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Sharia Compliance, Islamic Corporate Governance, and Fraud: A study of Sharia Banks in Indonesia

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ABSTRACT This study aims to examine the effect of Islamic Corporate Governance and Sharia Compliance on indications of fraud occurring in Indonesia's Islamic Banks from 2016 to 2020. The independent variables are Islamic Corporate Governance and Sharia Compliance with the Proxy of Islamic Income Ratio and Profit Sharing Ratio. The dependent variable is fraud in Islamic Commercial Banks. The population in this study were all Islamic Banks registered in the Financial Services Authority in the period 2016 to 2020. The samples were selected using the purposive sampling method. In this study, there were 11 Islamic Banks with a 5 years research period so that the total sample used in this study amounted to 55. The analytical method used in this study was logistic regression which was processed using SPSS version 25. The results of this study indicate that the Islamic Corporate Governance variable has a positive influence on indications of fraud occurring in Islamic Commercial Banks, Sharia Compliance with the Proxy Profit Sharing Ratio has a negative influence on indications of fraud occurrence in Islamic Commercial Banks while Sharia Compliance with the proxy of Islamic Income Ratio does not affect the indications of the occurrence of frauds in Islamic Commercial Banks.

KEYWORDS: Islamic Corporate Governance, Fraud, Sharia Compliance, Islamic Bank

1. INTRODUCTION

The existence of a type of bank clinging to the Islamic principle shall promise the public trust towards the security upon things that against Islamic sharia. On the contrary, the Indonesian public trust on the Sharia Bank is far less compared with conventional banks. Sharia Bank is a financial institution that implements its activities based on Islamic sharia principles stated in the Al-Quran and Hadith. Therefore, all transactions of Islamic Banks must adhere to the rules and regulations that apply to the contracts in the Islamic commercial transaction jurisprudence or *fiqh muamalah*. With its nature of existence which inherently following the Islamic principle, there should entail the people's trust guarantee in security to avoid things that are not following Islamic law (Yumna, 2019). However, in the practice of Indonesian public trust, the trust in Islamic banks is still very less than that of conventional banks. Based on data published by the Financial Services Authority, the Islamic Bank market share in March 2019 occupies only 5.94% of the total banking market share in Indonesia (Otoritas Jasa Keuangan, 2019). This shows that public interest in Islamic banks is still relatively very low.

The performance evaluation applied to the Islamic Banks tends to prioritize solely on the financial aspects where the measurement of its performance obliges the same ratio as found at the 'Conventional Banks'; rather the Sharia Banks should not neglect the Islamic principle that needs to be applied to Islamic Banks (Haifa & Rini, 2016). The existence of sharia elements themselves cannot promise the guarantee that an institution is free from fraud. Recall that as of now, there are still fraud cases that occur in Islamic Banks. One of the fraud cases at Bank Syariah Mandiri suspected of channeling fictitious financing for IDR 1,100,000,000,000 where the submission of debtor funds did not used according to the proposal when the money was disbursed referring the indications that the funds were used for personal interests (Yuli, 2020). Although fraud-prone to occur anywhere, fraud in Islamic Banks is very contrary to Islamic principles adhered closely to Islamic Banks.

The corporate governance weaknesses found in Islamic banks have attracted Islamic finance experts to raise a specific important issue related to governance weaknesses in Islamic banking companies, namely *Islamic Corporate Governance* (Marheni, 2017). The banks are required to carry out regular self-assessments on the implementation of Good Corporate Governance based on rankings of 11 factors that are concluded as complete values, then the results of the assessment will be ranked (1 to 5) with the smaller indicates the better (Nelson, 2014). Ironically, real-world implementation of Bank Mandiri Syariah which is ranked 1 (Very Good) has a higher fraud (25 cases) compared to ranked-2 (good) BTPN Syariah with no fraud committed in 2017. According to (Abdi, 2017), the implementation of Good Corporate Governance can be used in efforts to prevent fraud in the Islamic Banks.

Islamic Corporate Governance is an important issue related to governance weaknesses in the Islamic banking and is also dominated by the Sharia Bank compliance with the sharia principles since Sharia Bank management is deemed unable to guarantee sharia compliance in the banking services provided (Ansori, 2014). The low compliance with sharia principles provides an opportunity for fraud committed in the Islamic Banks. According to Marheni (2017), the Islamic Disclosure Index can be utilized to measure Sharia compliance indicators and the indicators employed in this study is the Islamic Income Ratio and Profit Sharing Ratio. According to Hameed in Marheni (2017), Islamic Income Ratio is the income derived from Islamic activities and investments in compliance with the principles of Islamic law. The Islamic Income Ratio is the ratio between the halal income obtained compared to the total income consisting of total Islamic income and non-halal income. With the implementation of Islamic principles and corporate governance in Islam, the practice of fraud will be reduced.

The higher level of compliant Bank Syariah to Islamic principles in its governance is, the less likely fraud to take a place. However, the Muamalat Bank whose Islamic income of 87% of its total income, there were still 35 cases of fraud in 2017. While in Mega Syariah Bank with 75% Islamic Income Ratio, there were only 3 cases of fraud occurred in 2017. It suggests that despite the good adherence to Islamic principles, it does not necessarily indicate the lean possibility of fraud. According to Marheni (2017) Profit Sharing Ratio or profit-sharing financing is financing based on sharia principles and is defined as the percentage of profit sharing financing conducted by the Islamic Banks which includes profit sharing (*mudharabah)* and partnership sharing (*musharakah)* to total financing. When a Sharia Bank has implemented a strong sharia principle and is financing profit sharing based on sharia principles, the possibility of fraud will even be smaller.

The sharia-compliance for the profit-sharing financing ratios and Islamic income ratios reduces the possibility of fraud at the Islamic Banks. Panin Syariah Bank, with a profit-sharing ratio of 84% higher than that of BNI Syariah Bank with 23%, has fraud occurrence more prevalent ironically. For BNI Syariah Bank, although the profit-sharing ratio was low at 23% of the total financing, no fraud was spotted. This study refers to research conducted by Rahmayani & Rahmawaty (2017), the difference in research lies in the independent variable used is Sharia Compliance. They further noticed that Islamic Corporate Governance does not influence indications of fraud at Islamic Commercial Banks. According to Mohamed I, Cholins G, Opong, & Avison (2017) found that Dynamic Corporate Governance does not have a significant effect on financial reporting fraud. Align with the latter research Haifa & Rini, (2016) that Islamic Corporate Governance does not influence indications of fraud at Islamic Banks. However, according to In'airat (2016), Corporate Governance has a significant influence on fraud. This is in line with the study conducted by Sitti (2016) where Dynamic Corporate Governance has a positive effect on fraud. Good Corporate Governance influences fraud prevention. It means that the implementation of the Corporate Governance mechanism in Islamic Banks by observing and implementing all Islamic principles could decrease the occurrence of fraud Abdi (2017). In addition, according to Ismail & Zakia (2013) weak corporate governance prone corporate management to commit fraud.

According to Marheni (2017), the Islamic Income Ratio has a significant negative effect on fraud. Similar to that the Profit Sharing Ratio that has a negative and significant effect on fraud. The research aligns with Haifa & Rini (2016), which suggest that Sharia Compliance which is proxied by Profit Sharing Ratio has a negative effect on fraud, but Sharia Compliance which is proxied by Islamic Income Ratio does not influence indications of fraud. Besides, the research Lutfinanda & Sinarasri (2013) suggest that Sharia Compliance does not affect sharia banking compliance with sharia principles.

Based on the phenomenon upon the aforementioned cases and the inconsistencies in the previous research, the research related to fraud in Islamic Banks becomes interesting to be revisited. This study aims to determine the partial effect between Islamic Income Ratio and Profit Sharing Ratio on Islamic Corporate Governance. Also, it is to understand partially between Islamic Income Ratio, Profit Sharing Ratio and Islamic Corporate Governance to the indication of fraud. The last, it is to observe the effect of Islamic Income Ratio and Profit Sharing Ratio on indications of fraud through Islamic Corporate Governance.

2. THEORY

2.1 The Effect of Islamic Income Ration on Islamic Corporate Governance

The performance of Sharia Bank could be measured with the following indicators: Islamic Income Ratio and Profit Sharing Ratio (Lidyah, 2020). To obtain good performance, decent company management is required. Prior studies indicated that Islamic Income Ration has a positive correlation on Islamic Corporate Governance (Meilani, 2016). This reveals that the higher the level of Islamic Income Ration or performance

2.2 The Effect of Islamic Income Ration on Islamic Corporate Governance

The performance of Sharia Bank could be measured with the following indicators: Islamic Income Ratio and Profit Sharing Ratio (Lidyah, 2020). To obtain good performance, decent company management is required. Prior studies indicated that Islamic Income Ration has a positive correlation on Islamic Corporate Governance (Meilani, 2016). This reveals that the level of Islamic Income Ratio or finance performance of Sharia Bank is in correspondence with the implementation level of Islamic Corporate Governance on Sharia Bank.

H_1: Islamic Income Ratio has positive effects on Islamic Corporate Governance in Sharia Bank

2.3 The Effects of Profit-Sharing on Islamic Corporate Governance

One of many reasons that sharia bank has a low-Profit Sharing Ratio is because of the lack of management ability to monitor operational activities, or in other words, it has a low implementation of Islamic Corporate Governance (Sapuan, Sanusi, Ismail, & Wibowo, 2016). Prior study found the positive correlation between Profit Sharing Ration on Islamic Corporate Governance; the higher the Profit Sharing Ratio, the higher the management implementation based on Sharia laws (Alhammadi, Archer, Padgett, & Abdel Karim, 2020).

H_2: *Profit Sharing Ratio* has positive effects on Islamic Corporate Governance in Sharia Banks.

2.4 The Effects of Islamic Income Ratio on Fraud

The sharia principle forbids usury, *gharar¸* and gambling since it promotes halal finance transactions. Therefore, Sharia Bank only procure the income from halal source as *mudharib*. A study found that Islamic Income Ratio has a negative effect on fraud (Marheni, 2017). When a Sharia Bank adheres and conducts its business according to sharia principles by reducing non-halal income or usury, minimize fraud is expected because the management of funds is based on Islamic principles and prudence. Thus, if Islamic income increases, the possibility of fraud will decrease because Islamic income that is following sharia principles is an indication of Islamic Bank compliance with sharia principles. So, the hypothesis proposed in this study is:

H3: Islamic Income Ratio has a negative effect on fraud on Sharia Bank.

2.5 The Effects of Profit-Sharing Ratio on Fraud

Profit-sharing financing is financing based on sharia principles. Per UU No. 21 of 2008 concerning Sharia Banking profit sharing, financing in sharia banking is carried out through *mudharabah* and *musharakah* contracts

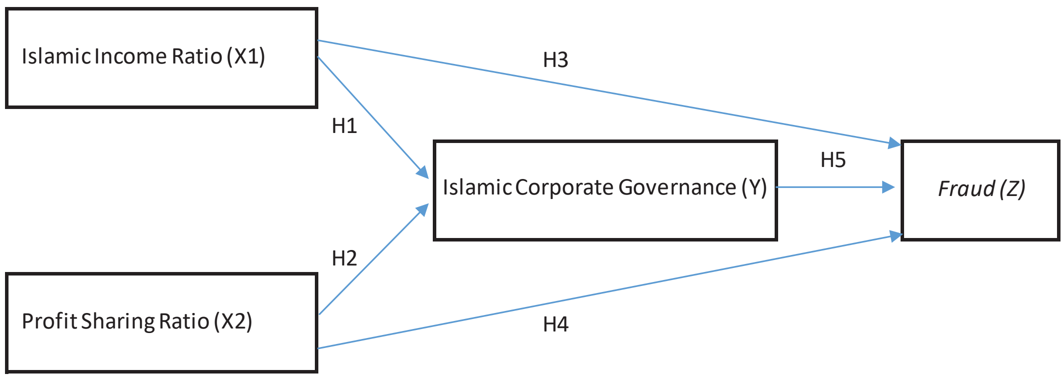

Figure 1 Conceptual Frame.

(Kementrian Hukum Dan HAM, 2008). If compliance with sharia principles is low, it will potentially initiated fraud. Therefore, a guarantee is needed for the application of sharia principles in all customer fund management. Studies conducted by Marheni (2017) and Haifa & Rini (2016) succeeded in proving the negative effect of the profit sharing ratio on fraud indications in Sharia Bank. Thus, when the principle of Profit Sharing Ratio is dominant in Islamic banks, the fraud gets lesser. So, the hypothesis proposed in this study is:

H_4: Profit Sharing Ratio has a negative effect on fraud in Sharia Banks

2.6 The Effects of Islamic Corporate Governance on Fraud

The operation of Sharia Banks as a financial institution based on Islamic principles becomes a demand for Sharia Banks in implementing good corporate governance and following Islamic corporate governance. Islamic banks have a higher management risk if compared to Conventional Banks. Thus, a management that is per Islamic principles requires prudence of its business carriers (Hardianto & Wulandari, 2016). By implementing Islamic Corporate Governance, it should be an added value to Sharia banks in giving indications and impressions to the public that Islamic institutions, especially Sharia banks, are safer and more eager to avoid cheating practices, even though fraud can occur anywhere (Mahmood & Islam, 2016). This is supported by research Haifa & Rini, (2016) that said if fraud can occur due to a lack of proper management. Sharia banks are obliged to adhere to sharia principles in carrying out their business and are expected to minimize fraud. According to Abdi (2017) and Ansori (2014), good corporate management negatively affects internal fraud. The Islamic Corporate Governance Model, if implemented properly, will have an impact on reducing the level of fraud in Sharia Banks (Yusuf, Ahmad, & Razimi, 2016). So, the hypothesis proposed in this study is:

H_5: Islamic Corporate Governance negatively influences fraud on Sharia banks.

3. DATA AND METHODS

3.1 Study Characteristics

According to Sugiyono (2016), research is a scientific process of data collection and analysis using scientific methods that are carried out systematically and logically with specific purposes. This study uses a quantitative method, a method that uses data in the form of numbers (statistics) or can be in the form of qualitative data that is converted into numbers (scoring).

The independent variables in the first regression equation are Islamic Income Ratio and Profit Sharing Ratio with Islamic Corporate Governance as the dependent variable. The independent variables in the second regression equation are Islamic Income Ratio, Profit Sharing Ratio, and Islamic Corporate Governance with an indication of the fraud occurrence as the dependent variable.

3.3 Population and Sample

In this study, the population is all Islamic Commercial Banks registered with the Financial Services Authority (Otoritas Jasa Keuangan) in the 2016-2020 period. Moreover, the sample is Sharia Bank registered with the Financial Services Authority for the 2016-2020 period which was selected by meeting the sample requirements using a purposive

Table 1 Sampling Criteria,

No.	Criteria	Quantity
1	Registered Sharia Banks in Financial Services Authority 2016–2020.	13
2	Sharia Banks with consistent GCG report and annual report (2016–2020)	(0)
3	Sharia Banks with unpublished GCG and annual report but have complete required data (2016–2020)	(2)
4	Sample quantity of Sharia Bank	11
5	Study ample quantity (11 x 5)	55

Source: Processed data by author 2021.

Table 2 Descriptive Statistic Analysis of the Data Ratio.

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Islamic Income Ratio	55	.561	.997	.91880	.09385
Profit Sharing Ratio	55	.007	1.00	.45307	.28063

Source: Processed data by author 2021.

sampling technique. Purposive sampling or judgment sampling is a sampling technique that is based on certain criteria (Sugiyono, 2016). The criteria for sampling in this study are as follows:

3.4 Data Analysis Technique and Hypothesis Testing

According to Sugiyono (2016) data analysis techniques act as quantitative data processing. In quantitative research, the characteristics of the sample in proportion, percent, or mean and standard deviation are described by the authors. Estimation of the strength of variable relationships and statistical hypothesis testing is also conducted by authors. In this study, panel data regression analysis and logistic regression analysis were used.

3.5 Panel Data Regression Analysis

According to Basuki & Prawoto (2016) panel data regression is a combination of cross-section data and time-series data. The first equation model in this study has 2 independent variables: Islamic Income Ratio and Profit-Sharing Ratio, and a dependent variable: Islamic Corporate Governance. The panel data regression formula is as follows:

$$ICG = a + \beta 1IIR + \beta 2PSR + \mathrm{e}$$

Information:
ICG : *Islamic Corporate Governance*
a : Constants
ß1ß2 : Regression Coefficient
IIR : *Islamic Income Ratio*
PSR : *Profit Sharing Ratio*

3.7 Logistic Regression Analysis

According to Sekaran & Bougie (2017), logistic regression as a mathematical model approach that can be used as a description of the relationship between several independent variables and a bound variable consists of two categories. Because the dependent variable is of two categories (fraud and not fraud) leaves the logistic regression analysis as the most appropriate to be used in the second research model. Essentially, the logistic regression analysis holds the same principle as discriminant analysis, but the difference lies in the type of data from the dependent variable (Siyoto & Ali, 2016). Besides, the purpose of using logistic regression is to predict the size of the dependent variable in the form of a binary or dummy variable. The equation form of logistic regression according to Ghozali (2013) is as follows:

$$\mathrm{Ln} = \frac{FD}{1-P} = \mathrm{a} + \beta 1\mathrm{IIR} + \beta 2\mathrm{PSR} + \beta 3\mathrm{ICG} + \mathrm{e}$$

Where :

$\mathrm{Ln} = \frac{FD}{1-P}$: fraud committed in the Sharia Banks
a : Constant
ß1ß2ß3 : Regression Coefficient
ICG : Islamic Corporate Governance
IIR : Islamic Income Ratio
PSR : Profit Sharing Ratio

4. RESULTS

The Sharia compliance variables characterized by Islamic Income Ratio and Profit Sharing Ratio hold a ratio scale data that can go through descriptive analysis using two variables to find mean, standard deviation, minimum point, and maximum point. Based on table 2, the results of descriptive statistical analysis show that the Islamic Income Ratio variable has the lowest and the highest value of 0.561 and 0.997, respectively. Besides, it has the mean or average and the standard deviation of 0.91880 and 0.09385, respectively. The average value which is greater than the standard deviation indicates that the Islamic Income Ratio data is grouped and does not vary or does not spread far from the average.

The results of descriptive statistical analysis on the Profit Sharing Ratio variable shows the lowest and the highest values of 0.007 and 1.00, respectively. Whereas the average value and a standard deviation are 0.45307 and 0.28063, respectively. The greater average value compared with its standard deviation indicates that the Profit Sharing Ratio data does not vary or group.

Table 3 Islamic Income Ratio Percentage of Sharia Bank within the period of 2016-2020.

Islamic Income Ratio	Sample	Percentage
Mean (0.91880)	55	100%
Value above mean	36	66%
Value below mean	19	34%

Source: Processed data by author 2021.

Based on table 3, 2016 to 2020 data for 55 samples of Sharia Commercial Banks consists of 29 Sharia Banks (66% of Sharia Commercial Banks) showed an above-average value. This means that 36 out of 55 samples have performed their Islamic income ratios well or have complied with Sharia Bank principles by making more income based on sharia principles. The remaining 19 Sharia Commercial Banks, i.e. 34% Sharia Banks, are below the average. This means that there are 19 out of 55 samples shave not complied with sharia principles and there are still large amounts of non-halal income from their total revenues. However, comparing the above and below average samples of Islamic Income Ratio, it suggests that the above-average is superior. It can be concluded that the Private Sharia Banks' adherence to the principle is categorized as averagely good.

Table 4 Profit Sharing Ratio Percentage of Sharia Banks.

Profit-Sharing Ratio	Sample	Percentage
Mean (0.45307)	55	100%
Value above mean	27	49%
Value below mean	28	51%

Source: Processed data by author 2021

Based on the Table 4, 2016 to 2020 data for 55 samples of Sharia Commercial Banks consists of 27 Sharia Banks, i.e. 50% of Sharia Commercial Banks, showed an above-average value. It means that 27 out of 55 samples of Sharia Commercial Banks have complied with sharia principles by performing the financing based on profit sharing principles. While the remaining 28 Sharia Commercial Banks or 50% Sharia Banks are below the average. This means that there are 28 Sharia Commercial Banks out of 55 samples remains lack compliance or do not conduct financing based on the profit-sharing principle. Comparing the above and below an average sample of the the Profit-Sharing Ratio, it is evenly distributed. Thus, some private Sharia Banks have complied with sharia principles by financing implementation based on the profit-sharing principles, namely *mudharabah* and *musharakah* contracts. On the other hand, some private Sharia Banks have not complied with sharia principles by conducting financing based on the profit-sharing principle and channeling more funding with other contracts other than the profit-sharing principle.

Analysis of Descriptive Statistic of Islamic Corporate Governance

Table 5 Descriptive Statistic of Islamic Corporate Governance.

Criteria	Frequency	Percentage
Excellent	18	33%
Good	31	56%
Acceptable	6	11%
Jumlah	55	100%

Source: Processed data by author 2021.

Based on Table 5, Sharia Banks holds a excellent predicate with a total value of less than 1.5 for Islamic Corporate Governance from 2016 to 2020. It means that 18 of 55 samples or 33% of Sharia Banks have implemented Good Corporate Governance very well. Islamic Banks possessing excellent predicate includes Bank BCA Syariah, Bank Syariah Mandiri, and Bank Panin Syariah.

Islamic Banks with good predicate with a complete value of 1.5 to 2.5 are 31. It means that 31 out of 55 samples or 56% of Islamic Banks have implemented Good Corporate Governance well. Sharia Banks with good titles include BNI Syariah Bank, BRI Syariah Bank, Mega Syariah Bank, BTPN Syariah Bank, and Bukopin Syariah Bank. Then the Sharia Banks with acceptable predicate with a value of 2.5 to 3.5 are as many as 6. It means that 6 out of 55 samples or 11% of Sharia Banks are acceptable in implementing Good Corporate Governance. Sharia banks with acceptable titles include Bank Muamalat, Maybank Syariah and Bank Victoria Syariah. Besides, there are no Sharia Banks with the predicate of bad or having a value of more than 3.5. It means that in this study, there is no Sharia Bank with the title "Bad" or "Very Bad" in the implementation of Islamic Corporate Governance. In this study, from 55 samples of Sharia Banks in the 5 years of the study period, the average Sharia Banks had a value of 1.5 to 2.5. Specifically, it is as many as 31 out of 55 samples or 56%, meaning that more Sharia Banks with Islamic Corporate Governance were categorized as "Good".

4.1 Descriptive Statistic Analysis on the Fraud Occurrence Indications

Table 6 Descriptive Statistic Analysis on the Fraud Occurrence Indications.

Criteria	Frequency	Percentage
Non-*Fraud*	21	38
Fraud	34	62
Total	55	100

Source: Processed data by author 2021.

Table 6 shows that in the variable indication of fraud from 55 samples of Islamic Banks, as many as 21 samples or 38% did not indicate fraud. During the 5 year study period of Sharia Banks, a fraud was not spotted including BCA Syariah Bank (2016 to 2020), BTPN Syariah Bank, Bukopin Syariah Bank, and Maybank Syariah (2016 to 2017), and BNI Syariah Banks (in 2020). Whereas 34 samples or 62% were indicated as committed a cheat or indicated fraud. The number of companies indicated by fraud indicates that the internal control in the Islamic Banks is not robust enough. Also, it means that more Sharia Banks have ever indicated fraud. Based on data for 5 years of the study period, fraud cases at Islamic Banks occurred more prevalently at Bank Muamalat. In the last two years, there have been 83 and 35 cases of fraud committed by permanent employees in 2019 and 2020, respectively.

4.2 Regression Analysis of the Data Panel

Table 7 Determination Coefficient.

Model	R	R Square	Std. Error of the Estimate
1	.122[a]	.15	.59613

Courtesy: Output SPSS data.

Table 7 shows that the R Square value of 0.15 is obtained. This can be interpreted that the combination of Sharia Compliance which is indicated by the Islamic Income Ratio and Profit Sharing Ratio, has a positive influence on the Islamic Corporate Governance variable by the amount of 15%. While 85% of Islamic Corporate Governance variables are influenced by other factors.

Table 8 The Effects of Partial Variable Testing

		B	S.E.	Sig.
Step 1[a]	ICG	1.324	,836	,051
	IIR	-20.385	3,269	,059
	PSR	-1,324	1,662	,368
	Constant	1,404	3,436	,683

Source: SPPS output from processed data.

As shown in Table 8, the Islamic Corporate Governance coefficient is 1.324 with 0.051 significance. Thus, Islamic Corporate Governance has no significant effect on fraud indication in Sharia Bank. Islamic Income Ration coefficient is -20.385 with 0.059 significance so that Islamic Income Ratio also has no significant effect on fraud indication in Sharia Bank. Furthermore, the Profit Sharing Ratio coefficient is -1.324 with 0.368 significance, so it has no significant effect on fraud indication in Sharia Bank.

4.3 The Effect of Islamic Corporate Governance on Fraud Indication

Logistic regression testing on Islamic Corporate Governance shows that the significance value is 0.051. The significance value that is greater than 0.05 resulted in the rejection of H_1 hypothesis. Thus, could be said that Islamic Corporate Governance partially has no effect on fraud indication.

Table 9 ICG on Fraud Indication

Description	Fraud Indicated		Not Fraud Indicated		Total
	n	Percentage	n	Percentage	
ICG higher than the average (>1,89)	22	73%	8	27%	30
ICG lower than the average (<1,89)	6	43%	8	57%	14
Total	28		16		55

Source: Processed data, 2021.

However, based on this research, the Sharia Bank has a complicit value of 1.5-2.5 with 1.89 as the average. All of 55 samples, 30 of them have higher than the average value while the rest of them have lower than the average value. From the 30 aforementioned, 22 samples (73%) have fraud indication, and the other 8 (27%) have no fraud indication. In line with the theory, the higher the complicit value, the more fraud will be indicated. Whereas from 14 samples with lower than the average value (<1.89), 6 of them have fraud indication and the other 8 have no fraud indication. Complicit value of <2.5 shows the excellency of management in Sharia Bank. From Table 9, banks with good or very good management systems are still having fraud indication, both from higher or lower than the average category.

The Effects of Islamic Indocme Ration on Fraud Indication

Logistic regression result of the Islamic Income Ratio shows the significance of 0.059. If the value is higher than 0.05, the H_2 hypothesis is rejected. Thus, the Islamic Income Ratio partially does not affect fraud Indication.

Table 10 Islamic Income Ratio (IIR) on Fraud Indication.

Description	Fraud Indicated		No Fraud Indicated		Total
	n	Percentage	n	Percentage	
IIR higher than the average	16	56%	13	44%	29
IIR lower than the average	12	80%	3	20%	15
Total	28		16		55

Source: Processed data, 2021.

Based on research (Marheni, 2017), when Islamic Income Ration is high and the fraud indication is low, it means that the Sharia Bank already executed the Sharia principle. However, in this study in Table 14, Sharia Bank with fraud indications mainly comes from the group with IIR higher than the average. From 29 samples with IIR higher than the average, as many as 16 samples (56%) have fraud indication and the other 15 samples (44%) have no fraud indication. Thus, although the Islamic Income Ratio is well implemented, there is no indication that Sharia Bank is clear from fraud. This also shows that income activity with the Sharia principle has no effects on fraud. This study is aligned with another study (Haifa & Rini, 2016), which has a similar result that there is no effect of Islamic Income Ration on fraud.

The Effects of Profit-Sharing Ration on Fraud Indication

Logistic Regression test of Profit-Sharing Ration shows the significant value as high as 0.368. The higher significance value than 0.05 means that H_3 hypothesis is rejected. Therefore, partially, the Profit Sharing Ratio has no significant effect on fraud indication in Sharia Banks.

Table 11 Profit-Sharing Ratio (PSR) on Fraud Indication.

Description	Fraud Indicated		No Fraud Indicated		Total
	n	Percentage	n	Percentage	
PSR higher than the average	11	50%	11	50%	22
PSR lower than the average	17	77%	5	23%	22
Total	28		16		55

Source: Processed data, 2021.

From Table 11, the amount is the same for both of the groups with PSR higher and lower than the average. But, from 22 samples with IIR lower than the average, as many as 17 samples (77%) have fraud indication. Therefore, Sharia Banks with PSR lower than the average is more likely to have fraud indication. From 28 samples of Sharia Banks with fraud indication, as many as 11 samples came from PSR higher than the average group. However, from 16 samples with no fraud indication, 11 of them have PSR higher than the average. From those data, could be concluded that the level of PSR of Sharia Bank does not affect its fraud indication, with the proof from Table 11 that both groups with PSR higher and lower than the average have fraud indication.

Tabel 12 Path Analysis of Direct and Indirect Effect.

Variable	Direct	Indirect	Total
X1 --> Y	0.480		
X2 --> Y	0.136		
X1 --> Z	-20.385	0.636	-19.749
X2 --> Z	-1.324	0.180	-1.155
Y ---> Z	1.324		

Source: Processed data, 2021.

From the path analysis result above, attained that the direct effect of Islamic Income Ration on fraud is -20.385 that is greater than its indirect effect of 0.636. However, the direct coefficient of Profit-Sharing Ratio on fraud is -1.324 that is greater than its indirect coefficient of 0.180. These data reveal that Islamic Corporate Governance is not an intervening variable which correlate Islamic Income Ration and Profit Sharing Ration on fraud indication.

5. CONCLUSIONS AND IMPLICATION

From the descriptive analysis, Islamic Corporate Governance from Common Sharia Banks from 2016-2020 has the complicit average value within the “Good” category. Thus, there were more Sharia Bank with good Islamic Corporate Governance implementation. The Sharia Banks that possess the highest complicit value or “Very Good” are BCA Sharia Bank from 2016-2020 and Mandiri Sharia Bank from 2016-2020. The other Sharia Bank with the “Rather Good” category is Muamalat Bank from 2016-2020. Moreover, Sharia Compliance with Islamic Income Ratio proxy in Sharia Banks from the 2016-2020 period, there was 29 out of 55 banks have higher than the average. Thus, more Sharia Bank has implemented its Islamic Income Ration or already following the sharia principle by focusing on Islamic income and reducing usury. The average Islamic Income Ratio is lower than its deviation standard, which means that the data are clustered and not far-placed from the average. On the other hand, Sharia Compliance with Profit Sharing Ration proxy on Sharia Banks from 2016-2020; there were equally 22 banks with lower and higher than the average value out of 55 samples. These data depict that Sharia Banks is not stern on sharia principles in terms of profit-sharing budgeting and not implementing maximum profit sharing. The average of Profit-Sharing Ratio is lower than its standard deviation, which means that the data is not varied and not scattered away from its average.

On fraud indication on Sharia Banks from 2016-2020, there were 28 out of 55 samples have fraud indication. The other 16 have no fraud indication, and they are BCA Sharia Bank from 2016-2020, BTPN Sharia Bank from 2016-2020, Bukopin Sharia Bank from 2016-2017, Maybank Sharia from 2016-2017, BNI Sharia Bank on 2020, Victoria Sharia Bank and Panin Sharia Bank on 2016. Simultaneously, Islamic Corporate Governance and Sharia Compliance with Islamic Income Ratio proxy are affecting fraud indication. Islamic Corporate Governance is partially affecting fraud indication on common Sharia Bank with positive direction. Sharia compliance with Islamic Income Ratio proxy is partially not affecting fraud indication on Sharia Banks. Sharia compliance with Profit Sharing Ratio is partially affecting fraud indication on Sharia Bank in a negative direction.

Based on *Cox and Snell R Square* dan *Nagelkereke R Square* testing, the value of *Nagelkerke R Square* is 0.35, which means that the combination of Islamic Corporate Governance and Sharia Compliance with Islamic Income Ration and Profit Sharing Ratio proxy are capable to explain the detection of variable on fraud indication as much as 35%. The other 65% is explained by other factors than in this study. Thus, future studies expected to add other independent variables, for instance, the sharia compliance with Islamic investment ratio or Zakat ratio proxy. Moreover, more samples also expected since this study is focused on Sharia Banks thus resulting in sample limitation. From the result of this study, the complicit value could be used as consideration for customers to decide where to trust their possession. For Sharia Bank whose goals are improving market share and garnering customers, it is integral to pay attention to factors than affect fraud, since Sharia Bank has a strength that should be potential if managed properly. Not to mention in the country with a predominantly Muslim country such as Indonesia. Sharia Bank should pay attention more to sharia principles that could affect fraud indication like Profit Sharing Ratio. Since by abiding the sharia principles embedded with proper management, Sharia Bank could reduce the fraud potential.

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