

Research Article

Fraud Prevention: Effectiveness of Sharia Governance in Sharia Banks

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This research is motivated by the phenomenon of fraud that still occurs in Islamic banking, which is incidentally based on Sharia principle, which may be due to weak implementation of Shariah governance. In addition, Shariah governance can also be the key to preventing fraud. The goal that will result from this research is to assist Islamic banks in efforts to prevent fraud, namely by Sharia governance. This research is descriptive research with a quantitative approach. The data source used in this study is primary data obtained using a questionnaire filled out by internal auditors at several Islamic banks in the city of Bandung. Data collection was done using observation and documentation techniques. A non-probability sampling technique was used in this study using convenience sampling. The program used for analyzing data was Smartpls. The results of the research show that Sharia governance is good. So that the potential for fraud in financial management in Islamic Banks will decrease. Based on the results of the study, Sharia governance has a positive and significant effect on fraud prevention.

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1. INTRODUCTION

Banks are financial intermediation institutions that collect funds from the public and distribute them to the public. In practice, fraud cannot be avoided which can cause financial losses for customers or the Bank. In accordance with Law no. 21 of 2008 concerning Sharia Banking, a Sharia Bank is a bank that carries out business activities based on sharia principles, or principles of Islamic law regulated in the fatwa of the Indonesian Ulema Council such as the principles of justice and balance ('adl wa tawazun), benefit (maslahah), universalism (alamiyah), and does not contain gharar, maysir, usury, injustice and unlawful objects. Sharia Principles Sharia principles implemented by sharia banks do not necessarily make sharia banks avoid fraud cases. This is proven by the emergence of fraud cases involving sharia banking entities, such as in the Bank Jabar Banten Syariah (BJBS) corruption case where the acting Main Director (Plt) of BJBS with

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the initials YG became a suspect in alleged corruption in the provision of fictitious credit given to debtors in the name of PT . Hastuka Sarana Karya for the period 2014 to 2016 [1]. Based on data from the ACFE (Association of Certified Fraud Examiners) in 2022, it shows that banks and financial institutions were the highest entity in fraud cases with 351 cases.

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	351	10%	11%	14%	14%	46%	8%	11%	11%	4%	2%	10%
Government and public administration	198	21%	8%	7%	9%	57%	12%	8%	16%	16%	3%	8%
Manufacturing	194	26%	5%	9%	7%	59%	10%	12%	23%	10%	4%	8%
Health care	130	20%	6%	8%	8%	50%	11%	9%	18%	12%	2%	9%
Energy	97	24%	9%	6%	8%	64%	16%	8%	13%	6%	3%	2%

Figure 1: Ranking of the 5 highest Fraud Cases based on ACFE.

Cheating itself is prohibited in Islam, where people who cheat will enter the valley of hell, this is in Q.S Al-Mutaffifin 83:1 which reads:

وَيْلٌ لِّلْمُطَفِّفِينَ

“Woe to those who cheat!”

There is a hadith that also prohibits committing acts of fraud, where the act of cheating is by taking what is not rightfully or belongs to him. Rasulullah even warned his people not to do this despicable thing, even if what was taken was as small as a needle. He said:

مَنْ اسْتَعْمَلَنَاهُ مِنْكُمْ عَلَى عَمَلٍ فَكْتَمْنَا مَخِيطًا فَمَا فَوْقَهُ كَانَ غُلُولًا يَأْتِي بِهِ يَوْمَ الْقِيَامَةِ

“Whoever of you we take up on a matter, then he hides from us (even) a needle, or something smaller than that, then that is considered haram money which he will take with him on the Day of Resurrection (HR. Muslim no. 1833) .”

Fraud cases that often befall sharia banks could be due to weak implementation of sharia governance. This is because sharia governance is an important requirement in ensuring the development and stability of the sharia financial industry [2]. important in ensuring the development and stability of the Islamic financial industry [2]. The results of Junusi’s research (2012) [3] state that sharia corporate governance will influence the reputation and trust of customers.will affect the reputation and trust of customers.

Asrori (2014) in his research on the implementation of sharia corporate governance and its implications for customer reputation and trust.

2. LITERATURE REVIEW

2.1. State of the Art

2.1.1. Shariah Governance

Shariah governance is a unique and special governance concept for companies or financial institutions that offer products and services that comply with sharia principles. To carry out this function, the sharia governance system must have three main components, namely the sharia board (DPS), sharia compliance opinion and sharia review process.

The term sharia governance for sharia financial institutions is adapted from the term issued by the International Financial Services Board (IFSB) in Guideline No-10 which is specifically for financial institutions that offer products and services in accordance with sharia principles. This governance system is intended to ensure the existence of an effective organizational structure that can ensure the supervision process runs before transactions occur (*ex-ante*) and after transactions occur (*ex-post*) in sharia banking institutions.

The definition of sharia governance according to the IFSB [4] 3; a set of institutional and organizational arrangements through which Islamic financial institutions ensure that there is an effective independent oversight of sharia compliance over the issue of relevant sharia pronouncements, dissemination of information and an internal Shariah compliance review. Isro, (2010) Next describes the definition by dividing it into three main components, namely (1) the company's organizational structure includes a Sharia Supervisory Board and related functions such as the Sharia Division and Internal Audit; (2) the opinions or opinions expressed is independent regarding compliance with sharia; and (3) a review process for compliance with sharia. Sharia governance plays a key role in the performance of Islamic financial institutions [5]. It has been observed that Sharia governance is directly related to company performance. [6].

Sharia governance is a mechanism used by Islamic financial institutions to ensure compliance with sharia legal and regulatory requirements and mitigate the risk of sharia non-compliance. [7].

The Organization for Economic Cooperation and Development (OECD) offers principles that are the main indicators of good corporate governance. These principles include: Fairness, Transparency, Accountability and Responsibility, Independence. These five principles are important because consistently applying the principles of good corporate governance has been proven to improve the quality of financial reports and can also be an obstacle to performance engineering activities which result in financial reports not reflecting the company's fundamental values [8].

Good sharia governance guarantees the sustainability of sharia banks in achieving maqasid sharia, which in turn improves the welfare of the people [9]. Grassa (2013) argues that the Sharia Supervisory Board (DPS) is an important component in Sharia governance which functions to control transactions based on Islamic law by directing, reviewing and supervising Islamic bank activities to achieve better performance. Therefore, sharia governance (SG) in this study is measured by scoring three categories, namely (i) number of DPS members. If the number of DPS members in a sharia bank meets, (ii) the educational qualifications of DPS members, (iii) the frequency of DPS meetings.

2.2. Fraud Prevention

Fraud prevention is an activity carried out by management in terms of establishing policies, systems and procedures that help ensure that the necessary actions have been taken by the board of commissioners, management, and other company personnel to be able to provide adequate confidence in achieving 3 (three) main objectives, namely reliability of financial reporting, effectiveness and efficiency of operations as well as compliance with applicable laws and regulations [10]. Fraud prevention according to the Education and Training Center for Supervision of the Financial and Development Supervisory Agency (2008) is an integrated effort that can reduce the occurrence of factors that cause fraud (Fraud Triangel), namely: 1. Minimize the opportunity for fraud to occur. 2. Reduce pressure on employees to be able to meet needs. 3. Eliminate reasons to justify or rationalize the fraud committed. With the prevention efforts implemented by the company, fraud can be minimized, therefore every act of fraud can be detected quickly and anticipated well by the company. Based on the definitions above, it can be concluded that fraud prevention is an effort to eradicate acts of fraud that occur within a company.

According to the Financial Services Authority (OJK) of the Republic of Indonesia which regulates the Implementation of Anti-Fraud Strategies for Commercial Banks (2019), the anti-Fraud Strategy related to fraud prevention contains tools aimed at reducing the potential for Fraud to occur, which at least includes:

3. Anti Fraud Awareness

Anti-Fraud Awareness is an effort to raise awareness regarding the importance of preventing fraud for all levels of banking organizations and various parties related to banks.

Through good leadership and supported by high anti-fraud awareness, it is hoped that awareness will grow among all elements in the Bank and various parties connected with the Bank regarding the importance of controlling fraud.

The leadership's morals and awareness of anti-fraud must animate every policy or provision it establishes. Efforts to raise anti-fraud awareness are carried out, among others, through:

1) Preparation and socialization of the Anti Fraud Statement.

Socialization to internal and external parties regarding bank policies and commitments to provide zero tolerance for acts of fraud, such as policies and commitments to:

a. Running business fairly, honestly and openly/transparently
b. Avoid doing business with third parties who are not committed to complying with bank policy

c. Provide consequences for violations of policies and commitments

2) Anti Fraud Culture Program for employees (employee awareness).

In order to encourage the implementation of an anti-fraud culture for employees, banks can organize seminars/workshops or discussions, effective training (train the trainer) and provide feedback, and disseminate understanding regarding anti-fraud policies and procedures and forms of -Fraud forms, transparency of investigation results, and follow-up on fraud carried out on an ongoing basis.

3) Fraud Awareness and Awareness Program for consumers (customer awareness).

Banks need to increase customer/depositor awareness and vigilance regarding the possibility of fraud, including through the creation of brochures, banners, posters, anti-fraud tactile cards, written clauses/explanations and through other means.

4. Identify Vulnerabilities

Vulnerability identification is a Risk Management process to identify, analyze and assess potential risks of Fraud which can be carried out periodically or if there are indications of Fraud.

In general, vulnerability identification is aimed at identifying the risk of fraud inherent in every activity that has the potential to harm the Bank. Therefore, in order to prevent fraud, banks are required to identify vulnerabilities in every activity, whether sourced from internal or external information from the bank. Identification results must not only be documented and communicated to all interested parties, but must also be updated periodically, especially in the event that there are activities that are considered to have a high risk of fraud.

Several internal bank factors that can increase the possibility of fraud, include:

- a. Lack of training, skills and knowledge on preventing and handling fraud.
 - b. A culture of giving bonuses for excessive risk taking.
 - c. Unclear policies and procedures, including regarding expenses for entertainment as well as charitable and political donations.
 - d. Inadequate financial control.
 - e. Lack of top management direction regarding fraud prevention and handling.
- C. Know Your Employee Policy

As an effort to prevent fraud, banks are required to implement a get-to-know-your-employee policy which is an effort to control the HR aspect. The Bank's policy of getting to know employees effectively includes at least:

- 1) Effective acceptance/recruitment systems and procedures, which can provide a complete and accurate picture of prospective employees' track records (pre-employee screening);
- 2) A selection system equipped with appropriate qualifications taking into account risks, and determined objectively and transparently. The system must cover the implementation of promotions and transfers, including placement in positions that have a high risk of fraud;
- 3) The employee recognition policy includes, among other things, recognizing and monitoring employee character, integrity, relationships, attitudes and behavior, and lifestyle.

5. RESEARCH METHODOLOGY

The research method used in this research is a case study method in Islamic banking Bandung City. The one case method is research that involves a unit case of a company, a region or empirical research [11]. The type of research conducted is descriptive analysis research (descriptive analysis research). In this study, it consists of two variables, Shariah Governance and Fraud Prevention. The data collection techniques used in this research are documentation is a data collection technique based on , documents related to the object of research, both documents from Islamic bank financial reports and from various articles and related regulations/regulations.

6. RESULT AND DISCUSSION

6.1. Sharia Governance

Sharia governance consists of transparency, accountability, responsibility, independence, justice, sharia compliance. The following data are obtained from respondents' responses to the shariah governance :

TABLE 1: Results of Respondents' Responses to the Sharia Governance.

No	Statement item	F	1	2	3	4	5	Total
			TP	P	KD	SR	SL	
Transparency								
1	Easy access to information, clear and complete information	F	0	0	2	27	11	
		%	-	-	5	68	28	
		Skor	0	0	6	108	55	169
Accountability								
2	Policies are carried out consistently and published	F	0	0	5	26	9	
		%	-	-	13	65	23	
		Skor	0	0	15	104	45	164
3	Information can be trusted	F	0	0	1	31	8	
		%	-	-	3	78	20	
		Skor	0	0	3	124	40	167

TABLE 1: Continued.

No	Statement item	F	1	2	3	4	5	Total
Responsibility								
4	Have work procedures and social responsibility	F	0	0	3	28	9	
		%	-	-	8	70	23	
		Skor	0	0	9	112	45	166
5	Responsible for service	F	0	0	0	31	9	
		%	-	-	-	78	23	
		Skor	0	0	0	124	45	169
Independence								
6	Protecting customer interests	F	0	0	7	23	10	
		%	-	-	18	58	25	
		Skor	0	0	21	92	50	163
7	Objective decision making	F	0	0	7	24	9	
		%	-	-	18	60	23	
		Skor	0	0	21	96	45	162
Fairness								
8	Customers are treated fairly	F	0	1	3	27	9	
		%	-	3	8	68	23	
		Skor	0	2	9	108	45	164
9	Willing to receive input/criticism and respond to complaints	F	0	0	1	30	9	
		%	-	-	3	75	23	
		Skor	0	0	3	120	45	168
Syariah Compliance								
10	Trustworthy company	F	0	1	2	27	9	
		%	-	3	5	68	23	
		Skor	0	2	6	108	45	161
11	Products and contracts comply with sharia principles	F	0	0	1	30	9	
		%	-	-	3	75	23	
		Skor	0	0	3	120	45	168
12	The bank's activities comply with DPS halal and haram standards and are based on helping each other	F	0	0	9	25	6	
		%	-	-	23	63	15	
		Skor	0	0	27	100	30	157
GRAND TOTAL								1978

Based on table 1, it is known that the total score of the twelve statements submitted to respondents was 1978, which if we refer to the provisions previously made, this score is in the high category. This means that overall sharia governance which is the subject of research is quite good. From the results of obtaining scores based on dimensions, it has a fairly high number of 169, this shows that in general sharia banks in the city of Bandung have transparency, accountability, responsibility, independence, fairness, sharia compliance.

6.2. Fraud Prevention

Fraud is very difficult to be eliminated, but it can be prevented through control efforts by understanding the causes of its occurrence. The following is data on respondents' responses to fraud.

TABLE 2: Responses of Respondents to Fraud Prevention.

No	Statement Item	F	Answers Choice					Total
			1	2	3	4	5	
			TP	P	KD	SR	SL	
Anti Fraud Awareness								
1	The relevant bank policies are carried out business in a fair, honest and open/transparent manner.	F	0	1	4	25	10	
		%	-	3	10	63	25	
		Skor	0	2	12	100	50	164
2	Committed not to do business with third parties who are not committed to complying with bank policy.	F	0	0	1	31	8	
		%	-	-	3	78	20	
		Skor	0	0	3	124	40	167
3	Implement the principles and commitments in the Anti Fraud Statement in daily operations	F	0	0	0	34	6	
		%	-	-	-	85	15	
		Skor	0	0	0	136	30	166
4	Disseminating the Anti Fraud Statement to external parties, such as customers or business partners, can provide a positive perception of the bank's integrity.	F	0	2	5	26	7	
		%	-	5	13	65	18	
		Skor	0	4	15	104	35	158

TABLE 2: Continued.

No	Statement Item		Answers Choice					
5	The existence of training, seminars, workshops or discussions held by banks regarding anti-fraud culture can increase understanding for employees.	F	0	0	3	29	8	
		%	-	-	8	73	20	
		Skor	0	0	9	116	40	165
6	Having “train the trainer” training given to employees can create an effective anti-fraud culture.	F	0	1	2	32	5	
		%	-	3	5	80	13	
		Skor	0	2	6	128	25	161
7	The effectiveness of anti-fraud brochures, banners, posters or tactile cards in increasing understanding of fraud prevention.	F	0	0	2	31	7	
		%	-	-	5	78	18	
		Skor	0	0	6	124	35	165
8	The existence of fraud awareness and vigilance programs carried out by banks can increase understanding and vigilance consumers against the risk of fraud.	F	0	0	1	26	13	
		%	-	-	3	65	33	
		Skor	0	0	3	104	65	172
Employee Identification								
9	The Bank provides training, skills and knowledge related to preventing and handling fraud to employees.	F	0	1	2	36	1	
		%	-	3	5	90	3	
		Skor	0	2	6	144	5	157
10	The existence of giving excessive bonuses for taking excessive risks can affect the possibility of fraud in the bank.	F	0	1	3	25	11	
		%	-	3	8	63	28	
		Skor	0	2	9	100	55	166
11	Clarity of bank policies and procedures regarding expenses for entertainment and charitable and political donations.	F	0	0	2	27	11	
		%	-	-	5	68	28	
		Skor	0	0	6	108	55	169

TABLE 2: Continued.

No	Statement Item		Answers Choice					
Employee Identification								
12	Financial controls at the bank are adequate to prevent potential fraud.	F	0	2	2	34	2	
		%	-	5	5	85	5	
		Skor	0	4	6	136	10	156
13	Having a direction from Top Management to conduct an audit can have an impact on prevention and handling fraud.	F	0	0	2	24	14	
		%	-	-	5	60	35	
		Skor	0	0	6	96	70	172
14	A selection system that is equipped with the right qualifications and is objective and transparent in determining the suitability of employees with the desired risk and position.	F	0	0	4	30	6	
		%	-	-	10	75	15	
		Skor	0	0	12	120	30	162
15	The selection system implemented by the bank is able to identify prospective employees who are suitable for positions that have a high risk of Fraud.	F	0	0	2	29	9	
		%	-	-	5	73	23	
		Skor	0	0	6	116	45	167
16	The get-to-know-your-employee policy implemented by the bank, to what extent do you feel that these measures are effective in preventing potential for fraud.	F	0	1	1	35	3	
		%	-	3	3	88	8	
		Skor	0	2	3	140	15	160
GRAND TOTAL								2627

Based on table 3, it is known that the total score of the sixteen statements submitted to respondents was 2627. If you look at the provisions that have been made previously, this number is in the high range. This means that overall, from the three dimensions of the causes of fraud, it is known that in Islamic banks which are the subject of research, in general there is no potential for committing deviant actions (fraud). This shows that the sharia bank in the city of Bandung can be said to be free from potential fraud.

7. CONCLUSIONS

Based on the research results, it shows that good sharia governance will increase fraud prevention in the financial management of Bandung City sharia banks. Sharia governance is measured by transparency, accountability, responsibility, independence, justice, sharia compliance. The results of the descriptive analysis show that sharia governance in sharia banks in Bandung City is implemented effectively, thus the more effective Sharia governance is, the better fraud prevention will be.

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