

Effectiveness of Islamic Corporate Governance Mechanisms in Preventing Fraud: A Study of Islamic Commercial Banks in Indonesia, 2014-2023

Yulhita Nur Fadilah¹, Nyata Nugraha^{2*}, Ida Nurhayati³

Abstract. *This study aims to analyze the influence of the Sharia Supervisory Board (SSB), Audit Committee (AUDIT), Board of Commissioners (BOARDSIZE), Independent Board of Commissioners (INBOARD), and External Audit Quality (AUDITQUALITY) on Preventing Fraud (FRAUD) at Islamic Commercial Banks in Indonesia for the 2014-2023 period. The population includes 13 Islamic Commercial Banks registered with the Financial Services Authority. Using purposive sampling, 7 banks were selected. This research uses secondary data. The data analysis model employs multiple linear regression with panel data and is processed using Eviews 13. The results show that SSB, AUDIT, BOARDSIZE, INBOARD, and AUDITQUALITY simultaneously significantly affect Preventing fraud. Partially, SSB, INBOARD, and AUDITQUALITY positively and significantly affect Preventing fraud, while AUDIT and BOARDSIZE have a negative and non-significant effect on Preventing fraud.*

Keywords: *Fraud; Islamic Corporate Governance; Islamic Commercial Banks*

Abstrak. *Penelitian ini bertujuan menganalisis pengaruh Dewan Pengawas Syariah (DPS), Komite Audit (AUDIT), Dewan Komisaris (BOARDSIZE), Dewan Komisaris Independen (INBOARD), dan Kualitas Audit Eksternal (AUDITQUALITY) terhadap Pencegahan Fraud (FRAUD) pada Bank Umum Syariah di Indonesia periode 2014-2023. Populasi adalah 13 Bank Umum Syariah yang terdaftar di Otoritas Jasa Keuangan. Sebanyak 7 bank terpilih secara purposive sampling. Penelitian ini menggunakan data sekunder. Model analisis data adalah regresi linier berganda dengan data panel dan diolah menggunakan Eviews 13. Hasil penelitian menunjukkan bahwa DPS, AUDIT, BOARDSIZE, INBOARD, dan AUDITQUALITY secara simultan berpengaruh signifikan terhadap Pencegahan fraud. Secara parsial, DPS, INBOARD, dan AUDITQUALITY berpengaruh positif dan signifikan terhadap Pencegahan fraud, sedangkan AUDIT dan BOARDSIZE berpengaruh negatif dan tidak signifikan terhadap Pencegahan fraud.*

Kata kunci: *Fraud; Tata Kelola Perusahaan Islami; Bank Umum Syariah*

^{1,2,3}Semarang State Polytechnic, Semarang, Indonesia

E-mail: ¹yulhita.nur.fadilah@polines.ac.id, ²nyata.nugraha@polines.ac.id, ³ida.nurhayati@polines.ac.id

*Corresponding Author

Introduction

The development of Indonesia's Islamic banking sector reflects the strategic influence of the halal industry, enhancing the economy (Fathoni & Syahputri, 2020). The growing interest in Islamic banking in Indonesia boosts public literacy, pressuring the sector to ensure its Islamic characteristics. This trend demands special attention to maintain and enhance Islamic quality.

Lay perception often overlooks the differences between Islamic and conventional banking, including the risk of fraud. Despite using Sharia principles, Islamic banks are not immune to fraud. Noteworthy cases in 2018 at Bank of West Java Banten Syariah, which lost 100 million, and PT Bank Syariah Indonesia Tbk., which embezzled home loan down payment funds, underscore this challenge, necessitating strong preventive measures in addition to legal sanctions and social initiatives.

The presence of such cases demonstrates that Islamic banks, operating under Sharia principles, cannot ensure complete immunity from fraud. The occurrence of fraud in Islamic banking is indeed ironic, given that Sharia principles strictly forbid actions that harm others. Fraud is strictly prohibited in Islam and is considered a grave offense. In alignment with religious prohibitions, the government, through the Financial Services Authority (OJK), has issued Regulation Number 39/POJK.03/2019 regarding implementing anti-fraud strategies for commercial banks. This regulation mandates banks to adopt comprehensive anti-fraud strategies and reporting obligations, aiming to provide added value and safeguard the commercial banking sector from fraud.

Based on ACFE data, the banking and financial sector had the highest number of fraud cases in 2022, at 351, primarily corruption. This requires vigilance due to multiple parties involved in banking, including external fund mandates.

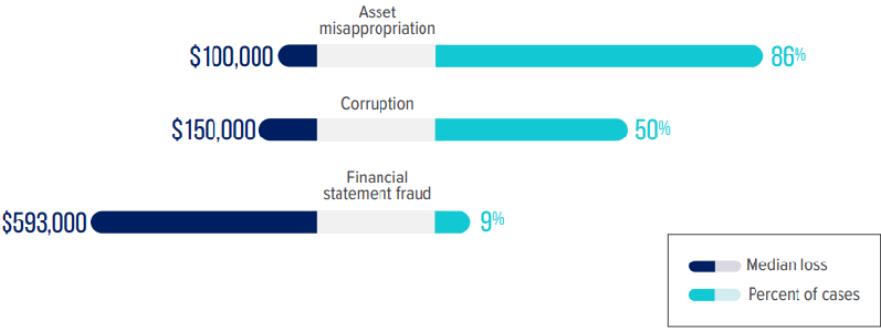
Based on the same source, the predominant losses from fraud include asset misappropriation, corruption, and financial statement fraud. Asset misappropriation covers embezzlement and misuse of company assets, while corruption entails abusing power for personal benefit. Financial statement fraud, particularly its manipulation, poses a significant threat by presenting a false financial health image, harming shareholders, and tarnishing the company's reputation. Refer to Figure 1 for detailed data on fraud types.

Table 1. Sector with the Most Fraud Occurrences

| No | Industry | Cases | Percentage of Cases |
|-------|--------------------------------------|-------|---------------------|
| 1. | Banking and financial services | 351 | 22,30 % |
| 2. | Government and public administration | 198 | 12,57 % |
| 3. | Manufacturing | 194 | 12,33 % |
| 4. | Health care | 130 | 8,27 % |
| 5. | Energy | 97 | 6,16 % |
| 6. | Retail | 91 | 5,78 % |
| 7. | Insurance | 88 | 5,60 % |
| 8. | Technology | 84 | 5,34 % |
| 9. | Transportation and warehousing | 82 | 5,20 % |
| 10. | Construction | 78 | 4,95 % |
| 11. | Education | 69 | 4,38 % |
| 12. | Information | 60 | 3,82% |
| 13. | Food service and hospitality | 52 | 3,30 % |
| TOTAL | | 1.574 | 100.00 % |

Source: ACFE Report to The Nations, (2022).

Figure 1. Types Of Fraud



Source: ACFE Report to The Nations, (2022).

The banking and finance sector, as evident from Table 1 and Figure 1, is notably prone to fraudulent activities, with corruption being the most prevalent type and causing significant financial losses amounting to \$150,000. This underscores the detrimental impact of corruption on this sector. Fraud occurrences in Islamic banks

can adversely affect stakeholders and tarnish the company's reputation, leading to decreased public trust (Nurlaela, 2023). This is compounded by misconceptions about Islamic banking's similarity to conventional banks, issues of low Sharia compliance, and weak corporate governance.

This research focuses on the growing concern among Islamic economics and finance experts regarding the weaknesses in corporate governance within Islamic banking (Subkhi & Puspitasari, 2023). Internal management utilizes corporate governance guidelines to formulate regulations aimed at mitigating fraud. Non-compliance with Sharia principles in Islamic banks negatively impacts public trust and contributes to increased fraud cases due to suboptimal corporate governance and internal control (Addiarrahman et al., 2022). According to Nadia et al. (2023) fraud cases may arise because individuals may be able to commit fraud due to their position inside an organization. Anyone can use their position to carry out actions that harm the company if they understand and can accurately report internal company transactions.

While numerous studies have explored factors influencing fraud in Islamic commercial banks, this study delves into Islamic corporate governance. The variables examined include the Sharia supervisory board, audit committee size, board size, independent board size, and external audit quality.

The Sharia Supervisory Board (SSB) is the initial variable believed to impact fraud in Islamic commercial banks. As per Regulation Number 56/POJK.03/2017, SSB advises the board of directors and oversees bank activities to ensure compliance with Sharia principles. SSB is responsible for supervising banking activities based on Indonesian National Assembly (MUI) provisions (Addiarrahman et al., 2022). Research by Haria & Candra (2023) and Ngumar et al. (2019) suggests a significant impact of the Sharia supervisory board on fraud. However, contrasting findings by Addiarrahman et al. (2022) and Mukhibad et al. (2021) indicate no significant effect of the Sharia supervisory board on fraud.

The size of the audit committee is the subsequent variable under examination. The audit committee's primary role is to oversee financial reports and assist the board of commissioners by conducting internal audits (Rianghepat & Hendrawati, 2021). As per POJK No. 55/POJK.03/2016, the audit committee is tasked with supervising audits' planning and implementation, as well as monitoring their follow-up and assessing internal controls' effectiveness, including the completeness of financial reporting (Rianghepat & Hendrawati, 2021). Previous studies by Yasmin et al. (2020) and Trijayanti et al. (2021) assert the audit committee's significant

impact on fraud prevention. Conversely, research by Priswita & Taqwa (2019) and Haria & Candra (2023) suggests that the audit committee has no significant effect on fraud in Islamic commercial banks.

The third variable aimed at reducing fraud in Islamic commercial banks is the size of the board of commissioners. According to POJK No. 33/POJK.04/2017, the board of commissioners is responsible for general and/or special supervision in line with the company's articles of association and advises the board of directors. Budget oversight by the board of commissioners is believed to help reduce fraud (POJK No.33/POJK.04/2017). Research by Sari & Husadha (2020) and Bariyyah and Narulitasari (2020) indicates a significant impact of the board of commissioners on fraud reduction. Conversely, studies by Ngumar et al. (2019) and Priswita & Taqwa (2019) suggest that the board of commissioners has no significant effect on fraud in Islamic commercial banks.

The fourth variable influencing fraud is the composition of the independent board of commissioners. The independent board's role is to oversee company management performance and ensure accountability. An independent background from the issuer is crucial to prevent fraud, making the board of commissioners' role vital. Previous studies by Sudarman et al. (2019) and Adesya and Dewayanto (2021) found a significant impact of the independent board of commissioners on fraud prevention. However, research by Kurniawan et al. (2020) and Guritno et al. (2020) suggested no significant effect of the independent board of commissioners on fraud.

The fifth variable is external audit quality. Companies engage Public Accounting Firms from the "big four" list to improve fraud detection in financial statements. It's crucial to involve external auditors with sufficient quality and expertise in auditing financial statements (Nilzam, 2020). Previous studies by Sari and Husadha (2020) and Nilzam (2020) suggest a significant impact of external audit quality on fraud prevention. However, research by Indarti et al. (2022) and Yasmin et al. (2020) indicates no significant effect of external audit quality on fraud occurrence.

Based on business phenomena regarding fraud in Islamic commercial banks and supported by the existence of research gaps from the results of previous studies regarding the effect of Islamic corporate governance on fraud in Islamic commercial banks and the theory that has been presented, researchers are interested in conducting research with the title "Effectiveness of Islamic Corporate Governance Mechanisms in Preventing Fraud: A Study of Islamic Commercial Banks in Indonesia, 2014-2023".

Literature Review

Agency Theory

The agency theory, or agency relationship, defines the agreement between one or more individuals (principals) hiring another person (agents) to perform desired tasks. The principal delegates decision-making authority to the agent to manage the company's assets and maximize the owner's welfare (Jensen & Meckling, 1976) as cited in (Clarinda et al., 2023). This theory elucidates the relationship between shareholders as principals and management as agents (Sariwati & Sumadi, 2021). The division of roles between management and shareholders can lead to conflicts of interest. Management aims to enhance internal control and resource quality, while shareholders prioritize company profitability. The agency theory addresses these conflicts by separating ownership (principal) from control (agent), allowing managers to operate the company. This framework resolves conflicts and information imbalances that arise from differing goals within the company (Subkhi & Puspitasari, 2023).

Islamic Corporate Governance

Islamic Corporate Governance (ICG) integrates Sharia principles and Good Corporate Governance (GCG) in corporate governance practices. It encompasses a plan integrated into company activities and evaluated based on self-assessment of Sharia principles, as outlined in the annual Good Corporate Governance report (Subkhi & Puspitasari, 2023). The Financial Services Authority (OJK) mandates Islamic banks to implement GCG, evaluated through self-assessment under POJK No.08/4/PBI/2006. GCG includes board responsibilities, conflict management, compliance, external audits, risk management, transparency, reporting, and strategic planning.

Fraud

Fraud involves rule violations for gain, causing losses to others (Sari & Husadha, 2020). Robain and Rahman (2021) effective measures to reduce fraud in Islamic banks include management supervision, favorable conditions, continuous monitoring, robust structure, and business complexity. According to Donald Cressey quoted by Fitri et al. (2019), fraud is caused by pressure, opportunity, and rationalization. Nadia et al. (2023) research found that opportunity (independent board ratio) and ability (directory change) positively but insignificantly affected financial report fraud. On the contrary, leverage and rationalization (total accrual

ratios) positively and significantly affect fraud in financial reporting. Total internal fraud events measure fraud.

The Effect of the Sharia Supervisory Board on Fraud

A Sharia Supervisory Board (SSB) ensures compliance with Sharia finance principles. The SSB is expected to exhibit independence similar to an auditor, focusing on objectivity and honesty, thereby earning public trust, especially from customers. This independence is crucial to carrying out supervisory functions objectively and fairly, devoid of any external pressures or influences that may compromise integrity. By upholding independence, SSBs effectively contribute to enforcing Sharia principles, maintaining transparency, and ensuring accountability within the institutions they oversee.

The Sharia Supervisory Board (SSB) supervises the products of Islamic financial institutions. The main role of the SSB is to supervise the running of bank operations so that they are always following sharia principles and provisions; thus, the SSB can prevent fraud (Ilyas, 2021). The SSB provides ethical guidance rooted in Sharia principles, which can discourage fraudulent activities. The SSB's independence allows for rigorous scrutiny of the company's operations, reducing opportunities for fraud.

Typically, an SSB comprises a minimum of two members and can constitute up to 50% of the board of directors, with one member designated as the chairman (Ilyas, 2021). This study uses various indicators to assess each SSB's effectiveness in carrying out its tasks, including the number of participants, their level of engagement, and the total amount of work that is assigned.

H1: The Sharia Supervisory Board partially has a significant effect on fraud.

The Effects of Audit Committee on Fraud

The audit committee, established by the board of commissioners, evaluates and monitors internal audits, focusing on internal control and financial reporting processes within Islamic banks. It supports the board by overseeing key financial and internal control aspects and enhancing fraud prevention. The audit committee's oversight role helps identify and mitigate potential risks, including fraudulent activities. The audit committee's independence ensures unbiased financial statements and evaluation of internal controls. Independent audit committees are particularly effective in reducing irregularities and identifying fraud cases, as noted by Mardani et al. (2020). Haria and Candra (2023) Also suggest that

a larger audit committee correlates with reduced fraud incidents within banks. Per Bank Indonesia Regulation No.11/33/PBI/2009, audit committee members must include at least one independent expert in financial accounting and one independent expert in Islamic banking, ensuring comprehensive oversight and expertise. This study uses the committee's Composition Index to adjust the Committee variable.

H2: The Audit Committee partially has a significant effect on fraud.

The Effects of The Board of Commissioners on Fraud

As per Bank Indonesia Regulation No. 08/4/PBI/2006, the board of commissioners is responsible for general and specific supervision in line with the company's articles of association, offering guidance to the board of directors. They are mandated to oversee the board of directors in addressing internal audit findings, external audit reports, Bank Indonesia's supervision outcomes, and other regulatory oversight. Adequate supervision by the board of commissioners is crucial in mitigating managerial fraud tendencies and ensuring the proper implementation of good corporate governance within the company. The more robust the supervision by the board of commissioners, the lower the likelihood of fraud occurrences, as highlighted by Kurniawan et al. (2020). The Board of Commissioners sets the strategic direction and ensures alignment with Sharia principles, reducing the likelihood of unethical practices. The board of Commissioners' role in risk management helps identify and mitigate potential fraud risks. Islamic banks must have a minimum of three commissioners, with the maximum number equal to the board of directors' membership.

H3: The Board of Commissioners partially has a significant effect on fraud

The Effect of The Independent Board of Commissioners on Fraud

Bank Indonesia Regulation No. 08/4/PBI/2006 states that independent commissioners are board members who lack financial, managerial, shareholding, or familial relationships with other board members, directors, controlling shareholders, or any entities that may influence their independent judgment. The presence of independent commissioners in the organizational structure enhances the supervisory function (Adesya & Dewayanto, 2021). The existence of an independent board of commissioners is believed to enhance company oversight effectiveness, thus reducing the likelihood of fraudulent practices. A higher composition of independent commissioners is expected to provide more objective

oversight and take preventive steps to minimize fraud risks in company activities (Alvionika & Meiranto, 2021). An independent Board of commissioners provides unbiased oversight and can challenge management decisions, reducing the risk of fraudulent activities.

As per Financial Services Authority Regulation No. 55/POJK.03/2016, the composition of the independent board of commissioners should be at least 50% of the total board members. This study employs the composition indicator of the Independent Committee of the Senate to adjust the Independent Committee of the Senate's variable.

H4: The Independent Board of Commissioners partially has a significant effect on fraud

The Effect of External Audit Quality on Fraud

External audit quality refers to the auditor's proficiency in detecting financial statement errors and ensuring accurate reporting of material misstatements (Indarti et al., 2022). The "big four" public accounting firms are known for their enhanced procedures and supervision, particularly in identifying and disclosing improper management reporting, so using their services can prevent fraud (Sari & Husadha, 2020). These larger firms, renowned for their reputation, deliver superior audit quality compared to their smaller counterparts, leading to stable and accurate audits (Indarti et al., 2022). A high-quality external audit can detect and prevent fraud by thoroughly examining financial records and internal controls.

The external audit quality variable is calculated using a dummy: 1 if the Big Four Public Accounts Office is audited and 0 otherwise.

H5: External Audit Quality has a significant effect on fraud.

Methods

This research is classified as quantitative due to the nature of the data gathered (Bahri, 2018). Quantitative research is a study that uses data in the form of numerical values that may be computed in an organized manner. For this study, the data were obtained from the annual financial statements and good corporate governance reports of Islamic commercial banks, which researchers obtained through the official websites of the companies concerned.

The population in this study were all Islamic Commercial Banks, with the observation period of 10 years, namely 2014-2023, taken from Islamic

Banking Statistics. In addition, the sample in this study were Islamic commercial banks registered with the Financial Services Authority from 2014-2023, the last ten years and published Annual Financial Reports and Good Corporate Governance Reports from 2014-2023, which did not make acquisitions, spin-offs, and mergers in 2014-2023 and provided complete information about the data needed by researchers. After filtering, seven companies were obtained that met the research sample requirements. The list of companies sampled is as follows.

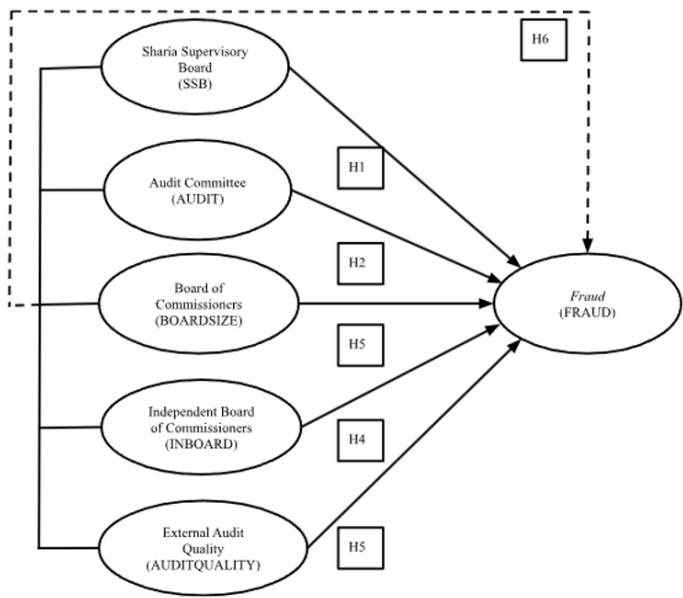
Table 2. List of Research Sample Companies

| No | Nama Bank |
|----|------------------------------|
| 1. | PT Bank Aceh Syariah |
| 2. | PT Bank Victoria Syariah |
| 3. | PT Bank Jabar Banten Syariah |
| 4. | PT Bank Mega Syariah |
| 5. | PT. Bank Panin Dubai Syariah |
| 6. | PT Bank Syariah Bukopin, Tbk |
| 7. | PT Bank BCA Syariah |

Source: Sharia Banking Statistics (2023).

The data taken by researchers are financial reports in the form of annual financial reports and good corporate governance reports spanning 10 years, resulting in 70 samples. However, to normalize the data, outlier is done by making extreme data so that the research data amounts to 57 samples. The data analysis technique used in this research is descriptive, which aims to describe or provide an overview of the object of research and the object of research. It is presented systematically and factually. Furthermore, panel data regression analysis was carried out, which aims to see the level of significance or influence of the independent variables used, namely the variables of the Sharia Supervisory Board (SSB), Audit Committee (AUDIT), Board of Commissioners (BOARDSIZE), Independent Board of Commissioners (INBOARD), and External Audit Quality (AUDITQUALITY) The regression model used can be described as follows:

Table 3. Research Design



$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e$$

Information:

Y = Fraud

X1 = The Sharia Supervisory Board (SSB)

X4 = The Independent Board of Commissioners (INBOARD)

α = Constant

X2 = The Audit Committee (AUDIT)

X5 = External Audit Quality (AUDITQUALITY)

β = Coefficient

X3 = The Board of Commissioners (BOARDSIZE)

e = Error term

Results and Discussion

This section will explain the outcomes of the statistical tests, beginning with descriptive analysis, choosing the appropriate model for panel data, and making classical assumptions before interpreting the research results.

Based on Table 4. It shows the results of descriptive statistical tests that have been carried out. The test results show that the Fraud (FRAUD) variable

as variable Y has a minimum value of -0.693147 and a maximum value of 2.351375. The average value (mean) is 0.659379, with a standard deviation of 0.843307. Meanwhile, the Sharia Supervisory Board (SSB) variable, variable X1, has a minimum value of 2.079442 and a maximum value of 3.988984. The average value (mean) is 2.922569, with a standard deviation of 0.364948. The Audit Committee variable (AUDIT) as variable X2 has a minimum value of 0.693147 and a maximum value of 1.609438. The average value (mean) is 1.221692, with a standard deviation of 0.216662. The Board of Commissioners variable (BOARDSIZE) as variable X3 has a minimum value of 1.098612 and a maximum value of 1.386294. The average value (mean) is 1.164224. The Independent Board of Commissioners (INBOARD), as variable X4, has a minimum value of 0.000000 and a maximum value of 0.405465. The average value (mean) is 0.190265, with a standard deviation of 0.126258. The External Audit Quality variable (AUDITQUALITY) as variable X5 has a minimum value of -0.693147 and a maximum value of 0.405465. The average value (mean) is -0.558230 with a standard deviation of 0.363787.

Table 4. Descriptive Statistics

| | Y | X1 | X2 | X3 | X4 | X5 |
|--------------|-----------|----------|----------|----------|----------|-----------|
| Mean | 0.659379 | 2.922569 | 1.221692 | 1.164224 | 0.190265 | -0.558230 |
| Median | 0.916291 | 2.833213 | 1.098612 | 1.098612 | 0.154151 | -0.693147 |
| Maximum | 2.351375 | 3.988984 | 1.609438 | 1.386294 | 0.405465 | 0.405465 |
| Minimum | -0.693147 | 2.079442 | 0.693147 | 1.098612 | 0.000000 | -0.693147 |
| Std. Dev. | 0.843307 | 0.364948 | 0.216662 | 0.121781 | 0.126258 | 0.363787 |
| Skewness | -0.370681 | 1.163692 | 0.293422 | 1.296175 | 0.564623 | 2.298447 |
| Kurtosis | 2.189511 | 4.926789 | 2.922102 | 2.680070 | 2.595035 | 6.282857 |
| Observations | 57 | 57 | 57 | 57 | 57 | 57 |

Source: Secondary data, processed with Eviews 13, 2024.

Selection of Panel Data Regression Models

According to Sulistyorini:129 (2018:129), to get the most appropriate panel data for multiple linear regression model estimation. The three models are the Fixed Effect Model (FEM), Common Effect Model (CEM), and Random Effect Model (REM). The testing stages that have been carried out to find the best model to use are as follows:

Table 5. Selection Of The Best Model

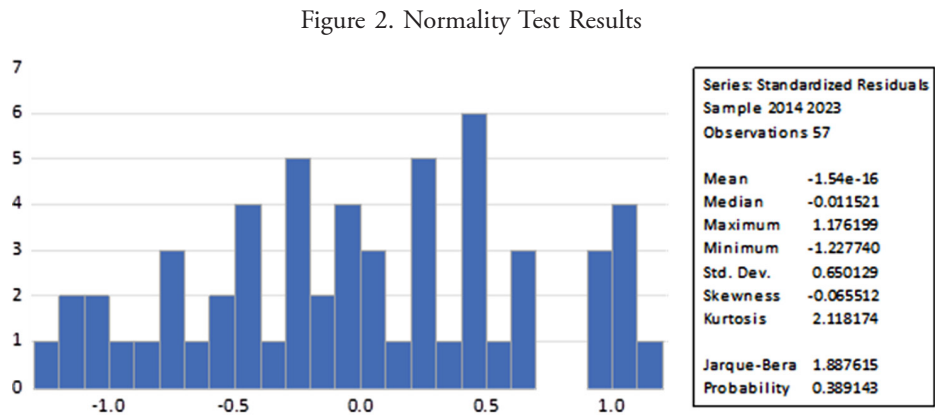
| | | | | |
|--------------|------------|--|------------------------------------|-----|
| Test Chow | CEM or FEM | $P < \alpha = \text{FEM}$ $P > \alpha = \text{CEM}$ | Prob. Cross-Section F 0.1370 | CEM |
| Hausman Test | FEM of REM | $P < \alpha = \text{FEM}$ $P > \alpha = \text{REM}$ | Prob. Cross-Section F 0.1724 | FEM |
| LM Test | CEM or REM | $P < \alpha = \text{REM}$ $P > \alpha = \text{CEM}$ | Breusch-Pagan Cross-Section 0.4576 | CEM |

Source: Secondary data, processed with Eviews 13, 2024.

The Common Effects Model was determined to be the best research model after testing the optimal model for panel data, as shown in Table 5 above.

Normality Test

According to Ghozali & Ratmono:148 (2018:148), the purpose of normality tests is to determine if residual or interference variables have normal distributions in regression models.



Source: Secondary data, processed with Eviews 13, 2024.

According to Figure 2, the probability derived from the normality test results using Jarque-Bera is 0.3891143, which is higher than 0.05. This indicates that the data in this study has a normal distribution.

Classic Assumption Test

The classical assumption test's goal is to guarantee the accuracy of the multiple linear regression model estimate through impartial and reliable estimates. This research used the multicollinearity, autocorrelation, and heteroscedasticity tests.

The Multicollinearity Test

Table 6. Multicollinearity Test Results

| | SSB | AUDIT | BOARDSIZE | INDBOARD | AUDITQUALIY |
|-------------|-----------|-----------|-----------|-----------|-------------|
| SSB | 1.000000 | 0.150738 | 0.349402 | -0.094689 | 0.003836 |
| AUDIT | 0.150738 | 1.000000 | 0.019925 | -0.173188 | -0.214443 |
| BOARDSIZE | 0.349402 | 0.019925 | 1.000000 | -0.392713 | 0.051404 |
| INDBOARD | -0.094689 | -0.173188 | -0.392713 | 1.000000 | -0.066477 |
| AUDITQUALIY | 0.003836 | -0.214443 | 0.051404 | -0.066477 | 1.000000 |

Source: Secondary data, processed with Eviews 13, 2024.

Based on Table 6, each independent variable's multicollinearity test findings with other independent variables lead to the conclusion that there is no association. The correlation between the independent variables is less than 0.80, which supports this. Thus, it may be said that there are no signs of multicollinearity in the data.

Heteroscedasticity Test

Table 7. Heteroscedasticity Test Results

| | | | |
|-----------------------------------|----------|-----------------------|--------|
| Heteroskedasticity Test: White | | | |
| Null hypothesis: Homoskedasticity | | | |
| F-statistic | 0.913507 | Prob. F (16,40) | 0.5607 |
| Obs*R-squared | 15.25408 | Prob. Chi-Square (16) | 0.5061 |
| Scaled explained SS | 6.827407 | Prob. Chi-Square (16) | 0.9764 |

Source: Secondary data, processed with Eviews 13, 2024.

Table 7 indicates that the independent variable has no significant coefficient or that the probability of the independent variable = 0.5061 > 0.05. Thus, we may conclude that this investigation shows no signs of heteroscedasticity.

Autocorrelation Test

Table 8. Result Autocorrelation Test

| | | | |
|--------------------|-----------|-----------------------|----------|
| R-squared | 0.405670 | Mean dependent var | 0.659379 |
| Adjusted R-squared | 0.347403 | S.D. dependent var | 0.843307 |
| S.E. of regression | 0.681253 | Akaike info criterion | 2.169533 |
| Sum squared resid | 23.66936 | Schwarz criterion | 2.384592 |
| Log likelihood | -55.83170 | Hannan-Quinn criter. | 2.253112 |
| F-statistic | 6.962189 | Durbin-Watson stat | 1.865649 |
| Prob(F-statistic) | 0.000050 | | |

Source: Secondary data, processed with Eviews 13, 2024.

Based on Table 4.5 shows that the Durbin Watson value is 1.865649 with a significance of 0.05, with the amount of data (n) 57, the number of independent variables (k) is 5, the lower limit (dL) is 1.3885, and the upper limit (dU) is 1.7675. As Table 4.5, the Durbin Watson (DW) value is greater than the upper limit (dU) and less than 4- (4-dU) or $1.7675 < 1.865649 < 2.2325$. So, it can be concluded that there is no autocorrelation in the regression model.

Hypothesis Testing

Hypothesis testing in this study was carried out using panel data regression analysis using the REM model as the best model. Hypothesis testing aims to determine the effect of SSB, AUDIT, BOARDSIZE, INBOARD and AUDITQUALITY on FRAUD. Hypothesis testing is done using a simultaneous test (F), a coefficient of determination (R²), and a partial test (t).

Table 9. Simultaneous Significance Test (F Test)

| | | | |
|--------------------|-----------|-----------------------|----------|
| R-squared | 0.405670 | Mean dependent var | 0.659379 |
| Adjusted R-squared | 0.347403 | S.D. dependent var | 0.843307 |
| S.E. of regression | 0.681253 | Akaike info criterion | 2.169533 |
| Sum squared resid | 23.66936 | Schwarz criterion | 2.384592 |
| Log likelihood | -55.83170 | Hannan-Quinn criter. | 2.253112 |
| F-statistic | 6.962189 | Durbin-Watson stat | 1.865649 |
| Prob(F-statistic) | 0.000050 | | |

Source: Secondary data, processed with Eviews 13, 2024.

Based on Table 9, the resulting $F\text{-count} = 6.962189 > F\text{-table} = 2.39$ or $\text{significance} = 0.000 < 0.05$, which means that there is a significant influence between the variables SSB, AUDIT, BOARDSIZE, INBOARD, and AUDITQUALITY simultaneously on FRAUD. In addition, the Adjusted R-Square value in the Coefficient of Determination (R^2) test is 0.3474 or 34.74%. This shows that the variables SSB, AUDIT, BOARDSIZE, INBOARD, and AUDITQUALITY contribute to the influence on FRAUD by 34.74%. In comparison, the remaining 65.26% is influenced by other factors not examined in this study.

The following outcomes were discovered using the partial test (t-test), which was used to ascertain the impact of each independent variable on the dependent variable:

Table 10. Partial Significance Test (t-test)

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|----------------|-------------|------------|-------------|--------|
| C | -0.613531 | 1.228275 | -0.499506 | 0.6196 |
| X1_SSB | 0.723647 | 0.270363 | 2.676579 | 0.0100 |
| X2_AUDIT | -0.005098 | 0.445111 | -0.011453 | 0.9909 |
| X3_BOARDSIZE | -0.739820 | 0.869701 | -0.850661 | 0.3989 |
| X4_INDBOARD | 2.821060 | 0.803131 | 3.512577 | 0.0009 |
| X5_AUDITQUALIY | 0.915756 | 0.257826 | 3.551832 | 0.0008 |

Source: Secondary data, processed with Eviews 13, 2024.

Based on Table 10, the t-count value of the Sharia Supervisory Board variable (SSB) = $2.676579 > t\text{-table} = 2.00665$ or $\text{significance } 0.0100 < 0.05$, which means that the Sharia Supervisory Board (SSB) partially has a positive and significant effect on Fraud (FRAUD) so that H_{a1} is accepted and H_0 is rejected.

The t-count value of the Audit Committee variable (AUDIT) = $- | 0.011453 | < t\text{-table} = 2.00665$ or $\text{significance } 0.9909 > 0.05$, which means that the Audit Committee (AUDIT) partially has a negative and insignificant effect on Fraud (FRAUD) so that H_{a2} is rejected and H_0 is accepted.

The t-count value of the Board of Commissioners variable (BOARDSIZE) = $- | 0.3850661 | < t\text{-table} = 2.00665$ or $\text{significance } 0.3989 > 0.05$, which means that the Board of Commissioners (BOARDSIZE) partially has a negative and insignificant effect on Fraud (FRAUD) so that H_{a3} is rejected and H_0 is accepted.

The t-count value of the Independent Board of Commissioners (INBOARD) = $3.512577 > t\text{-table} = 2.00665$ or $\text{significance } 0.0009 > 0.05$, which means that

the Independent Board of Commissioners (INBOARD) partially has a positive and significant effect on fraud (FRAUD) so that H_{a_4} is accepted and H_0 is rejected.

The t-count value of External Audit Quality (AUDITQUALITY) = 3.551832 < t-table = 2.00665 or significance $0.0008 < 0.05$, which means that External Audit Quality (AUDITQUALITY) partially has a positive and significant effect on Fraud so that H_{a_4} is accepted and H_0 is rejected.

Interpretation

The effect of The Sharia Supervisory Board variable (SSB) on Fraud (FRAUD) of Islamic Commercial Bank

This research shows that the Sharia Supervisory Board (SSB) has significantly influenced fraud in the Islamic Commercial Bank in Indonesia from 2014-2023. The findings are in line with Putriana et al. (2024) view that implementing SSB functions with broad authority enables the evaluation of all aspects of contracts, methods, and activities related to Shariah observance. By performing an active supervisory role, the SSB prevents misconduct or fraud. This study also supports the findings of Haria & Candra (2023) and Ngumar et al. (2019) Which states that SSB is significantly influential against fraud.

Based on the direction of influence, SSB positively influences fraud; the higher the role of SSB, the greater the probability of fraud occurrence. Theoretically, the SSB should have a negative influence against fraud. This may be due to the lack of competence of members in accounting, finance, and banking, most of which come from legal and sharia backgrounds. This gap reduces the SSB's effectiveness in understanding the complexity of financial transactions. In addition, high SSB meeting frequencies can increase operating costs and divert focus from fraud prevention. This study differs from the findings of Mukhibad et al. (2021), which stated the negative influence of SSB on fraud, but in line with the studies of Addiarrahman et al. (2022) and Haria & Candra (2023) that found a positive influence.

The Effect of The Audit Committee Variable (SSB) on Fraud (FRAUD) of Islamic Commercial Bank

This research shows that the Audit Committee (AUDIT) has partially had no significant influence on fraud in the Islamic Commercial Bank during the period 2014-2023. Initially, it was assumed that the Audit Committee had a significant influence on fraud, according to the view of Yasmin et al. (2020), which stated that it could prevent fraud by thoroughly examining financial statements.

According to Sari & Husadha (2020), the main cause of the insignificant Audit Committee is likely to be the existence of an audit committee that serves the company solely to comply with regulations without considering its effectiveness. This condition often occurs when audit committee members have dual roles as members of the board of commissioners. As a result, the main focus of the audit committee can be divided, and the purpose of its implementation feels more like an obligation to comply with regulations. Consequently, improving the quality of financial reporting and optimizing the company's operational functions becomes challenging, so there is a gap for potential indications of fraud to develop. In addition, the Audit Committee is a party that in the organizational structure has the task and authority to assist the board of commissioners; all supervision and reporting carried out by the Audit Committee will not have an impact on the company if there is no follow-up and approval from the Board of Commissioners, in this case, the Audit Committee does not have the right to make decisions regarding the company's strategy and steps in preventing fraud (Rianghepat & Hendrawati, 2021).

Although not significant, the direction of the Audit Committee's influence on fraud is negative. This means that the higher the activity and composition of the Audit Committee, the lower the likelihood of fraud. This is in line with Arthur's (2002) view in Indriasih (2020), which states that the Audit Committee is responsible for monitoring and evaluating audit procedures as well as company risks. With good supervision, the Audit Committee can reduce the risk of fraud. The findings support the Rianghepat & Hendrawati (2021) and Sari & Husadha (2020) studies that stated that the Audit Committee had a negative influence on fraud, but contrary to the Yasmin et al. (2020) and Trijayanti et al. (2021) studies that found a negative influence.

The Effect of The Board of Commissioners variable (BOARDSIZE) on Fraud (FRAUD) of Islamic Commercial Bank

This research shows that the Board of Commissioners variable (BOARDSIZE) has no significant impact on fraud in the Islamic Commercial Bank in Indonesia from 2014-2023. Initially, it was assumed that the size of the Board of Commissioners had a significant influence on fraud, according to Sari & Husadha (2020) view that an adequate number of boards could help better identify signs of fraud. However, the results of this study show that the number of councils of commissioners, despite having met the standards set by the OJK, does not determine the effectiveness of the performance of their duties in preventing

fraud. Putriana et al. (2024) also highlighted that the Board of Commissioners did not consistently oversee operational activities directly. This study contradicts previous studies by Sari & Husadha (2020) as well as Bariyyah & Narulitasari (2020) which found that the Board of Commissioners had a significant influence on fraud, but in line with the study of Kurniawan et al. (2020), Priswa & Taqwa (2019), and Syafitri et al. (2021) which stated that the Commissioners' Board had no significant impact on fraud.

Although insignificant, the direction of the Board of Commissioners' (BOARDSIZE) influence on fraud is negative. This means that the larger the size of the Board of Commissioners tends to lower the fraud rate in the Sharia General Bank. Wahyudi & Dewayanto (2023) stated that a larger number of members of the Board of Commissioners could bring a more diverse perspective, thereby enhancing the monitoring function and effective implementation of Good Corporate Governance, ultimately reducing the likelihood of fraud. The findings support research by Lejab et al. (2024) and Bariyyah & Narulitasari (2020), which also stated that the Board of Commissioners negatively impacted fraud.

The Effect of The Independent Board of Commissioners (INBOARD) on Fraud (FRAUD) of Islamic Commercial Bank

This research proves that the Independent Board of Commissioners variable (INBOARD) partially significantly influences fraud in Islamic Commercial Banks in Indonesia during the period 2014-2023. This aligns with the perspective of Sari & Husadha (2020), stating that having more independent board members in a company can reduce the likelihood of fraud indications, which is crucial for safeguarding the interests of shareholders and financial report users. The findings are consistent with Sudarman et al. (2019) and Adesya & Dewayanto (2021), who found that an independent board of commissioners significantly impacts fraud reduction.

However, paradoxically, regarding the direction of influence, the Independent Board of Commissioners variable has a positive impact on fraud, meaning that the higher the composition of the Independent Board of Commissioners, the higher the likelihood of fraud occurring. Although theoretically, the size of the Independent Board of Commissioners should harm fraud, Angelina & Chariri (2022) perspective suggests that an independent board, as a neutral and objective oversight body, can lead to tighter oversight and reduce fraud by adding more independent members proportionally to the internal board of commissioners.

However, this research's results contradict previous findings by Sari & Husadha (2020), Nilzam (2020), and Mukhibad et al. (2021), stating that the Independent Board of Commissioners negatively impacts fraud. These findings also align with the research by Kurniawan et al. (2020) and Nadia et al. (2023), indicating a positive impact of the Independent Board of Commissioners on fraud.

The Effect of The External Audit Quality (AUDITQUALITY) on Fraud (FRAUD) of Islamic Commercial Bank

This research shows that the External Audit Quality variable partially significantly impacts fraud in the Shariah General Bank in Indonesia during 2014-2023. This is in line with the view of Andri (2021), who stated that the Big Four Public Accounts Office has a high level of ability, experience, and independence in conducting audits, thus effectively identifying fraudulent practices. The research also supports the findings of Sari & Husadha (2020) and Nilzam (2020), which shows that the quality of external audits significantly impacts fraud.

From the point of view of influence, this study suggests that External Audit Quality has a positive impact on fraud, which means that the use of Big Four Public Accountants' services tends to increase fraud. According to DeAngelo (1981) in Wahfuuddin & Subekti (2023), audit quality is defined as the probability of an auditor reporting and finding violations in a client's accounting system. A quality audit involves thorough testing of transactions and financial information, which can identify inconsistencies or non-compliance as indications of fraud. However, although the theory states that audits of the Big Four Public Accounts Office guarantee high quality, the reality is that there are still weaknesses in the company's internal controls that are not overcome despite being audited by the Big Four Public Accountants Office. These findings contradict the findings of Alvionika & Meiranto (2021) and Andira (2024), which states that the quality of external audits negatively impacts fraud. However, these findings are in line with the Sari & Husadha (2020) and Dinillah & Djamil (2024) research, which states that external audit quality has a positive effect on frauds.

Conclusion

Based on the research results, some interesting conclusions have been drawn. First, the Shariah Board of Supervisors (SSB) has proven to significantly influence fraud in the direction of positive influence. Although SSBs have the potential to prevent intrusion through active surveillance, there are barriers associated with a

lack of technical competence and an excessive frequency of meetings, which can divert focus from fraud prevention.

Second, the Audit Committee variable (AUDIT) has no significant influence on fraud, but it has a negative influence. This is due to the possibility that the audit committee merely meets regulations ineffectively in the performance of its tasks, as well as the double role that reduces the focus and effectiveness of supervision.

Thirdly, the Board of Commissioners (BOARDSIZE) has no significant influence on fraud, with a negative influence direction. Although more members can enhance surveillance functions, less consistent practices, and fragmented focus reduce effectiveness in preventing fraud.

Fourthly, the Council of Independent Commissioners (INBOARD) has proved to have a significant influence against fraud in the direction of positive influence. Although more members are expected to reduce fraud, indirect links with companies reduce the effectiveness of surveillance.

Finally, the Quality of the External Audit has a significant influence on fraud with a positive influence. While it is expected to reduce the risk of fraud, weaknesses in corporate internal controls can result in high-quality audits that do not directly reduce fraud. In conclusion, improved quality of oversight and audits and a deeper understanding of the implementation of tasks and internal controls are needed to reduce the risk of fraud in the Islamic Commercial Bank.

This study did not adequately account for external factors that influence fraud, such as regulatory changes or macroeconomic conditions. Therefore, it is recommended that future studies consider variables that originate from outside the company.

References

- Addiarrahman, Khairiyani, & Sari, D. I. (2022). Pengaruh Islamic Corporate Governance Dan Internal Control Terhadap Fraud Pada Bank Umum Syariah Di Indonesia Periode 2016-2020. *Jurnal Ilmiah Manajemen, Ekonomi Dan Akuntansi*.
- Adesya, K. P., & Dewayanto, T. (2021). Analisis Financial Statement Fraud Menggunakan Perspektif Teori Fraud Diamond (Studi Empiris pada Perusahaan yang Terdaftar di Bursa Efek Indonesia Bergerak di Sektor Manufaktur Tahun 2016-2019). *Diponegoro Journal of Accounting*.
- Alvionika, P., & Meiranto, W. (2021). Analisis Kecurangan Pelaporan Keuangan Berdasarkan Fraud Diamond Theory (Studi Empiris pada Perusahaan

- Perbankan yang Terdaftar di BEI Tahun 2015-2019). *Diponegoro Journal of Accounting*.
- Andira, A. (2024). Determinan Fraud pada Laporan Keuangan Perusahaan Sektor Transportasi dan Logistik yang terdaftar di Bursa Efek Indonesia Tahun 2018-2022 Fenomena Fraud. *Inovative: Journal Of Social Science Research*.
- Angelina, T. N., & Chariri, A. (2022). Pengaruh Proporsi Dewan Komisaris Independen, Terhadap Kecurangan Laporan Keuangan. *Diponegoro Journal of Accounting*.
- Bahri, S. (2018). *Metodologi Penelitian Bisnis: Lengkap dengan Teknik Pengelolaan Data SPSS*. CV Andi Offset.
- Bariyyah, S., & Narulitasari, D. (2020). Implikasi Tatakelola Islami Terhadap Fraud (Studi Pegawai BPRS di Soloraya). *Jurnal Ilmiah Ekonomi Islam*.
- Clarinda, L., Susanto, L., & Dewi, S. (2023). Pengaruh Profitabilitas, Struktur Modal, Dan Ukuran Perusahaan Terhadap Nilai Perusahaan. *Kompak :Jurnal Ilmiah Komputerisasi Akuntansi*.
- Dinillah, S., & Djamil, N. (2024). Pengaruh Audit Committee , Audit Quality , Financial Stability dan Financial Target Terhadap Financial Statement Fraud pada Perusahaan Transportasi yang Terdaftar pada BEI Tahun 2021-2022. *DAWI*.
- Fathoni, M. A., & Syahputri, T. H. (2020). Potret Industri Halal Indonesia: Peluang dan Tantangan. *Jurnal Ilmiah Ekonomi Islam*.
- Fitri, F. A., Syukur, M., & Justisa, G. (2019). Do The Fraud Triangle Components Motivate Fraud In Indonesia? *AABFJ*.
- Ghozali, I., & Ratmono, D. (2018). *Analisis Multivariat Dan Ekonometrika*.
- Guritno, D. P., Probowulan, D., & Maharani, A. (2020). Deteksi Kecurangan Laporan Keuangan Melalui Variabel Corporate Governance. *BUDGETING : Journal of Business, Management and Accounting*.
- Haria, S., & Candra, H. (2023). Efektifitas Struktur Good Corporate Governance Terhadap Upaya Pencegahan Fraud Pada Bank Umum Syariah Di Indonesia. *Jurnal Ekualisasi*.
- Ilyas, R. (2021). Peran Dewan Pengawas Syariah Dalam Perbankan Syariah. *JPS (Jurnal Perbankan Syariah)*.
- Indarti, Apriliyani, I. B., & Onasis, D. (2022). Pengaruh Financial Stability, Financial Target dan Kualitas Audit Terhadap Fraudulent Financial Statement pada Perusahaan Perbankan di Bursa Efek Indonesia Periode 2019-2020. *Jurnal Akuntansi Kompetif*.

- Indriasih, D. (2020). *Kompetensi Auditor Internal*. CV CENDEKIA PRESS.
- Kurniawan, A. A., Hutadjulu, L. Y., & Simanjuntak, A. M. A. (2020). Pengaruh Manajemen Laba Dan Corporate Governance Terhadap Kecurangan Laporan Keuangan. *Jurnal Akuntansi Dan Keuangan Daerah*.
- Lejab, S. B. B., Rahayu, M., & Emarawati, J. A. (2024). Dewan Komisaris, Kepemilikan Institusional dan Pergantian Auditor terhadap Fraud. *Ikrath-Ekonomika*.
- Mardani, Basri, Y. M., & Rasuli, M. (2020). Pengaruh Komite Audit, Audit Internal, Dan Ukuran Perusahaan Terhadap Pengungkapan Kecurangan Pada Perusahaan Perbankan Yang Terdaftar Di Bei 2018. *Jurnal Al-Iqtishad*.
- Mukhibad, H., Jayanto, P. Y., & Anisykurlillah, I. (2021). Islamic Corporate Governance and Financial Statements Fraud: A study of Islamic Banks. *Journal of Governance and Regulation*.
- Nadia, N., Nugraha, N., & Sartono. (2023). Analisis Pengaruh Fraud Diamond Terhadap Kecurangan Laporan Keuangan Pada Bank Umum Syariah. *Jurnal Akuntansi Dan Governance*.
- Ngumar, S., Fidiana, & Retnani, E. D. (2019). Implikasi Tatakelola Islami Pada Fraud Bank Islam. *Jurnal Reviu Akuntansi Dan Keuangan*, 9(2).
- Nilzam, S. P. (2020). Analisis Pendeteksian Kecurangan Laporan Keuangan Menggunakan Teori Fraud Pentagon Dengan Ukuran Perusahaan Sebagai Variabel Moderasi. *Prosiding Seminar Nasional Pakar*.
- Nurlaela, F. (2023). Perkembangan Penelitian Fraud Di Kalangan Mahasiswa. *Jurnal Ekonomi Bisnis Dan Manajemen (Eko-Bisma)*.
- Priswita, F., & Taqwa, S. (2019). Pengaruh Coeporate Governance Terhadap Kecurangan Laporan Keuangan. *Jurnal Eksplorasi Akuntansi*.
- Putriana, A., Abdillah, M. R., Anjaswari, G., & Fitriyani, Y. (2024). Islamic Corporate Governance dan Kecurangan Laporan Keuangan pada Bank Syariah di Indonesia: Analisis Konten. *Jurnal Ekonomi Bisnis, Manajemen Dan Akuntansi (JEBMA)*.
- Rianghepat, M. A. D., & Hendrawati, E. (2021). Pengaruh Rasio Keuangan Dan Komite Audit Terhadap Kecurangan Laporan Keuangan Pada Perusahaan Telekomunikasi. *Jurnal ECo-Buss*.
- Robain, W., & Rahman, A. (2021). Hirarki Pencegahan Fraud (Konsep Pengawasan Bank Indonesia) pada Akad Keuangan di Bank Syariah. *Jurnal Abdi Ilmu*.
- Sari, P. N., & Husadha, C. (2020). Pengungkapan Corporate Governance Terhadap Indikasi Fraud Dalam Pelaporan Keuangan. *Jurnal Ilmiah Akuntansi Dan Manajemen*.

- Sariwati, N. W., & Sumadi, N. K. (2021). Pengaruh Kompetensi, Praktek Akuntabilitas Dan Moralitas Individu Terhadap Pencegahan (Fraud) Dalam Pengelolaan Dana Desa. *Hita Akuntansi Dan Keuangan*.
- Subkhi, A. N., & Puspitasari, E. (2023). Pengaruh Tata Kelola Dan Kepatuhan Syariah Terhadap Kecurangan Pada Bank Umum Syariah. *KRISNA: Kumpulan Riset Akuntansi*.
- Sudarman, Aniqotunnafiah, & Masruri. (2019). The Composition of Independent Board of Commissioner and Number of Board of Commissioner Meeting Towards Fraudulence of Financial Report (Empirical Study at Public Company Listed at Indonesia Stock Exchange in 2011-2017). *International Journal of Financial Research*.
- Sulistyorini, U. T. (2018). *Metode Penelitian: Analisis Kausal-Regresi*. Badan Penerbit Polines.
- Syafitri, M., Ermaya, H., & Putra, A. M. (2021). Dampak Corporate Governance, Financial Stability, Dan Financial Target Dalam Kecurangan Laporan Keuangan. *JURNAL AKUNIDA*.
- Trijayanti, I., Hendri, N., & Sari, G. P. (2021). Pengaruh Komite Audit, Audit Internal, Dan Whistleblowing System Terhadap Pencegahan Fraud. *Business and Economics Conference in Utilization of Modern Technology*.
- Wahfiuddin, M., & Subekti, I. (2023). Pengaruh Kualitas Audit Dan Tata Kelola Perusahaan Terhadap Kecurangan Laporan Keuangan. *REVIU Akuntansi, Keuangan Dan Sistem Informasi*.
- Wahyudi, M. A., & Dewayanto, T. (2023). Analisis Pengaruh Good Corporate Governance Terhadap financial Statement Frayd (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2019- 2021). *Diponegoro Journal of Accounting*.
- Yasmin, S. N., Ramadhaniyah, R., & Komaruudin. (2020). Pengaruh Manajemen Laba Dan Corporate Governance Pada Perusahaan Transportasi Yang Listing Di BEI. *Jurnal Al-Iqtishad*.