

ISLAMIC ANTECEDENTS FOR FINANCIAL ACCOUNTABILITY

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This paper seeks to fill in the gaps with respect to the knowledge pertaining to the cultural and the ethical values which Islam expects from its adherents. It seeks to show that not only Islam enjoins accountability, it has actually created a systemic framework which if practiced can promote financial accountability and social justice. In order to describe the Islamic framework that promotes financial accountability and economic justice, this paper studies the nature and roles of Riba, Zakat, and Hisba. They can be seen as three elements of the Islamic conceptual framework governing economic activities and the pursuit of wealth on the part of human beings. To give depth to its discussion of Riba, Zakat, and Hisba, and their contemporary relevance, the paper starts by looking into the relationship between human beings and their Creator as well as the appropriate pursuit of wealth by human beings as defined by Islam.

Introduction

Given the tangible events taking place in the real world, among them the increased attention being paid by organizations such as United Nations, the World Bank, and the International Monetary Fund to effective governance as an antidote to corruption in the world, it becomes incumbent to seek a greater understanding of the Islamic antecedents for promoting financial accountability and preventing economic corruption. Even among those who profess to be Muslims, there exists a lack of adequate knowledge pertaining to their faith, so one can only imagine at the extent of misunderstanding that exists among the non-Muslims about Islam. The need to remedy this lack of knowledge is the primary objective sought by this paper. Learning how Islam promoted accountability and social justice in the past can help Muslim countries develop accounting and auditing structures which are lacking in most of the nearly 50 Muslim countries at this point in time.

The economic development of Islamic countries is impaired because of the lack of credible accounting practices, auditing standards, and the agencies to see them observed by business firms. There have been efforts to adopt either the standards used in other countries or those developed by International organizations. The accounting principles and auditing standards of Muslim countries will have greater credibility, if they are in line with the religious belief and practices of the people. Without such linkage, financial accountability will become even more difficult to bring about in the Muslim countries, many of which rank among the most corrupt countries to do business according to surveys issued by the organization, Transparency International, based in Germany. The existence of economic and political corruption is not just a matter for accounting and auditing, it indeed goes to the very core of Islam-which prohibits corruption and exploitation in all its mutations.

The lack of well-developed accounting and auditing infrastructure in most of the Muslim world also impacts the performance of the Islamic banks and impedes national development through under-optimal investment—investors are loath to part with their resource given the lack of safeguards to protect their investments. The Islamic financial services industry is one of the fastest growing sectors of global financial services. The size of the market extends to more than fifty countries and is spreading. Islamic funds are currently estimated to be between US \$ 60-100 billion and growing at about 15 percent yearly. However, as noted by a number of experts, the emerging Islamic banks are in need of credible auditing and accounting standards in keeping with Islamic traditions and modern realities in order to grow. If the Islamic banking and financial investment markets are to become much more than a matter of semantics, and if such banks are to play an optimum role in the development of Islamic countries, then there exists the need to develop regulatory structures to control fraud, exploitation, and un-Islamic behavior. Such regulation, in turn, will give Islamic banks the confidence to move beyond safe, short-term activity toward greater equity participation. It will allow them to play a bigger role in establishing social justice and in eliminating economic exploitation. The regulatory structures that do exist are impediments, since they have turned into what could be labeled promoters of wholesale “rent-seeking” opportunities.

The adaptation of the “classical Islamic law to the modern financial world is a huge task” according to Vogel and Hays, who jointly wrote *Islamic Law and Finance: Religion, Risk, and Return* (1998, p.28). They stress the importance of developing the necessary Islamic legal and regulatory infrastructure that must be put in place in order to allow Islamic financial institutions, including retail and investment banks, to play a more active role in harnessing investment capital and to channel it to more genuine channels for profit-sharing (Vogel & Hays, p. 293). Efforts are nonetheless underway to do just that. Institutions such as the Fiqh Academy, associations of Islamic banks, and the Accounting and Auditing Organization for Islamic Financial Institutions are incremental means to facilitate the “huge task” of adapting classical Islamic law to the modern financial world” according to Vogel & Hayes (1998, p. 28). The Accounting and Auditing Organization for Islamic Financial Institutions based in Manama, Bahrain, has already made considerable progress in addressing the accounting and auditing needs of Islamic financial institutions by developing standards. It has developed a number of accounting and auditing standards as well as a code of ethics for accountants and auditors of Islamic financial institutions.

Accountability in Islam

That human beings are accountable to their Creator is an article central to Islamic beliefs. Such accountability extends to the pursuit of wealth on the part of human beings. This paper seeks to show that not only Islam enjoins accountability, it has actually created a systemic framework which if practiced can promote financial accountability. In order to describe the Islamic framework that promotes financial accountability and economic justice, this paper studies the nature and role of *Riba*, *Zakat*, and *Hisba*. They can be seen as three elements of the Islamic framework governing economic activities and the pursuit of wealth on the part of human beings.

In the process of studying *Riba*, *Zakat*, and *Hisba*, the paper seeks to show that the Islamic prohibition of *Riba* is in fact directed against economic exploitation. It should not be equated only to interest-based lending but it should include various forms of fraud and deception as well. Unjustified and exorbitant enrichment is a lot closer to what the term means, since *Riba* is really a symptom of exploitation grounded in economic injustice. *Zakat* seeks to remove systemic conditions that promote economic exploitation of human beings by others. It is neither meant only to be charity for the poor, nor is it a tribute to enrich the mosques, the imams, and the kings. It is not meant for priests or politicians. It is, judging from the eight

uses prescribed in the Qur'an, a requirement of faith that seeks to eradicate the conditions that can facilitate economic exploitation. Only two of the eight uses of Zakat prescribed in the Qur'an deal specifically with "charity" to poor, hence translating it only to mean "charity" grossly understates the kind of *ibadat* it is meant to be for Muslims. Hisba, the third topic to be studied by this paper, is grounded in the Qur'anic concept of promoting the good and preventing evil. None other than Imam Ghazali construed the promotion of good and prevention of evil as being in fact on par with the five pillars of a Muslim's faith. It, in fact, can be seen as the sixth pillar of Islam and it has been studied both as a requirement expected of individual Muslims (Cook, 2001) and an institution to control exploitation and promote accountability. Both its individual duty and its institutional variant are traceable to the Qur'anic injunction and the Sunnah of Prophet Muhammed [pbuh] (Murtuza, 2000). Through *Hisba*, the Islamic prohibition against unlawful profit and exploitation turns into not just an exhortation but also a means to "enforce" and "regulate." Through this institution from 7th to 17th centuries—one could call that period the Islamic Millennium—Muslim governments sought to regulate the markets, protect the environment, and protect the public at large from the fraudulent activities on the part of the businesses seeking exploitation.

Before starting its discussion of *Riba, Zakat, and Hisba*, and their contemporary relevance, the paper will look at the relationship between human beings and their Creator as well as the appropriate human pursuit of wealth as defined by Islam.

Islamic Business Ethics

To better appreciate the place of *Riba, Zakat, and Hisba*, one needs to understand the role assigned to business and commercial activities by Islam. To give readers an appreciation of the Islamic perception of commercial activity and accountability, a passage from a doctoral dissertation written in 1892 by Charles C. Torrey can be a useful starting point. It summarizes his perception of what he calls "the practical theology of the Koran" studied in terms of Qur'anic vocabulary:

"The mutual relations between God and man are of a strictly commercial nature. Allah is the ideal merchant. He includes all the universe in his reckoning. All is counted, everything measured. The book and the balances are his institution, and he has made himself the pattern of honest dealing. Life is a business, for gain or loss. He who does a good or an evil work ('earns' good or evil), receives his pay for it, even in this life. Some debts are forgiven, for Allah is not a hard creditor. The Muslim makes a loan to Allah; pays in-advance for paradise; sells his own soul to him, a bargain that prospers. The unbeliever has sold the divine truth for a paltry price, and is bankrupt. Every soul is held as security for the debt it has contracted. At the resurrection, Allah holds a final reckoning with all men. Their actions are read from the account-book, weighed in the balances; each is paid his exact due, no one is defrauded. Believer and unbeliever receive their wages. The Muslim (who has been given manifold payment for each of his good deeds) receives moreover his special reward (p. 48).

The passage reproduced above has been quoted by Maxime Rodinson in a footnote to his book (1981).

Though Torrey fails to develop his study of the vocabulary of the Qur'an and connect it to a broader context (Murtuza, 2002), one could say that his perception about the relationship between human beings and God as defined in the Qur'an also applies to relations between human beings. Muslims are to treat other human beings—Muslims and non-Muslim alike—as they would like to be treated by God. In addition to making exhortations calling upon human beings to do the right things, and urging Muslims to seek material well-being and to do so gratefully; Qur'an, as well as the Hadiths, forbid economic exploitation in no uncertain terms.

Economic Pursuits in Islam

Economic activity such as the pursuit of wealth was not often mentioned in the works of early Western Christian writers such as Alcuin, St. Anselm, and Abelard but this was hardly the case with Muslims even in the Middle Ages. The assertion that human beings do not live by bread alone would not have been taken to imply a renunciation of the worldly pursuits for Muslims, who are told explicitly in the Qur'an: "And seek the other world in that which Allah bestows upon you in this world. But do not forsake your share in this world. Do good to others as Allah has done good to you. Do not seek corruption, or allow it to happen to earth. Allah does not love the corrupters (28:77). And again: "Will you consider the denier of all reckoning? He is the person who pushes away the orphan, who does not enjoy the feeding of the destitute (107:1-3). Influenced by such Qur'anic exhortations, Muslim writers tend to be more sympathetic to mercantile activity than those of early Christian Europe, and a great deal of early Islamic literature was, in fact, written in a mercantile environment (Cook, p. 226). The differences in the outlook of Islam and Christianity in the Middle Ages can be attributed to the encouragement, indeed the mandating, of economic activity by the Islamic faith and tradition.

The difference between the Christian and Islamic attitudes and its potential impact can be better appreciated with the help of the research done by Udovitch (1970, 1985) and Kramer (1934). Udovitch has reported on the discovery of a 15th century commenda [also known as Mudarbha, which consist of a partnership where one partner provides capital and the other operates the business, while both share risks and returns] between a Venetian and an Arab merchant in Alexandria. Thus, the commenda and other partnership contracts were indigenous to the Arab-Islamic world and spread to Latin Europe through contacts and writings of Arab scholars and jurists. Similarly the emergence of various other instruments and institutions facilitated the development of commerce and trade in Europe, such as the bills of exchange (*siftajah*), letter of credit (*hawla*), specialized trading centers (*funduq*), and a kind of early private bank (*ma una*). In the same vein, as further evidence of the relevance of economic institutions and instruments through trade, Kramers provides clues to the emergence of IOU document and mentions the Arabic word *sakk* from which the modern word cheque has been derived. Not only Kramer traces the Arabic origin of several other commercial terms, he also talks of the manifold ways in which commercial relations led to close cooperation between Muslims and Christians (Kramer, p. 102).

From an Islamic perspective, Allah has given human beings custody over nature as well as the abilities to control and use natural resources. Human beings share the world with others, according to the Qur'an: "No animal that creeps on earth or flies in the air but belongs to a species like you [and stands under the commandments of Allah]. Allah's imperatives are relevant to all beings, to all things without exception. All will ultimately have to reckon with Allah (6: 38)." Muslims believe that Allah has made human beings agents, Khalifa, who may "utilize what is actually owned by Allah" (Qur'an, 12:18). Human beings thus hold in trust what really belongs to their Creator. This Islamic perception concerning human trusteeship over oceans, heavens, and earth and all that they contain is also common to the Jewish and Christian faiths (Green, 1993; Rice, 1996).

The following verses from the Qur'an shed more light on the Islamic perceptions of the economic pursuits by human beings: "It is Allah who has subjected the sea to you that ships may sail through it by His command, that you may seek of His bounty, and that you may be grateful. And He has subjected to you, as from Him, all that is in heavens and on earth. Behold, in that are signs indeed for those who reflect" (55: 12-13). The emphasis is on the fact that human control over what is in the oceans, heavens, and earth is, in fact, a bounty from the Creator (12: 2). It behooves human beings to use the Divine gifts with gratitude

and to exercise control over the earthly resources with respect. Clearly, Divinely bestowed control over nature requires that human beings use rather than abuse that which has been entrusted to their control. The use and development of natural resources must not be without moral restraints nor should their use become an end in and of itself. Natural resources, furthermore, must not be monopolized in order to benefit a few while being denied to society at large. One could argue that the expropriation of coast lines and beach-fronts by resort hotels, as is done in many of the resort towns around the world, would not be an acceptable practice according to Islam.

Pursuit of Wealth

The Islamic notions of private ownership, public domain, and wealth are grounded in the notion of human custodianship described above. The following ramifications may be extracted from it (Yusuf, 1990):

- Ownership of property implies a transferable right to develop and use natural resources.
- The right of ownership requires that natural resources be put to use and developed.
- Owners are encouraged to not hoard the wealth accruing from the economic development of natural resources.
- Not all natural resources can be handed over to private individuals. There are resources, such as rivers and ocean shores that must be available to everyone in the community.
- The right to own property brings with it a requirement to respect the interests of others as well as the natural resources themselves.

Islam places considerable emphasis on showing respect for the natural environment. Islam enjoins human beings to refrain from destroying or wasting God-given resources. Abu Bakr, who upon the death of Muhammad [pbuh] became the first Caliph of the Islamic state, exhorted his designated army commander being sent to battle “not to kill indiscriminately or to destroy vegetation or animal life, even in war and on enemy territory,” thus there was no question of using torture or environmental abuse and degradation being “allowed in peacetime or on home territory” (Rice, 1996, p. 7).

Islam does not prohibit the pursuit of economic wealth, but at the same time it has provided guidelines about its uses, particularly with regard to sharing one’s wealth. Such guidelines ensure that one is using permissible means to acquire wealth and is not exploiting others in the course of such pursuits of wealth. Worldly success, such as that explicit in acquiring wealth, is not prohibited by Islam. One of the prayers recited after each of the five daily prayers by Muslims asks Allah to confer on the supplicant’s blessings in this earthly existence and in the after-life.

According to Islamic beliefs, the production of wealth results when the natural resources furnished by God are subjected to the application of knowledge, talents, and labor by human beings individually and collectively. Islam enjoins its followers to realize that natural resources have been created and provided by God to humanity in order to facilitate human existence. Such resources are meant for human enjoyment and comfort. Islam allows private ownership over such resources but not monopolies within limitations. At the same time, three parties, stakeholders, are entitled to share the wealth generated through the development of natural resources: the investors providing the capital, the workers helping in the production, and the community at-large. The pursuit of wealth should not become an end in itself nor should it be earned through exploitation of other human beings. One of the very important tenets of Islam is the prohibition of economic exploitation and misuses of wealth with which Allah blesses human beings.

Islamic Injunction Against Economic Exploitation

To encourage economic activity while seeking to keep it from being exploitive as well as becoming an end in itself, Islam has exhorted its adherents to refrain from *Riba*, which translates literally as unlawful or exploitive gains. It must be equated with economic exploitation (Ibn al Qayyim quoted by Vogel & Hayes, 1998, p.82), and the prohibition against it must not be construed as applying only to transactions involving usury or even interest. The prohibition against *Riba* is intended to promote ethical economic activities that do not exploit other human beings in order to create wealth for an individual.

All too often Muslim jurists and laity themselves have equated *Riba* only to the interest charged on loans (Rahman, 1964; Saleh, 1986; Haq, 1995; Saeed, 1997). In doing so, however, they are ignoring the fact that the prohibition against *Riba* seeks not just to forbid loans involving usury, but all forms of activities that enrich one individual through the exploitation of others. The following excerpt from comments made by Umer Chapra to differentiate between various forms of *Riba* illustrates the point being made:

The Panel has defined *Riba* as equivalent to interest (First Report, p.1) whereas the *Riba* has been given a considerably wider connotation in *Fiqh* literature than what the term interest conveys. Interest refers to what has been termed as *Riba al-nasia'ah* or *Riba al-jali* or *Riba al-duyun* in the *Fiqh* literature. This is the kind of *Riba* that is covered by the Qur'anic *ayah*. However, the *Sunnah* has also emphasized other aspects of *Riba* generally termed as *Riba al-fadl* or *Riba al-khafi* or *Riba al-buyu'*. This form of *Riba* covers all forms of economic injustice, exploitation and unearned income (other than that, like inheritance and genuine gifts, allowed by the *Shari'ah*). Ibn 'Arabi has defined *Riba* as all excess over what is justified by consideration. . . According to Holy Prophet [pbuh] a Muslim could indulge in *Riba* in a number of ways. That is why Caliph felt inspired to say that "you should abstain from *Riba* as well *Ribah*. . . . *Ribah* is from *rayb* which literally means doubt and refers to any income which has the semblance of *Riba* or which raises doubts in the mind about its rightfulness. It covers all income derived from injustice to, or exploitation of, others (Chapra, 1983, p. 212-213).

Given the extent to which corruption has become a part of the economies and governance itself in the Muslim countries, it is imperative to stop limiting *Riba* to a prohibition against transactions involving monetary loans. The formal prayer required five times a day is not seen simply as a form of exercise, nor is fasting in the month of Ramadan perceived merely as dieting, and even Haj is not construed to be being a travel excursion. Hence, it behooves Muslims not to limit their perception of *Riba* only to interest associated with financial loans or even usury.

Two very well-known Qur'anic verses (2:177) and (22:37) suggest themselves as being applicable analogically to the contemporary perceptions of *Riba*, particularly as they pertain to the emerging Islamic finance. Both verses have great relevance to the Islamic injunctions as they pertain to wealth, its acquisition and uses. The relevance of the verse 22:37 to wealth comes through all the more when that verse is read alongside verses 32-38 of the chapter.

First of the above two verses mentioned make it quite clear that bowing in a given direction is not considered the entirety of *taqwa*: "It is not righteousness that ye merely turn your faces towards East or West; but it is righteousness to believe in Allah, and the Last Day, and the Angels, and the Book and the Messengers; to spend of your substance Out of love for HIM, for your kin, for orphans, for the needy, for the wayfarer, for those who ask, and for the ransom of slaves; to be steadfast in prayer and practice regular

charity; to fulfill the contracts which ye have made; and to be firm and patient, in pain (or suffering) and adversity, and throughout all periods of panic. Such are the people of truth, the God Fearing [Muttaqu'n]. The verse could well have led Rumi to suggest that when in Ka'ba, Qibla is irrelevant. Similarly the second quotation above reinforces the argument of the first, by saying the following about the cattle one sacrifices during Hajj and at other times: "It is not their meat nor their blood, that reaches HIM: He has thus made them subject to you, that ye may glorify Allah for HIS guidance to you: and proclaim the Good News to all who do right."

Applying analogical reasoning, one could argue that the focusing merely on the forms of financial instruments cannot be seen as the essence of *taqwa*; even though one cannot minimize the beneficial importance of the emerging financial instruments being promoted by Islamic investment banks. *Riba* is a symptom of un-Islamic behavior and if it is only addressed in the context of financial lending and investment, one is arguably dealing with only one of its many manifestations—over 70 according to an oft-quoted *Hadith*, all of which are just as pernicious. In treating it thus, one also fails to deal with the root cause of conduct tantamount to declaring war on the Creator, as Qur'anic verses dealing with *Riba* make manifestly clear. One declares war on the Creator not merely by lending and borrowing money on interest/usury, which is among the many manifestations of *Riba*, but also in a willingness to practice fraud and exploitation in all their mutations.

Repeatedly, the Qur'an urges Muslims to pay others what is owed to them since exploitation occurs when one does not pay one's obligation. The Qur'an also condemns in strongest terms those who cheat—short-change—others through fraudulent means in commercial transactions. Bribes are perceived similarly; in fact Hadiths refer to bribes as *Riba* (Chapra, 1983, p. 213n). The Islamic prohibition against cheating others is grounded in the same spirit, as is the Islamic injunction against transactions involving usury. Both would encroach upon the basic right Islam grants to all human beings, namely, the right to be free from economic exploitation. In short, the prohibition against *Riba* must be construed as intended to ensure the freedom of human beings from being exploited by others. Islam prohibits exploitation of all sorts and in any form. Such prohibition extends to welfare fraud, Medicare over-charges, bribery, cheating, dealing in drugs, and environmental degradation, not just to the usurious interest charged on money loaned. The attitude implied in "buyers beware" is not quite Islamic—it is up to the sellers not to exploit, deceive or extort!

Sanctity Of Human Life, Equality, And Property

Perhaps the Prophet Muhammad [pbuh] in his Farewell Sermon made one of the most significant of the calls directed to Muslims to prevent them from economic exploitation of others in the year 632. In that year the Prophet [pbuh] reminded his followers "to deal justly with each other . . . It is only lawful to take from a brother what he gives you willingly" (Armstrong, 1992, p. 255). In this sermon made centuries prior to the Magna Carta and the United States' Bill of Rights, Prophet Muhammad [pbuh] issued what one internationally well-respected Hyderabad scholar has described as "the charter of Humanity in Islam" (*Hamidullah, 1969, p. 66*). The sermon reasserts the basic elements of Islam: the belief in One God, prohibition against material or anthropomorphic representation of God, the equality of all Muslims, the outlawing of discrimination on account of race, gender, or class; and the insistence that one cannot claim superiority over another except by means of the individual excellence in the matter of piety and the fear of God. The sermon also makes clear the sacrosanct nature of the rights of each and every human being concerning his person, his property and his honor. In addition to declaring the sacredness of property rights, the sermon sought to make this right tangible by issuing in strongest terms the prohibition on *Riba*.

Clearly, the sweeping context of the sermon is a reason that allows one to construe the prohibition against *Riba* as extending not only to the transactions involving interest/usury, but also against all undeserved gains, which result from the exploitation of others. Through his last sermon, the Prophet [pbuh] sought to prevent the development of conditions that can facilitate economic exploitation among Muslims.

The Nature of Zakat

Muslims are religiously obligated to share their wealth with the community, such sharing is known as *Zakat*. There is some hesitation about calling it a tax as noted by Baydoun and Willet (1997, p.13n) nonetheless it has the attributes one associate with tax, plus its religious sanction. For a large number of Muslims it is equated with giving to “charity” certain percentage of their wealth every year—but as the paper points out subsequently it is wrong to translate the word *Zakat* as charity, since it is much more. But in the Qur’an, in the Hadith and in the practices of the early days of Islam it (also called *sadaqat* and *haqq*) meant all sorts of tax imposed by the Muslim State on its Muslim subjects: tax on agricultural produce, on sub-soil exploitation, on commercial capital, on herds of domesticated animals grazing on public pastures, as well as cash and personal wealth. In the beginning all these taxes were paid directly to the government, but later, during the time of the third Caliph Uthman it was decided that Muslims could spend directly the tax on the hoarded wealth to its beneficiaries as prescribed by the Qur’an without the intermediary of the government (Hamidullah, 1974).

On account of such religious sanction, this requirement of Islamic belief becomes an exceptional mode of public finance, a levy individual Muslims are obliged to pay as a required part of the observance of their faith. Such sanctified redistribution of wealth is one of the five basic tenets of Islam. A large number of scholars see it as being ranked next to prayers in terms of its importance for Muslim believers. The importance of this religious obligation is seen in the fact that the first Caliph, Abu Baker, upon succeeding the Prophet [pbuh] as the head of the Muslim State, made war upon those tribes who refused to pay it.

That the word *Zakat* literally means “that which purifies” and “that which fosters growth” leads Hamidullah to see Muslims’ payment of a part of their wealth to the community as being intended to purify their wealth (1969, p. 68). In addition to providing resources to meet the needs of the community, it also serves additional functions. It can curb human tendencies towards acquisitiveness and greed. It may also act as a reminder to the rich to share their wealth with those who are indigent. It serves as the instrument to help the community by meeting the social and economic needs of its members. Lastly, it serves “to prevent the morbid accumulation of wealth in few hands and to diffuse it before it assumes threatening proportions” (Mannan, 1970, 284).

The Qur’an uses additional terms to describe the nature of this financial obligation expected of Muslims. In Chapter 9, verse 60, the word *sadaqat* is used to describe this obligation. The term *sadaqat* means truth and charity. In the opinion of Hamidullah, this implies that “to be true to humanity, one must be charitable towards the less fortunate” (1969, p. 68). In Chapter 6, verse 141, the term *haqq*, meaning truth and right, is used to refer to this obligation. The three terms *sadaqaat*, *huq*, and *Zakat* are used synonymously to describe what has been termed *ibadat maliyah*—worship through financial means and instruments (Hamidullah, 1969, p. 68).

Historical Background of *Zakat*

According to a contemporary Muslim economist, *Zakat* must be seen as “the pivot and hub of the Islamic public finance (Mannan, 1970, 284). It was the primary source of revenue for the Islamic State during the time of Prophet Muhammad [pbuh] and the four Caliphs who succeeded him, Abu Bakr, Umar, Uthman, and Ali, collectively known as the Pious Caliphs. Initially, in the Islamic State governed by the Prophet [pbuh] there were no “taxes” to provide revenue for the community’s needs. The Qur’an exhorted and the Prophet [pbuh] encouraged Muslims to perform charitable acts and to spend for the sake of Allah. The early Muslims moved by such exhortations would often bring their charities to the Prophet [pbuh] himself and entrust him to spend, as he liked. But such voluntary contributions proved inadequate for the needs of the community when a crisis was brought on through the murder of a Muslim ambassador sent to the then Byzantine territory, Syria by the Prophet [pbuh]. Since the standards of the time considered the murder of an ambassador to be a serious act of aggression, Prophet Muhammad [pbuh] in his role as the head of the Muslim state sent a punitive expedition, 3,000 strong, but the enemy was 33 times more numerous at Mu’ta, and the Muslim army returned with significant losses (Hamidullah, 1974, p. 78). Thereupon Muslim prepared for what became the expedition of Tabuk through an army that numbered 30,000 soldiers. Voluntary contributions alone could not have supported such a large expenditure, and this led to voluntary contributions becoming institutionalized.

Henceforth, specified amounts needed to be paid on various forms of wealth such as agricultural harvests, savings, commercial capitals, import and export, herds of cattle, and minerals extracted. In addition, a time was set for making such payments, and those who did not want to contribute “were constrained to submission by the use of force. It remained an act of piety, a part of religion obligations, yet it became a State tax. The original name *Zakat* was retained, yet it became an obligation, and no more a voluntary act on the part of those who were in a position to pay” (Hamidullah, 1974, p. 78).

Even while the institution was being changed from voluntary alms-giving to a formal tax due from the community to the state, the Prophet Muhammad [pbuh] and his family members were excluded from those described as being the beneficiaries of *Zakat*. According to Hamidullah, “the Prophet [pbuh] formally declared that revenues of the Muslim State, coming from the Muslim taxpayers, were religiously forbidden to him and to all members of his tribe (1969, p. 68). This exclusion sets up the principle that the resources of the community are not to be treated as the personal wealth of the ruling family. Following the death of the Prophet [pbuh], the first Caliph was allowed a state stipend in order to free him from earning a livelihood while also serving as the Head of the Muslim State. Umar, who felt that the first Caliph’s time was better used if it was directed towards serving the needs of the state rather than making a living, suggested this stipend.

Prescribed Uses of *Zakat*

The Qur’an itself is virtually silent as to the property and wealth objects to be taxed. The rates of *Zakat* due on various forms of property and the manner in which it is collected owe their origin to Prophet [pbuh] and the Pious Caliphs and not the Qur’an itself. Yet the same Qur’an gives quite specific details as to its uses and its beneficiaries. Such precise specification for its uses is a special feature of this religious requirement expected of Muslims. Hamidullah also construes such Qur’anic treatment of *Zakat* to imply that the actual rate of taxation is left to the representatives of the people to decide according to the specific needs at a given point in time (1993, p. 239).

The Qur'anic verse dealing with the disbursement and the beneficiaries of *Zakat* reads as follow: “The State revenues are only for the poor (among the Muslims) and the destitute (among the non-Muslims), and those who work for these (revenues), and those whose hearts are to be reconciled, and for freeing the necks (of prisoners and slaves), and those heavily charged, and in the path of God, and for the wayfarers; a duty imposed by Allah, Allah being knower, wise” (9: 60). These eight categories are, in fact, very comprehensive and are seen by a number of contemporary scholars as defining the social responsibilities of a Muslim State.

The first two categories refer to the needy. According to one school of thought the first, *fu'qara*, refers to the Muslim indigents, and the second, *masakin* are the poor among the non-Muslim inhabitants in the Muslim state. On the other hand, the Muslim jurist, Ibn Taymiya sees the two categories refer to needy—the difference between them being that one begs and lets his needs be known, while the other does not inform others of his needs (Islahi, 1988, p. 215). The third category, referring to those who work for its collection and the subsequent disbursement, according to Hamidullah, may include not only those directly involved such as “the collectors, accountants, those in charge of the expenditure, controllers and auditors”, but may, in fact, “practically embrace the entire administration, both civil and military, of the State in view of the fact that the beneficiaries of these revenues include practically all departments of administration.” (1969, pp. 69-70).

The next category, “those whose hearts are to be won” is seen by Hamidullah as representing: first, those who need encouragement for coming to the aid of the Muslim community; second, those whose who are to be induced to abstain from doing harm to Muslims; third, those who are attracted towards Islam; and fourth, those whose conversion to Islam may lead others to do the same. Hamidullah adds: “It is lawful to benefit each and every one of these categories” and whether those included in these categories profess Islam is immaterial (1969, p. 70). Muslim jurists from the early centuries of Islam, Abu Yusuf and Abu Ya'la, have written that non-Muslims could be the beneficiaries of *Zakat* disbursements (Hamidullah, 1993, pp. 242-243). In contemporary context, one could use *Zakat* for educating the public about the meaning of Islam through setting up think tanks and for *dawa* in general.

The next category, referred to, by the term “freeing the necks,” has generally been seen as alluding to the emancipation of slaves and the ransoming of those taken as the prisoners of war by an enemy. Even though Islam did not forbid slavery, nonetheless, Islam was the first of the world religions to have paid specific attention to improving the condition of the slaves. Qur'an (20:33) orders that if a well-behaving slave is prepared to pay off his value to his master, his master cannot refuse the offer; in fact, he should be required by Islamic law to grant his slave opportunities to earn and save the necessary amount for obtaining his freedom. The object of permitting slavery in Islam, according to Hamidullah was: “not the exploitation of an unfortunate fellow-being. Far from that, its aim is first to provide shelter to the prisoners of war who have lost everything, and for some reason or other are not repatriated; and secondly to educate them and give them the opportunity of acquiring culture in Islamic surroundings, under the government of God. Slaves are obtained only in legitimate war, waged by a government. Private razzias, kidnapping or even sale of infants by their parents have no legal sanction whatsoever”(1969, p. 70). The fact that a portion of *Zakat* was earmarked for freeing the slaves certainly demonstrates that Islam sought to prevent and certainly contain the abuses connected with slavery that were commonly practiced at that time.

One must not limit the two Qur'anic phrases "those whose hearts are to be won" and "freeing the necks" to their literal sense. Indeed the figures of speech used by the Qur'an would have one interpret them as metaphorical. Clearly human beings can be enslaved in many ways and winning the hearts could be accomplished by appealing to human minds. Through specifying such uses of the *Zakat* funds side-by-side with the needs of the needy and indigent, the Qur'an is seeking to extend the uses of *Zakat* beyond meeting the basic needs of food, clothing, and shelter of the indigents. *Zakat* is therefore not an act of charity; rather it is an instrument for enriching a community not only through an eradication of poverty but its underlying causes as well. It may be also used for protecting the community from external threats and to help meet calamities that could beset members of the community, natural and financial. It is thus an instrument for preventing conditions, which make economic exploitation of human beings more likely. That *Zakat* not only is meant to serve as a comprehensive safety net but also to help promote community growth and prevent economic exploitation is seen in the remaining three uses specified for it—helping those heavily indebted, for promoting the cause of Allah, and helping travelers.

The injunction to use it to help those who are heavily indebted can be taken to mean helping those who have encountered hardships or natural disasters. In the days of Caliph Umar, the State provided interest-free loans to individuals to help them get back on their feet after they encountered hardships. One must see the injunction to help those heavily indebted to mean not only providing disaster relief to those stricken by natural calamities but also those whose "indebtedness" is due to the systemic forms of poverty that add to the economic hardships of individuals in poor communities. In the present-day America, one is familiar with disaster-relief funding as well as the concept of enterprise zone to re-build urban pockets of poverty. Small business loans are also familiar means of promoting economic enterprise. The disparity of school funding in different districts within a state, such as New Jersey, and the resulting disparity in the quality of education being imparted to children in different parts of the state come to mind as a variation of "indebtedness" that prevents individuals from optimum realization of their God-given abilities. Those living in impoverished areas are indebted to their lack of resources. The role of *Zakat* as a safety net aimed at eradicating the potential for exploitation can also be construed to mean eradication of the disparities obvious in the educational opportunities available to community members. One must interpret broadly the nature of "indebtedness" just as we should the phrases "those whose hearts are to be won" and "freeing the necks." The seventh use of *Zakat* signified by the phrase "In the path of God," according to Hamidullah, "includes every charitable cause; and the jurists have not hesitated to start with military equipment for the defense of Islam" (1969, p. 70). This category has also been taken to mean building religious centers, hospitals, schools, libraries, and sponsoring religious missionary work.

The last category, the "wayfarers," literally means that one should use *Zakat* to help travelers by providing them hospitality. But helping travelers can also imply building highways and maintaining a transportation system, an infra structure which will ensure security of routes and permit measures that will provide for the well-being of those who have to travel through the land. Such facilities should be available to every one irrespective of their faith and national origin. Indeed, transportation of goods and the ability to travel are indispensable for the well being and growth of a community, to raise its standard of living, and most important, to prevent economic exploitations.

In short, the uses of this Islamic pillar of faith make it a lot more than act of simply charity. They make it a resource for eradicating conditions that potentially promote exploitation of human beings.

Islamic Rationale for Taxation

The requirement that Muslims as an expression of their faith pay *Zakat* is meant to help fulfill the community responsibility to take care of its members' needs. Making sure that the needs of the community are met with the help of such assessments is an absolute imperative, according to Yusuf: "The obligation is absolute and preferential in the sense that if the collection at the normal rate is inadequate for the purpose, the state is compelled to supplement the same by resorting to borrowing (of course, without interest) and/or taxation to the extent and till such time as is required by the needs of the situation"(1990, p. 64).

The revenues from *Zakat* are to serve as a religiously sanctioned safety net for community members. If the fund is not utilized, the surplus will go on accumulating and be reserved in the state treasury—Bait al-Mal. It is expressly prohibited that the *Zakat* fund (Yusuf, 1990, 64) be diverted to any other head of expenditure—however, as discussed earlier, the eight categories that the Qur'an specifies are rather broad and do allow considerable latitude in spending it.

A very persuasive case can be made to argue that the basic justification

underlying this religious requirement imposed on Muslims is aimed at ensuring that the basic needs of all members of the community are met. But, at the same time, the eight specified uses of *Zakat* are not limited to providing food and shelter for the indigent members of the community (Hamidullah, 1993, p. 244). As noted earlier, the funds collected are also designed for community-building through uses that are meant to equalize opportunities, further trade and commerce, help build highways, aid in promotion of enterprise on the part of community members, allow for disaster relief, provide for military defense and even help provide incentive to potential friends of the community. While prohibiting its use for the personal enrichment and gratification of the Head of the State and his family, a provision is made for expenses incurred in administering the disbursement and collection. To ensure that such administrative overhead would not consume most of the funds collected, Islamic jurists have argued that the salaries of those involved with civil, military, and judicial functions of the state must be from other sources of revenues accruing to the state—such as *Kharaj* (Yusuf, 1990, p. 65).

The institution of *Zakat* indicates that Islam permits the state to tax its citizen specifically for the discharge of the obligations laid upon the State. Making taxation an act of pious belief does not totally abolish tax evasion, yet it can serve to minimize the problem of tax evasion. To further ensure tax payments, even while making such fiscal sharing a form of worship and a requirement for belief, Islam emphasizes control over the uses of such contributions. Research has shown that citizens have a greater willingness to pay taxes as long as the funds are used properly.

Islam has had its share of "Boston tea parties." There have been disagreements over what to tax and in what amounts. In fact, the efforts of Saladin against the Crusaders almost failed on account of his hesitation to levy taxes that were not in keeping with *Fiqh*. In this context, one could cite the ordeal of the Muslim jurists in resisting the innovation of taxes, allegedly unrecognized by Islam and imposed by rulers seeking to meet their budgets. One of the more notable example is that of al-Sarakhsi, the famous scholar of what is now Central Asia. He exhorted the people to stop payment of taxes which were not sanctioned by Islam and for which, he was imprisoned in a well from where he dictated his voluminous books to the pupils sitting on the periphery of the well. The point is that the imposition of a new tax can "constitutes a serious violation of the Shariah; it is not just a matter of ingenuity on the part of a minister and his advisors" (Yusuf. 1970, p. 70).

Taxes are hardly the cherished symbol of the allegiance citizens owe to their states. Throughout the world, professional tax experts seek to aid citizens in avoiding or at least minimizing taxes. Tax avoidance through legal and illegal means is and has been a global reality. Such desires to avoid taxes pose problems for nations of all stripes, developed as well as developing. The act of paying *Zakat* is taken seriously by a vast number of Muslims throughout the world. Even though it is fair to say that among Muslims there are those who seek to avoid paying taxes—both religious such as *Zakat* and others imposed by contemporary governments, still it would appear that making financial contributions to one's community a form of worship and a requirement of belief cannot but help lessen the problem of tax avoidance.

***Hisba*: The Historical Background**

Among the historical antecedents that could be adapted to help develop the present-day accounting and auditing standards in the Islamic world would be the institution of *Hisba* (Murtuza, 2000) whose institutional role was to promote accountability in a manner not unlike that sought from contemporary accounting by Tinker (1985): "Accounting practice is a means of resolving social conflict, a device for appraising the terms of exchange between social constituencies, and an institutional mechanism for arbitrating, evaluating, and adjudicating. (p. 85)."

The word *Hisba* has been derived from the root h.s.b. and means "arithmetical problem"; "sum"; or "reward". When used as a verb, it means "to compute" and "to measure." The term is also associated with *Ihtasaba* which means "to take into consideration, "to anticipate a reward in the Hereafter by adding a pious deed to one's account with God" (Khan, 1987, p. 135). Given the various meaning of the word *Hisba*, it is interesting to compare it with the meaning of the word, accounting, which refers to counting as well as to account for explain something. Among Muslims, the noun form of *Ihtasaba*, *Ihtisab* came to be associated with the activities of a person who invites others to do good (*ma`ruuf*) and forbids them from evil (*munkar*) in the hope of getting a reward in the Hereafter (Ibn Taymiya, 1987; Cook, 2001).

The term *Hisba* also took on an institutional form by describing the institution set up to promote proper and to prevent what is improper (*'amr bil ma`ruuf wa-n-nahi` anil munkar*, to promote what is good and to prevent what is improper) in accordance with the call made in the Qur'an by an Islamic state. Although the Qur'an expects and enjoins every Muslim to play a positive role in the propagation of good (*ma`ruuf*) and suppression of evil (*munkar*), it has been made an obligation on a section of society to remain engaged in it. From the days of the Prophet Muhammad [pbuh] himself, the Islamic state has been enjoined to institute arrangements to oversee the implementation of this injunction (Khan, 1987).

It was Prophet Muhammad [pbuh] himself, who took care to institutionalize the perpetuation and preservation of this code by enjoining upon everyone to engage in *amr bit mar`uuf wa-n-nahi` anil munkar*. Even in its early form, the functions performed by *Hisba* involved regulation of market prices and supplies. Prophet Muhammad [pbuh] himself would, so often, undertake inspections of markets to see that the merchants did not engage in improper behavior and whenever he would see someone indulging in an improper actions, he would ask the individual to desist from such behavior. This function he carried out both as the Prophet [pbuh] of Allah and as the Head of the Islamic state. Subsequently, when his personal engagements increased he appointed others to perform the role. One of those appointed to the position was Umar bin al-Khattab, who became the second Caliph after the death of Prophet Muhammad [pbuh] and Abu Baker, the first Caliph.

The first four caliphs of Islam carried out the functions of *muhtasib* themselves, although there are reports of the appointment of a market officer by the Caliph ‘Umar. The provincial governors during this era acted as *muhtasib* on behalf of the caliph. A separate department of Hisba, with a full-time *muhtasib* assisted by qualified staff (known as ‘*ariifs* and *amiins*) was introduced by ‘Abbasid Caliph Abu Ja’far al-Mansur in the year 750 A. D. The institution moved along with Muslims in the western provinces of Spain and North Africa and remained an integral part of the state even after the split of the Baghdad caliphate. The office of *muhtasib* retained its importance during the rule of Fatimids, Ayyubids, and Ottomans. The institution of *Hisba* continued during the entire Muslim period of history, though it has called differently in various regions. With the arrival of Western colonialism and the simultaneous eclipse of Islamic political strength, most of the Muslim institutions underwent drastic decline. The institution of *Hisba* also declined in effectiveness and virtually disappeared.

The Nature of the Institution of *Hisba*

The duties performed by a *muhtasib* were of three categories:

- those relating to (rights of) God. These covered religious activities such as punctuality of prayers, organization of Jum’a and ‘Id congregations and maintenance of mosques.
- Those relating to (rights of) people. These related to community affairs and behavior in the market, such as accuracy of weights and measures and honesty in dealings
- Those relating to both. This pertained to affairs relating to municipal administration such as keeping the roads and streets clean and lit at night and preventing the building of a factory or dwelling place which could damage the community interests.

The *muhtasib* could appoint others, such as technically qualified experts to investigate matters pertaining to different crafts and trades. He received complaints from the public but could also initiate an investigation on his own. He had wide powers, but was required to use them sensibly. The powers assigned to him to carry out his functions included simple advice, reprimand, rebuke, obstruction by forces, threat, imprisonment and expulsion from the town. The *muhtasib* was required to choose a stronger punishment only if a milder one was either ineffective or seemed to carry no weight with the person being admonished. The code of conduct for a *muhtasib* provided a system of checks and balances. For example, he could not doubt a prima facie approved behavior nor could he engage in secret probing into a doubtful affair. The behavior of a person should be obviously against the injunctions of the *Shari’a* before a *muhtasib* could intervene. Similarly he could not issue new edicts interpretations of the rules—to punish people, instead he could forbid them from only those actions on which there existed a consensus of the community. He was expected to act with wisdom and foresight and not over- zealously. His actions ought not to bring about a greater mischief than the one he sought to stop—he was to think through the consequences of his activities. On questions of social practices, the *muhtasib* was expected to invite community participation and refrain from imposing his personal opinions and standards on the majority. In summary, the office of *muhtasib* was only a logical necessity of the Islamic state to perpetuate and preserve its social norms. It was not merely a secular office to regulate markets and administer municipal services (Khan, 1987).

Essence of Hisba

The literature on the institution of Hisba relates it to “*amr bil ma`ruf wa-n-nahi`anil munkar*” (promote good and prevent evil) enjoined on all Muslims. From this it follows the following: First, the *muhtasib* was responsible to see that the community as a whole had proper organization and facilities for performance

of worship, 'Ibadat. Second, the muhtasib paid special heed to various municipal services especially hygienic conditions in the town. In effect he acted as a municipal officer in the Muslim society. He would look into the entire municipal administration such as street lighting, removal of garbage, architectural designs of buildings, water supply and anti-pollution sanctions. Third, the *muhtasib* was concerned with the implementation of 'adl (justice) in the society. He would try to enforce fair play among different economic factors to minimize possibilities of exploitation from the economy. Consequently, he would be involved with inspection of weights and measures, metallic content of coins and quality of food products. Similarly the muhtasib would check manipulation of prices, supplies and production, monopolistic collisions, cheating, fraud and any other form of inter-sectoral inequity. In brief, he had to intervene wherever the economic flows were manipulated by the economically powerful individual or groups to their selfish ends.

Why Study Islamic Antecedents for Financial Accountability?

As noted earlier, there is a the lack of knowledge about cultural and social values espoused by Islam and such ignorance is not helped by what could be called the on-going demonization of Islam in the popular media. The literature that deals comparatively with the relationship between accounting and national cultures is pretty much void of significant discussion involving Islamic and Middle Eastern countries. While making the non-Islamic world aware of Islamic ethical values is important enough to warrant a study such as this paper, another reason for promoting such awareness is the search for accounting currently under way that is in line with their traditions (Baydoun & Willet, 1997; Karim, 1995). This search has resulted in part due to the growing perception in the Islamic world that Western economic precepts and models have not brought prosperity to their respective nations at-large, instead, the benefits have been limited to the elites (Baydoun & Willet, p.11). According to Baydoun and Willet, the Anglo-American accounting model has been adopted in many Middle Eastern and Muslim countries "not so much for their superiority, but for political and economic reasons"(1997, p. 12). At the same time there is discernable a desire to make *Shari'a* direct life in the Muslim world. The desire to find Islamic models for economic transaction as well as for meeting accounting needs is motivated by not only the presence in the Islamic countries of crony capitalism, there is also the perception that current model of accounting in place "tends to reflect foreign interests, focusing on global matters, and ignoring, or giving less emphasis, to the needs of the local constituency (Baydoun & Willet, p.12).

The Anglo-American accountants tended to ignore cultural factors until recently. Given this it was hardly surprising to find those following their footsteps to do the same. Such unwillingness to see culture as relevant is apparent from a rather recent collection of articles about accounting and auditing in the Middle East. In it even those from Muslim countries writing about accounting are either uninformed about Islamic antecedents or not willing to refer to them in their discussion of accounting in Middle East. *The Recent Accounting and Economic Developments in the Middle East*, is a collection of 15 articles written by mostly Middle Eastern academics and professionals and published in 1985 by the Center for International Education and Research in Accounting based at the University of Illinois. The articles collected in the volume remain one of the prime sources even now, for studying accounting developments in the Middle East. But the collection is dated for being a product of the time when religious factors were deliberately down played—particularly by the intelligentsia in the Middle East (Baydoun & Willet, 1997; Rayner, 1991).

The lack of attention to religion may well be due to the prevailing vogue in the West. The essay collection's oversight results in the lack of any meaningful discussion pertaining to Islamic antecedents for financial accountability or even any discussion of Islamic cultural values and business ethics. Even though the word *Shar'ia* is used, and there are allusions to the Islamic prohibition of usury, yet one could hardly consider the treatment of Islam as anything but cursory by almost all of the articles in the collection. With the exception of the paper written by Pomeranz and Haqiqi, the rest of the collection contains no excerpts from the Qur'an, no discussion of Fiqh, Sunnah and Hadith, and no awareness of the works of major Islamic scholars from the early history of Islam. Almost all the papers are written by Middle Easterners, who presumably ought to know their own cultural heritage and its potential impact for accounting concepts and auditing practices. Even the two articles dealing with Islamic banking in the collection offer nothing other than to say that Islam prohibits interest-based transactions—a very superficial discussion of the Islamic religious and ethical principles that govern *Riba*.

The contributors to the volume by playing down religion have failed to recognize that the cultural factors such as religion affect the development and practices of accounting and auditing. In addition, through their failure to recognize the nature of Islam and the impact it has and continues to in Middle-East, these writers seemingly lost an opportunity to enlighten their readers about Islam, a major global determinant of social, political, and economic activities. In fact, they lost an opportunity to inform accounting professionals and academics that accounting, at least as an instrument of financial accountability if not double-entry book-keeping, predated Pacioli.

Clearly the reason to research and study the Islamic antecedents for financial accountability and performance measurement is grounded in the lack of well-developed accounting and auditing infrastructure in most of the Muslim countries at this point in time. Given the link between religion and culture in Muslim countries, it is essential to have accounting and auditing that is in line with the religious belief and practices. On the basis of work done by authors such as Gray (1988), Perara (1989), and Ziad (1997) there is a general agreement that the culture of a country influences the choice of accounting systems and practices, even though the precise nature of such relationship has not yet been mapped.

On account of such agreement regarding cultural context of accounting, this paper argues that by grounding the auditing standards and accounting principles in the Islamic antecedents for financial accountability can enhance their credibility and compliance with them in the Muslim world. Since religion is a major factor in Islamic countries, such grounding can enhance the credibility of the auditing and accounting tools that seek to provide financial accountability and performance measurement. Without such enhancement of accountability, the environment for financial investment itself can be impeded and impaired, and thereby preclude national development.

In the United States and much of the Western world, financial reports prepared by the business firms are given credibility with the help of auditors who, following generally accepted auditing standards examine the accounting statements to see that they are in line with generally accepted accounting standards. Such financial reports, despite their flaws (Tinker, 1985; Clarke 1998), nonetheless facilitate financial investment and allow economic markets to function. The solution for the lack of adequate auditing and accounting standards in the predominantly Muslim countries is to develop standards for financial accountability as well as a conceptual framework in line with Islamic beliefs and practices as well as contemporary realities.

Conclusion

There is a notable absence of discussion pertaining to Islam in the contemporary accounting research. Very little is known about Islam, notwithstanding the wealth of stereotypes that are churned out by popular media. Trade between the Muslim countries and the rest of the world is likely to grow in the days ahead. At the same time efforts aimed at the harmonization of accounting standards are also likely to continue. The Muslim countries themselves are likely to keeping directing efforts aimed at their economic development. Given these prospects, it is imperative to increase the awareness of Islamic ethics not only for non-Muslims but Muslims themselves. This paper has tried to fill in the gaps with respect to the cultural and ethical values of the Middle Eastern and Islamic countries.

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