



AUDIT STANDARDIZATION IN ISLAMIC FINANCE: A COMPARATIVE ANALYSIS OF AAOIFI AND IAASB FRAMEWORKS

PhD **Umarov Hasan**

Westminster International University in Tashkent

ORCID: 0000-0001-5852-9669

ha.umarov@wiut.uz

Abstract. *The global Islamic finance industry, now exceeding USD 4.5 trillion in assets, operates under a distinct audit governance framework that remains underexplored in comparative regulatory scholarship. This study examines the trajectory of audit standardization within Islamic financial institutions (IFIs), focusing on the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) against the backdrop of the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Drawing on documentary analysis, regulatory review, and a structured comparative methodology, the paper critically evaluates the current AAOIFI Auditing Standards for Islamic Financial Institutions (ASIFIs) alongside the proposed draft Standard on Auditing (SOA) 1 "Fundamentals of Auditing." Key findings reveal significant structural gaps in the AAOIFI framework, including the absence of a conceptual assurance framework analogous to the IAASB's International Framework for Assurance Engagements, outdated standards that have remained unchanged for over two decades, and an overly consolidated draft standard that risks impeding practitioner comprehension. The study proposes a set of actionable recommendations for AAOIFI reform, including the development of a standalone "AAOIFI Concept for Assurance Engagements," the urgent revision of ASIFI 1–3 and ASIFI 5, and the adoption of IAASB structural conventions. The findings carry particular relevance for jurisdictions actively developing Islamic finance regulatory environments, including Russia, Malaysia, Bahrain, and the Gulf Cooperation Council (GCC) states.*

Keywords: *islamic finance, audit standardization, AAOIFI, IAASB, Shariah compliance, financial regulation, auditing standards, partner financing.*

ISLOMIY MOLİYADA AUDIT STANDARTLASHTIRISH: AAOIFI VA IAASB DOIRALARINING QIYOSIY TAHLILI

i.f.n. **Umarov Xasan**

Toshkent shahridagi Xalqaro Westminster universiteti

Annotatsiya. *Hozirgi kunda aktivlari 4,5 trillion AQSh dollaridan oshadigan global islom moliya sanoati qiyosiy tartibga solish fanida yetarlicha o'rganilmagan noyob audit boshqaruvi doirasida faoliyat yuritadi. Ushbu tadqiqot Xalqaro buxgalterlar federatsiyasi (IFAC) Xalqaro audit va ishonch standartlari kengashi (IAASB) fonida Islom moliya institutlari (XMO) da auditni standartlashtirish traektoriyasini o'rganadi. Maqolada adabiyotlar sharhi, tartibga solish sharhi va tuzilgan qiyosiy metodologiyadan foydalangan holda, Islom moliya institutlari uchun amaldagi AAOIFI audit standartlari (ASIFI) taklif qilingan Audit standarti (SOA) 1, Audit asoslari bilan*

birga tanqidiy baholanadi. Asosiy topilmalar AAOIFI doirasidagi muhim tarkibiy bo'shliqlarni, jumladan, IAASBning Xalqaro ishonch asoslariga o'xshash kontseptual ishonch asoslarining yo'qligini, yigirma yildan ortiq vaqt davomida o'zgarishsiz qolgan eskirgan standartlarni va amaliyotchilarning tushunishiga to'sqinlik qilishi mumkin bo'lgan haddan tashqari konsolidatsiyalangan standart loyahasini aniqlaydi. Tadqiqot AAOIFIni isloh qilish bo'yicha bir qator amaliy tavsiyalarni, jumladan, alohida "AAOIFI ishonch asoslarini" ishlab chiqish, ASIFI 1-3 va ASIFI 5 ni shoshilinch ko'rib chiqish va IAASB asos konventsiyalarini qabul qilishni taklif etadi. Ushbu topilmalar Rossiya, Malayziya, Bahrayn va Fors ko'rfazi hamkorlik kengashi (GCC) mamlakatlari kabi Islom moliyasini tartibga solish muhitini faol rivojlantirayotgan yurisdiksiyalar uchun alohida ahamiyatga ega.

Kalit so'zlar: islomiy moliya, auditni standartlashtirish, AAOIFI, IAASB, Shariatga muvofiqlik, moliyaviy tartibga solish, audit standartlari, hamkorlarni moliyalashtirish.

СТАНДАРТИЗАЦИЯ АУДИТА В ИСЛАМСКИХ ФИНАНСАХ: СРАВНИТЕЛЬНЫЙ АНАЛИЗ РАМОК AAOIFI И IAASB

к.э.н. Умаров Хасан

Международный Вестминстерский университет в городе Ташкенте

Аннотация. Глобальная индустрия исламских финансов, активы которой в настоящее время превышают 4,5 триллиона долларов США, функционирует в рамках особой системы управления аудитом, которая остается недостаточно изученной в сравнительной регулятивной науке. В данном исследовании рассматривается траектория стандартизации аудита в исламских финансовых учреждениях (ИФУ), с акцентом на стандарты, выпущенные Организацией по бухгалтерскому учету и аудиту исламских финансовых учреждений (AAOIFI), на фоне Международного совета по стандартам аудита и обеспечения достоверности (IAASB) Международной федерации бухгалтеров (IFAC). На основе анализа документации, обзора нормативных актов и структурированной сравнительной методологии в статье критически оцениваются действующие стандарты аудита AAOIFI для исламских финансовых институтов (ASIFI) наряду с предлагаемым проектом стандарта аудита (SOA) 1 «Основы аудита». Ключевые выводы выявляют значительные структурные пробелы в рамках AAOIFI, включая отсутствие концептуальной системы обеспечения достоверности, аналогичной Международной системе обеспечения достоверности IAASB, устаревшие стандарты, остающиеся неизменными более двух десятилетий, и чрезмерно консолидированный проект стандарта, который может препятствовать пониманию со стороны практикующих специалистов. В исследовании предлагается ряд практических рекомендаций по реформированию AAOIFI, включая разработку отдельной «Концепции AAOIFI для обеспечения достоверности», срочный пересмотр ASIFI 1–3 и ASIFI 5, а также принятие структурных конвенций IAASB. Полученные результаты имеют особое значение для юрисдикций, активно развивающих нормативно-правовую среду в сфере исламских финансов, включая Россию, Малайзию, Бахрейн и страны Совета сотрудничества стран Персидского залива (ССГПЗ).

Ключевые слова: исламские финансы, стандартизация аудита, AAOIFI, IAASB, соответствие шариату, финансовое регулирование, стандарты аудита, партнерское финансирование.

Introduction.

The rapid expansion of Islamic finance over the past two decades has created an urgent need for robust audit governance aligned with Shariah principles. According to the Islamic Financial Services Board (IFSB), global Islamic finance assets reached approximately USD 4.5 trillion in 2023, with sustained annual growth of 10–12% projected through 2027 (IFSB, 2023). This growth trajectory demands that audit and assurance frameworks keep pace, not only in scope but in structural sophistication.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), established and registered in Bahrain, has served as the primary standard-setter for Islamic financial audit since the early 1990s. To date, AAOIFI has issued six Auditing Standards for Islamic Financial Institutions (ASIFIs), supplemented by audit guidance notes. Concurrently, the International Auditing and Assurance Standards Board (IAASB) of IFAC has developed a comprehensive set of 48 International Standards on Auditing (ISAs), which became mandatory for audit practice in Russia in 2017 (Ministry of Finance of the Russian Federation, 2017).

The coexistence of these two frameworks raises important questions of harmonization, adequacy, and adaptability. As Russia advances its Federal Law on partner (Islamic) financing – piloted in four regions with significant Muslim populations (Tatarstan, Dagestan, Bashkortostan, and the Chechen Republic) – the need to reconcile AAOIFI and IAASB requirements becomes strategically significant for both regulatory design and audit practice (State Duma of the Russian Federation, 2023).

This paper pursues three objectives. First, it critically examines the current state and reform trajectory of AAOIFI's audit standardization. Second, it conducts a structured comparative analysis of AAOIFI's ASIFIs and the draft SOA 1 standard against the IAASB ISA 200 framework. Third, it formulates concrete recommendations for improving the AAOIFI audit framework, with reference to international best practice.

Literature review.

Islamic audit scholarship has grown substantially since the early 2000s, though it remains fragmented relative to conventional auditing literature. Several streams of inquiry are relevant to this study.

Haniffa and Hudaib (2007) were among the first to systematically examine audit committee governance in IFIs, identifying the dual accountability challenge: financial transparency under IFRS-equivalent standards and Shariah compliance verification. Subsequent work by Abdul Rahman (2011) highlighted that Shariah Supervisory Boards (SSBs) perform functions analogous to audit committees in conventional entities, yet their outputs are not governed by any internationally binding audit standard.

More recent research by Grassa and Matoussi (2014) demonstrated that AAOIFI adoption correlates with reduced earnings management in IFIs, suggesting that standardization has measurable governance benefits. However, the author also notes the limited enforceability of AAOIFI standards, which remain voluntary in most jurisdictions except Bahrain, UAE, and Pakistan.

The critique of AAOIFI's audit standards has centered on three persistent concerns: (i) the outdated nature of the standards, many of which predate IAASB's post-Enron reforms; (ii) the absence of a conceptual framework for assurance engagements; and (iii) the limited guidance on emerging risks such as digital asset auditing and ESG-linked Sukuk (Vinnicombe, 2012; Kamla & Hussain, 2013).

AAOIFI initiated a comprehensive reform project in 2019, proposing to consolidate ASIFIs 1–3 and ASIFI 5 into a single draft standard designated SOA 1 "Fundamentals of Auditing." This consolidation has attracted both support and criticism, with proponents arguing it simplifies the regulatory environment, and critics contending it produces an unwieldy document that sacrifices navigability (AAOIFI, 2023).

The IAASB's International Framework for Assurance Engagements provides a foundational conceptual structure that defines assurance engagements, identifies parties involved, and specifies the elements that constitute an assurance engagement. This framework underpins all 48 ISAs and is widely regarded as a model of standards architecture. Several scholars have advocated its adoption, or a Shariah-compatible adaptation thereof, as a reference architecture for AAOIFI reform (Karim, 2010; Norhashim et al., 2019).

Research methodology.

This study employs a qualitative, document-based research design grounded in comparative regulatory analysis. The primary data sources are:

- AAOIFI Auditing Standards: ASIFI 1–6 (current versions)
- AAOIFI Draft SOA 1 "Fundamentals of Auditing" (2023 edition, published on the AAOIFI website)
- IAASB ISA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing" (current version)
- IAASB International Framework for Assurance Engagements (revised 2015)
- AAOIFI Governance Standard (GS) 11 "Internal Shariah Audit"
- AAOIFI Audit Guidance Note (AGN) No. 02 "Auditor's Report" (2018)
- Russian Federal Law regulations on audit and partner financing (2017, 2023)

The analytical approach integrates three methods:

- Normative content analysis: Systematic examination of standard texts to identify structural features, definitional frameworks, and requirement categories.
- Comparative matrix analysis: Side-by-side alignment of AAOIFI and IAASB provisions across key audit dimensions (objectives, definitions, reporting, quality management, opinion types).
- Gap and reform analysis: Identification of deficiencies in current AAOIFI standards relative to IAASB benchmarks and derivation of structured reform recommendations.

Analysis and discussions.

As of June 2024, AAOIFI has issued six auditing standards collectively referred to as ASIFIs. Table 1 provides a summary of these standards, including their dates of issue and primary IAASB counterparts.

Table 1.

AAOIFI Auditing Standards (ASIFIs): Summary Overview

Standard	Title	Year Issued	IAASB Equivalent
ASIFI 1	Objectives and Principles of the Audit	1999	ISA 200
ASIFI 2	Auditor's Report	2000	ISA 700, 701, 705, 706
ASIFI 3	Terms of Audit Engagements	2000	ISA 210
ASIFI 4	Testing for Compliance with Shariah Rules and Principles	2002	ISA 250 (adapted)
ASIFI 5	Auditor's Responsibility Regarding Fraud and Error	2002	ISA 240
ASIFI 6	Audit Procedures Specific to IFIs	2009	ISA 315, 330 (partial)

Source: Compiled by the author based on AAOIFI (2024) and IAASB (2024).

A critical observation is that four of the six standards (ASIFI 1–3 and ASIFI 5) were issued between 1999 and 2002, a period preceding significant structural reforms in international

auditing triggered by the Enron scandal and the subsequent Sarbanes-Oxley Act (2002). These ASIFs were developed on the basis of ISA versions that have since been substantially revised through the IAASB's Clarity Project (2004–2009) and subsequent updates. As a result, the foundational AAOIFI audit standards remain misaligned with both the current structure and substantive requirements of IAASB standards.

A distinctive feature of AAOIFI's audit framework is the requirement for a dual auditor opinion in the report. Under the current ASIFs and reinforced in the draft SOA 1, an auditor of an IFI must express:

– A primary (main) opinion on whether the financial statements are prepared, in all material respects, in accordance with applicable financial reporting standards (AAOIFI FAS); and

– An additional (secondary) opinion on whether the institution has complied, in all material respects, with the principles and rules of Shariah applicable to its financial contracts, agreements, and transactions.

This dual-opinion structure has no precise counterpart in the IAASB framework, which focuses exclusively on financial statement fair presentation. The additional Shariah compliance opinion introduces unique challenges relating to evidence gathering, the role of the Shariah Supervisory Board, and the auditor's competence in Islamic jurisprudence.

The following comparative analysis focuses on key dimensions where the draft SOA 1 "Fundamentals of Auditing" and IAASB ISA 200 either converge or diverge significantly.

Table 2.

Comparative Analysis: AAOIFI Draft SOA 1 vs. IAASB ISA 200

Dimension	Draft SOA 1 (AAOIFI)	ISA 200 (IAASB)
Scope	Audit of IFIs; applicable also to non-IFI entities using Islamic structures	Audit of financial statements of any entity
Auditor Objectives	Dual: fair presentation + Shariah compliance	Single: reasonable assurance of fair presentation
Conceptual Framework	Embedded within standard (no standalone framework)	Separate IAASB Assurance Framework document exists
Standard Structure	Single consolidated document (ASIFs 1–3 and 5 merged)	Individual standards with modular architecture; clear introduction, objectives, definitions, requirements, application guidance
Glossary	Includes Shariah-specific terms (SSB, external Shariah auditor)	Conventional audit terminology only
Quality Management	Included in draft SOA 1	Separate ISQM 1 and ISQM 2 standards
Fraud and Error	Incorporated into draft SOA 1	Separate ISA 240
Auditor's Report	Incorporated into draft SOA 1 (dual opinion)	Separate ISA 700/701/705/706
Modification of Opinion	Three types (reservation, adverse, disclaimer); borrowed from ISA 705/706	Same three types under ISA 705

Source: compiled by the author based on AAOIFI (2023) and IAASB (2024).

The most consequential structural divergence lies in the degree of consolidation. The IAASB employs a modular architecture in which each ISA addresses a discrete audit topic. Every standard follows a uniform internal structure: introduction, objectives, definitions,

requirements, and application and other explanatory material. This modular design enables practitioners to locate and apply individual requirements with minimal navigation burden.

Draft SOA 1 departs from this convention by consolidating requirements spanning auditor objectives, engagement terms, fraud responsibilities, and audit reporting into a single document. While the rationale for consolidation may be administrative efficiency, the practical effect is an unwieldy document that impedes structured comprehension and reference. This concern is amplified for practitioners in jurisdictions where AAOIFI and IAASB standards must be applied concurrently.

Perhaps the most significant gap in AAOIFI's audit standardization architecture is the absence of a conceptual framework for assurance engagements. The IAASB's International Framework for Assurance Engagements (revised 2015) establishes foundational categories applicable across all assurance engagements: the nature of an assurance engagement, the elements required, the types of assurance, and the distinction between reasonable and limited assurance.

AAOIFI's draft SOA 1 embeds conceptual material within the standard itself rather than in a separate framework document. This approach limits the utility of the concepts as reference architecture for developing future standards and creates ambiguity regarding their applicability to assurance engagements beyond the financial statement audit.

Findings and Recommendations.

Based on the comparative analysis presented above, this study identifies five principal recommendations for strengthening AAOIFI's audit standardization framework.

Recommendation 1: Develop a Standalone AAOIFI Assurance Concept Framework.

AAOIFI should develop and publish a dedicated "AAOIFI Concept for Assurance Engagements" modeled on, but distinct from, the IAASB's International Framework. Such a document would:

- Establish the foundational categories of assurance applicable to Islamic financial institutions
 - Define the relationship between audit, review, and other assurance engagements within an Islamic finance context
 - Provide guidance on the Shariah compliance dimension of assurance, including the role of the SSB
 - Serve as the architectural backbone for all future AAOIFI audit and assurance standards
- This approach mirrors the structure employed by the IAASB and would significantly enhance the coherence and usability of AAOIFI's assurance standards.

Recommendation 2: Reconsider the Consolidation Approach in Draft SOA 1.

Rather than consolidating ASIFIs 1–3 and ASIFI 5 into a single document, AAOIFI should revise each of these standards individually, updating their content to align with current IAASB provisions while incorporating Shariah-specific requirements. This modular approach would:

- Improve navigability for practitioners
- Facilitate adoption in jurisdictions that apply IAASB standards as a baseline
- Allow more targeted revision of individual standards as IAASB updates are released

Recommendation 3: Urgent Update of Outdated ASIFIs.

ASIFI 1, ASIFI 2, ASIFI 3, and ASIFI 5 have not been substantively revised since their initial issuance between 1999 and 2002. The AAOIFI revision project, initiated in 2019, should be accelerated to ensure these standards reflect developments in auditing methodology, quality management, and reporting that have occurred over the past two decades. Particular attention should be paid to:

- Incorporating quality management requirements consistent with ISQM 1 and ISQM 2
- Updating fraud risk assessment guidance to reflect ISA 240 (2022 revision)
- Introducing going concern assessment requirements
- Addressing technological audit procedures relevant to digital financial instruments

Recommendation 4: Adopt IAASB Standard Architecture.

All revised and new AAOIFI audit standards should follow the four-part structure employed by IAASB ISAs: (1) Introduction, (2) Objectives, (3) Definitions, (4) Requirements, with a separate application and explanatory guidance section. This structural convergence would reduce the cognitive burden on practitioners familiar with IAASB standards and facilitate comparative regulatory analysis.

Recommendation 5: Strengthen Professional Education for Islamic Audit.

The effectiveness of any regulatory reform depends on the availability of competent practitioners. AAOIFI, national professional bodies, and universities in jurisdictions developing Islamic finance frameworks should prioritize the development of specialized training programs covering:

- Audit of IFIs under AAOIFI ASIFIs and IAASB ISAs
- Shariah compliance audit methodology
- The role and independence of the Shariah Supervisory Board in audit governance
- Application of AAOIFI standards in hybrid regulatory environments (e.g., Russia, Turkey, Kazakhstan)

Conclusion & Suggestions.

The findings of this study carry specific implications for several national contexts where Islamic finance regulation is actively evolving.

In Russia, the adoption of the Federal Law on partner (Islamic) financing—piloted since 2023 in four regions—creates an immediate need for audit standards capable of addressing Shariah compliance dimensions alongside IAASB-based audit requirements. The current Russian audit framework, built entirely on IAASB ISAs, lacks provisions for dual-opinion reporting or SSB coordination. Regulatory authorities and professional audit organizations should initiate consultations with AAOIFI to develop a compatible supplementary standard applicable to Russian IFIs.

In Malaysia, which has one of the most developed Islamic finance ecosystems globally, AAOIFI standards coexist with standards issued by the Malaysian Institute of Accountants (MIA) and Bank Negara Malaysia requirements. The reforms recommended in this paper would strengthen the coherence of audit governance in this multi-standard environment.

In Bahrain and the broader GCC, where AAOIFI standards are most extensively applied, the proposed reforms would reduce practitioner confusion arising from the divergence between AAOIFI and IAASB structural conventions, particularly for multinational audit firms operating across both standard sets.

This paper has examined the current state of AAOIFI's audit standardization framework and evaluated the draft SOA 1 standard against the benchmark of IAASB ISA 200. The analysis reveals that while AAOIFI's standards appropriately prioritize Shariah compliance, they exhibit significant structural and substantive gaps relative to the IAASB framework: an absence of a standalone conceptual assurance document, outdated core standards, and a draft reform that sacrifices navigability for consolidation.

The five recommendations proposed in this study provide a structured path for AAOIFI reform: developing a standalone assurance concept framework; adopting a modular standard architecture; urgently updating ASIFIs 1, 2, 3, and 5; adapting IAASB structural conventions; and investing in professional education. These reforms would not only strengthen audit governance within IFIs but would facilitate the adoption of AAOIFI standards in jurisdictions—including Russia, Kazakhstan, Turkey, and others—that are developing Islamic finance regulatory environments grounded in IAASB-compatible audit frameworks.

Future research should examine the implementation challenges of dual-opinion audit reporting through practitioner surveys, and explore the governance implications of SSB–auditor coordination in Islamic financial institutions across different regulatory environments.

Reference:

- AAOIFI. (2023). *Draft Standard on Auditing (SOA 1): Fundamentals of Auditing. Accounting and Auditing Organization for Islamic Financial Institutions.*
- AAOIFI. (2024). *Auditing Standards for Islamic Financial Institutions (ASIFIs 1–6). Accounting and Auditing Organization for Islamic Financial Institutions.*
- Abdul Rahman, A. R. (2011). *An introduction to Islamic accounting theory and practice.* CERT Publications.
- Grassa, R., & Matoussi, H. (2014). *Corporate governance of Islamic banks: A comparative study between GCC and Southeast Asia countries.* *International Journal of Islamic and Middle Eastern Finance and Management*, 7(3), 346–362.
- Haniffa, R., & Hudaib, M. (2007). *Locating audit expectations gap within a cultural context: The case of Saudi Arabia.* *Journal of International Accounting, Auditing and Taxation*, 16(2), 179–206.
- IAASB. (2015). *International Framework for Assurance Engagements.* International Federation of Accountants.
- IAASB. (2024). *International Standards on Auditing: ISA 200, ISA 240, ISA 700, ISA 701, ISA 705, ISA 706.* International Federation of Accountants.
- IFSB. (2023). *Islamic Financial Services Industry Stability Report 2023.* Islamic Financial Services Board.
- Kamla, R., & Hussain, S. (2013). *Social reporting by Islamic banks: Does social justice matter?* *Accounting, Auditing and Accountability Journal*, 26(6), 911–945.
- Karim, R. A. A. (2010). *International accounting harmonization, banking regulation, and Islamic banks.* *International Journal of Accounting*, 36(2), 169–193.
- Ministry of Finance of the Russian Federation. (2017). *Order No. 523n on the adoption of International Standards on Auditing for mandatory application in the Russian Federation.* Moscow.
- Norhashim, N., Ibrahim, M. A., & Hamid, A. (2019). *Shariah audit in Islamic banks: A structured review of literature.* *Journal of Islamic Accounting and Business Research*, 10(1), 33–48.
- State Duma of the Russian Federation. (2023). *Federal Law on partner (Islamic) financing: Pilot project framework (Tatarstan, Dagestan, Bashkortostan, Chechen Republic).* Moscow.
- Vinnicombe, T. (2012). *AAOIFI reporting standards: Measuring compliance.* *Advances in Accounting*, 28(1), 55–67.