

THE EFFECT OF IMPLEMENTATION OF ISLAMIC CORPORATE GOVERNANCE AND SHARIA COMPLIANCE ON FINANCIAL STATEMENT FRAUD AT INDONESIAN SYARIAH BANK

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Abstract
This study intends to assess the effect of Shariah Compliance and Islamic Corporate Governance on fraud in Islamic banks. The independent variables used are Shariah Compliance with Islamic Income Ratio, Profit Sharing Ratio and Islamic Investment Ratio as a proxy and Islamic Corporate Governance. Fraud in Islamic banking is the variable. In this study, the population is Indonesian Sharia Commercial Banks (BSI) registered with Bank Indonesia from 2017 to 2019. Three Indonesian Islamic banks are used as examples in this study, with a three-year research period. Multiple regression analysis was used in this study, which was carried out with SPSS version 22. The results showed that Good Corporate Governance had no effect on Financial Statement Fraud

I. INTRODUCTION

The current development of sharia banking continues to increase and public awareness in halal transactions continues to increase, even the merger of three BUMN sharia banks, namely BNIS, BRIS, and BSM, this fusion is attempted to increase the Core Competence of all BUMN, listed in the financial zone. This merger was also carried out on careful consideration. However, the merger that is carried out does not guarantee the security of the bank's financial statements and fraud may occur.

Fraud(dishonesty) is an act of deviation or omission that is planned to try to deceive, fool, or falsify the bank, customer, or other party involved in the area of the bank., thus causing customers or other parties to face losses. Fraud can also be defined as a deception that is attempted by a person or entity who has recognized that the fraudulent act, or is commonly said to be more precise citing opportunities or all professions that have been trusted by the industry for their personal needs. Fraud can be attempted by various levels from the basic level to the top management. For this reason, as an entity that has a special personality, the Islamic financial business sector has a

great effect in its management, as a result, a careful basis is needed for suspects in the view of sharia discipline (Shariah Compliance) as an effort to prevent the possible effects of fraud.

There is a close relationship between an abstract and efficient view of financial business activities and Islamic or sharia principles to the act of encountering fraud. Fraud itself covers all the things that people think and try to make profit on other individuals on the line and wrong or obligation and includes all ways that are not suspect, many strategies, deception, hiding methods that are not honest and bad sense so that other people are deceived by his actions.

In the banking world, this dishonesty problem is also referred to as Financial Statement Fraud. Financial Statement Fraud is a deliberate misrepresentation or omission in providing financial information to deceive the managers of the need for financial information. Financial Statement Fraud is strongly related to revenue manipulation by management to make one industry look better than other industries (Rezaee, 2004).

There are many cases of fraudulent financial statements, one of which occurred in the case of Facebook and Google. Esvaldas Rimasauskas was charged with fraudulent acts of robbery, evidence of financial dishonesty and money laundering during 2013-2015. . Esvaldas carried out the deception by losing \$122 million, with each losing \$99 million on Facebook and \$23 million in losses on Google. Esvaldas launched his action with the Business Email Compromise (BEC) procedure. This dishonesty with the BEC procedure is said to have been experienced not only by Facebook and Google, but also based on the FBI's information that the total loss felt by the industry throughout the world through the BEC fraud reached US \$ 12.5 billion. The method of surgery that is usually tried is by hijacking emails and sending them as if they were genuine from industrial business colleagues. The fraud problem felt by Facebook and Google is one illustration of the dishonesty problem of the Asset Misappropriation type.

One of the efforts that can be tried to reduce the risk of dishonesty is through the application of discipline in an Islamic way (Shariah Compliance) and the application of the principles of Islamic Corporate Governance on the sharia side in the maximum manner.

Sharia discipline in banks is the principles of Islam, sharia and its traditions in the financial business as well as banking and other related business fields. Sharia discipline has a global standard that was compiled and formalized at the Islamic Financial Service Board (IFSB) in which sharia discipline is a regulatory factor in managing the body. The sharia discipline is invariably used as a framework for activities for the Islamic banking system and finance in the allocation of energy base, management, creation, capital market activities, and distribution of wealth.

Islamic Corporate Governance is an Islamic management system that adapts to the conventional industrial management system. The draft regulation for managing the industry on an Islamic platform arises because there are issues of weakness in the regulation of managing the industry which criticizes the sustainability and integrity of Islamic financial institutions. Under the rules of managing industry in conventional or sharia forms, having the same goal is a system that organizes the bonds of all stakeholders and avoids the occurrence of irregularities.

Table 1 Examples of Fraud Cases in Islamic Banks

Case	Source
Cases of alleged fictitious loans that cost the company Rp548 billion to PT Bank Jawa Barat and Banten (BJB), 2018.	Tegar Arief, 2018
The suspected case of PT Bank Syariah Mandiri channeling fictitious financing worth IDR1.1 trillion, 2018	Yuli Yanna and Agustiyanti, 2018
Internal audit case of embezzlement conducted by two BSM employees, 2015	DetikNews 2015

II. RESEARCH METHODS

Types of research

In this study used quantitative research. In this study, the independent variables are Corporate Governance and *Sharia Compliance*, while the dependent variable is Financial Statement Fraud.

Research Sources and Data

The source of this research data is obtained from the web page of Bank Syariah Indonesia <http://www.bsi.co.id>.

Research variable

The independent variable (X) of this study is Shariah Compliance which is measured by three proxies, namely the Islamic Income Ratio to calculate the percentage of sharia income from all the total income that can be measured by the method of sorting sharia income with total income. The advantage of the Sharing Ratio is to calculate how Islamic banks use activities for results in their activities with total income as measured by the method of dividing the amount of Islamic financing with the total

financing of Islamic banks. Islamic Investment Ratio to see the percentage of Islamic capital that is carried out by the bank to the total capital is measured by the method of dividing the Islamic bank's Islamic capital with the total capital.

While the dependent variable in this study is Financial Statement Fraudas measured by the dummy technique, with 1 indicating an organization that has Financial Statement Fraudand 0 indicates companies that do not.

Population and Sample

Population is a generalization area, including subjects or objects that have qualities and personalities that are authorized by researchers to analyze and then draw conclusions. The population in this research consists of 15 branches of Bank Syariah Indonesia in the city of Palembang which have been integrated with Bank Syariah Indonesia.

The sample is part of the size and character of the population. In this research, the method of collecting illustrations uses a non-random sampling method in which if the interrogator does not give the body of the population the same chance as a member of the sample. The non-random method with purposive sampling type is a method of sorting the illustrations desired by researchers among the existing population. The illustrations obtained from this research are 3 agent offices and assistant agent offices from 15 agent offices and the offices of Bank Syariah Indonesia assistant agents located in the city of Palembang.

Table 2 Population and Research Sample

Population	Sample
Bank Syariah Indonesia KC A Rivai Syariah	Bank Syariah Indonesia KC A
Bank Indonesia KC Demang Syariah Bank	Rivai Bank Syariah Indonesia
Indonesia KC Pasar 16 Ilir	KC Sudirman Islamic Bank
Bank Syariah Indonesia KC Simpang Patal	Indonesia KC Demang
Bank Syariah Indonesia KC Smb II	
Indonesian Sharia Bank KC Sudirman	
Indonesian Sharia Bank KCP Demang	
Indonesian Sharia Bank KCP Jakabaring	
Indonesian Sharia Bank KCP Kenten 1	
Indonesian Sharia Bank KCP Kenten 2	
Indonesian Sharia Bank KCP Km6 Indonesian	
Sharia Bank KCP Merdeka Indonesian Sharia	
Bank KCP Radial Indonesian Sharia Bank KCP	
Sudirman	
Bank Syariah Indonesia KCP Veteran	

Engineering and Data Analysis

Data analysis is the evaluation of a condition for a problem being reviewed, including a study of various perspectives, so that it is not often encountered that large problems can be broken down into smaller parts so that they can be smaller and easier to study and organize information. The procedure for analyzing information from this research uses double linear regression analysis which includes classical assumptions, hypothesis testing and statistics.

Classic assumption test

Classical assumption test which includes:

- a. Normalization test
- b. Multicollinearity test
- c. Heteroscedasticity test
- d. Linearity test
- e. Autocorrelation test

Hypothesis testing

Multiple regression equations were used to test the hypotheses of this study:

$$Y = a + 1X_1 + 2X_2 + 3X_3 + 4X_4 + \epsilon$$

Statistic test

Statistical tests which include:

- a. Stimulant significance test (F test)
- b. Coefficient of determination test (R² test)
- c. Partial test (t test)

III.RESULTS AND DISCUSSION

As a result of falsification of financial statements in Islamic banks, the corporate governance variable has changed. Institutional provisions for industrial management emphasize more on public accountability in relation to bank operational activities with predetermined stipulations (Maradita, 2014). However, its application is not appropriate, especially for Islamic banks in Indonesia that use sharia principles and in adaptation and development steps, in accordance with sharia research and training institutions (Wardayati, 2011) which have been established in various countries, especially in Indonesia. Indonesian Islamic banking that has not practiced Islamic banking. Well, GCG. Not only that, the lack of clarification on sharia principles makes the implementation of sharia figures insufficient, and citizens do not trust the rules to be applied. (In'airat 2015) believes that dishonesty cannot be reduced by practicing the rules for managing the industry (Rahmati, 201) reported that the lack of description of Islamic banking human resources has caused Islamic banks to be not optimal and identified with

conventional banking.

Normalization Test

In this research, normalization test is used with the "One-Sample Kolmogorov Smirnov Test" procedure. This experiment equates the set of information on the sample to a normal distribution of a series of numbers with the same mean and standard deviation.

Normality test

Table 3 Kolmogorov-Smirnov . One-Sample Normalization

		Unstandardized Residual
N		9
Normal Parameters, b	mean	0E-7
	Std. Deviation	4.23923172
	Absolute	.179
Most Extreme Differences	Positive	.112
	negative	-.179
Kolmogorov-Smirnov Z		.537
asymp. Sig. (2-tailed)		.936

a. Test distribution is Normal.

b. Calculated from data.

The number of observations is 9 based on the normalization test table for the One-Sample Kolmogorov Smirnov Test above, with an average value (mean) of 00.7 and a standard deviation of 4.239. D has an absolute value of 1.79 and a Z value of 0.537 according to Kolmogorov Smirnov. The p-value for this z-value is $0.537 \geq 0.05$. As a result, H_0 is accepted. The standard residual value then becomes normal.

Multicollinearity Test

Multicollinearity trials can be seen in looking at the coefficients of the relationship between explanatory variables. If the experiment is used in SPSS, there is no visible multicollinearity if the VIF value is < 10 and the tolerance number is 0.1.

Multicollinearity Test

Table 4 Multicollinearity Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
(Constant)	11.059	19,504		.567	.601		
X1	.006	14,361	.000	.000	1,000	.673	1.486
X2	23,284	12,173	.594	1,913	.128	.682	1.466
X3	.003	.013	.066	.234	.827	.834	1.198
X4	-8,234	5.412	-.439	-1.522	.203	.789	1,268

a. Dependent Variable: Y

The coefficient in the Collinearity Statistics section is known to be the Tolerance value for the variables X1 0.673, X2 0.682, X3 0.834, and X4 0.789, which is greater than the value 0.10, based on the table of multicollinearity test results above. As for the variables X1 1.486, X2 1.466, X3 1.198, and X4 1.268 the VIF value is smaller than 10.00. The conclusion that can be drawn from the data table above is that the regression model does not show signs of multicollinearity.

Heteroscedasticity Test

Heteroscedasticity test was conducted to see whether there was a linear difference in variance from one monitoring residual to the next. The Park technique is used in the heteroscedasticity experiment in this paper. Determination Collection There is no heteroscedasticity if the significant number is greater than 0.05. In the form of linear regression, heteroscedasticity test is used to determine whether there is an inequality of variance from one monitoring to the next monitoring. Park's approach was used in the heteroscedasticity experiment in this study. There is no heteroscedasticity if the collection of significant figures is greater than 0.05.

**Table 5 Heteroscedasticity
Coefficientsa**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4.378	5.902		.742	.499
X1	2.403	4.346	.195	.553	.610
X2	1.550	3,684	.147	.421	.695
X3	-.007	.004	-.580	-1.832	.141
X4	-2,902	1,638	-.577	-1.772	.151

a. Dependent Variable: Abs_RES

The output of the heteroscedasticity test in the Coefficient section with the Abs RES variable which is the dependent variable is shown in the table above. The significance value of the variables X1 is 0.610, X2 is 0.695, X3 is 0.141, and X4 is 0.151 close to each other. The significance value of the existing variables is more than 0.05 based on the test results, thus the Glejser test shows that there is no change in heteroscedasticity.

Autocorrelation Test

**Table 6 Autocorrelation test
Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.859a	.737	.474	5,995	2,688

a. Predictors: (Constant), X4, X1, X3, X2

b. Dependent Variable: Y

The Durbin-Watson (d) number is 2,688, and the R2 Square number is 737, according to the "Summary Shape" output chart above. The method $x2=(n-1) \times R2$ is used to divide the number X2 by this number R2. These data do not prove the problem of autocorrelation if the number x2 is the number x2 of the graph.

F Uji test

Tabel.7 F Test Table
ANOVAa

Model	Sum of Squares	df	mean Square	F	Sig.
1 Regression	403.120	4	100,780	2.804	.171
Residual	143.769	4	35,942		b
Total	546,889	8			

a. Dependent Variable: Y

b. Predictors: (Constant), X4, X1, X3, X2

Significant figures obtained from the results of linear regression analysis of 0.171 are greater than 0.05 and include the Islamic Income Ratio (IsIR), Profit Sharing Ratio (PSR), Islamic Investment Ratio (IIR), and Good Corporate Governance. (GCG) which is difficult to influence simultaneously is elastic depending on the *Financial Statement Fraud*(Fraud).

T Uji test

With a significant technique, the T test (partial) is used to determine the effect of each flexible field (Islamic Income Ratio or IsIR), Profit Sharing Ratio (PSR), Islamic Investment Ratio (IIR), and Good Corporate Governance (GCG) on the partial (Financial Report Fraud). If the T value > 0.05 significant then the flexible influence field is flexible with partial technique; conversely if the value of T is T on the graph with a ratio > 0.05 then the result is flexible with the partial method but does not affect flexibility.

Tabel 8 Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	11.059	19,504		.567	.601
1 X1	.006	14,361	.000	.000	1,000
X2	23,284	12,173	.594	1,913	.128
X3	.003	.013	.066	.234	.827
X4	-8,234	5.412	-.439	-1.522	.203

a. Dependent Variable: Y

Determining the magnitude of the T graph = 0.05 and $df = (n - k)$ or $(60 - 5 = 55)$ then the T graph value is 2.009. Based on the experimental results t in the graph above, it can be seen if:

1. Variable X1 Good Corporate Governance on Financial Statement Fraud. It is

- known that the T table elastic X1 is 0.000, so $T_{count} < T_{table}$ (0, 000 < 2,009), with a relevance of $1, 000 > 0.05$ as a result the assumption is rejected, meaning that GCG does not affect and significantly affect Financial Statement Fraud with partial way.
2. Variable X2 Islamic Income Ratio to Financial Statement Fraud). It is known that the number T is the number of Elastic X2 1, 913, so the number $T_{count} < T_{table}$ (1,913 > 2,009), with significant figures $0, 128 > 0, 05$ as a result the assumption is rejected, X2 elastic (Islamic Income Ratio) does not affect and is important to Financial Statement Fraud in a partial way.
 3. Variable X3 Profit Sharing Ratio on Financial Statement Fraud. It is known that the T count is 0, 232, so $T_{count} < T_{table}$ (0, 232 < 2, 009), with an importance of $0, 827 > 0, 05$ as a result the assumption is rejected, X3 elastic (Profit Sharing Ratio) does not affect the Financial Statement Fraud by Partial.
 4. Variable X4 Islamic Investment Ratio on Financial Statement Fraud. It is known that the number T count is - 1.522, so that $T_{count} < T_{table}$ (- 1,522 < 2, 009), with a significance of $0, 203 > 0, 05$ as a result the assumption is rejected, X4 elastic (Islamic Investment Ratio) does not affect the Financial Fraud Statements.

Determination Test

Tabel 9 Determination

Model Summary

Mod El	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.859a	.737	.474	5,995

a. Predictors: (Constant), X4, X1, X3, X2

The confirmation coefficient or R Square is 0, 737, as seen in the "Summary Form" output graph above. Squaring the relationship coefficient or "R" number, which is 0.859×0.859 , yields an R Square of 0.73. The guarantee coefficient of R Square is 0.737, or about 73.7 percent. This figure shows that the factors X4, X1, X3, and X2 have a combined effect of 73.7 percent on the outcome variable (Y). On the other hand, more (100 percent - 73.7% = 26.3%) were influenced by variables outside this meeting or inaccurate elastics.

IV. CONCLUSIONS AND RECOMMENDATIONS

With a population of 15 Indonesian Syariah Bank branches in Palembang city from the entire population, three samples were taken from each Indonesian Syariah Bank branch in Palembang city to see whether Corporate Governance and Syariah

Compliance had an effect on Financial Statement Fraud. The hypothesis is rejected based on the results of the t test which shows that Good Corporate Governance has no effect on Financial Statement Fraud, Sharia Compliance with Islamic Income Ratios has no effect on Financial Statement Fraud, Sharia Compliance with Profit Sharing Ratio proxy has no effect on Financial Statement Fraud, and Investment Ratio Sharia has no effect on Financial Statement Fraud. *Shariah Compliance Islamic Investment Ratio* does not affect the Financial Statement Fraud.

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