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The Role of Accounting And Auditing Organization For Islamic Financial Institutions (AAOIFI) in Sharia Statement Of Fiancial Accounting Standards (PSAK)

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Abstract

This research is intended to provide an understanding of Islamic financial accounting standards. In carrying out its sharia principles, sharia banks must also uphold the values of justice, trust, partnership, transparency and mutual benefit for both the bank and for customers which are the pillars in carrying out muamalah activities . With the rapid growth rate of Islamic Financial Institutions in the world, an appropriate standard is needed in presenting financial reports to overcome differences in the preparation of each country. The role of AAOIFI in this regard has greatly contributed in terms of the formulation of standards, although in practice there are many obstacles to its application, moreover the standard that is widely used by countries is IFRS and it is not easy for countries to adopt AAOIFI standards in a short time . Most of the standards used by Islamic banking follow the AAOIFI standards adopted in the Sharia PSAK but in relation to IFRS standards are also applied as long as they do not conflict with sharia principles and values.

Keywords: Accounting Standards, Islamic Banking, AAOIFI, PSAK Syariah

INTRODUCTION

Islam as a universal and comprehensive religion is very capable of answering the complex problems of human life, including economic problems. Allah SWT says (QS.17:9) "Indeed, this Qur'an gives instructions to a straighter path and gives good news to the believers who do good deeds that for them is a great reward". Now what is the Islamic solution in answering the people's economic problems?

One of the important factors in the development of a country is the existence of support from a sound and stable financial system, the same is true for the Indonesian state. The Indonesian state financial system itself consists of three elements, namely the monetary system, the banking system and the non-bank financial institution system.

The increasingly complex economic development certainly requires the availability and participation of financial institutions. Monetary and banking policies are part of economic policies aimed at achieving development goals. Therefore the role of banking in a country is very important. Financial institutions are very important in meeting the funding needs of parties with a *deficit* of funds in order to develop and expand a business or business. Financial institutions as intermediary institutions function to facilitate the mobilization of funds from *surplus* funds to those with *deficit* funds.

Banking institutions in Indonesia are divided into two types, namely conventional banks and sharia banks. Conventional banks are banks whose operations carry out an *interest fee system* , while sharia banks are banks that use Islamic sharia principles in their operational implementation. Sharia principles are rules of agreement based on Islamic law between banks and other parties to deposit funds and or finance business activities, or other activities declared in accordance with sharia.

In carrying out its sharia principles, sharia banks must also uphold the values of justice, trust, partnership, transparency and mutual benefit for both the bank and for customers which are the pillars in carrying out muamalah activities. Therefore, banking service products must be provided to be able to provide added value in increasing employment opportunities and the economic welfare of society based on Islamic values .

Development of Islamic financial institutions and developing beliefs provides an underlying assumption that the western financial accounting system is not compatible with Islamic beliefs and values which have contributed to the development of Islamic accounting research and Islamic corporate reports (Haniffa and Hudaib 2007) . This can be seen from the rapid development of the Islamic finance industry in the world . The Islamic financial system and industry is no longer a local issue that is limited in nature only among Muslim countries, but has also become a global trend where non-Muslim countries have taken positions and initiatives to adopt and develop this system as well as the Islamic financial industry. This has been proven since the last ten years, there have been many Islamic banks established in European countries and the United States, such as Citibank, HSBC, and Deutsche Bank which have helped develop the Islamic banking industry in addition to carrying out their conventional practices (Maali & Napier, 2006). Even world financial institutions such as the World Bank and the International Monetary Fund (IMF) have also stated that the development of Islamic finance has become one of their main programs.

Thus , Islamic financial institutions are required to have good transparency and accountability in carrying out financial practices and presenting their financial reports. The existence of sharia accounting standards is expected to provide relevant and reliable information. Accounting standards are also used by users of financial statements such as investors, creditors, government and the general public as a reference for understanding and analyzing financial reports so as to enable them to make the right decisions. Thus, accounting standards have an important role for the preparers and users of financial statements so that there is uniformity or similarity of interpretation of the information contained in the financial statements.

In line with the need for standards for Islamic financial institutions, Indonesia as one of the countries with the largest Muslim population in the world with a good growth rate in the Islamic finance industry sector, feels a moral responsibility in developing sharia-based financial reporting standards for the future of the Islamic economy in future. Therefore, Bank Indonesia together with IAI and the Sharia Supervisory Board are trying to adopt Islamic-based financial accounting standards in accordance with the needs of financial practice in Indonesia (Rustiana, 2016).

RESEARCH METHODS

The method used in this research is library research. Data collection was carried out by searching for literature related to the themes discussed. Sources of information obtained through books, journals and other sources. Data analysis used in this research is text and discourse analysis. Text and discourse analysis is used in this study because this research is a literature study.

RESULT AND DISCUSSION

Sharia PSAK

Accounting is the main business language in the capital market. All *stakeholders* need transparent, timely, effective and relevant financial information from many companies that can be compared. This can be realized with the existence of accounting standards. However, the existence of differences in accounting practices resulting from differences in accounting standards causes the comparability to be reduced or even completely lost. The financial statements of companies in a country with good profits or performance, when prepared with accounting standards from different countries, may show the opposite difference (Azis 2012) .

Accounting for Islamic Banking in Indonesia is guided by PSAK (Statement of Financial Accounting Standards) No. 59 which was adopted from AAOIFI (*Accounting and Auditing Organization for Islamic Financial Institutions*) an international Islamic financial regulatory institution based in Abu Dhabi, UAE. AAOIFI has issued Accounting and Auditing Standards for Islamic financial institutions since 1998.

PSAK (Statement of Financial Accounting Standards) No. 59 is a statement issued by the Indonesian Institute of Accountants (IAI) regarding Sharia Banking Accounting. This standard refers a lot to AAOIFI. This DSAK - IAI product needs to be applauded and is the beginning of the recognition and existence of Islamic Accounting in Indonesia. This PSAK was ratified on May 1, 2002, effective from January 1, 2003 or the accounting ended in 2003.

Based on a statement quoted from SAK May 2002, explaining about: "PSAK No. 59 is the beginning of the birth of standards regarding sharia accounting. PSAK No. 59 concerning Accounting for Islamic Banking was ratified by the Financial Accounting Standards Board (DSAK) on May 1, 2002. Even though PSAK 59 is no longer valid, this is a milestone in our need for sharia accounting.

The essence of PSAK 59 is that this statement aims to regulate the accounting treatment (recognition, measurement, presentation and disclosure) of special transactions related to Islamic bank activities. The scope in this statement applies to Islamic commercial banks, Islamic rural credit banks, and sharia branch offices of conventional banks operating in Indonesia. General matters that are not regulated in this statement refer to other PSAKs and/or generally accepted accounting principles as long as they do not conflict with sharia principles.

This statement is not an arrangement for the presentation of financial statements according to the special request (statutory) of the government, independent supervisory institutions and the central bank (Bank Indonesia). A complete Islamic bank financial report consists of several components, namely balance sheet, income statement, cash flow statement, statement of changes in equity, report on changes in restricted investment funds, reports on sources and uses of zakat, infaq, and shadaqah funds, reports on sources and uses of qardhul hasan funds , and notes to the financial statements.

This Statement applies to the preparation and presentation of financial statements covering reporting periods beginning on or after January 1, 2003. Earlier application is encouraged.

After 10 years of Indonesian banking not having sharia accounting standards, finally on May 1, 2002, PSAK 59 was passed on Accounting for Islamic Banking. The validity period of PSAK 59 is quite long, and there has been no revision in that period.

This PSAK was only valid for 5 years and finally a special sharia accounting standard was formed. There are several reasons why PSAK 59 is revoked, namely: 1) PSAK 59 is considered unable to accommodate the increasingly rapid development of sharia accounting, 2) sharia accounting is not only limited to the presentation of financial statements, but is very broad, covering several sharia laws. 3) Islamic banking has grown and developed rapidly, so a better standard is needed. 4) A special standard is needed regarding sharia banking, even though this standard is still part of SAK. 5) Specialization of special sharia accounting standards is a serious step in developing the economy in Indonesia, especially sharia banking. With the existence of special sharia standards, it is expected to attract investors to invest.

Over time, the Islamic economy has begun to become one of the focuses in financial institutions, which is no longer just an alternative to the shortcomings of conventional economics, but has become a solutive economy in solving economic problems. Therefore, the existence of

Islamic accounting is absolutely necessary to keep up with the pace of development of this Islamic economy.

The existence of a good PSAK Syariah will also encourage the creation of a good accounting system, so that reliable information will be available. The role of the existence of a mature Sharia PSAK has an impact on the development of Islamic Financial Institutions.

Until now, the Indonesian Institute of Accountants (IAI) has issued 10 (ten) Sharia PSAKs, namely: presentation of Islamic financial reports, murabahah accounting, salam accounting, istishna accounting, mudharabah accounting, musyarakah accounting, ijarah accounting, Islamic insurance, accounting, zakat, infaq & alms , and sukuk accounting.

This basic framework presents the concepts that underlie the preparation and presentation of financial statements to its users. The purpose of this basic framework is to be used as a reference for: 1) Setting up Islamic financial accounting standards, in carrying out their duties; 2) Compilation of financial reports, to overcome sharia accounting problems that have not been regulated in sharia financial accounting standards; 3) Auditor, in giving opinion on whether the financial statements are prepared in accordance with generally accepted sharia accounting principles; and 4) Users of financial reports, in interpreting the information presented in financial reports prepared in accordance with sharia financial accounting standards.

Basic Framework for Preparation and Presentation of Islamic Financial Statements

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AAOIFI's role in meeting the needs of Sharia-Based Accounting Standards

In order to be able to regulate and supervise Islamic financial institutions, an appropriate methodology is needed in making regulations for each form and various types of Islamic financial institutions so that later these standards can also be accepted generally or globally.

On an international scale, the need for sharia-based accounting standards has been formulated by a non-profit organization called AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) which is an international Islamic organization that compiles standards and issues related to accounting, auditing, governance, ethics, and standards. Islamic sharia for Islamic financial institutions (IFI). As an independent international organization, AAOIFI is supported by member institutions (200 members from 40 countries) including Central Banks, Islamic Financial Institutions, and other members of the Islamic banking industry worldwide. To date, AAOIFI has issued 26 accounting standards, 5 auditing standards, 2 code of ethics and 7 governance standards (AAOIFI, 2018).

The AAOIFI standard has been adopted by central banks or financial authorities in a number of countries that carry out Islamic finance either in full (mandatory) adoption or as a basis of guidelines. In its movement, AAOIFI is supported by a number of central banks, financial authorities, financial institutions, accounting and auditing firms, and legal institutions from more than 45 countries including Indonesia. The important purpose of establishing AAOIFI is actually to prepare, compile and interpret accounting and auditing standards for Islamic financial institutions, review and amend accounting and auditing standards for Islamic financial institutions. Of course, with this important goal, it is hoped that Islamic financial institutions that are developing around the world will have the right reference in compiling sharia-based financial reports so that later financial reports can be compared with one another (Kamla, 2009).

The big question is, how to publish a standard accounting methodology that can regulate various types and patterns of Islamic banks that are generally or internationally accepted? In fact, AAOIFI has attempted to develop Islamic banking standards to address the issue of differences between IFIs and conventional products. However, in practice, this standard is still voluntary and only a number of countries require this standard. In fact, a number of countries vary in the level of adoption of standards issued by AAOIFI. The countries of Bahrain, Oman, Pakistan, Sudan, and Syria have made sharia standards and AAOIFI accounting standards part of the mandatory regulatory requirements.

The Islamic Development Bank (IDB) has also fully adopted it. Meanwhile, Brunei, the Dubai International Financial Centre, Egypt, France, Kuwait, Lebanon, Malaysia, Saudi Arabia, South Africa, the United Arab Emirates and the UK as well as in Africa and Central Asia have only implemented voluntary AAOIFI standards for Islamic financial institutions. In Indonesia, the AAOIFI sharia standards and accounting standards serve as the basis for guidelines in the preparation of sharia standards and sharia accounting standards. Meanwhile, Malaysia uses the standards issued by AAOIFI as a guide in its financial practices, even though in reality Malaysia still uses the use of IFRS in the rules for preparing financial reporting for Islamic Financial Institutions (Mohammed et. al., 2015).

Constraints in the Implementation of AAOIFI Standards

Currently, Islamic Financial Institutions (IFIs) do not only compete with conventional banks in Muslim countries but this industry has developed very rapidly in western countries such as the United States, United Kingdom and Australia (Haron and Wan Azmi, 2008). Unfortunately, there are still obstacles to implementing standards for IFIs because the existing financial institutions are still dominated by conventional institutions so that the presentation of their financial reports still follows the conventional system.

This paper will then examine more deeply the obstacles that occur in implementing AAOIFI standards based on the Journal made by Mohammed et. al. 2015 with the research title The Influence of AAOIFI Accounting Standards in Reporting Islamic Financial Institutions in Malaysia. Furthermore, these obstacles will also be compared in various countries including Indonesia.

There are at least 2 things that are needed by Islamic Financial Institutions in their reporting system. First, sharia-based requirements or rules, the second is rules that can be relevant to practice. When viewed from the practice of applying standards, the biggest obstacle at the moment is the difficulty in understanding the level of understanding of accountants and the level of compliance with Islamic banks globally due to differences in the implementation of standards applied to IFRS, or local accounting standards for financial reporting in Islamic banks around the world.

The issue of the effectiveness of supervisors and regulatory agencies is a major challenge for Islamic financial institutions that operate in complex and dynamic financial institutions. Even though IFRS can be a reference for the rules for preparing financial statements, it is still very doubtful if using these standards in Islamic financial institutions and equating the standards with conventional banks. Because the institution was developed with the aim of fulfilling sharia principles, previous research stated that there needs to be a clear distinction between sharia and conventional accounting standards. (Vinnicombe, 2010). It is very important for IFIs to gain public trust by reporting sharia-compliant financial reports and also sharia-compliant financial products.

Actually, the presence of standards in AAOIFI was never intended to compete with IFRS, but as a complement in preparing IFIs' financial reports. This view agrees with AAOIFI's development in setting standards for IFIs by adopting the standards of conventional western banks. Because there are so many standards in AAOIFI and follow existing standards, IFRS has higher rights in reporting IFIs, and AAOIFI is only used as a reference.

To examine more deeply regarding the obstacles that exist in the process of implementing standards, there are interviews conducted by Mohammed et.al with seven people who have an important influence on the presentation of sharia-based financial reports in Malaysia which further clarify the existing matters. Firstly, several correspondents agreed that the issue of comparability between AAOIFI and IFRS standards has been a major obstacle in the adoption of AAOIFI in Malaysia. Moreover, many countries have decided to use the same standard, namely IFRS, to make it easier to distribute the issuance of financial reports. This further complicates the standard separation of Islamic financial institutions in Malaysia. Second, the number of disclosures required by AAOIFI in financial statements is also an obstacle to the adoption of AAOIFI which is time consuming and costly, so its application is still questionable.

The use of AAOIFI standards in Malaysia is limited only as a guide and complement. The correspondent also said that Malaysia and Bahrain have different schools of thought from Islamic economists regarding the interpretation of contracts and products. The Sharia Advisory Council in Malaysia is still very liberal and far from the goal (maqassid al-Shariah), therefore there are many conventional banks that still offer their products to IFIs. The Malaysian Accounting Standards Board (MASB) stated that there is no necessity in separating accounting standards for Islamic financial institutions because there is no significant difference in record keeping between IFIs and conventional products.

Even though the obligation to present financial statements for IFIs is IFRS, some correspondents said that AAOIFI standards are still accepted because of the Islamic spirit that exists among Muslims in Malaysia. There are many things that still need to be fixed in implementing AAOIFI in Malaysia, such as infrastructure, education on Islamic finance before implementing it and to achieve this it takes a long time and credible sources.

In addition to the obstacles above, actually there are many other reasons. The Islamic banking and finance sector is not based on capitalism as contained in IFRS. While conventional accounting uses a *decision usefulness framework*, Islamic accounting uses accountability based on *the shari'a compliance framework* which "determines the rights and obligations of all parties, including rights and obligations for unfinished transactions and other events in accordance with shari'ah principles and concept of fairness, generosity and adherence to Islamic business values" (AAOIFI, SFA 1).

The next reason is the difference in standard functions and contracts used by Islamic financial institutions that are different from conventional banks. We all know that the core objective of modern banking is to mobilize savings and disbursements of interest-based loans. Islamic banks cannot accept or pay interest that is contrary to Islamic law or shari'ah and there are several contracts that allow Islam to earn profits.

Application of Sharia Accounting Standards in Indonesia

Differences of opinion about how to account for sharia accounting financial transactions and the pros and cons of sharia accounting standardization that arise as a result of IFRS convergence is an important lesson in the development of sharia accounting theory that exists today, especially in Indonesia. The unification of two different principles between the IFRS standards and the standards made by AAOIFI will not solve the problem between the two different accounting theories, so adjustment is one strategy to deal with the differences that exist. If indeed a concept is not in accordance with IFRS, it should not be forced to be used and if it can be used then use it as best as possible. The challenge for standard setters and interested parties is to improve the cross-border comparability of Islamic financial transactions, while being mindful of religious sensitivities and not forcing existing IFRS standards to be used. Even though IFRS is an internationally accepted standard, the fact remains that there are some IFRS principles that cannot be applied to sharia interpretations, and that a separate financial reporting framework for Islamic financial transactions is justified.

The important issues discussed above show that the principles of Islamic accounting and conventional accounting are different. IFRS, which is an international standard that refers to conventional accounting, it seems that there are some parts that are not compatible with this sharia accounting principle. IFRS convergence to sharia accounting standards carried out in Indonesia will not be one hundred percent perfect. AAOIFI in this case has formulated alternative sharia accounting standards related to this IFRS convergence. AAOIFI in its formulation states that when IFRS cannot be adopted as a whole by IFIs, when IASB does not have IFRS to cover Islamic banking practices and Islamic financial practices, and when IFRS cannot be adopted, AAOIFI will not develop standards or develop and adopt IFRS. Gaps and differences will always exist and will continue to exist between the two standards, as they are the natural result of the different structural objectives of the IASB and AAOIFI. IAI itself in this case also refers to AAOIFI in responding to this IFRS convergence problem.

CONCLUSION

With the rapid growth rate of Islamic Financial Institutions in the world, an appropriate standard is needed in presenting financial reports to overcome differences in the preparation of each country. The role of AAOIFI in this regard has greatly contributed in terms of the formulation of standards, although in practice there are many obstacles to its application, moreover the standard that is widely used by countries is IFRS and it is not easy for countries to adopt AAOIFI standards in a short time. Various countries that have Islamic financial institutions and AAOIFI still have an important task that must be completed, namely how to make appropriate sharia-based financial policies and standards so that they can be accepted globally. Most of the standards used by Islamic banking follow the AAOIFI standards adopted in the Sharia PSAK but in relation to IFRS standards are also applied as long as they do not conflict with sharia principles and values.

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