

The Role of Sharia Accounting in Strengthening Indonesia's Halal Industry Ecosystem

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Abstract: The global halal industry continues to experience robust growth, yet a critical dimension remains underexplored: the integration of Sharia-compliant financial management within halal-certified enterprises. While most regulatory and scholarly attention has been directed toward ensuring product halalness, the financial practices of halal industry players are often misaligned with Sharia accounting principles. This study investigates the role of Sharia accounting in strengthening the integrity and sustainability of Indonesia's halal industry, using a phenomenological qualitative approach based on in-depth interviews with key stakeholders in East Java. Grounded in the *maqāṣid al-sharī'ah* framework, particularly the protection of wealth (*hifz al-māl*), the findings reveal a systemic gap between product-based halal certification and Sharia-compliant financial reporting. The absence of regulatory enforcement, institutional clarity, and professional support has led to fragmented practices, particularly among micro, small, and medium-sized enterprises (MSMEs). This study offers a strategic recommendation to involve Sharia-compliant Public Accounting Firms (PAFs) in assisting halal businesses with financial reporting following Sharia Financial Accounting Standards (SFAS). The novelty of this research lies in highlighting financial governance as an essential yet overlooked pillar of halal assurance—advancing the discourse on halal ecosystem integrity from a global Islamic accounting perspective. For future research, comparative cross-country studies are recommended to examine the implementation and regulatory integration of Sharia accounting within halal industries in diverse legal and institutional settings, particularly between emerging Muslim-majority economies and established halal hubs such as Malaysia, the GCC, and Southeast Asia.

Keywords: Sharia Accounting, Halal Industry, *Maqāṣid al-Sharī'ah*, Financial Compliance, Islamic Accounting Standards

Introduction

The halal industry, particularly in Muslim-majority countries, has developed as a manifestation of Islamic ethical business practices. It means that businesses are not solely driven by profit but also strive to operate by Islamic law (sharia). Islamic business ethics require that every stage of economic activity—production, distribution, and consumption—be conducted consistently with Islamic values.¹ These ethical guidelines have stimulated the growth of halal-based industries, encouraging producers and consumers to engage in Sharia-compliant economic behaviour. Muslim consumers are increasingly selective in choosing products whose halal status is clearly verifiable. In response, producers are becoming more proactive in ensuring the halal integrity of their goods. Halal-labeled products are perceived as having undergone rigorous scrutiny regarding their ingredients and processes, assuring consumers of both safety and compliance.

Halal-certified products are gradually becoming a crucial component of the global economy. Regulatory standards governing halal products are expected to be clearly defined, at least at the national level, to ensure that halal consumption is protected as a fundamental right for Muslims. The importance of halal products extends beyond religious obligations, encompassing considerations of health, safety, and economic priorities. As such, halal industries are not confined to food and beverages but also encompass lifestyle sectors such as tourism, cosmetics, education, Islamic finance, fashion, entertainment, and culture. In this broader context, halal-oriented micro, small, and medium-sized enterprises (MSMEs) refer to individual, household-based, or institutionally managed businesses that ensure their sourcing, production, and delivery processes comply with Islamic legal and ethical standards.²

Indonesia is experiencing a notable increase in demand for halal products, which aligns with the expansion of MSMEs that have the potential to contribute to halal production. However, many of these enterprises remain underdeveloped regarding systematic halal governance. In addressing this, the Indonesian Council of Ulama (Majelis Ulama Indonesia/MUI) plays a central role in overseeing halal certification and labelling through its dedicated institutions, which ensure that producers comply with halal standards before products are distributed.³

The growing demand for halal products in Indonesia also aligns with the national Sharia economy roadmap, which envisions Indonesia as a global halal hub. This goal is considered realistic given the country's substantial assets in three key areas: religious-demographic capital, socio-cultural capital, and human capital. Indonesia's religious-demographic capital lies in its sizeable Muslim population, which increases demand for halal goods. Socio-cultural capital is reflected in the rising popularity of the halal lifestyle across various domains, including culinary products and halal tourism destinations. Regarding human capital, Indonesia boasts many

¹ Agung Zulkarnain Alang, "Production, Consumption, and Distribution in Islam", *Journal of Institution and Sharia Finance*, Vol. 2, No. 1 (2019), 9-21.

² Putu Rahdhiwiyasa, "The Role of KNEKS in Promoting the Development of Halal MSMEs", *Insight Magazine*, Edisi 13 (2021).

³ Warto dan Syamsuri, "Halal Certification and Its Implications for Halal Product Business in Indonesia", *Journal of Islamic Economics and Banking*, Vol. 2, No. 1 (2020), 100-113.

scholars, researchers, and practitioners who possess expertise in halal standards and certification systems. These collective strengths have the potential to support the establishment of integrated halal certification agencies consisting of producers, halal auditors, compliance officers, and other related actors.

Supported by this roadmap and the aforementioned foundational capital, Indonesia has begun developing several halal industrial zones. These Halal Industrial Zones are projected to significantly contribute to halal product spending, which currently reaches USD 2.2 trillion, with an expected increase to USD 3.2 trillion by 2024. According to the Ministry of Industry, such growth also aligns with increasing trade among member countries of the Organization of Islamic Cooperation (OIC), which currently amounts to USD 254 billion and is estimated to contribute 1–3% to global GDP.⁴ For example, East Java, which experienced the lowest economic contraction in the region at 2.39%, demonstrates the potential effectiveness of strategic development in halal industrial performance. In this regard, the Halal Industrial Zone in East Java is considered a strategic catalyst for accelerating the transformation of the halal sector and boosting economic growth.⁵

Despite the impressive expansion of the halal industry, a fundamental challenge remains unaddressed mainly: the lack of Sharia compliance in financial management practices. While much attention has been paid to verifying the halal status of raw materials and production processes, there has been little focus on ensuring that financial recording, auditing, and reporting systems are aligned with Islamic principles. Sharia accounting guarantees traceability, transparency, and ethical governance throughout the halal value chain. It prohibits interest (*riba*), excessive uncertainty (*gharar*), and gambling (*maysir*) while promoting justice, honesty, and social responsibility in financial transactions.⁶

However, many halal-certified businesses rely on conventional accounting frameworks that may not adequately reflect Sharia compliance. This misalignment presents the risk of inconsistency between a product's halal label and the business's internal operational practices. Financial systems that are not Sharia-compliant may erode stakeholder trust—both from consumers and investors—by casting doubt on the overall integrity of the halal enterprise. While product halalness is increasingly regulated and enforced, financial practices within halal enterprises often remain unregulated and detached from Sharia principles. This disconnect represents a critical research gap that undermines the holistic development of a sustainable halal ecosystem.

To address this gap, this study aims to investigate the crucial role of Sharia accounting in promoting the growth of the halal industry in Indonesia. Specifically, it explores how adopting sharia-based financial practices can enhance accountability,

⁴ Indonesia. Ministry of Industry, “Indonesia is Projected to Become the World’s Halal Production Center”, Retrieved from <https://www.kemenperin.go.id/artikel/22817/Indonesia-Digadang-Jadi-Pusat-Produksi-Halal-Dunia>. (2022).

⁵ Nour Athiroh Abdus Sjakoer et al., "Strengthening Halal Culture and the Halal Industry in East Java", *Journal Pusat Studi Jawa Timur*, Vol. 1, No.1 (2022), 1-20.

⁶ Nova Crusita Hutabarat and Rayyan Firdaus, “The Future of Syariah Accounting in Modern Business”, *JICN: Jurnal of Intelek and Cendikiawan Nusantara*, Vol. 1, No. 6 (2025), 17-31.

improve stakeholder confidence, and strengthen the integrity of halal-oriented businesses.

Research Methodology

This research employed a descriptive qualitative design grounded in a phenomenological framework. The study explores the phenomenon of the halal industry's growth, which remains unaccompanied by proper financial management by Sharia accounting standards. The phenomenon was examined through the lived experiences of key actors within the halal industry.

Three informants were purposively selected from two distinct organizational settings: two individuals representing the management of the Halal Industrial Park Sidoarjo (HIPS), recognized as the first halal industrial estate in East Java, and one representative from the Indonesian Street Vendors Association in Sidoarjo, who also serves as a mentor for halal certification processes. The selection criteria emphasized individuals directly mentoring or accompanying halal enterprises within and outside formal industrial zones.

Data collection was conducted through in-depth interviews (primary data) and document analysis (secondary data), including policy documents, development reports on the halal industry, and previous scholarly studies relevant to the research theme. To ensure data validity—particularly of primary data—this study employed a *member check* strategy, confirming that the second and third informants consistently experienced the phenomenon described by the first informant.

The data analysis followed three key stages: (1) data reduction, where relevant narratives and statements were selected following the research focus; (2) data display, presented in thematic summary tables to enhance clarity and comparability; and (3) conclusion drawing, which synthesized patterns and meanings emerging from the data about the research objectives.

Findings

The Growth Trend of Indonesia's Halal Industry

The halal industry in Indonesia continues to demonstrate strong performance as a promising sector that supports national economic growth. With various government initiatives and regulations, the sector strengthens Indonesia's position as one of the key players in the global halal industry. Real data shows significant growth across multiple halal-related sectors.

In the first quarter of 2024, the leading halal value chain (HVC) sectors recorded a year-on-year (yoy) growth of 1.94%. Two primary sectors—halal food and beverages and modest fashion—experienced even higher growth rates of 5.87% and 3.81% yoy, respectively. These figures signal a positive trend, indicating that Indonesia's halal sectors are growing domestically and have the potential to penetrate broader international markets.⁷

⁷ Komite Nasional Ekonomi dan Keuangan Syariah (KNEKS), “Halal Value Chain Sector Grows Positively, Supporting National Economic Growth”, Retrieved from <https://kneks.go.id/berita/619/sektor-halal-value-chain-tumbuh-positif-dukung-pertumbuhan-ekonomi-nasional?category=3>, (2024).

According to the State of the Global Islamic Economy Report (SGIER) 2023/2024, global halal product consumption is projected to reach USD 2.4 trillion by 2024, reflecting a surge in global demand. Meanwhile, the Pew Research Center projects that by 2030, the global Muslim population will reach 2.2 billion people or 26.5% of the world's total population. Given its significant potential, the Indonesian government continues to strengthen policies and regulations that support halal industry growth to meet domestic demand and expand halal product exports to global markets. Indonesia is steadily improving its ranking in the global Islamic economy. The country has moved up one position to third, surpassing the United Arab Emirates and Bahrain. This improvement is supported by strong performances in halal industry subsectors such as halal pharmaceuticals and cosmetics, halal food, and modest fashion.⁸

Sharia Compliance in Halal Industry Products

The halal industry encompasses businesses that manage their operations from raw material acquisition to finished goods, ensuring that the products reaching consumers are definitively halal. From 2021 to the present, the Indonesian government has continued to assist with halal certification, both domestically and abroad, to ensure that the products consumed by Muslims are halal. The assurance of a product's halal status does not end with certification alone; it continues through ongoing monitoring by Halal Auditors from the pre-certification stage through post-certification. Ensuring sharia compliance in the halal industry is one of the responsibilities of halal auditors.⁹

Halal Auditors are part of the Halal Inspection Agency, which is involved in the verification process coordinated by the Halal Product Assurance Organizing Agency. These auditors examine both documentation and field operations in the production process of halal products.¹⁰ Government Regulation No. 31 of 2019, Article 40 Paragraph 4, outlines the specific roles and functions of Halal Auditors, including:¹¹

1. Inspecting and assessing ingredients used
Halal auditors must be sufficiently competent in production processes to verify that all raw materials are halal.
2. Reviewing the production process
Using 100% halal ingredients does not automatically guarantee the final product's halal status; hence, process verification is necessary.
3. Inspecting slaughtering systems

⁸ DinarStandard, *State of the Global Islamic Economy Report*, <https://salaamgateway.com/reports/state-of-the-global-islamic-economy-2023-report>, (2024).

⁹ Ahmad Haikal Hasan, "Head of BPJPH: After Receiving Halal Certification, Business Actors Must Implement the Halal Product Assurance System", Retrieved from <https://bpjph.halal.go.id/detail/kepala-bpjph-setelah-bersertifikat-halal-pelaku-usaha-wajib-terapkan-sistem-jaminan-produk-halal>, (2025).

¹⁰ Azhar Alam and Revita Yunie Samhuri, "Halal Certification Management Procedure for Cosmetic Products in Indonesia After Government Regulation", *El-Qist: Journal of Islamic Economics and Business*, No. 31 (2019), 114-135.

¹¹ Aksamawanti and Mutho'am, "Internal Halal Auditor: An Alternative Effort by Business Actors to Ensure Halal Products in Indonesia", *Syariati: Journal of Qur'anic and Legal Studies*, Vol. VI, No. 01 (2020), 73-88.

For products derived from animals, auditors must ensure that the slaughtering process strictly follows Islamic guidelines.

4. Assessing the production site

Auditors must confirm that production facilities, slaughterhouses, processing tools, packaging areas, and distribution methods are free from contamination with non-halal elements.

5. Reviewing the Halal Assurance System (HAS)

Every company applying for halal certification must implement HAS, an integrated management system to ensure that raw materials, production processes, human resources, and procedures comply with the standards set by the Indonesian Council of Ulama.

6. Reporting inspection results to the Halal Inspection Agency

Auditors must report their findings to the Halal Inspection Agency, which then submits the data to the Indonesian Council of Ulama Fatwa Commission for a formal halal determination.

In essence, the central role of Halal Auditors is to audit products to ensure they are Sharia-compliant. However, their responsibilities do not extend to business entities' financial recording or reporting. Halal Auditors focus exclusively on verifying product compliance with halal standards and do not evaluate whether the company's financial practices align with Sharia accounting principles.

Sharia Compliance in the Financial Management of the Halal Industry

Sharia compliance is commonly associated with financial institutions such as Islamic banks, which serve as a benchmark for managing finances according to Islamic principles. Today, the development of the Islamic economy extends beyond financial institutions, supported by government regulations such as the Halal Product Assurance Law, which mandates the provision of halal products to the public. In addition, the government has established the Halal Product Assurance Organizing Agency as the authority responsible for overseeing the halal certification process for halal industries.¹² Muslim communities, especially in Indonesia, are now increasingly supported by the government in adhering to Islamic teachings in economic activities—ranging from production, consumption, and distribution of halal goods to sharia-compliant financial management. As such, *Sharia compliance* may also be extended to financial management practices in economic entities operating within the halal industry.

Stakeholders in Islamic banking in Indonesia can evaluate the extent of Sharia compliance in banking operations through periodic financial reports. The Sharia Financial Accounting Standards (SFAS) identify twelve characteristics of Sharia transactions, as outlined in the framework for the Preparation and Presentation of Sharia Financial Statements (paragraph 27), which are reflected in the financial

¹² Moh. Karim and Dzikrullah, "Enhancing Culinary SMEs Revenue in Burneh District, Bangkalan Through Halal Certification Optimization", *El-Qist: Journal of Islamic Economics and Business (JIEB)*, Vol. 14, No.2 (2024), 141-153.

reports of Islamic banks as Sharia-compliant entities. These standards, which will take effect on January 1, 2025, include the general framework and specific standards:

- SFAS 401: Presentation of Sharia Financial Statements
- SFAS 402: Accounting for *Murābahah*
- SFAS 403: Accounting for *Salam*
- SFAS 404: Accounting for *Istiṣnā'*
- SFAS 405: Accounting for *Muḍārabah*
- SFAS 406: Accounting for *Mushārah*
- SFAS 407: Accounting for *Ijārah*
- SFAS 408: Accounting for Sharia Insurance Transactions
- SFAS 409: Accounting for *Zakah, Infāq, and Ṣadaqah*
- SFAS 410: Accounting for *Sukūk*
- SFAS 411: Accounting for *Wa'd* (promise)
- SFAS 412: Accounting for *Waqf*
- SFAS 413: Accounting for Impairment
- SFAS 459: Accounting for Islamic Banking.¹³

Although many of these contracts also apply to business transactions in the halal industry, implementing these accounting standards has primarily been emphasized in Islamic financial institutions. However, the halal industry is also a Sharia-compliant entity and should adhere to the same accounting principles in its financial management.

This issue is further corroborated by findings from a field visit to the Halal Industrial Park Sidoarjo (HIPS), East Java. According to Mr Fandy, a marketing officer at the site, the financial management of business actors within the area is conducted independently without any structured guidance, let alone alignment with Sharia accounting standards. He stated:

“Each business actor here manages their own finances independently; there is no financial management assistance, let alone alignment with Sharia accounting standards.”¹⁴

Similarly, Ms. Ulfa, the Human Resource Development (HRD) officer, emphasized that the individual businesses and the overseeing company in HIPS do not fully adopt Sharia accounting practices. She explained:

“Both the individual business actors within the Halal Industrial Park Sidoarjo and the company as a whole seem to follow a system that, in my view, does not fully adhere to Sharia accounting standards. That’s correct—the halal auditor only ensures that the products comply with halal procedures, without assessing whether financial records conform to Sharia accounting. Financial issues are only referred to Islamic banks if problems arise among the halal business actors.”¹⁵

These statements indicate that financial recording and reporting within the halal industry are still managed independently and have not yet been systematically

¹³ Ikatan Akuntan Indonesia, *Indonesian Sharia Financial Accounting Standards* (Jakarta: DSAK-IAI, 2024).

¹⁴ Fandy, “Halal Industrial Park Sidoarjo”, *interview*, 2023.

¹⁵ Ulfa, “Halal Industrial Park Sidoarjo”, *interview*, 2023.

aligned with Sharia accounting principles. The scope of halal auditors remains limited in ensuring the halalness of products without evaluating the conformity of financial practices with Sharia standards.

From the perspective of halal certification facilitators, similar conditions are evident. Ms. Novita, a representative of the Indonesian Street Vendors Association in Sidoarjo, conveyed:

“Throughout the facilitation process leading up to the issuance of halal certification, I never examined the traders’ financial records, let alone whether they complied with accounting guidelines, because that’s not part of the certification requirements.”¹⁶

Based on this account, it can be inferred that obtaining halal certification in the current system does not involve any support or evaluation related to financial reporting following Sharia accounting guidelines. It reveals a critical gap in implementing a comprehensive Sharia-compliant ecosystem within the halal industry.

Similarly, higher education institutions operating Halal Inspection Bodies, including certified Halal Auditors, focus solely on assessing products' halal compliance without extending their examination to conforming financial reports with Sharia accounting principles.¹⁷ In line with this, the study by Cania and Nurlaila¹⁸ discovered that several halal-certified companies in North Sumatra and Banda Aceh have yet to apply Sharia accounting guidelines in their financial reporting. Furthermore, research by Wanahwanah¹⁹ on Micro and Small Enterprises (MSEs) in South Sulawesi indicated that the practice of accounting and financial management in halal-based MSEs has not fully implemented standardized accounting systems.

The research reveals a dynamic and rapidly growing halal industry in Indonesia, marked by notable achievements in various sectors such as halal food and beverages, modest fashion, pharmaceuticals, and cosmetics. As of the first quarter of 2024, these sectors demonstrated significant year-on-year growth, reinforcing Indonesia’s strategic position in the global halal economy. The country now ranks third globally in the State of the Global Islamic Economy Report (SGIER) 2023/2024, surpassing several prominent Islamic economies.

Despite the progress in product-based compliance—facilitated by government policies and the work of Halal Auditors—the study uncovers a critical gap in the financial dimension of Halal industry actors. Sharia compliance has broadly been interpreted regarding inputs, processes, and halal certification, with limited attention to financial practices and reporting. Halal Auditors, while instrumental in ensuring product halalness, are not mandated to examine financial records. Consequently, the

¹⁶ Novita, “Indonesian Street Vendors Association”, 2024.

¹⁷ Putri Nadhila Jannatul Ma’wa and Mohammad Nizarul Alim, “Analysis of Procedures and Costs for Halal Audit Implementation at Halal Inspection Agencies”, *BISEI: Jurnal Bisnis dan Ekonomi Islam*, Vol. 9, No. 1 (2024): 1-11.

¹⁸ Ema Saswita Cania and Nurlaila, “The Influence of Halal Product Certification on Sharia Accounting Practices in the Food Industry”, *International Journal Mathla’ul Anwar of Halal Issues*, Vol. 4, No. 2 (2024), 67.

¹⁹ Andi Nurwanah Wanahwanah et al., “Implementation of Accounting Practices and Financial Management in Halal-Based MSMEs (A Phenomenological Study in Gowa Regency)”, *Jurnal Buana Akuntansi*, Vol. 10, No. 1 (2025), 36-45.

financial management systems of halal-certified entities—especially MSMEs—have yet to reflect the principles of Sharia accounting.

Field interviews and previous studies confirm the absence of guidance or enforcement of Sharia-based financial practices during and after the halal certification. While Islamic financial institutions adhere to the Sharia Financial Accounting Standards (SFAS), these standards have not been widely adopted by non-financial halal industry players. The research thus identifies a regulatory and institutional gap, emphasizing the need to expand the scope of Sharia compliance beyond product assurance to include financial governance.

To synthesize these findings, the following thematic table highlights the core barriers, contextual illustrations, and their implications for the integrity and sustainability of Indonesia's halal industry.

Table 1.

The Core Barriers, Contextual Illustrations, and Implications for The Integrity and Sustainability of Indonesia's Halal Industry

Theme	Barrier	Illustration	Impact
Growth of the Halal Industry	-	Significant growth was observed in halal sectors (food, fashion, cosmetics) in Q1 2024; Indonesia ranked 3rd in SGIE 2023/2024	Indonesia is well-positioned to become a global halal industry hub
Halal Product Compliance	Focus limited to product aspects only	Halal auditors examine materials, production processes, facilities, and Halal Assurance System (HAS)	Halal status of products is ensured, but financial dimensions remain overlooked
Sharia Compliance in Financial Management	Absence of financial Sharia compliance regulation for halal industry players	Halal auditors do not assess financial reports No financial guidance was provided during the certification Similar findings among MSMEs in North Sumatra, Aceh, and South Sulawesi	Financial practices are not accountable under sharia, which creates a potential inconsistency with halal values
Application of Sharia Financial Accounting Standards (SFAS)	SFAS implementation mainly applies to Islamic financial institutions, not real-sector halal businesses	Halal industry actors in Sidoarjo do not apply SFAS 401–459 in their financial records	A compliance gap exists between product halal certification and financial management practices

Institutional Limitations	Halal auditors lack the authority to assess financial practices	Universities operating Halal Inspection Bodies focus solely on product compliance, not financial reporting standards	Lack of comprehensive sharia-based accountability and sustainability within halal industry actors
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Source: Compiled by authors

Discussion

The Urgency of Sharia Accounting in Strengthening the Halal Industry Growth Trend

Modern businesses that develop halal products greatly require Sharia accounting experts to manage their financial affairs.²⁰ If a business activity is carried out based on Islamic business ethics principles, financial management — from recording to reporting — should not be neglected but must adhere to Sharia accounting guidelines. The Qur'an explicitly emphasizes the importance of recording business transactions in Surah Al-Baqarah verse 282, which serves as the primary legal basis for Sharia accounting. The verse contains the word "*faktubūh*," indicating Allah SWT's command to record every transaction to safeguard and preserve it.²¹

The importance of financial recording in business reflects transparency, justice, and goodness for all involved parties. According to Al-Ghazali, justice is likened to business capital that ensures safety for business actors. At the same time, goodness (*ihsān*) symbolizes profit or gain that results when business people uphold justice. Islam teaches that every activity, including economic endeavours, should not only pursue self-interest but also provide benefits to others, such as consumers.²²

The function of financial recording, as interpreted from Surah Al-Baqarah verse 282, is to safeguard the wealth of the involved parties. Wealth protection is one of the key pillars in achieving *maqāṣid al-sharī'ah*. Even though wealth appears later in the *maqasid* hierarchy, its absence could compromise the entire *maqāṣid al-sharī'ah* structure. The ultimate purpose of wealth protection is to ensure the benefit (*maslahah*) of every Islamic economic transaction.²³

Maqāṣid al-sharī'ah, through the *maṣlaḥah* framework, seeks to promote goodness and prevent harm in all forms. Imam Al-Ghazali emphasized that the essence of *maṣlaḥah* is to secure benefits and repel harm to preserve the objectives of Islamic law. These objectives include preserving religion, life, intellect, lineage, and wealth. Any action that aims to uphold these five aspects is considered *maslahah*, as is any attempt to avert harm concerning these objectives.²⁴

²⁰ Winda Fitri, "The Effect of Islamic Banking Integrity as a Financial Sector in Improving the Indonesian Economy during the Pandemic", *Jurnal Komunikasi Hukum (JKH)*, Vol. 8, No. 1 (2022), 317-333.

²¹ Ibn Katsir, *Tafsir Ibn Katsir Jilid I*, terj. M. Abdul Ghoffar E.M (Jakarta: Pustaka Imam Syafi'i, 2009), 563.

²² Abu Hamid al-Ghazali, *Ihyā' 'Ulūm al-Dīn*, Jilid II, (Beirut: Dar al-Ma'rifah, t.th), 79.

²³ Muzayyidatul Habibah, "Implementation of Maqashid Syariah in Formulating the Objectives of Islamic Bank Financial Statements", *AKTSAR: Jurnal Akuntansi Syariah*, Vol. 3, No. 2 (2020), 177-192.

²⁴ Nasrun Haroen, *Ushul Fikih*, (Jakarta: Logos Wacana Ilmu, 2019), 114.

Islamic perspectives on wealth imply that *maqāṣid al-sharī'ah* must be applied to determine wealth administration (accounting) and the disclosure of information about the nature and existence of wealth, particularly its sources and uses. Employing the *maqāṣid al-sharī'ah* framework provides a more comprehensive understanding of how Sharia principles and values can be integrated into financial reporting requirements. This *maṣlaḥah*-based framework (wealth protection) is applied in the acquisition, management, administration, and dissemination of accounting information regarding the sources and uses of an entity's wealth,²⁵ which has been codified by Sharia accounting experts in the Sharia Financial Accounting Standards (SFAS). These standards are expected to accommodate the financial recording of all Islamic businesses, not limited to Islamic financial institutions but also including the halal industry.

Thus, this study highlights that the function of financial recording derived from Surah Al-Baqarah verse 282 is directly aligned to protect wealth — a key component of *maqāṣid al-sharī'ah*. Although protection of wealth ranks fifth in the maqasid hierarchy, its fulfilment is foundational, as the absence of wealth protection can jeopardize the realization of other maqasid objectives, such as religion, life, intellect, and lineage. Therefore, financial recording and reporting that comply with Sharia principles are not merely technical or administrative acts but essential religious obligations that fulfil the broader objective of *maṣlaḥah* (public benefit) and harm prevention (*mafsadah*), as emphasized by Imam Al-Ghazali.

Based on research results, the halal industry has experienced good growth, but it is not accompanied by transparency in financial management according to Sharia standards. In line with the Indonesian context, Malaysia—despite its earlier establishment as a global halal hub and its robust institutional halal infrastructure—has not fully implemented Shariah-compliant accounting standards across its halal industry. The majority of halal business entities continue to prepare financial reports based on the Malaysian Financial Reporting Standards (MFRS), which are derived from the International Financial Reporting Standards (IFRS), rather than adopting the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards or other explicitly Shariah-based accounting frameworks.²⁶

This gap results from limited knowledge and resources among business owners and management regarding the application of Sharia accounting and a lack of information on the importance of adopting Sharia accounting practices after obtaining halal certification. Business actors typically view halal certification merely as regulatory compliance without extending it to Sharia accounting practices. Their focus remains primarily on operational sustainability rather than on financial reporting.²⁷ These challenges present opportunities to reinforce the halal industry's growth

²⁵ Murniati Mukhlisin, "Level of Maqāṣid ul-Sharī'ah's in financial reporting standards for Islamic financial institutions", *Journal of Islamic Accounting and Business Research*, Vol. 12 No. 1 (2021), 60-77. <https://doi.org/10.1108/JIABR-03-2020-0090>.

²⁶ Yasmin Hanani Mohd Safian et al., "Halal governance in Malaysian companies", *Journal of Fatwa Management and Research*, Vol. 20, No.1 (2020), 40-52.

²⁷ Ema Saswita Cania dan Nurlaila, Ibid, dan Andi Nurwanah Wanahwanah, et. al., Ibid.

through Sharia compliance audits, which are usually implemented in Islamic financial institutions by Sharia Auditors.

Sharia accounting, a fundamental component of Islamic finance, is crucial in supporting the halal industry ecosystem. This system not only aids halal industries in recording and reporting financial data according to Islamic principles but also fosters transparency, justice, and responsible management.²⁸ Internationally, Sharia accounting standards have been formulated by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), headquartered in Bahrain. AAOIFI's standards are firmly rooted in Sharia principles, emphasizing ethical and socially responsible financing practices. These principles prohibit interest-based transactions and promote profit-and-loss-sharing arrangements consistent with Islamic values.²⁹

In Indonesia, the Indonesian Institute of Accountants (IIA) established Sharia accounting standards through the Sharia Financial Accounting Standards (SFAS), which also refers to AAOIFI.³⁰ These guidelines provide directions for recording and presenting financial statements across various business transactions conducted by halal industries. For instance, SFAS 102 governs *murābaḥah* accounting for sales transactions involving deferred payments, including the cost price and profit margin. SFAS 103 and 104 regulate accounting for *salam* and *istisna'* transactions involving order-based sales. SFAS 105 and 106, covering *muḍārabah* and *mushārahah* accounting, respectively, also apply to the halal industry for joint ventures with investors. These standards are a reference for integrating Sharia accounting into the halal industry, a responsibility shared by the Halal Product Assurance Organizing Agency and the Sharia Division of the Indonesian Institute of Accountants.

Despite regulations promoting halal certification and the growth of halal industrial zones, financial governance rooted in Sharia principles has not been systematically enforced or incentivized. This regulatory disconnect persists for several interrelated reasons:

1. Regulatory Scope and Fragmentation

The current regulatory framework focuses primarily on product-based halal assurance (ingredients, process, and logistics) without extending its scope to include Sharia-compliant financial management. As a result, businesses may achieve halal certification for their products while maintaining financial practices that contradict Sharia principles, such as reliance on interest-bearing loans or lack of transparency in financial reporting.

2. Institutional Gaps and Role Ambiguity

²⁸ Arzu Meriç and Halime Karaca, "Analysis of Islamic finance, Islamic accounting and standards research", *Journal of Islamic Accounting and Business Research*, (2024). <https://doi.org/10.1108/JIABR-12-2023-0422>.

²⁹ M. Kabir Hassan dan Mustafa Razza Rabbani, "Sharia Governance Standards And The Role Of Aaoifi: A Comprehensive Literature Review And Future Research Agenda", *Journal of Islamic Accounting and Business Research*, Vol. 14 No. 5 (2023), 677-698. <https://doi.org/10.1108/JIABR-04-2022-0111>.

³⁰ Dodik Siswanto, "Sharia Accounting Standard For Sukuk (Islamic Bond) Accounting In Indonesia", *Journal of Islamic Accounting and Business Research*, Vol. 9 No. 3 (2018), 434-447. <https://doi.org/10.1108/JIABR-11-2013-0040>.

There is a lack of institutional clarity regarding which bodies are responsible for enforcing Sharia compliance in the financial aspects of halal businesses. While the Halal Product Assurance Organizing Agency (BPJPH) handles certification and the Indonesian Institute of Accountants (IAI) develops Sharia standards, no unified enforcement mechanism exists to ensure Sharia accounting adoption across the halal industry.

3. Low Awareness and Capacity Constraints

Many halal industry players are MSMEs (micro, small, and medium enterprises) with limited access to professional Sharia accounting expertise. They often lack awareness of the importance of Sharia financial reporting as a religious and ethical obligation, and even where awareness exists, the lack of affordable guidance or assistance from trained accountants discourages implementation.

4. Policy Emphasis on Market Expansion Rather than Integrity

The Indonesian government's emphasis on halal industry development has primarily been driven by export competitiveness and market demand. Consequently, economic growth has been prioritized over ethical completeness, leading to regulatory blind spots in areas like financial reporting integrity.

This persistent gap reveals a structural and philosophical limitation: halal certification has been treated as a compliance checklist rather than a holistic commitment to Islamic ethical governance. Without addressing the foundational *maqāsid al-sharī'ah* – particularly the protection of wealth through just and transparent accounting – the halal industry risks building growth on a framework that lacks ethical sustainability.

The lack of Sharia-compliant financial practices in the rapidly growing halal industry indicates a critical compliance gap that undermines the very maqasid foundation on which the halal certification is built. It reinforces the urgency of integrating Sharia accounting in halal business practices to ensure that the industry produces halal products and manages its finances in a way that protects wealth ethically and justly. Thus, adopting Sharia accounting is not only a matter of compliance but a necessary condition for realizing the comprehensive objectives of Islamic law.

Implementing Sharia-compliant financial management within the growing halal industry demonstrates adherence to the following principles of compliance with Sharia. It includes prohibiting *riba* (interest), avoiding *gharar* (uncertainty) by ensuring all contracts are clear and non-speculative, and refraining from speculative financial activities. Halal industries are encouraged to integrate Sharia-compliant financial institutions for funding and capital financing needs.³¹ Such integration supports the practice of green accounting in the halal industry.³² This compliance

³¹ Setiawan Budi Utomo et al. "Promoting Islamic Financial Ecosystem to Improve Halal Industry Performance in Indonesia: A Demand and Supply Analysis", *Journal of Islamic Marketing*, Vol. 12 No. 5 (2021), 992-1011. <https://doi.org/10.1108/JIMA-12-2019-0259>.

³² Rodame Monitorir Napitupulu et al., "The Nexus Between Halal Industry And Islamic Green Finance: A Bibliometric Analysis", *Journal of Islamic Marketing*, Vol. 15 No. 10 (2024), 2508-2527. <https://doi.org/10.1108/JIMA-06-2023-0192>.

enhances the attractiveness of halal industries to Muslim consumers who prioritize spiritual values in decision-making.

Thus, halal product certification implicitly signifies comprehensive halal assurance, including in financial management. Professional accountants can address the existing weaknesses regarding limited knowledge and socialization of Sharia-compliant financial management in the halal industry through Public Accounting Firms (PAF). These accountants can provide financial management assistance aligned with the Sharia Financial Accounting Standards (SFAS).

Financial Report Assistance for the Halal Industry Based on Sharia Accounting Guidelines

Every business entity must conduct transparent and accountable financial management. It benefits not only business operators but also investors and consumers, enabling them to assess a business's viability based on its financial condition. Financial reports are also critical for business sustainability decision-making. It applies to both conventional and Sharia-compliant businesses. The fundamental difference is that Sharia-compliant businesses feature financial reports free from *riba*, fraud, and speculation. The presentation of Sharia financial reports in halal industries is well-established in guidelines mastered by Sharia accounting experts, who are ready to provide financial management and reporting assistance through Public Accounting Firms (PAF).

A Public Accounting Firm (PAF) is a business entity authorized by the Ministry of Finance to offer accounting services to the public through practising accountants. PAF plays a vital role in the success and sustainability of economic enterprises. By focusing on financial management, tax obligations, and transaction recording, PAF provides essential services and acts as a strategic partner for companies across various industries.

One of PAF's primary roles is to assist businesses in organizing and accurately documenting their finances. These firms also offer services such as financial reporting, cost analysis, and financial planning to help businesses better understand their financial status. The insights provided by these services enable management to make informed decisions and plan effective long-term strategies.

Moreover, PAF ensures that companies comply with all applicable tax laws and obligations. With in-depth knowledge of complex tax regulations, PAF helps businesses avoid legal and financial issues arising from non-compliance. PAF also offers advice on tax strategies to optimize business tax obligations.

Additionally, PAF provides consultancy services to companies. Their extensive experience in various financial and commercial fields enables them to serve as valuable strategic partners for company management. These consultancy services range from financial restructuring to risk analysis and expansion strategies. PAF has also established Sharia Finance Divisions, which offer consultancy services for Sharia-compliant financial reporting based on PSAK Shariah standards. All SFAS financial reporting regulations are well understood by PAF accountants, making PAF a valuable resource for halal industries in preparing their financial reports. The halal industry is

expected to grow while fully upholding Sharia business principles, covering business management, product development, and Sharia-compliant financial management.

Conclusion

This study highlights a critical yet often overlooked aspect of halal industry development: the absence of Sharia-compliant financial governance in halal-certified enterprises. Despite Indonesia's substantial progress in expanding halal sectors—such as food, fashion, and pharmaceuticals—compliance efforts remain primarily focused on product inputs and processes, with little attention given to financial accountability. Using a phenomenological qualitative approach grounded in the *maqāṣid al-sharī'ah* framework, this research reveals a systemic disconnection between product-based halal certification and Sharia-compliant financial reporting. This disconnect threatens the ethical and operational integrity of the halal ecosystem. The findings emphasize that financial transparency and adherence to Sharia Financial Accounting Standards (SFAS) are not merely technical concerns but essential components of Islamic economic ethics, specifically the protection of wealth (*hifz al-māl*). Without addressing this dimension, halal certification risks becoming superficial and detached from the holistic objectives of Islamic law. Therefore, the study proposes the strategic involvement of Sharia-compliant Public Accounting Firms (PAFs) to assist halal industry actors—particularly MSMEs—in adopting and implementing SFAS-based reporting systems. Theoretically, this article contributes to global Islamic accounting scholarship by reframing halal industry governance to include financial dimensions within the *maqāṣid al-sharī'ah* paradigm. Practically, it urges policymakers, regulators, and industry actors to expand halal assurance frameworks beyond product-level compliance to include financial integrity. Such integration is essential for building trust among Muslim consumers and investors globally.

This study has several limitations. It was geographically constrained to a specific region in East Java, Indonesia, and involved few informants. While offering in-depth insights, the small and localized sample restricts the generalizability of the findings. Moreover, the study did not incorporate perspectives from regulatory authorities or financial institutions, which could have enriched the institutional analysis. Future research should explore the integration of Sharia accounting in broader and more diverse halal industry contexts, employing mixed-method or cross-national comparative approaches. In particular, studies comparing regulatory models between emerging Muslim economies (e.g., Indonesia, Pakistan) and established halal hubs (e.g., Malaysia, GCC countries) would offer valuable insights for global policy harmonization in halal financial governance.[]

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