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Disclosure of Financial Reporting of Islamic Financial Institutes of Bangladesh: A Concept of Relevant Reviews

Md. Robiul Islam[1], Mohammad Shamsus Sadekin[2]

[1]Ph.D. Fellow, Institute of Islamic Banking and Finance, International Islamic University, Malaysia.
[2]Department of Humanities (Accounting), Chittagong University of Engineering & Technology (CUET), Bangladesh.
E-mail: robiulbiu@gmail.com[1], sadekinmba@yahoo.com[2]

Abstract : The number of Islamic Financial Institutions (IFIs), including bank and non-bank financial institutions are growing fast in Bangladesh. Along with the full phased Islamic Banks, most of the conventional banks are operating the Islamic Banking window. Disclosure of financial information by those institutions has been the only source of information about those companies to majority of stakeholders who do not have access to tailor made information. This paper intends to conduct a critical review of existing literature on disclosure by IFIs in Bangladesh. To attain the objective of this study, accessible existing literature on disclosure form Islamic and traditional context has been studied. Our review of literature finds that IFIs in Bangladesh have the increasing tendency to comply with the rules set by Bangladesh Bank rather than disclosure under Islamic principles. Moreover, the Bangladesh Bank's guidelines do not address all the aspects of Islamic Shariah. Therefore, close supervision and monitoring of the banks is of utmost important to ensure full compliance of both conventional and Islamic disclosure requirements. Effective and sensible supervision of IFIs can foster the integration between Islamic and conventional banking systems. The supervisory authorities should also recognize the need to set up a separate regulatory framework to set the disclosure requirements and ensure compliance of those by IFIs in Bangladesh.

Key words: Financial Reporting, Islamic economy, Islamic Banking

1. Introduction

Bangladesh being one of the largest Muslim majority countries has huge demands of financial transactions under Islamic principles. To cater the customers demand, many Islamic financial institutions including bank and non-bank financial institutions has been established in Bangladesh.

Islamic banking in Bangladesh has achieved significant growth that contributes to 20% share of the whole banking industry. However, investment in socially desirable sectors, such as microenterprises, small projects, and agricultural sectors are only getting marginal shares in total investment. IFIs are also facing some major challenges including absence of separate Act, scarcity of Islamic money and capital market instruments, and lack of skilled manpower.

The overall growth of Islamic banking in the world over the last decade in general and after the recent global financial crisis in particular has been tremendous. It has been estimated that Islamic banking has grown not only at the annual rate of 15% over the past five years but has also been expanding outside its traditional borders of Muslim economies. Its current market size has been estimated at $70 billion and projected to grow around $100 billion in the early part of this century. In some countries like the Islamic Republic of Iran, Pakistan, and Sudan, all banks and financial institutions operate according to Islamic principles (Nabi, et al., 2015). In some other countries, such as Bangladesh, Egypt, Jordan, and Malaysia, Islamic banking operates along with conventional banking. Bangladesh is in the leading position in respect of growth factor. Besides, there have been some dimensional developments in the field of Islamic banking in Bangladesh. Apart from first generation established Islamic banks, which have been operating under Islamic Shariah, most of the leading conventional banks have opened Islamic banking windows to deliver service according to Shariah principles. This trend indicates that Islamic banking will keep flourishing and increase its share in the banking industry in Bangladesh.

2. Objective of the Study

The main objective of this study is to review the existing literature on disclosure with special emphasis on disclosure by IFIs in Bangladesh. The specific objectives of this study are:

1. To provide an overview of IFIs in Bangladesh;
2. To exhibit the regulatory framework of disclosure in Bangladesh;
3. To critically evaluate the existing literature on disclosure in Bangladesh; and
4. To find out the literature gap on disclosure by IFIs in Bangladesh.

3. Methodology of the Study

This study has been done basically on secondary source of data. The articles reviewed for this study was collected mainly from internet sources. The reviewed articles are closely related to disclosure issues done in Bangladesh and abroad in recent past periods. Bangladesh bank website was also been visited to collect the related data. Websites of Islami Sariah based banks were also visited to collect related data. Finally, Bangladesh online newspapers, periodical reports of related banks were used to collect data. Valuable information has also been gathered from the websites of Institute of Chartered Accountants of Bangladesh (ICAB), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Institute of Cost and Management Accountants of Bangladesh, and the Dhaka Stock Exchange (DSE).

4. Overview of the IFIs in Bangladesh

There are different types of financial institutions in Bangladesh. Such as- (i) Islami Sariah Based Commercial Banks. Sariah Based Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. Sonali Bank Ltd. Provide Islamic banking services with their general banking activities. Islamic Insurance companies: 05 Islamic insurance companies can provide efficient takaful services to the nation if they had the opportunity to work as a sole system in an economy. But in Bangladesh, Insurance companies are operating their activities under the dual framework both of conventional and Islamic framework monitored by the Insurance Development and Regulatory Authority (IDRA). There has some other Islamic finance and leasing companies in Bangladesh which increases Islamic financial inclusion in Bangladesh.

Table 01: List of Islamic Banks in Bangladesh and the Branches.

SN	Name of Islami Bank	Year of Incorporation	Total Number of Branches	Listing Status	Year of Listing
01	ICB Islami Bank	1987	17	Listed	1990
02	Islami Bank Bangladesh Limited	1983	331	Listed	1985
03	Shahajalal Islami Bank Limited	2001	50	Listed	2007
04	First Security Islami Bank Limited	1999	117	Listed	2008
05	EXIM Bank Limited	1999	131	Listed	2004
06	Al-Arafah islami Bank Limited	1995	140	Listed	1998
07	Social Islami Bank Limited	1995	94	Listed	2000
08	Union Bank Limited	2013	90	Listed	

(BB 2012 & Website of related bank, 2013) (Hossain & Khatun, 2014)

Table 02: The list of Islamic insurance companies are given below (Give table Number)

SN	Name of Companies	**Year of Incorporation**	**Listing Status**	**Year of Listing**
01	Fareast Islami Life Insurance Co.Ltd	May 29, 2000	Listed	2005
02	Padma Islamic Life Insurance Company Ltd.	April 26, 2000	Listed	2012
03	Takaful Islamic Insurance Ltd.	2001	Listed	2001
04	Prime Islamic Life Insurance Co. Ltd.	July 24, 2000	Listed	2007
05	Islamic Insurance Bangladesh Ltd.	January 01, 1999	Listed	2009

Non-Bank Financial Institutions: The non-bank financial sector in Bangladesh plays an important role in financing various sectors such as manufacturing and service industries, trade, housing, transport, information & communication technology and capital markets. With 33 companies this sector consists of specialized financing companies, leasing companies, merchant banks (Rahman, 2016). Islamic bond ***suku*** is an asset based bond which is structured in accordance with shariah and may be traded in the market. Takaful is an insurance based on the principles of mutual assistance. Takaful provides mutual protection of assets and property and offers joint risk sharing in the event of loss by one of the participants. Takaful is similar of mutual insurance in that members are the insurers as well as the insured.

5. The Regulatory Framework of Disclosure by IFIs in Bangladesh

After the introduced in 1983, Islamic banks in Bangladesh were operating their activities with very little support from the regularity authorities. Operations of Islamic banks were controlled and supervised by the Bangladesh Bank (BB) as per general guidelines framed for conventional banks. With the passes of time, Islamic banking in the country has achieved tremendous growth, with prospects of further expansion, mainly due to its popularity among the customers and efficient management and success of the Islamic banks. Islamic banking has recently showed a rapid popularity all over the world, especially in the GCC countries. In order for proper guidance on accounting and auditing activities of IFIs, the AAOIFI, a Bahrain based institution, was established in 1990-1991. This organization issues internationally recognized Shariah standard on accounting auditing and governance issues. AAOIFI standards have fulfilled the gap by providing accounting standards that evaluate the main needs of the IFIs. Further, AAOIFI also expects to strengthen the effectiveness of Sharia Committees by facilitating evaluation of emerging financing instruments and by aiding in the implementation of Islamic ethics (Pomeranz, 1997).

The Bangladesh Bank, through a circular dated 09 November 2009, has introduced 'Guidelines for Islamic Banking' as a supplementary to the existing banking laws. The guidelines are to be followed by the Islamic banks and conventional commercial banks having Islamic branches, with a view to bringing greater transparency and accountability in Islamic banking. This is a major development in the banking sector in Bangladesh that helps banks to organize their Islamic banking business and comply with the rules of Shariah. Eleven conventional banks of Bangladesh are at present providing Islamic banking services through 24 Islamic banking branches and counters while there are 07 full-pledged Islamic banks offering products and services through 500 branches and SME centers.

Islam, through Quran and Hadith, has forbidden Interest (in Arabic Riba) but has permitted trade that inevitably accepts risk in the upcoming periods. The guidelines of Quran and Hadith are the basis of Islamic economic system, and thus considered as the basic guidelines for IFIs. Islamic On the other hand, Islamic economic activities contribute to bringing about "Economic and non-economic" returns for the entrepreneur as well as to society. Therefore, any investment under Islamic principles should seek present welfare derived through employment, higher present earnings for the community and a reasonable return to the entrepreneur himself.

The establishment of Islamic banks, Insurance companies, finance companies, relief organizations call for an Islamic accounting to meet their information of the Muslim societies in which they operate (Ali, 1997; Khan, 1994). We also argue that the trick remains in the ability of Islamic Economists to formulate an Islamic Accounting Standards that provides the required emphasis on Islamic values and principles, but still provides the required structure to integrate successfully with International Accounting Standards. In the new world of economy where globalization is one main key driver, it is very critical for the newly developed Islamic Accounting Standards to have this feature of being able to facilitate international accounting deals, as the great fear remains in the fact that with the increase of the global accounting concept, an Islamic Accounting Standards that does not provide an international frame could act as barrier against joint businesses with countries in the west. We may argue that the incomplete success we are witnessing in the banking system in Saudi Arabia could be related to this incomplete form of the Islamic Accounting Standards. It is the fact that out of ten commercial banks in only three banks are wholly owned by Saudis and AlRjhi Banking and Investment Company is the only banking institution that is following the Sharia's law and outlawed the payment of interest, where other banks are operating under mutated forms from the west and within uncertain legal frame (Vietor & Evans, 2006).

Western Accounting system has been exported by the developed countries (e.g. UK and USA) to the developing countries whose cultures, religion and social and business and political environment are quite different and it is questionable to adopt the western conventional accounting principles, standards and their underlying philosophy without any or negligible modification (Briston & Kedslie, 1997). The Islamic Organizations and enterprises (i.e. Islamic financial and commercial corporations in Malaysia, Brunei, Jordan, Dubai, Egypt etc.) are for the most part using conventional accounting without much changes, although there have been developments in the establishment of Islamic Banking Standards and or Islamic Accounting Standards (Ibrahim, 2002). It may be argued that such adoption of western conventional accounting system does not coincide with the specific Islamic Objectives and hence, there is a need for a separate accounting system and/ or accounting standards based on Islamic Sariah and then incorporate the western accounting system where it does not contradict with the Islamic values. So, it can be argued that the imposed accounting system or standards by the West must be modified by the Islamic countries keeping in mind Islamic Sariah, Islamic Economy, Islamic culture and its social, political and environmental needs. IASB promulgated the standards are dealing with many issues which are expected to be of common concerns to all the countries which are the member of the organization. However, it is highly impossible for any international organization to develop accounting standards appropriate to the local needs of each and every country and an international body can prescribe accounting standards covering only certain broad areas of financial reporting (Basu, 1990). This is also true in case of Islamic Accounting standards. Local conditions of the Islamic countries like Saudi Arabia or United Arab Emirates may not be similar to those of Western countries. In that case it may be argued that an Islamic accounting standard-setting body rather than international body can formulate standards necessary to serve the needs of the Islamic countries. However, the Islamic Organization like OIC did not make any attempt to modify these accounting standards taking into consideration Islamic Sariah and Economy. It seems that the AAOIFI is aware of the very need for a separate accounting system and its requirements with special reference to the Islamic countries as a whole. Following a standard brings uniformity in an industry allowing a level playing field for interpretation of respective position of all the participants/units. As such a separate chart of Accounts (Conforming to a uniform Islamic Standard) is a must for Islamic banking in conventional banking sector in Bangladesh. Now-a-days, the need for a body of accounting standards of the AAOIFI purposefully designed to reflect the specialization of Islamic products is a crying need for Islamic banking as new and more complex instruments are being marketed.

Bangladesh Bank: Bangladesh Bank: Bangladesh Bank regulate Islamic banking sector in Bangladesh. As the central bank of Bangladesh, Bangladesh Bank provides some guidelines for Islamic Banking activities in Bangladesh. Formation of an Islamic Banking Division. An Islamic Banking Division has to be set-up in the Head Office of the local Bank(s) and in the Country Office (in Bangladesh) in case of foreign Banks. An organizational structure of the division indicating qualifications and Islamic Banking experiences of the top Executives is to be submitted to the concerned division of Bangladesh Bank.

BSEC: Regulates Islamic Capital Market sector. The Securities and Exchange Commission (SEC) has a full regulatory mandate to guide the capital market activities, while the insurance and Takāful sectors controlled by Insurance Development Regulatory Authority Bangladesh.

Quran & Hadith: The rules governing Islamic Finance are derived from the Shariah. The Shariah is a framework of Islamic Jurisprudence derived from the primary sources: The Qur'an and the teachings of the Prophet Muhammad (pbuh) known as the Sunnah. In addition to which there is a dynamic secondary source of common law rulings and scholarly interpretations referred to as Fatwa's. These fatwas are the results of human interpretation of the Shari' ah, of its texts, or its principles, or a combination of the two; they are not the word of God. Islamic law, it must be remembered, is more a process than a code, and the results of legal deliberations may differ when different methods are employed. Several fatwas are indicative of an acceptance on the part of Shariah Supervisory Boards of new realities in the marketplace and of their willingness to understand and work with these to the extent that Islamic religious and legal principles will allow.

Ruling of Islamic Scholars: Muslim scholars, having dedicated their lives to the study of the sacred texts under the tutelage of esteemed masters, are well acquainted with the parameters of such differences. To the lay Muslim, however, being presented with differing opinions on a subject can often be a source of confusion. Without knowing what constitutes valid versus invalid opinions, they may inadvertently adopt erroneous ideas that are antithetical to Islam In practice, the permissibility or otherwise of a transaction or business activity is governed by the Sharia, that provides the framework for a set of rules and laws, governing economic, social, political, and cultural aspects of Islamic societies.

AAOIFI: AAOIFI, established in 1991 and based in Bahrain, is the leading international not-for-profit organization primarily responsible for development and issuance of standards for the global Islamic finance industry. It has issued a total of 100 standards in the areas of Shariah, accounting, auditing, ethics and governance for international Islamic finance. It is supported by a number of institutional members, including central banks and regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over 45 countries. Its standards are currently followed by all the leading Islamic financial institutions across the world and have introduced a progressive degree of harmonization of international Islamic finance practices.

6. Critical Review of Existing Literature

Disclosure has been a burning issue in the field of accounting, financing, and corporate governance. Consequently, many studies have been undertaken in both the developing and developed world on issues concerning disclosure, such as factors influencing disclosure, guiding principles of disclosure, multinational aspects of disclosure, harmonization in disclosure, disclosure by financial institutions, and so forth (Rahman & Uddin, 2016). This section critically evaluates the studies on disclosures with special emphasis on disclosures by IFIs in Bangladesh. To explain why a company disclose information in the internet there are a range of theories have been employed in this present study.

Agency Theory

Why a manager disclose information for the shareholders is displayed in the following theories like (Wallace, 1988, 1994; Cooke 1989a, 1989b, 1993; Firth, 1980; Hossain et al., 1994; Akhtaruddin, 2005; Marston & Polei, 2004; Aljifri, 2008). Managers believe that through the agent-owners contract, the shareholders will get their control behaviour and the disclosure will be a means of attaining the optimal contact. The theory assumes that the agency cost will differ with corporate characteristics. It is argued that voluntary disclosures lower agency costs (Chow & Wong-Boren, 1987). This disagreement would be the similar for larger company in terms of size, because if the larger company would use the advanced loan because of the tax benefit, then to satisfy the creditors, they will disclose more. The other corporate features might be explicated in the similar argument. So, the mangers will reduce the agency cost by disclosing more, to be reliable to the shareholders, and then in this regard the agency theory would be justified.

Signalling Theory

Signalling Theory, which was introduced by Spence (1973); can explain the causes of disclose of more information by some firms than the others (Watts & Zimmerman, 1986). It was suggested by this theory that voluntary disclosures are one means for companies or managers to differentiate themselves from others on such dimensions as quality, performance and means & motivating factors for such discoveries including the use of large auditors and high performance (Healy & Palepu, 2001; Marston & Polei, 2004). It is assumed by signalling theory that a reaction on market arise by the disclosure of informational irregularity. Investors don't hold sufficient information like companies. Therefore, the information asymmetry will be reduced if the company discloses much more information. The executives of the company will discriminate themselves from others. The signal of the company would be credential in terms of getting potential and forthcoming investors and creditors. For example, the profitable company, the old company and the company using big audit firms would disclose than the loss making companies, new companies and others.

Innovation Diffusion Theory

The theory assumes that intra organizational structures e.g. accounting regulations and practices are largely shaped by external factors. Therefore, the organizations, operating in the similar environment are assumed to compare the demand and actual behaviour including the structures, choices and designs (Meyer & Rowan, 1977). For example, the internal structures will reflect the rules and procedures that are perceived to be 'right' within the society (Meyer & Scott, 1984). There are two components of isomorphism (1) institutional isomorphism and (2) competitive isomorphism (Maggio & Powell, 1983). Then, these components are further classified institutional isomorphism into three categories: (a) Mimetic isomorphism; (b) Coercive isomorphism; and (c) Normative isomorphism.

Abrahamson (1991) in his work on "Managerial Fads and Fashions: The Diffusion and Rejection of Innovations." has given force on isomorphism and imitative isomorphism where 'the coercive' is fundamental because a company is pressured by external officialdoms, such as the government and investors, to adopt an innovation irrespective of its benefit to the company.

Lymer and Debreceny (2004) in their research work "The Auditor and Corporate Reporting on the Internet: Challenges and Institutional Responses," and Marston and Polei (2004) in their work "Corporate Reporting on the Internet by German Companies," explain voluntary information disclosure because these researchers assumed that in countries the financial reporting practice are considerable importance with developed securities markets. However, this study seeks to paint that "in emerging economies the IFRS practices are very important as well. To develop in the hypotheses these theories were used, which are empirically tested at a later stage and in this context; 09 variables are employed to clarify the voluntary discovery of financial reporting of financial organizations of an emerging economy in, Bangladesh. Some research works have been done on financial discloser of financial reporting of Islamic financial institutions but this is true for abroad. No comprehensive study was done on this area in Bangladesh. So there has a research gap in this field especially in Bangladesh. For this reason, this field was selected for this study.

Hossain (1999) has conducted a comparative study on "Disclosure of Information in Corporate Annual Reports of Listed Non-Financial Companies in Developing Countries: A comparative Study of India, Pakistan and Bangladesh." In this work 'Disclosure Index Approach' was used, and considered unweight Disclosure or Dichotomous model. An "unweight index" of disclosure of items is the ratio of the value of the number of items, a company discloses is divided by the total value that it could disclose. Hossain express that under an unweight disclosure index of the items those should be disclosed by the Islamic banks & Institutions, all items of information in the index are equally important to the average user. The unique advantage of using an unweight index approach permits an analysis of the independent perception of a particular user group. Islamic Accounting is the "accounting process" which provides appropriate information to stakeholders of an entity which will enable them to ensure that the entity is continuously operating within the bounds of the Islamic Sariah and delivering on its socioeconomic objectives. Islamic accounting is also a tool, which enables Muslims to evaluate their own accountabilities to Almighty Allah (in respect of inter-human/environmental transactions).

Kamla (2009) has critically explored in "Critical Insights into Contemporary Islamic Accounting" that the potential of aspects of contemporary Islamic accounting research and practice to contribute to the critical accounting project in the latter's efforts to achieve more emancipatory and enabling forms of accounting. Kamla (2009) observed that minimal critical theorizing, as well as the narrow instrumental and mechanical emphasis of the majority of Islamic accounting research, are indications that Islamic accounting research is diverting from its primarily proclaimed social and moral roles. She severely criticized that it can be further exacerbated by the uncritical emulation and embracing of conventional accounting operations and standards by so-called Islamic ones. With a little knowledge in accounting system and Islamic Shariah, Kamla (2009) also attempts to identify absurd ways forward for Islamic banking and accounting research to realize more emancipatory praxis.

Mashayekhi and Mashayekh (2008) commented in their article "Development of Accounting in Iran" that although Iran has employed International Accounting Standards as the basis for developing its National Accounting Standards (based on Islamic Shariah), there are still some differences between Iranian and international standards, and there are some certain International Accounting Standards that are not applicable in Iran. They argued that a host of endemic factors, such as existing laws and rules, religious beliefs, culture, economic and political conditions, have influenced the National Accounting Standards setting processes in Iran.

Ahmed (2001) observed in their research on "International Accounting Harmonization, Banking Regulation and Islamic Banks." that the supervisory authorities in countries in which Islamic banks operate have been adopting different accounting treatments for investment accounts, although most of the countries in which Islamic banks operate either look directly to international accounting standards as their national standards or develop national standards based primarily on international accounting standards. As a result, he argued that this rendered the financial statements of Islamic banks "non-comparable". It also implies that the calls for worldwide adherence to international accounting standards to achieve harmonization in financial reporting, regardless of cultural differences that affect the way in which business transactions are carried out, should not go unchallenged. This study focuses on the need to implement the accounting standards promulgated by the Accounting and Auditing Organization for Islamic Financial Institutions, because these standards specifically cater for the unique characteristics of the contracts that govern the operations of Islamic banks. In current work, the researchers attempt to argue the need for an alternative Islamic Accounting standard.

Ahmad (1994) has done a work on "Elimination of Riba from the Economy." The researcher believes that the objectives, operations and practical accounting requirements of these organizations need an alternative "accounting" framework in order for their objectives to be achieved, their operations to run smoothly and their activities accounted in a true and fair manner within the world-view in which they operate. The Islamic financial system is part of the Islamic socioeconomic system which Muslim economists and Islamists are endeavouring to develop. The development of an interest-free, ethical

Islamic economic system is an important agenda of most Islamic movements and some governments such as Pakistan, Iran and Sudan. Other countries, such as Malaysia and Gulf countries, allow Islamic economic institutions such as Islamic banks to operate in parallel with the conventional financial system. It may be mentioned that the Islamic Financial Services Board (IFSB) was established with the signing of the Articles of Agreement of the IFSB on November 03, 2002 by the founding members—Bahrain Monetary Agency, Bank Markazi Jomhouri Islami Iran, Central Bank of Kuwait, Bank Negara Malaysia, State Bank of Pakistan, Saudi Arabian Monetary Agency, Bank of Sudan and Islamic Development Bank.

Although research of Adnan (1996) attempts to argue in his work "An Investigation of Accounting Concepts and Practices in Islamic Banks: The Cases of Bank Islam Malaysia Berhad and Bank Muamalat Indonesia." That the need for Islamic Accounting in for both business and non-business Islamic and Muslim organizations, the researcher feels that describing the accounting needs of many types of Islamic organizations in detail will be too broad for this research project. As such, the researcher has opted to concentrate on one industry i.e. the Islamic Finance industry where there has been intense development. The Islamic banking and financial institutions constituting this industry are examples of Islamic business organizations, which have established themselves in the real world. The Islamic economics has created theoretical perceptions of Islamic Economy in various Muslim and non-Muslim countries in the form of Islamic banks, Takaful (Insurance companies) and setting up other economic institutions such as Zakat collection center and relief organizations. However, it can be argued that this success is incomplete because in many cases the changes have been cosmetic in changing the technical terms of contract rather than an underlying change in the reality (e.g. the philosophy of life).

Baydoun and Willet (2000) develops a theory in their paper on "Islamic Corporate Reports". They suggests that the presence of the Islamic religion as a cultural variable affects the way certain accounting measures are interpreted and the manner in which accounting information should be disclosed. Two important criteria for disclosure in Islamic accounting are identified: (1) a form of social accountability, and (2) a rule of full disclosure. This leads to a modification of the form of the conventional Western set of financial statements, which are called Islamic corporate reports. The researchers have argued that these reports would better serve the needs of users wishing to act in accordance with the Islamic Shariah.

Haridan et.al. (2018) have been stated in their study on "Governance, Religious Assurance and Islamic Banks: Do Shariah Boards Effectively Serve?" that grave concern about the inherent deficiencies of SB members in performing their task which is attributed to a lack of banking and financial knowledge. More than necessary, the SBs in the two Islamic banks under study were delegating the religious compliance review function to internal officers who then presented their findings to them for approval. Clearly, this practice goes against the grain of both the stakeholder and legitimacy theories as SBs from both the banks participating in our study were found not to have performed their religious governance role diligently. Both the stakeholder and legitimacy theories imply that SBs should be accountable in providing transparent and independent assurance to stakeholders in relation to religious compliance of Islamic banks. Therefore, the competency and capability of SB in issuing quality religious assurance should ensure a strong dynamic in the governance system of an Islamic bank and add value for stakeholders.

Ibrahim (2002) has conducted a study on "The Need for Fundamental Research in Islamic Accounting." The author exposed that accounting has played a part in perpetuating the same reality by privileging profits and capital in its financial statements and there is a need Islamized accounting in order to redirect the emphasis from wealth accumulation to equitable distribution and to disclose information which will enable stakeholders and the Muslim people and governmental authorities to ensure the Islamic institutions set up are achieving their Islamic objectives of achieving social solidarity and socio-economic justice among the various sections of Muslim society. The organizations because of their different set up and goals have an interest to make their accounts more Islamic.

Al-Sulaiti and Ousama (2018) have been conducted a study on "The Compliance of Disclosure with AAOIFI Financial Accounting Standards: A Comparison between Bahrain and Qatar Islamic Banks." The authors revealed that Islamic banks in Bahrain and Qatar comply with AAOIFI financial accounting standards related to Murabaha, Mudaraba and Musharaka. The Murabaha standard had the highest mean of compliance. The Islamic banks in Qatar tend to have more compliance of overall Murabaha and Mudaraba disclosures compared to the Islamic banks in Bahrain. Overall compliance between years 2012-2015 was statistically significant at 0.01 level. Islamic banks in Bahrain and Qatar improved their overall compliance of disclosure requirements related to Murabaha, Mudaraba and Musharaka standards. The trend of compliance of disclosure for the three standards was increased over the 2012-2015 period. Moreover, the study found that the compliance of disclosure of Murabaha financing financial standard was the highest compared to the Mudaraba and Musharaka financing financial standards.

Islam and Sadekin (2020) have mentioned in their study on "Reporting Disclosure Levels and Compliance with BB, AAOIFI, B/IFRS and SEC of Islamic financial Institutions in Bangladesh." that the Islamic banks significantly followed the selected accounting guidelines/standards under review and did bring remarkable changes in the financial reporting practices made by the Islamic banks in

Bangladesh. The average compliance rate is 93.28% for BB guidelines, 46.54% for AAOIFI Accounting Standard, 48.50% for B/IFRS and 51.99% for SEC rules considering all required aspects of financial reports. Compiling all of the requirements regarding financial reports of regulatory bodies will be helpful for banks to make financial reports convenient. Different regulatory authorities impose different regulations to bring greater transparency and accountability and to ensure good governance in the banking industry. For these purpose all the requirements should comply by the banks. Banks are doing business with public money. It is highly a leveraged industry. Customers trust and confidence is the heart of banking business. So, customer loyalty should be the prime concern of banks. Besides, most of the customers of Islamic banks are religious by nature and want to comply with Shariah. For this reason, it is important for Shariah based banks to obey all of the laws, regulations and guidelines. It is also important to ensure the transparency by making proper disclosures.

Maali (2005) found has been conducted a study on "Financial Accounting and Reporting in Islamic Banks: The case of Jordan." This author found that governmental regulations and commonly accepted practices have had most obvious effects on the evolution of accounting and reporting, and he argued that being exposed to a high secular environment had a large effect on the accounting practices of the Jordan Islamic Bank (JIB) and the regulatory behaviour towards the bank. Maali further argued that the adoption of AAOIFI standards in 2001 in Jordan was mainly the result of pressure within JIB to achieve its objectives, most importantly, presenting the Islamic status of the bank. However, the adoption of AAOIFI standards led to an enhanced level of disclosure by Islamic banks in Jordan. He observed that conventional accounting standards such as International Accounting Standards would be relevant to deal with these transactions as practised and perceived in JIB. It is argued by Maali that for some transactions, AAOIFI standards are better able to deal with them in the way they are practised and perceived in JIB, and the adoption of these standards would reduce the agency problem associated with investment deposits in JIB.

Ullah (2013) conducted a study on "Quality of AAOIFI Guidelines in General Presentation and Disclosure in the Financial Statements of Disclosure of Islamic banks in Bangladesh: Evidence from a Survey." In this work the author discovered that qualitative Characteristics of Accounting Information: The SFAC No. 2 of the FASB examined the characteristics that make accounting information useful. These characteristics are stated below: a) Understand ability: It is the quality of information that permits reasonably informed users to perceive its significance, i.e. to understand the content and significance of financial statements and reports. b) Relevance: Relevant information is crucial in making the correct investment decision. Accounting information has relevance if it makes a difference in a decision. c)

Predictive Value: The quality of information that helps users to increase the likelihood of correctly forecasting the outcome of past or present events. d) Feedback Value: The quality of information that enables users to confirm or correct prior expectations. e) Timeliness: Having information available to decision maker before it loses its capacity to influence decisions.

Sarker (1999) has shown in his work "Islamic Banking in Bangladesh: Performance, Problems & Prospects" that Islamic banks cannot operate with its full efficiency level if it operates under a conventional banking framework, their efficiency goes down in a number of dimensions. The deterioration is not because of Islamic bank's own mechanical deficiencies. Rather it is the efficiency-blunt operations of the conventional banking system that puts obstructions to efficient operation of Islamic banks. This does not mean that the survival of Islamic banks operating within the conventional banking framework is altogether threatened.

Mohammad (2015) has been done a study on "The Disclosure Evaluation of Islamic Banking Reports: Evidences from Middle East and Other Regions in Asia." Mohammad mentioned that Islamic banking is the most attractive sector in Islamic financial system. The institution encourages not only economic aspects but also social aspects in accordance with Shariah principles in operation. Thus, the managements are required to be accountable to their stakeholders at large and not limited only to the shareholders. One of the accountability's forms is the presentation and disclosure in their annual reports. It is the way to disclose financial and non-financial performance of Islamic banks. Islamic banks did not have similarity in the disclosure components. Diversities could be complementary to each other toward the ideal Islamic banking reporting. Islamic banks did not have similarity in disclosing financial and non-financial activities. Islamic banks in Bahrain, Qatar and Indonesia seem to follow AAOIFI standards, while Indonesia creates their own financial accounting standards called Shariah SFAS. Bahrain as the home base of AAOIFI tried to show the comprehensive report especially for financial reports. They do not show comprehensive disclosure on corporate social responsibility and Shariah report. Other Islamic banks observed did not follow AAOIFI accounting standards especially in disclosing the components of financial statements based on IFRS or adopted IFRS as a specific jurisdiction. Pakistan Islamic bank shows a comprehensive report of Shariah supervisory board. This report can become "a gold standard" of Shariah supervisory board reporting. Malaysia Islamic bank shows a better disclosure in reporting social activities although without detail financial information.

Nevertheless, lesson from alternative western accounting reports should be considered as the vehicles in developing Islamic corporate reporting.

Mohammed et al. (2016) stated in their article on "Accounting Standards and Islamic Financial Institutions: The Malaysian Experience." that *o*ne cannot imagine how IFIs have mushroomed and become a very large industry, with Western banks also venturing into the market. Nowadays, many products and services offered by IFIs echo the ones provided by the conventional banks. Along the line, the stance on the need for a set of accounting standards specificities to IFIs has also changed. Many parties including the Malaysian Accounting Standards Board (MASB) agree that International Financial Reporting Standards (IFRS) can be applied to transactions in IFIs. While there are many similarities to conventional banking transactions, a few areas of divergence remain in IFIs. In that case, the likely option to resolve this dilemma is to have guidelines or options for IFIs within the framework of IFRSs. If these guidelines are to be enforced globally, one possible option is for Islamic organisations to work closely with the International Accounting Standards Board (IASB). The AAOIFI has played the key role in developing the standards for IFIs. It should emphasize issues like social accountability, full disclosure, periodicity, materiality, and reliability. Although there is not much divergence between the accounting treatment in IFRSs and AAOIFI standards, there are still areas of difference in transactions of IFIs that need further investigations. AAOIFI has attempted to deal with this issue; however, national regulators are reluctant to adopt the AAOIFI's standards. This is because AAOIFI does not carry much weight since the IASB enforces the implementation of accounting standards. Currently, with the lack of consensus of accounting in Islamic finance, many institutions have applied the IFRSs according to their interpretations of IFIs. This may contributes to the incomparability of financial statements and thus confuses many users of financial statements. This approach has also implied that products and services offered by IFIs are merely similar to the ones offered by their Western counterparts. It is vital to convince the public and customers that the products offered are indeed in accordance with the principles of Shariah, and are not merely labelled as Islamic products. However, the Islamic finance industry has become so large and criticised for moving away from Islamic beliefs and expectations. It is now impossible to have Islamic accounting standards that exist in their own right. The main reason for this is that there are very few issues of divergence which can be catered for by including IFI guidelines under IFRS. Indeed, IFRS under the authority of the IASB has the ability to impose such guidelines.

An average disclosure of 75.76% was found by Rahman and Uddin (2016) in their research on "Influence of Corporate Attributes on Magnitude of Disclosure by Private Commercial Banks in

Bangladesh." with a constant growth during 2012 that a significant differences were found while comparing the disclosure level among the banks. Return on Equity (ROE), and EPS as three influential contributors to disclosure; while other five variables were found to have insignificant influence on disclosure of PCBs in Bangladesh. The mean disclosure of five years was 75.69% as against 66.67% in 2008 and 84.06% in 2012. The banking sector in Bangladesh had been maintaining a satisfactory level of disclosure but still some scopes for improving disclosure percentage by private commercial banks in Bangladesh. Adequate steps should be taken by regulatory bodies to ensure full compliance with relevant accounting disclosure requirements applicable in Bangladesh. Effective enforcement programs should be adopted to protect the interest of the diverse user groups. The high degree of compliance and disclosure can be related to low disclosure costs which could have resulted by giving tax shield on printing cost of annual reports. All Bangladeshi listed companies should disclose the compliance status of both the National and International Standards that will in turn enhance the confidence among international users of financial reporting.

Sakib (2015) exposed in his research work on "Conformity Level of AAOIFI Accounting Standards by Six Islamic Banks of Bangladesh." Those banks conform to the AAOIFI standards by 53.79% on average in financial statements. it is highly of importance for the banks to increase the level of conformity of the AAOIFI standards to ensure the stakeholders about their sincerity and determination to comply with Islamic Shariah. Analysis of AAOFI standard compliance is relatively new in Bangladesh. In General Provision on general presentation and disclosure in the financial statements, all the selected Banks complied 78.571%. In case of General disclosure, IBBL, ICBIBL, AIBL, SHJIBL, SIBL, and EXIM respectively complied 48%, 46%, 38%, 46%, 44% and 52%. The banks on an average complied with 55.21% of disclosure in statement of financial position. The Islamic banks on an average complied with 51.73% disclosure in income statement. The selected banks complied 80% of the required provisions of cash flow statement. In case of the statement of changes in owner's equity, all of the Islamic banks in Bangladesh complied 100% except for Shahjalal Islamic Bank Limited which complied 83.33%. The Banks should take necessary steps to prepare the untouched statements, namely - Statement of changes in restricted investments, Statement of sources and uses of funds in the Zakah and charity fund, Statement of sources and uses of funds in the Qard fund, Treatment of changes in accounting policies and Treatment of changes in non-routine accounting estimates. These are vital statements that need to be prepared and disclosed for perfect reporting. The banks should start following the standard formats of AAOIFI to prepare the two most important statements – the statement of financial position and the statement of comprehensive income. Restricted and Unrestricted investment accounts are suggested to be opened and disclosed. SBs are responsible to effectively and independently manage their religious compliance task to fulfil the societal legitimacy expected of Islamic banks stakeholders.

Ullah (2013) wrote on his article "Compliance of AAOIFI Guidelines in General Presentation and Disclosure in the Financial Statements of Islamic Banks in Bangladesh." That Islamic banks comply on an average 44.68% of AAOIFI guidelines regarding of general presentation and disclosure in the financial statements. Standard deviation of total compliance score is 3.14 indicates very poor difference among the Islamic banks. The level of compliance to make their report more informative and to inform their stakeholders that they are doing their business complying the rules and regulation of regulatory bodies.

Hossain and Khatun (2014) mentioned in their article "Disclosure Compliance of Islamic Banks in Bangladesh: Local and International Perspectives." that Islamic banks of Bangladesh are preparing their financial statements complying with the requirements of different regulators. The compliance level of disclosure as per local and international regulations are 94.20% and 64.22% respectively. The Islamic banks of Bangladesh have a tendency to comply with the rules set up by central bank. Therefore, the central bank has to take an initiative for ensuring full compliance with local and international regulations. The highest compliance level in 2011 is 95.31%, which is achieved by only two out of seven banks, namely SIBL and SJIBL. On the other hand, the lowest compliance level in same period is 92.97%, which is achieved by AAIBL and FSIB. Each of full-fledged Islamic banks fully disclose required items of income statement (IS) and highlights (HL). All of them disclose the statement of changes in equity (SCE) and liquidity statement.

Alkali (2017) exposed in his research work on "Islamic Accounting Reporting and Economic Development: Nigerian Perspective" that the issue of Islamic accounting among scholars provided evidence of economic benefits among the countries that have Islamic financial institutions (IFIs). The IFIs have been reported to be the fastest-growing sector in the world with a greater contribution of the global total bank assets. Although the Muslim population in Nigeria is large, the contribution or participation of Muslim towards IFIs is low compared to other countries like Bahrain, Saudi Arabia, Pakistan, and Syria. Furthermore, the accounting reporting in Nigeria is based on the International Financial Reporting Standards (IFRS) for all listed firms in Nigeria, which includes IFIs, even though, IFIs apply dual reporting. Therefore, the need for the mandatory adoption of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards is significant in Nigerian for IFIs to function better. Several countries have made it mandatory for IFIs to adopt AAOIFI instead of IFRS. The need for IFIs firms to report on their accounting system as an alternative to the conventional, will not only enhance transparency, improve reporting disclosures, greater Muslim investors, but will also improve Nigerian stock market. Policy makers, governments, and the regulator should make it mandatory for all IFIs to adopt AAOIFI for financial reporting. The Muslims population in Nigeria highly significant to improve the economic development of the country. The majority of the population of Muslims have been financially excluded from the conventional banking system. Those that invested in the conventional banks find it difficult to accept interest generated from the savings or businesses that are not in compliance with Sharia legal system. The Islamic system has been a convenient way for Muslims to invest in a business that complies with the Shariah. In several Islamic countries, investments in the IFIs have been massive and attracts much attention to other countries like UK, US, South Africa and Canada. The rapid growth of the sector has improved many economies in Asia, Africa and particularly its contributions to the Nigerian economic development through IDB.

7. Conclusion

IFIs, especially the Islamic banks, have been playing a pivotal role in the overall economic activities in Bangladesh, and thus directly or indirectly involving a significant part of overall population of the country. Therefore, disclosures of these institutions draws special attention among varieties of stakeholders that leads academic to carry out many research. The Basle Committee for Banking Supervision has develop a framework, standards and practices that has a valuable role on discloser of financial reporting system of Islamic financial institutions. Researchers have explored that till now effective and prudential supervision on disclosure by IFIs are not present in Bangladesh. This study has found significant difference in the level of disclosure between Islamic and Conventional financial institutions in Bangladesh. Most of the studies under review have been carried out on the disclosure of conventional financial institutions and manufacturing companies. A committee has been set up by the ICAB for development/review and adoption of International Accounting Standards (IASs) and or International Financial Reporting Standards (IFRS), but till now no such bodies are working for Islamic modes of financing. The Committee of the ICAB is not in a position to review the accounting standards set by AAOIFI, with a view to adapt them to Bangladeshi environment. Garnett has been working with the AAOIFI to try to work out the differences between IFRS and the Islamic standards. It is proved that the Islamic banks of Bangladesh have the tendency to comply with the rules set by Bangladesh Bank. Nevertheless, the Bangladesh Bank's guidelines do not address all the aspects of Islamic Shariah. Therefore, to ensure full compliance with all disclosure requirements, it is important to ensure close supervision and monitoring of the banks. Alongside, banks should also take care about preparation of their FSs to ensure full compliance.

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