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Key Strategies for Improving the Standardization of Audit under Islamic Principles

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ABSTRACT

This article discusses the development of auditing standardization based on Islamic principles as formulated by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), headquartered in Bahrain. **The study aims** to critically analyze AAOIFI approaches and compare them with global audit standardization practices conducted by the International Auditing and Assurance Standards Board (IAASB) under the International Federation of Accountants (IFAC). Using **methods** such as comparison, analysis, and synthesis, as well as logical and systemic approaches, the authors examined two groups of auditing standards, IAASB and AAOIFI, highlighting their differences.

Findings reveal that current AAOIFI standards, such as Auditing Standard for Islamic Financial Institutions ASIFI 1 “Objectives and Principles of Audit” and ASIFI 2 “Audit Report,” have been in use for about 25 years. These standards are outdated and require urgent transformation. The proposed AAOIFI Standard on Auditing (SOA) 1 “Audit Foundations” seeks to consolidate existing standards but risks being excessively bulky and less comprehensible compared to IAASB standards. The authors **recommend** leveraging IAASB’s experience to adapt the AAOIFI standards, including the creation of an AAOIFI Assurance Tasks Concept akin to IAASB’s international concept, enabling clarity and accessibility for global auditing professionals while adhering to Islamic principles.

Keywords: audit; standard; standardization; partnership financing; Islamic financing; Islamic banking; AAOIFI

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ОРИГИНАЛЬНАЯ СТАТЬЯ

Ключевые стратегии совершенствования стандартизации аудита по исламским принципам

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АННОТАЦИЯ

В статье раскрываются направления развития стандартизации аудиторской деятельности по исламским принципам, разрабатываемые Организацией по бухгалтерскому учету и аудиту для исламских финансовых учреждений (Accounting and Auditing Organization for Islamic Financial Institutions – AAOIFI) с центральным офисом в Бахрейне. **Целью** исследования является критический анализ подходов AAOIFI и сравнение их с мировой практикой стандартизации аудита, осуществляемой Советом по международным стандартам аудита и подтверждению достоверности информации (IAASB) при Международной федерации бухгалтеров (IFAC). Используя такие **методы**, как сравнение, анализ и синтез, а также логический и системный подходы, авторы рассмотрели две группы стандартов аудита – IAASB и AAOIFI, подчеркнув их различия. **Результаты** исследования показывают, что действующие стандарты AAOIFI, такие как Стан-

дарт аудита для исламских финансовых институтов ASIFI1 «Цели и принципы аудита» и ASIFI2 «Аудиторский отчет», используются уже около 25 лет. Эти стандарты устарели и требуют срочной трансформации. Предлагаемый документ AAOIFI SOA 1 «Основы аудита» направлен на консолидацию существующих стандартов, но может оказаться чрезмерно громоздким и менее понятным по сравнению со стандартами IAASB. Авторы **рекомендуют** использовать опыт IAASB для адаптации стандартов AAOIFI, включая создание концепции задач по обеспечению достоверности информации AAOIFI, аналогичной международной концепции IAASB, что обеспечит ясность и доступность для международных аудиторских специалистов, придерживаясь при этом исламских принципов.

Ключевые слова: аудит; стандарт; стандартизация; партнерское финансирование; исламское финансирование; исламский банкинг; AAOIFI

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Introduction

In the context of de-globalization and sanctions pressure from the US and Western countries, Russia has increased interest in economic cooperation with Islamic countries. Since September 2023, Russia has been conducting an experiment to regulate partnership financing, implemented as a pilot project in four regions: Tatarstan, Dagestan, Bashkiria, and the Chechen Republic.

As of January 2, 2025, the Central Bank of Russia (CBR) had registered 29 legal entities as participants in this experiment. These entities perform operations within the framework of partnership financing,¹ which include:

- 43%: Sale contracts with deferred payments (Murabaha)
- 27%: Loan agreements and similar financing contracts (Mudaraba)
- 18%: Equity financing (Diminishing Musharakah)
- 12%: Leasing agreements (Ijarah)

Geographical distribution: The majority of partnership financing operations occur in Tatarstan (84% of fund allocation transactions). Active fund placement operations are also conducted in Moscow and the Moscow region (5% of operations), the Chechen Republic (4%), the Republic of Bashkortostan (2%), the Nizhny Novgorod region (2%), and other regions of the Russian Federation.²

Legal entities can conduct the following types of fund placement transactions:

- Providing funds as loans to individuals and legal entities.
- Financing individuals and legal entities through the sale of goods (including real estate) with deferred or installment payments, accompanied by compensation for granting the deferred payment.
- Financing individuals and legal entities through financial leasing agreements, contributions to the authorized (charter) capital of legal entities, and joint activities under simple or investment partnership agreements.

On September 12, 2023, the Ministry of Finance of Russia published information notice No. IS-Accounting-45, titled "Accounting for Partnership Financing Activities." The Central Bank of Russia (CBR) has also issued several regulatory acts related to partnership financing.

One of the key quality control functions for managing partnership financing activities is auditing. In Russia, auditing activities have been carried out since 2017 in accordance with International Standards on Auditing (ISAs), developed by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). To ensure proper auditing for partnership financing management, it is logical to extensively study and adopt the experiences accumulated in Islamic countries, adapting them to the specific national characteristics. This experience is examined in more detail below.

To date, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), headquartered in Bahrain, has developed and implemented six standards for independent auditing (ASIFIs). Furthermore, for audits covering annual periods starting on or after January 1, 2020, inde-

¹ The Bank of Russia has summed up the first results of the experiment on partnership financing. 2024. URL: <https://cbr.ru/press/event/?id=23287>

² Review of the partner financing market based on the results of the survey for 9 months of 2024. URL: https://cbr.ru/analyt-ics/develop/2024_1/

pendent auditors of Islamic financial institutions are required to apply both auditing standard ASIFI No. 2 “Audit Report” and the public document “Auditing Guidance Note (AGN) No. 02: Audit Report.” This guidance was issued by the “Professional Auditing Standards Committee” (PASC) of AAOIFI on December 18, 2018. The PASC is an authorized joint committee of the Governance and Ethics Board (AGEB) and the Accounting Board (AAB) of AAOIFI. It supports both boards in the development and updating of professional auditing standards and is authorized to issue guidance on auditing when necessary.

The first standard, ASIFI No. 1, “Objectives and Principles of Audit”, stipulates that for issues not specifically regulated by the six auditing standards (ASIFIs), International Standards on Auditing (ISAs) by IAASB should be applied, provided they do not contradict the principles and rules of Shariah. Shariah (from Arabic “ash-shar’ah” — “law” or “straight path”) encompasses the religious and legal norms that Muslims must follow. Additionally, AAOIFI has developed a governance standard for Islamic financial institutions called “Internal Shariah Audit” (Governance Standard 11 — GS 11), effective from internal Shariah audit reports covering periods starting July 1, 2021.

As of December 2024, there are 48 ISAs (ISA IAASB) in effect globally, which are mandatory for auditors and audit organizations in Russia. In contrast, AAOIFI has chosen to develop a limited set of standards based on ISAs. These standards emphasize specific aspects of auditing related to Shariah principles, the unique features of business models, and the organizational structures of institutions operating under Islamic principles. For elements not covered by these six standards, AAOIFI recommends applying other standards, primarily ISAs, under the strict condition that they do not contradict Islamic principles.

Literature review

The study of auditing activities in accordance with Islamic standards has a long history. The earliest academic publications on this topic date back to the 1980s, with works by M.A. Khan [1], T. Kuran [2], and R.A.A. Karim [3]. Their research initiated a broader academic interest in auditing practices based on Islamic financial principles. During the 1990s, their efforts were advanced by Archer et al. [4], and Rahman et al. [5]. These works were motivated by increasing dissatisfaction among users of financial statements regarding their alignment

with Shariah principles and rules. Addressing this need became the focus of AAOIFI’s efforts.

Over time, scholarly interest in auditing based on Islamic principles grew rapidly, driven by the regular practices of Islamic financial institutions. Notable contributions during this period include works by Binti Kasim et al. [6], Uddin et al. [7], Kasim et al. [8], Khalid et al. [9], and Isa et al. [10].

Among contemporary researchers focusing on auditing under Shariah principles, scholars such as Khatib et al. [11], Faza et al. [12], Uula [13], Sani and Abubakar [14], Muftadi and Iswati [15] stand out.

International research on Islamic auditing standards is extensive, diverse, and highly relevant to Russia. A distinctive feature of these studies is the presence of practical experience in conducting audits in accordance with Shariah principles within Islamic financial institutions.

In contrast, research in Russia on auditing under Islamic principles is relatively limited. This is primarily due to the federal law on partnership financing being passed only in 2023, coupled with the lack of practical experience in conducting audits under Shariah principles and rules. Consequently, Russian studies often rely on translations of foreign works. Despite these challenges, Russian scholars are increasingly focusing on auditing under Islamic principles. Notable contributions include works by A.K. Dashin [16], A.R. Yusupova [17], I.G. Khairullin et al. [18], A.M. Yuldashev [19], I.V. Novikova [20], F.I. Kharisova et al. [21], N.M. Yartseva and A.A. Sander [22], G.N. Khadiullina [23], D.R. Sabitova, Y.V. Voskoboynik and E.E. Imamkulieva [24], A.A. Bisultanova [25], and R.I. Bekkin [26].

Methodology

Based on the findings from the analysis of academic literature and works addressing the regulation of auditing activities both internationally and in Russia, with a focus on audit standardization, this study aims to justify and develop recommendations for improving audit standardization in the area of partnership financing. This is achieved through a comprehensive critical analysis of the AAOIFI’s proposed directions for developing auditing based on Islamic principles and their comparative evaluation with audit standardization efforts conducted by the International Auditing and Assurance Standards Board (ISA IAASB IFAC).

To achieve this goal, two main tasks were identified:

1. Critically examine the state and improvement plans for the standardization of auditing activities based on Islamic principles as regulated by AAOIFI.

2. Conduct a comparative critical evaluation of the audit standardization processes carried out by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Auditing and Assurance Standards Board of the International Federation of Accountants (IAASB IFAC), as well as their application in Russia.

The results of this evaluation are expected to form the basis for conclusions and justification of specific directions for improving audit standardization to be applied in partnership financing activities in Russia.

To accomplish these tasks, the following methods were utilized:

- Analysis of academic literature to study the current state of the research problem.
- Monitoring and evaluating the dynamic changes in auditing standards developed by AAOIFI and IAASB IFAC for their subsequent improvement.
- Synthesis of approaches to improving audit standardization based on Islamic principles.

Results

A comparative assessment of the audit standardization conducted by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Auditing and Assurance Standards Board (IAASB) is summarized in *Table 1*.

Comparison of AAOIFI and IAASB approaches to audit standardization. AAOIFI and IAASB pursue distinct objectives and employ different approaches to the standardization of auditing activities. AAOIFI focuses on developing standards aligned with Shariah principles, exclusively applicable to Islamic financial institutions. In contrast, IAASB aims to create universal standards suitable for any country or economic sector. Both organizations play significant roles in their respective domains, but their influence and scope of application differ substantially.³

³ AAOIFI issues Financial Accounting Standard (FAS) 40 "Financial Reporting for Islamic Finance Windows". URL: <https://aaoifi.com/announcement/aaoifi-issues-financial-accounting-standard-fas-40-financial-reporting-for-islamic-finance-windows/?lang=en>

Development of AAOIFI Standards. To improve the standardization of auditing activities, AAOIFI initiated a project in 2019 to revise auditing standards in light of Shariah principles and modern practices. The auditing standards for Islamic financial institutions, currently known as "ASIFIs," are proposed to be renamed to "Standards on Auditing (SOAs)" under AAOIFI. In 2023, the regulator's website published a draft of SOA AAOIFI 1, "Foundations of Auditing." According to the project, this standard aims to consolidate and replace existing auditing standards, including:

- ASIFI 1: "Objectives and Principles of Auditing"
- ASIFI 2: "Audit Report"
- ASIFI 3: "Terms of Audit Engagements"
- ASIFI 5: "Auditor Responsibilities in Reviewing Fraud and Errors in Financial Statements"
- Audit Guidance Note (AGN) No. 02 issued by AAOIFI's Professional Auditing Standards Committee (PASC), "Audit Report."

The purpose of SOA AAOIFI 1 is to provide auditors with a comprehensive foundation for auditing financial statements of institutions that comply with Shariah principles and rules.

Scope of Application. The draft standard clarifies its scope, specifying its application to auditing the financial statements of institutions reporting in accordance with Shariah principles. While primarily intended for Islamic financial institutions (IFIs), the standard may also apply to other entities, such as social financial institutions and organizations practicing Islamic financial structures and operations.

Exclusions. The draft standard does not apply to:

- Business operations or structures offered by conventional financial organizations, as outlined in AAOIFI's Financial Accounting Standard (FAS 40), "Financial Reporting for Organizations Using Islamic Financing Mechanisms."
- Organizations engaging in traditional economic activities without adherence to Shariah principles or governance structures.

Glossary and Objectives of the Proposed SOA AAOIFI 1 Standard

In line with ISA IAASB, the proposed SOA AAOIFI 1 standard contains a concise glossary of definitions.⁴ Alongside terms present in ISA IAASB 200 ("Overall

⁴ International standard on auditing 200 "primary objectives of the independent auditor and conducting an audit in accordance with international standards on auditing". URL: https://www.consultant.ru/document/cons_doc_LAW_317258/

Table 1
Comparative evaluation of audit standardization by AAOIFI and IAASB

Comparison Parameter	AAOIFI	IAASB
Goals and Objectives	AAOIFI focuses on developing standards for auditing, accounting, ethics, corporate governance, and Shariah compliance in the context of Islamic finance. These standards aim to ensure that Islamic financial institutions adhere to Shariah principles. Specific requirements for Islamic institutions are a priority ¹	IAASB develops international auditing standards and related services like review engagements and agreed-upon procedures. The goal is to ensure high-quality audits and enhance global trust in financial reporting. The standards aim for harmonization across jurisdictions
Scope of Application	AAOIFI standards apply exclusively to Islamic financial institutions such as banks, Takaful companies, and investment funds. They account for Islamic business principles, including prohibitions on usury (riba), uncertainty (gharar), and speculative transactions (maysir)	IAASB standards are universal and apply to all organizations regardless of religious or geographical affiliation. Their purpose is to create a unified approach to auditing and increase financial transparency worldwide
Standard Development Methodology	AAOIFI develops standards through consultations with Islamic finance experts, Shariah board representatives, and other stakeholders. Religious scholars' views are essential to ensure Shariah compliance. Collaboration with national regulators and international organizations is also emphasized ²	IAASB employs a formalized approach, including public consultations, discussions with professional communities, and analysis of best practices. The development process considers input from global audit firms and regulatory bodies
Principles and Approaches to Auditing	AAOIFI standards emphasize adherence to Shariah principles in audits, including compliance with the prohibition of interest and speculative transactions. Islamic financial products like Murabaha, Musharaka, and Sukuk are key considerations	IAASB standards focus on auditor independence, objectivity, and ethical conduct. Auditors are guided by principles like integrity, professionalism, and confidentiality. The standards cover a broad spectrum of auditing and assurance services
Role and Impact on International Markets	While AAOIFI's influence is limited to regions with significant Islamic finance, the standards are pivotal in developing Islamic financial instruments and enhancing investor trust	IAASB standards are globally recognized and foster trust in financial reporting. They are widely supported by leading audit firms and regulators worldwide
Auditor Qualifications	Auditors following AAOIFI standards must understand accounting, auditing, and Islamic law (Fiqh). Specialized training and certification are required	Auditors under IAASB must hold professional qualifications like Certified Professional Accountant (CPA) or equivalent. Continuing education is mandatory, but specialization in Islamic law is not required
Certification and Accreditation Process	AAOIFI offers certification services, emphasizing institutional capacity-building and professional development programs to align with its goals. Certification requires compliance audits by internal or external auditors accredited by AAOIFI ³	Certification is managed at the national level by professional bodies (e.g., AICPA in the U.S., ICAEW in the U.K., and SRO in Russia) ⁴ . IAASB does not certify auditors but provides the foundation for national systems ⁵

Table 1 (continued)

Comparison Parameter	AAOIFI	IAASB
Compliance Monitoring Mechanism	Compliance with AAOIFI standards is ensured through internal and external audits. Regular reviews and monitoring are conducted to uphold standards ⁶	Compliance with IAASB standards is monitored through national regulatory systems, with oversight bodies in each country ensuring adherence to international standards ⁷
Promotion and Development of Standards	AAOIFI promotes its standards among Islamic financial institutions and regulators. It collaborates with global organizations like the World Bank to integrate its standards ⁸	IAASB promotes its standards through partnerships with national organizations and international financial institutions. It provides guidance materials and training for stakeholders

Source: Compiled by the authors.

¹ Ordinary capital resources financial statements and independent auditor's report for the year ended 31 December 2023. Islamic development bank. URL: https://2023.ar.isdb.org/wp-content/uploads/2024/04/IsDB_Financial-Statments-2023_EN.pdf

² Ordinary capital resources financial statements and independent auditor's report for the year ended 31 December 2023. Islamic development bank.URL: https://2023.ar.isdb.org/wp-content/uploads/2024/04/IsDB_Financial-Statments-2023_EN.pdf

³ Financial Accounting Standard No. (1) General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions. URL: <https://aaoifi.com/financial-accounting-standard-no-1-general-presentation-and-disclosure-in-the-financial-statements-of-islamic-banks-and-financial-institutions/?lang=en>

4 Objectives and Principles of Auditing. URL: https://aaofl.com/themencode-pdf-viewer-sc/?lang=en&tnc_pvwf=WmlsZT1odHRwczovL2Fhb2lmaS5jb20vd3AtY29udGVudC9lcGxvYWRzLzlwMjMvMDIvQXVkaXRpbmctc3RhbmdRhcmtTm8uLTET2lqZWNOaXZlLWUwZC1QcmduY2lwGvZlW9mLUF1ZGl0aW5nLnBkZiZzZXROaW5ncz0wMDEwMDAxMTEwMDAwMDEwMTAwJmxhbm9Z
W4tVVM=#page=&zoom=&pagemode=none

⁵ Objectives and Principles of Auditing. URL: https://aaoifi.com/themencode-pdf-viewer-sc/?lang=en&tnc_pvwf=WzlsZT1odHRwczovL2Fhb2lmaS5jb20vd3AtY29udGVudC91cGxvYWRzLzlwMjMvMDIvQXVkaXRpbmctc3RhbmRhcmtTm8uLTET2lqZWNOaXZlWuZC1QcmIuY2lwGvZlW9mLUF1ZGI0aW5nLnBkZiZzZXR0aW5ncz0wMDEwMDAxMTEwMDAwMDExMTAwJmxhbmc9ZW4tVVM=#page=&zoom=&pagemode=none

⁶ Auditors Report. URL: https://aaofl.com/themencode-pdf-viewer-sc/?lang=en&tn_c_pvwf=ZmlsZT1odHRwc3ovL2Fhb2lmaS5jb20vd3AtY29udGVudC91cGxvYWRzLzlwMjMvMDIvQXVkaXRpbmctc3RhbmRhcmtTm8uLTltQXVkaXRvcnMtUmVwb3J0LmBkZiZzZXRoW5ncz0wMDEwMDAwMTEwMDAwMDEwMTAwJmxbmc9ZW4tVVM=#page=&zoom=&pagemode=none

⁷ Terms and Audit Engagement. URL: https://aaofi.com/themencode-pdf-viewer-sc/?lang=en&tnc_pvfw=ZmlsZT1odHRwczovL2Fhb2lmaS5jb20vd3AtY29udGVudC91cGxvYWRzLzlwMjMvMDIvQXVkaXRpbmctc3RhbmRhcmtTm8uLTmtVG9ybXltb2YtQXVkaXQxRW5nYWdlbWVudC5wZGYmc2V0dGluZ3M9MDAxMDAwMTEwMDAwMDAwMTEwMCZsYW5nPWVuLVVt#page=&zoom=&pagemode=none

⁸ Auditors Responsibility to Consider Fraud and Error in an Audit of Financial Statements. URL: https://aaofifi.com/themencode-pdf-viewer-sc/?lang=en&tnc_pvwf=WmIsZT10dHRwc3ovL2Fhb2lmaS5jb20vd3AtY29udGVudC91cGxvYWRzLzlwMjMjYMDIvQXVkaXRpbmctc3RhbmdRhcmtQm8uLUtUQXVkaXRvcnMtUmVzcG9uc2liaWxpdHktOG8tQ29uc2lkZXltRnJhdWQtYW5kLUVtcem9yLWluLWFWLUtF1ZGl0LW9mZUzpbmFuY2IhbC31TdGF0ZW1lb3RnZTltLGRmLnNldHRpbmdzPTAwMTAwMDExMTAwMDAwMTAwMDAwMDAwGfUz1lbi1VUW==#page=&zoom=&pagemode=none

Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing”), the proposed standard includes specific terms such as “Shariah principles and rules,” “external Shariah auditor,” “internal Shariah auditor,” “Shariah Supervisory Board,” “primary opinion,” “supplementary opinion,” and others.

The primary objectives of the auditor under the SOA AAOIFI 1 project are:

1. To obtain “reasonable assurance” that the institution’s financial statements as a whole are free from material misstatement, whether

due to fraud or error. This enables the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with applicable financial reporting standards (i.e., AAOIFI Financial Accounting Standards and the “AAOIFI Conceptual Framework for Financial Reporting”).⁵

2. To obtain “reasonable assurance” that the organization has, in all material respects, adhered

⁵ Conceptual Framework for Financial Reporting. URL: <https://minfin.gov.ru/common/upload/library/2015/01/main/conceptual.pdf>

to Shariah principles and rules regarding financial contracts and transactions during the period covered by the audited financial statements.

3. To present an Audit Report on the financial statements.

For comparison, ISA IAASB 200 (on which the SOA AAOIFI 1 project is based) outlines the key objectives of the auditor as:

- Obtaining “reasonable assurance” that the financial statements as a whole are free from material misstatement, whether due to fraud or error.

- Preparing and issuing an opinion on the financial statements in accordance with the requirements of ISA.

Requirements of SOA AAOIFI 1. The proposed standard, “Foundations of Auditing,” includes an extensive list of requirements related to:

- Initiating and preparing for the audit.
- Ethical principles.
- Quality management.
- Conducting the audit.
- Planning and risk assessment.
- Audit sampling.
- Fraud and error review.
- Other critical issues during the audit.
- Documentation and archiving.
- Audit completion.
- Communication with those charged with governance.
- Communication with representatives of the Shariah Supervisory Board.
- Evaluation of the auditee’s going concern status.
- Review of subsequent events.
- Audit opinion, its components, and presentation.
- Modifications to the audit opinion and its types.

These comprehensive requirements are detailed in the proposed standard, covering a wide range of topics. For instance, regarding the audit opinion, SOA AAOIFI 1 obliges the auditor to examine key and detailed questions concerning compliance with Shariah principles and rules from two perspectives: the primary opinion and the supplementary opinion.

Directions for Audit Standardization in Russia. The implementation and application of AAOIFI and IAASB standards in Russia are summarized in *Table 2*, focusing on their respective roles in enhancing audit practices and financial reporting in the

context of partnership financing and international integration.

Harmonization with International AAOIFI Standards Leveraging AAOIFI’s experience in accounting, control, and audit standardization within Islamic financial institutions as a basis for creating Russia’s legal and regulatory framework for partnership financing. This will enhance trust among investors from Islamic countries and expand geo-economic relations. Harmonization with International IAASB Standards Russia aims to integrate into the global economy and improve its investment appeal. Implementing IAASB standards allows Russian companies to meet international audit and reporting requirements, increasing foreign investor trust and facilitating access to global capital markets.

Attracting Investments from the Persian Gulf and Southeast Asia Russia increasingly attracts foreign investments from the Middle East and Southeast Asia, where Islamic finance plays a significant role. Applying AAOIFI standards will enhance investor trust from these regions in Russian projects and companies, boosting capital inflow. Improving Financial Reporting Quality IAASB standards focus on improving financial reporting quality and transparency. Introducing these standards into Russian practices reduces fraud and accounting errors, positively affecting the reputation of Russian companies.

Enhancing Collaboration with International Partners from the Middle East and Southeast Asia Applying AAOIFI standards will expand interactions with foreign counterparts, as accounting, control, and auditing are based on unified principles and rules of ethical, responsible business conduct. Enhancing Collaboration with International Partners in Traditional Economies Many Russian companies work with foreign partners, particularly in exporting and importing goods and services. IAASB standards simplify interactions with foreign counterparts, as they are based on unified principles and approaches to auditing and reporting.

Training Specialists in Partnership Financing in Russia, training specialists in accounting, control, and auditing within partnership financing management systems is critical. Preparations must begin promptly. The Institute of Management, Economics, and Finance at Kazan Federal University has developed relevant programs, including a master’s program accredited by AAOIFI in 2024, titled “Audit

Table 2

Directions for audit standardization by AAOIFI and IAASB in Russia

Directions for Applying AAOIFI Standards in Russia	Directions for Applying IAASB Standards in Russia
Harmonization with International AAOIFI Standards. Leveraging AAOIFI's experience in accounting, control, and audit standardization within Islamic financial institutions as a basis for creating Russia's legal and regulatory framework for partnership financing. This will enhance trust among investors from Islamic countries and expand geo-economic relations	Harmonization with International IAASB Standards. Russia aims to integrate into the global economy and improve its investment appeal. Implementing IAASB standards allows Russian companies to meet international audit and reporting requirements, increasing foreign investor trust and facilitating access to global capital markets
Attracting Investments from the Persian Gulf and Southeast Asia. Russia increasingly attracts foreign investments from the Middle East and Southeast Asia, where Islamic finance plays a significant role. Applying AAOIFI standards will enhance investor trust from these regions in Russian projects and companies, boosting capital inflow	Improving Financial Reporting Quality. IAASB standards focus on improving financial reporting quality and transparency. Introducing these standards into Russian practices reduces fraud and accounting errors, positively affecting the reputation of Russian companies
Enhancing Collaboration with International Partners from the Middle East and Southeast Asia. Applying AAOIFI standards will expand interactions with foreign counterparts, as accounting, control, and auditing are based on unified principles and rules of ethical, responsible business conduct	Enhancing Collaboration with International Partners in Traditional Economies. Many Russian companies work with foreign partners, particularly in exporting and importing goods and services. IAASB standards simplify interactions with foreign counterparts, as they are based on unified principles and approaches to auditing and reporting
Training Specialists in Partnership Financing. In Russia, training specialists in accounting, control, and auditing within partnership financing management systems is critical. Preparations must begin promptly. The Institute of Management, Economics, and Finance at Kazan Federal University has developed relevant programs, including a master's program accredited by AAOIFI in 2024, titled "Audit and Financial Management".	Training Specialists. Implementing IAASB standards required retraining and skill enhancement for Russian auditors. This created new opportunities for professional growth and strengthened the position of Russian specialists in the labor market.

Source: Compiled by the authors.

and Financial Management.”⁶ Training Specialists Implementing IAASB standards required retraining and skill enhancement for Russian auditors. This created new opportunities for professional growth and strengthened the position of Russian specialists in the labor market.

Challenges in implementing AAOIFI standards in Russia

1. Regulatory barriers: Russian legislation and regulatory systems are not yet adapted to meet the needs of Islamic partnership financing. Develop-

ing an appropriate legal framework will require significant effort and time.

2. Cultural differences: When developing partnership financing standards in Russia, challenges may arise due to cultural differences and the population's lack of awareness about Islamic partnership financing principles. Educational programs and awareness campaigns are needed to address this.

3. Lack of qualified specialists: Russia currently has few specialists with the necessary expertise in accounting, control, and auditing within partnership financing management systems. Developing this sector will require training a new generation of professionals.

4. Competition with traditional financial products: Islamic financial processes and products will compete with traditional, well-established ones

⁶ Federal Law dated 02.07.2021 No. 359-FZ “On Amendments to Certain Legislative Acts of the Russian Federation and Recognition as Invalid of Certain Provisions of Legislative Acts of the Russian Federation”. URL: https://www.consultant.ru/document/cons_doc_LAW_389138/

in the Russian market. The success of partnership financing and its standards' development will depend largely on the ability to offer competitive processes and products.

Discussion

Recommendations for improving the SOA AAOIFI 1 Standard and Audit Standardization in partnership financing:

1. Streamlining the SOA AAOIFI 1 Structure. The proposed SOA AAOIFI 1 standard includes an excessive number of categories of auditing activities, making it unnecessarily complex and difficult to comprehend. Its structure requires improvement, modeled after the widely used ISA IAASB standards, which have been effectively implemented globally, including in Russia.

2. Introducing the "AAOIFI Assurance Task Concept". The authors recommend presenting the categories of auditing activities in SOA AAOIFI 1 as an "AAOIFI Assurance Task Concept." This concept should be developed based on the "International Assurance Framework" by IAASB, which is already applied in numerous countries and is periodically updated to ensure relevance.

3. Phasing Out-Outdated AAOIFI Audit Standards. Given their obsolescence, it is critical to promptly discontinue the current AAOIFI audit standards (ASIFI 1, ASIFI 2, ASIFI 3, and ASIFI 5) in favor of a more streamlined and modernized approach.

4. Developing specialized training programs in Russia. To ensure proper auditing support for organizations offering partnership financing services in Russia, it is essential to establish specialized educational and retraining programs in relevant universities. These programs should focus on preparing qualified professionals in accounting and auditing within the management system of this sector.

5. Adopting AAOIFI's expertise in standardization. There is a pressing need to develop auditing standardization for partnership financing in Russia. This process should critically, extensively, and promptly leverage AAOIFI's valuable and long-standing experience in standardizing management functions within this domain.

Conclusions

Analysis and recommendations for the proposed SOA AAOIFI 1 Standard. The require-

ments of the proposed AAOIFI standard are methodologically analogous to those outlined in several ISAs (International Standards on Auditing by IAASB), with the exception of the conceptual focus on the prioritization of compliance with Shariah principles and related issues, as illustrated through the example of the audit opinion. However, the proposed SOA AAOIFI 1 standard, encompassing an excessive number of significantly varied categories, is difficult to comprehend. The complexity is further exacerbated by the standard's structure, which fails to incorporate the improved format of ISAs (IAS IAASB). The ISAs are designed to facilitate information assimilation with a structure divided into two parts: the first part includes an introduction, objectives, definitions, and a summary of requirements, while the second part provides application guidance and additional explanatory material.

Comparative evaluation and suggested improvements. A comparative evaluation of the existing AAOIFI audit standards (ASIFI), the proposed SOA AAOIFI 1 standard, the "International Framework for Assurance Engagements," and ISAs (IAS IAASB) suggests that it is advisable to present most of the SOA AAOIFI 1 requirements in the form of an "AAOIFI Assurance Framework." Similar to the IAASB's International Framework, this AAOIFI framework would allow auditors to first study fundamental concepts as guiding principles, including:

- Ethical principles
- Principles of professional conduct
- Quality management principles in auditing
- Types and objectives of assurance engagements
- Preconditions for accepting audit engagements
- Audit reports or assurance engagement reports
- Audit sampling
- Materiality
- Audit risks
- Auditor and management responsibilities.

This framework could then move into specific details for application. Combining multiple standards into a single standard complicates the understanding of audit categories, such as those related to the audit opinion. For instance, the audit opinion concept is addressed across four distinct ISAs (IAS IAASB). Thus, there is a pressing need to urgently

revise outdated AAOIFI audit standards, such as ASIFI 1 (“Objectives and Principles of Audit”) and ASIFI 2 (“Audit Report”), which have been in use for over 25 years.

Certification and qualifications for Russian auditors. To ensure proper auditing for organizations providing partnership financing services in Russia, it is necessary for Russian auditors to study and pass exams to obtain the international CIPA qualification. This requires candidates to pass examinations under AAOIFI requirements. Starting this year, these exams are available not only

in English and Arabic but also in Russian and can be taken online.

Leveraging experience from IAASB and AAOIFI. Considering the long history of auditing in market economies, the extensive experience in standardization, and the relatively short period of standardization based on Islamic principles by AAOIFI, it is constructive to develop audit standardization by leveraging IAASB’s achievements while prioritizing the positive experience accumulated by AAOIFI in standardizing management functions for partnership financing.

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