The Influence of Shariah Supervisory Board Characteristics and Bank Size Toward Fraud

Iwan Fakhruddin[1], Rafli Hafiz[2], Ani Kusbandiyah[3], Tiara Pandansari[4]

my_fakhruddin@yahoo.com, Hafiz@gmail.com, Kusbandiyah@gmail.com, Pandansari@gmail.com,

Universitas Muhammadiyah Purwokerto[1,] Universitas Muhammadiyah Purwokerto[2,] Universitas Muhammadiyah Purwokerto[3,] Universitas Muhammadiyah Purwokerto[4]

Abstract. The purpose of this study is to formulate educational aspects, the number of DPS member meetings and bank size, which may affect the level of fraud. Meanwhile, the sample used in this study is an Islamic Commercial Bank (BUS) in Indonesia for the 2017-2020 period. This research was conducted by Model Test and t test. The F test is used to see whether the model used to test the effect of Educational Qualification, Number of Sharia Supervisory Board Meetings, Sharia Supervisory Board and Bank Size on the level of bank fraud is considered good (fit test). Test the model using the level of confidence (level of significance) 5% (0.05). While the t test is used to test the significant influence of Educational Qualification, Number of Sharia Supervisory Board Meetings and Bank Size on the Bank's Fraud Level partially. Testing is done with the help of SPSS. The results of the study show that educational qualifications and the number of Sharia Supervisory Board meetings have no effect on the level of fraud. While the size of the Bank has an effect on the level of fraud.

Keywords: Shariah Supervisory Board, level of Fraud, Shariah Compliance

1. Introduction

The development of Islamic financial institutions in Indonesia is still not comparable to the population, which is predominantly Muslim. Where of a total of 255.2 million people, the Muslim population reaches 87% [5]. The job of Islamic Financial Institutions is to channel money back to the general public in the form of financing or to collect money from the general public or clients in the form of deposits. Even though Islamic financial institutions state the application of Islamic elements and principles, this does not mean that Islamic banking is not free from fraud. Fraud is defined as protected fraud for personal gain by distorting the resources or assets of an entity or institution [1]. Fraudulent acts can threaten the sustainability of an organization because they can be detrimental both materially and morally. Indonesia's

ICEB 2023, August 02-03, Padang, Indonesia

DOI 10.4108/eai.2-8-2023.2341086

Association of Certified Fraud Examiners in 2019 showed that the type of industry that suffered the most from fraudulent acts was the financial and banking sector, which reached 41.4%, which even exceeded the level of losses due to fraudulent actions to the government, namely 33.9%. In addition, the Financial Services Authority (OJK) recorded losses resulting from acts of fraud in the banking industry throughout 2020 reaching IDR 4.62 trillion [15].

In several cases of fraud that occurred in banking, including in Islamic financial institutions, the public often questions the compliance of Islamic banks with Islamic principles in their operational activities. This can create a bad image for the banking industry itself . As a result, a serious solution is required to verify that these Islamic financial institutions adhere to sharia principles and that their operational activities show no signs of fraud [6]. According to Wulpiah (2017), stakeholder trust can be raised by using Good Corporate Governance (GCG) practices. Because putting in place GCG is meant to create a system of checks and balances that can reduce signs of fraud. The implementation of GCG is related to the existence of the Sharia Supervisory Board. [21]. The characteristics on behalf of the Sharia Supervisory Board may include DPS educational background and the number of DPS meetings. This research is important to carry out to formulate educational aspects, the number of DPS member meetings and the size of the bank, which can influence and reduce the level of fraud in Islamic commercial banks.

2. Literature Review

a. Resource Dependency Theory

Resource Dependence Theory refers to the opinion of [20]. Resources refer to a repository of activities, support organizations, and a focus on problem solving [20]. The board will be active in monitoring responsibilities and offering advise on decision-making because, in accordance with RDT, it is a company asset that contributes to ensuring the continuity of the company's activity [9]. The function of the board of directors in providing access to resources based on the needs of the company is the focus of resource dependence theory. Insiders, experts, support specialists and a strong community can all provide resources. The Board of Directors will ensure that these resources, particularly those with links to the outside world, are essential to governing the organization. Providing resources is a key aspect of a company's operations as it helps define and drive its functioning, performance and life. According to this understanding, organizations must manage these resources properly and efficiently because they influence their success

According to resource dependency theory, which is connected to the characteristics of the makeup of sharia supervisory boards, By choosing members from the available resources to serve on their corporate boards, firms can reduce uncertainty and manage dependency. They can exchange skills for Bachelor support with financial knowledge and expertise and perform more successfully as a result. as DPS members in IB compared to those who lack this proficiency [22]. Similarly, Islamic scholars make up the majority of DPS members in Islamic Financial Institutions, with only a few having competence in accounting, banking, economics, or finance. Most SSB experts lack banking knowledge, limiting their ability to create effective financial products and services. well informed [8]. Since scholars have limited understanding and understanding of Shariah principles and product knowledge, some IBs have replaced their SSBs. As a result, they cannot work properly [2].

Supervisory Board for Shariah

A body called the Sharia Supervisory Board (SSB) has the authority to monitor, monitor, and keep a close eye on the operations of Islamic financial institutions to ensure that they consistently uphold sharia laws and principles. The appearance of the Sharia Supervisory Board in general from the management and administration aspects must be in accordance with sharia. DPS also has the most important authority, especially to approve and supervise sharia banking products so ththat they adhere to the laws that are relevant and sharia. The requirement to position the Sharia Supervisory Board (DPS) in Islamic banking, as opposed to conventional banks, is one of the key distinctions between the organizational structures of the two types of banks. The sharia supervisory board, a board of economists and scholars who are experts in the subject of fiqh mu'amalah, is in charge of monitoring and ensuring that all bank activities and all of their products adhere to the rules of Islamic sharia. The sharia supervisory board needs to pay close attention to the type of contract or engagement that sharia financial institutions use.
In each Islamic bank's organizational structure, the sharia supervisory board is positioned on the same level as the Board of Commissioners. With such a role, the Sharia Supervisory Board would be given more power and freedom to express its own opinions while guiding and directing all bank directors with regard to the use of Islamic banking products [2].

Framework and Research Hypothesis

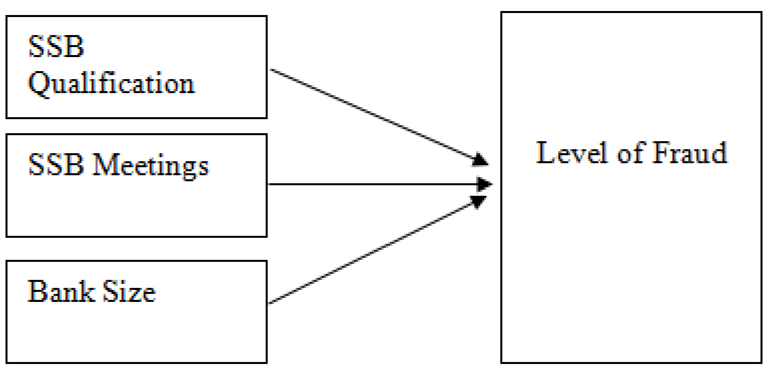

Figure 1. Research Hypothesis

Hypotesis

H1 The educational background of the members on behalf of the Sharia Supervisory Board has a negative effect on the level of fraud

H2 The number of meetings of the members on behalf of the Sharia Supervisory Board has a negative effect on the level of fraud

H3 Bank size has a positive effect on the level of fraud

3. Research Methodology

The population of the study consists of Islamic Commercial Banks registered with the Financial Services Authority (OJK) in the period of 2017-2020. This research uses secondary data contained in annual reports obtained from the official website of each company. The procedure for determining the sample using the convenience sampling method. The sample used in this study is an Islamic Commercial Bank (BUS) in Indonesia for the 2017-2020 period. The 2017-2020 sample period is used because it is to find out how much compliance BUS has with the regulations of Bank Indonesia Circular Letter No. 13/28/DNDP concerning Implementation of Anti-Fraud Strategy for Commercial Banks in Indonesia which took effect on 9 December 2011

Operational Variabel

Fraud

According to13/28/DNDP, a circular letter from Bank Indonesia, Fraud is described as an intentional act of deception or manipulation of banks, customers, or other parties that takes place within the bank's environment and/or makes use of financial services to harm banks, customers, or other parties. As well as profitable for the perpetrators, either directly or indirectly. Fraud as the dependent variable in this study focuses on internal Islamic banking fraud, which can be in the form of fraud in the presentation of financial statements, corruption with various interests, and also misuse of assets [1]. [6] explained in their research that fraud in financial statements (statement fraud) is a misstatement made by managerial parties that can be detrimental to investors and creditors. Corruption can take the form of bribery, illegal giving, conflicts of interest and extortion. Meanwhile, misappropriation of assets (asset misappropriation) is classified as fraud in the management of inventories and other assets as well as disbursements of cash for expenses made for personal gain or for a group of people. Commercial banks in Indonesia are required to submit reports on the implementation of anti-fraud strategies and submit reports on fraud incidents in the annual report on GCG implementation to the Financial Services Authority (OJK) in accordance with Bank Indonesia Circular Letter No. 13/28/DNDP

In line with the research of Najib & Rini (2016) Fraud is measured in units of numbers by calculating the total internal fraud (employees who commit fraud) at each Islamic bank which is reported in the GCG implementation annual report. The total number of employees who commit The term "fraud" is employed because the study's focus is on workplace deception (occupational fraud) or what is known as internal fraud.

$$\text{Fraud} = \sum \text{Internal Fraud} \quad (1)$$

Supervisory Board for Shariah Qualification

The Sharia Supervisory Board's history is the Islamic Supervisory Board's educational background (EDU). Based on the percentage of Islamic supervisory board members who have PhDs, the educational variable for the Islamic supervisory board in this study is determined. ([4]et al, 2020a.b) compared to all members of the Islamic Supervisory Board in each Islamic bank ([19] et al., 2018).

$$SSB\ Qualification\ (EDU) = Total\ of\ SSB\ With\ Doctoral \quad (2)$$

Meeting of the Sharia Supervisory Board

The number of meetings is the total number of times the Sharia Supervisory Board convenes in a single calendar year. In this study, the Sharia Supervisory Board Meeting variable is created using the annual number of meetings held by the board's members ([4]et al, 2020a.b)

$$SSB\ meetings = Total\ of\ SSB\ Meetings\ in\ 1\ year \quad (3)$$

Bank size is the size of the bank which is reflected in the assets owned by Islamic Commercial Banks. The Bank Size variable in this study is calculated based on the number of assets which is simplified in terms of Ln Assets ([21], 2019)

$$Bank\ Size = Ln\ Total\ Assets \quad (5)$$

Multiple Regression Analysis

This analysis is used to see how the characteristics of the Sharia Supervisory Board which include Educational Qualifications, Number of Sharia Supervisory Board Meetings and Bank Size influence the level of fraud. The multiple regression formula is as follows:

$$FRAUD = \alpha + ß_1\ SSB\_Edu + ß_2\ SSB\_Meetings + ß_3\ BS + e \quad (6)$$

Where :

FRAUD	=	Level Of Fraud
SSB Edu	=	Education Qualification of SSB

SSB Meetings	=	Meetings of SSB
BS	=	Bank Size
ß1, ß2, ß3	=	Independent Variable Coefficient
α	=	Constant

t Test

The t test is used to test the significant effect of Educational Qualification, Cross Membership and Number of Sharia Supervisory Board Meetings on the Level of Bank Fraud. It can be concluded that the independent variable significantly affects the dependent variable if the calculated t value is bigger than the t table with a confidence level of 5 %, on the other hand With a 5% level of confidence, it can be said that the independent variable has no effect on the dependent variable if the calculated t value is less than that in the t table.

F Test

The F test is used to see whether the model used to test the effect of Educational Qualification, Cross Membership and Number of Sharia Supervisory Board Meetings on the Bank's Fraud Level is good (fit test). Test the model using a level of significance (level of significance) of 5% (0.05).The model is strong and may be used to forecast the impact of the variable characteristics of the Sharia Supervisory Board on the degree of bank fraud if the calculated F value is bigger than the F table. Based on the annual reports of Islamic financial institutions, in this case Islamic Commercial Banks with a confidence level of 5%, on the contrary.

4. Finding and Discussions

Model F Test Results

Table 1. F Test Result

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1391.705	3	463.902	13.569	0.000[b]
	Residual	1640.988	48	34.187		
	Total	3032.692	51			

a. Dependent Variable: Fraud

b. Predictors: (Constant), Aset, Rapat, Pendidikan

Table 1 indicates that 0.000 is the significance value. This demonstrates that the study's model is a fit model. Thus, this study can make use of this paradigm.

Hasil Uji t

Table 2. t Test Result

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-98.537	19.791		-4.979	0.000
	Qualificatioan	-1.604	1.180	-0.148	-1.359	0.181
	Meeting	-0.105	0.076	-0.146	-1.376	0.175
	Asset	3.612	0.639	0.614	5.657	0.000
a. Dependent Variable: Fraud						

According to the analysis's findings in Table 2, the members' educational background variable has a significant value of 0.181. This indicates that the level of fraud is unaffected by the members of the Sharia Supervisory Board's educational background. Members of the Sharia Supervisory Board at Islamic Financial Institutions Islamic scholars are part of the economic scholars who have not been able to influence the optimization of good corporate governance. This can happen because only a few DPS members have competence in the fields of accounting, banking, economics, or finance. Most SSB experts lack banking knowledge, limiting their ability to create well-informed financial products and services [8]. Since scholars have limited understanding and understanding of Shariah principles and product knowledge, some IBs have replaced their SSBs. As a result, they cannot work properly [2]. The findings of this investigation refute the dependency paradigm on human resources. Based on this theory, organizations should be able to manage these resources properly and efficiently because they affect their success. Related to the composition of the character of the sharia supervisory board, the theory of resource dependence shows that organizations should be able to minimize uncertainty. It is required of organizations to manage dependence by appointing members from current resources to their corporate boards. Sharia Supervisory Board members are anticipated to be able to exchange knowledge in order to assist Bachelors with financial knowledge and expertise in their performance as DPS members in IB more effectively than those without similar competencies [22].

The results of the study also show that the meeting of members of the Sharia Supervisory Board has no effect on the level of fraud in Islamic financial institutions. Meetings of the Sharia Supervisory Board must be one of the company's activities for information exchange and as a source of information about other activities and management policies, particularly on operational activities and the presentation of financial reports [5]. Shariah supervisory boards must be successful in minimizing fraud and other unethical behaviors in Islamic banks.

The results of other studies indicate that the size of Islamic banks has a positive effect on the level of fraud. This means that the greater the assets owned by Islamic banks, the greater the level of fraud committed by bank employees.

5. Conclusions

The findings indicated that neither the number of Sharia Supervisory Board meetings nor the doctoral education requirements of the board had any bearing on the degree of fraud. Education requirements and Sharia Supervisory Board Meetings have not yet shown to be reliable indicators and screening tools for spotting fraudulent activity in Islamic financial organizations.This is because the Sharia Supervisory Board only has a small number of members that have doctoral degrees in accounting, finance, or economics. Other research' findings indicate that company size has a favorable impact on the level of fraud. These data offer helpful insights into fraud, particularly among Indonesia's Islamic financial institutions. Management and other directors must realize and understand that applications that carry out the mandate must be accountable according to Islamic law to the owner and Allah Suhanahu Wa Ta'ala.

Reference

[1] ACFE. 2020. *Survei Fraud Indonesia 2019*. In *ACFE INDONESIA CHAPTER* (Vol. 53, Issue 9).

[2] Bakar, AD (2016). Shariah minds in Islamic finance: An inside story of a Shariah scholar. Kuala Lumpur, Malaysia: Amanie Media

[3] Fakhruddin, I., & Jusoh, Mohd. Abdullah. (2018). Influence of Sharia Supervisory Board Characteristics on the Shariah Compliance. Advances in Social Science, Education and Humanities Research, 231, 355–357

[4] Fakhruddin, I., Jusoh, A & Norwani, M.N. (2020a). Influence Cross Membership and Qualifications of The Shari’ah Supervisory Board’s Towards The Shari’ah

Compliance related SSB Information., *Advances in Business Research International Journal, 6(1) 2020, 20-24*

[5] Fakhruddin, I., Jusoh, A & Norwani, M.N. (2020b).,The Shariah Compliance With AAOIFI Governance Standards Related SSB Information: A Study On Indonesia Islamic Banks., Journal of Islamic, Social, Economics and Development (JISED). Volume: 5 Issues: 33. pp. 175 - 181]

[6] Farida, Hidayati, N., & Purwantini, A. H. 2021. *Disclosure of Islamic Corporate Governance and Sharia Compliance on Fraud in Sharia Commercial Banks Pengungkapan Islamic Corporate Governance dan Syariah Compliance terhadap Tindakan Fraud*. Urecol Journal, 1(1), 39–51

[7] Ghayad, R.,. Corporate governance and the global performance of Islamic banks. Humanomics, 24(3), pp.207-216 (2018)

[8] Ginema, K. & Hamid, A., (2015)., Foundation of Shari'ah Governance of Islamic Banks., Chichester, West Sussex: John Wiley and Sons, Inc

[9] Hillman, A. J., & Dalziel, T. (2003). Boards of directors and firm performance: Integrating agency and resource dependence perspectives. Academy of Management Review, 28(3),383-396

[10] Ilyas, R. (2021). Peran Dewan Pengawas Syariah Dalam Perbankan Syariah. *JPS (Jurnal Perbankan Syariah)*, *2*(1), 42–53. https://doi.org/10.46367/jps.v2i1.295

[11] Mersni, Hounaida Othman., and Hakim Ben. (2016). The Impact of Corporate Governance Mechanisms on Earnings Management in Islamic Banks in the Middle East Region. *Journal of Islamic Accounting and Business Research*, 7(4); 318-348.

[12] Muhammad, R. 2019. *Analisis Pengaruh Syari ' ah Compliance dan Islamic Corporate Governance terhadap Tindakan Fraud (Studi Empirik pada BUS di Indonesia Periode 2013-2017)*.

[13] Muhammad, R., Kusumadewi, R., & Saleh, S. 2019. *Analisis Pengaruh Syari'ah Compliance dan Islamic Corporate Governance terhadap Tindakan Fraud (Studi Empirik pada BUS di Indonesia Periode 2013-2017)*. IQTISHADIA Jurnal Ekonomi & Perbankan Syariah, 6(1), 65–78.

[14] Najib, H., & Rini. 2016. *Sharia Compliance , Islamic Corporate*. Akuntansi Dan Keuangan Islam, 4, 131–146.

[15] OJK. 2019. *Tentang Syariah*. In *Otoritas Jasa Keuangan*.

[16] Mukhibad, H. (2018). Peran dewan pengawas syariah dalam pengungkapan. *Jurnal Akuntansi Multiparadigma*, *9*(2), 299–311

[17] Marheni, M. 2017. *Analisis Kepatuhan Prinsip-Prinsip Syariah Terhadap Kesehatan Finansial Dan Fraud Pada Bank Umum Syariah*. Asy Syar'Iyyah: Jurnal Ilmu Syari'Ah Dan Perbankan Islam, 2(1), 143–170

[18] Ngumar, S., Fidiana, & Retnani, E. D. (2019). Implikasi Tatakelola Islami Pada Fraud Bank Islam. Jurnal Reviu Akuntansi Dan Keuangan

[19] Nomran, N. M., Haron, R., & Hassan, R. (2018). Shari'ah Supervisory Board Characteristics Effects on Islamic Banks' Performance: Evidence From Malaysia. International Journal of Bank Marketing, 36(2), 290–304.

[20] Pfeffer, J. (1972). Size and composition of corporate boards of directors: The organization and its environment. Administrative science quarterly, 218-228.

[21] Pramono, H., & Fakhruddin, I. 2019. *Analisis Corporate Governance pada Bank Umum Syariah di Indonesia*. Seminar Nasional "Pengembangan Sumberdaya Menuju Masyarkat Madani Berkearifan Lokal," 520–526.

[22] Rahman, Azhar Abdul & Bukair, Abdullah Awadh., (2013). The Influence of the Shariah Supervision Board on Corporate Social Responsibility Disclosure by Islamic Banks of Gulf C0-Operation Council Countries. Asian Journal of Business and Accounting 6(2).

[23] Rahmayani, & Rahmawaty. (2017). Pengaruh Islamic Corporate Governence dan Internal Control Terhadap Indikasi Terjadinya Fraud di Bank Umum Syariah di Indonesia. Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi (JIMEKA)

[24] Suryanto, T., & Ridwansyah, R. (2016). The Shariah financial accounting standards: How they prevent fraud in islamic banking. European Research Studies Journal.