COMPLIANCE AND DETERMINANTS OF THE AAOIFI FINANCIAL STANDARDS: EVIDENCE FROM THE MENA REGION

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ABSTRACT

This paper analyses the level of compliance of financial disclosure with accounting standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and its determinants in Middle Eastern and North African (MENA) Islamic banks. Based on 40 Islamic banks in seven MENA countries over the period 2010-2016, the authors used a disclosure index to measure the compliance level and the effect of governance characteristics and the Sharia Board on the extent of compliance with the AAOIFI accounting standards. Results show a high level of compliance (67%). Using the Feasible General Least Square Regression, we found that the presence of women on the board of directors, the reputation of the Sharia Board, and the cross membership of Sharia Board members are key determinants of compliance. While independence of board of directors is significantly associated to reduced financial disclosure. The research contributes to the literature on accounting and the Islamic banking sector. These findings will be useful for regulatory authorities to better- understand the accounting disclosure practices of Islamic banks. Although findings are encouraging, the sample is limited only to banks. Future researches could deal with a larger sample and review other disclosure items to ensure compliance with the AAOIFI standards. Few empirical studies have explored the determinants of compliance with the AAOIFI standards for Islamic banks in MENA countries. Therefore, this work complements and enriches the research in the field in the MENA region.

Keywords: financial disclosure, AAOIFI compliance, Islamic banks, governance characteristics, Sharia board

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INTRODUCTION

Islamic banks, in their emergence as financial institutions are different from conventional banks, and have experienced rapid development and significant growth in numbers and turnover in recent years. Islamic banks are widespread and universally accepted and are becoming the destination of non-Muslim customers. Sufian (2010) and Zaini (2007) argue that the development of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards was preceded by the adoption of local or the International Financial Reporting Standards (IFRS) standards by Islamic financial institutions in the preparation of their financial reports and are, therefore, faced with problems in applying standards that are not adapted to their Sharia principles.

In this sense, Abdul Rahman and Bukair (2013) gave the example of the prohibition of interest (Riba), one of the important principles of Islamic law. The AAOIFI standards, although not exhaustive, are considered the appropriate standards to overcome this inadequacy. For its part, the AAOIFI and its universal network have succeeded in convincing regulatory authorities to adopt its standards on a mandatory or voluntary basis in some regions of the world, fully, partially, or as guidance (Sarea & Haneefa, 2013). Furthermore, to maintain the trust and loyalty of their clients, Islamic banks must disclose transparent financial information, which complies with Sharia rules.

Several studies such as those of El-Halaby et al. (2018); Grassa et al. (2019); El-Halaby and Hussainey (2016); El-Halaby (2015); Ahmed and Khatun (2013); Vinnicombe (2012); and Farook et al. (2011) have studied disclosure in Islamic banks and have attempted to measure the level of compliance by these banks with the rules of Sharia and its various determinants. Nevertheless, the compliance of Islamic banks in these studies is measured according to Sharia standards only, and limited research has addressed the level of compliance with the AAOIFI financial standards.

Through results arising from our study, we intend to bring empirical proofs/insights into compliance of Islamic banks in the MENA region within the AAOIFI financial accounting standards. The closest to this research focuses either on a single country (Vinnicombe, 2012; Sarea, 2012; Nadzri,

2006), a single year (El-Halaby & Hussainey, 2016), a single bank or a limited number of banks (Al Sulaiti et al., 2018). This study aims to address this shortcoming by examining the characteristics of financial reporting as an index for most Islamic banks in the MENA countries.

According to González et al. (2017), the majority of Islamic financial institutions around the world are located in the MENA region. Hence, the Islamic banking sector in this area has now become an important part of the development of their economies and is also growing in the financial landscape of the regions as well as in the countries. It is also a growing activity, as it meets people's financial needs without conflicting with their social and religious values (Anagnostopoulos et al., 2020).

A number of papers reviewed factors influencing financial information disclosure (Farook et al., 2011; Mallin et al., 2014). The closest studies either limited their analyses to social disclosure (Haniffa & Hudaib, 2007) or missed most of the corporate governance factors particularly related to the Sharia Supervisory Board (Ajili & Bouri, 2017). The purpose of our research was to address the gap in the literature through the examination of the incidence of several governance features related to the Directors and Supervisory Board of the Sharia and other firm characteristics.

The foregoing analyses would determine whether financial information is derived from these factors and explore the effect of the Board of Directors and the Supervisory Board of Sharia as governance mechanisms in Islamic banks. Through that research, we will address issues related to two main components of disclosure literature: the measurement of disclosure and the exploration of its determinants. The new insight would be useful to policymakers in increasing the level of disclosure in Islamic banks.

Indeed, compared to the AAOIFI compliance studies, our paper presents four contributions. First of all, we introduce new variables such as the presence of women on the board of directors and joint audit. Second, we covered more banks comparing to other studies like Ullah (2013) (7 banks), Hassan et al. (2012) (13 banks), Al Sulaiti et al. (2018) (24 banks), Ajili and Bouri (2017) (39 banks), while this research constitutes a sample of 40 banks. Third, we cover more recent years (from 2010 to 2016), while other researches are focused on earlier periods such as Ajili and Bouri

(2017) (from 2010 to 2014), Al-Sulaiti et al. (2018) (from 2012 to 2015), and El-Halaby and Hussainey (2016) (only 2013).

Those research did not find a positive association between the compliance level and presence of women on the board of directors (Allini et al., 2014). We are providing evidence regarding the impact of corporate governance characteristics and Sharia board members on the AAOIFI compliance level. Besides, this study covers Islamic banks located in the MENA region, while previous studies focused on a single country (Vinnicombe, 2012).

The current study varies considerably with preceding research exploring disclosure drivers that contain firm attributes, the mechanism of corporate governance as well as Sharia supervisory board characteristics. The research design contained five governance variables such as board size, its independence, and presence of women as members. Two variables were related to the Sharia Supervisory Board, which are board reputation as well as cross-membership, and four firm characteristics as control variables which are financial performance, adopted standards, audit quality, and joint audit, to see to what degree it affects disclosure levels. Previous researchers covered a limited range of features (Ajili & Bouri, 2017; Vinnicombe, 2012). Therefore, our study analyses the compliance level to the AAOIFI standards and financial disclosure in Islamic banks and its determinants. The aims of our research can be summarized as follows:

1. Measure the level of financial disclosure.
2. Determine to what extent the level of financial disclosure is related to governance characteristics, and Sharia supervisory boards.

The paper is structured as follows. The first section presents the introduction. While the second section shows the literature review as well as develops our hypothesis. Section 3 presents the methodology adopted for this work and data collection. Section 4 outlines the descriptive analysis. Section 5 presents and discusses the main findings. The last section presents the main conclusions.

LITERATURE REVIEW

Corporate Governance of Islamic Banks

Corporate governance in Islamic banks has not been well defined in previous research studies. However, Standard 3 of the IFSB gives the following definition: "a set of relationships between a company's management, its board of directors, its shareholders and other stakeholders which provide the structure through which: the objectives of the company are set; and the means of attaining those objectives and monitoring performance are determined" (IFSB, 2006).

According to Grassa and Matoussi (2014), Islamic banking governance practices are different from those of conventional banks as they have investment accounts that make their system of governance more complicated. Hence, Islamic banks have to conduct their activities based on Sharia law. Consequently, the risk of non-compliance with Sharia rules can cause considerable financial difficulties (Claessens, 2006).

The IFSB 3 supposes that effective corporate governance in the Islamic banking industry requires a system of organizational mechanisms to ensure that the actions of management are aligned with the interests of stakeholders. Thus, the establishment of incentives for the board of directors and the Sharia Board is relevant to reach the targets that are in the stakeholders' interest in order to enhance their effective accountability, therefore strengthening the incentives for Islamic banks to allocate their resources more efficiently and hence to comply with Islamic Sharia rules and standards (IFSB, 2006).

Examining Sharia practices and the system of Sharia governance in Islamic banks in different countries confirms existence of important divergences and various practices of Sharia across those banks, recognizing in current governance practices in Islamic banking and that it still needs to be improved to meet the specific standards of these institutions (Hasan, 2011). Similarly, Mollah and Karim (2011) argue that the corporate governance system that Islamic banks adopt, offers better vulnerability to financial crises compared to other institutions.

Financial Disclosure and AAOIFI Standards' Compliance

The AAOIFI was established in Bahrain in 1991 as an international nonprofit organization. Its main responsibility is the development and publication of standards related to the Islamic finance sector. It issued 111 standards in areas of Sharia, accounting, auditing, ethics and governance in global Islamic finance of which 34 Financial Accounting Standards, 6 auditing standards, 57 Sharia standards, 12 governance standards and 2 codes of ethics standards. It is committed to the standardization and harmonization of International Islamic Financial Practices and Sharia-compliant financial reporting AAOIFI (2020)[1].

According to the AAOIFI (2020)[1], AAOIFI standards are established to orient the Islamic financial market on the Sharia guidelines supporting the industry's growth. A number of institutional members such as central banks and regulatory authorities, financial institutions, audit and law firms, from more than 45 countries around the world support the AAOIFI. These standards as adopted by leading Islamic financial institutions worldwide have brought gradual levels in international standardization of the Islamic financing practices.

In the first Standard relative to the presentation and disclosure of financial statements of Islamic financial institutions, Islamic banks' annual reports contain basic information followed by 7 financial statements and other various information (AAOIFI, 2020). In this context, we define compliance by "the degree to which Islamic banks comply with the multitude of issues in the accounting and governance standards issued by the AAOIFI" (AAOIFI, 2020).

Ehsan et al. (2019) studied voluntary financial disclosure as suggested by the AAOIFI and compliance in Pakistani Islamic banks and found a level of compliance of more than 50%. El-Halaby et al. (2018) analyzed 117 Islamic banks in 2016 covering 23 countries and used three indexes: one for Corporate Social Responsibility Report, one for Sharia Supervisory Board report and one for the financial statements. Their results show a positive and meaningful relationship between disclosure levels and the Sharia audit department and bank size.

Al Sulaiti et al. (2018) measured compliance using disclosure indices, which included three financial accounting standards: Murabaha, Mudaraba and Musharaka. Data was collected using annual reports of 24 Islamic banks in Bahrain and Qatar covering the years 2012-2015, and they concluded that studied sample is compliant with the AAOIFI related to these standards and the degree of compliance has improved during this period. The Murabaha Standard and Islamic banks in Qatar had the highest mean of compliance so far. They suggest that "in respect of the Murabaha, the more this product is used, the less unstable it is in complying with Islamic banks".

Ajili and Bouri (2017) investigated 39 Islamic banks in GCC countries between 2010 and 2014. They measured and compared compliance level requirements of disclosure set by the AAOIFI and the IFRS and factors related thereto. They reported a higher level of compliance with the IFRS than with then AAOIFI. Moreover, bank age and size are key determinants of compliance as well.

Ahmed and Khatun (2013) examined compliance levels of 17 Islamic banks in Bangladesh with the AAOIFI Sharia governance system for understanding the status of Sharia compliance with risk management. The results revealed that none of the Bangladeshi Islamic banks fully complied with the AAOIFI Sharia system of governance as there was no audit committee in the board of directors for any of the banks in the country. Ullah (2013) analyzed 7 Islamic banks' annual reports in Bangladesh. Results show a compliance level equal to 44.68%. However, the compliance study on Libyan banks "Gumhouria" conducted by Ahmad and Daw (2015) showed a low level of compliance and this low rate is due to multiple reasons namely the lack of training and knowledge of the AAOIFI standards.

In another study, Haniffa and Hudaib (2004) analyzed different Islamic financial institutions in the GCC. They found that only Bahraini Islamic banks adopted and applied the AAOIFI in the preparation of their financial statements. Nevertheless, there were missing disclosures. Along the same lines, Al-Abdulatif (2007), through a questionnaire on relationships between external audit and employees of Saudi Arabia's Islamic banks, argued that there was less than expected opinions on the adoption of the AAOIFI accounting standards.

Nadzri (2006) analyzed annual reports from some Islamic financial institutions around the world, and the results indicate that disclosure in these banks did not meet the requirements of the AAOIFI standards. Also, Sarea (2012) whose study was based on a questionnaire addressed to accountants in Bahraini Islamic banks, showed that 85% of accountants claimed a high level of compliance, 10% claimed the opposite and 5% agreed with an average level of compliance. Mallin et al. (2014) analyzed various information on the social responsibility of 90 Islamic banks across 13 countries. Results show that the board of directors and the Sharia Board are positively associated with disclosure levels. In the same vein, Vinnicombe (2012) conducted a content analysis of Islamic banks in Baharin and found that compliance was higher in some banks than others.

The study by Sarea and Haniffa (2013) showed that Islamic banks face challenges in preparing financial statements to different standards, resulting in puzzles about measuring the level of compliance and reliability. In addition, the obligation to adopt the AAOIFI standards throughout the Islamic world is recommended. Shatnawi and Al-bataineh (2013) found that the Sharia Supervisory Board checks the financial reporting of Islamic banks regularly and reports any non-compliance with the AAOIFI standards to show the extent to which these banks are compliant with the AAOIFI.

In order to evaluate the compliance level with the guidelines of general presentation and disclosure of the AAOIFI, this study investigated whether Islamic banks in the MENA region disclose their financial information following the requirements of the AAOIFI accounting standards.

Determinants of Financial Disclosure: Research Hypotheses Development

We used the Agency Theory and the Signal Theory to determine the factors that could potentially contribute to the compliance with the AAOIFI standards. Safieddine (2009) predicted that agency problems in conventional banks arise when managers stop maximizing shareholder wealth, any discrepancy between Islamic bank managers to invest all funds provided in Sharia compliant investments creates further agency conflicts. This research is based on the Agency Theory for determining compliance factors of Islamic banks with the AAOIFI standards. Haniffa and Cooke (2005)

argued that the Signal Theory is used to deal with managers' incentives to disclose more information in financial reports. In fact, managers need to disclose adequate information in financial statements to communicate positive signals to potential users.

As far as our research is concerned, this theory helps to address the incentives of Islamic bank managers to improve their Sharia and financial reporting in order to send positive signals to different users. Indeed, accurate and relevant signals that Islamic banks emit, explain to the different stakeholders the levels of disclosure of information and their compliance with the AAOIFI standards.

Characteristics Related to Governance in banks

Size of the board of directors

The size of the board of directors is seen to be a key determinant affecting efficiency. According to the Agency Theory, the characteristics of a boards of directors regarding their composition and diversity may affect their ability to accomplish their responsibilities and large boards are conducive to better control (Fama & Jensen, 1983). Previously, Fama (1980) argued that the board of directors is seen as the core control mechanism for managers. Recently, Grassa et al. (2019) analyzed the content of 78 annual reports of Islamic banks operating in 11 countries between 2004 and 2012 to identify the impact of the governance of banks on the disclosure of Islamic banking products and services. The result indicated a positive association between the size of the board of directors and the information disclosed about Islamic banking products and services.

Hashim et al. (2015) reviewed 82 annual reports from Islamic banks in the Gulf Council Cooperation (GCC) and Non-GCC countries. The objective of the research was to identify the home country's role in the relationship between corporate governance and disclosure in Islamic financial institutions. The authors noted a positive effect of size, meaning the bigger the board of Islamic banks the stronger it becomes and should inevitably influence the organization's actions and the number of sustainability practices.

Neifar and Jarboui (2018) found that the size of the board has a significant effect on the information disclosed, which implies that their

members provide high-quality decisions, thus, influencing corporate reports. Along the same line, Al-Bassam et al. (2018) studied governance disclosure in Saudi publicly listed companies and found that banks with extensive boards, disclose more significantly than others. However, Bukair and Abdul Rahman (2015) analyzed whether board characteristics affect corporate social responsibility disclosure in GCC Islamic banks and argued that the size of the board does not affect the level of disclosure. They ensure that disclosure is not guided by the bank's governance structure. Hence our hypothesis:

H1: There is an association between board size and the level of financial disclosure

The independence of the board

Fama (1980) claimed that a board of directors, which is elected by the shareholders, is their central mechanism of control to supervise managers. Abraham and Cox (2007) predict that independent directors are considered as a tool of effective corporate governance and that they act in a timely and efficient manner to reduce agency problems. Patelli and Prencipe (2007) considered that independent directors try to report on their activities credibly so as to keep them reputable in order to assume their responsibilities. Peasnell et al. (2005) argued that the independence of board members improves the quality of financial statements. Grassa and Chakroun (2016) studied the effects of ownership structure and board characteristics on corporate governance disclosure for Islamic banks operating in the Gulf Cooperation Council (GCC) countries from 2006-2011. They found an important level of disclosure to be significantly associated with the independence of the board of directors. The same results were found by Neifar and Jarboui (2018). Wan Abdullah et al. (2015) investigated the drivers behind voluntary corporate governance disclosure in 67 Islamic banks in the South-east Asian and GCC countries in 2009. Their findings undoubtedly proved that the association with the independence of the board of directors is positive as well as significant. While, Grassa et al. (2019) found a negative relationship between the independence of the board of directors and the disclosure of Sharia and corporate social responsibility and financial information of Islamic banks. So, we proposed the following hypothesis:

H2: There is an association between board independence and financial disclosure level.

The duality of the CEO

Jensen and Meckling (1976) predicted that the dual role creates individual power for a chief executive officer (CEO) that affects the control exercised by the board. Fama and Jensen (1983) argue that the duality of the CEO creates conflicts of interest. From another angle, Donaldson and Davis (1991) found that companies where the entrepreneur exercises duality can improve shareholder wealth as well as financial performance. Cheng and Courtenay (2006) found no significant correlation between CEO duality and disclosure. Laksmana (2008) also explored the effect of certain governance characteristics (board of directors and compensation committees) on the extent of disclosure by analyzing companies from different sectors in 1993 and other companies in 2002. He highlighted a negative relationship between the CEO's position and disclosure. However, the study by Bukair and Abdul Rahman (2015) did not show a significant relationship between the CEO's duality and the level of disclosure. As with Neifar and Jarboui (2018), disclosure and duality were negatively associated. Against the current, Grassa and Chakroun (2016) approved an association between the duality of the CEO and the high disclosure of governance. Therefore, we proposed the following hypothesis:

H3: There is an association between CEO duality and financial disclosure level.

The presence of women on the board

The gender variable measures diversity. Indeed, historically, women have always been unfairly represented in corporate governance. From the perspective of the Agency Theory, diversity may not affect the efficiency of a board of directors (Fama & Jensen, 1983). In particular, the presence of women on the independent board of directors can help to reduce information asymmetry and improve the quality of financial information. Al-Maghzom (2016) argued that the presence of women on the board of directors may well be a source of interest. Ellwood and Gracia-Lacalle (2015) showed that women leaders are effective in attracting and retaining women (Hillman et al. (2007). Allini et al. (2016) contend that gender difference reveals variations in the behavior and skills of board members.

They confirm that there is a positive relationship between gender diversity and risk disclosure. In the same vein, Al-Maghzom (2016) analyzed the content of the annual reports of Saudi listed banks between 2009 and 2013 to determine the factors affecting risk disclosure. They argued that the gender variable is a key determinant of risk disclosure practices in Saudi banks. Velte (2017) reviewed 51 empirical studies on variables affecting corporate social responsibility disclosure and found that gender diversity within the board is often used as an indicator of board effectiveness and has a positive impact on corporate social responsibility disclosure. Mohamed et al. (2014) studied the influence of board characteristics on the reporting of 148 listed companies in Sri Lanka in 2012. They argued that boards with female directors are necessarily and negatively associated with disclosure. Hence, our hypothesis:

H4: There is an association between presence of women on the board of directors and financial disclosure.

The presence of audit committee

Forker (1992) argues that audit committees are an effective monitoring mechanism to enhance corporate disclosure quality and to reduce agency costs. According to Pincus et al. (1989), the key role of the audit committee is to assist the board of directors to oversee a company's financial reporting policy. Mnif and Tahari (2020) studied the effect of corporate governance characteristics on compliance with the AAOIFI governance standards disclosure for 54 Islamic banks adopting the AAOIFI in Bahrain, Qatar, Jordan, Oman, Yemen, Syria, Sudan and Palestine from 2009 to 2017. They found a positive association between compliance with the AAOIFI governance disclosure guidelines and audit committee independence. Al-Maghzom (2016) demonstrated that the audit committee is one of the main determinants of risk disclosure practices in Saudi banks. Albitar (2015) discussed the link of governance features with disclosure level of Jordan's listed firms between 2010 and 2012. He successfully established a meaningful and positive association between audit committee and voluntary disclosure level. Barako et al. (2006) also indicated that the audit committee monitors annual reports and improves the quality of information disclosed between the various stakeholders. Avison et al. (2012) were no exception. Indeed, they showed that the audit committee is an important determinant of good corporate governance. While Neri (2010) contradicted his research

and proved that there is indeed a negative relationship between the audit committee and the level of risk disclosure. So, our hypothesis:

H5: There is an association between audit committee and level of financial disclosure.

Characteristics Related to the Sharia Supervisory Board (SSB)

The reputation of the SSB

Safieddine (2009) claimed that under the agency theory an efficacious Sharia supervisory board (SSB) may reduce inter-agency conflicts as well as reporting imbalances among managers and stockholders through effective and independent oversight of operations compliant with Shariah law. According to Singh et al. (2004), the agency theory suggests that large boards involve diverse skills, resulting in a more effective supervisory role of boards. Farook and Lanis (2007) argue that Sharia board members in Islamic banks are often well known in their community for their knowledge and expertise of the Islamic religion and the regulations that govern it. Their credibility and reliability guarantee it. Consequently, the reputation of the Sharia Council remains an essential criterion for a better understanding of disclosure issues in Islamic banks.

Nomran et al. (2016) also examined in their research the influence of Sharia board performance on Malaysian Islamic banks between 2008 and 2015.They established a significant association between performance of Islamic banks and Sharia board reputation. Farook et al. (2011) also argued that the reputation of the Sharia board is a necessary factor in assessing the level of disclosure of Islamic banks. Indeed, its measurement is based on the composition of the board of directors and members of the AAOIFI committees. Similarly, Abdul Rahman and Bukair (2013) examined the effect of Sharia Council characteristics on the level of corporate social responsibility disclosure in 53 Islamic banks operating in GCC countries and indicated that Sharia Council characteristics, including reputation are significantly and positively associated with level of disclosure. This proves that reputation is an important determinant in measuring disclosure level within Islamic banks. Hence our hypothesis:

H6: There is an association between reputation of the Sharia Board and financial disclosure level.

SSB cross membership

Cross-membership is a situation where the Sharia board member sits on several boards. Lorsch and Maclver (1989) support cross-membership because of its credibility, knowledge, and transparency. Grais and Pelligrini (2006) suggest that Sharia council members have access to confidential information and argue that this cross-membership can have an impact on Islamic banks, especially with competing banks. Haat et al. (2008) prove that having members on different Sharia boards of different Islamic banks improves the transparency of information disclosure. Decisions made within one board may also be part of the information for decisions made by other boards. Abdul Rahman and Bukair (2013) argued that this is an important feature of the Sharia Council of Islamic banks. Grassa (2015) noted that the repetition of a few names of Sharia board members helps to attract new clients, which improves the productivity and efficiency of Islamic banks. Unlike Alman (2012) who confirms that the Sharia Council's cross-membership has a negative impact on risk taking in Islamic banks. Hence, our hypothesis is:

H7: There is an association between cross-membership of the Sharia board members and financial disclosure level.

Control Variables

To test our hypotheses, the study included some control variables which are financial performance, adopted standards, audit quality and joint audit. Many theoretical and empirical literature suggest that these can potentially affect compliance and disclosure level in Islamic banks. The first variable financial performance was examined by El-Halaby and Hussainey (2016); Dignah et al. (2012); Mallin et al. (2014) who found that profitability has a significant impact on disclosure.

As the sample contained 40 Islamic banks from 7 different countries the study controlled the variable adopted standards to consider differences between countries in adopting the AAOIFI or other accounting standards. According to El-Halaby and Hussainey (2015), accounting standards such

as the AAOIFI are used to provide reliable and comparable information for all stakeholders to make investment decisions. Thus, the AAOIFI is an important element for improving the disclosure level (Mohammed et al., 2015). Consequently, adoption of the AAOIFI standards would be a strategic choice to increase disclosure and reliability of these banks (Ariss & Sarieddine, 2007).

Furthermore, we used the variable audit quality represented by the Big4 auditors. Audit quality is perceived by the financial market as an indicator of the reliability of financial information disclosure and becomes intimately linked to a better quality of financial reports (Peel & Makepeace, 2012; Hodgdon et al., 2009; Xiao et al., 2004). Moreover, we also used the joint audit (Zerni et al., 2010; Alanezi et al., 2012; Becker et al., 1998; Francis et al., 2008). It represents a prospective tool for improving relevance and reliability in published financial information. It reduces information asymmetry and leads to more effective decision making. Besides, companies that have greater information are more likely to reduce this asymmetry by using a high-quality joint auditing.

RESEARCH METHODOLOGY

Sample Selection

Our research was based on 40 Islamic banks across seven countries from the MENA region (Bahrain, United Arab Emirates UAE, Qatar, Kuwait, Saudi Arabia (KSA), Tunisia and Turkey). The study period was spread over 7 years, from 2010 to 2016, which corresponds to 280 observations presented in the form of a panel with a double temporal and spatial dimension. The data sources were the annual reports of the banks studied during this period.

The 2010-2016 period and the 40 banks were selected due to the availability of the required data. The choice of the MENA region can explained by the significant development of the Islamic banking sector in this region compared to other countries in the world and the large number of Islamic financial institutions over the past decades. In fact, The Islamic banking sector is also gaining importance in the financial landscape of the MENA region as well as individual countries (González et al., 2017).

In addition, the banks chosen for our research are located in countries, which share similarities, especially for the culture, and in which Islam is the religion of the majority of people. Moreover, the scores of the IFCI (Islamic Financial Country Index) of these countries are comparable and close to each other (IFCI, 2019). Additionally, these countries are among the leading countries that have experienced a significant growth in Islamic banking during these years. Besides, they have a high IFDI (Islamic Financial Development Index) and are ranked among the top countries in terms of Islamic financial assets (IFDI, 2019).

Construction of The Financial Disclosure Index (The Dependent Variable)

Since our study aimed to measure the level of compliance of financial disclosures in Islamic Banks and to identify its main determinants, our dependent variable was the financial disclosure index.

Based on the AAOIFI standards (Version 2015), we constructed our disclosure indices as follows: We adopted the disclosure requirements of Accounting Standard No 1, which focussed on the presentation, and disclosure of financial statements. Thus, reflecting the financial responsibility of Islamic banks for the construction of our financial disclosure index. Then, we reviewed previous research that used this standard to construct the disclosure index (El-Halaby & Hussainey, 2016; Vinnicombe, 2012; Vinnicombe, 2010; Haniffa & Hudaib, 2007).

For ensuring the index’s validity, we tried selecting items according to their availability and close association with the financial statements as well as their similarity to the items chosen by other researchers. Finally, we obtained a financial disclosure index based on 8 items belonging to the AAOIFI N°1 accounting standards as shown in Table1.

Table 1: Items Corresponding to The Accounting Standard N°1 AAOIFI

Financial Disclosure Index	
Items	**Sources**
1. Comparative financial statements	El-Halaby and Hussainey (2016), AAOIFI (2020)
2. Basic information about the bank	AAOIFI (2020)
3. Disclosure of the currency used for the measurements	AAOIFI (2020)
4. Disclosure of earnings and expenses prohibited by Sharia	AAOIFI (2020)
5. Disclosures on products allowed by the Sharia	El-Halaby and Hussainey (2016), AAOIFI (2020)
6. Disclosure in statements of use of zakat and sadakat funds	AAOIFI (2020), Vinnicombe (2010)
7. Disclosure in statements of use of loan funds (al qard al Hasan)	AAOIFI (2020), Haneefa and Hudaib (2007)
8. The report shows that the bank complies with AAOIFI standards	AAOIFI (2020)

Independent Variables

In order to explain the AAOIFI compliance level of Islamic banks in the MENA region, governance and Sharia board characteristics of the bank were tested. Table 2 presents these variables, their measures, and the relevant literature.

Table 2: Independent Variables

Variables	Measurement	Literature
Independent variables		
Taill_CA (size of the board of directors)	Number of members of the board of directors	Grassa et al. (2019), Hashim et al. (2015), Wan Abdullah et al. (2015), Bukair and Abdul Rahman (2015)
Ind_CA (Independence of members of the Board of Directors)	Number of independent members of the Board of Directors	Neifar and Jarboui (2018), Grassa et al. (2019), Grassa and Chakroun (2016), El-Halaby and Hussainey (2016), Hashim et al. (2015), Wan Abdullah et al. (2015)
Dua_PDG (CEO Duality)	Binary variable: 1 if CEO is Chair and 0 otherwise	Neifar and Jarboui (2018), Grassa et al. (2019), Grassa and Chakroun (2016), Bukair and Abdul Rahman (2015)

Fem (Presence of women on the board of directors)	Binary variable: 1 if there is one or more women on the board of directors and 0 otherwise	Al Maghzom (2016), Allini et al. (2016), Velte (2017), Mohamed et al. (2014)
Com_Aud (Audit Committee)	Number of Audit Committee members	Sellami and Tahari (2017), Al Maghzom (2016)
Rep_Sh (Reputation of Sharia board)	Binary variable: 1 if one of the bank's Sharia board members is a member in the AAOIFI Sharia board and 0 if not	Norman et al. (2016), Abdul Rahman and Bukair (2013), Farook et al. (2011)
Adh_Sh (Sharia board cross membership)	Binary variable: takes 1 if a Sharia council member belongs to Sharia council in another Islamic bank	Grassa (2015), Abdul Rahman and Bukair (2013), Grais and Pelligrini (2006)

Control Variables

Control variables considered in this research were financial performance, adopted standards, audit quality and joint audit. Table 3 presents these variables, their measures, and the relevant literature.

Table 3: Control Variables

Control variables	Measurement	Literature
Ren_Fin (Financial performance)	Ratio: ROA= net income/total assets	El-Halaby and Hussainey (2016), Dignah et al. (2012), Mallin et al. (2014)
Norm (Adopted standards)	Binary variable 1 when adopting AAOIFI standards and 0 if not	El-Halaby (2015), Mohammed et al. (2015)
Q_Aud (External audit quality)	Binary variable: 1 if bank's external auditor is one of the BIG 4 audit firms and 0 otherwise.	Grassa et al. (2019), El-Halaby and Hussainey (2016), Peel and Makepeace (2012)
Co_Aud (Joint Audit)	Binary variable: 1 if the bank is audited by two auditors and 0 otherwise	Becker et al. (1998), Francis et al. (2008), Andre et al. (2011), Zerni et al. (2010), Alanezi et al. (2012)

Econometric Model and Independent Variable Measurements

Our model aims to explain the compliance of financial disclosure by different governance and Sharia board variables:

$$Ic_Fin_{i,t} = \alpha 0 + \alpha 1 Taill_Ca_{i,t} + \alpha 2 Ind_CA_{i,t} + \alpha 3 Dua_PDG_{i,t} + \alpha 4 Fem_{i,t} + \alpha 5 Com_Aud_{i,t} + \alpha 6 Rep_Sh_{i,t} + \alpha 7 Adh_Sh_{i,t} + \alpha 8 Ren_Fin_{i,t} + \alpha 9 Norm_{i,t} + \alpha 10 Q_Aud_{i,t} + \alpha 11 Co_Aud_{i,t} + \varepsilon_{i,t} \quad (1)$$

With:

$Ic_Fin_{i,t}$ is the compliance index measuring financial disclosure level of Islamic bank i by year t

$\alpha 0$ is the intercept, $\alpha 1, \alpha 2, \ldots, \alpha 11$ are the regression coefficients and ε is the error term.

Equation (1) is a multiple-regression model that tests the relationship between the disclosure compliance index (Ic_Fin), the independent variables and the control variables

RESULTS OF DISCLOSURE AND COMPLIANCE LEVEL

Level of Compliance by Countries

Table 4 illustrates the levels of disclosure for each country in terms of the number of banks and the percentage based on average disclosure. It indicates that the UAE revealed 84%, followed by Qatar which disclosed 79%, thus surpassing Bahrain's 76%. This is maybe surprising as Bahrain's compliance with the AAOIFI is mandatory. Tunisia is the country with the least compliance with the AAOIFI (46%).

It is noteworthy to mention that Bahrain has the highest number of banks that have adopted the AAOIFI (17 Islamic banks). The reason is not that Bahrain is the country hosting the AAOIFI, but because it is a mandatory requirement by the Central Bank of Bahrain that all Islamic financial institutions must comply with the AAOIFI (Vinnicombe, 2010).

Table 4: Level of Compliance by Country

Country	N° of Banks	% Bank from Sample	Compliance %	Ranking
Bahrain	17	42.5%	76%	3
Kuwait	5	12.5%	69%	4
Saudi Arabia	5	12.5%	65%	5
UAE	5	12.5%	84%	1
Qatar	3	7.5%	79%	2
Turkey	3	7.5%	50%	6
Tunisia	2	5%	46%	7
Average	40	100%	67%	

Compliance Level to AAOIFI Standards

Table 5 below indicates financial disclosure level and conformity with the AAOIFI Accounting Standard No. 1. We noted that the average compliance level is 67%, close to that of El-Halaby and Hussainey (2016) who found 73%. The level of disclosure of universal financial information was 85% but that of Sharia oriented financial disclosure was lower at 56%. The table indicates that the disclosure of comparative financial statements and the disclosure of the currency used for the measures are also higher than any other item. It reached 81% and 85% respectively. The lowest item is the one that indicates if the bank shows its compliance with the AAOIFI standards with a compliance level of 52%.

Table 5: Level of Disclosure and Compliance with AAOIFI Financial Standard

	Items	Compliance (disclosure) %
Financial disclosure index	**Items related to universal financial disclosure**	**85%**
	1. Comparative financial statement	90%
	2. Basic information about the bank	81%
	3. Disclosure of the currency used for the measurements	85%
	Items related to Sharia oriented financial disclosure	**56%**
	4. Disclosure of earnings and expenses prohibited by Sharia	62%
	5. Disclosures on products allowed by the Sharia	55%
	6. Disclosure in statements of use of zakat and sadakat funds	56%
	7. Disclosure in statements of use of loan funds (al qard al Hasan)	57%
	8. The report shows that the bank complies with AAOIFI standards	52%
	The average level of compliance	**67%**

EMPIRICAL RESULTS

Descriptive Statistics

As shown in Table 6a, it appears that the descriptive statistics prove that the average of the financial disclosure index is positive and equal to 0.6722156. The dispersion is moderately high 0.2267072. This positive mean of the disclosure index indicates that the average level of compliance is high and that most Islamic banks are disclosing more information. We noted that the variable Size of the Board of Directors has an average of 9.3357 and has a high dispersion of 2.1255, the minimum was 5 members, and the maximum, 16. While board independence variable had an average of 2.9750, the minimum was 0 and the maximum was 14. The standard deviation was 2.9077 which is considered high. For the variable Presence of the Audit Committee, it had an average of 3.1071 with a considered high standard deviation of 1.0554 with a minimum of 0 and a maximum of 7 members.

Table 6a: Descriptive Statistics of Quantitative Variables

Variables	Observations	Mean	Standard deviation	Minimum	Maximum
			Dependent variable		
Ic-Fin	280	0.6722156	0.2267072	0	1
			Independent variables		
Taill_CA	280	9.335714	2.125492	5	16
Ind_CA	280	2.975	2.907674	0	14
Com_Aud	280	3.107143	1.055428	0	7

From the descriptive statistics as shown in Table 6b, we noted that 7.14% of the Islamic banks in our sample have a duality of CEOs; only 15.71% of these banks included women on their boards of directors. 55% of Sharia board members are the AAOIFI committee members and 80.71% of Sharia board members have cross membership with Sharia boards in other Islamic banks.

Table 6b: Descriptive Statistics of Qualitative Variables

Variables	Modalities	Frequency	Percentage
Dua_PDG	0	260	92.86%
	1	20	7.14%
Fem	0	236	84.29%
	1	44	15.71%
Rep_Sh	0	126	45%
	1	154	55%
Adh_Sh	0	54	19.29%
	1	226	80.71%

Multi-variate Analysis

Verification of the existence of the multi-collinearity problem: Pearson's correlation matrix

As to Table 7, the Pearson's test results for our model showed that most correlation coefficients were not high and did not exceed 0.8 according to Kennedy (1998) and 0.9 according to Bohrnstedt and Knoke (1994). Similarly, we noted that most of the correlations between the different variables were very low except for a few variables. The correlation coefficients in absolute values varied between 0.0004 and 0.5445 so the model did not present multi-collinearity problems. Indeed, a strong correlation between two variables can bias the model. Therefore, we applied the Variance Inflation Factor (VIF) test, which measures the degree to which the dependent variable can be explained by the explanatory variables.

Table 7: Pearson's Correlation Matrix

Variables	Ic_Fin	Taill_CA	Ind_CA	Dua_PDG	Fem	Com_Aud	Rep_Sh	Adh_Sh	Rent_Fin	Norm	Q_Aud	Co_Aud
Ic_Fin	1.0000											
Taill_CA	0.0077	1.0000										
Ind_CA	0.1778	0.3273	1.0000									
Dua_PDG	-0.2928	-0.1289	-0.1792	1.0000								
Fem	0.1147	0.2277	0.0206	-0.1198	1.0000							
Com_Aud	0.1673	0.2316	0.1983	-0.0940	-0.1836	1.0000						
Rep_Sh	0.3112	-0.0294	0.2964	-0.1672	-0.0631	0.1261	1.0000					
Adh_Sh	0.2920	-0.0933	0.1330	0.1356	-0.0625	0.1700	0.5404	1.0000				
Rent_Fin	-0.0641	0.0151	0.0145	-0.0023	-0.0031	0.0240	0.0066	0.0037	1.0000			
Norm	0.0806	0.0875	0.3236	-0.0277	0.0393	-0.1492	0.5025	0.3983	0.0071	1.0000		
Q_Aud	0.0015	0.0095	-0.0005	0.0166	0.0259	-0.0507	0.0662	0.1225	0.0004	0.0599	1.0000	
Co_Aud	-0.0620	0.0907	-0.1424	0.3314	0.0879	0.2579	-0.5275	-0.0550	-0.0045	-0.5445	-0.0842	1.0000

With **Ic_Fin:** financial disclosure index; **Taill_CA:** the size of the board of directors; **Ind_CA:** Independence of members of the Board of Directors; **Dua_PDG**: CEO Duality; **Fem:** Presence of women on the board of directors; **Com_Aud:**Audit committee; **Rep_Sh** Reputation of Sharia board:; **Adh_Sh;** Sharia board cross-membership; **Ren_Fin:** Financial performance; **Norm:** Adopted standards; **Q_Aud:** Audit quality and **Co_Aud:** Joint Audit.

The VIF Test

As shown in Table 8, the maximum VIF value was 2.63 while the average VIF value was 1.36. We noted that all VIF values were less than 5. So based on Dimitrova (2005) it can be concluded that no multi-collinearity problem existed.

Table 8: VIF Test

Variables	VIF	1/VIF
Co_Aud	2.63	0.380578
Rep_Sh	2.44	0.409263
Norm	2.13	0.470525
Adh_Sh	1.95	0.513905
Com_Aud	1.49	0.672713
Ind_CA	1.36	0.734693
Dua_PDG	1.34	0.744005
Taill_CA	1.34	0.745747
Fem	1.21	0.828747
Q_Aud	1.03	0.967509
Ren_Fin	1.00	0.999102
VIF average	1.63	

Haussman Test

In order to choose the most appropriate and relevant model to interpret whether a fixed effect or random effect model is used, we used the Hausman test. The null hypothesis in this test suggests that GLS (Generalized Least Square Estimator) is better than the Fixed Effect Estimator. If the acceptance probability of the null hypothesis is greater than 10%, so we accept the hypothesis H0. As shown in Table 9, the acceptance probability of the null hypothesis was higher than 5% (0.8595) so the random effect model is the most appropriate.

Table 9: Haussman Test

chi-square	Probability	Effects
4.70	0.8595	Random effect

Breusch-Pagan Test

The Breusch and Pagan Lagrangian multiplier test is a test that detects heteroscedasticity or homoscedasticity for the random effect estimator. Table 10 shows a Chi-square statistic in the order of 339.66 with a Prob>Chi2 of 0.0000. The p-value was less than 1%, so the null hypothesis of homoscedasticity of the residues was rejected and a problem of heteroscedasticity arose. Therefore, we had to correct this problem by applying regression with robust standard errors for the fixed effect model and by Feasible generalized least squares (FGLS) for the random effect model. Since our model was the random effect, we applied the FGLS.

Table 10: Breusch and Pagan Lagrangian Test

Chi-square statistics	P-value
339.66	0.0000***

*Significance at 10% threshold, ** Significance at 5% threshold, *** Significance at 1% threshold

Regression Results

To test our assumptions, we used the panel regression model. This analysis allowed us to identify possible determinants of disclosure compliance in Islamic banks. We tried to determine the degree of effect of explanatory variables on the variable to be explained. Thus, we present the results of the multi-variate regression of our model from the random effect model in Table 11.

Table 11: Result of the Multi-varied Analysis

Estimate by GLS			
	Coefficient	Z	Significance
Taill_CA	-0.0050368	-1.15	0.249
Ind_CA	-0.3029158	-8.33	0.000***
Dua_PDG	0.0027299	1.03	0.304
Fem	0.0307896	1.71	0.088*

Com_Aud	0.004094	0.46	0.646
Rep_Sh	0.1598969	5.30	0.000***
Adh_Sh	0.1163185	3.52	0.000***
Ren_Fin	-0.0009306	-0.42	0.675
Norm	-0.0196341	-0.89	0.371
Q_Aud	-0.0799633	-0.55	0.585
Co_Aud	0.0858253	3.17	0.002***
Constant	0.6016604	4.08	0.000***

*Significance at 10% threshold, ** Significance at 5% threshold, *** Significance at 1% threshold

For the model, the Wald Chi test (2) of the overall significance of the regression model was equal to 241.39. So it was significant at the 1% threshold (Prob>chi2=0.000). We, therefore, concluded a satisfactory explicative power of the model.

Based on Table 11, the results reveal a negative association between the variable size of Board of Directors and Financial Disclosure Index with a coefficient of -0.00503. However, it was not significant, the p-value showed a value of 0.249. Thus our hypothesis H1 was rejected. Indeed, this result is consistent with that of Bukair and Abdul Rahman (2015) who did not find a significant relationship between the size of the board of directors and the level of disclosure in Islamic banks. Findings are inconsistent when compared to Grassa et al. (2019) who argued that size of the board has positive and significant influence on the level of disclosure in Islamic banks and contradicts predictions of the Agency Theory which suggests that increased management scrutiny in combination with larger boards of directors might positively influence disclosures. Indeed, each time the size of the board increases, conflicts of interest among members also increases, which impacts and reduces the level of disclosure (Fama & Jensen, 1983). Even if the supervisory capacity of the board is high due to the large number of members and their shared expertise and knowledge, these benefits can be compensated by the additional cost of mediocre communication and more effective decision-making often associated with large groups, which reduces supervisory capacity and affects the disclosure level.

The Independence of the Board of Directors variable shows a negative coefficient with a value equal to -0.3029 and highly significant on the level of financial disclosure with a significant p-value of 0.000 at the 1% threshold. Therefore, our second hypothesis H2 was confirmed. In fact, our result confirms the one found by Grassa et al. (2019) who found a negative and significant relationship between this variable and the level of disclosure in Islamic banks. These findings did not support the results of Neifar and Jarboui (2018) and Grassa and Chakroun (2016) who found a positive association by confirming that board member independence increases Islamic banks' disclosure level as well, the Agency Theory admitting that independent directors are seen as an effective corporate governance tool and that they act in a timely and effective manner to reduce agency problems (Abraham & Cox, 2007). We can explain our results by the fact that independent members in the Board of Directors might lack the necessary corporate sophistication required to work effectively, thereby adversely impacting the level of financial disclosure.

The coefficient associated with the CEO duality variable was negative and insignificant with a value equal to 0.0027 and a p-value equal to 0.304. Therefore, our hypothesis H3, in this case, was rejected. CEO duality did not affect the level of financial disclosure. Our result confirms the results of Bukair and Abdul Rahman (2015) who found no significant correlation among the duality of CEOs with disclosure level. Nevertheless, results by Grassa and Chakroun (2016) and Rahman and Bukair (2015) led to significant and positive results. Thus, our results contradict the predictions in the Agency Theory as well, suggesting that a CEO's dual status provides special authority, which affects board supervision (Jensen & Meckling, 1976).

We found that the coefficient of the variable Presence of Women in the board of directors is positive and equal to 0.0307 as well as significant with a p-value equal to 0.088 and significant at the 10 % threshold. So, the hypothesis H4 was confirmed. This finding supports the Agency Theory agreeing that diversity might not adversely impact board effectiveness. Rather, it is expected to reduce information asymmetry, thereby raising the quality of financial disclosure (Fama & Jensen, 1983). Moreover, it is similar to the results of Velte (2017), Allini et al. (2016) and Al-Maghzom (2016), which supported the strong and positive effect of gender diversity

on the board of directors. But this does not confirm the results of Allini et al. (2014). Our findings might be related to the fact that gender diversity within the board allows for the diversification of skills and behaviors that could influence strategic decision-making, improve board effectiveness and transparency and consequently the level of disclosure.

The variable Audit Committee and the dependant variable were correlated positively which had 0.0040 as coefficient. The p-value was insignificant and equal to 0.646. Thus, hypothesis H5 was rejected. Our result does not agree with those obtained by Sellami and Tahari (2017) who concluded that audit committees positively and significantly affect compliance and who argued that audit committee improves the quality of annual reports published by Islamic banks. Accordingly, it contradicts the predictions of the Agency Theory arguing that audit committees are an efficacious monitoring mechanism for enhancing corporate disclosure quality and minimizing agency costs (Forker, 1992). Indeed, we can explain these results by the fact that even in the presence of quality auditors, the audit committee does not affect the level of financial disclosure.

With regard to Reputation of the Sharia Board variable, the results showed that its coefficient is positively related to financial disclosure and a very significant p-value at the level of 1% threshold. This indicates that the reputable members of the Sharia board have an effect on financial disclosure and this proves its special position in Islamic banks hence the confirmation of H6. Findings are in line with the Agency Theory that when SSB is effective, it can reduce agency conflicts and reporting imbalances between managers and shareholders through its independent monitoring of Sharia-compliant operations. Thus, large SSB imply diverse skills and greater oversight (Safieddine, 2009; Singh et al., 2004). Our findings are also in accordance with those of Nomran et al. (2016) who demonstrated the importance of the reputation of the Sharia board in determining the level of disclosure. We can explain these results by the excellent reputation that members have due to their universal knowledge of Islam and Sharia and their credible and significant role in Islamic banks which improves the level of disclosure and compliance.

In addition, the Cross-membership variable for the Sharia board members had a positive coefficient related to disclosure index. This positive

association was significant at the 1% threshold, which means that H7 hypothesis was accepted. This finding confirmed the significant findings of El-Halaby and Hussainey (2016), Wan Abdullah et al. (2015) and Farook et al. (2011), who argued that cross-engagement of Sharia board members improves disclosure level, control and compliance with Sharia, which supports the Signaling Theory corroborating that a standalone SSB endowed with extensive experience, skills, and knowledge may improve Islamic banking transactions through increased disclosure by managers (Connelly et al., 2011). Indeed, cross-membership can improve the transparency of the information disclosed by comparing the knowledge acquired by other Islamic banks. Thus, decisions taken in a bank may be part of decisions of another bank and Sharia board members with cross-membership will be able to adopt the intact and explicit knowledge in their application of Sharia and financial decisions in Islamic banking matters and positively affect the level of financial disclosure.

Regarding the control variables, financial performance did not have a significant effect on compliance and disclosure. This result suggested that this relationship is not relevant because the bank must disclose information whatever the situation, whether it makes a profit or not. The standards adopted by the bank had no significant impact on compliance level. Our results do not agree with those of Mohammed et al. (2015) who argued that the AAOIFI standards' adoption in Islamic banks has a positive and significant effect and that these standards enhance the disclosure level at Islamic banks in order to increase their reliability. The negative and non-significant result indicates that the AAOIFI standards were less effective and less rigorously applied than the IFRS. This finding confirms the assumption that AAOIFI adoption in Islamic banks lacks applicability.

Similarly, Audit Quality had no significant effect on disclosure level, which confirms results found by El-Halaby and Hussainey (2016) who concluded an insignificant correlation of audit quality and AAOIFI compliance level. Thus, this variable had no significant influence on Sharia disclosure. Studies explain the negative relationship between disclosure and audit quality through the Signal Theory by arguing that they are substitutable. Indeed, managers resort to quality auditors from large firms in order to disclose less information.

Regarding Joint Audit, it is positively and significantly associated with financial disclosure level These results confirm results found by Alanezi et al. (2012), Francis et al. (2008) and Becker et al. (1998) who argued that joint auditing is significantly associated with disclosure level, demonstrating that it improves disclosure quality and reduces information asymmetry. We can explain this positive relationship by the fact that reports reviewed by two independent auditors are more accurate, reliable and transparent, by improving the clarity in the expressed audit opinion and hence the level of financial disclosure.

CONCLUSION

We tried to measure Islamic bank compliance with the AAOIFI standards by calculating a financial disclosure index while identifying compliance determinants. Thus, financial disclosure was determined by bank governance through the presence of women on the board. It is further determined by the reputation of the Sharia Supervisory Board and the cross-membership of its members. However, board independence was negatively associated with AAOIFI compliance. Thus, reducing the financial disclosure level.

Joint audit, in turn, had a significant part to play in the bank's reporting as well as compliance with the AAOIFI. We presented the results of regressions using our model and a sample of 40 Islamic banks from the MENA region over the period 2010-2016 corresponding to 280 observations. Therefore, our contribution is double, on the one hand, we measured the compliance of these banks to the AAOIFI standards, and on the other, we identified the factors determining this compliance.

Our results clearly showed variations between levels of compliance with Accounting Standard (No. 1) of the AAOIFI financial standards. Our results confirm those of El-Halaby and Hussainey (2016) and Sarea (2012). The results also showed that the presence of women on the board determines financial disclosure, which is further influenced by the reputation of the Sharia Supervisory Board and the cross-membership of its members. However, it is negatively influenced by the independence of the board of directors.

Joint Audit, in turn, plays an important role in the bank's financial disclosure and compliance with the AAOIFI. These results can be considered as a contribution to the literature on appropriate accounting references for using the AAOIFI standards in Islamic banks. This study is a significant step towards the adoption of the AAOFI, which could be used as a reference for further studies in the field of Islamic Banking financial reporting. The study also contributes to the existing literature on reporting practices in the Islamic banking industry. Furthermore, it could increase Islamic banking stakeholders' awareness of the gap between the current behavior of banks and expected compliance to information requirements.

Our findings have theoretical implications. Indeed, these results confirm the Agency Theory that companies with strong governance mechanisms tend to disclose more information for stakeholders. Therefore, complying with the AAOIFI standards. The Islamic banking market in the MENA region is one of the most important Islamic banking sectors in the world. Consequently, our study could be significant, and our conclusions could be very useful to the AAOIFI in improving the information on Islamic banks. At another level, this study may have pragmatic implications. Indeed, the more Islamic banks improve and increase information disclosure, the more it contributes to increasing the level of transparency of financial information and, consequently, to creating greater trust within society and among the customers of Islamic banks.

Thus, Islamic banks show the central bank that they are more compliant and committed to Islamic accounting standards. Moreover, regulatory bodies such as the central bank could further encourage AAOIFI adoption as a reference. Further, where the Sharia supervisory board has a reputation and cross membership, the Islamic bank is more likely to show high disclosure levels. Therefore, it encourages regulators and information users to support this department and increase its members, which could enhance financial disclosure. Thus, disclosure is proof that Islamic banks are working towards their objectives and improving compliance with the AAOIFI.

Our study is among the few studies that have investigated AAOIFI compliance and its determinants. It contributes to the literature on disclosure and Islamic finance. Nevertheless, like every research, it has its limits. In fact, our sample was limited in size and only to banks. Future research could

deal with a larger sample and may include Islamic financial institutions other than banks. In addition, we did not review all of the disclosure items in the AAOIFI Standard 1. Also, we did not identified all the determinants that can influence compliance and disclosure level in Islamic banks. Other studies could consider more characteristics such as bank size and age, risk committee, leverage, and country variables such as culture dimensions, rule of law, GDP, level of corruption, etc. Another limitation is that we selected 7 out of the 21 MENA countries. So, we suggest more comprehensive studies by looking at all the countries in the MENA region. Furthermore, only one AAOIFI standard was studied. Future research may focus on other standards like governance and auditing standards. Also, the study period could be more than 7 years.

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Note:

[1] http://aaoifi.com/announcement/aaoifi-issues-fas-33-investments-in-sukuk shares-and-similar-instruments-and-fas-34-financial-reporting-for-sukuk-holders/?lang=en