

Obstruction Confronting the Application of Islamic Financial Accounting Standards in the Islamic Banking Sector in Libya: Employees Perspectives Study

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Article Info

Volume 81

Page Number: 5921 - 5928

Publication Issue:

November-December 2019

Abstract

In this study, the primary objective is to examine the obstacles and hindrances that confront the application of Islamic Financial Accounting Standards laid down by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in the Libyan Islamic banking sector, viewed from the perceptions of employees, following the issuance of Law No. (1) in 2013, concerning the prohibition of credit and debit interest (Riba). The study adopted the descriptive analytical method by conducting a thorough review of books and scientific journals and studies concerning Islamic financial accounting standards. Required data was obtained with the help of a survey questionnaire distributed to the Islamic banking branches and windows, after which its validity and stability was established and analysis was conducted using SPSS. The results indicated that Islamic bank employees in Libya lacks serious senior administrators inclined towards applying the Islamic Financial Accounting Standards issued by AAOIFI, and lack of legally qualified and accounting employees to apply the standards. The study suggests that banks in Libya provide training and qualification initiatives to employees and concentrate on the educational materials provided in relevant colleges and universities in the country for the purpose of developing an professional cadre of qualified individuals to apply and practice Islamic banking and its standards.

Article History

Article Received: 5 March 2019

Revised: 18 May 2019

Accepted: 24 September 2019

Publication: 27 December 2019

Keywords: *Islamic Financial Accounting Standards, Islamic banking sector in Libya, Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI)*

1. Introduction

All The religion of Islam clearly offers a well-rounded and balanced way of life, which lays down the rules and regulations for all life spheres (politics, economy, culture, religion, etc.) and provides provisions to the regulation of economic and financial transactions among the societal

members. The top significant provisions deals with the prohibited wealth dealings as according to Allah “Wa Ahalallahu Albayaa wa Harrama Alribaa), in that while Allah has made lawful the purchasing and selling of commodities, He made usury unlawful (Al-Baqara: 275). Hence, Muslims all over the world are urged to develop an economic and financial system, meeting their

requirements while at the same time, being consistent with the law established by Islam.

Islamic banking history can be traced back to the mid-70s and since its inception, it has managed to increasingly develop and grow in different countries and transform Islamic banks into the most significant institutions to apply Islamic economy in majority of Muslim countries like Malaysia, Pakistan, Bahrain, and Sudan, and to play a pivotal role in enhancing the level of the economy. Nevertheless, Islamic banks remain plagued with challenges and obstructions and this is particularly true when it comes to applying Islamic accounting standards in Islamic banks. Such standards are deemed to be a methodology upon which the Islamic financial institutions are based on for their daily tasks and activities, having their own unique nature and specificity when compared to traditional financial institutions. The differences stems from the unique nature of Islamic banking products from its traditional banking counterpart, necessitating the creation and application of distinct accounting standards (Mohammed, 2018). The notion concerning the need to prepare consolidated accounting standards for Islamic financial institutions stemmed from the paper published during the 11th Annual Meeting for the Governors Council of the Islamic Development Bank on March 27, 1987 in Istanbul, Turkey. The paper led to the creation of different committees, comprising of Shari'ah and accounting scholars and Islamic officials, whose specialization lies in Islamic banking. This further led to the establishment of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) on February 26 in Algeria, and later on registered in 1991 in Bahrain. AAOIFI is an independent international non-profit organization aimed at developing accounting mindset in Islamic banks and financial institutions, and preparing and releasing accounting, auditing, business, governance, ethics and Shari'ah standards for such institutions. Based on the prior studies, AAOIFI efforts are directed towards convincing scholars on the importance of standards but it fell short of approaching member countries. In this regard, the members of the Islamic financial institutions and regulators have a key role in applying the standards and thus, thorough lobbying to Central Banks, tax regulators, setters of accounting standards and other relevant stakeholders is called for (Mukhlisin, 2014).

In addition, AAOIFI is among the top organizations that support international Islamic finance, branching out into over 200 institutions (central banks, regulatory authorities, financial institutions, accounting and auditing firms and legal offices) in over 45 nations. Also, AAOIFI has succeeded in issuing 27 accounting standards, 5 auditing standards, 2 ethical codes, 7 governance and control standards, with 58 of them made into legal standards up until 2017 (<http://aaofii.com/>).

Problem Statement

In the Libyan banking sector context, there are outdated systems and activities and the main system upon which it is based is the traditional system of banks, unchanged since its inception (CBL, 2006). However, when it comes to Islamic banking, Libya is one of the newest countries to join the Islamic banking industry, experiencing its infancy stage (Zoubi et al., 2013). Libyan Islamic banks began with the Aljumhuriya Bank and the introduction of several Islamic windows and branches in 2009. This was included in the Central Bank's circular to commercial banks that was issued on August 29, 2009.

The Libyan Central Bank circular No.9/2000 mandated commercial banks to adhere to the best practices and standards when it comes to managing and regulating Islamic banking services and products on the basis of the Islamic law principles.

Following the change in the Libyan political system after 2011, major changes were experienced in terms of laws, the significant of which is Law No. 1/2013 concerning the prevention of transactions based on Riba, which was issued by the General National Congress (Libya's topmost legislative authority). The law was summarily adopted and convention banks were forced to shift to Islamic banking (Frakash, 2014), raising several questions and issues concerning the Libyan banks ability to implement Islamic banking system based on the Islamic financial accounting standards.

In relation to the above, it is suffice to say that the Islamic banking in Libya and its transition has been confronted with challenges and obstacles to the speedy transformation into Islamic banking falling short of expectations (Elkrghli & Yahya, 2018). Therefore, in this study, the author determines the obstacles and difficulties that relating to the application of Islamic Financial Accounting Standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) among the Libyan Islamic banks. The study aims to answer the primary research question that states, "What are the obstacles and difficulties facing the application of Islamic financial accounting standards issued by AAOIFI among Libyan banks?" The study is based on the perceptions of employees working in the financial institutions, as human cadre forms one of the top elements in the banking sector workplace.

2. Literature Review

Prior literature on Islamic financial accounting standards in Islamic financial institutions referred to the standards as a constitution and a methodology upon which the mentioned institutions depend on for their daily activities and tasks. In this regard, there is a call to create a set of Islamic accounting standards and disclosure, which is similar to the need of any standard type (e.g., weights

standards, clothing and shoes sizes, etc.). However, in this regard, accounting is not deemed as the end but a means to an end and the primary objective is to make comparisons possible in order to mitigate the social and economic costs of assessing the alternatives for decision-making. The evolution of Islamic accounting practices in Islamic societies that are Riba-free is illustrated in the following figure 1.



Figure 1: Developing Accounting Standards for an Islamic Society

Islamic banks require special financial accounting standards due to several reasons – one of which is the fact that the investors-Islamic banks relationship is distinct from that of the relationship between investors and conventional banks. The difference lies in the fact that the former relationship is based on profit and loss sharing rather than the latter's use of interest (riba). Hence, the preparation of Islamic banks financial statements contains distinct accounting methods and instruments from that of conventional accounting for revenue recognition. Moreover, details regarding the revenue should be acknowledged during assets title transference and the details are enumerated (Al-Mehmadi, 2004;; Al-Abdullatif, Abdullah, 2007).

In the same line of study, the need for Islamic accounting standards among Islamic financial institutions (IFI) was examined by Saria and Hanefah (2013) and they found that such standards minimizes the gap in accounting practices of Islamic financial institutions. Their findings also showed that one of the top issues that confront IFIs is the budget report planning using different accounting standards which would fall short of prompting comparability, reliability and compliance level measurement. According to Said (2015), the accounting standards preparation and implementation in Islamic financial institutions is a must for the accounting organization and the adoption of such standards assists in comparing and decision-making and ensuring the institutions valid and integral work activities. Thus, failure to adhere to such standards may result in unacceptable inconsistencies that should be unacceptable

to any Islamic financial institutions, particularly Islamic banks.

In the same line of study, Meshaal (2010) stated that the issued legal and accounting standards by the AAOIFI have a key role in providing guidance for the regulation of Islamic banking, when it comes to references and application models standardization, and their effects on the systems of Islamic banks auditing and accounting. Islamic financial standards bring about efficiency and banking competition, and it supports the global Islamic banking on the basis of the standards objectives and as such, the standards are inseparable from the Islamic banking reality, its future, and its support for the supervisory institutions.

Aside from the above studies in literature, Emar (2017) examined the level to which the accounting treatment of Islamic Murabaha activity in the commercial banks in Libya adhere to the Financial Accounting Standard No. 2, which was issued by the AAOIFI under the title, Murabaha and Murabaha for the Purchase Order. In fact, Murabaha is among the most important Islamic banking methods and based on the study, there are challenges that face commercial banks, in terms of such standards application mainly due to the lack of department interest in agreeing to the accounting treatment of the bank's activity. Difficulties were also traced to the lack of interest among employees and their lack of knowledge and experience of its identification, as well as lack of competent accountants to deal with Islamic financial accounting standards.

Furthermore, Al-Tawell and Abu Al-Qasim (2014) conducted a study to identify the top requirements of the application of Islamic financial accounting standards among Libyan banks and determined difficulties faced by the banks in their application, within their transformation phase into complete Islamic banking. In this regard, Law No. 1/2013 states that commercial banks should provide the fundamental requirements for applying Islamic accounting standards and Libyan banks employees are encouraged to transform the banks into Islamic banking through the application of accounting standards. Unfortunately, there is lack of institutional roles (e.g., Central Bank, Stock Exchange and the Association of Accountants) in supporting the practices and standards applications. Also in Libya, Abdulsalam (2015) investigated the related challenges encountered by Libyan commercial banks during their Islamic banking transition and outlined such internal and external challenges, particularly in Aljumphuryiah bank. The study laid down the banking transformation concept with the significant findings being as follows; 1) lack of ability of management to complete the work in consistent with the Islamic system, 2) difficulty of adjusting to the Islamic accounting system standards, and 3) insufficient legal system for Islamic banking.

From the discussion, it is clear that Islamic financial accounting standard is a part and parcel of the Islamic financial business, with prior studies highlighting the need for such standards in terms of Islamic banking goals and requirements. The present study is an extension of prior studies in identifying the obstacles and difficulties faced in applying Islamic financial accounting standards, AAOIFI-issued in the Libyan Islamic banks.

3. Research Framework

In recent years, the developments in the Islamic Financial Institutions (IFIs) have experienced leaps and bounds and their establishment primarily aims to fulfill Shari'ah obligations to serve Muslims, of whom dealing with interest (riba) is not permissible (Al-Ajmi, Saleh & Hussain, 2011). The Islamic law (Shari'ah), literally translates to 'the way to the source of life', and is used as a legal system stemming from behavioral code as established in the Holy Quran and Ahadeeth of the Prophet (authentic tradition) (Lewis, 2001). In the IFIs case, their transactions are accountable to Allah, making them acts of worship in exchange for reward in this world and the hereafter (Haniffa & Hudaib, 2010). Hence, such institutions are different from their conventional counterparts in light of their operations, objectives, practices and principles (Abdul Rasid, Abdul Rahman & Wan Ismail, 2011). In particular, the differences between IFIs and conventional banking were enumerated in Llias's (2008) study as follows; 1) in the IFIs there are riba-free transactions, with any interest type deemed as usurious and prohibited by Islamic law, 2) in the IFIs, Musharaka dealings indicate the involvement of a party to a financial transaction that shares risks and profits, 3) uncertainty in such institutions is disallowed, unless the risk terms and conditions are comprehended by the parties to the financial transaction and 4) IFIs lay stress on ethical investments, whereby immoral activities like gambling and production and selling of liquor are prohibited, and there is a need for tangible, identifiable underlying asset to support each financial transaction, where money is not considered as such. The differences between the two institutions based on their goals led to a consensus among authors as to the need for a special set of Islamic accounting standards that are specifically for IFIs. The enforcement of such standards also form a main concern for the Islamic banking industry.

In the development of Islamic accounting standards, Islamic accounting studies showed that the primary principle behind Islamic accounting is accountability to God (Napier, 2009) and based on Napier's (2009) study, there are two major characteristics of Islamic banking namely, full disclosure and social accountability, which are the opposite to the concept of creative accounting, window-dressing and reporting legalities rather than substance. In Islamic financial institutions, it is essential

to consider accountability to God in order to garner the trust and confidence of the public at large and this is possible through the reporting of the economic transactions or events that it purports to represent in an accurate and transparent manner (Archer & Karim, 2007). The transactions reports have to be provided based on the form of Shari'ah contracts governing the transactions/events. According to Archer (2007), an agency problem, referencing to worshipping God, arose in IFIs, demanding the reflection of Islamic transactions environment.

On the basis of past studies, the creation of a distinct set of Islamic accounting standards will be able to resolve issues faced by IFIs, particularly those that concern lack of conventional accounting standards, like the International Financial Reporting Standards (IFRS) or local General Accepted Accounting Practice (GAAP) in IFIs accounting transactions. In fact, in the IFIs development, one of the notable milestones is the creation of the AAOIFI in Bahrain in 1991, an organization that generated 60 accounting, auditing and governance and Shari'ah standards. However, notwithstanding the institutions commitment in developing accounting standards, there is a clear lack of support from national regulators in several countries. This may be exemplified with the Malaysian conduct, knowing that IFIs have existed in the 1970s, there is still lack of approval from the Islamic accounting standards developed.

Therefore, the Islamic transactions standards implementation in IFIs still remains challenging, with one of the top challenges being the institutions competition with other banks that operate in the global financial market, driven by the Western banking industry. This has resulted in several transactions of Islamic contracts mimicking Western banking transactions (Napier, 2009; Khan, 2010). Such an occurrence has affected the IFIs reporting environment and thus, in the present study, the issue relating to the development and application of the accounting standards in Libyan IFIs is reviewed. It is expected that the findings of the study can provide insight into the resolution of the issue of accounting standards implementation in such institutions. The review and examination of the issue indicated the rapid growth and proliferation of the IFI worldwide and its development of secular objectives, contributing to the stagnant development and adoption of specific Islamic accounting standards set.

Islamic Accounting Standards

Islamic institutions have a key role in the promotion of economic development based on the social stability, within which good values and religious faith are practiced (Vinnicome, 2010). This calls for the need of IFIs to provide high quality financial statements as Muslim societies expects the compliance to the Shari'ah

principles. The development of IFIs all over the globe, providing extensive range of products that are distinct from Western financial products, requires Islamic accounting standards for consistency (Vinnicombe, 2010; Kamla, 2009). In this regard, accounting standards development for IFIs will meet the Muslims need to apply Islamic principles in their life aspects (e.g., banking transactions). In order to steer clear of ambiguities, it is notable that Islamic accounting standards discussions concerns two distinct issues; first, IFIs, where literature called for guidance in preparing financial statements, as the transactions differ from those of conventional banking. The second issue concerns the Muslim accountings employed in different organizations and their accounting treatments consistency with the Shari'ah principles. Muslims are not always capable of compartmentalizing their daily lives from their business transactions, so arguably, accounting treatments in IFRs do not comply with the Shari'ah principles, in which case, there is a necessity for Islamic accounting scholars to investigate the financial reporting conceptual framework and create an Islamic conceptual framework to be used by Muslim accountants.

More importantly, Islamic conceptual framework can guide Muslim accountants choice of accounting treatment that complies with the Shari'ah principles, notwithstanding the firm types they are employed in. It is unnecessary to have a distinct set of accounting for Muslim accountants as it leads to redundant work and it reflects that Islam is a religion that distinguishes between faith and business. In relation to this, an Islamic conceptual framework can be used as guidance to developing IFIs accounting standards. This paper discusses a special set of Islamic accounting standards that can address the difference in IFIs transactions from that of conventional banks. The former is developed in compliance with the principles of Shari'ah and thus, the application of the same accounting standards would show that the IFIs products are no different from those of conventional banks.

For the survival of IFIs, they should be supported and trusted by the public and to achieve this feat, Islamic banks should be transparent about information to convince the public of their capability of achieving financial goals and objectives based on the Islamic Shari'ah law (Archer & Karim, 2007). For the IFIs, the challenge lies in effective supervision and regulation while operating in an industry rife with competition (El Qarchi, 2005). The question arises as to the way a standard accounting method can be issued to regulate different patterns or Islamic banking financing schemes that can be globally acceptable. In the current times, the IFIs has selected IFRS standards that match the contracts that govern transactions and this has resulted in the need of auditors to interpret the standards despite their inconsistencies to the specificities of IFIs transactions,

wherein which pure money speculation and interest are not permissible, and trades have to be supported by physical assets. The varying interpretations of national regulators, institutions and scholars have results in different rules and practices, and ultimately, led to users' confusion.⁴

More importantly, the most significant conflict between IFIs accounting and conventional accounting rules relate to the asset ownership. To steer clear of interest and ensure that banks do produce profits, Islamic banks have to buy an asset on behalf of the customer and lease it until the latter is able to own it. The standards set out by the IFRS need accounting treatment for the above transaction in the form of finance lease, with the lease recorded as interest-earning loan (contrary to Shari'ah principles). The application of IFRS accounting treatment shows no difference between the two institutions (conventional banking and IFIs). In this regard, the reporting area based on substance rather than form, is also one area that needs to be clarified. Despite the accounting standards established by AAOIFI for IFIs that is consistent with those in the IFRSs, the standards are, more often than not, unenforceable.

Therefore, the AAOIFI accounting standards relevance is highlighted as relating to the main objective of IFIs – adherence to the Shari'ah principles, even those operating in the Western-dominated market and industry. There is a need to regulate the supervision of IFIs just like Western institutions as emphasized by Islam (2003). The secret behind successful IFIs regulation is the establishment of a ruling body, which is AAOIFI. The institution has produced 60 standards of accounting, auditing, governance and ethics that need to be applied among IFIs. In fact, AAOIFI functions based on the present reporting system, with objectives set up on current accounting thought, after which it is tested against Islamic Shari'ah – on the whole, the acceptance of the Shari'ah consistent thoughts are accepted while those that are inconsistent are rejected (Lewis, 2001). In this approach, redundancy in the reporting system is avoided and it harmonizes the accounting standards in order to achieve globally accepted accounting standards.

Nevertheless, the AAOIFI above adopted approach is acceptable in the short-term but not in the long-term, requiring an Islamic accounting model that focuses on the development of accounting standards that are created using Islamic concepts (Archer & Karim, 2007). This second approach was adopted by AAOIFIs, after which the accounting standards were mostly based on IFRSs (Kamla, 2009). In hindsight, Islamic accounting scholars would rather opt for IFIs to adopt the standards set out by AAOIFI in order to highlight the uniqueness of their transactions (Archer & Karim, 2007; Vinnicombe, 2010). Adopting AAOIFI standards would enhance comparability, relevance, reliability, transparency and

efficiency of the financial institutions and expedite globalization processes (Karim, 2001; Hussain, Islam, Gunasekaran & Maskooki, 2002). Such adoption would also be invaluable owing to the differences in areas of reporting in IFIs, and their need to be sustained in the global financial market. Despite the fact that AAOIFI succeeded in developing accounting standards for IFIs, the former does not have the authority for regulations enforcement, which is why the standards have not been completely accepted by regulatory regimes and political, economic and social situations because of the lack of acceptance and appreciations of such standards (Karim, 2001; Vinnicombe, 2010). In other words, national regulators have the last say when it comes to adopting or refraining from adopting AAOIFI accounting standards.

4. Research Methodology

As mentioned, this quantitative study adopted a descriptive analytical method. The justification of using this method is to determine the obstacles in the applications of Islamic financial accounting standards in the Islamic banking sector in Libya. where data was gathered using a questionnaire whose items are gauged using a five-point Likert scale that ranged from strongly agree (5), to strongly disagree (1).

5. Data Analysis

Data gathered was later analyzed using SPSS. A total of 75 questionnaire copies were distributed to the staff of Islamic bank in Libya (both windows and branches) to obtain the perceptions of employees on Islamic financial accounting standards in this context. A total of 62 questionnaires was deemed usable (84% response rate), which were subjected to the analysis. The questionnaire also gathered personal information of the respondents including their age, banking experience years, job position and specialization). The job positions that respondents held in their organizations have been evidenced to affect their attitude and evaluations of the events they face in the workplace (Elkrghli & Yahya, 2018).

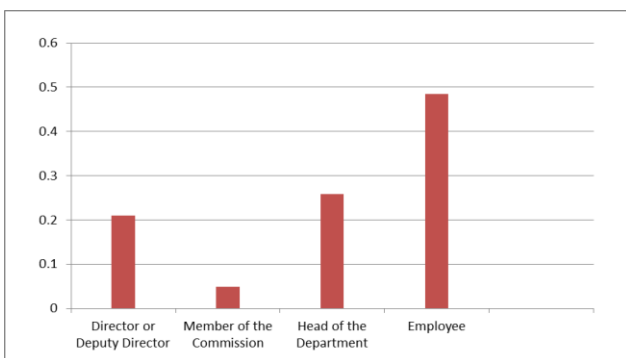


Figure 2: Distribution of Study Sample by Job Position

The figure presented above shows that 46.8% of the respondents are in high positions (directors/deputy directors/heads of department) in the Libyan Islamic banks and their views were deemed to be of utmost importance in examining the effects of their positions on their responses.

6. Results And Discussion

The study findings indicated many obstructions and difficulties when it comes to applying Islamic financial accounting standards issued by AAOIFI among the Libyan Islamic banks. The reliability test in particular Cronbach Alpha coefficient is 0.781 significant in all axes. The details of the findings are tabulated in the following table 1;

Table 1: Items (obstacles)

No	ITEMS (Obstacles)	Mean	Correlation	Std.deviation
1	Lack of readiness of Libyan banks to convert to Islamic banking	3.77	0.47	1.07
2	Incompatibility between Sharia Supervisory Boards of the Libyan Central Bank and Islamic Accounting Standards issued by (AAOIFI).	3.65	0.43	1.10
3	Lack of qualified legal and accounting staff to deal with these standards.	4.34	0.45	0.72
4	Shortage of effective and efficient banking leaders in Islamic banking.	4.29	0.47	0.94
5	Difficulty in dealing with Islamic Financial Accounting Standards issued by (AAOIFI).	3.23	0.45	1.09
6	The novelty and non-binding nature of the Islamic financial accounting standards issued by (AAOIFI) affect their application in Libya	3.73	0.69	0.87
7	Lack of seriousness in the application of Islamic financial accounting standards by the responsible authorities in Libya.	4.27	0.64	0.83
8	Lowering of understanding of the basic principles of Islamic accounting standards.	3.90	0.97	1.03
9	Slowdown in the application of Islamic accounting standards by the Bank's senior management	3.98	0.68	1.18
	The obstructions and difficulties facing the application of Islamic financial accounting standards issued by(AAOIFI) in Islamic banking in Libya	3.92	-	0.63

In order to confirm the correlations and reliability of the construct, Sekaran (2003) stated that the nearer the value of reliability coefficient (Cronbach's alpha) to 1.0,

the higher will be its reliability and generally, reliability value of 0.70 and over, is deemed acceptable. The reliability test result is 0.781 and thus, it is acceptable. In addition, the coefficient of correlation refers to a numerical value that range from +1 and -1, providing a reference of the direction and strength of the variables. The correlation coefficients in the above table ranged between 0.43 to 0.69 and all are positive values, which indicate that they are correlated with each other. Moreover, the table also shows that the overall mean of the items is 3.92, reflecting the five-point Likert scale used, which means that the respondents approved of the obstacles and difficulties faced during the application of AAOIFI among Libyan banks. This result may be elaborated further through the mean scores of the obstacles that face the application of AAOIFI among Libyan banks organized the following order based on the scores; obstacles related to lack of qualified legal and accounting staff to deal with the standards (4.34), shortage of efficient banking leaders in Islamic banks (4.29), lack of seriousness in the application of Islamic financial accounting standards by the Libyan responsible authorities (4.27), slowdown in the application of Islamic accounting standards by top management of the banks (3.98), lower understanding of the basic principles of Islamic accounting standards (3.90), deficiency of readiness of Libyan banks conversion into Islamic banks (3.77), novelty and non-binding nature of the Islamic financial accounting standards issued by AAOIFI (3.73), incompatibility between Shariah Supervisory Boards of the Libyan Central Bank and Islamic Accounting Standards issued by AAOIFI (3.65), difficulty in dealing with Islamic financial Accounting Standards issued by AAOIFI (3.23). On the whole, the study results provide an understanding of the research topic, with the findings compared with those reported by past literature conducted in the Islamic banking field. This study found lack of qualified legal and accounting staff to deal with the standards as one of the top obstacles and this is consistent with the prior studies in Libya (e.g., Touati & Kuffah, 2014), that found the legitimate observer not to have sufficient education and scientific and practical qualification, and this affects the work performance in a negative way. This study also showed that top management leaders of Islamic banking sector in Libya are leaders of traditional banking system and they hold the corresponding competencies which was also reported by Al-Saqaa and Al-Taib (2014), in that lack of leaders believing in the ideal of Islamic banking led to the slowdown in the Islamic banking standards application among the banks' senior management. This slowdown is evidenced in the Table with a mean value of 3.98, supporting the presence of the slowdown.

7. Conclusion

This research primarily aimed to determine the obstacles and difficulties faced by the Islamic banking sector in

Libya in their application of the Islamic Financial Accounting Standards issued by AAOIFI. The respondents referred to the obstacles and difficulties in the questionnaire and provided their perceptions of them. Data was collected and analyzed using scientific tools, and the findings were used to reach a number of key conclusions;

1. The Islamic banking sector in Libya has employees that are inclined towards applying the Islamic financial accounting standards issued by AAOIFI.
2. There is lack of legally qualified and accountable staff in the Libyan IFIs when it comes to knowledge and application of Islamic accounting standards.

Despite the instructions issued by the Central Bank of Libya that called for the applications of commercial banks of accounting and auditing based on Shari'ah standards issued by AAOIFI, the institutions adherence to them remain unclear primarily because Law No. 1/2005 on banks and amended Law No. 46/2012 failed to mention to such standards.

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