Merits in Applying AAOIFI Accounting Standards in Pakistani Islamic Banks

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Abstract
The objective of the study is to identify the merits in applying AAOIFI accounting standards in Islamic banking sector of Pakistan. To study the various dynamics of AAOIFI accounting standards, a meticulous market survey was conducted from banking professionals, external auditors, regulators and academic scholars. Structured questionnaire was designed and distributed in person as well as through various electronic modes among respondents. The study identified potential problems with using different accounting standards for financial reporting. The results indicated the need for an alternate set of accounting standards for Pakistani Islamic banks. Moreover, dire need was felt for harmonizing accounting standards of Islamic banks. Study revealed the prominence of AAOIFI accounting standards for growth and reliability of financial statements pertaining to Islamic banking sector in Pakistan. Respondents disclosed their satisfaction with credibility and quality of AAOIFI accounting standards. The study analyzed the ways that AAOIFI accounting standards can escalate the quality of financial reporting of Pakistani Islamic banks in terms of credibility, consistency, comparability and clarity. This research endeavors to study the need and benefits in adopting AAOIFI accounting standards in Pakistani perspective. This study offered implications for theory, policy and practice as well as some directions for future research.

Keywords: AAOIFI Accounting Standards, Comparability, Consistency, Credibility, Financial Reporting, Structured Questionnaire

Introduction
Accounting reveals the financial health of a certain entity (Ahmad, Billah & Islam, 2012). Improvement in accounting standardization is crucial to strengthen investors’ confidence in Islamic banking and improving the consistency, reliability, credibility and clarity of financial reporting (Sarea, 2012). It is inevitable to develop such accounting standards that appropriately reflect the true character of Islamic financial transactions. Alkali, Alkali and Aliyu (2017) highlighted the significance of AAOIFI accounting standards in Islamic Financial Institutions (IFIs) of Nigeria resulting improvements in investors’ confidence and information disclosures. Moreover, social prosperity of the stakeholders will be amplified as per Islamic preaching (Asfadillah, Latifah & Sukmana, 2012). Kalamatian and Hassan (2014) argued that due to drastic growth in Islamic banks in the last two decades, it has been realized that conventional accounting models need to be redefined to meet the expected demands of Islamic economic system. Contrary to conventional accounting, Islamic accounting is not limited to the money concerns alone (Kamla, 2009).

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Bindabel, Patel & Yekini (2017) emphasized that only Islamic accounting has the capability and the capacity through which the Muslims can evaluate their accountabilities to Allah in two ways, inter-human and environmental transactions. Vinncombe (2010) emphasized that due to rapid growth in Islamic banking, it offers diversified products which are consistent with Shariah ethos. Asfadillah, Latifah and Sukmana (2012) in a study proved the significance of Islamic accounting in modern world. Values of Islamic doctrine were analyzed in accounting process which prevents unforeseen activities such as fraud, forgery and dishonesty. Haniffa and Hudaib (2010) highlighted the reasons that why Islamic Accounting is still at infancy level? Current accounting system of Pakistan is the result of hybridization where many cultural influences and institutional factors have played key role in shaping accounting system and practice rather than Islam. Due to dual concept of Islamic accounting by its nature i.e. accountability to public and to Allah, may play a vital role in the development of Islamic accounting system in Pakistan. Islamic accounting is critically needed in Pakistan because constitutionally “Islam” is the state religion and the country was formed in the name of Islam (Badshah, Mellemvik & Timoshenko, 2013).

Islamic Development Bank (IDB) made a rigorous effort to originate a formal entity while dealing with Islamic accounting issues. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was registered on 27 March, 1991 in Bahrain as a non-profitable autonomous international organization. AAOIFI plays the role as guideline which reflects the distinctive characteristics of Islamic Financial Institutions (Sarea & Hanefah, 2013). The purpose of AAOIFI was to prepare auditing, accounting, ethical and governance standards related to operations of IFIs, keeping in view being compliant with Shariah laws. AAOIFI, as established for the very purpose of bringing harmonization and standardization, has issued 26 accounting standards until now. AAOIFI plays the role of guideline which reflects the distinctive characteristics of IFIs (Sarea, 2012).

Accounting reengineering is required to reflect appropriately the spirit of IFIs (Mahdavikhou & Khotanlou, 2012). In Pakistan, Institute of Chartered Accountants of Pakistan (ICAP) is the accounting standards setting body working closely with Securities and Exchange Commission of Pakistan (SECP) and State Bank of Pakistan (SBP). SECP notifies accounting standards that fits to different entities in Pakistan under Pakistan Companies Ordinance (1984) with recommendations of ICAP. Further to the judgment on interest of Shariah Appellate Bench of 1999, ICAP constituted a committee on auditing and accounting standards of interest-free modes for investment and financing. The committee of ICAP, SECP and with active support of SBP can roll out for AAOIFI accounting standards in Pakistan. In light of their teamwork, ICAP issues accounting standards, SECP notifies these standards through statutory notification whereas SBP issues regulatory instructions for its execution by Islamic banking institutions. Pakistan has not fully adopted International Financial Reporting Standards (IFRS) and there is no separate set of accounting standards attributed solely to Islamic banks in Pakistan. Though, SBP has adopted certain Islamic accounting standards i.e. Murabaha, Ijarah &
Profit and Loss sharing on deposits according to its own requirement, still there is need for full implementation of AAOIFI accounting standards.

Due to rapid expansion in financial products, asset size and growing network of Islamic banking, further research should be inculcated regarding AAOIFI accounting standards in Pakistan to portray the credibility of financial statements, fully compliant with Shariah principles. Kamla and Haque (2017) suggested that various challenges and underlying opportunities of Islamic accounting standards should be studied in different parts of the globe. Badshah, Mellemvik, and Timoshenko (2013) studied the role of belief system on the development of accounting system at federal level in Pakistan. The social construction research paradigm in their study revealed that the role of religion in the formulation of an organized accounting system is very insignificant. Khan and Shah (2015) suggested that further work should be done in regulatory and recording framework for Islamic banking of Pakistan. Al-Sulaiti, Ousama and Hamammi (2018) found Islamic accounting a very lucrative area for further research by exploring its various dynamics. This research study emphasizes the need for adoption of AAOIFI accounting standards and identifies the merits in applying AAOIFI accounting standards in Pakistani Islamic banks.

**Literature Review**

As per the teaching of Holy Quran, Islam is a complete code of life (Al-Qur’an, 5:3; 16:89). Though western societies believe in God but it does not influence their political or economic behavior (Ahmed, 2002). In a research study, Mirza and Baydoun (1999) had suggested that Muslim societies must have their own accounting standards. Financial reporting should be beneficial in all aspects to shareholder covering information on charity, Qard (loan) and Zakat etc. Some Islamic principles also suggest a number of different implications for accounting and governance reflecting Islamic principles engaged with the perspective related to Islamic accounting environment (Kamla, Galhofer & Haslam, 2006). Islam has lucid instructions to invest in legal activities and strongly prohibits activities not in line with the Shariah guidelines (Ahmad, Billah & Islam, 2012).

Westernized accounting practices can’t satisfy the needs of a true Islamic society (Majid & Haliding, 2014). Islamic banks in GCC region were witnessed more cost efficient during the global financial crisis of 2007-08 as compare to their conventional counterparts (Alqahtani, Mayes & Brown, 2017). Islamic accounting system is integrated with all aspects of practical life (Ather & Ullah, 2009). What is Islamic Accounting and why Islamic accounting is essential was studied by Haniffa and Hudaib (2010) in the United Kingdom financial market revealing that research in Islamic accounting is vital and has to be developed in line with the advancement of new Islamic financial structures. Although the development of Islamic banking sector can enhance efficiency but only up to a specific point as the industry is to fulfill the customized needs of Muslim population in particular by providing variety of financial tools and services (Gheeraert & Weill, 2015). Islamic societies must have functions which include fair distribution of wealth, complete transparency of transactions, attention to the stakeholders, promotion of social justice and religious accountability (Kalamatian, & Hassan, 2014). Islamic Accounting
Standards (AAOIFI) are need of the hour for Islamic countries as International Financial Reporting Standards (IFRS) are designed principally for addressing the Western and European accounting issues with focus on conventional institutions (Sharairi, Islam & Harun, 2013). We still have much more to discover regarding Islamic banking and finance (Napier, 2009).

In comparison to conventional accounting which purpose is to serve only the interest of a particular group, Islamic accounting addresses the interest of the whole society at large (Troic, 2015). Due to rapid growth in Islamic banking it’s very important to develop accounting standards to address Islamic financial reporting (Vinncombe, 2010). It is very much obvious that Islamic accounting research is essential not only due to growth of IFIs that gave rise to many auditing, accounting, and governance issues requiring answers but also its prospective areas in providing alternate solutions and measures through Shariah doctrine to trounce the flaws of conventional model (Haniffa & Hudaib, 2010). Sakib (2015) checked the conformity level of Bangladesh’s Islamic banks with AAOIFI accounting standards. Findings indicated that on average financial statements of these six Islamic banks conform to 53.79% of AAOIFI standards. In disclosure, a low level of difference was found, a standard deviation of 2.79 in case of total conformity.

AAOIFI was prefered by most of the respondents to be adopted in Saudi Arabia (Al-Abdullatif, 2007). AAOIFI accounting standards are mandatory for Islamic banks in Bahrain, therefore high level of compliance was observed by accountants’ perception (Sarea, 2012). Al-Sulaiti, Ousama & Hamammi (2018) examined that Islamic banks in Qatar and Bahrain are complying with AAOIFI accounting standards in Islamic products i.e. Musharaka, Murabaha and Mudarbah. For better performance of IFIs in Nigeria, the mandatory adoption of AAOIFI accounting standards is significant. Adoption of these standards will increase transparency, enhancement in Muslim investors’ network, improvement in Nigerian stock market and reporting disclosures (Alkali, Alkali & Aliyu, 2017). The management of Islamic banks is less likely to involve in unethical or immoral business practices in comparison to conventional banking (Quttainah & Almutairi, 2017).The extensive literature shows that there is no significant difference between conventional and Islamic banks based on competition, efficiency and risk characteristics. It is worthy to understand that small Islamic banks are less risky as compared to conventional and large Islamic banks (Abedifar et al., 2015). The neglected principles of Islamic accounting could be the lack of comprehensive attributes of Islamic system to meet the variety of needs of customers in complex macro-economic environment (Velayutham, 2014). Accounting revival is required for promoting and developing ethical thinking as it is a mechanism which provides correct information, financial data, to different entities ensuring that it is working within the limits of Shariah (Mahdavikhou & Khotanlou, 2012). There is an increasing trend of criticism over conventional accounting as it has failed to come up with the expectations of relevant stakeholders (Amer, 2007).

Holding firmly the Islamic values will decrease fraudulent practices and hence conventional accounting must be redefined to give more benefit to stakeholders with lesser harm to society (Asfadillah, Latifah & Sukmana, 2012). In Pakistan involvement of
multiple stakeholders, such as central bank, government and religious authorities, regulation is highly complicated due to which Islamic banking system is not yet adopted and hence dual banking is operating in the country side by side (Rammal & Parker, 2013). Pakistani Islamic banks recorded good history of profits and earnings per share which increased the confidence of investors to further invest in Islamic banking products (Ashraf, 2013). Basics of conventional and Islamic financial system are not comparable, so to meet the totally different needs of Islamic financial system, there should be different system for accounting as well (Karim, 2001). While Adoption of International Accounting Standards (IAS) and IFRS in IFIs for the reporting of Islamic financial transactions, Shariah scholars, academicians and accounting specialists keep great consideration on Shariah issues, for example interest and insurance instead of profit and Takaful respectively (Shafii & Zakaria, 2013). Since conventional accounting cannot deal with Riba and Zakat issues as well as the expanding role of Islamic countries in the world trade and their rising strategic positions, IFRS is inadequate to tackle the issues of typical Islamic accounting transactions (Sharairi, Islam & Harun, 2013). For IFIs and its users, Shariah based financial reporting is crucial for the credibility and reliability of information (Talib, Abdullah & Abdullah, 2014). Alignment with accounting standards and principles does not mean absolute guarantee of appropriate reporting, since lack of professional ethics in reporting can lead to unrealistic and misleading picture of organization (Mahdavikhou & Khotanlou, 2012). Sarea (2012) investigated to find out that it is doubtful to conclude whether the IFIs would switch to AAOIFI accounting standards or local standards or adopting a mixture of both.

AAOIFI accounting standards just provide a policy guideline that tries to meet special needs of Islamic financial institutions (Sarea & Hanefah, 2013). By bringing the Islamic banks in line with AAOIFI accounting standards, comparison among them will robust the financial performance measurement (Al-Abdullatif, 2007). AAOIFI is the pioneer non-profitable organization who made it possible to develop accounting standards for IFIs (Sarea 2012). Although AAOIFI has convinced regulatory bodies to adopt its standards though its worldwide network, but still AAOIFI has not been completely successful (Sarea, 2012). There should be syndicate effort at international level to conduct research and launch accounting from Islamic perspective as a mainstream field (Ahmad, Billah & Islam, 2012). Sarea and Hanefah (2013) investigated that conventional accounting does not have the capacity to address the spirit of Islamic doctrine, that’s why there is severe need of Islamic accounting system. It needs extensive research to explore the moral and social roles and identification of prospective ways to bring forward Islamic accounting and banking research for enabling the body of knowledge to fulfill the needs of large segments of population (Kamal, 2009). Most of the works on AAOIFI accounting standards have been done in Bahrain, Saudi Arabia, UAE, Bangladesh (Al-Abdullatif, 2007; Sarea, 2013; Sharairi, Islam & Harun, 2013; Sakib, 2015). AAOIFI accounting standards is a developing concept in Pakistan which opened a window for research. There exists a gap of research study that needs to investigate the dynamics of AAOIFI accounting standards for the markets in Pakistan.
This paper will add some useful insights to the existing literature which attempts to identify the merits by adopting AAOIFI accounting standards in Pakistani Islamic banks.

**Data and Methodology**

Survey research method was adopted and addressed to accounting practitioners, banking professionals and academia to document their input through a structured questionnaire. The aim of survey research method is getting the input of respondents regarding the issue according to predefined methodology of investigator for a definite perspective (Jackon, 2014). Data is a tool which leads researcher to have thorough analysis on the subject matter by using pertinent and apposite statistical tests (Bevington, 1996). The study relied on exploratory data analysis and descriptive statistics to acquire insights about the issue. Exponential non-discriminative snowball sampling technique was chosen for sampling with the aim that subject will recommend several referrals and each will provide more in anticipation to reach required number of respondents through chain referrals. Questionnaires were distributed through electronic mediums and in person. A page was designed on Google form to collect the responses with ease which is available at (https://docs.google.com/forms/d/1N59EXxwOHC0Spnh4X1FQcxWMXJmS2FoYIo1K hViGz3w/edit).

It is evident from previous studies that some seasonal researchers also incorporate certain changes identified to improve the questionnaire performance after conducting the pilot study (Alreck, 1995). Before distribution of questionnaire, a pilot study was conducted to test the precision, level of acceptance and ease with understanding to disclose any inaccuracies, if made in the designed questionnaire. According to Stebbins (2013) pilot study in a research is carried in a way to make proceeding as flawless as possible and avoid any to perplexity in later phases of the study. The questionnaire was adopted from PhD thesis conducted at Durham University, UK by Al-Abdullatif (2007) with several modifications that deemed fit to our research settings. For pilot study, questionnaire was distributed among ten professors of Islamic finance in Pakistani universities. The objective of piloting was to detect the validity and reliability of the questionnaire. The reviewers were requested to note their observations and recommend necessary suggestions that could assist the data analysis. Construct validity is the extent to which the concepts are being measured by scale. The questionnaire used in this article constitutes of direct and clear questions. Validity and reliability of questionnaire was also checked through pilot study and termed as valid and reliable one. Without checking the reliability of research instrument, it can lead to misleading results (Downing, 2004).

All close-ended questions in this instrument are constructed according to the Five-Point Likert Scale with values from 1 to 5 indicating various choices of respondents to a factor. Statistical analyses were carried out through SPSS. The study integrates percentage analysis to represent the collected observations in simple and understandable form. Ranking were assigned to data on the basis of highest number of responses in each category of Five-Point Likert scale. Cronbach’s Alpha is used for internal consistency that shows how the items are interlinked. It is considered to be a measure of scale.
reliability. If the value is in range between .70 and .90, then such data is considered reliable. From technical point of view, the Cronbach’s Alpha is a coefficient of reliability rather than a statistical test; the one statistical aspect is that it uses statistical method for collection of reliability (Meeker & Escobar, 2014). In other words, the reliability of any given measurement refers to the extent to which it is consistent with a concept. Cronbach’s Alpha is one way of measuring the strength of consistency (Kimberlin & Winterstein, 2008).

Results and Discussion

Response Rates

Out of 660 questionnaires distributed, 425 were responded comprising 64.3% of the total questionnaires.

<table>
<thead>
<tr>
<th>Samples</th>
<th>Distributed Questionnaire</th>
<th>Responded Questionnaires</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees of Islamic banks</td>
<td>300</td>
<td>233</td>
<td>77.6</td>
</tr>
<tr>
<td>Employees of Islamic Windows of conventional banks</td>
<td>150</td>
<td>69</td>
<td>46</td>
</tr>
<tr>
<td>Others (Academia, Regulator etc.)</td>
<td>210</td>
<td>123</td>
<td>58.5</td>
</tr>
<tr>
<td>Total</td>
<td>660</td>
<td>425</td>
<td>64.3</td>
</tr>
</tbody>
</table>

Potential problems with different Accounting Standards

Globalization and financial integration affirms the alignments of subsystems, such as in economic system the accounting standards is a sub system (Ghani et al., 2012). The responses involving potential problems by using different accounting standards are given below in table 2. The response reveals view of each segment in terms of percentage and ranking shows its relative importance.

<table>
<thead>
<tr>
<th>Potential problems of Using different Accounting Standards</th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Neutral (%)</th>
<th>Disagree (%)</th>
<th>Strongly Disagree (%)</th>
<th>Rank</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty in comparison</td>
<td>71.2</td>
<td>21.2</td>
<td>1.9</td>
<td>5.8</td>
<td>-</td>
<td>1</td>
<td>.860</td>
</tr>
<tr>
<td>Variations in interpretation</td>
<td>61.5</td>
<td>23.1</td>
<td>11.5</td>
<td>3.8</td>
<td>-</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Difficulty to deal with different standards</td>
<td>40.4</td>
<td>38.5</td>
<td>17.3</td>
<td>3.8</td>
<td>-</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Training cost for familiarity with different standards</td>
<td>21.2</td>
<td>55.8</td>
<td>15.4</td>
<td>7.7</td>
<td>-</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Difficulty in decision making</td>
<td>44.2</td>
<td>28.8</td>
<td>15.4</td>
<td>11.5</td>
<td>-</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Trust in accounting information</td>
<td>36.5</td>
<td>28.8</td>
<td>15.4</td>
<td>17.3</td>
<td>1.9</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Expand the range of work done by external auditors</td>
<td>19.2</td>
<td>40.4</td>
<td>25.0</td>
<td>13.5</td>
<td>1.9</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Trust in audit reports</td>
<td>30.8</td>
<td>23.1</td>
<td>19.2</td>
<td>17.3</td>
<td>9.6</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

Table 2 constitutes of various dimensions in using different accounting standards. Comparability of financial statements was stated a major issue as 92% of the population
is either agreed or strongly agreed. 85% of the respondents ranked variation in interpretation of financial statements as second potential problem, followed by difficulty to deal with different accounting standards. These results are in line with the studies of Al-Abdullatif (2007) and Abuhmaira (2006). The relative ranking of other issues are part of the table.

Achievable objectives by applying Islamic Accounting Standards in Pakistan

Regarding a statement “Do you believe that Islamic accounting standards in Pakistan might help in achieving some stated objectives?” when asked, respondents were in favor of implementation of Islamic accounting system.

Table 3: Achievable objectives by applying Islamic Accounting Standards in Pakistan

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Neutral (%)</th>
<th>Disagree (%)</th>
<th>Strongly Disagree (%)</th>
<th>Rank</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoting adequate disclosure of comparable financial information</td>
<td>84.9</td>
<td>15.1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>.907</td>
</tr>
<tr>
<td>Harmonizing financial statements between Islamic banks</td>
<td>83.0</td>
<td>17.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Providing definitive criteria for guidance of accountants in process of preparation of financial statements of Islamic banks</td>
<td>73.6</td>
<td>22.6</td>
<td>3.8</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Providing definitive criteria for guidance of external auditors by auditing financial statements of Islamic banks</td>
<td>73.6</td>
<td>20.8</td>
<td>5.7</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Providing reasonable consistency in Islamic banks’ financial reporting over time</td>
<td>54.7</td>
<td>37.7</td>
<td>5.7</td>
<td>1.9</td>
<td>-</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Increase trust of users in financial information of Islamic banks</td>
<td>60.4</td>
<td>28.3</td>
<td>9.4</td>
<td>-</td>
<td>1.9</td>
<td>6</td>
<td></td>
</tr>
</tbody>
</table>

Results in Table 3 indicated that promoting adequate disclosure of comparable financial information was ranked highest followed by harmonization of financial statements among Islamic banks. Moreover, disclosures of comparable financial information will robust user’s confidence. A definitive criterion will be available to external auditors and accountants with implementation of such standards as evident from the results. Result of the study was confirmed by Al-Abdullatif (2007).

Need for Harmonizing Accounting Standards for Pakistani Islamic Banks

AAOIFI should also be in close coordination with other accounting standard bodies for the ultimate best possible accounting practices (Sakib, 2015). In Table 4, 92% of the respondents were agreed or strongly agreed with harmonization of accounting system for Islamic banks leading to improve reliability and credibility factors. For
bringing harmonization in practical sense, the relevant stakeholders need mutual consultation and collaboration. Results of the study are similar with the study of Al-Abdullatif (2007).

Table 4: **Need for harmonizing Accounting Standards for Pakistani Islamic Banks**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Neutral (%)</th>
<th>Disagree (%)</th>
<th>Strongly Disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for Harmonizing Accounting Standards</td>
<td>82.7</td>
<td>9.6</td>
<td>3.4</td>
<td>2.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Standards for Pakistani Islamic Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Potential Improvement in Quality of Financial Reporting by adopting AAOIFI Accounting Standards in Pakistan**

Potential improvement in credibility, comparability, consistency, clarity and relevance was essence of the study.

Table 5: **Potential Improvement in Quality of Financial Reporting by adopting AAOIFI Accounting Standards in Pakistan**

<table>
<thead>
<tr>
<th>Quality Characteristics</th>
<th>Strongly Agree (%)</th>
<th>Agree (%)</th>
<th>Neutral (%)</th>
<th>Disagree (%)</th>
<th>Strongly Disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credibility</td>
<td>87.4</td>
<td>6.8</td>
<td>4.1</td>
<td>1.7</td>
<td>-</td>
</tr>
<tr>
<td>Consistency</td>
<td>85.7</td>
<td>8.1</td>
<td>6.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Relevance</td>
<td>72.2</td>
<td>17.4</td>
<td>6.6</td>
<td>3.8</td>
<td>-</td>
</tr>
<tr>
<td>Clarity</td>
<td>80.5</td>
<td>8.2</td>
<td>9.1</td>
<td>2.2</td>
<td>-</td>
</tr>
<tr>
<td>Comparability</td>
<td>62.7</td>
<td>17.5</td>
<td>14.4</td>
<td>5.3</td>
<td>-</td>
</tr>
</tbody>
</table>

Results mentioned in Table 5 indicate that credibility of financial statements will improve significantly with adoption of AAOIFI accounting standards as 94% of respondents were agreed. High level of credibility on AAOIFI accounting standards is due to its strict compliance and monitoring mechanism. Consistency is the second important factor followed by relevance, clarity and comparability respectively. Results of the study were confirmed by Al-Abdullatif (2007) and Abuhmaira (2006).

**Conclusion**

Results of the study are consistent with some existing studies which were conducted in other financial settings pertaining to adoption of AAOIFI accounting standards. Al-Abdullatif (2007) investigated the applications of AAOIFI accounting standards in Islamic banks of Saudi Arabia and indicated that alignment with AAOIFI accounting standards, comparison among Islamic banks in Saudi Arabia will boost financial performance measurement. Other study by Abuhmaira (2006) investigated the impact of AAOIFI accounting standards on financial reporting in Bahrain. The results of both studies were supporting the results of this study. The nature and dynamics of all these studies are almost same but the study settings are different. These three studies have
highlighted the importance and various other dynamics of AAOIFI accounting standards. The academic support is a sort of validation for the result of this study.

There are number of policy implications of this study. If Pakistan adopts a widely recognized system like AAOIFI accounting standards, it can shift the prevailing accounting system towards better level of harmonization as AAOIFI disclosures and reporting standards are considered more reliable. Credibility of financial reporting will improve with the adoption of AAOIFI accounting standards in Pakistan. Moreover, the issues like comparability, clarity and consistency will be resolved which will further boost up users’ trust. The relevant policy makers i.e. SBP, SECP and other stakeholders should take into account the imperative input of such vibrant group of experts and should act critically. The issue under consideration is very dynamic and comparatively new in Islamic banking industry of Pakistan. It carries great prospects for further research from various dimensions. Extending research in the given area will augment the capacity, reliability, efficiency and applicability of emerging Islamic accounting standards.

In future, it would be interesting to conduct a comparative study of current Islamic accounting system of Pakistan with newly AAOIFI accounting standards. This will enable all relevant stakeholders to get insights about the disparities which exist among different systems. The aim of such studies should be to investigate the fundamental differences, rather by telling that one system is Islamic and other is vice versa. By investigating and analyzing the obstacles and challenges, the adoption of AAOIFI accounting standards in Pakistan will enable the relevant policy makers by taking some serious steps towards fixing issues and adopt effective strategies in the long run.

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