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THE ROLE OF ISLAMIC CORPORATE GOVERNANCE, SHARIA SUPERVISORY BOARD, AND ISLAMIC SOCIAL RESPONSIBILITY IN COUNTERING FRAUDULENT FINANCIAL REPORTING

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Abstract: Fraudulent financial reporting occurs in Islamic companies, specifically Indonesian Islamic banks, which are well-developed and uphold religious values. Despite this commitment, fraud still occurs in Islamic banking institutions. Therefore, this study aimed to investigate variables capable of reducing the occurrence of financial statement fraud. It also aimed to examine the influence of Sharia aspects of Islamic banking, such as ICG, SSB, and Sharia Social Responsibility, on fraudulent financial reporting. To achieve these objectives, data were obtained from 125 samples from Islamic banking companies during the period 2012-2022. Logistic regression analysis was also conducted. The results showed that Islamic Corporate Governance had a positive influence on fraudulent financial reporting, while Sharia Supervisory Board and ISR had no significant influence on fraudulent financial reporting.

Keywords: Financial Statement Fraud; Islamic Corporate Governance; Sharia Supervisory Board; Islamic Social Responsibility

Abstrak: *Fraudulent financial reporting tidak terkecuali dilakukan oleh perusahaan syariah. Perusahaan syariah, khususnya perbankan syariah Indonesia sangat berkembang dan menjunjung tinggi nilai-nilai agama. Namun, meskipun menjunjung tinggi nilai-nilai agama, perusahaan perbankan syariah juga mengalami kecurangan. Penelitian ini menguji variabel yang memiliki pengaruh menurunkan kecurangan laporan keuangan. Tujuan penelitian ini ialah aspek-aspek syariah pada perbankan syariah seperti tata kelola perusahaan syariah, dewan pengawas syariah dan tanggung jawab sosial syariah menjadi variabel independen yang diuji untuk melihat pengaruhnya terhadap fraudulent financial reporting. Data penelitian berjumlah 125 dari sampel perusahaan perbankan syariah pada tahun 2012-2022. Penelitian ini menggunakan pengujian regresi logistik. Penelitian menunjukkan bahwa Islamic corporate governance memiliki pengaruh positif terhadap fraudulent financial reporting, sedangkan dewan pengawas syariah dan islamic social responsibility tidak memiliki pengaruh terhadap fraudulent financial reporting.*

Kata Kunci: *Kecurangan Laporan Keuangan; Islamic Corporate Governance; Dewan Pengawas Syariah; Islamic Social Responsibility*

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Introduction

Fraud is categorized into three types, namely Corruption, Asset Misappropriation, and Financial Statement Fraud.[1] Among these, financial statement fraud frequently occurs and results in significant financial losses. Investigations in Malaysia showed that fraudulent financial statements were the most common type of fraud committed in Islamic banking sector.[2] Enron case, which began to unravel in 2001, serves as a notable example in this situation.[3] Enron's accounting practices involving non-consolidated Special-Purpose Entities (SPEs), sales of its stock and other assets to SPEs, and mark-ups of investments to fair value substantially inflated reported revenue, net income, and stockholders' equity while possibly understating the liabilities.[4] Similarly, WorldCom case in 2002[5] involved the companies' accounting department taking $400 million from the reserve account to inflate earnings.[6] In addition to Enron and WorldCom, comparable cases have occurred in Indonesia, such as the case of PT Asuransi Jiwasraya (Persero). This company was found guilty of fraud based on several factors, including the type of fraud, the geographical and industrial context, the profiles of victims and perpetrators, and the motivators of fraudulent actions.[7]

Fraud cases have occurred across various economic entities, including those closely tied to religious principles, such as Sharia-based companies. Evidence of fraud cases in Islamic companies includes institutions like PT Bank Panin Syariah,[8] PT Bank Jawa Barat Syariah,[9] Bank Nusa Tenggara Barat Syariah,[10] Bank BTPN Syariah,[11] and Bank Mega Syariah.[12] Sharia-based companies operate under Islamic religious principles and follow

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[1] T. M. Tuanakotta, *Akuntansi Forensik Dan Audit Investigatis*, (Jakarta: Salemba Empat, 2012).

[2] R. Abdul Rahman And I. S. Khair Anwar, "Types Of Fraud Among Islamic Banks In Malaysia," *International Journal Of Trade, Economics And Finance* 5, no. 2 (2014): 176.

[3] Husnul Khotimah, "Kasus Enron Corporation, Etika Profesi Akuntansi Dan Stabilitas Ekonomi," http://lppm.unpam.ac.id/2021/11/02/kasus-enron-corporation-etika-profesi-akuntansi-dan-stabilitas-ekonomi/, (13 December 2024).

[4] George J. Benston And Al L. Hartgraves, "Enron: What Happened And What We Can Learn From It," *Journal Of Accounting And Public Policy* 21, no. 2 (2002): 105.

[5] Daniel Sugama, "Analisis Kasus Audit Worldcom," https://danielstephanus.wordpress.com/2021/04/12/analisis-kasus-audit-worldcom/, (13 December 2024).

[6] Kathleen F. Brickey, "From Enron to WorldCom and Beyond: Life and Crime After Sarbanes-Oxley," *SSRN Electronic Journal*, (2005).

[7] Natalis Christian And Lenny Julyanti, "Analisis Kasus PT. Asuransi Jiwasraya (Persero) Dengan Teori Dasar Fraud," *Jurnal Ilmiah MEA (Manajemen, Ekonomi, Dan Akuntansi)* 6, no. 2 (2022): 153.

[8] Bank Panin, "Direksi Panin Dubai Syariah Bank Imbau Tidak Terjadi Lagi Kasus Pembobolan," https://www.idx.co.id/staticdata/newsandannouncement/announcementstock/from_erep/201904/0175b9bf0f_64b4848a74.pdf, (13 December 2024).

[9] Rasyid Ridho And Teuku Muahammad Valdy Arief, "3 Mantan Pejabat BJB Syariah Didakwa Korupsi Kredit Kapal Rp 10,9 Miliar," https://regional.kompas.com/read/2022/06/08/071312978/3-mantan-pejabat-bjb-syariah-didakwa-korupsi-kredit-kapal-rp-109-miliar?page=all, (13 December 2024).

[10] BPK, "Kasus Bank NTB Syariah, Transaksi Janggal Diduga Tidak Terdeteksi Audit Internal," https://ntb.bpk.go.id/kasus-bank-ntb-syariah-transaksi-janggal-diduga-tidak-terdeteksi-audit-internal/, (13 December 2024).

[11] Salamatus Saadah And Mustofa, "Fraud Pada PT BTPN Syariah Di Indonesia," *Jurnal Ilmiah Ekonomi Islam* 10, no. 1 (2024): 895.

[12] Rully R. Ramly And Bambang P. Jatmiko, "Soal Deposito Raib, Bank Mega Syariah: Dana Telah Masuk Ke Rekening Perusahaan," https://money.kompas.com/read/2021/04/19/171527726/soal-deposito-raib-bank-mega-syariah-dana-telah-masuk-ke-rekening-perusahaan, (13 December 2024).

rules distinct from conventional companies. Their perspective is rooted in Islamic teachings, emphasizing habluminallah (a good relationship with Allah) and habluminannas (a good relationship with fellow humans). From this standpoint, Sharia-based companies are expected to maintain higher ethical standards and avoid fraudulent practices due to the foundational principles. However, in reality, Sharia banking has faced scrutiny on multiple occasions for instances of fraud, with fraudulent financial reporting being a common type. According to Rahman, fraudulent financial statements are the most frequent type of fraud committed in Sharia banking sector.[13]

Based on the phenomenon of fraudulent financial reporting in Sharia-based companies, related investigations are essential to expand the body of knowledge related to fraudulent financial reporting. The development of studies in this area is expected to generate new insights that can help minimize the occurrence of fraud. Despite various investigations on fraudulent financial reporting in the past, there have been varying and contradictory results. This shows the need for further investigations to reconcile the differences and provide a deeper understanding of the factors contributing to fraudulent financial reporting, particularly in the context of Sharia-based companies. Some studies showed that corporate governance significantly influenced fraud,[14] while others suggested no effect.[15] Similarly, the relationship between corporate governance structure and fraudulent financial reporting shows inconsistent results.[16] For instance, some studies claimed the board of directors played a role in influencing fraudulent financial reporting,[17] while others reported that the board of directors did not affect fraud[18] or fraudulent reporting.[19] Regarding the board of commissioners, some studies found no significant influence of the number of commissioners or the presence of internationally certified commissioners on fraudulent financial statements.[20] Conversely, others have shown a significant relationship between the board of commissioners and fraudulent financial

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[13] R. Abdul Rahman And I. S. Khair Anwar, "Types Of Fraud Among Islamic.

[14] Rusman Soleman, "Pengaruh Pengendalian Internal Dan Good Corporate Governance Terhadap Pen Cegahan Fraud," *Jurnal Akuntansi & Auditing Indonesia* 17, no. 1 (2013): 57.

[15] Rika Lidyah, "Islamic Corporate Governance, Islamicityfinancial Performance Index And Fraudat Islamic Bank," *Jurnal Akuntansi* 22, no. 3 (2018): 437; Haifa Najib And Rini, "Sharia Compliance, Islamic Corporate Governance Dan Fraud Pada Bank Syariah," *Jurnal Akuntansi Dan Keuangan Islam* 4, no. 2 (2016): 131; Rifqi Muhammad, Ratna Kusumadewi, And Samsubar Saleh, "Analisis Pengaruh Syari'ah Compliance Dan Islamic Corporate Governance Terhadap Tindakan Fraud (Studi Empirik Pada BUS Di Indonesia Periode 2013-2017)," *IQTISHADIA Jurnal Ekonomi & Perbankan Syariah* 6, no. 1 (2019): 65.

[16] Wan Ainul Asyiqin Wan Mohd Razali And Roshayani Arshad, "Disclosure Of Corporate Governance Structure And The Likelihood Of Fraudulent Financial Reporting," *Procedia-Social And Behavioral Sciences* 145 (2014): 243; Lisa A. Owens-Jackson, Diana Robinson, And Sandra Waller Shelton, "The Association Between Audit Committee Characteristics, The Contracting Process And Fraudulent Financial Reporting," *American Journal Of Business* 24, no. 1 (2009): 57.

[17] Muhyi And Suratno, "Utilitas Pentagon Fraud Pada Fraudulent Financial Reporting Dan Impaknya Terhadap Kinerja Manajerial," *Jurnal Pendidikan Akuntansi & Keuangan* 9, no. 2 (2021): 179.

[18] Rahmayani And Rahmawaty, "Pengaruh Islamic Corporate Governance Dan Internal Control Terhadap Indikasi Terjadinya Fraud Pada Bank Umum Syariah Di Indonesia," *Jurnal Ilmiah Mahasiswa Ekonomi Akuntansi* 2, no. 3 (2017): 18.

[19] Siska Anggraeni Larasati, Atiek Sri Purwati, And Sugiarto, "Analisis Faktor–faktor Yang Mempengaruhi Fraudulent Financial Reporting Dengan Perspektif Crowe's Fraud Pentagon Theory," *Jurnal Ekonomi, Bisnis, Dan Akuntansi* 22, no. 3 (2020): 270.

[20] Rahmayani And Rahmawaty, "Pengaruh Islamic Corporate.

reporting.[21] The role of Sharia Supervisory Board (SSB) also presents conflicting evidence.[22] Some studies showed no effect on fraud or a reduction in fraudulent financial reporting,[23] while others claimed Sharia Supervisory Board did have an impact, confirming inconsistencies in the results.[24] In addition, investigations on social responsibility showed varying results. Some studies showed that social responsibility affected fraud in general, but not accounting fraud specifically.[25] Conversely, others reported that corporate social responsibility influenced fraudulent financial reporting,[26] with some companies potentially using social responsibility reports to cover up financial statement fraud.[27]

This study aimed to investigate fraudulent financial reporting by examining the roles of Islamic Corporate Governance (ICG), Sharia Supervisory Board, and Islamic Social Responsibility (ISR). Its novelty lay in the limited availability of previous studies focusing on this specific topic. Furthermore, it addressed a unique gap by concurrently examining the relationships among Islamic Corporate Governance, Sharia Supervisory Board, and Islamic Social Responsibility in relation to fraudulent financial reporting. The primary aim was to determine whether components rooted in Sharia principles could effectively reduce fraudulent financial reporting in Islamic banking in Indonesia. Subsequently, the impact of Islamic Corporate Governance (Sharia-based corporate governance), Sharia Supervisory Board (which provided guidance on compliance with Sharia law), and Islamic Social Responsibility (the accountability reports of Sharia-compliant corporations) on fraudulent financial reporting was evaluated.

Corporate governance refers to a system comprising components designed to encourage companies to operate professionally and efficiently. According to the Indonesia Stock Exchange (IDX), corporate governance aims to direct corporate management based on principles of transparency, accountability, responsibility, independence, fairness, and equality. Given its role, corporate governance has the potential to reduce fraudulent financial reporting, as the practices violate the principles it aims to uphold. Fraudulent financial reporting undermines transparency, accountability, responsibility, independence,

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[21] Orleans Silva Martins And Raul Ventura Júnior, "The Influence Of Corporate Governance On The Mitigation Of Fraudulent Financial Reporting," *Revista Brasileira De Gestao De Negocios* 22, no. 1 (2020): 65.

[22] Rahmayani And Rahmawaty, "Pengaruh Islamic Corporate…, 1; Shofiyyatul Bariyyah And Devi Narulitasari, "Implikasi Tatakelola Islami Terhadap Fraud (Studi Pegawai BPRS Di Soloraya)," *Jurnal Ilmiah Ekonomi Islam* 6, no. 02 (2020): 171.

[23] Budi Dharma, Adinda Sefina Annisa, And Erika Sri Wahyuni, "Meneliti Peran Atribut Dewan Pengawas Syariah Dalam Mengurangi Penipuan Laporan Keuangan Oleh Bank Syariah," *Jurnal Ilmu Komputer, Ekonomi Dan Manajemen* 2, no. 1 (2022): 923.

[24] Sutjipto Ngumar, Fidiana, And Endang Dwi Retnani, "Implications Of Islamic Governance On Islamic Bank Fraud," *Jurnal Reviu Akuntansi Dan Keuangan* 9, no. 2 (2019): 226.

[25] Wang Gen, Andi Ina Yustina, Andrianantenaina Hajanirina, And Mila Austria Reyes, "Corporate Social Responsibility And Corporate Innovation Efficiency: Evidence From China," *Journal Of Applied Accounting And Finance* 6, no. 1 (2022): 38.

[26] Gregorius Satrio Wicaksono And Anis Chariri, "Mekanisme Corporate Governance Dan Kemungkinan Kecurangan Dalam Pelaporan Keuangan," *Diponegoro Journal Of Accounting* 4, no. 4 (2015): 552.

[27] Abdul Baten, Thomas Kenneth Polk, Gerald Ruhland, Jerzy Rose, And Siegel Peterson, "A Lesson In The Relationship Between Corporate Social Responsibility (CSR) And Corporate Financial Fraud," *Review Of Business, Accounting And Finance* 01, no. 05 (2021): 415.

and fairness, elements critical to sound corporate governance. Therefore, corporate governance plays a significant role in reducing fraudulent financial reporting activities.[28]

H1: Islamic Corporate Governance has a negative impact on fraudulent financial reporting in Islamic banking.

Sharia Supervisory Board is an affiliated body responsible for ensuring that the operations of Islamic banks adhere to Sharia principles. It has the authority and responsibility to provide continuous oversight of Sharia entities under its jurisdiction and offer recommendations to the board of directors.[29] Given that not all corporate managers, specifically in Sharia-compliant companies, possess a thorough understanding of Sharia-compliant transactions or prohibited activities, the presence of Sharia Supervisory Board is essential. This board plays a crucial role in guiding the management of Islamic banks to remain accountable and aligned with Sharia principles. Corporate governance mechanisms for preventing fraud are implemented through both internal and external frameworks.[30] An important internal mechanism is the role of Sharia Supervisory Board. Previous studies have shown that Sharia Supervisory Board had a negative influence on fraud,[31] emphasizing its importance in ensuring adherence to Sharia principles and preventing fraudulent financial reporting. By maintaining proper corporate governance and fulfilling the responsibilities of Sharia Supervisory Board, fraudulent financial reporting in Islamic banks can be reduced.

H2: Sharia Supervisory Board has a negative impact on fraudulent financial reporting in Islamic banking.

Social responsibility represents companies' accountability to society. Through social responsibility reporting, companies aim to show a positive image and commitment to social well-being. The obligation to disclose social responsibility encourages companies to act more responsibly and reduces the tendency to engage in fraudulent financial reporting. Studies have shown that social responsibility can mediate the relationship between political connections and fraudulent financial reporting.[32] Based on this premise, social responsibility serves as a mechanism to minimize fraudulent financial reporting activities in companies. This conclusion was supported by previous studies reporting a significant effect of social responsibility on fraudulent financial reporting.[33]

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[28] Orleans Silva Martins And Raul Ventura Júnior, "The Influence Of Corporate Governance; Yossi Septriani And Desi Handayani, "Mendeteksi Kecurangan Laporan Keuangan Dengan Analisis Fraud Pentagon" *Jurnal Akuntansi Keuangan Dan Bisnis* 11, no. 1 (2018): 11; Lisa A. Owens-Jackson, Diana Robinson, And Sandra Waller Shelton, "The Association Between Audit; Javad Oradi And Javad Izadi, "Audit Committee Gender Diversity And Financial Reporting: Evidence From Restatements," *Managerial Auditing Journal* 35, no. 1 (2020): 67.

[29] Rahmayani And Rahmawaty, "Pengaruh Islamic Corporate.

[30] Rita Anugerah, "Peranan Good Corporate Governance Dalam Pencegahan Fraud," *Jurnal Akuntansi* 3, no. 1 (2014): 101.

[31] Sutjipto Ngumar, Fidiana, And Endang Dwi Retnani, "Implications Of Islamic Governance.

[32] Anindya Ratna Kartika Hady And Anis Chariri, "Peran Pengungkapan Corporate Social Responsibility Dalam Memediasi Hubungan Koneksi Politik Dengan Kemungkinan Kecurangan Laporan Keuangan," *E-Jurnal Akuntansi* 32, no. 6 (2022): 1632.

[33] Gregorius Satrio Wicaksono And Anis Chariri, "Mekanisme Corporate Governance.

H3: Islamic Social Responsibility has a negative impact on fraudulent financial reporting in Islamic banking.

Methods

This quantitative study used secondary data in the form of financial information from Islamic banking companies listed on the IDX. The population comprised financial statements of Islamic banking companies listed on the IDX from 2012 to 2022. Furthermore, the samples were selected using a purposive sampling method, based on the following criteria:

1. Islamic banking companies listed on the IDX from 2012 to 2022.
2. Islamic banking companies with complete data as required for this study.

Table 1. Sample

Sampling Criteria	Number of Islamic Banks
Islamic Banking Companies With Published Financial Statements (2012–2022)	165
*Islamic Banking Companies With Incomplete Financial Statements	40
*Islamic Banking Companies Included in the Study (2012–2022)	125

Source: Data processed, 2024

The Analysis Method in this study is as follows:

FFR : α + b1 ICG + b2 SSB + b3 ISR + b4 ROA + e

FFR represents Fraudulent Financial Reporting. ICG stands for Islamic Corporate Governance. SSB refers to Sharia Supervisory Board. ISR denotes Islamic Social Responsibility. ROA indicates Return on Assets, and ε represents the error term.

Table 2. Operational Variables

Variable	Measurement
Dependent Fraudulent Financial Reporting	Beneish M-Score Model[34]
Independent Islamic Corporate Governance	ICG Index = (Number of disclosed items)/(Total number of disclosed items)[35]
Sharia Supervisory Board	The activities of SSB can be obtained from the composite score of the self-assessment conducted by Islamic bank, usually reported in the Corporate Governance report. [36]
Islamic Social Responsibility	Indeks ISR = (Number of items disclosed)/(Total number of disclosure items)[37]
Control Return on Asset	Net Income/Total Assets

Result and Discussion

This section is the main and often the longest part of an article. The results presented were "clean" conclusions of the study. This sub-section contains detailed sections or sub-topics directly related to the study focus.

Table 3. Descriptive Statistics

Variabel	N	Min	Max	mean	Std.Deviation
FFR	125	0	1	0.42	0.49
ICG	125	22	53	42.28	5.66
SSB	125	100	300	167.04	58.21
ISR	125	14	33	27.54	3.89
*ROA	125	-0.11	12.71	0.67	2.06

Source: Data processed, 2024

The sample used comprised 125 data points sourced from financial reports of Islamic banks. For the variable Fraudulent Financial Reporting (FFR), minimum value was 0, maximum was 1, mean was 0.42, and standard deviation was 0.49. Islamic Corporate Governance variable had minimum value of 22, maximum of 53, mean of 42.28, and standard deviation of 5.66. Sharia Supervisory Board variable had minimum value of 100, maximum of 300, mean of 167.04, and standard deviation of 58.21. Islamic Social Responsibility variable had mean of 27.54, standard deviation of 3.89, minimum value of 14, and maximum value of 33. Finally, ROA control variable had minimum value of -0.11, maximum value of 12.71, mean of 0.67, and standard deviation of 2.06.

[34] Messod D. Beneish, "The Detection Of Earnings Manipulation," *Financial Analysts Journal* 55, no. 5 (1999): 24.

[35] Chintya Zara Ananda And Erinos NR, "Pengaruh Islamic Corporate Governance Dan Islamic Corporate Social Responsibility Terhadap Kinerja Perbankan Syariah (Studi Empiris Pada Bank Umum Syariah Yang Terdaftar Di Bursa Efek Indonesia Tahu 2012-2018)," *Jurnal Eksplorasi Akuntansi* 2, no. 1 (2020): 2065.

[36] Sutjipto Ngumar, Fidiana, And Endang Dwi Retnani, "Implications Of Islamic Governance.

[37] Chintya Zara Ananda And Erinos NR, "Pengaruh Islamic Corporate.

Table 4. Model Fit Test

Step	Chi-square	Df	Sig.
1	9.73	8	0.285

Source: Data processed, 2024

The significance level in Table 4 was greater than 0.05, confirming that the data were suitable for the study model. The Hosmer and Lemeshow test result of 0.285 (>0.05) confirmed the data's appropriateness for testing.

Table 5. Coefficient of Determination Test

-2 Log Likelihood	Cox & Snell R Square	Nagelkerke R Square
144.686	.182	.245

Source: Data processed, 2024

Table 5 shows that Nagelkerke R Square was 0.245 (24.5%), hence, the independent variables—Islamic Corporate Governance, Sharia Supervisory Board, Islamic Corporate Social Responsibility, and the control variable ROA collectively explained 24.5% of the variant in fraudulent financial reporting. The remaining 75.5% was influenced by variables outside the model.

Table 6. Logistic Regression

	B	S.E	Wald	df	Sig.	Exp(B)
ICG	-.102	.043	5.629	1	.018	.903
SSB	.000	.003	.000	1	.990	1.000
ISR	.023	.058	.157	1	.692	1.023
*ROA	.713	.287	6.162	1	.013	2.040
Constant	3.018	1.760	2.943	1	.086	20.460

Source: Data processed, 2024

Based on the statistical results, the variable Islamic Corporate Governance showed a negative impact on fraudulent financial reporting. As evidenced from the regression test, Islamic Corporate Governance had a significance level of less than 0.05 (0.018) and a beta value of -0.102. Therefore, hypothesis (H1a), stating that "Islamic Corporate Governance negatively influences Fraudulent Financial Reporting in Islamic Banks," was accepted. However, Sharia Supervisory Board had no significant impact on fraudulent financial reporting, with a significance level of 0.990 (>0.05), confirming the rejection of hypothesis (H2). Similarly, the test for Islamic Social Responsibility showed a significance level of 0.692 (>0.05), confirming the insignificant impact on fraudulent financial reporting and the rejection of H3. The control variable ROA showed a positive influence on fraudulent financial reporting, with a significance level of 0.013 (<0.05) and a beta value of 0.713.

This study showed that Islamic Corporate Governance negatively influenced fraudulent financial reporting. Therefore, effective corporate governance can prevent the occurrence of fraudulent financial reporting. Corporate governance was specifically assessed through the components of Islamic Corporate Governance in the sample of Islamic banking institutions. The results showed that as the level of governance implemented by companies increased, the incidence of fraudulent financial reporting decreased. Islamic

Corporate Governance represents a system and management practice carried out professionally. Its principles include transparency, accountability, responsibility, independence, and fairness (the IDX). These components encourage and control companies activities to ensure proper management.

Fraudulent financial reporting involves intentional manipulation or misrepresentation of financial information that does not reflect companies' true financial condition. These actions directly contradict corporate governance principles, particularly transparency and accountability. Therefore, when corporate governance system is well-implemented, transparency and accountability can be maintained, reducing the tendency of fraudulent financial reporting. In corporate governance framework, there are main and supporting organs. Main organs include the Board of Directors and Board of Commissioners, while supporting organs consist of Audit Committee, Internal Audit, and External Audit.

Members of both the main and supporting organs have the authority to ensure that companies' financial reports are prepared according to the intended purpose, namely to provide accurate financial information reflecting companies' actual condition. Audit Committee oversees financial reports, External Audit evaluates whether the reports comply with accounting standards, and Internal Audit supports internal control processes. Through the involvement of the three bodies, each authorized to examine financial data and reports, financial fraud can be detected early. Results from the bodies can be subsequently followed up by the Board of Directors and Board of Commissioners. Consequently, the role of Islamic Corporate Governance, both in Islamic and conventional banking, can help reduce fraudulent financial reporting. The results were consistent with previous studies, stating that Islamic Corporate Governance had an impact on fraudulent financial reporting.[38]

This study further examined whether the role of Sharia Supervisory Board, providing advice based on Sharia principles, could reduce fraudulent financial reporting. The results showed that Sharia Supervisory Board did not influence fraudulent financial reporting, confirming the rejection of the hypothesis. Sharia Supervisory Board is responsible for ensuring and monitoring the compliance of bank operations with fatwas issued by National Sharia Board (DSN). Its duties include evaluating Sharia aspects of the bank's operational guidelines and products, providing opinions on overall Sharia compliance in public reports, reviewing new products that lack fatwas to request rulings from DSN, and submitting Sharia supervisory reports at least biannually to the Board of Directors, Commissioners, DSN, and Bank Indonesia (per Bank Indonesia Regulation No. 6 of 2004, Article 27). The duties of Sharia Supervisory Board are not directly related to the companies' financial scope. The board lacks authority to conduct financial investigations and does not possess expertise in financial matters. Its advice pertains strictly to Islamic religious knowledge (Sharia aspects). Therefore, any advice outside of their area of expertise may not be compatible with the requirements of financial oversight. This study showed that Sharia Supervisory Board did not influence fraudulent financial reporting and

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[38] Orleans Silva Martins And Raul Ventura Júnior, "The Influence Of Corporate Governance; Yossi Septriani And Desi Handayani, "Mendeteksi Kecurangan Laporan; Lisa A. Owens-Jackson, Diana Robinson, And Sandra Waller Shelton, "The Association Between Audit; Javad Oradi And Javad Izadi, "Audit Committee Gender.

could not reduce the incidence of fraud in companies. The results were consistent with previous studies, where Sharia Supervisory Board did not influence earnings management[39] and fraud.[40]

Based on the analysis, social responsibility, as a form of a companies' accountability to society, did not have an impact on fraudulent financial reporting. Through social responsibility reports, companies can maintain a positive public image. This form of accountability does not directly address companies' responsibility to society regarding the quality of financial reports presented. Therefore, the assumption that higher social responsibility efforts lead to lower fraudulent financial reporting is rejected. The scope of social responsibility, including economic, environmental, and social factors such as labor practices, workplace conditions, human rights, community relations, and product responsibility, is much broader than the specific issue of fraudulent financial reporting. In this current study, social responsibility showed no relationship between companies' societal accountability and the quality of their financial reports, which should comply with proper accounting standards. Responsibility for the quality of financial reports means ensuring the statements accurately reflect companies' actual financial condition and are free from fraud. These results were supported by previous studies, where companies involved in fraud often showed higher corporate social responsibility values. Therefore, tcompanies might manipulate their social responsibility reports to conceal fraudulent activities.[41]

ROA used as a control variable showed a positive impact on fraudulent financial reporting. Therefore, the higher the ROA values, the more likely the companies are to engage in fraudulent financial reporting. ROA reflects management's financial performance in terms of return on assets relative to profits earned. When managers set higher ROA targets, the pressure to meet these profit benchmarks increases, consequently raising the risk of fraudulent financial reporting. This was supported by previous studies, where ROA had a positive influence on fraudulent financial reporting.[42]

Conclusion

In conclusion, this study aimed to investigate Islamic aspects in Islamic banking in Indonesia and the connection to fraudulent financial reporting. Despite the strong religious foundation, Islamic banks continued to face fraudulent activities, prompting this investigation. The results showed that Islamic Corporate Governance had a negative effect on fraudulent financial reporting, while other Islamic aspects tested, such as Shariah Supervisory Board and Islamic social responsibility, had no significant impact. Therefore,

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[39] Liya Ermawati And Nia Anggraini, "Pengaruh Komisaris Independen Dan Dewan Pengawas Syariah Terhadap Manajemen Laba (Studi Pada Bank Umum Syariah Di Indonesia)," *Al-Mal: Jurnal Akuntansi Dan Keuangan Islam* 01, no. 01 (2020): 61.

[40] Shofiyyatul Bariyyah And Devi Narulitasari, "Implikasi Tatakelola Islami.

[41] Xing Li, Jeong Bon Kim, Haibin Wu, And Yangxin Yu, "Corporate Social Responsibility And Financial Fraud: The Moderating Effects Of Governance And Religiosity," *Journal Of Business Ethics* 170, no. 3 (2021): 557.

[42] Dina Maryana And Reni Oktavia, "Pengaruh Return On Asset Dan Related Party Transaction Terhadap Fraudulent Financial Statement Pada Perusahaan Konstruksi Di Negara ASEAN," *Akuntansi* 2, no. 2 (2023): 211.

Islamic principles and religious understanding alone were insufficient to reduce fraudulent financial reporting. Instead, a comprehensive system supported by adequate sanctions and regulations was necessary to mitigate fraud. The novelty of this study lies in incorporating Islamic aspects into the examination of fraudulent financial reporting in Islamic banking. The results provided valuable insights for Islamic banks in Indonesia, urging the institutions to maintain effective Islamic Corporate Governance and its components (such as the board of directors, board of commissioners, and audit committees) to fulfill their roles efficiently and minimize fraudulent financial reporting. This study had limitations due to the relatively small sample size of Islamic banks in Indonesia. Therefore, future investigations were recommended to expand the sample to include conventional banks and to incorporate additional variables not covered in this current study, such as external audits and internal audits.

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Author Contributions Statement

MK conceived the study idea, developed the study design, processed the data, and drafted the article. AS assisted MK in writing the discussion section. FA collected sample data and provided input on the article draft. VU supported MK in data processing and statistical analysis.

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