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Sharia Compliance and Islamic Corporate Governance in The Islamic Bank in Indonesia

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A B S T R A C T

This study was conducted to examine the effect of Sharia Compliance and Islamic Corporate Governance on indications of fraud in Islamic Banks in Indonesia for the 2015 2019 period. Sharia Compliance with the proxies of Islamic Income Ratio, Profit Sharing Ratio, Islamic Investment Ratio, Zakat Performance Ratio and Islamic Corporate Governance are independent variables. And fraud on Islamic Banks is the dependent variable used in this study.The populations used in this study were all Islamic Commercial Banks (BUS) registered with the Financial Services Authority in the period 2015 to 2019. The sample in this study used the method. Purposive sampling. In this study there were 11 Islamic Banks with a research period of 5 years and the sample used in this study amounted to 41 after being transformed into semi logs and Generalized Least Square (GLS). In this study using multiple regression analysis method, panel data is processed using Eviews 10 and Microsoft Excel 2016. The results of this study show that the Islamic Income Ratio has no effect on Fraud, Profit Sharing Ratio has a negative effect on fraud, the. Islamic Investment Ratio has a positive effect Fraud, Zakat Performance Ratio not affect Fraud in Islamic Banks. variable is Islamic Corporate Governance not affect Fraud in Islamic Banks.

1. INTRODUCTION

In Law Number 10 of 1998 Bank is a business entity that collects funds from the public in the form of savings and distributes them to the public in the form of credit and / or other forms in order to improve the standard of living of the people at large. In Indonesia, there are 2 categories of banks, namely conventional banks and Islamic banks. Islamic banks themselves have a significant role in the economy. The implementation of Islamic banking in Indonesia's economic activities is not much different from conventional banking (Siregar, 2019). Every year, Islamic banking has experienced rapid growth. This growth can be seen from the financial performance of Islamic Commercial Banks (BUS) in Indonesia in the following table.

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Table 1
Performance of Finance Islamic Banking in Indonesia

RASIO	2015	2016	2017	2018	2019
CAR	15,02%	16,63%	17,91%	20,39%	20,59%
ROA	0,49%	0,63%	0,63%	1,28%	1,73%
NPF	4,84%	4,42%	4,76%	3,26%	3,23%
FDR	88,03%	85,99%	79,61%	78,53%	77,91%
BOPO	97,01%	96,23%	94,91%	89,18%	84,45%

Source: Sharia Banking Statistics, 2019

Table 1 above explains if all ratios in financial performance have increased. The CAR ratio increases, which shows that the capital position of Islamic commercial banks is in good condition. The ROA ratio also increased, indicating that the observed net profit from the asset position was in good condition. Likewise for the growth of other financial ratios. Therefore, the development of BUS in Indonesia, the greater the challenges faced by Islamic banks in being able to maintain their image and reputation in the eyes of their customers, which is to maintain customer trust in Islamic banks (Falikhatun and Assegaf, 2020) Besides, bank performance is also influenced by organizational culture, religiosity and organizational commitment (Alfalah et al., 2020).

So it becomes a question whether the existence of sharia principles in carrying out operations at Islamic commercial banks guarantees freedom from the problem of fraud (fraud)? In reality it is not, it is evident that there are still some problems with fraudulent activities that occurred by including internal parties of Islamic commercial banks, namely Bank Syariah Mandiri, Bogor Branch. In 2018, Bank Jabar Banten Syariah experienced a company loss of Rp. 548 billion due to being involved in a case of alleged fictitious credit.

Some of these problems prove that Islamic commercial banks cannot guarantee that they are free from cases of fraud (fraud). In financial institutions there is a risk of forming fraudulent activities in all forms and ways. Bank Indonesia Regulation No 11/25 / PBI / 2009 fraud in this condition is a deviation or a deliberate act to cheat, manipulate, deceive customers or other parties which are intertwined in the area of the bank and or use bank facilities, causing the bank, the customer or other party suffers a loss and the perpetrator of the fraud gets a large profit, either directly or indirectly. So for financial institutions that have special characters such as sharia-based financial businesses, they certainly have a big effect in their management, thus requiring the prudential principle of the perpetrators in the aspect of sharia compliance which is an effort made as a form of possible prevention the formation of fraudulent acts (Sula, 2014). In the research, Hameed et al recommends the Islamic Disclosure Index (IDI), which is to fulfill the compliance of Islamic banks to Islamic principles by being developed based on 3 indicators of Islamic disclosure, namely sharia compliance, corporate governance and social / environment disclosure (Asrori, 2014).

Not only compliance with sharia principles, the implementation of Islamic corporate governance can improve the image and reputation and trust of customers in Islamic banks (Rini, 2019). Corporate governance itself affects organizational performance (Azmi et al., 2018). In some research by practicing Islamic corporate governance, it has been proven that Islamic financial institutions which in the Muslim world can increase the reputation and trust of the public in Islamic banks. For research conducted by Chapra, 85% failure to practice sharia principles can lead customers to move to other banks (Wardayati, 2011). Therefore, the implementation of sharia compliance and Islamic corporate governance in Islamic financial institutions is a must and an obligation, especially in Islamic banking in Indonesia, which is in an effort to improve the image and trust in Islamic banks.

Research conducted by Fadhistri and Triyanto, the influence of Islamic corporate governance and sharia compliance on indications of the formation of fraud in Islamic commercial banks in Indonesia 2014-2017. The independent variables used are Islamic corporate governance and sharia compliance with proxies Islamic income ratio and profit sharing ratios. The dependent variable used is fraud in Islamic commercial banks. With the results of Islamic corporate governance partially affect the indication of the formation of fraud in Islamic commercial banks in a positive direction. Sharia Compliance with proxies Islamic income ratio partially does not affect the indication of fraud in Islamic commercial banks. Sharia Compliance with proxies profit sharing ratio partially affects indications of fraud in Islamic commercial banks in a negative direction. (Fadhistri & Triyanto, 2019).

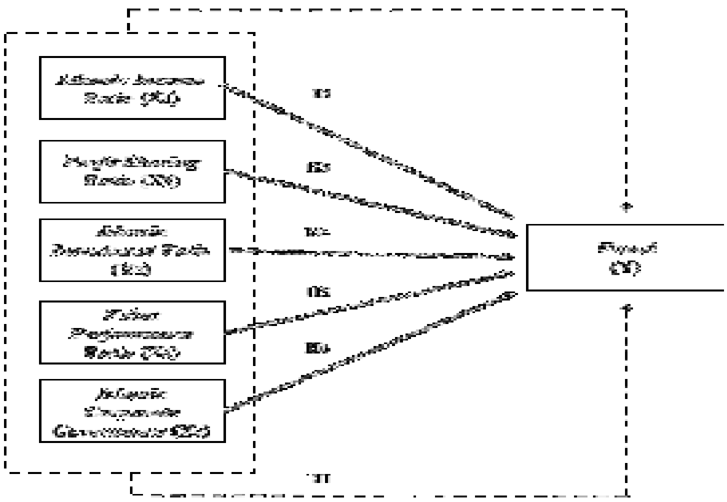
Based on the description above, the researcher is motivated to be able to review corporate governance, especially based on Islamic principles and sharia compliance because in Islamic banking these factors can be said to be very important, weakness in the implementation of governance on sharia principles and low sharia compliance can affect the management of Islamic banking performance. and can provide an opportunity for the occurrence of fraudulent acts.

2. LITERATURE REVIEW

Stewardship theory is that the managers (stewards) have no personal interests other than the interests of the owner (principal) (Hasanah, 2015). The implication of this theory is to continue to maintain trust in the community to continue to choose Islamic Bank, that is, with the increase in Islamic income which is Islamic income in accordance with Islamic principles, then the act of cheating will decrease. Without the implementation of adherence to the principles of sharia, people can certainly lose the privileges they seek in sharia banking services, which are no different from conventional banking. Thus it will affect the community's decision to choose or continue to use the services that will be provided by Islamic Banks. So that shariah compliance is one of the ways for the community's trust in Shariah Bank to be maintained.

Agency theory is a basic concept to be able to understand the relationship between the owner (principal) and management (agent). Cooperation between one or more people where the fund owner employs another person to entrust a service and then delegates decision -making authority and responsibility to management and the owner as stipulated in an employment contract or mutual agreement is an agency relationship. The existence of fraudulent acts is the existence of information asymmetry in which the information possessed by management is used to take advantage of benefits for themselves or others thus can lead to losses for owners or companies so that the emergence of agency problem.

Figure 1
Framework



Based on Figure 1 above, the following research hypothesis can be made:

1. The effect of the variable IsIR, the variable PSR, the variable IIR, the ZPR variable and the variable ICG on Frauds at Islamic Commercial Banks in Indonesia for the 2015 2019 period partially.
2. The effect of the variable IsIR, the variable PSR, the variable IIR, the ZPR variable and the variable ICG on Fraud at Islamic Commercial Banks in Indonesia for the 2015 2019 period simultaneously.

3. RESEARCH METHOD

The method used in this research is quantitative with secondary data types. The population used by Islamic Commercial Banks (BUS) registered with the Financial Services Authority for the 2015 2019 period is 14 BUS in Indonesia. With the sample selection using purposive sampling so that there are 11 BUS that fit the criteria with the 2015 2019 period. Thus, the calculation of the number of research samples is 11 x 5 = 55 research sample data.

Multiple regression analysis method used as an option in analyzing research data using panel data. Data processing using Eviews 10 and Microsoft Excel 2016 software.

The multiple linear analysis model formulated in this study is as follows:

$Y = f(X1,X2,X3,\ldots Xn)$ ....(1)

Multiple linear regression, where a dependent variable (variable Y) is associated with two or more independent variables (variable X). In general, the form of the regression equation in this study is as follows:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$ ....(2)

Furthermore, the equation is transformed into a semi-logarithmic equation which in this study is as follows:

$LOGY = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$ ....(3)

Information:

Y	= *Fraud*
a	= Constants
$b_1b_2b_3b_4$	= Regression Coefficient
X_1	= *Islamic Income Ratio*
X_2	= *Profit Sharing Ratio*
X_3	= *Islamic Investment Ratio*
X_4	= *Zakat Performance Ratio*
X_5	= *Islamic Corporate Governance*
e	= Error term

4. RESULTS

1. Descriptive Statistical Analysis Panel Data

   Standard deviation (σ) is used to show how far the probability of the value obtained deviates from the expected value. The higher the value obtained by the standard deviation, the higher the possibility of the real value deviating from what is expected. In a problem like this, where the value of mean the dependent variable is smaller than the standard deviation, generally the data contains outliers (very extreme data). Thus, in order to minimize the level of standard deviation in this study, a semi log was carried out on the dependent variable. The following are the results of descriptive analysis of the data after semi-logging in table 2:

Table 2
Descriptive Statistical Analysis

Variable	N	Minimum	Maximum.	Mean	Std. Deviation
LogFraud	41	0.000000	4.430817	1.585563	1.140273
ISIR	41	0,992992	1,000000	0.999423	0.001289
PSR	41	0.013680	0.955499	0.455636	0.255481
IIR	41	0.517856	0.999884	0.933536	0.110927
ZPR	41	0.000000	0.000983	0.000357	0.000324
ICG	41	1.000000	3.000000	2.044634	0.631170

Source: Processed Secondary Data

After semi-logged on the dependent variable, the result is that the standard deviation value is smaller than the mean . The standard deviation of Fraud is 1.140% smaller than the mean of 1.585%data Islamic Income The ratio (IsIR) shows the standard deviation of 0.001% is smaller than the mean of 0.999%.Data Profit Sharing The ratio (PSR) standard deviation of 0.255% is smaller than the mean of 0.455%.

Data Islamic Investment The ratio (IIR) shows a standard deviation of 0.110% which is smaller than thevalue mean of 0.933%.variable data Zakat Performance The ratio (ZPR) shows a standard deviation of 0.000324% which is smaller than thevalue mean of 0.000357%. The last independent variable data is Islamic Corporate Governance (ICG) of 0.631% which is smaller than the average value of 2.044%. So it can be concluded that the data that are suitable for processing are 41 samples.

2. Results of Panel Data

Regression Regression using panel data has a combination of characteristics, namely data consisting of several objects (cross section) and includes time (time series). The panel data that has been collected is regressed using themodel common effect whose results can be seen in table 3.

Table 3
Results of Panel Data

Variable	Coefficient	Std. Error.	t-Statistic.	Prob
C	-79.05480	108.2431	-0.730345	0.4700
ISIR	79.35037	108.8263	0.729147	0.4708
PS	-1.850990	0.577764	-3.203714	0.0029
IIR	1.952668	1.077435	1.812330	0.0785
ZPR	-112.3977	391.4644	-0.287121	0.7757
ICG	0.168908	0.208790	0.808986	0.4240
	Weighted-Statistics.			
R-squared	0.421560	Mean dependent var		2.295187
Adjusted R-squared	0.338926	S.D. dependent var		1.851777
S.E. of regression	1.073036	Sum squared resid		40.29924
F-statistic	5.101517	Durbin-Watson stat.		0.875664
Prob(F-statistic)	0.001288			

Source: Processed Secondary Data

a. Coefficient Determination Test (Test R^2)

Based on Table 3 displays the amount of figures Adjusted R squared of 0.338926. This explains that the percentage of the contribution of the influence of the independent variable on the dependent variable is 33.89% so that this value means that the independent variable used in the model is able to explain 33.89% of the dependent variable. While the rest (100% 33.89% = 66.11%) is explained by other factors from outside the model. Standard error of estimate (SE of regression) of 1.073036, the smaller the SEE value makes the regression model more precise in predicting the dependent variable.

b. Simultaneous Significance Test (F Statistical Test)

Based on table 3 above, the F test results with a probability value (prob) of 0.0012 which is smaller than the significance level (α) 0.10. After that it is also seen from the value of F count 5.1015> F table 2.0100 so that Ha1 is accepted. In this case it shows that the variable is Islamic Income Ratio, Profit Sharing Ratio, Islamic Investment Ratio, Zakat Performance Ratio and Islamic Corporate Governance together (simultaneously) has a significant influence on Fraud in Islamic Commercial Banks in Indonesia for the 2015 2019 Period. So that the regression model in this study can be used to predict the dependent variable.

c. Significant Test for Individual Parameters (t Statistical Test)

Based on Table 3 the results of the Significant Test for Individual Parameters above are as follows:

1) Influence Islamic Income Ratio (IsIR) on Fraud

Variable Islamic Income The ratio of the probability value (prob) is 0.4708 which is greater than the significance level (α) 0.10 with the t-count value smaller than the t table (0.7291 <1.6895) so that Ha is rejected.

2) Influence Profit Sharing Ratio (PSR) to Fraud

Variables Profit Sharing The ratio with a coefficient value of 1.8510 and a probability value (prob) of 0.0029 which is smaller than the significance level (α) 0.10 with a calculated t value greater than t table (3.2037> 1.6895) so that Ha is accepted.

3) Influence Islamic Investment Ratio (IIR) to Fraud

Variable Islamic Investment The ratio probability value(prob) is 0.0785 which is greater than the significance level (α) 0.10 with the calculated t value greater than t table (1.8123> 1.6895) so that Ha is accepted.

4) Influence of Zakat Performance Ratio (ZPR) to Fraud

Variables Zakat Performance The ratio probability value(prob) is 0.7757 which is greater than the significance level (α) 0.10 with the t-count value smaller than t table (0.2871 <1.6895) so that Ha is rejected.

5) Influence Islamic Corporate Governance (ICG) on Fraud.

Variable Islamic Corporate Governance probability value (prob) of 0.4240 which is greater than the significance level (α) 0.10 with the t count value smaller than t table (0.8089 <1.6895) so that Ha is rejected.

3. Discussion of Research Results

The following is the test results of each independent variable on fraud:

a. *Influence Islamic Income Ratio (IsIR) on fraud*

The results of this study contradict the research of Raharjanti and Muharrami which states that the Islamic income ratio has a positive effect on internal fraud which in practice, all Islamic banks have high Islamic income ratios. Even though it has a high Islamic income ratio, it is internal Fraud in Islamic Banks also occurs a lot (Raharjati, 2020). This can be because income is an account that is vulnerable to manipulation and theft, this is evidenced by the fact techniques fraud that the most common are related to improper revenue recognition (COSO, 2010). The assessment of Islamic income in this study actually shows that the income obtained by Islamic banks has been dominated by sources that are in accordance with the provisions of sharia, this can be seen from the average value obtained by Islamic Income The ratio that is close to

100% is 0.999457 or 99%. So that an increase in Islamic income does not affect fraud in Islamic Commercial Banks.

b. *Influence Profit Sharing Ratio (PSR) to Fraud*

The results obtained in this study are Profit Sharing The ratio has a negative effect on fraud, it can be interpreted that the greater the profit Sharing The ratio indicates that the more transactions with the profit sharing principle carried out by Islamic banks, the negative effect on the PSR on internal fraud is because the increase in profit sharing transactions based on sharia principles will reduce the existence of fraud. This is because the profit sharing principle is an operational principle for Islamic banking which is fundamentally the differentiator between Islamic banks and conventional banks.

c. *Influence Islamic Investment Ratio (IIR) to Fraud*

The results obtained in this study are Islamic Investment The ratio has a positive effect on fraud, it can be interpreted that the results of this study are that the higher the IIR indicates that the more Islamic investment is made by Islamic Banks, the positive effect on the IIR on fraud indicates an increase in cases of fraud that occur in Islamic Commercial Banks. Research on investment ratios in Islamic Commercial Banks in this study has actually shown that investments have been made in accordance with sharia provisions, which is seen from the average IIR value which is close to 100%, namely 0.930139 or 93.01%. But in fact there is still fraud in Islamic banks. This can be because the assets of a Sharia Bank are accounts that are vulnerable to manipulation and theft so that investments that have been made in accordance with these sharia provisions cannot make a large contribution in reducing the number of fraud that occurs in Islamic Banks.

d. Influence of *Zakat Performance Ratio* (ZPR) to *Fraud*

The results obtained in this study are that there is no influence of Zakat Performance Ratio to Fraud means that this ratio cannot measure the effect of fraud on Islamic banks, seen from Basam and Chistoper's research which states that the main purpose of Islamic banking is to uphold the principles of Islamic economics to create community economic justice through the zakat mechanism. The obligation to pay zakat according to sharia rules is 2.5% of net assets (Asrori, 2011). Zakat is a top priority in financial reports because it is a form of corporate social responsibility to society.

e. Influence *Islamic Corporate Governance* (ICG) on *Fraud.*

The results of this study are in line with Najib and Rini's research which states that Islamic corporate governance has no effect on fraud (Najib and Rini, 2019) However, the results of this study are different from the research conducted by Raharjanti and Muharrami that the variable Good Corporate Governance individually has a positive effect on Internal Fraud (Raharjati and Muharrami, 2020).

5. CONCLUSION

Based on the description of the results of the analysis, hypothesis testing using panel data regression and discussion of the research results, the following conclusions can be drawn:

a. Variable Islamic Income Ratio, Profit Sharing Ratio, Islamic Investment Ratio, Zakat Performance Ratio and Islamic Corporate Governance jointly (simultaneously) has an effect on fraud.
b. Variable Islamic Income Ratio (IsIR) has no effect on fraud.
c. Variable Profit Sharing Ratio (PSR) has a negative significance effect on fraud.
d. Variable Islamic Investment Ratio (IIR) has a positive significance effect on fraud.
e. Variable of Zakat Performance Ratio (ZPR) has no effect on fraud.
f. Variable Islamic Corporate Governance (ICG) has no effect on fraud.

Based on the results of this study and the conclusions obtained, the researchers provide the following suggestions:
a. Further research is suggested to be able to expand the population by adding other types of Islamic financial institutions such as Sharia Business Units, BPRS or Sharia Insurance. As well as extending the research period in order to obtain accurate research data.
b. Further research is suggested to narrow the scope of research not only to use Islamic banks in Indonesia as the object of research but to be minimized by looking at the number of cases in Islamic banks in each city / regency, province, and others.
c. Further research is suggested to be able to use other proxies that can measure the variable Sharia Compliance and Islamic Corporate Governance. And add other variables that may have an influence on fraud. Given that the independent variables in this study have not been able to explain the significant effect on fraud.

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