Received: 19 January 2024; Revised: 21 April 2025; Accepted: 01 May 2025

IFRS ADOPTION MODELS IN ISLAMIC BANKS OF SOUTH AFRICA AND INDONESIA: A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT - This study undertakes a comparative analysis of the implementation models of International Financial Reporting Standards (IFRS) in South Africa and Indonesia, focusing specifically on Islamic banking institutions. Whereas South Africa pursued full adoption of IFRS to align with international reporting benchmarks, Indonesia opted for a convergence approach, integrating IFRS principles within its existing local financial reporting framework. Employing a Systematic Literature Review (SLR) methodology, this research synthesizes findings from academic literature, annual reports of Islamic banks, and relevant institutional progress reports on IFRS implementation. The findings indicate that full IFRS adoption in South Africa has enhanced financial reporting quality and transparency; however, it has not entirely mitigated earnings management practices, such as income smoothing. Conversely, Indonesia's convergence model facilitates the preservation of distinct Shariah-compliant accounting standards but encounters persistent challenges in achieving full harmonization with global frameworks, including IFRS and AAOIFI. The study highlights the critical importance of tailoring IFRS implementation strategies to national regulatory landscapes while simultaneously respecting the unique principles governing Islamic finance. These insights contribute to the broader academic discourse on navigating the complexities of balancing global financial comparability with religious and cultural compliance within the context of Islamic banking.
Keywords: South Africa, Indonesia, IFRS Adoption, IFRS Convergence, Islamic Banking, Financial Reporting Quality.

ABSTRAK - Model Adopsi IFRS pada Bank Syariah di Afrika Selatan dan Indonesia: Systematic Literature Review. *Penelitian ini bertujuan untuk menganalisis perbandingan model implementasi International Financial Reporting Standards (IFRS) antara Afrika Selatan dengan Indonesia, yang berfokus pada perbankan syariah. Sementara Afrika Selatan menerapkan adopsi penuh IFRS guna menyelaraskan pelaporan keuangannya dengan tolok ukur internasional, Indonesia memilih pendekatan konvergensi, mengintegrasikan prinsip-prinsip IFRS ke dalam kerangka standar pelaporan keuangan lokal yang telah ada. Menggunakan metodologi Systematic Literature Review (SLR), penelitian ini mensintesis temuan dari literatur akademik, laporan tahunan bank syariah, serta laporan perkembangan institusional yang relevan terkait implementasi IFRS. Hasil kajian menunjukkan bahwa adopsi penuh IFRS di Afrika Selatan telah meningkatkan kualitas dan transparansi pelaporan keuangan; namun demikian, praktik manajemen laba, seperti perataan laba (income smoothing), belum sepenuhnya termitigasi. Sebaliknya, model konvergensi Indonesia memfasilitasi pelestarian standar akuntansi berbasis Syariah yang khas, tetapi menghadapi tantangan berkelanjutan dalam mencapai harmonisasi penuh dengan kerangka kerja global, termasuk IFRS dan AAOIFI. Studi ini menekankan pentingnya penyesuaian strategi implementasi IFRS dengan lanskap regulasi nasional, sembari tetap menghormati prinsip-prinsip unik yang mengatur keuangan Syariah. Temuan ini berkontribusi pada diskusi akademik yang lebih luas mengenai pengelolaan kompleksitas dalam menyeimbangkan keterbandingan keuangan global dengan kepatuhan religius dan budaya dalam konteks perbankan syariah.*
***Kata Kunci**: Afrika Selatan, Indonesia, Adopsi IFRS, Konvergensi IFRS, Bank Syariah, Kualitas Pelaporan Keuangan.*

INTRODUCTION

Financial Reporting Standards (FRS) serve as essential guidelines for the preparation of an entity's financial statements, ensuring both high quality and global comparability. Among the various accounting frameworks implemented globally, the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), have been adopted by over 168 jurisdictions, encompassing both developed and developing economies (IFRS, 2024a). However, the adoption process varies across countries, generally following one of two main approaches: full adoption or convergence (Agana et al., 2023). Full adoption implies the implementation of IFRS in its entirety without modification, whereas convergence involves aligning local accounting standards with IFRS, often incorporating adaptations to suit domestic contexts.

These differing approaches are illustrated by the cases of South Africa and Indonesia. South Africa fully adopted IFRS in 2005, applying it comprehensively across its financial reporting landscape (South African Institute of Chartered Accountants [SAICA], 2024). Conversely, Indonesia has opted for a convergence strategy. Beginning in 2012, Indonesia initiated the harmonization of its national Financial Accounting Standards (FAS) with IFRS, which became effective on January 1, 2014 and achieved substantial convergence by January 1, 2015 (Ikatan Akuntan Indonesia [IAI], 2024).

IFRS adoption offers several advantages. Firstly, it enhances the transparency of financial reporting by improving the comparability and quality of financial statements globally, thereby facilitating informed decision-making by investors and market participants. Secondly, it promotes accountability by narrowing information asymmetries between issuers of capital and the stakeholders who rely on financial disclosures. Finally, IFRS contributes to economic efficiency by enabling investors to better assess risks and opportunities across borders, leading to more effective capital allocation (IFRS, 2024b).

In South Africa, the Financial Reporting Standards Council (FRSC), established in 2011, holds legal authority to issue national accounting standards. These include full IFRS, IFRS for Small and Medium-sized Entities (SMEs), and other standards as deemed appropriate (FRSC, 2024). Several Islamic financial institutions in South Africa implement IFRS, including AlBaraka Bank—the country's first Islamic bank, founded in 1989—as well as Shariah-compliant services offered by conventional banks such as First

National Bank (est. ca. 2004), HBZ Bank (ca. 2005), Absa Bank (ca. 2006), and Standard Bank (ca. 2016) (Mahlaba, 2021).

In contrast, Indonesia's Shariah accounting framework is governed by the Dewan Standar Akuntansi Syariah (DSAS), a specialized board under IAI. While the broader Financial Accounting Standards were previously issued by the Dewan Standar Akuntansi Keuangan (DSAK), a 2013 directive (IAI National Executive Board Letter No. 0823-B/DPN/IAI/XI/2013) transferred responsibility for Shariah financial reporting standards to DSAS. Unlike South Africa's full IFRS adoption, Indonesia applies a convergence model, with DSAS issuing localized standards for Islamic financial institutions.

These include the Shariah PSAK (Pernyataan Standar Akuntansi Keuangan) and Shariah ISAK (Interpretasi Standar Akuntansi Keuangan). While these standards are primarily national, they reflect IFRS principles, such as PSAK 109 for Murabahah contracts, which incorporates elements of IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16. As of 2024, Indonesia hosts 207 Islamic banking institutions: 14 Islamic Commercial Banks (BUS), 19 Islamic Business Units (UUS), and 174 Islamic Rural Banks (BPRS) (Otoritas Jasa Keuangan [OJK], 2024).

Although IFRS has seen widespread adoption, comparative academic analyses of full adoption versus convergence approaches in the context of Islamic banking—particularly between South Africa and Indonesia—remain limited. This study therefore aims to examine the respective approaches undertaken by these two countries and assess their implications for the transparency, accountability, and quality of financial reporting in Islamic banks. By comparing these distinct strategies, the research seeks to contribute valuable insights for policymakers, regulators, and academics considering the optimal IFRS adoption model for Islamic financial institutions.

The remainder of this paper is structured as follows: Section 2 outlines the methodology employed in this study. Section 3 presents the findings and analysis. Finally, Section 4 offers concluding remarks and recommendations for future research.

METHODOLOGY

Research Design

This study employs a qualitative research approach utilizing the Systematic Literature Review (SLR) method. The SLR methodology is employed to systematically collect, evaluate, and synthesize existing literature relevant to the research questions (Higgins et al., 2019; Page et al., 2021). The focus of the review is the adoption of the International Financial Reporting Standards (IFRS) in South Africa and Indonesia, particularly regarding their implementation within Islamic banking institutions.

To ensure methodological rigor and transparency, the review process follows the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 guidelines, which consist of 27 reporting items and an additional abstract sub-item (Page et al., 2021). The PRISMA 2020 statement supersedes the earlier 2009 version and reflects recent advances in systematic review methodology, including improved practices for the identification, selection, appraisal, and synthesis of studies.

Research Questions

Two key research questions were developed to guide the review:

Q1: *What are the driving factors behind South Africa's full adoption of IFRS and Indonesia's convergence approach?*

This question is explored through the lens of Institutional Theory, which posits that organizations adopt certain structures or practices to attain legitimacy and manage uncertainty. South Africa's full adoption of IFRS can be interpreted through mechanisms such as coercive isomorphism (external pressures from global financial institutions), mimetic processes (imitation of established economies), and normative influences (advocacy by professional accounting bodies). The country's post-apartheid context further intensified institutional pressure for global legitimacy, motivating a direct adoption of IFRS. Conversely, Indonesia's convergence strategy reflects selective decoupling—incorporating IFRS principles while maintaining alignment with domestic institutional logics, especially Shariah-compliant banking regulations.

Q2: *Which approach—full adoption or convergence—yields better outcomes in terms of transparency, accountability, and efficiency for Islamic banks?*

To address this, the study draws on Contingency Theory and Institutional Logic Theory. Contingency Theory posits that the effectiveness of a policy is context-dependent, while Institutional Logic Theory highlights the influence of broader norms and cultural frameworks. Indonesia's convergence model reflects dual institutional logics, harmonizing global standards with Islamic principles, thus minimizing resistance. In contrast, South Africa's full adoption strategy prioritizes international financial market requirements, potentially creating frictions within Islamic financial institutions.

Data Collection and Inclusion Criteria

The literature search was conducted using the Dimensions database, chosen for its comprehensive coverage of over 110 million academic publications, including specialized content on Islamic finance and IFRS. The search strategy involved combinations of the following keywords: "IFRS Adoption," "IFRS Convergence," "IFRS Adaptation," "IFRS Implementation," and "IFRS Harmonization."

To ensure academic rigor and relevance, the following inclusion criteria were applied:

a. Focus on case studies from South Africa and Indonesia.
b. Inclusion of both empirical (quantitative and qualitative) and theoretical studies.
c. Only peer-reviewed journal articles were considered.
d. Only open-access publications were selected for in-depth content analysis.
e. Priority was given to studies within the domains of banking, finance, and investment.
f. Emphasis was placed on literature directly addressing Islamic banking or Islamic financial institutions.
g. Only studies published in English were included.

The "Dimensions" database was selected as the primary source due to its comprehensive coverage, which includes over 110 million publications spanning various disciplines, its advanced filtering for open-access content, citation tracking, cross-disciplinary integration, and built-in analytics tools.

To supplement the data obtained from Dimensions, additional materials were sourced from the official websites of relevant standard-setting bodies and annual reports of Islamic financial institutions in both countries. These supplementary sources helped provide a holistic view of the IFRS implementation landscape.

Data Analysis

The selected literature was analyzed using qualitative content analysis, a method that involves identifying, coding, and interpreting patterns and themes relevant to the research questions. Special attention was given to how IFRS adoption—either through full adoption or convergence—impacts the transparency, accountability, and quality of financial reporting within Islamic banks in the two countries. To ensure the validity of findings, the study applied data triangulation, integrating insights from multiple sources and theoretical lenses.

PRISMA Framework and Research Tools

The research followed the four main PRISMA stages:

a. Identification – Initial database search and removal of duplicates.
b. Screening – Title and abstract screening based on inclusion criteria.
c. Eligibility – Full-text review of potentially relevant articles.
d. Inclusion – Final selection of studies used for synthesis.

A schematic overview of this process is presented in Figure 1, which depicts the PRISMA flow diagram (adapted from Page et al., 2021). In line with PRISMA recommendations, the study also included older foundational works where relevant, ensuring a balance between current insights and historical perspectives. Data collected were systematically analyzed to derive conclusions aligned with the formulated research questions and to propose directions for future research.

Several digital tools supported the data management and analysis process:

a. Mendeley Desktop was used for importing references, removing duplicate articles, and conducting initial inclusion screening based on abstracts.
b. VOSviewer was utilized for visualizing trends, co-occurrence of terms, and identifying thematic clusters in the literature.
c. Harzing's Publish or Perish was applied to locate influential articles and citation metrics relevant to the field of IFRS and Islamic banking.

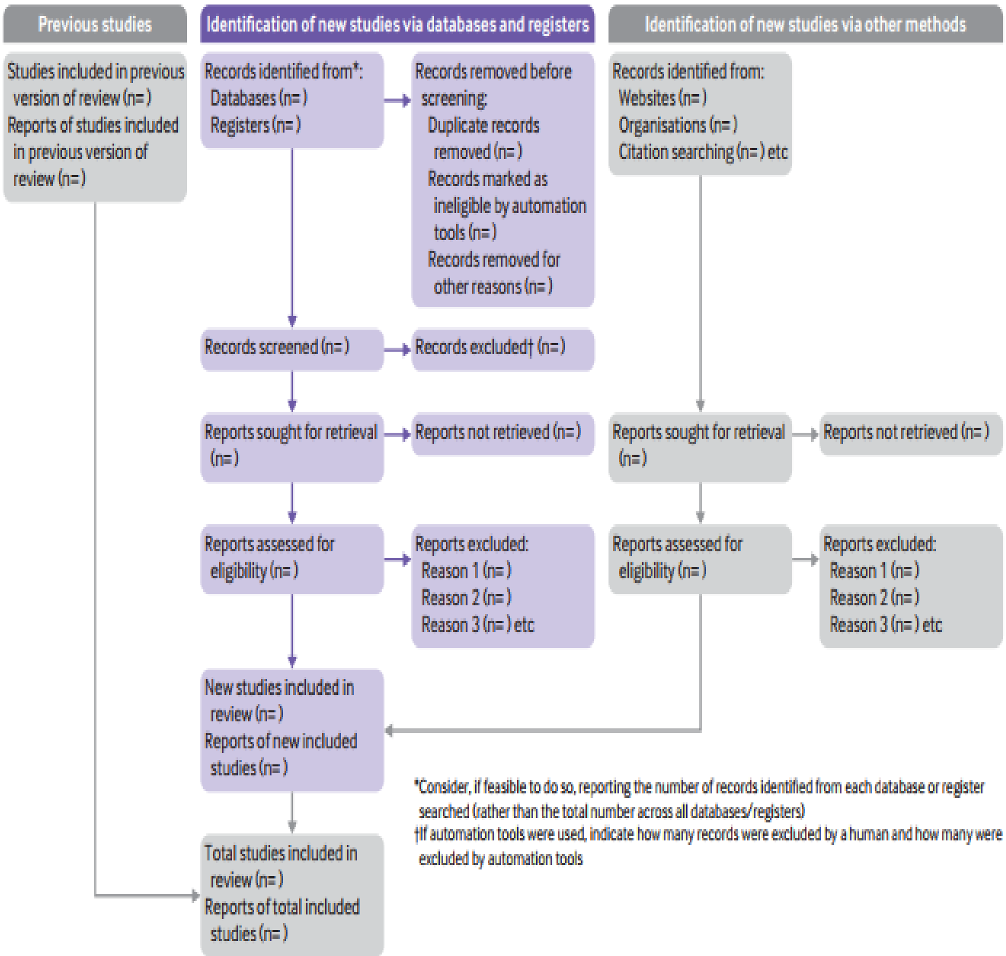

Figure 1. PRISMA Flow Diagram
(Source: Page et al., 2021)

RESULTS AND DISCUSSION

Literature Identification and Selection Process

A comprehensive literature search was conducted using the Dimensions database, employing the keywords *"IFRS Adoption," "IFRS Adaptation," "IFRS Implementation," "IFRS Convergence,"* and *"IFRS Harmonization."* The initial search yielded a total of 10,298 records (see Figure 2).

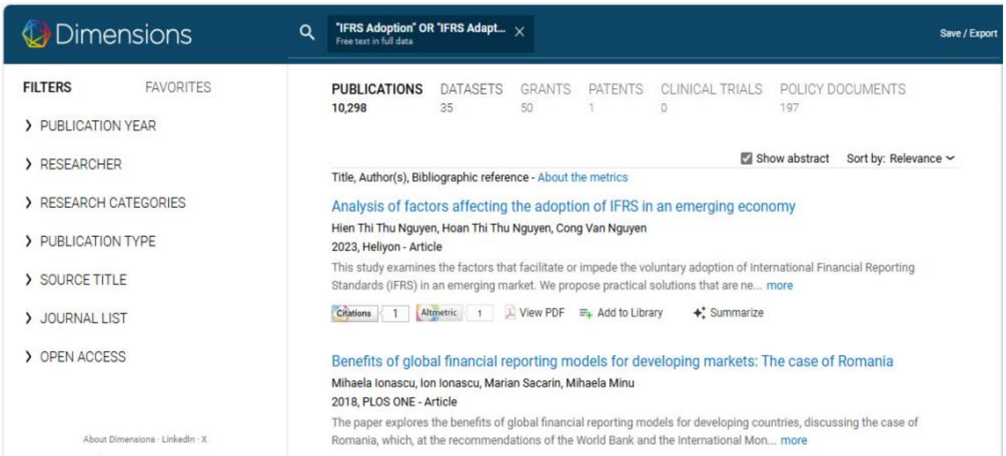

Figure 2. Dimensions Database
(Source : Author, Retrieved June 18, 2024)

To ensure the quality and relevance of the selected studies, a series of filters were applied. Only open-access, peer-reviewed journal articles categorized under the research field of *Banking, Finance, and Investment* were retained, reducing the dataset to 1,971 records (see Figure 3).

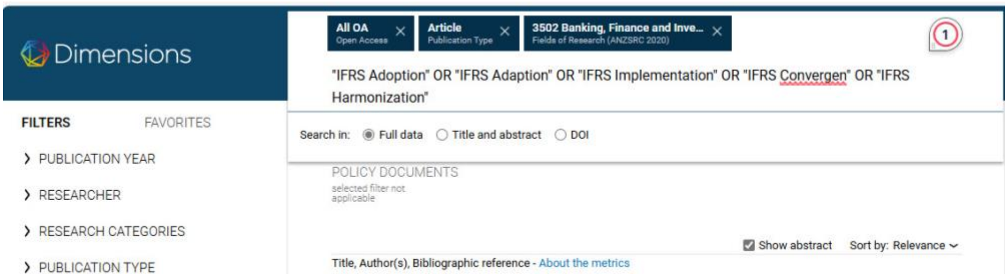

Figure 3. Database Screening
(Source : Author, Retrieved June 18, 2024)

Screening and Eligibility Criteria

The eligibility phase involved applying strict inclusion and exclusion criteria to identify studies directly relevant to IFRS implementation in Islamic banks in South Africa and Indonesia. Duplicate records were removed using the Mendeley Desktop software, resulting in a refined dataset of 1,954 articles (Figures 4 and 5). A focused search revealed 21 studies related to South Africa and 194 studies related to Indonesia.

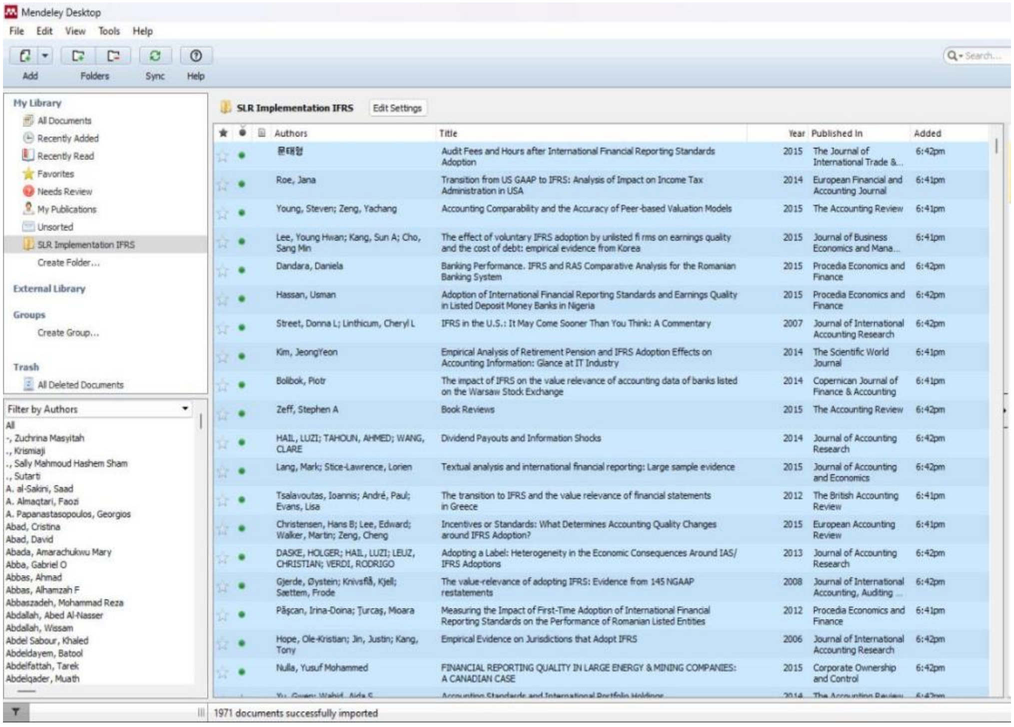

Figure 4.Import data into Mendeley Desktop
(Source : Author, June 2024)

Then using the existing feature of checking duplicates, the duplicate data is merged, as shown in Figure 5.

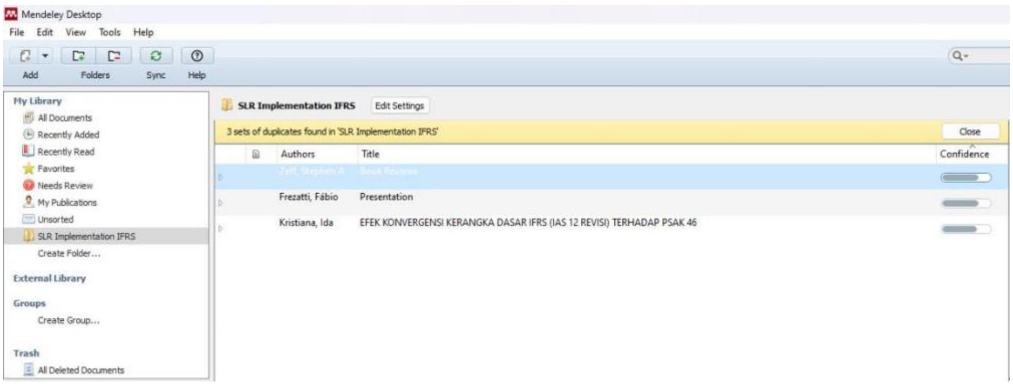

Figure 5. Check Duplicate and Merge Articles
(Source : Author, June 2024)

Upon further refinement based on the relevance to Islamic banking practices, a total of 38 studies were deemed eligible for review—36 from Indonesia and 2 from South Africa (Figures 6 and 7).

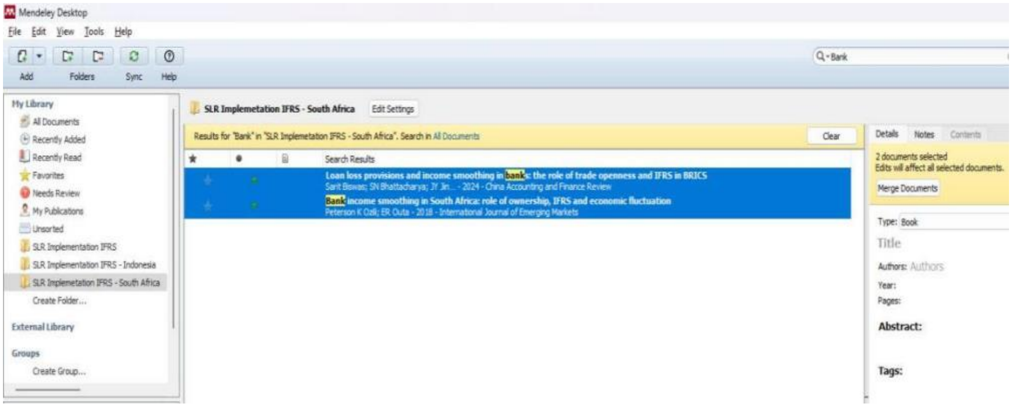

Figure 6. the final inclusion results of the study in the country of South Africa
(Source: Author, June 2024)

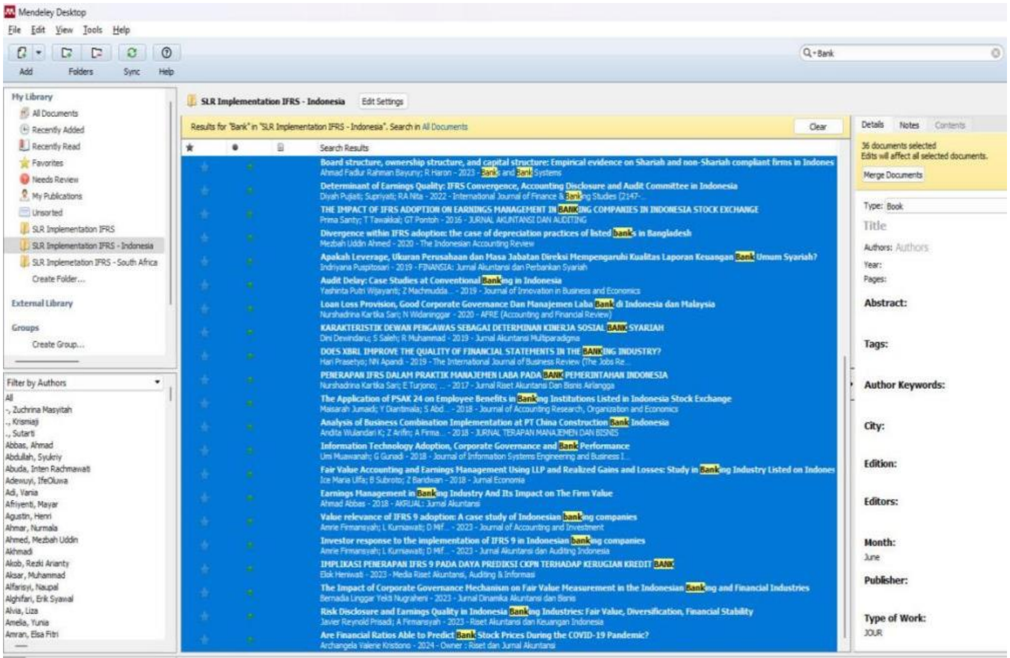

Figure 7. final inclusion results of the study in the country of Indonesia
(Source: Author, June 2024)

Inclusion and Synthesis of Selected Studies

In the inclusion stage, the final set of eligible articles was imported into Harzing's Publish or Perish software to retrieve citation details and full-text access links (Figure 8). Following a rigorous screening of titles, abstracts, and conclusions, 16 studies were selected for content analysis and thematic synthesis.

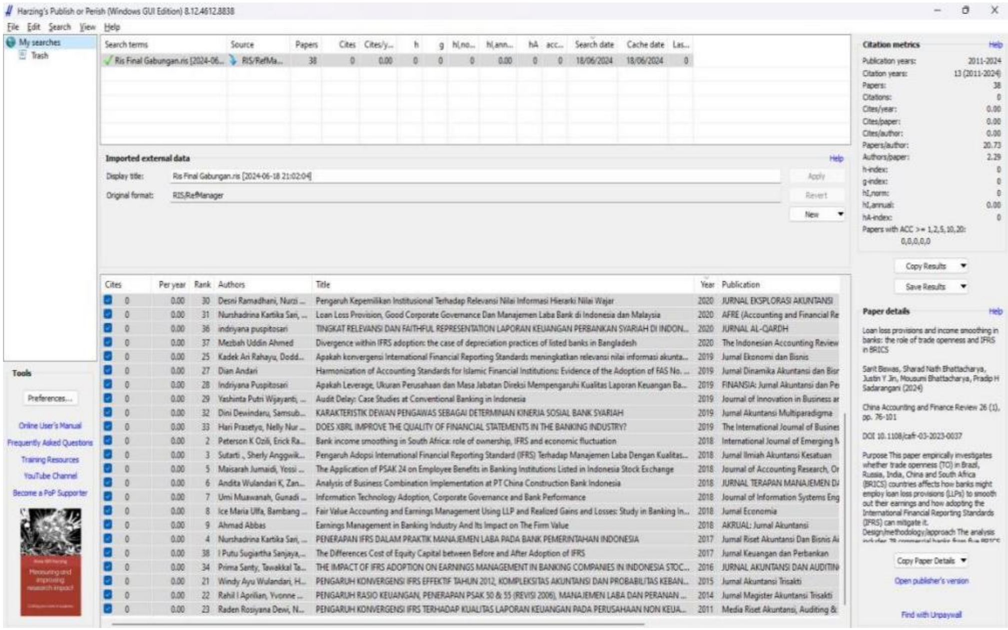

Figure 8. Harzing's Publish or Perish Import Result
(Source: Author, June 2024)

Overview of Selected Studies

The systematic literature review identified 16 studies that met the inclusion criteria, which were subsequently organized into six primary thematic categories based on their research focus. This section provides a thematic overview of the selected literature. A significant body of the reviewed literature focused on the impact of IFRS adoption and convergence on the quality and value relevance of accounting information, particularly within the Indonesian banking sector. Key studies in this category include Rahayu and Setiawan (2019), who examined the effects of IFRS convergence on the value relevance of accounting information, and Nuraini (2020), who conducted a comparison of accounting information quality before and after convergence. Pujiati et al. (2022) further explored this theme by analyzing the combined roles of IFRS convergence, specific accounting disclosures, and the oversight function of audit committees in influencing earnings quality.

Following this, several articles specifically investigated earnings management practices within the banking sector in the context of IFRS implementation. Santy et al. (2016) directly investigated the impact of IFRS adoption on earnings management in Indonesian banks. Expanding on this, Sutarti and Anggawikara (2018) analyzed the moderating role of audit quality in mitigating earnings management post-IFRS adoption. Sari and Widaninggar (2020) compared loan loss provisioning and earnings management between Indonesian and Malaysian banks. Abbas (2018) also contributed to this theme by exploring the relationship between discretionary accruals and firm value in the banking sector.

A more specific focus within the literature pertains to the relationship between IFRS and loan loss provisioning, often linked to income smoothing practices. Ozili and Outa (2018) provided a South African perspective, concentrating on income smoothing specifically via loan loss provisions in banks. Broadening the scope geographically, Biswas et al. (2024) studied the relationship between trade openness, IFRS, and income smoothing across BRICS countries. Relatedly, studies explored the implications of fair value accounting under IFRS. Ramadhani and Sebrina (2020) evaluated the influence of institutional ownership on the relevance of fair value hierarchy disclosures as mandated by IFRS 13. Prisadi and Firmansyah (2023) further investigated the complex interaction between fair value measurements, risk disclosure practices, and overall earnings quality. Moving to capital market outcomes, research also examined the cost of capital. Sanjaya and Barus (2017) assessed differences in the cost of equity capital for Indonesian banks before and after the implementation of IFRS.

Finally, a distinct and crucial theme involved research focused specifically on Islamic banking and its unique accounting standard considerations, particularly concerning the alignment with IFRS or Shariah-specific standards. Andari (2019) analyzed the alignment of Indonesia's Islamic accounting standards (PSAK Syariah) with AAOIFI FAS No. 17. Puspitosari (2020) investigated the relevance and faithful representation of financial statements in Islamic banking. The impact of specific IFRS-based standards on Islamic banking stakeholders was addressed by Firmansyah et al. (2023), who evaluated investor responses to the implementation of PSAK 71 (based on IFRS 9). Furthermore, Puspitosari (2019) explored the governance and structural factors influencing the financial reporting quality specifically within Islamic banks.

In addition to these studies, supplementary materials were reviewed, including prior literature and official reports from regulatory bodies such as SAICA, FRSC, OJK, IAI, AlBaraka Bank, and the IFRS Foundation. These materials provided contextual grounding and enhanced the comprehensiveness of the content synthesis.

Summary of the Systematic Literature Review (SLR) Process

A summary of the SLR process is illustrated in **Table 1** (see Appendix), showing identification, screening, eligibility, and inclusion stages in accordance with PRISMA guidelines.

Table 1. Systematic Literature Review (SLR) Summary

Stage	Description	Number of Records	Criteria
Identification	Records identified through database search (Dimensions)	10,298	Keywords: *"IFRS Adoption," "IFRS Adaption," "IFRS Convergence," "IFRS Harmonization"*
Screening	Records screened after applying initial filters	1,971	Open Access, Article type, Field: *Banking, Finance & Investment*
	Records excluded	8,856	Not meeting inclusion criteria
Eligibility	Full-text articles assessed for eligibility	38	Studies related to *Indonesia* or *South Africa* and *banking sector*
	Articles meeting country-specific and sector-specific relevance	IDN: 36 ZAF: 2	
Inclusion	Studies included in qualitative synthesis	16	Focus on *IFRS adoption/convergence* in *Islamic banking*
	Articles selected	IDN: 14 ZAF: 2	

Note: IDN = Indonesia; ZAF = South Africa

Research Analysis

This section presents the results of a qualitative content analysis conducted to answer the study's core research questions concerning the adoption of IFRS in Islamic banks in South Africa and Indonesia. Specifically, it examines (1) the driving factors behind each country's adoption approach and (2) the comparative impact of full adoption versus convergence on transparency, accountability, and financial reporting quality.

Comparative Summary of IFRS Adoption Approaches

South Africa and Indonesia adopt fundamentally different approaches to IFRS implementation. South Africa opted for full adoption in 2005, applying IFRS wholesale across all sectors. In contrast, Indonesia implemented a convergence approach, harmonizing its national accounting standards (SAK) with IFRS over a phased timeline beginning in 2012 and becoming substantially effective by 2014. To facilitate a structured comparison of these two approaches, Table 2 summarizes key dimensions and their implications for Islamic financial institutions in both jurisdictions.

Table 2. Comparative Summary

Aspect	South Africa	Indonesia	Implications for Islamic Banks
Adoption Approach	Full IFRS adoption (since 2005)	IFRS convergence (2012–2014)	Varying compliance complexity and adaptation burdens
Regulatory Body	Financial Reporting Standards Council (FRSC, 2011)	Dewan Standar Akuntansi Syariah (DSAS IAI, 2013)	Institutional differences shape development of Islamic standards
Islamic Banking Standards	Universal IFRS; no separate Islamic standard	Specific Shariah PSAK derived from AAOIFI	Dedicated Islamic reporting standards in Indonesia; adaptation required in South Africa
Transparency	Improved, but income smoothing persists	Improved, especially for listed banks	Both models enhance transparency, with contextual limitations
Income Smoothing	Continues via loan loss provisions	Reduced but not eliminated	Challenges remain across both systems
Reporting Complexity	Dual reporting (e.g., IFRS and AAOIFI at AlBaraka)	Integrated Shariah PSAK aligned with IFRS	Both contexts face harmonization challenges
Fair Value Accounting	Full IFRS 13 implementation	PSAK 68 (aligned with IFRS 13)	Shariah instruments complicate fair value application
AAOIFI Harmonization	Informal alignment	Partial formal alignment with adjustments	Gaps in harmonization across both contexts
Investor Confidence	Mixed outcomes	Improved with PSAK 71 (IFRS 9)	Greater responsiveness to Islamic finance in Indonesia
Cost of Capital	Limited research available	Lower equity capital post-convergence	Convergence may support capital efficiency
Accounting Information Quality	Improved, though with practical challenges	Enhanced comparability and quality	Contextual effectiveness depends on enforcement and institutional capacity

Driving Factors Behind IFRS Adoption Approaches

South Africa's decision to fully adopt IFRS was driven by a strong desire for institutional legitimacy in the post-apartheid era. The establishment of the Financial Reporting Standards Council (FRSC) in 2011 consolidated regulatory authority and ensured uniform application of IFRS across sectors, including Islamic banking. Banks such as AlBaraka Bank and several conventional banks offering Islamic services fully comply with IFRS for consolidated reporting (SAICA, 2024).

Indonesia's convergence model reflects a pragmatic response to institutional and religious complexity. As a member of the International Federation of Accountants (IFAC) and the G20, Indonesia was obligated to align with international accounting standards (Suprihatin & Tresnaningsih, 2013; Rahayu & Setiawan, 2019). However, given the existence of well-established local standards and a dual banking system, the convergence model enabled gradual adaptation while preserving the unique reporting needs of Islamic financial institutions.

Impact on Transparency, Accountability, and Reporting Quality

Despite full adoption, income smoothing practices continue among South African banks. Ozili and Outa (2018) found that loan loss provisions are still used to manage earnings, raising concerns about Shariah compliance, as such practices may conflict with Islamic ethical standards. Pramono et al. (2019) argue that weaker enforcement, not IFRS itself, contributes to this persistence. AlBaraka Bank's dual reporting—using IFRS for consolidated financials and AAOIFI formats for Islamic operations—demonstrates the difficulty of reconciling IFRS with Shariah principles. This duality underscores a critical challenge: IFRS alone does not fully accommodate Islamic finance structures, necessitating supplementary frameworks for Shariah compliance (AlBaraka, 2024). The report is presented in Figure 9.

Indonesia's convergence model, particularly through Shariah PSAK, offers greater flexibility in accommodating Islamic banking principles. Shariah PSAK integrates IFRS elements while adjusting for Shariah-specific contracts and ethical imperatives (Puspitosari, 2020). However, harmonization with AAOIFI remains incomplete. Studies by Mukhlisin et al. (2015) and Andari (2019) identify structural and conceptual divergences, particularly in the treatment of Murabahah contracts, profit-sharing mechanisms, and zakat disclosures.

Despite these limitations, convergence has yielded notable benefits: improved transparency and comparability in listed banks (Rahayu & Setiawan, 2019; Nuraini, 2020), lower cost of capital (Sanjaya & Barus, 2017), enhanced investor confidence following PSAK 71 (aligned with IFRS 9) (Firmansyah et al., 2023), and improved fair value disclosures under PSAK 68 (aligned with IFRS 13) (Barth et al., 2005; Ramadhani & Sebrina, 2020).

AAOIFI STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	GROUP		COMPANY	
	2022	2021 (Restated)*	2022	2021 (Restated)*
	R'000	R'000	R'000	R'000
Assets				
Cash and cash equivalents	642 098	522 636	640 466	522 631
Sales receivables	2 120 998	3 270 555	2 120 998	3 270 555
Musharaka financing	5 407 848	4 495 224	5 407 848	4 495 224
Ijarah financing	71 290	52 002	71 290	52 002
Investment securities	17 437	29 828	17 437	29 828
Investment in subsidiary company	-	-	41 376	36 682
Total investments	8 259 671	8 370 245	8 299 416	8 406 921
Other assets	59 579	38 945	89 545	67 664
Property and equipment	89 285	95 826	12 637	17 604
Investment properties	10 339	10 339	-	-
Intangible assets	73 390	76 983	73 390	76 983
Total assets	8 492 264	8 592 338	8 474 988	8 569 172
Liabilities, unrestricted investment accounts and owners' equity				
Liabilities				
Customer current accounts and other	1 315 377	1 160 698	1 315 377	1 160 698
Payables	65 845	71 106	64 606	61 805
Other liabilities	43 382	26 030	43 382	26 030
Total liabilities	1 424 604	1 257 834	1 423 365	1 248 533
Equity of unrestricted investment account holders	5 708 195	6 149 871	5 708 195	6 149 871
Sukuk	310 605	309 367	307 700	307 700
Profits distributable to depositors	37 444	28 527	37 444	28 527
Total liabilities and unrestricted investment accounts	7 480 848	7 745 598	7 476 704	7 734 631
Owners' equity	1 011 417	846 741	998 284	834 542
Share capital	322 403	322 403	322 403	322 403
Share premium	82 196	82 196	82 196	82 196
Other reserve	2 313	2 037	2 313	2 037
Retained income	480 505	440 105	467 372	427 906
Additional Tier 1 Sukuk Instruments	124 000	-	124 000	-
Total liabilities, unrestricted investment accounts and				

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Figure 9. AAOFI Statement Financial Position of AlBaraka Bank South Africa
(Source: AlBaraka Bank annual report 2022)

However, these gains are not universal. Some studies (Pujiati et al., 2022; Santy et al., 2016; Abbas, 2018) suggest that earnings quality and earnings management practices remain largely unchanged, highlighting the influence of institutional enforcement, governance practices, and market maturity.

Harmonization Challenges Between Shariah PSAK and AAOIFI

Persistent misalignments between Shariah PSAK and AAOIFI standards create significant challenges for Islamic banks in Indonesia. Key issues include conceptual frameworks, where AAOIFI embeds Shariah principles at its core, whereas Shariah PSAK adapts from conventional frameworks, risking conceptual inconsistency. Contract recognition also varies, with Murabahah and other Islamic contracts treated differently across the two standards, impacting revenue recognition and risk disclosure.

Divergent approaches to PSIA accounting affect transparency in investor returns, and social accountability is another area of concern, as AAOIFI mandates detailed disclosures for zakat, qard, and charitable funds, which are less emphasized in Shariah PSAK. As highlighted in Andari's (2019) gap analysis of FAS 27, these discrepancies hinder international comparability and impose compliance burdens, especially on Islamic banks engaging in cross-border operations.

Implication for Practice

The analysis reveals that both full adoption and convergence offer advantages and challenges, depending on regulatory capacity, institutional structure, and the role of Islamic banking in each economy. While South Africa benefits from IFRS consistency and international alignment, its one-size-fits-all approach poses challenges for Islamic banks. Indonesia's convergence strategy offers flexibility but struggles with global harmonization and standard consistency. These findings underscore the need for enhanced collaboration between IFRS and AAOIFI standard-setters, development of implementation guidance tailored to Islamic finance, improved training and education for Islamic finance professionals, and stronger governance and enforcement frameworks to ensure reporting integrity.

Discussion

The systematic literature review (SLR) conducted in this study demonstrates the suitability of this methodology for addressing targeted research questions concerning IFRS adoption in Islamic banking. From an initial dataset of 10,298 records retrieved from the Dimensions database, the application of inclusion and exclusion criteria resulted in a final selection of 16 studies deemed relevant for content analysis. This substantial narrowing of sources illustrates both the precision of the SLR approach and the limited availability of empirical research specifically examining full IFRS adoption in the context of Islamic banks, particularly in South Africa. In contrast, a comparatively larger body of literature exists concerning Indonesia's IFRS convergence experience and its application within Islamic financial institutions.

The analysis confirms that IFRS adoption—whether through full adoption or convergence—can contribute significantly to enhancing the transparency, accountability, and quality of financial reporting in Islamic banks. These outcomes are essential for strengthening stakeholder trust and maintaining the credibility and reputation of Islamic financial institutions. As noted by Kartika et al. (2020), enhanced financial reporting practices are positively associated with increased customer loyalty, which is a critical success factor in Islamic banking.

Nevertheless, the extent to which these benefits are realized is contingent upon the specific adoption model employed, as well as broader institutional, political, and regulatory dynamics. While South Africa's full adoption model offers comprehensive alignment with international accounting standards, it has not fully mitigated concerns regarding earnings management practices, such as income smoothing (Ibrahim, 2010). These practices raise critical questions regarding compliance with Islamic ethical principles, particularly those related to honesty, transparency, and the avoidance of deceptive practices in financial reporting.

In contrast, Indonesia's convergence model has facilitated the development of Shariah-specific accounting standards (Shariah PSAK), enabling a more contextually relevant integration of IFRS principles. However, this model has encountered significant challenges in harmonization, particularly with AAOIFI standards. This may limit international comparability and complicate regulatory oversight. As noted by Mukhlisin and Fadzly (2020), the influence of political and institutional interests further complicates the standard-setting process, potentially affecting the consistency and objectivity of IFRS implementation.

Ultimately, the comparative experiences of South Africa and Indonesia underscore the importance of striking a balance between global financial reporting harmonization and the preservation of the distinct values and operational structures inherent in Islamic finance. Neither full adoption nor convergence offers a universally optimal solution. Instead, effective implementation is contingent upon a nuanced understanding of local institutional contexts, regulatory capacities, and the principles of Shariah-compliant finance.

CONCLUSION

This study explored the adoption of International Financial Reporting Standards (IFRS) in Islamic banks through a comparative analysis of South Africa's full adoption model and Indonesia's convergence approach. The findings reveal that both approaches contribute to improving transparency, accountability, and the quality of financial reporting in Islamic banking. However, persistent challenges remain—particularly in the areas of income smoothing in South Africa and harmonization between Shariah PSAK and AAOIFI standards in Indonesia. South Africa's uniform application of IFRS provides global comparability but lacks flexibility for Islamic financial institutions, while Indonesia's convergence model offers contextual adaptability at the expense of full alignment with international standards.

The research highlights the importance of adopting IFRS in a manner that aligns with the ethical and operational principles of Islamic finance. It suggests that convergence models may offer greater adaptability for dual banking systems, such as Indonesia's, by accommodating Shariah-compliant standards while maintaining international reporting consistency. Policymakers and regulators should consider institutional capacity, cultural contexts, and religious principles when designing or refining IFRS adoption strategies for Islamic financial institutions. Moreover, the ongoing dialogue between global standard-setting bodies like the IASB and AAOIFI is crucial to achieving harmonization that supports both global integration and Shariah compliance.

This study is limited by the scarcity of empirical literature on IFRS implementation in Islamic banks in South Africa, as most existing research is centered on Indonesia. Furthermore, the study relies primarily on open-access journal articles and secondary data sources, which may exclude relevant but inaccessible materials. Future research should expand the geographic scope to include other jurisdictions with Islamic banking systems and explore empirical measures of reporting quality, investor responses, and financial performance post-IFRS implementation. A deeper examination of the interaction between regulatory enforcement, institutional structures, and Shariah compliance would also provide valuable insights for advancing global Islamic accounting standards.

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