions, as institutions in different countries may interpret and apply Sharia principles in varying ways.

The diversity in governance frameworks across countries also leads to varying interpretations of Sharia principles, which complicates the uniform application of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards. AAOIFI, a global standard-setting body for Islamic financial institutions, has developed a comprehensive set of guidelines aimed at harmonizing Sharia-compliant financial reporting practices. However, the implementation of these standards is often hindered by the presence of multiple accounting frameworks within many countries, some of which conflict with AAOIFI's Sharia standards (Ahmad et al., 2023; Alqassar, 2022; Wasim & Zafar, 2023). In countries with dual financial systems—where both conventional and Islamic financial institutions operate side by side—there is often tension between national accounting frameworks and Sharia-based standards. This conflict can create confusion among practitioners and hinder the effective application of AAOIFI's guidelines.

The need for a unified accounting structure that facilitates the integration of Sharia principles across different jurisdictions is becoming increasingly evident. A cohesive approach would help reduce inconsistencies and ensure that financial institutions in different countries adhere to the same high standards of Sharia-compliant financial reporting. This would not only enhance the transparency and credibility of Islamic finance but also foster greater trust among global investors who seek to engage with Sharia-compliant institutions.

A major challenge identified in this study is the difficulty that many Islamic financial institutions face in adhering to AAOIFI standards. While AAOIFI provides a robust and detailed set of guidelines for Sharia-compliant financial reporting, its adoption across different countries has been inconsistent (Avsar & Ozdemir, 2022; Barakat et al., 2023; Kouzo & Falikhathun, 2023; Zafar, 2024). For instance, countries like Bahrain and Malaysia have demonstrated a high level of compliance with AAOIFI standards, largely due to their mature Islamic finance sectors and strong regulatory support for the implementation of these standards. In these countries, regulators have worked closely with financial institutions to ensure that AAOIFI standards are integrated into national accounting frameworks, thereby creating a more seamless and consistent approach to Sharia-compliant financial reporting.

In spite of, in many other countries, particularly those with less developed Islamic finance sectors, the adoption of AAOIFI standards has proven to be more challenging. The complexity of existing national accounting systems often poses significant barriers to the full implementation of AAOIFI guidelines. Countries such as Yemen and Kazakhstan, where the

Islamic finance industry is still in its nascent stages, have found it difficult to reconcile the differences between their local accounting frameworks and the requirements set forth by AAOIFI (Alaghbari et al., 2021; Cetin, 2022; Danlami et al., 2023; Nagayev & Stambakiyev, 2022; Sagiyeve et al., 2023). The challenge is further exacerbated by a lack of human resources proficient in both AAOIFI standards and local accounting practices. In many cases, there is a shortage of professionals who possess the expertise needed to implement AAOIFI standards effectively while also navigating the complexities of national accounting regulations (Alaghbari et al., 2021; Alqaraleh et al., 2020; Basnan et al., 2015).

The conflict between national accounting frameworks and AAOIFI standards often leads to fragmented financial reporting practices, where institutions may adhere to different sets of rules depending on their local regulatory environment. This fragmentation weakens the global cohesion of Islamic finance and makes it difficult for stakeholders—ranging from investors to regulators—to assess the financial health and compliance of Sharia-compliant institutions in different countries. Without a unified approach, the Islamic finance industry risks falling short of its potential to compete on equal footing with conventional financial systems, particularly in terms of transparency, consistency, and investor confidence.

In light of these challenges, the development of a more integrated approach to governance and the application of Sharia accounting standards is essential. Countries with emerging Islamic finance sectors must invest in building the regulatory and human capital necessary to support the consistent implementation of AAOIFI guidelines. This includes not only developing a unified accounting structure but also ensuring that financial professionals receive adequate training in both Sharia and conventional accounting practices. By addressing the governance issues that currently hinder the implementation of Sharia accounting standards, the global Islamic finance industry can move toward greater standardization, fostering a more transparent and reliable financial ecosystem for all stakeholders.

Disparities in Sharia Accounting Standards Compliance

The study reveals significant disparities in the level of compliance with Sharia Accounting Standards (SAS) across Islamic financial institutions, indicating a range of challenges and successes in the implementation process (Benamraoui et al., 2023; Morshed, 2024; Saadah, 2022). While some institutions have demonstrated a high degree of compliance and have successfully integrated Sharia principles into their accounting systems, others are still grappling with substantial obstacles. These include the lack of competent human resources, varying interpretations of Sharia principles, and the need for extensive modifications to their existing accounting frameworks to align with Sharia standards.

One of the primary reasons for these disparities is the variation in institutional capacity, which plays a crucial role in determining the ease or difficulty with which Sharia accounting standards are implemented (Abrams & Jayasinghe, 2023; Bechihi et al., 2021). Institutional capacity encompasses a range of factors, including financial resources, the complexity of organizational structures, and the quality of supporting infrastructure, all of which influence an institution's ability to comply with Sharia standards. Larger institutions, for example, tend to have more developed internal systems, greater access to financial resources, and a stronger regulatory framework, all of which facilitate the implementation of SAS. These institutions are better positioned to invest in the necessary technologies, training programs, and human resources required to meet the stringent demands of Sharia compliance.

Contrary to smaller institutions, that often face significant challenges due to their limited financial and organizational capacity. Many of these smaller institutions may lack the necessary infrastructure to fully implement Sharia standards, including access to advanced accounting systems and specialized personnel who are trained in both conventional accounting and Sharia principles. As a result, they struggle to maintain consistent compliance with SAS, leading to a fragmented and sometimes incomplete implementation of Sharia standards. The shortage of skilled professionals who understand the intricacies of Sharia-compliant accounting practices only exacerbates this issue, creating a further divide between institutions that are able to comply and those that are not.

For instance, in Indonesia, a country with a rapidly growing Islamic finance sector, the level of compliance varies widely between institutions. Larger and more established institutions, such as the Bank Syariah of Indonesia (BSI), have demonstrated strong adherence to both Sharia principles and modern risk management techniques, successfully adapting their accounting practices to the size, complexity, and capabilities of the bank (Faizatul et al., 2024). BSI's ability to align its operations with Sharia standards is largely due to its robust infrastructure, well-developed internal systems, and access to financial and human resources. The bank has made significant investments in developing specialized departments and employing skilled personnel who are proficient in Sharia-compliant financial practices, which has allowed it to maintain a high level of compliance and serve as a model for other institutions in the region.

The successful implementation of Sharia standards, as demonstrated by larger institutions like BSI, highlights the importance of a holistic approach that integrates various elements such as financial capacity, skilled human resources, and strong governance structures. Financial institutions that are able to combine these elements tend to face fewer challenges in complying with SAS, as they have the resources and infrastructure needed to navigate the complexities of Sharia-compliant financial reporting. In contrast, smaller institutions, particularly in emerging markets, often lack the financial and organizational strength needed to make similar investments, leading to a significant gap in compliance levels between large and small institutions.

Additionally, the study emphasizes that the differing interpretations of Sharia principles across various jurisdictions and financial institutions also contribute to the disparities in compliance (Benamraoui et al., 2023; Morshed, 2024). In some regions, the interpretation of key Sharia concepts such as *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation) can vary, leading to differences in how these principles are applied within financial reporting practices. This

lack of uniformity in interpretation adds another layer of complexity to the implementation of SAS, as institutions may adopt different approaches to Sharia compliance based on their understanding of these principles. This issue is particularly prevalent in countries where the Islamic finance sector is still in its developmental stages, and where there is limited regulatory oversight to enforce a standardized approach to Sharia compliance.

To address these disparities, the study suggests that Islamic financial institutions, particularly those in emerging markets, need to focus on enhancing their institutional capacity by investing in key areas such as human resources, technology, and governance (Abrar & Jayasinghe, 2023; Bechihi et al., 2021). By building stronger internal systems and improving access to specialized training and education in Sharia-compliant accounting practices, institutions can better position themselves to meet the demands of SAS. Additionally, collaboration between regulatory bodies, educational institutions, and the private sector can help bridge the gap between large and small institutions, ensuring that all players in the Islamic finance industry have the tools and resources they need to comply with Sharia standards effectively.

In brief, the successful implementation of Sharia Accounting Standards is heavily influenced by the institutional capacity of financial institutions, including their financial resources, organizational complexity, and the quality of their supporting infrastructure. While larger institutions like Bank Syariah of Indonesia have demonstrated strong compliance with Sharia principles due to their robust systems and skilled human resources, smaller institutions often face significant challenges. Addressing these disparities requires a coordinated effort to enhance institutional capacity, standardize interpretations of Sharia principles, and provide the necessary infrastructure and training to support full compliance with Sharia accounting standards across the Islamic finance industry.

Regulatory Frameworks and the Role of Standard Setters

The role of regulatory bodies and standard setters, such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and local regulatory authorities, is pivotal in promoting the effective implementation of Sharia accounting standards. These organizations serve as the backbone of the Islamic finance industry by developing guidelines and frameworks that ensure financial transactions are compliant with Islamic law. Research has underscored the importance of strong governance and regulation in facilitating the adoption of these standards, which is necessary to maintain consistency and transparency across global Islamic financial institutions (Hassan & Raza Rabbani, 2023; Jaffar et al., 2021; Kulikova & Mukhametzyanov, 2024).

The origins of Sharia financial reporting standards can be traced back to the Islamic Development Bank's (IDB) initiative in 1987, which laid the groundwork for the development of AAOIFI. This early effort was critical in addressing the growing need for standardization as Islamic finance began to expand globally. Before the creation of AAOIFI, Islamic financial institutions lacked a unified set of guidelines for Sharia-compliant financial reporting, which led to inconsistencies in how Islamic principles were applied in financial transactions. The formation of the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAOIBFI) in 1991, and its eventual transformation into AAOIFI, marked a significant milestone in standardizing Islamic financial reporting practices. AAOIFI has since established a comprehensive and widely accepted framework for Sharia-compliant financial reporting, including accounting, auditing, and governance standards that Islamic financial institutions around the world are encouraged to follow.

Although AAOIFI's critical role in developing these standards, the research highlights several challenges in the adoption and implementation process, particularly in regions where Islamic finance is still emerging. While AAOIFI's standards are internationally recognized, their implementation varies significantly across different countries and regions. The process of adoption has been relatively smooth in countries with well-developed Islamic finance sectors, such as Bahrain and Malaysia, where regulatory authorities have integrated AAOIFI standards into national accounting frameworks (Al Mahmood, 2023; Barakat et al., 2023). These countries have benefited from strong regulatory oversight, which ensures that financial institutions adhere to Sharia principles in a manner consistent with AAOIFI guidelines. Furthermore, local authorities in these regions have provided substantial support to Islamic financial institutions, helping them navigate the complexities of international and local regulations.

However, in other regions, the implementation of AAOIFI standards has been slower and more fragmented. The research points to several reasons for this. One of the primary challenges is the complexity of adhering to international standards while also accommodating local accounting frameworks. Many countries with emerging Islamic finance sectors, such as Kazakhstan, Yemen, and parts of sub-Saharan Africa, have accounting systems that are not fully compatible with AAOIFI guidelines. This creates significant obstacles for financial institutions attempting to integrate Sharia-compliant practices into their operations. The dual demands of meeting both local and international standards often lead to inconsistencies in financial reporting, as institutions struggle to reconcile the differences between these frameworks (Sembiring et al., 2024).

The challenge is further compounded by the lack of adequate regulatory oversight in some countries. In regions where regulatory authorities are not as actively involved in promoting or enforcing the adoption of AAOIFI standards, financial institutions are often left to implement Sharia principles on their own. This can result in uneven compliance, where some institutions adhere closely to AAOIFI guidelines while others apply Sharia standards in a more limited or inconsistent manner. Without strong regulatory support, the process of implementing Sharia accounting standards is often delayed, as financial institutions lack the resources or expertise needed to fully integrate these standards into their operations.

Another factor affecting the slow adoption of AAOIFI standards in some regions is the level of technical expertise and knowledge required to implement them effectively. Islamic financial institutions, particularly in emerging markets, often lack professionals who are well-versed in both Sharia principles and international accounting standards. This shortage of qualified personnel presents a major hurdle in ensuring consistent compliance with AAOIFI guidelines. Financial institutions in these regions may also face additional challenges in accessing the training and resources needed to build their internal capacities, further slowing the adoption process.

To address these challenges, a more coordinated effort between international standard setters, such as AAOIFI, and local regulatory bodies is essential. The role of national regulatory authorities in supporting the implementation of Sharia accounting standards cannot be overstated. In countries with mature Islamic finance sectors, such as Malaysia and Indonesia, local regulators play a key role in integrating AAOIFI standards into their national accounting frameworks, providing guidance and oversight to financial institutions. By fostering closer collaboration between AAOIFI and local regulators in countries with emerging Islamic finance sectors, it may be possible to accelerate the adoption of Sharia-compliant accounting standards globally.

Furthermore, efforts to enhance the capacity of Islamic financial institutions through training and education are crucial for ensuring the effective implementation of AAOIFI standards. By investing in the development of human resources, especially in regions where expertise in Sharia-compliant finance is limited, the Islamic finance industry can build a stronger foundation for the consistent application of Sharia principles in financial reporting. This, in turn, would help reduce the disparities in compliance across different regions and promote greater standardization in Islamic financial reporting worldwide.

Briefly, while AAOIFI has made significant strides in developing a global framework for Sharia-compliant financial reporting, its successful implementation depends heavily on the role of regulatory bodies and local authorities. Countries with strong regulatory support, such as Malaysia and Bahrain, have made substantial progress in adopting AAOIFI standards, but other regions continue to face challenges due to local accounting complexities, weak regulatory oversight, and a shortage of qualified personnel. Addressing these barriers through increased collaboration, regulatory support, and capacity-building initiatives will be critical to ensuring the effective global implementation of Sharia accounting standards.

Need for Unified Standards and Collaboration

The study underscores the critical need for increased collaboration among Islamic financial institutions, regulatory bodies, and educational institutions to effectively bridge the gaps in the implementation of Sharia accounting standards (Almulhim et al., 2023; Morshed, 2024; Sembiring et al., 2024). This collaboration is essential in creating a unified accounting structure that is capable of accommodating the complex requirements of Sharia principles while maintaining consistency across various jurisdictions. By working together, these stakeholders can address the disparities in the adoption and application of Sharia standards, particularly in regions where the Islamic finance sector is still in its developmental stages. A unified accounting framework, supported by strong and clear regulatory oversight, is critical for ensuring that Islamic financial institutions maintain a consistent approach to Sharia-compliant financial reporting. Countries with mature Islamic finance sectors, such as Malaysia and Bahrain, have demonstrated how a well-established regulatory framework can facilitate the seamless integration of Sharia principles into financial practices (Ahmad et al., 2023). These nations have implemented comprehensive governance models that ensure both transparency and compliance with Sharia principles, which has in turn strengthened the overall credibility of their Islamic financial sectors.

The research further emphasizes that educational institutions play a pivotal role in enhancing the implementation of Sharia accounting standards by providing specialized training for financial professionals. A well-trained workforce is essential for the successful application of these standards, particularly in countries where the Islamic finance industry is growing but lacks the necessary expertise. Developing targeted educational programs and certifications focused on Sharia-compliant financial practices can equip professionals with the skills they need to navigate both conventional accounting principles and the unique requirements of Islamic finance (Astuti & Raharja, 2024).

Moreover, countries with more established Islamic finance sectors, such as Malaysia, can serve as models for other nations seeking to improve their Sharia compliance governance and financial reporting practices (Ahmad et al., 2023). Malaysia's success in integrating Sharia principles into its financial system is largely attributed to its strong regulatory support and a robust educational infrastructure that consistently produces qualified financial professionals. These efforts have enabled Malaysia to maintain a high level of compliance with Sharia standards, making it an ideal case study for other countries looking to enhance their governance frameworks in the context of Islamic finance.

The study highlights that emerging markets, such as Indonesia, are beginning to implement similar strategies by collaborating with international organizations and regulatory bodies to strengthen their Sharia accounting frameworks (Zakaria et al., 2023). While there are still challenges in terms of institutional capacity and professional expertise, the lessons learned from more mature markets provide a roadmap for how these countries can improve their Sharia governance and reporting systems. Thus, the collaboration between Islamic financial institutions, regulatory bodies, and educational institutions is fundamental to overcoming the challenges in implementing Sharia accounting standards. A unified accounting structure, backed by strong regulatory frameworks and enhanced educational initiatives, can ensure consistency in applying Sharia principles across different regions. By learning from successful models like Malaysia, other nations can

enhance their own Sharia compliance governance and financial reporting practices, leading to a more standardized and transparent global Islamic finance sector.

CONCLUSIONS

This study provides a comprehensive analysis of the dynamics involved in implementing Sharia Accounting Standards (SAS) across Islamic financial institutions, with a focus on the challenges and factors influencing adoption. The research highlights technical difficulties, such as disparities in practitioners' comprehension of Sharia principles, governance issues due to varying Sharia compliance models, and challenges related to adherence to the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). These challenges are compounded by the conflict between multiple accounting frameworks and the lack of a unified standard in many regions.

Theoretical contributions of this study include a deeper understanding of the complexities in adopting Sharia standards, particularly in countries with emerging Islamic finance sectors. The findings reveal that while some institutions have successfully integrated Sharia principles, others face barriers like limited human resources and infrastructure, differing interpretations of standards, and a need for changes in accounting systems. These issues underscore the importance of a unified Sharia accounting framework to facilitate consistent and seamless implementation across institutions.

Empirically, the study emphasizes the role of educational and training programs to enhance practitioners' knowledge of Sharia accounting, especially in regions where expertise is lacking. The economic benefits of addressing these challenges are significant, as smoother implementation of Sharia standards will lead to more robust financial reporting, enhancing the credibility and growth potential of the Islamic finance sector. Countries like Malaysia and Indonesia serve as successful examples of how strong regulatory frameworks can support the development and integration of Sharia accounting principles.

However, this study has some limitations that must be acknowledged. One key limitation is the reliance on secondary data, which may not fully capture the nuanced challenges experienced by financial institutions. Future research could benefit from primary data collection, including interviews with key practitioners in the Islamic finance industry, to provide more granular insights into the practical difficulties of implementing SAS. Another limitation is the focus on specific countries, which may not reflect the global diversity of Islamic finance systems. Expanding the scope of future research to include more jurisdictions, particularly in regions with emerging Islamic finance sectors, would provide a more holistic understanding of the challenges and successes in SAS adoption.

In conclusion, while this study offers valuable insights into the factors influencing SAS implementation, future research should explore more diverse geographical contexts, conduct primary research for deeper analysis, and consider the long-term impact of regulatory changes on the global Islamic finance sector. Addressing these gaps will strengthen the foundation for advancing Sharia-compliant financial reporting, ensuring greater consistency and alignment with Islamic principles.

Author Contributions: Conceptualization, Q.A. and R.R.A.S.; Methodology, Q.A.; Software, Q.A.; Validation, Q.A. and R.R.A.S.; Formal Analysis, Q.A. and R.R.A.S.; Investigation, Q.A.; Resources, Q.A.; Data Curation, Q.A.; Writing – Original Draft Preparation, Q.A. and R.R.A.S.; Writing – Review & Editing, Q.A. and R.R.A.S.; Visualization, Q.A.; Supervision, Q.A.; Project Administration, Q.A.; Funding Acquisition, Q.A. and R.R.A.S. Authors have read and agreed to the published version of the manuscript.

Institutional Review Board Statement: Ethical review and approval were waived for this study, due to that the research does not deal with vulnerable groups or sensitive issues.

Funding: The authors received no direct funding for this research.

Acknowledgments: Not applicable.

Informed Consent Statement: Informed consent was obtained from all subjects involved in the study.

Data Availability Statement: The data presented in this study are available on request from the corresponding author. The data are not publicly available due to restrictions.

Conflicts of Interest: The authors declare no conflict of interest.

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