

Factors that influenced the adoption of IFRS by Islamic banks in the UAE

Mohammad Haroun Sharairi

*Department of Accounting, Finance and Banking,
Al Ain University of Science and Technology, Al Ain, United Arab Emirates*

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Abstract

Purpose – This paper aims to investigate the factors that influenced the current adoption of the international financial reporting standards (IFRS) by Islamic banks in the UAE. This paper examined the relationship between the theoretical aspects and practical components of the research investigation regarding the factors that influence the adoption of IFRS. This paper will contribute to the existing knowledge and practices in not only Islamic countries but also Western countries in terms of a deeper understanding of the adoption of IFRS by the Islamic banks and how the factors could influence the Islamic banking adoption, process, activities and financial reporting.

Design/methodology/approach – Several theories of regulation were considered in this paper to explain the existence of Islamic accounting regulations and understand why some of the Islamic accounting prescriptions became formal regulations, while others did not. Data was collected for this purpose by conducting a survey with professionals and managers of four Islamic banks in the UAE.

Findings – This paper revealed that factors, such as religion, culture and local investors, may have limited influence on the current adoption of accounting standards in the Islamic banks. Furthermore, this paper uncovered a concern among respondents of issues that developed when Islamic banks commenced the adoption of IFRS. This paper also indicated that respondents' opinion does not reflect a perception that all IFRS are suitable for the application of *Shariah* transactions.

Originality/value – This study is unique as no study has yet explored the factors that influenced the adoption of the IFRS by Islamic banks in the UAE.

Keywords IFRS, Islamic banks, *Shariah* principles

Paper type Research paper

1. Introduction

The Islamic banks are now widespread over the world, and these Islamic banking institutions are not limited to the Muslim countries. More than 600 Islamic financial institutions are operating worldwide (Yaacob and Donglah, 2012). Measured by *Shariah*-compliant assets of financial institutions, the global Islamic finance assets were estimated at US\$1.9tn in 2014 with an estimated growth rate of 20 per cent per annum in the recent years, with around 75 per cent of the industry located in the Middle East North Africa (MENA) region of which the Gulf Cooperation Council (GCC) countries constituted 96 per cent (Hussain *et al.*, 2015). *Shariah*-compliant financing (SCF) constitutes financial practices that conform to Islamic laws. SCF institutions are similar to conventional financial intermediaries in that they are profit-maximizing institutions and offer traditional banking services but differ in respect of some of the principles under which they operate (Imam and Kpodar, 2010).

Currently, the United Arab Emirates (UAE), Bahrain and Malaysia are the leading Islamic finance centres (Savona and Mofakhmi, 2009). Islamic finance has considerable potential to



become an important element in the UAE's aspirations to be a global financial service centre in the region. It has the potential to facilitate further innovation and competition in the wholesale and retail banking sectors and support the UAE government's commitment towards credit market diversification. The research underpinning this paper is primarily concerned with the adoption of accounting standards by the Islamic banks in the UAE. The Islamic finance industry in the UAE is under significant pressure to protect investors, enhance practices and improve risk management systems (Deloitte and Touche (M.E.), 2012).

2. Purpose and research objectives

The overall aim of this paper was to provide an understanding of the factors or reasons that influenced the adoption of international financial reporting standards (IFRS) by the Islamic banks in the UAE and expound the benefits that flow from this adoption. This paper also highlighted the difficulties and problems during the current adoption. This paper will contribute to the existing knowledge and practices in not only Islamic countries but also Western countries in terms of a deeper understanding of the adoption of IFRS by the Islamic banks and how the factors could influence the Islamic banking adoption, process, activities and financial reporting. When looking at the main factors that influence the adoption of IFRS, we need to answer the following questions to better clarify the key factors associated with this research:

- RQ1.* What are the user needs for accounting information in the UAE Islamic banks?
- RQ2.* What factors and issues influence the current adoption of IFRS in the UAE Islamic banks, and which issues might act as barriers to their adoption?
- RQ3.* How to identify the main challenges in adopting IFRS by the Islamic banks in the UAE?

The answers to these questions were initially sought from key professionals engaged in the UAE Islamic banks regarding the influences that may affect the current adoption of IFRS. Their opinions were also sought about the internal or external issues that might arise during the adoption of the IFRS.

3. Literature review

The aim of this literature review is to analyse various research studies related to the main factors that influenced the adoption of accounting standards in the UAE. In their study, Irvine and Lucas (2006) concluded UAE as one of a number of developing economies adopting IFRS, facing challenges of culture, regulation and transparency, which were threats to the process of implementation of IFRS. Hassan (2009) highlighted that there is no legislation in the UAE to compel the financial institutions to adopt specific accounting principles. Al-Qahtani (2005) remarked that a federal law was promulgated in February 1999 in the UAE requiring that financial institutions and banks prepare their financial statements using the IFRS format from 1 January 1999.

Aljifri and Khasharmeh (2006) investigated the suitability of the IFRS to the UAE financial environment with regard to the relevant items that might affect the adoption of IFRS in the UAE. Their sample comprised 326 listed and unlisted companies in the UAE. They found that the effective factors for adoption of the IFRS are the English language and the company's size, whereas the company's market-listed status and the category of the financial sector have no significant impact on the adoption of IFRS in the UAE. Aljifri and Khasharmeh (2006) addressed some advantages of adoption of IFRS in the UAE, such as

develop an understanding of financial reporting by international experts, support foreign investments, improve comparability and transparency of financial statements and supply the government with information to prepare appropriate economic plans.

A detailed discussion of literature is also provided to identify the principles and standards of Islamic accounting and the compliance of Islamic banks with *Shariah* principles. Authors such as [Kahf et al. \(1998\)](#) have indicated that the basic principles of Islamic banking originate in the axioms of justice, harmony and human nature. [Hameed \(2000\)](#) and [Adnan and Gaffikin \(1997\)](#) have also expressed views on the objectives of Islamic accounting. They argued that putting objectivity in the context of qualitative characteristics indicates that it is related more to the secondary objectives of accounting information which is to facilitate accounting users in making economic decisions for their own interests.

However, many researchers such as [Iqbal \(1997\)](#) stated that the basic framework for an Islamic financial system is a set of rules and laws, collectively referred to as *Shariah*, governing the economic, social, political and cultural aspects of Islamic societies. [Gambling \(1974\)](#) and [Gambling and Karim \(1991\)](#) pointed out the accounting practices that are specific in the Islamic environment. These were factors such as the prohibition of *Riba* (interest or usury) and the payment of *Zakat* (a religious levy as a fundamental duty).

[Ray \(1995\)](#) examined the application of the values of traditional Islamic culture to Islamic banking. He provided an overview of Islamic banking and its development, participants, structure and aims. He gave a brief account of transactions such as *Mudharaba* (profit sharing), *Musharaka* (partnership) and *Murabaha* (cost-plus financing). [Ray \(1995\)](#) was very positive in his overall assessment of the past achievements and future prospects of Islamic banking, especially with regard to the efforts of Islamic bankers to turn Islamic banking into a model of rational and dynamic compromise between modernity and fundamental Islamic religious values. [Dusuki and Abdullah \(2007\)](#) examined the main factors that motivate customers to deal with Islamic banks particularly in a dual banking environment using factor analysis. They commented that the selection of Islamic banks appears to be predominantly a combination of Islamic and financial reputation and quality service offered by the Islamic bank.

4. Theoretical framework

This section explains the philosophical basis on which the research project took place and establishes the relationship between the theoretical aspects and practical components of this research investigation regarding the factors that influence the adoption of IFRS.

4.1 *Shariah principles used by Islamic banking*

Shariah plays a main part in Islamic finance, and according to Islamic scholars, *Shariah* is simply God-ordained sacred Islamic law that rules each and every aspect of a Muslim's life. *Shariah* is the constitution of the Islamic world ([Khan et al., 2011](#)).

Hesab (account) refers to the accountability to Allah (God) that necessitates compliance with *Shariah* ([Lewis, 2001](#)). *Hesab* is the main basis for the Islamic system and all relationships within any Islamic society ([Al-Jirari, 1996](#)). It is the root of accounting; every Muslim has a responsibility to carry out the duties described in the holy *Qur'an* including all the actions of a business enterprise ([Kamla, 2005](#)). *Hesab* has been mentioned more than eight times in the holy *Qur'an* ([Askary and Clarke, 1997](#)). The tenets of *Shariah* are absolute, not subject to any change or interpretation, and valid for all times and places. This ideology also covers Islamic financial systems. Islam has formulated comprehensive ethics governing how businesses should be run, how accounting ought to be undertaken and how banking and finance are to be arranged ([Khan et al., 2011](#)).

A global network of Islamic banks, investment bodies and other financial institutions have started to take shape based on the principles of Islamic finance as laid down in the holy *Qur'an* and the *Sunna* (practice and traditions of the Prophet Muhammad; peace be upon him) (Falgi, 2008). In this context, *Shariah* principles should be practised in all the Islamic banks' transactions, including the important features of Islamic economics such as the concepts of *Riba* (Interest or usury), *Zakat* (A religious levy as a fundamental duty) and *Gharar* (speculation). One of the main differences between conventional banking and Islamic banking is a prohibition on interest. Islamic law emphasizes that *Riba* is not allowed. The general rule for accumulating wealth in Islamic economics was to earn a profit by assuming the risk of doing so whilst strictly condemning *Riba* (Ahmad *et al.*, 2010). The Holy *Qur'an* states the prohibition of *Riba* several times, such as the following *Ayat* (verses):

Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, 'Trade is [just] like interest'. But Allah has permitted trade and has forbidden interest. (Qur'an, 2:275).

The main objectives of financial accounting are to assist a company to analyse the type and nature of information which should be a part of their financial reports to provide assistance to the users of these reports in making informed and sound decisions (Hoggett *et al.*, 2003). However, the government agencies usually have the power and right to directly obtain the specific information that best serves their requirements (El-Din, 2004).

4.2 Accounting and Auditing Organization for Islamic Financial Institutions

Islamic financial institutions are required to use the system of accounting standards, which is mandated by the financial services regulator of the country in which they are based. Hence, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) accounting standards are used in several countries in the GCC. The standards set up by the AAOIFI have become the core component of the re-engineering of Islamic finance. The AAOIFI attempts to come up with a conceptual framework for Islamic accounting or accounting for Islamic financial institutions, which comprises qualitative characteristics and elements of financial statements, much like the International Accounting Standards Board's (IASB) framework (Amin, 2011).

The AAOIFI is an international organization that sets standards for Islamic financial institutions and banks. This organization was set up in 1991 for Islamic financial institutions that were established under an agreement of association. This agreement of association was signed by the Islamic financial institutions on 26 February 1990 in Algiers. This agreement of association was registered on 27 March 1991 in the state of Bahrain (AAOIFI, 2019b). The AAOIFI's standards have been adopted in the Kingdom of Bahrain, Dubai International Financial Centre, Jordan, Lebanon, Qatar, Sudan and Syria; such adoptions supported the implementation of AAOIFI's standards (AAOIFI, 2019b). The AAOIFI's standards now include 86 standards in total in the areas of accounting, auditing, ethics, governance and *Shariah* (AAOIFI, 2019a).

4.3 Role of the Fatwa and Shariah Supervisory Board among the adoption of IFRS

The consolidated financial statements of Islamic banks in the UAE are currently prepared in accordance with IFRS, general principles of the *Shariah* as determined by the Fatwa and Shariah Supervisory Board and applicable requirements of the UAE Federal Law No. 8 of 1984. Article 1 of the UAE Federal Law No. 6 of 1985 defines Islamic banks, financial institutions and investment companies as "those companies whose Articles and Memorandum of Association include an obligation to apply the Islamic *Shariah* Law and

that their operations would be conducted pursuant to Islamic *Shariah* Law". The Fatwa and Shariah Supervisory Board of the Ministry of Religious Endowments centrally regulates the Islamic banks in the UAE. Article 5 of the Federal Law No. 6 of 1985 states that the Higher Shariah Authority in the UAE supervises Islamic banks, financial institutions and investment companies. This Authority is given the final authority in *Shariah* matters in Islamic banking and finance and the formation of *Shariah* supervisory authority at the financial institution level in the UAE (Art. 6, Federal Law No. 6 of 1985).

According to the [Abu Dhabi Islamic Bank \(2015\)](#), the Fatwa and Shariah Supervisory Board, whose members are not Board Directors of the Islamic bank, has a term of three years and all members are required to form a quorum, whether by principal or by proxy. It has the following mandate ([ADIB, 2010](#)) :

- It issues *Fatwas* (Islamic religious rules) pertaining to the bank's activities at the request of the bank's executive management or Board of Directors. It also supervises and controls the validity of the bank's activities to ensure that they comply with principles and rulings of the Islamic *Shariah* and provides its recommendations.
- It has the right to submit written objections to the Board of Directors with respect to any of the bank's activities which it considers to be not complying with any of the principles and rulings of the Islamic *Shariah*. In addition, it reviews all forms of contracts and agreements relating to any of the bank's business to ensure their compliance with Islamic principles.
- It has the right to review, at any time, the bank's books, records and documents and request any information it may deem necessary. In the event of its inability to discharge its duties, it will report this formally to the Board of Directors.

It is the responsibility of the bank's executive management and Board of Directors to ensure that the bank operates in accordance with the principles and rulings of the Islamic *Shariah* ([Deloitte and Touche \(M.E.\), 2012](#)). The Fatwa and Shariah Supervisory Board's responsibility is limited to expressing an independent opinion based on its review of the bank's operations and prepare a concise report for the bank. This report is important in ensuring the bank's compliance with *Shariah*. But the report issued by the Fatwa and Shariah Supervisory Board does not review all applications of Islamic banks in the UAE. It is simply an endorsement of the banks' *Shariah* compliance in general without any emphasis on the actual operations or conduct of the respective banks. The strong commitment from the Fatwa and Shariah Supervisory Board and management is required to improve enterprise risk management (ERM) in Islamic Finance ([Deloitte and Touche \(M.E.\), 2012](#)).

4.4 Accounting standards foundation in the UAE

The UAE neither has an accounting law nor legally mandates accounting standards ([IFRS Foundation, 2019](#)). The International Monetary Fund (IMF) recommended that the UAE endorse an accounting law that would adopt IFRS for public companies and introduce national accounting standards for other companies ([Solé, 2007](#)). The Companies Law in the UAE sets forth that accounting principles and practices should be in line with the generally accepted practices and principles of accounting. In practice, companies in the UAE generally follow the IFRS. For instance, companies listed on the Abu Dhabi Securities Exchange are required to apply IFRS, but there are no specific guidelines as to their application ([IFRS Foundation, 2019](#)).

The listing rules of the Dubai International Financial Exchange (National association of securities dealers automated quotations Dubai) require listed companies to prepare IFRS financial statements. However, the listing rules of the Dubai financial market public joint stock company do not nominate a specific accounting framework to be used in the financial statements of listed companies. Therefore, IFRS are permitted and used by most listed companies, and some financial institutions use Financial Accounting Standards issued by the AAOIFI. All other regulatory bodies require IFRS adoption except for certain government bodies (IFRS Foundation, 2019). The AAOIFI standards are now adopted in the Dubai International Financial Centre (DIFC) (AAOIFI, 2019b).

Research from the IMF indicates that Islamic banking appears to be complementary to conventional banks, rather than being a substitute (Imam and Kpodar, 2010). The Central Bank has made it mandatory for all commercial banks in the UAE to prepare their accounts according to the IASB (Essays, UK, 2013). According to Circular No. 20/99 issued by the Central Bank, financial institutions and investment companies in the UAE are required to prepare their financial statements in accordance with IFRS with effect from 1 January 1999 (Essays, UK, 2013).

5. Research methods

Description and understanding of the methodology is required for scientific research to achieve the results (Gauch, 2003). The choice of research method and how a researcher conducts research depends on their own ontological and epistemological beliefs, in other words, their beliefs about the social world and what is known about it and the nature of knowledge and how it can be acquired (Snape and Spencer, 2004). This research paper used questionnaire survey. Quantitative research is highly structured and objective and generally uses quantitative measures, whereas qualitative research focuses on the details of a situation and the reality behind these details and thus is more subjective (Collis and Hussey, 2003). Using quantitative research methods, the researcher studied and examined specific research factors, such as religion, culture, local investors, regulators, foreign investment and global financial institutions and their impact on the adoption of IFRS and the environment within which they operated, and most importantly, why and how the issues arose. Quantitative research seeks to determine the existence of a constant relationship between events or between factors (Robson, 2002).

5.1 Data collection

The data collection process in this research was based on the acquisition of required data and information from professionals, managers and key persons in Islamic banks and financial institutions in the UAE, using questionnaire survey methods. The questionnaire survey was selected for this research as a key instrument for data collection from the sample of participants. The reason behind this was that the questionnaire survey helps in the collection of pertinent data in a cost-efficient manner (McNeill and Chapman, 2005). The questionnaire survey is also helpful in gaining support for answering the main research question and related sub-questions so as to reach final conclusions (Crowther and Lancaster, 2008).

In this research, the responses to the closed-ended questions were recorded using a Likert scale. This form is most frequently used by researchers where the participants are asked to scale their responses to statements related to the questionnaire topic (Saunders *et al.*, 2009). According to Sekaran (2000), respondents typically indicate a degree of agreement or disagreement with a variety of statements about some attitudes, usually using odd-numbered scales containing five or seven points. The Likert scale used in this research was

designed with a five-point scale ranging from “Strongly Agree” to “Strongly Disagree” (Connolly, 2006). Therefore, in this research, the choice was made in favour of the least problematic option, selecting an odd-numbered Likert scale ranging from 1 to 5.

On the other hand, including open-ended questions as part of the mixed approach in the questionnaire survey was aimed to acquire specific information from the participants in a detailed manner. Open-ended questions provided respondents with the freedom to write their own answers in their own words (Fink, 2003). Although open-ended questions required more effort from the respondents, they allowed more spontaneity, probing and detail in the answers (Oppenheim, 2000).

5.2 Sample size

Initially, 80 participants from the four largest Islamic banks in the UAE consented to filling up the survey (Abu Dhabi Islamic bank – 23; Al Hilal bank – 19; Dubai Islamic bank – 22; Emirates Islamic bank – 16). The initial sample size of 80 was considered appropriate in the context of questionnaire survey, given the low number of managers and professionals relative to the regular employees. The final sample size used in the analysis was 52. The resources at the researcher’s disposal and the anticipated rate of useable questionnaires returned determined the final sample size (Finn *et al.*, 2000). Out of the 80 that initially consented, only 63 ended up taking part in the study. Of the 63 filled questionnaires, only 52 were completed correctly and in all respects and were included in the analysis. The response rate for the questionnaire survey was 78.75 per cent and the usable response rate 65 per cent, which was acceptable for this study (Table I: respondent groups and usable response rates).

5.3 Sampling procedure

To obtain participants for the research across a range of Islamic banks in the UAE, this research involved three stages in the sampling process. The first stage required the identification of all the UAE Islamic banks that could be in the sampling pool, that is, all Islamic banks in the UAE that adopted the IFRS. When this stage was completed, nine such Islamic banks were identified, with only six of them being full-fledged Islamic banking institutions (Global Banking and Finance Review, 2013). The second stage involved selecting the four largest Islamic banks in this pool, along with their branches. This selection was based on the number of branches and the number of professionals and managers employed. The third stage of the sampling process involved the selection of the individual participants. Arrangements were made with the media centre of each of the four Islamic banks to select the participants of managers and professionals, because they were involved with Islamic bank transactions on a daily basis and it was expected that they had an understanding of the accounting standards in the Islamic banks. Also, approvals were requested to allow the researcher to contact the selected managers and professionals who were willing to participate in the questionnaire survey and liaise with them. These

Group	Consented (No.)	Sample (No.)	Distributed (No.)	Usable responses (No.)	Usable response rate (%)
Abu Dhabi Islamic Bank	23	23	23	13	57
Al Hilal Bank	19	19	19	12	63
Dubai Islamic Bank	22	22	22	15	68
Emirates Islamic Bank	16	16	16	12	75
Total	80	80	80	52	65

Table I.
Respondent groups
and usable response
rates

participants were contacted via email and telephone. Letters of invitation (by email and post) were also sent to them. After receiving responses from potential participants who indicated their willingness to be contacted directly, information sheets and consents forms were sent to them, in preparation for the questionnaire.

5.4 Methods of analysis

The analyses of data collected from the questionnaire survey and unstructured interviews were varied in this study. Quantitative data collected from the questionnaires was analysed using descriptive statistics generated by SPSS software, whereas the qualitative data collected from the questionnaires and the unstructured interviews was analysed using qualitative content.

5.5 Ethical issues

Survey respondents should be assured about the confidentiality of their responses along with maintaining their anonymity with respect to the research study prior to the discussion and analysis of their crucial perspective about the research issue (Hanson *et al.*, 2005). Before carrying out the data collection and analysis sections of this research process, effort was made to establish and convey the fact that the surveys were conducted with high ethical standards and morality and that the researcher maintained a high degree of responsibility, accountability and transparency in the administration of the survey. Additionally, care was taken to prevent the identification of participants. Therefore, privacy, anonymity of the participant and confidentiality of the information were paid close attention to at all stages of this research.

To minimise respondents' risks and discomfort, the respondents were informed of the survey's ethical safeguards. The information sheets and consent forms explained to participants that any information that they provided would be kept confidential. Measures were adopted to protect confidentiality during the data collection, analysis, storage and publication stages. The data collected from participants was used in an aggregate manner.

6. Description of results

The aim of this section is to provide a general picture of the findings of the questionnaire survey. This section reports on the quantitative findings of those questionnaire surveys. These findings will be further deconstructed in the qualitative analysis. The questions in the questionnaire were constructed and scored differently, and the next section presents the overall discussion of results and conclusions. Respondents answered some of the closed questions answered by choosing the most appropriate response or expressing a view as to whether someone agreed or not with the proposition expressed. The results of these questions were reported in terms of the mean responses and the standard deviations. The open-ended questions in the questionnaires were analysed by consolidating and categorising the various opinions expressed.

6.1 Perceptions of factors that influenced the adoption of IFRS by Islamic banks

This section reports on the answers to the closed question (01) asked of respondents about their perceptions of factors that influenced the adoption of IFRS by their Islamic bank employer. Sub-question (01.A) asked about the extent to which the bank's growth greatly influenced the adoption of IFRS, sub-question (01.B) asked about the extent to which the legal system influenced the bank's adoption of IFRS, sub-question (01.C) asked about the extent to which the external environment (e.g. World Bank and IMF) greatly influenced

the bank's adoption of IFRS and sub-question (01.D) asked about the extent to which the existence of the capital market greatly influenced the bank's adoption of IFRS (Table II: perceptions of factors that influenced the adoption of IFRS by Islamic banks).

6.2 Perceptions of merits and demerits of adopting IFRS by Islamic banks

Survey respondents were asked two open-ended questions (02 and 03) about their perceptions of the advantages (merits) and disadvantages (demerits) of adopting IFRS into their Islamic banks. Overall, advantages and disadvantages are grouped into themes and presented separately (Table III: descriptive statistics relating to merits of adopting IFRS by Islamic banks and Table IV: Descriptive statistics relating to demerits of adopting IFRS by Islamic banks).

6.3 Perceptions of IFRS and Accounting and Auditing Organization for Islamic Financial Institutions accounting standards: time consuming

In question (04), 38 respondents (73.1 per cent of the sample) felt that Islamic accounting standards developed by the AAOIFI would be more time consuming for implementation as

Variables	Q. 1.A		Q. 1.B		Q. 1.C		Q. 1.D	
	Statistic	SE	Statistic	SE	Statistic	SE	Statistic	SE
Mean	3.19	0.148	2.12	0.155	2.50	0.152	3.52	0.136
Median	3.00		2.00		2.00		4.00	
SD	1.067		1.114		1.094		0.980	
Minimum	1		1		1		2	
Maximum	5		5		5		5	
Range	4		4		4		3	

Table II.
Perceptions of factors
that influenced the
adoption of IFRS by
Islamic banks

Overall advantages	Frequency	Rank
Comparability of financial statements	26	1
Facilitate foreign investments	21	2
International organizations rely on IFRS	18	3
Enhance the reporting of Islamic banks	15	4
Help the users of financial statements	15	5
Reduce information asymmetry and relevance	12	6
Establishment of foreign Islamic banks	9	7
Total	116	

Table III.
Descriptive statistics
relating to merits of
adopting IFRS by
Islamic banks

Overall disadvantages	Frequency	Rank
Challenge cultural practices	41	1
Existence of interest rate	34	2
Conflicts with Islamic principles	23	3
Utilizing <i>Shariah</i> terminologies in the standards of accounting	19	4
Islamic banks have transactions that could not apply IFRS	16	5
The official language of <i>Shariah</i> principles is Arabic	4	6
Total	137	

Table IV.
Descriptive statistics
relating to demerits
of adopting IFRS by
Islamic banks

compared to the IFRS, whilst five respondents (9.6 per cent) felt that IFRS would be more time consuming for implementation than the AAOIFI accounting standards. Six respondents (11.5 per cent) expressed the view that neither IFRS nor AAOIFI accounting standards would be time consuming for implementation, whereas three respondents (5.8 per cent) thought that both IFRS and AAOIFI accounting standards would be time consuming for implementation.

6.4 Perceptions of preferences concerning implementation of IFRS vs Accounting and Auditing Organization for Islamic Financial Institutions accounting standards

In question (05), thirty-two respondents (61.5 per cent of the sample) preferred the implementation of IFRS, whilst six respondents (11.6 per cent) preferred the implementation of AAOIFI accounting standards. Thirteen respondents (25.0 per cent) thought that both IFRS and AAOIFI accounting standards are preferable for implementation, whilst one respondent (1.9 per cent) believed that neither IFRS nor AAOIFI accounting standards are preferable for implementation.

In question (06), the overall reasons for respondents' preferences regarding the implementation of IFRS and AAOIFI accounting standards are grouped into themes and presented separately (Table V: descriptive statistics of the reasons for respondents' preferences regarding the implementation of IFRS and AAOIFI accounting standards).

6.5 Possible outsourcing of implementation of Accounting and Auditing Organization for Islamic Financial Institutions accounting standards

In question (07), the survey respondents were asked whether their Islamic banks would implement AAOIFI accounting standards unilaterally or outsource part of the task to auditors and analysts to complete the transition process. Thirty-five respondents (67.31 per cent) said yes, indicating that their banks would act independently in transitioning their Islamic banks through the implementation of AAOIFI accounting standards, whereas 17 respondents (32.69 per cent) said no, indicating that they would outsource at least part of the transition tasks to auditors and analysts for completion.

6.6 Knowledge of Islamic ethical and legal aspects

In question (08), the survey respondents were asked whether Islamic banks required an accountant to have knowledge of Islamic ethical and legal aspects. Forty-one respondents

Table V.
Descriptive statistics of the reasons for respondents' preferences regarding the implementation of IFRS

Preferences reasons	Frequency	Rank
<i>IFRS preferences</i>		
Providing credibility all over the world	29	1
International organizations rely on IFRS	26	2
Comparability of financial statements	23	3
Facilitates Islamic banking investments	13	4
Consistent with regulatory requirements	11	5
Establishment of foreign Islamic banks	8	6
Its financial concepts based on calculations that prevent human bias	2	7
Subtotal	112	
<i>Other preferences</i>		
The implementation of both IFRS and AAOIFI accounting standards	2	1
Local accounting standards are the most suitable for satisfying users' needs	1	2
Subtotal	3	
Total	115	

(78.85 per cent) considered that accountants of Islamic banks should be required to have knowledge of Islamic ethical and legal aspects, whereas 11 respondents (21.15 per cent) thought that it is not necessary that accountants of Islamic banks have knowledge of Islamic ethical and legal aspects.

6.7 Factors that influenced Islamic banks in the UAE to not adopt Accounting and Auditing Organization for Islamic Financial Institutions accounting standards

In question (09), survey respondents were asked to what extent each of a selection of ten factors would influence the non-adoption of AAOIFI accounting standards by the Islamic banks in the UAE. Sub-question (09.A) asked about the extent to which international auditing firms may influence the not adoption of AAOIFI accounting standards by the Islamic banks. Sub-question (09.B) asked about the extent to which international lending organisations (i.e. the World Bank) influence the non-adoption of Islamic accounting standards developed by AAOIFI in the Islamic banks. Sub question (09.C) asked about the extent to which multinational companies may influence the non-adoption of Islamic accounting standards developed by AAOIFI in Islamic banks. Sub-question (09.D) asked about the extent to which global capital market may influence the non-adoption of Islamic accounting standards developed by AAOIFI in Islamic banks.

Sub-question (09.E) asked about the extent to which the foreign investment may influence the non-adoption of the Islamic accounting standards developed by AAOIFI in Islamic banks. Sub-question (09.F) asked about the extent to which the UAE Stock Exchange may influence the non- adoption of AAOIFI accounting standards in Islamic banks. Sub-question (09.G) asked about the extent to which the government (e.g. the Ministry of Commerce and the Central Bank) may influence the non-adoption of AAOIFI accounting standards in Islamic banks. Question (09.H) asked about the extent to which the academics in the accounting field may influence the non-adoption of Islamic accounting standards developed by AAOIFI in Islamic banks.

Sub-question (09.I) asked about the extent to which local users' needs may influence the non-adoption of Islamic accounting standards developed by AAOIFI in Islamic banks. Sub-question (09.J) asked about the extent to which Islamic principles may influence the adoption of IFRS by Islamic banks (Table VI: factors influencing the not adoption of AAOIFI accounting standards: Descriptive statistics of responses to sub-questions 09.A to 09.J).

7. Discussion of results and conclusion

This section will discuss the results of the method of research chosen for this research, namely, the questionnaire survey. These findings relate to the perceptions and feedback provided by professionals and managers in Islamic banks and their need for accounting standards with regard to the adoption of IFRS. Ultimately, this section considers the research findings in the context of the research questions and the theoretical framework and the extant literature.

For the first research question: "What are the user needs for accounting information in the UAE Islamic banks?" Survey respondents nominated their perceptions concerning the reason why customers chose to deal with Islamic banks rather than conventional banks in the UAE. The principal reason proposed was religion, followed by culture and ethical reasons. According to most survey respondents, the interest rate is the core factor differentiating the services of Islamic banks from commercial banks. Notwithstanding the Islamic perspective on interest rates, survey responses in this particular study show that certain transactions related to Islamic banks have involved an interest component. Some respondents illustrated that Islamic banks use trading models focused on risk sharing, a

Table VI.
Factors influencing
the non-adoption of
the AAOIFI
accounting standards:
descriptive statistics
of responses to sub-
questions 09.A to 09.J

Variables	Q. 09.A Statistic	Q. 09.B Statistic	Q. 09.C Statistic	Q. 09.D Statistic	Q. 09.E Statistic	Q. 09.F Statistic	Q. 09.G Statistic	Q. 09.H Statistic	Q. 09.I Statistic	Q. 09.J Statistic
Mean	2.94	3.08	2.88	3.10	2.81	2.85	2.31	4.00	3.79	3.48
Median	3.00	3.00	3.00	3.00	3.00	3.00	2.00	4.00	4.00	3.00
Std. dev.	0.958	0.882	0.983	0.913	1.011	0.937	0.961	0.792	0.800	0.874
Minimum	1	1	1	1	1	1	1	2	2	1
Maximum	5	5	5	5	5	5	4	5	5	5
Range	4	4	4	4	4	4	3	3	3	4

component of trade rather than risk transfer seen in conventional banking. Islamic banking introduces concepts such as profit sharing, safekeeping, joint venture, cost plus and leasing which reflect how their business activities treat accountability in their system of financial reporting. Other respondents indicated that one of the key objectives related to accounting from the perspective of Islamic banks is enabling each and every investor to determine the value of *Zakat* being owed by them.

For the second research question: "What factors and issues influence the current adoption of IFRS in the UAE Islamic banks, and which issues might act as barriers to their adoption?" Respondents observed that UAE regulators, i.e. the Central Bank and Ministry of Commerce obliged the Islamic banks to follow IFRS, and in doing so, they conferred more importance to the protection of the rights and interests of other investors who hold more power than local investors. The findings also reveal factors, such as foreign investment, globalization, conventional banks and financial institutions, which influence the Islamic banks' accounting systems and determine the extent to which these systems are appropriate and sufficient for the information requirements of users.

The findings reveal that factors, such as the influence of religion, culture and local investors, may have limited effect on the current adoption of accounting standards in the Islamic banks, as compared to economic and political factors such as regulators, foreign investment and global financial institutions that have major influences on the Islamic banks to adopt IFRS.

Furthermore, the findings ensure an awareness of issues that may develop when Islamic banks commence the transition to Islamic standards, such as the prevention of foreign direct investments, affecting the relationship with the big four accounting firms, giving rise to certain costs of time and sources and limiting the comparability with financial statements of other financial institutions.

For the third research question: "Identify the main challenges in adopting IFRS by the Islamic banks in the UAE?" A general picture was formed of the challenges and barriers confronting the adoption of IFRS standards in Islamic banks. The research findings indicate that Islamic banks' current financial reporting might be limited in achieving the local users' objectives consistent with the *Shariah* principles. Some respondents were of the opinion that there was always a problem of compliance with *Shariah* regarding the application of the IFRS principles in Islamic banks. Likewise, some respondents expressed concern regarding the proper application of IFRS for particular financial transactions of the Islamic banks, questioning whether there should be a different framework of accounting to record the financial transactions of Islamic banks. A majority of the respondents agreed that the financial reports of Islamic banks with the existing adoption of IFRS do not have adequate methods for providing full information regarding *Zakat*, *Ijarah*, *Musharakha* and *Mudharaba*, even though some effort has been made through Islamic banks by the Fatwa and Shariah Supervisory Board to follow the principles of *Shariah*. As a consequence, the users did not have the ability to make fully informed decisions. It was agreed by the majority of respondents that IFRSs financial reports do not have all the details necessary to calculate the amount of *Zakat*, and that *Zakat* is based on wealth creation and on rules not easily derived from traditional financial statements. For example, the IFRS allow the use of fair value measurement of investment property under (International accounting standard 40) which does not provide precise information for *Zakat*. However, under AAOIFI standards, it must be measured at historical cost under (Financial accounting standard 9), which provides more accurate information for *zakat*.

However, many countries of the Middle East and the GCC region had already started complying with the AAOIFI standards, and this new system was gradually gaining

approval from all over the world. But the majority of respondents were of the opinion that AAOIFI will not solve the problem in the UAE, and regulators should keep adopting IFRS in the Islamic banks. They illustrated that as the UAE is always perceived as one of the most important financial hubs in the region, the problem of which accounting system to choose became more pertinent and difficult for the users in the UAE. Thus, the findings suggest not replacing IFRS, but to find a way to develop some of IFRS to comply with *Shariah* principles instead of adopting Islamic Accounting Standards. It was agreed by the respondents that the adoption of IFRS improved financial reporting by the Islamic banks with regard to relevance, reliability, comparability and comprehension resulting in an increase in the level of confidence in the financial reports of Islamic banks and foreign investment opportunities.

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Corresponding author

Mohammad Haroun Sharairi can be contacted at: sharairi@hotmail.com

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