

Saudi Banks Level of Compliance with Accounting Standards of Accounting and Auditing Organization for Islamic Financial Institutions

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Abstract: This paper aims to reveal the level of compliance with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standard on General Presentation and Disclosures by Saudi Banks that are more compliant with Islamic banking principles. The researcher conducted a content analysis of four Saudi banks' annual reports based on the questionnaire prepared for the AAOIFI standard on General Presentation and Disclosure in the financial statements. Based on the methodology adopted, the overall compliance of Saudi Banks with the AAOIFI standard on General Presentation and Disclosure is high (85%) relative to the findings in other countries. However, the categories in which the banks are required to disclose exclusive materials different from mainstream accounting principles, and compliance is low. On the other hand, the banks' adherence to items is very high. This paper reveals essential information regarding the various dimensions of compliance. The results will help the banks and SAMA undertake a more intensive assessment. Islamic banking is a growing industry, and the stakeholders are interested in knowing the Sharia compliance of the banks

Keywords: Accounting standards, Compliance, Content analysis, General Presentation and Disclosure in financial statements Guidelines.

1 Introduction

Several organizations adopted the International Financial Reporting Standards (IFRS) and the International Accounting Standards Board (IASB) as frameworks for accounting disclosures. Additionally, Basel stipulates more requirements to be complied with by commercial banks. However, there was a need to introduce adapted standards for incorporating Islamic principles in accounting due to the swift expansion of Islamic Financial Institutions (IFIs) around the world [1, 2, 3]. Therefore, the IFIs worked to establish AAOIFI to satisfy this need. As a result, it has set rules to address both Sharia and Accounting compliance of IFIs.

Very few empirical studies evaluate adherence to AAOIFI standards because most nations rarely enforce compliance as a standard [4]. However, the AAOIFI provides a very significant basis for streamlining the procedures and operations of Islamic banks in addition to checking their adherence to Sharia. This study focuses on the banks in Saudi Arabia. Though Saudi Monetary Authority, the regulatory body, does not stipulate any condition for compliance with AAOIFI standards, Saudi Arabia plays a significant role in the development and promotion of the AAOIFI.

In Saudi Arabia, the term "Islamic Banks" is not used for technical reasons, a significant reason being that classifying some banks as Islamic may imply that others are not Islamic. This fact contradicts the Kingdom's larger philosophy of Islamic teachings. However, four banks have complied more strictly with Islamic banking principles and attracted customers who demand Islamic financial products [4]. The paper evaluates how closely these banks adhere to the AAOIFI standard for General Presentation and Disclosure (FAS 1).

Six sections make up the remainder of this article. Specifically, the first section discusses accounting standards for General Presentation and Disclosure along with the inception and development of AAOIFI in the first. Section three presents the literature review on Islamic financial institutions' compliance with AAOIFI and equivalent compliance checks with general financial reporting standards. The fifth section presents the analysis and findings. Finally, Section 6 discusses the conclusions and recommendations.

2 Importance of the Study:

There is limited empirical research on the adherence of Islamic banks to the AAOIFI Accounting and Shariah Standards.

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Indeed, AAOIFI is now over two decades old and is an essential benchmark for Islamic banking operations. This study has included all four banks in Saudi Arabia that are known to follow Islamic banking principles more intensely. This study will be helpful to these banks and all other Islamic banks to understand the extent of compliance in these banks and how can the Islamic banks improve their adherence to AAOIFI standards, specifically in accounting.

3 The AAOIFI

AAOIFI formally started its operations in 1995 in the state of Bahrain, where it is also mandatory for financial institutions to adopt its standards. AAOIFI was firstly called the Financial Accounting Organization for Islamic Banks and Financial Institutions (FAOIBFI) [5]. The AAOIFI recommends guidelines to be followed by Islamic financial institutions experiencing difficulties adhering to Islamic laws. It includes standards on accounting, Sharia, governance and auditing. It also guides institutions in dealing with financial products not addressed in mainstream accounting standards like IFRS. The AAOIFI, apart from its guiding roles, also aims to encourage Islamic financial institutions to comply with its standards. There are currently 200 members from 45 countries. The member countries that have adopted standards fully or partially include the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Jordan, Dubai International Financial Centre, Lebanon, Syria, Qatar, Sudan, Indonesia, Australia, Malaysia, Pakistan, and South Africa [6].

The AAOIFI publishes standards in two volumes, one for Sharia and the other for Accounting, auditing and governance. There are 45 Sharia criteria and 23 Accounting standards currently. The main challenge for AAOIFI has been to develop uniform standards considering the wide variety of countries that host IFIs. A critical issue with this body is that it has no power to enforce the IFIs to adopt the standards [4]. Recent years have seen an increase in the necessity for investigating the degree of compliance with AAOIFI standards, whether due to pressure from investors, creditors, or Islamic demands from clients. So, the adoption has been largely voluntary; therefore, the compliance by IFIs is expected to be low or significantly varying. However, the body has appealed to the central banks and IFIs worldwide for a standard set of rules.

The literature on compliance with mainstream accounting standards such as IASB or IFRS is available in good numbers. However, there is little literature on evaluating adherence to Islamic accounting standards. Additionally, the literature contains numerous definitions of compliance. According to Taplin [7] and Tower et al [8], compliance is, for instance, "the degree to which companies adhere with a myriad of issues in the international accounting standards."

Similarly, this study defines compliance as the degree to which IFIs comply with the standards issued by AAOIFI. The approach for this study has benefited from similar studies that examined compliance. For example, Nobes [9] is one of the earlier studies that measured the adherence of listed companies in the USA with the International Accounting Standards. Following this work, a similar compliance check was done by [8, 10, 11]; the extent to which IBs abide by the various issues in the accounting and governance standards of the AAOIFI [12].

The literature on compliance became more prominent when the companies in many EU countries were required to report their submission. Many theoretical works studied applying Islamic principles in accounting [13, 14, 15, 16]. These papers have dealt in more detail with Sharia compliance.

Using a self-constructed compliance checklist, Al-Shammari et al [17] assessed the compliance of 137 listed GCC companies over 436 company years. Other studies also employed the same method to measure companies' compliance, such as [8, 11, 18].

Empirical studies on compliance with AAOIFI standards have recently been published. Some studies check compliance with the complete set of standards and others with just the accounting, auditing and governance standards.

Sarea [19] is more about evaluating stakeholders' perceptions regarding the compliance of Islamic banks with AAOIFI standards in Bahrain. The results indicate that the level of compliance is generally high across all measures. Al-Baluchi [5] is an earlier study on banks' voluntary disclosure in specific countries (Bahrain, Qatar, Jordan, and Sudan). All these states require banks to comply with AAOIFI standards. Nadzri [20] focused on the disclosures related to Zakah and Riba. He examined the reports of 25 IFIs and concluded that the IFIs that adopt AAOIFI standards have a high level of compliance. A comparative study of two banks in Bahrain and Malaysia regarding their compliance with Shariah [21]. To check the conventional accounting standards and the disclosure requirements of AAOIFI, Harahap [3] performed a content analysis of the annual reports of Bank Muamalat Indonesia. Salah [22] focuses on the Sukuk product and found that AAOIFI had significantly influenced its development.

Haniffa and Hudaib [23] randomly selected five IFIs and observed that the two IFIs that adopted AAOIFI standards were from Bahrain. Still, they reported that the degree of compliance was low. In a similar study, Pa [24] and Zainin [25] reported moderate compliance among IFIs in Malaysia.

In Bangladesh, Ullah [26] studied the adherence of Islamic banks to the AAOIFI standard on General Presentation and Disclosure. He reported that compliance with AAOIFI is not mandatory for Islamic banks, but they comply with several

regulations. The study considered seven listed Islamic banking institutions' 2011 annual reports. He discovered that, on average, these banks adhere to 90.71 out of the 203 AAOIFI Guidelines for General Presentation and Disclosure in the Financial Statements, or 44.68 per cent. However, the total compliance score's standard deviation is 3.14, which shows relatively slight variation across Islamic banks in this area.

Harahap [4] analyzed the content of eight Bank Muamalat Indonesia (BMI) annual reports to compare them to the AAOIFI and conventional accounting disclosure criteria. He discovered that traditional standards are only 83.6% followed, but AAOIFI is 97.3% followed.

Hossain [27] analyzed all the Islamic banks listed on the stock market. He classified the compliance requirement into four categories, "refereeing the legislation as complied, disclosure in the face of financial statements, disclosure of information in the notes as a part of financial statements and other requirements". He reported an average compliance rate for all aspects combined with 88%.

Pa [24] and Zaini [25] claimed that among the management in Malaysia's Islamic banks, the AAOIFI compliance level is only medium.

Halaby and Hussainey [12] investigated the degree and determinants of compliance with Islamic banks' AAOIFI financial and governance standards. They used ordinary least regression for analysing a sample of 43 banks across eight countries. They found that the average compliance of banks is 68%.

Kasim's [28] investigation aimed to look into the Shariah compliance disclosures made in the annual reports of Malaysian takaful corporations as reported by the Shariah Committee (SC). The researcher used content analysis to analyse seven Malaysian takaful operators' 2008/2009 yearly reports. The SC's disclosure of Shariah compliance demonstrates strong adherence to the standards set by Bank Negara Malaysia.

Sakib [29] investigated whether Bangladeshi Islamic banks complied with AAOIFI standards. As a result, six Bangladeshi Islamic banks' 2012 annual reports were subjected to content analysis. The findings showed that the banks' average compliance rate was 59%.

Sellami and Tahari [30] looked into how well Islamic banks in several Middle Eastern and North African countries adhered to disclosure accounting standards to understand better the factors that influence compliance. They evaluated 38 Islamic banks' adherence to disclosure accounting requirements between 2011 and 2013 using a self-made checklist comprising 203 items. The findings demonstrate a wide range in the degree of compliance with the disclosure accounting requirements and that compliance is positively correlated with the listing status, the presence of an audit committee, the age of the bank, and the nation of domicile.

The disclosure obligations mandated by the IFRS and the AAOIFI were measured and compared by Ajili and Bouri [31]. They also looked into what influences compliance. There were two samples obtained from 39 and 16 banks. The researchers employed an unweighted disclosure index. They found that more extensive and older IBs comply more with standards.

Ibrahim and Hameed [32] compared the IFRS and AAOIFI standards in this theoretical work. They found that the two measures have some inherent differences in terms.

In the context of Saudi Arabia, Al-Abdullatif [6], in his dissertation work, examined how Saudi Arabia's Islamic banks applied AAOIFI accounting standards. He conducted a multifaceted evaluation of compliance. As a result, he concluded that the stakeholders are optimistic about adopting AAOIFI standards.

There are few studies on the compliance of Saudi banks with AAOIFI standards, and the current study intends to fill this gap.

4 Research Methodology

As discussed in the literature, the methodology adopted in previous studies may be classified into three groups - **Content analysis of reports**, a **Survey of stakeholders' perceptions**, **Mix of both**. In this study, the annual reports analysed are the 2016 annual report for the three banks (Al-Rajhi, Al-Inma, and Al-Jazeera) and the 2015 annual report for Bank Al-Bilad. The study of annual reports has been validated in earlier studies [33, 34]. Regarding research methodology, many earlier studies used one-dimensional analysis (questionnaire or content analysis). Shelley and Krippendorff [35] defined content analysis as "a research technique for making replicate and valid inferences from data to their context".

It goes back nearly a century and is employed in many fields (history, literature, journalism, education, political science, psychology, etc. [36]. This study uses content analysis to measure compliance with AAOIFI guidelines regarding General Presentation and Disclosure in the financial statements of the selected banks in Saudi Arabia. A similar content analysis

method was used to analyse the compliance of Internet financial reporting in Saudi Arabia [37].

The predetermined categories are centred on the disclosure standards established by FAS (1) of AAOIFI's 2017 version. They include general provisions, general disclosure in the financial statements, and statement presentation and disclosure. The notes demand seven assertions in addition to the whole set of declarations that the general rule mandates [29].

The AAOIFI's standard necessitates seven statements: the financial position, income, and cash flow; notice of changes in owners' equity. In addition to reports of changes in restricted investments, sources and uses of funds in the Zakah and charity fund, and statement of sources and uses of funds in the grand fund [27].

4.1. Sample

As reported, four banks in Saudi Arabia claim to be Islamic banks. Therefore, all four banks have been considered for this study covering the entire 100% population. The details of these banks are discussed below:

1. Bank Albilad (BB):
2. Alrajhi Bank (BR)
3. Alinma Bank (BI)
4. Bank AlJazeera (BJ)

All the chosen banks identify as Islamic and have a functioning Sharia Supervisory Board. The bank, on numerous decisions, frequently consults the Board. In their Annual Reports, each bank gives specifics on the actions made by the SSBs. The critical difference between IBs and traditional banks is SSB [38, 39]. According to earlier research, the SSB's existence and features have enhanced IBs' levels of disclosure [12]. Based on AAOIFI Governance Standard Number 7, the typical SSB membership in IBs is between three and five.

4.2. Compliance

This paper examines the General Presentation and Disclosure in the latest financial statements of all four Islamic banks in Saudi Arabia. The set of standards is classified into seven main categories. The method of checking compliance is the same as used in many earlier studies [27, 40]. If complied, the item is scored one, and if not, 0. However, some items did not apply to one or the other banks.

The scoring categories adopted were:

complete compliance = 1;

non-compliance = 0; and

not applicable = NA.

Nonetheless, it is valuable to note that the researchers independently examined the annual reports to ensure the content's dependability. In addition, Halaby and Hussainey [12] have pointed out that the unweighted disclosure index has significant limitations due to the wide variation in the number of disclosure items needed by various standards. Additionally, they said that Street and Gray's and Street's use of the "partial compliance un-weighted approach" was a recommended alternate methodology for future study to avoid this issue [11].

The details of the standards considered for this study are presented in Annexure I. In addition, the summarised checklist is given below in Table 1.

Table 1: Checklist for compliance with AAOIFI FAS1

Items
A. General Provisions (N=10)
B. General Disclosures (N=25)
C. Presentation and Disclosure in each statement (N=25)
D Treatment of Changes (accounting policies, non-routine, error) (N=2)
E formats of financial statements (N=1)
F Notes to the Financial Statements (N=1)
G. Total General Disclosure (N=64)

5 Results

5.1. General Provision

There are ten items mentioned in the category of General Provision. These include five financial statements, comparative

financial statements, rounding off the amounts, clear presentation of the contents, numbering of pages, and mentioning the statement on notes.

Table 2: Degree of compliance with General Provision

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
A. General Provisions (N=10)	9	90	10	100	10	100	10	100	39	97.5

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

All the banks except one (BB) comply fully (100%) with the requirements of this category. In the case of BB, the annual report has no page numbers. Therefore, it is to be ascertained if it is included in the printed version. Overall, it might be claimed that Islamic banks in Saudi Arabia comply highly with general provisions. The possible reason for such high compliance is that commercial banks must comply with SAMA guidelines and IFRS. Since the AAOIFI requirements on General Provision are much similar to the mainstream accounting standards, the bank's compliance is high.

5.2. General Disclosure

AAOIFI mentions that the general disclosures include general details of the IFI, activities, subsidiaries, the role of the shariah adviser or board, currency, tax treatment, and other disclosures as mentioned in 'Annexure I.' Therefore, in total, 25 items were considered for evaluation.

In this category, the banks' compliance was found to be 88, 92, 88 and 96%, respectively, for BB, BI, BR, and BJ. In item B7, data about subsidiaries not included in the bank's consolidated financial statements and the justification for this exclusion, it could not be confirmed from the report if any of the banks complied with this item. Therefore, this item was not considered. Similarly, items B16 and B22 were also excluded from evaluation.

Table 3: Degree of compliance with General Disclosure

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
B. General Disclosures (N=25)	22	88	23	92	22	88	24	96	22.8	91.0

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

5.3. Presentation and Disclosure in each statement

This category comprised of six items, including these statements: Date of the financial statement (C1), financial position (C2), income (C3), cash flows (C4), changes in owners' equity (C5) and changes in restricted investments (C6). Where (C) represents the Presentation and Disclosure Statement.

Table 4: Degree of compliance with Overall Presentation and Disclosure in each statement

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
C1 (N=1)	1	100	1	100	1	100	1	100	1	100
C2 (N=8)	5	62.5	5	62.5	5	62.5	5	62.5	5	62.5
C3 (N=9)	6	66.7	6	66.7	8	88.9	8	88.9	7	77.8
C4 (N=4)	4	100	4	100	4	100	4	100	4	100
C5 (N=1)	1	100	1	100	1	100	1	100	1	100
C6 (N=1)	0	0	0	0	0	0	0	0	0	0
C. (N=24)	17	70.8	17	70.8	19	79.1	19	79.1	18	75.0

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

Regarding compliance with this category, BR and BJ comply with 79.1%, whereas BB and BI comply with 70.8%. Overall, compliance with this category is 75%.

5.3.1. Date of financial statements

The date of a financial statement is a general requirement regarding disclosure. All the banks comply with this requirement.

Table 5: Degree of compliance with date

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
C1 date of the financial statement (N=1)	1	100	1	100	1	100	1	100	1	100

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

5.3.2. Disclosure in Financial Position Statement

This item demands the banks to present their complete data about assets, liabilities and equities as prescribed by AAOIFI.

Table 6: Degree of compliance with disclosure in statement of financial position

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
C2 statement of financial position (N=8)	5	62.5	5	62.5	5	62.5	5	62.5	20	62.5

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

For this category, the compliance of BB, BI, BR and BJ is 62.5%. None of the banks discloses information on receivables, *muḍāraba* or *mushāraka* financing.

5.3.3 Disclosure in Income Statement

As prescribed by AAOIFI, the income statement will disclose the income and expenditure to show if they are allowed or not.

Table 7: Degree of compliance with disclosure in the income statement

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
C3 statement of income (N=8)	5	62.5	5	62.5	7	87.5	7	87.5	24	75

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

The compliance for the banks is 62.5, 62.5, 87.5, and 87.5%, respectively. Overall the conformity is 75%. None of the banks disclosed the nature of material revenues. BB and BI also did not disclose data about Zakah and taxes. The other two banks, BR and BJ, informed about Zakah.

5.3.4. disclosure of cash flows Statement

As per the AAOIFI guidelines, the cash flow statement should be presented as per the group. The report should also disclose non-cash transactions.

Table 8: Degree of compliance with disclosure in statement of cash flows

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
C4 Statement of cash flows (N=4)	4	100	4	100	4	100	4	100	16	100

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

All four banks complied fully with the requirements of AAOIFI regarding this category.

5.3.5. Changes in owners' Equity Statement

All four banks fulfilled the requirements of AAOIFI regarding this category.

Table 9: Degree of compliance with disclosure in changes in owners' equity

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
C5 Statement of changes in owners' equity (N=1)	1	100	1	100	1	100	1	100	1	100

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

5.3.6 Changes in restricted investments Statement

None of the banks disclosed any information on this item.

Table 10: Degree of compliance with disclosure in restricted investments

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
C6 Statement of changes in restricted investments (N=1)	0	0	0	0	0	0	0	0	0	0

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

5.4. Treatment of accounting changes

AAOIFI prescribes the banks to disclose this item as it reveals information on owners' equity. It was found that all four banks comply fully with the requirements of AAOIFI regarding this category.

Table 11: Degree of compliance with disclosure in "Treatment of accounting changes."

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
D Treatment of Changes (accounting policies, non-routine, error) (N=2)	2	100	2	100	2	100	2	100	08	100.0

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

Table 11 shows the owner's equity demand changes disclosure in AAOIFI Financial Accounting Standard No. 1.

5.5. Formats of Financial Statements

AAOIFI requires preparing the financial statements in compliance with Islamic rules.

Table 12: Degree of compliance with disclosure in formats of financial statements

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
E. formats of financial statements (N=1)	1	100	1	100	1	100	1	100	04	100.0

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

All four banks considered for evaluation comply fully with the format prescribed by AAOIFI.

5.6. Notes to the Financial Statements

The notes to financial statements are significant for a better understanding of the statements. These are, in fact, the explanation of the terms and items presented in the financial statement.

Table 13: Degree of compliance with disclosure in notes to financial statements

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
F Notes to the Financial Statements (N=1)	1	100	1	100	1	100	1	100	04	100.0

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

The four banks considered for evaluation comply fully with the requirements of AAOIFI.

5.7. Total General Disclosure

Although the previous studies have included more than 100 items in the FAS1, this study broadly considered 63 items.

Table 14: Degree of compliance with total general disclosure

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
Total General Disclosure (N=63)	51	80.9	52	82.5	55	87.3	57	90.5	53.8	85.3

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

A thorough assessment of the four banks' annual reports against the compliance checklist determined that the banks' compliance rates for BB, BI, BR, and BJ were 80.9, 82.5, 87.3, and 90.5%, respectively. The overall compliance calculated mean of all the values is 85.3%. Therefore, both individually as well as collectively, the conformity of Saudi Islamic Banks with AAOIFI FAS1 is good. The summary of the complete result is presented in Table 15.

Table 15: Overall Result of Saudi Banks' Compliance with AAOIFI FAS1

Items	BB		BI		BR		BJ		Mean	
	N	%	N	%	N	%	N	%	N	%
A. General Provisions (N=10)	9	90	10	100	10	100	10	100	39	97.5
B. General Disclosures (N=25)	22	88	23	92	22	88	24	96	91	91.0
C. Presentation and Disclosure in each statement (N=25)	17	68	16	64	20	80	20	80	73	73.0
D Treatment of Changes (accounting policies, non-routine, error) (N=2)	2	100	2	100	2	100	2	100	08	100.0
E formats of financial statements (N=1)	1	100	1	100	1	100	1	100	04	100.0
F Notes to the Financial Statements (N=1)	1	100	1	100	1	100	1	100	04	100.0
Total General Disclosure (N=63)	51	80.9	52	82.5	55	87.3	57	90.5	53.8	85.3

BB (Bank Albilad) BI (Alinma Bank) BR (Alrajhi Bank) BJ (Bank AlJazeera)

6 Conclusion

This paper provides a detailed overview of the compliance of the four Saudi Arabian banks that position themselves more as Islamic banks. It is, therefore, imperative for them to comply with AAOIFI standards. This paper reveals essential information regarding the various dimensions of compliance.

The compliance was studied in six dimensions derived from Standard 1, i.e. the General Disclosure and Presentation standard. It is noteworthy that all four banks, individually and collectively, show a significantly high level of compliance with the standards. Bank Al-Bilad missed one aspect in the general provisions. The other banks were all fully complying in this dimension. Similarly, in reporting regarding the treatment of changes, formats of financial statements and financial notes, all the banks adhere to the AAOIFI standard. In the item "general disclosure", none of the banks comply fully, but there are two banks that are less compliant than the other two. This fact needs serious scrutiny to understand the reason. The findings demonstrated that banks were least compliant in each statement's presentation and disclosure. Overall, compliance was high (85.3%) compared to the results reported by other researchers in other countries, notably Bangladesh.

One possible reason is that Saudi Arabia is a member of Basel, and SAMA has been pursuing the banks to comply with the Basel III norms. Pillar 3 of Basel III is the disclosure requirement, which might have been why the banks in Saudi Arabia, including the banks studied in this research, are complying. Basel III disclosure requirements and AAOIFI Standard I have a few similarities. However, on a micro level, the requirements vary considerably. This outcome is a possible reason for the low compliance of the selected banks in one of the items. Since the methodology used in this research was a self-prepared checklist and content analysis, there is a need also to include another method for substantiating the results.

Conflict of interest

The authors declare that there is no conflict regarding the publication of this paper.

Research limitations:

Since the researcher did the content analysis, there may be a level of bias or error due to judgment or non-clarity of banks' position on specific standards.

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Annexure 1: Checklist for scoring of the sample Saudi Banks

1. General Provisions	1.1 Complete set of financial statements – <ul style="list-style-type: none"> • Balance sheet • Income statement • Statement of cash flows • Statement of changes in owners' equity or a statement of retained earnings • A statement of changes in restricted investments • Statement of sources and uses of funds in the Zakah and charity fund • A statement of sources and uses in the Qard fund • Notes to the financial statements 1.2 Comparative financial statements (minimum prior period) 1.3 Rounding off the amounts 1.4 Clear presentation of the content 1.5 Numbering of pages 1.6 The statement "Notes to the financial statements from page numbers are integral to the financial statements."
2. General	Disclosure of basic information

<p>Disclosures</p>	<p>2.1 Name of the bank 2.2 country of incorporation 2.3 Formation date and legal form 2.4 Location of headquarters and number of branches in each country 2.5 The nature of activities the bank is authorised by its charter and the services it provides 2.6 Details of subsidiaries whose financial statements are consolidated with those of the banks 2.7 Details of subsidiaries whose financial statements are not consolidated with those of the banks 2.8 The name of the holding company and the names of other affiliates. 2.9 The role of the shari'a adviser or the board 2.10 The agency responsible for supervising the bank's activities 2.11 The bank's responsibility towards Zakah 2.12 The tax treatment in the country of incorporation and other countries Disclosure of the currency used for accounting measurement 2.13 The financial statements disclose the currency used for accounting measurement 2.14 Disclosure of the accounting method for translating foreign currency balances and transactions. Disclosure of significant accounting policies 2.15 Disclosure of unusual supervisory restrictions 2.16 Disclosure of earnings or expenditures prohibited by Shari'a 2.17 Disclosures of concentrations of asset risks 2.18 Disclosures of concentrations of sources of unrestricted investment account and their equivalent 2.19 Disclosure of distribution of assets with maturity period 2.20 Disclosure of compensating balances 2.21 Disclosure of contingencies 2.22 Disclosure of outstanding financial commitments 2.23 Disclosure of significant subsequent events 2.24 Disclosure of restricted assets or assets pledged as security 2.25 Disclosure of accounting changes 2.26 Disclosure of the method of allocating investment profits or losses 2.27 Disclosure of related transactions</p>
<p>3. Presentation and disclosure in each statement</p>	<p>3.1 Date of the financial statement 3.2 The statement of financial position should include the Islamic bank's assets, liabilities, equity of its unrestricted account holders; Cash and cash equivalent; Receivables; Investment securities; Mudaraba financing; Musharaka financing Investments in other entities Inventories Investment in real estate Assets acquired for leasing Other investments Fixed assets Other assets 3.3 Income statement Period covered be disclosed Investment revenues, expenses, gains and losses should be disclosed 3.4 Special information Revenues and gains from investments Expenses and losses from investments Income (loss) from investments Share of unrestricted investment accountholders in income (loss) from investments before the bank's share Bank's share in income (loss) from investments Bank's share in unrestricted investment income as a Mudarib Bank's fixed fee Other revenues, expenses, gains, losses</p>

	<p>General and administrative expenses Net income before Zakah and taxes Zakah and taxes Net income (loss) 3.5 Cash Flow Statements Period covered Differentiated cash flows from operations, investing activities and financing activities. Net increase or decrease in cash or cash equivalent Transactions that do not require payment or receipt of cash or cash equivalent 3.6 Statement of changes in owners' equity or statement of retained earnings Period covered Does it show Paid-in capital, legal, and discretionary reserves separately Capital contribution by owners during the period Net income (loss) for the period Distributions to owners during the period Increase (decrease) in legal and discretionary reserves and retained earnings 3.6 Statement of changes in restricted investments Period covered Balance of restricted at the beginning and the end of the period Number of investment units at the beginning and the end Withdrawals and purchase Allocated overhead expenses 3.7 Statement of sources and uses of Zakah fund Period covered Disclosure regarding the responsibility for collecting and paying Zakah Other sources of fund in Zakah and charity fund Funds paid during the period 3.8 Statement of sources and uses of Qard fund Period covered Balances of Qard outstanding and funds available in the fund at the beginning and the end The amount and sources of funds Amount and uses of funds</p>
<p>4. Treatment of changes in accounting policies; non-routine accounting estimates; correction of an error in the previous period</p>	<p>Was there a change in accounting policy? If yes, is it done in retrospect? Was there a change in non-routine accounting estimates? Was there an error in the prior period's financial statements? Have they been corrected retroactively by restating the financial statements for all prior periods?</p>
<p>5. Formats of statements</p>	<p>Do the banks comply with the formats?</p>
<p>6. Notes to the financial statements</p>	<p>Are the notes to the financial statement present?</p>