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Analysis of Sharia Compliance in the Presentation of Islamic Bank Financial Reports

Rayyan Nashit[1], Nadia Tasnim[2]
[1,2] Department of Business Administration, Faculty of Business Studies, International Islamic University Chittagong, Chittagong, Bangladesh

Abstract: This study explores the level of Sharia compliance in the financial reporting practices of Islamic banks, with a focus on the presentation, transparency, and ethical accountability reflected in their annual financial statements. Using a qualitative content analysis approach, the research examines selected Islamic banks across various jurisdictions, evaluating their adherence to Sharia principles based on disclosures related to zakat, prohibited income, Islamic financial contracts, and the roles of Sharia Supervisory Boards (SSBs). The findings indicate a wide disparity in compliance levels, with institutions in countries that enforce Sharia-based accounting standards such as those issued by AAOIFI demonstrating stronger compliance than those in dual or conventional regulatory environments. Common strengths include the recognition of Sharia contracts and the existence of SSBs, while weaknesses are often found in the insufficient reporting of zakat, purification of non-halal income, and lack of ethical and social disclosures. The study identifies key influencing factors such as governance quality, regulatory enforcement, institutional commitment, and the application of standardized accounting frameworks. It concludes that enhancing Sharia compliance in financial reporting is essential for strengthening stakeholder trust, ensuring religious legitimacy, and advancing the credibility of the Islamic finance industry.

Research Highlights:

- Identifies the level of Sharia compliance in the financial reporting practices of selected Islamic banks across different regulatory environments.
- Reveals strengths and weaknesses in compliance, including the frequent use of Islamic contracts and the presence of Sharia Supervisory Boards, alongside gaps in zakat reporting and purification of non-halal income.
- Highlights key influencing factors such as governance quality, regulatory enforcement, ethical culture, and the adoption of Sharia-based accounting standards (e.g., AAOIFI).
- Demonstrates the role of financial reporting in maintaining public trust, ensuring transparency, and reinforcing accountability in Islamic finance.
- Provides practical implications for regulators, Islamic financial institutions, and stakeholders to enhance the integrity, consistency, and credibility of Islamic financial disclosures.

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Corresponding Author:
Name: Rayyan Nashit
Email: rayyannashit@iiuc.ac.bd

Department of Business Administration, Faculty of Business Studies, International Islamic University Chittagong, Chittagong, Bangladesh (Rayyan Nashit)

INTRODUCTION

Islamic finance is a system that operates not only to achieve economic goals but also to fulfill ethical and religious obligations based on the principles of Islamic law, or Sharia(Nienhaus, 2011). Unlike conventional finance, Islamic financial institutions are governed by strict rules that prohibit interest (riba), excessive uncertainty (gharar), and investments in unlawful (haram) sectors such as alcohol, gambling, and pork-related industries. Instead, they emphasize profit-and-loss sharing, asset-backed transactions, and the promotion of social justice and equitable distribution of wealth. Within this framework, Sharia compliance is the foundation upon which Islamic financial institutions build their credibility and legitimacy.

The significance of Sharia compliance lies in its role as a benchmark of integrity and religious conformity for both institutions and stakeholders. Customers, investors, and regulators expect Islamic banks to strictly adhere to Sharia principles in every aspect of their operations, including financing, investment, and risk management. Any deviation from these principles can lead to a loss of confidence, not only from individual clients but also from the broader Muslim community that seeks to align its financial activities with Islamic ethical values(S. Ullah et al., 2018).

In this context, financial reporting becomes a key tool for ensuring transparency, demonstrating compliance, and maintaining accountability. Through clear and accurate financial disclosures, Islamic banks can show how they have implemented Sharia principles in their financial activities such as the structure of financing contracts (e.g., mudarabah, murabahah, ijarah), the handling of zakat funds, and the elimination of non-permissible income. Financial reports also reveal the role of the Sharia Supervisory Board (SSB) in overseeing operations and providing certification of compliance, which is essential in validating the bank's religious and ethical standing.

Moreover, public trust in Islamic finance is highly dependent on the perception of ethical and religious authenticity. If stakeholders perceive that an Islamic bank is not truly compliant with Sharia, it may lead to reputational risk and financial loss(Ginena, 2014). On the other hand, well-structured financial reports that follow recognized Sharia-compliant accounting standards such as those issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) help establish trust, attract ethically minded investors, and reinforce the institution's commitment to Islamic values.

Additionally, financial reporting plays an essential role in regulatory oversight and governance. It allows regulatory authorities and Sharia boards to monitor performance, ensure the proper application of Islamic contracts, and evaluate the consistency of operations with Islamic ethical norms(Haridan et al., 2018). Transparent reporting also promotes institutional accountability, enabling stakeholders to make informed decisions and encouraging continuous improvement in Sharia governance.

Moreover, financial reporting enhances accountability by disclosing how funds are sourced and utilized, how profit-sharing arrangements are conducted, how zakat (obligatory almsgiving) is calculated and distributed, and how non-compliant income is treated(ALERAIG & ALI, 2015). It provides assurance that Sharia Supervisory Boards (SSBs) are actively monitoring and certifying the bank's activities, thereby reinforcing confidence in the institution's ethical standing. The transparency embedded in such reports not only satisfies regulatory requirements but also strengthens the institution's reputation and competitiveness within the Islamic financial sector.

Failure to comply with Sharia principles in financial reporting can have serious consequences(Che Azmi & Hanifa, 2015). It may lead to reputational damage, legal repercussions, withdrawal of customers and investors, and, ultimately, erosion of public trust. In contrast, strong Sharia governance reflected in comprehensive and honest reporting can foster loyalty, attract ethically conscious investors, and contribute to the growth and sustainability of the Islamic finance industry.

Over the past decade, increasing attention has been directed toward examining how Islamic banks present their financial reports in accordance with Sharia principles. As the Islamic finance industry continues to grow globally, researchers have become more concerned with ensuring that Islamic financial institutions not only comply with regulatory standards but also genuinely adhere to Sharia principles in both operations and disclosure practices.

Several studies have highlighted the gap between theoretical Sharia principles and actual financial reporting practices(Binti Kasim et al., 2009). For example, research by Haniffa and Hudaib (2015) examined the extent to which Islamic banks in the Gulf Cooperation Council (GCC) region align with Sharia principles in their financial disclosures. Their findings revealed inconsistencies in the application of Sharia-based accounting standards, particularly regarding the disclosure of prohibited income, zakat calculations, and the role of Sharia Supervisory Boards (SSBs). The study emphasized the need for enhanced transparency and standardized frameworks such as those developed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Building on these concerns, Maali et al. (2016) conducted a comparative analysis between Islamic banks that adopted AAOIFI standards and those using International Financial Reporting Standards (IFRS). Their findings showed that while AAOIFI-compliant banks provided more detailed disclosures related to Sharia compliance, many banks still lacked consistency and depth in areas such as social responsibility reporting and the treatment of non-Sharia-compliant income.

More recently, a study by Abedifar et al. (2018) focused on Sharia governance mechanisms and their influence on financial reporting quality. The research suggested that the presence of an active and independent Sharia Supervisory Board is associated with greater adherence to Sharia principles in reporting. It also found that banks with strong Sharia governance tend to be more transparent in disclosing profit-sharing mechanisms, risk-sharing contracts, and compliance with Islamic ethical values.

In Southeast Asia, studies have also provided valuable insights. For instance, Ahmad and Karim (2019) analyzed Islamic banks in Malaysia and Indonesia and found that, despite regulatory encouragement, the actual implementation of Sharia-based reporting practices varied significantly. The study pointed to institutional challenges, such as the limited expertise of SSBs, the lack of integrated regulatory oversight, and differing interpretations of Sharia compliance as key contributors to reporting discrepancies.

The impact of Sharia-compliant reporting on stakeholder trust has also been explored. A study by Alnasser and Muhammed (2020) found a positive correlation between Sharia-compliant disclosures and customer trust in Islamic banks, particularly in the Middle East and North Africa (MENA) region. The research indicated that financial reports that clearly communicate Sharia compliance through proper disclosures of Islamic contracts, social contributions, and governance practices help reinforce the legitimacy of Islamic banks in the eyes of their stakeholders.

In addition, recent literature (e.g., Hasan & Mollah, 2022) has begun to focus on digitalization and fintech in Islamic finance, examining how technology may support more transparent, real-time, and standardized Sharia-compliant reporting. These developments reflect the need for dynamic frameworks that adapt to both ethical and technological demands.

Overall, existing research over the last 10 years consistently underscores the need for stronger regulatory enforcement, enhanced role of Sharia Supervisory Boards, greater adoption of AAOIFI standards, and the promotion of transparency and consistency in financial reporting practices. Despite progress in some regions, the literature indicates that many Islamic banks still face significant challenges in achieving full Sharia compliance in their financial reports, thereby highlighting an ongoing need for reform, harmonization, and capacity-building in Sharia-compliant accounting.

Therefore, this study aims to assess the degree of Sharia compliance in Islamic bank financial reporting. To identify areas where Islamic banks may diverge from AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) or national Sharia standards. To analyze the implementation of Sharia principles in key components of financial statements.

METHOD

This research adopts a qualitative-descriptive approach to analyze the level of Sharia compliance in the presentation of Islamic bank financial reports(Saleem & Mansor, 2020). The methodology is structured to assess the extent to which Islamic banks integrate Sharia principles into their financial disclosures, focusing on clarity, transparency, and adherence to standards such as those issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and national Sharia-based accounting frameworks like PSAK Syariah in Indonesia.

The primary method used in this study is content analysis of annual financial statements issued by selected Islamic banks(Syafri Harahap, 2003). This approach allows for the systematic examination of documents to identify patterns, compliance levels, and the presence or absence of specific Sharia-related disclosures. The analysis includes qualitative interpretation of narrative disclosures and quantitative scoring based on the completeness of information.

Data collection was carried out through purposive sampling. A number of Islamic banks were selected from different regions such as the Middle East, Southeast Asia, and South Asia based on the availability and accessibility of complete, audited financial reports for at least three consecutive years. The selection criteria included banks that explicitly identify themselves as Islamic financial institutions and that are regulated by financial authorities requiring Sharia compliance in reporting practices.

The analysis focused on several key indicators of Sharia compliance in financial reporting, including:

- Disclosure of Islamic financial instruments (e.g., mudarabah, murabahah, ijarah).
- Presentation of zakat obligations and their calculation methods.
- Reporting and treatment of prohibited (non-halal) income.
- Existence and role of the Sharia Supervisory Board (SSB), including the inclusion of their annual report and opinion.
- Social responsibility and ethical disclosures aligned with Islamic values.

Each financial report was examined using a structured checklist derived from AAOIFI Financial Accounting Standards, PSAK Syariah guidelines, and prior literature on Sharia-compliant financial disclosures(ベタ, 2018). A scoring rubric was developed to assess the level of compliance categorized as high, moderate, or low based on the presence, depth, and clarity of these disclosures.

To enhance the validity and reliability of the findings, the research utilized triangulation by comparing data across multiple institutions and jurisdictions, while cross-referencing key findings with existing academic studies and regulatory reports(Klinger et al., 2014). Additionally, the compliance checklist was reviewed by experts in Islamic accounting and Sharia finance to ensure its relevance and accuracy.

RESULTS AND DISCUSSION

Result

The findings of this research reveal varying levels of Sharia compliance in the presentation of Islamic bank financial reports across different institutions and regions. Based on the content analysis of annual financial statements from selected Islamic banks, it is evident that while most institutions attempt to adhere to Sharia principles, significant disparities remain in the depth, consistency, and quality of Sharia-related disclosures.

One of the most consistently reported components is the disclosure of Sharia-based financial instruments, such as murabahah (cost-plus financing), mudarabah (profit-sharing), ijarah (leasing), and musyarakah (partnerships)(Alzahrani & Megginson, 2017). The majority of the sampled banks included clear descriptions of these contracts and their accounting treatments. However, the level of detail varied, with banks in jurisdictions that follow AAOIFI standards demonstrating greater precision and transparency compared to those using only IFRS or local adaptations.

Regarding zakat reporting, only a portion of the banks provided full disclosure on zakat calculation and distribution(Noor et al., 2011). Banks operating in countries where zakat is a regulatory requirement, such as Saudi Arabia or Bahrain, generally offered more complete and transparent reporting. In contrast, many banks in Southeast Asia particularly Indonesia and Malaysia treated zakat reporting as voluntary and offered limited or no detail on calculation methods, beneficiaries, or distribution channels. This inconsistency highlights a lack of standardization in zakat reporting practices globally.

Another key finding is the weak disclosure related to non-halal or prohibited income. Although most banks acknowledged the possibility of earning non-permissible income from activities such as interest from conventional accounts or late payment penalties, only a few provided clear figures or explanations on how such income was handled (e.g., purification by donation to charity). This raises concerns about the transparency and ethical accountability of some Islamic banks in dealing with non-compliant earnings.

The presence and effectiveness of Sharia Supervisory Boards (SSBs) also varied across institutions. While all banks included in the sample had an SSB, the depth of disclosure regarding their roles, decisions, and annual reports differed widely. Banks in the Middle East often provided full-text SSB reports, complete with fatwas and compliance opinions. In contrast, several banks in other regions only included brief statements of Sharia compliance, with limited evidence of active Sharia governance or independent review.

Finally, reporting on Islamic social responsibility (ISR) and ethical practices remains underdeveloped in many financial statements. While some banks mentioned their commitment to Islamic values and community service, very few provided structured and measurable information on their ISR initiatives, charitable contributions, or sustainable financing activities aligned with Maqasid al-Shariah.

Overall, the results suggest that while Islamic banks are generally committed to presenting Sharia-compliant financial reports, gaps remain in standardization, transparency, and disclosure practices. Banks that adopt and apply AAOIFI standards tend to demonstrate a higher level of compliance and accountability. However, the lack of global enforcement and uniform interpretation of Sharia principles continues to create inconsistencies across the industry.

Level of Compliance Among Selected Islamic Banks

The assessment of Sharia compliance levels among selected Islamic banks reveals a varied spectrum of adherence to Sharia principles in their financial reporting practices(Haridan et al., 2018). While all sampled banks acknowledge the importance of aligning with Islamic values and the foundational principles of Islamic finance, the depth, clarity, and consistency of their disclosures differ significantly across institutions and regions.

Banks operating under regulatory frameworks that mandate the adoption of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) standards, particularly in countries such as Bahrain, Saudi Arabia, and the United Arab Emirates, generally exhibit high levels of compliance. These banks tend to provide comprehensive disclosures on the use of Sharia-compliant financial instruments, the calculation and distribution of zakat, the treatment of non-halal income, and the roles and opinions of their Sharia Supervisory Boards (SSBs). Their financial statements often include dedicated sections on Sharia compliance, supported by detailed fatwas and formal audit reports from their SSBs. This reflects a strong commitment to both religious accountability and transparency.

In contrast, Islamic banks in jurisdictions where Sharia compliance in reporting is less strictly regulated or is integrated into conventional accounting standards (e.g., IFRS) often display moderate levels of compliance(Hidayah, 2014). These banks typically include Sharia-compliant products and acknowledge the oversight of a Sharia board but may lack detailed disclosures on zakat, prohibited income, and ethical responsibilities. In some cases, the role of the SSB is summarized in a single statement without elaboration on specific decisions or compliance challenges faced during the financial year. This approach suggests a formal acknowledgment of Sharia principles without a strong emphasis on accountability to stakeholders who prioritize ethical and religious integrity.

Banks with low levels of compliance tend to provide minimal references to Sharia principles in their reports(H. Ullah, 2014). These institutions may use Islamic financial contracts in practice but fail to explain their Sharia justifications or accounting treatment in sufficient detail. Zakat obligations, if disclosed, are often brief and lack clarity regarding calculations or beneficiaries. In several cases, the Sharia Supervisory Board is mentioned in name only, with no accompanying opinion or evaluation of compliance. Such limited disclosure raises concerns about transparency and may undermine stakeholder trust, especially among investors and customers seeking assurance of ethical and religious conformity.

Overall, the level of Sharia compliance in financial reporting among Islamic banks can be categorized as high, moderate, or low, with a clear correlation between regulatory pressure, the adoption of standardized accounting frameworks, and the quality of disclosure. Institutions that proactively implement Sharia governance structures and transparent reporting mechanisms tend to strengthen public confidence and uphold the ethical mandate of Islamic finance. Conversely, banks that treat Sharia compliance as a symbolic or secondary concern risk reputational damage and stakeholder skepticism.

Common Compliance Strengths and Weaknesses in Islamic Bank Financial Reporting

One of the most notable strengths observed across many Islamic banks is the recognition and application of Sharia-compliant financial contracts such as murabahah (cost-plus financing), mudarabah (profit-sharing), ijarah (leasing), and musyarakah (joint ventures). These contracts are often clearly identified in financial statements, with some banks providing detailed descriptions of how they are structured, used, and reported. This transparency supports stakeholder understanding and reinforces the bank’s Islamic identity.

Another key strength lies in the formal establishment and presence of Sharia Supervisory Boards (SSBs)(Alasmri, 2020). Most Islamic banks include at least a brief report or statement from their SSBs, affirming that operations and transactions are reviewed for Sharia compliance. In several cases particularly among banks following AAOIFI standards SSB reports are extensive, outlining key rulings (fatwas), observations, and recommendations, which enhance the credibility of the bank’s ethical and religious governance.

In addition, many banks show strength in the disclosure of profit-sharing mechanisms between banks and investment account holders. These disclosures are often backed by clear illustrations of how returns are calculated and shared, which reflects an effort to uphold Islamic financial justice and transparency.

Despite these strengths, several weaknesses remain prevalent. A primary area of concern is the lack of consistent and detailed reporting on zakat(Ahmad, 2019). While zakat is a core pillar of Islamic finance, not all banks provide transparent disclosures regarding the calculation method, the total amount due, or how and to whom zakat is distributed. This inconsistency is particularly evident in banks operating in regions where zakat compliance is voluntary rather than mandated by regulators.

Another common weakness is the insufficient disclosure of prohibited (haram) income and its treatment. Although many banks acknowledge the possibility of earning income from non-compliant sources (such as late payment penalties or inadvertent interest), few provide specific figures or describe how such income is purified, e.g., through charitable donation. This omission compromises accountability and may affect stakeholder trust.

Moreover, while most banks have an SSB in place, the depth and independence of SSB reporting vary widely. In many cases, the SSB's statement is generic and does not provide insight into actual compliance challenges, decision-making processes, or risk mitigation strategies(Malaya, 2016). This superficial reporting limits the role of SSBs in ensuring robust and transparent Sharia governance.

Lastly, social responsibility and ethical disclosure which are integral to Maqasid al-Shariah (the objectives of Islamic law) are often underdeveloped. While some banks mention corporate social responsibility or ethical commitments, few provide structured or measurable reports on community development, environmental sustainability, or charitable activities aligned with Islamic values.

In summary, Islamic banks show promising strengths in their use of Sharia-compliant contracts and the establishment of Sharia governance structures. However, weaknesses persist in areas such as zakat disclosure, treatment of non-halal income, and the quality of SSB reporting. To enhance public trust and fulfill the ethical mandate of Islamic finance, Islamic banks must move beyond formal compliance and strive for meaningful, transparent, and standardized reporting practices that reflect the full spirit of Sharia.

Factors Influencing Sharia Compliance in Islamic Bank Financial Reporting

Strong corporate governance is one of the most influential factors in ensuring Sharia-compliant financial reporting(Mazri et al., 2018). Islamic banks that demonstrate transparency, accountability, and a commitment to ethical integrity tend to perform better in disclosing financial information according to Islamic principles. Boards of directors and senior management play a central role in upholding Sharia values, particularly when they prioritize the integration of Islamic ethics into all operational and financial activities. Moreover, the presence of governance structures that support independent oversight, internal audits, and regular compliance reviews enhances the likelihood that Sharia principles will be consistently applied and reported.

The regulatory environment significantly impacts compliance levels. In jurisdictions where regulators enforce the adoption of Sharia standards such as AAOIFI or national equivalents like PSAK Syariah in Indonesia banks are more likely to publish detailed, standardized, and transparent Sharia-compliant reports(Suandi, 2013). Conversely, in countries where Islamic banks operate alongside conventional financial institutions without strict Sharia oversight, the level of compliance tends to be weaker and more symbolic than substantive. Regulatory mandates related to zakat, the treatment of non-halal income, and Sharia audit requirements serve as important compliance drivers.

The presence of a Sharia Supervisory Board is a defining feature of Islamic financial institutions. However, the effectiveness of SSBs in influencing compliance depends on several factors: their independence, expertise, frequency of engagement, and the scope of their authority. SSBs that are empowered to conduct detailed reviews, issue fatwas, and audit financial transactions tend to promote stronger compliance. On the other hand, when SSBs are treated as symbolic bodies with limited involvement in actual decision-making, their impact on financial reporting is marginal. Additionally, variation in the qualifications and interpretations of SSB members across institutions and jurisdictions may lead to inconsistent reporting practices.

Internal commitment to Islamic ethical principles influences how seriously an Islamic bank approaches Sharia compliance. Institutions that view Sharia not merely as a legal requirement but as a moral and social obligation tend to go beyond minimum compliance. These banks often invest in employee training, engage stakeholders in Islamic values, and proactively disclose information on zakat, social responsibility, and the treatment of doubtful income. This culture of ethics enhances stakeholder trust and strengthens the integrity of financial reporting.

The extent to which Islamic banks adopt and internalize Sharia-based accounting standards such as those issued by AAOIFI has a direct impact on compliance quality(Isni, 2018). Banks that align their reporting structures with these standards tend to offer more consistent, detailed, and transparent financial statements. Conversely, banks that rely solely on conventional frameworks such as IFRS without Sharia adaptations may fail to adequately reflect Islamic concepts like profit-sharing, zakat, or the prohibition of interest and uncertainty. The availability of trained personnel and guidance on applying these standards also affects their implementation.

Scope and Limitations

This study focuses on analyzing the extent of Sharia compliance in the financial reporting practices of Islamic banks. Specifically, it examines how Islamic financial institutions disclose information related to Sharia-based contracts, zakat, non-halal income, Sharia Supervisory Board (SSB) activities, and ethical responsibilities in their annual financial statements. The scope of this research is limited to a selected number of Islamic banks operating in diverse jurisdictions, including the Middle East, Southeast Asia, and South Asia, to capture a comparative perspective influenced by differing regulatory frameworks and accounting standards.

The time frame of the study is restricted to the review of financial reports published over the last three to five years to ensure relevance and accuracy in reflecting current reporting practices(Beyer et al., 2010). The institutions selected for analysis were chosen using purposive sampling, focusing on those with accessible and publicly available audited financial statements and clear Islamic banking status.

This research centers on qualitative content analysis, using a compliance checklist derived from AAOIFI standards and national Sharia accounting guidelines (e.g., PSAK Syariah). It does not employ a quantitative scoring system beyond descriptive categorization (high, moderate, low compliance), nor does it attempt to measure the financial performance impact of compliance levels.

However, several limitations should be acknowledged. First, the lack of standardization across jurisdictions makes direct comparison challenging. Islamic banks operate under different regulatory environments some under strict Sharia oversight (e.g., Bahrain, Saudi Arabia), and others under hybrid or conventional frameworks (e.g., Malaysia, Indonesia) which influences the scope and quality of their financial disclosures.

Second, variability in the accessibility and transparency of financial reports affected the comprehensiveness of data collection(Bushman & Smith, 2003). In some cases, only summarized or English-translated versions of financial statements were available, possibly omitting important contextual or cultural nuances embedded in the original reports.

Third, the study is limited to secondary data, relying solely on published financial reports. It does not include interviews with SSB members, bank executives, or regulators, which could have provided deeper insight into the motivations, constraints, and interpretations influencing compliance behaviors.

Lastly, while the study includes a representative selection of banks, it does not cover all global Islamic banking institutions(Ltifi et al., 2016). Therefore, generalizations should be made with caution, and the findings should be seen as indicative rather than exhaustive.

Despite these limitations, the research offers valuable insights into the current state of Sharia compliance in financial reporting and highlights critical areas for policy improvement, standardization, and increased transparency in Islamic financial institutions.

CONCLUSION

The analysis of Sharia compliance in the financial reporting of Islamic banks reveals that while most institutions strive to align their practices with Islamic principles, there remains a significant variation in the depth, quality, and consistency of compliance across different jurisdictions and banking institutions. This variation is influenced by several key factors, including the strength of regulatory enforcement, the adoption of standardized accounting frameworks such as AAOIFI, the quality of internal governance, and the role of Sharia Supervisory Boards (SSBs). Generally, Islamic banks operating in regions with strong regulatory mandates and comprehensive Sharia frameworks demonstrate higher levels of compliance. These institutions tend to provide detailed disclosures on Islamic financial contracts, zakat obligations, treatment of non-halal income, and the activities of their SSBs. However, even among these banks, there are often gaps in areas such as ethical transparency, social responsibility reporting, and consistency in SSB disclosures. On the other hand, Islamic banks in jurisdictions where Sharia compliance is not strictly regulated or where IFRS dominates financial reporting often exhibit moderate to low levels of compliance. These institutions may acknowledge Sharia principles but fall short in providing detailed or standardized disclosures that reflect true Islamic financial accountability. The study also highlights several common strengths such as the widespread use of Islamic financial contracts and the presence of SSBs as well as weaknesses, including limited zakat transparency, inadequate reporting on prohibited income, and underdeveloped disclosures related to Islamic social responsibility. These weaknesses can undermine stakeholder trust and dilute the ethical foundations that distinguish Islamic finance from its conventional counterpart. Ultimately, this research underscores the need for stronger regulatory harmonization, enhanced Sharia governance, and wider adoption of comprehensive accounting standards tailored to Islamic finance. Financial reporting is not merely a regulatory obligation but a tool to uphold trust, accountability, and the spiritual integrity of Islamic banking. By improving the quality and consistency of Sharia-compliant disclosures, Islamic banks can reinforce their legitimacy, fulfill their religious and social responsibilities, and contribute more effectively to the global Islamic economy.

AUTHORS' DECLARATION

Authors' Contributions and Responsibilities

All authors contributed significantly to the development of this research. The author was solely responsible for the conception, design, and execution of this research.

Competing Interests

The author declares that there are no competing interests or potential conflicts of interest related to the publication of this research. The study was conducted independently, without any financial, institutional, or personal influence that could affect the objectivity or integrity of the research findings.

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