# The Influence of The Size of The Sharia Supervisory Board and The Audit Committee on Islamic Social Reporting Disclosure
## (Study on Indonesian Islamic Commercial Banks Registered with the Financial Services Authority for the 2016-2020 period)

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**Abstract.** This study aims to determine the effect of the size of the sharia supervisory board and audit committee on the disclosure of Islamic social reporting. The population in this study is Indonesian Islamic Commercial Banks registered with the Financial Services Authority for the 2016-2020 period. The sample selection used purposive sampling technique and obtained 14 companies as a sample with a total of 68 observational data. The data analysis method used multiple linear regression analysis with SPSS application. The results of this study indicate that the size of the sharia supervisory board and audit committee has a positive effect on the disclosure of Islamic social reporting.

**Keywords:** Size of The Sharia Supervisory Board, Audit Committee, Islamic social reporting Disclosure

## 1    Introduction

Because the idea of CSR is the foundation of the company's corporate ethics, it is gaining importance as a topic of discussion. Currently, the idea of CSR is not limited to traditional economics. But it also grows in an economy centered on Islam, which is known as Islamic social reporting (ISR) [2]. ISR is an acronym for Islamic social reporting performance reporting standard that is measured based on the ISR index or a reference for disclosure of corporate social responsibility adopted from AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) [5]. The ISR Index is divided into 6 sections consisting of investment and financing, goods and services, personnel, neighborhood, environment, and corporate governance. Of the 6 themes, there are several items that become benchmarks in the disclosure of each of these themes [6].

The importance of ISR in Islamic banking, which is currently growing rapidly, makes the disclosure of social responsibility mandatory for the entity because it can be used as a tool to increase the level of consumer confidence and the image of the entity. The impact of the development of ISR is the increasing public attention to sharia institutions or institutions [4].

The phenomenon related to the Indonesian Islamic banking industry's revelation of ISR has not fully disclosed the ISR items, the disclosures made are considered to be lacking and have not reached the maximum point. According to [3] according to the findings of his study, only 67 out of a possible 100 items based on the ISR index were implemented and disclosed by Islamic Commercial Banks in Indonesia between 2016 and 2019.

The next factor that influences the disclosure of ISR is the sharia supervisory board. [1] The sharia supervisory board (DPS) is a body charged with advising the board of directors and monitoring bank operations to ensure they adhere to sharia principles. In an effort to enhance corporate governance, Islamic financial institutions have sharia supervisory boards. The primary responsibility of the sharia supervisory board is to oversee, direct, and evaluate the operations of Islamic banks. DPS is qualified to supervise the organization's adherence to sharia standards. Therefore, the level of ISR disclosure can be raised and the supervision of the application of sharia principles in sharia commercial bank activities will be more effective the more DPS there are.

The audit committee is the following element that influences ISR disclosure after that. The audit committee was established in accordance with its responsibilities to the board of commissioners in an effort to support the execution of the board of commissioners' duties and tasks, as per Financial Services Authority (OJK) No. 55/PJOK.04/2015 rule [2].

The [3] study, which investigates the impact of profitability and the size of the sharia supervisory board on ISR disclosure, is the basis for this study. The addition of independent variables, such as leverage and the audit committee,

distinguishes this study from earlier studies in that it aims to identify additional variables that influence the degree of Islamic social reporting disclosure in Islamic banks [7]. The next distinction is in the sample that [3] employed, which is Indonesian Sharia Commercial Banks for the years 2016–2019, in addition to the incorporation of independent variables. The Indonesian Islamic Commercial Banks registered with the OJK for the years 2016 to 2020 are the sample used in this study.

## 2 Research Method

In order to solve previously posed problems that need for mathematical computations utilizing specific statistical formulas, this study adopts a quantitative method. The Islamic Commercial Banks registered with the Financial Services Authority (OJK) between 2016 and 2020 comprise the population and sample for this study. Purposive sampling is the technique applied. There are dependent and independent variables. The size of the audit committee and supervisory board in accordance with sharia is employed as the independent variable, while Islamic social reporting disclosures are used as the dependent variable.

The data analysis method used descriptive statistical tests to find out the description of the data to be analyzed. Then commencing with the normality test, multicollinearity, heteroscedasticity, and autocorrelation test utilizing the conventional assumption test. The last step is to use a model feasibility test starting with the coefficient of determination test ($R^2$), F statistical test, and hypothesis testing t. In addition, using multiple linear regression, which is used to determine the effect and determine the direction of the relationship of the independent variable to the dependent variable, multiple regression models are used.

## 3 Result and Discussion

**Descriptive**

**Descriptive Statistics**

|  | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| DPS | 68 | 2.00 | 3.00 | 2.2647 | .44446 |
| KA | 68 | 1.00 | 10.00 | 3.9265 | 1.49941 |
| ISR | 68 | 54.17 | 89.58 | 75.7965 | 8.25487 |
| Valid N (listwise) | 68 |  |  |  |  |

According to Financial Services Authority Regulation of the Republic of Indonesia Number 15/POJK.05/2019 concerning Pension Fund Governance, namely in terms of the number of DPS is more than 1 (one) person, the variable size of the sharia supervisory board (DPS) obtained an average value of 2.26 with this value. Nearly every bank complies with the requirement for the number of DPS, which is greater than 1 (one) person.

According to Financial Services Authority regulation No. 55/POJK.03/2016 concerning the Implementation of Good Corporate Governance for commercial banks, the audit committee in order to support the effectiveness of the implementation of the duties and responsibilities of the board of directors must have an average value of 3.92. This indicates that the number of audit committees at Islamic commercial banks is quite good. A reflection of excellent governance is the availability of high-quality financial data, which necessitates the audit committee's involvement in monitoring the efficiency with which public accountants and public accounting firms carry out their external audit functions.

The average value of the Islamic social reporting (ISR) disclosure variable is 75.79%, so it can be concluded that most banks have a fairly high Islamic social reporting value, but from a fairly high average value, there are still several disclosure indicators which are mostly not disclosed by Islamic Commercial Banks, among others, such as on funding and investment indicators, namely policy items on delayed payments and write-off of bad debts, then on employee or labor indicators, namely employee items from particular groupings (eg physically disabled or former drug users) and items of adequate places of worship for employees.

**Normality**

<p style="text-align:center">**One-Sample Kolmogorov-Smirnov Test**</p>

| | | Unstandardized Residual |
|---|---|---|
| N | | 68 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std. Deviation | 6.82728700 |
| Most Extreme Differences | Absolute | .098 |
| | Positive | .059 |
| | Negative | -.098 |
| Test Statistic | | .098 |
| Asymp. Sig. (2-tailed) | | .171[c] |

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

The significant value of Asymp.Sig (2-tailed) is 0.171, which is greater than 0.05, according to the SPSS output table. The results of the Kolmogorov-Smirnov normality test can therefore be interpreted as indicating that the data are regularly distributed. As a result, the regression model's underlying presumptions or conditions for normality have been satisfied.

**Multicollinearity**

<p style="text-align:center">**Coefficients[a]**</p>

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 56.119 | 4.435 | | 12.653 | .000 | | |
| | DPS | 4.775 | 2.067 | .257 | 2.310 | .024 | .849 | 1.177 |
| | KA | 2.257 | .613 | .410 | 3.683 | .000 | .849 | 1.177 |

a. Dependent Variable: ISR

The "Collinearity Statistics" section's output table "Coefficients" reveals the Tolerance value for the sharia supervisory board (X1) and audit committee (X2) variables, which is 0.849 more than 0.10. The VIF value for the audit committee (X2) and sharia supervisory board (X1) variables is 1.177 10.00, respectively. The conclusion that there are no signs of multicollinearity in the regression model can then be drawn by referring to the rationale for the multicollinearity test.

# Heteroscedasticity

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 11.756 | 2.585 | | 4.548 | .000 |
| | DPS | -2.205 | 1.205 | -.234 | -1.830 | .072 |
| | KA | -.358 | .357 | -.128 | -1.003 | .320 |

a. Dependent Variable: Abs_RES

With a significant level above 5%, it is concluded that there is no heteroscedasticity, which forms the basis for decision-making for statistical tests using the Glejser test. However, there are signs of heteroscedasticity if the level of significance is less than 5%. The data does not have heteroscedasticity issues, as determined by the Heteroscedasticity test using the Glejser method, which yielded significant results of 0.072 and 0.320.

## Autocorrelation\sb

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .562[a] | .316 | .295 | 6.93153 | 2.075 |

a. Predictors: (Constant), KA, DPS
b. Dependent Variable: ISR

Given that the above table indicates that the Durbin-Watson value is 2,075 and that there are 68 samples (n = 68) and two independent variables (k = 2), it can be determined that dL = 1.5470 and dU = 1.6678. These values are then compared with the table value using a significance level of 5%. There is no autocorrelation because the value of dw 2.075 exceeds the upper bound (dU 1.6678) and falls below 4 - dU (4 - 1.6678 = 2.3322).
Here's the dw table:

| n | k=1 dL | k=1 dU | k=2 dL | k=2 dU | k=3 dL | k=3 dU | k=4 dL | k=4 dU | k=5 dL | k=5 dU |
|---|---|---|---|---|---|---|---|---|---|---|
| 65 | 1.5670 | 1.6294 | 1.5355 | 1.6621 | 1.5035 | 1.6960 | 1.4709 | 1.7311 | 1.4378 | 1.7673 |
| 66 | 1.5704 | 1.6318 | 1.5395 | 1.6640 | 1.5079 | 1.6974 | 1.4758 | 1.7319 | 1.4433 | 1.7675 |
| 67 | 1.5738 | 1.6343 | 1.5433 | 1.6660 | 1.5122 | 1.6988 | 1.4806 | 1.7327 | 1.4486 | 1.7676 |
| 68 | 1.5771 | 1.6367 | 1.5470 | 1.6678 | 1.5164 | 1.7001 | 1.4853 | 1.7335 | 1.4537 | 1.7678 |
| 69 | 1.5803 | 1.6390 | 1.5507 | 1.6697 | 1.5205 | 1.7015 | 1.4899 | 1.7343 | 1.4588 | 1.7680 |
| 70 | 1.5834 | 1.6413 | 1.5542 | 1.6715 | 1.5245 | 1.7028 | 1.4943 | 1.7351 | 1.4637 | 1.7683 |

**Coefficient of Determination Test (R2)**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .562[a] | .316 | .295 | 6.93153 |

a. Predictors: (Constant), KA, DPS

The Adjusted R Square value of 0.295 reflects the results of the coefficient of determination based on the table. This demonstrates that the independent variable, profitability through ROA, the size of the sharia supervisory board and audit committee, can explain 29.5% of the dependent variable of Islamic social reporting disclosure while the remaining 70% is explained by other variables outside the regression model in this study, such as the variable size of the board of commissioners, liquidity, sharia compliance, and others.

**Test Model (F)**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 1442.578 | 2 | 721.289 | 15.012 | .000[b] |
| | Residual | 3122.994 | 65 | 48.046 | | |
| | Total | 4565.572 | 67 | | | |

a. Dependent Variable: ISR

b. Predictors: (Constant), KA, DPS

The results of the model's feasibility test may be assessed based on the above table and reveal that the test yielded a result of 0.000. So it can be inferred that this study model can describe the relationship between the size of the sharia supervisory board and audit committee with the disclosure of Islamic social reporting. As can be observed, the value of sig. 0.000, or 0.05, indicates that the study model is valid.

The test results show the disclosure of Islamic social reporting of Indonesian Islamic commercial banks registered with the financial services authority for the 2016–2020 period significantly benefits from the variable size of the sharia supervisory board and the audit committee. Thus, the first hypothesis, which asserts that the disclosure of Islamic social reporting is significantly influenced by the size of the sharia supervisory board and the audit committee taken together is proven.

**Partial Test (t)**

**Coefficients<sup>a</sup>**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 56.119 | 4.435 | | 12.653 | .000 |
| | DPS | 4.775 | 2.067 | .257 | 2.310 | .024 |
| | KA | 2.257 | .613 | .410 | 3.683 | .000 |

a. Dependent Variable: ISR

Given that the DPS variable (X1) has a t value of 2.310 and a Sig value of 0.024 (significance level 0.05) in the Coefficients table, it can be inferred that DPS has a sizable impact on the disclosure of Islamic social reporting. Therefore, it can be inferred that there is a considerable impact of KA on the disclosure of Islamic social reporting based on the KA (X2) t value of 3,683 and a value of Sig. of 0.000 (signifying that the Sig value is 0.05).

The first test's findings demonstrate the potential for a sharia supervisory board to offer management in bank operations with control and oversight, including the execution and reporting of social responsibility initiatives. The management is under pressure from the sharia supervisory board to appropriately carry out Islamic social reporting activities and disclosures. As a result, the makeup of the sharia supervisory board will affect how Islamic banks disclose their social obligation.

According to the findings of the second test, the audit committee has a favorable impact on the disclosure of Islamic social reporting. The level of ISR disclosure in the company's annual report will depend on the size of the audit committee inside the organization and how effectively it supervises management. The performance of the company and the extent of its social (social responsibility) performance disclosure improves with the size of the audit committee.

## 4    Conclusion

This study intends to investigate the impact of the Islamic Social Reporting (ISR) disclosure in Islamic Commercial Banks registered with the Financial Services Authority (OJK) in 2016-2020. The following conclusions can be reached in light of the analysis and discussion of the research findings:
1.    The size of the sharia supervisory board and the audit committee, as shown by the F test analysis's findings, have a significant positive impact on the dependent variable (disclosure of Islamic social reporting).
2.    According to the findings of partial hypothesis testing, the dependent variable is partially significantly positively influenced by the independent factors (size of the sharia supervisory board and audit committee) (disclosure of Islamic social reporting).

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