
The Shariah Financial Accounting Standards: How they Prevent Fraud in Islamic Banking

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Abstract:

This study aims to investigate the influence of Shariah financial accounting standards, the independence of the Shariah Supervisory Board and Auditor Competency Shariah to the prevention of fraud in Islamic banks in Indonesia. Sampling using saturated sample or the entire population of as many as 48 people include auditors in Islamic banking and Islamic Supervisory Board analysis tool using regression analysis using F test and t test with SPSS ver.17.00. The results showed that the Shariah financial accounting standards, the independence of the Shariah Supervisory Board and Auditor Competency Shariah simultaneously affect the prevention of fraud in Islamic banks. Islamic financial accounting standards have significant effect on the prevention of fraud in Shariah banks. Variables such as independence of the partial Shariah Supervisory Board has no effect on the prevention of fraud in Shariah banks while Islamic auditor competence variables have partially significant effect on the prevention of fraud in Shariah banks.

Key Words: *Shariah financial accounting standards, supervisory board, competence of Shariah auditor, fraud prevention.*

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1. Introduction

The rapid development of Islamic/*Shariah* banking in Indonesia has a positive implication for the Indonesian banking industry. *Shariah* banking is an alternative choice for Muslims to save money. They feel more secure as *Shariah* banking provides a particular service different from the services of conventional banking, which is the assurance of banking operation which meets Islamic law and does not break the *Shariah* principles. In order to maintain customers' trust, especially with regard to the facilities of Islamic banks, the banks need to keep their operational systems from violating the principles of *Shariah*. Islamic banking is set in *Shariah* Financial Accounting Standard, which contains detailed rules and components of *Shariah*-based banking. With the standard, financial statements are expected to provide relevant and credible information. This accounting standard is also used by users of financial statements, such as investors, creditors, governments, and public as a reference for understanding and analyzing financial statements, so as to enable them to make the right decisions.

Islamic banks as an alternative financial institution for saving fund has a special section called the *Shariah* Supervisory Board (*Dewan Pengawas Syariah / DPS*). *DPS* is a unit which is only owned by companies/organizations run in accordance with the Islamic law. "*Auditing Standard for Islamic Financial Institutions (ASIFI)* has set a standard to provide guidance on the definition, designation, composition, and the report of the *Shariah* supervisory board to ensure that the operations, transactions, business of financial institutions are carried out in accordance with the principles of Islamic / *Shariah*" (Harahap, 2002). "Found several measures to be taken to ensure *Shariah* harmonization efforts in Indonesia such as deep understanding on the *fatawā* brought into practices and strict monitoring on the Islamic banks in applying the financial reporting standards that imply practicing the *fatawā*, both *de jure* and *de facto*. The role of various actors involved in the financial reporting standardization may impede *Shariah* harmonization to take place (Mukhlisin Muniarti and Hudaib dan Azid Toseef, 2015). The main task of this *Shariah* supervisory board is to oversee the implementation of banks' operations and their products so as not to deviate from the rules of *Shariah* (Antonio, 1999).

Another important thing in the Islamic banking industry is the availability of competent *Shariah* auditors. Auditor *Shariah* has the function, among others, to detect fraud occurring within the company or commonly known as the fraud auditing, to uphold ethics profession is not expected to occur Fraud Auditing among public accountants, so as to give the auditor's opinion is totally consistent with the reports finance presented by the client and can avoid fraud (Suryanto, 2016). Fraud reflects dishonesty. It refers to deviant behaviors related to legal consequences, such as fraud, theft by deception, financial reporting fraud, corruption, collusion, nepotism, bribery, abuse of authority and many others (The Development Finance Comptroller (BPKP), Centre of Education 2008).

Much research on the prevention of fraud in conventional banks has been conducted, by Rahardjo (2001) who investigated the burglary of *Bank Central Asia*, *Bank Bali* and *Bank Lippo* done by Indonesian crackers in 2000. The study demonstrates the failure of risk controls in the use of information technology (Rahardjo, 2001). This case indicates that the technology applied in enterprises, especially those engaged in high-level transactions, such as banks, is still less sophisticated than that of the running/practiced fraud. Biestaker, *et al.* (2006) conducted a survey involving 86 accountants, internal auditors and certified accountant investigators responsible for identifying fraud actions. This study indicates that 34 methods of detection and prevention of fraud were perceived to be effective by the respondents. The various studies above show that fraud auditing is a serious issue, which is interesting to be explored. Fraud seems to be inseparable of banking operation, including the operation of Shariah banking. This is ironic, considering the fact that Islamic banks represents Islamic spiritual values which emphasize the value of mirality and justice.

However, in reality, Islamic banking is still affected by fraud, for example, the case of document forgery in Bank Shariah Mandiri which caused Rp. 102 billion loss. Ahmad (2015), quoting Kasim *et al.* (2009), argued that “*Shariah* audit has indeed highlighted prevalent problems facing the Islamic finance industry which include the small and limited pool of available skilled human capital”. Shariah audit issues include general issues facing the Islamic finance industry, such as limited competent/skilled human resources (Kasim, Abraham & Solomon, 2009). According to research conducted by Kasim, Abraham and Solomon, an important element of Shariah audit is skilled/competent human resources. This element is the main capital in the Islamic banking industry. In the Shariah industry, the competent human resources include the independence of the Shariah Supervisory Board and Shariah auditors, that are important elements of Shariah banking industry. It is expected that the elements can prevent fraud to occur in the Islamic finance industry.

The following sections describe the relevant literature review and the method used in this study to determine the existence of fraud in Shariah Banking. A detailed discussion on the findings follows. Finally the conclusions are also presented.

2. Literature Review and Hypothesis Development

The available relevant theories are discussed in this section. The previous researches and their findings on the relevant topics such as the shariah banking, the shariah financial accounting standard, the independence of the shariah supervisory board, the competence of shariah auditors and fraud prevention in shariah banks are discussed. A hypothesis is also postulated to test.

Shariah Banking

Over the last decade, Shariah financial institutions have developed rapidly. Islamic banking is one form of Shariah financial institutions which have a big potential. Based on the Law of the Republic of Indonesia Number 7 of 1992 concerning

Banking as amended by Act No. 10 of 1999, banks consist of commercial and rural banks (BPR). Commercial banks are banks conducting conventional business and/or based on Shariah principles which provide payment traffic in their activities. On the other hand, rural banks refers to banks conducting conventional business and/or based on Shariah principles which do not provide payment traffic services. Thus, rural banks are financial institutions in the form of banks which apply Shariah -based principles.

Shariah Financial Accounting Standard

From 1992 to 2002 or for ten years, financial institutions, which include both Shariah banks and other Shariah entities, did not have specific Financial Accounting Standard Statements (PSAK) which regulated Shariah-based transactions and activities (Suryanto 2014). SFAS 59 as the first product of DSAK - IAI for Shariah entities is both a recognition and existence of Shariah accounting in Indonesia. This SFAS was ratified on May 1st, 2002, effective from January 1st, 2003 or the end of 2003 financial year. It is only valid for a short period of time.

IAS 59 is devoted to Shariah activities/transactions only in the Islamic banking sector, such as Islamic insurance, Shariah mortgage, and Shariah cooperatives. Therefore, for addressing the accounting demands of other Shariah entities, the Shariah Accounting Committee – Financial Accounting Standard Board (KAS DSAK) published six statements of financial accounting standard (PSAKs) for all Shariah financial institutions, which were ratified on June 27th, 2007 and valid from January 1st, 2008 or the end of 2008 financial year. The six PSAKs are Financial Accounting Standard Statements, (PSAK) such as No. 101 concerning the presentation of Shariah financial statements, Financial Accounting Standard Statements (PSAK) No. 102 concerning murabahah accounting (buying and selling), PSAK No. 103 concerning salam accounting, Financial Accounting Standard Statements (PSAK) No. 104 concerning isthisna accounting, Financial Accounting Standard Statements (PSAK) No. 105 concerning mudarabah accounting (profit sharing), and PSAK No. 106 concerning accounting for musharaka (partnership).

The six PSAKs are accounting standards which govern all Islamic financial transactions in various LKS. The development of the PSAKs is based on the Indonesian Shariah Banking Accounting Statement (PAPSI) of the Bank of Indonesia. Additionally, the development also refers to the *fatwa* of Shariah financial agreement issued by the National Shariah Board – The Indonesian Council of *Ulama* (DSN MUI).

The Independence of the Shariah Supervisory Board

Shariah banks as an alternative financial institution for saving fund which have a specific unit called Shariah Supervisory Board (*SSB*). *SSB* is a unit which is only owned by companies or organizations where their running is based on Islamic Shariah. *Auditing Standard for Islamic Financial Institutions* (ASIFI) has set a standard which provides guidance of the definition, designation, composition, and

reports of Shariah Supervisory Board to ensure that the operations, transactions, and business of the financial institutions are conducted based on Islamic Shariah (Harahap, 2002). Generally, SSB consists of 3 persons or more who are experts of Islamic Shariah. They are responsible for giving statements or *fatwa* to Shariah banking products and supervising the implementation of the *fatwa* along with the board of commissioners (Muhammad, 2002). More specifically, the main responsibility of the Shariah Supervisory Board is to supervise the operations of banks and their products so that they do not deviate from Islamic Shariah law (Antonio, 1999).

The Competence of Shariah Auditors

Internal audit is an independent activity that provides objective assurance and consulting designed to add value and improve the operation of an organization. In Islamic banking, Shariah auditors are required to be competent in their field. The Shariah auditors help organizations accomplish their objectives by bringing systematic and disciplined approaches to evaluate and improve the effectiveness of risk management, control and governance process (*The IIA Research Foundation*, 2011). Shariah audits are carried out by internal parts/elements of organizations to improve the organizations' operations and reduce the possibility of negative things to occur, including unreliable financial reporting.

In Shariah banking, internal auditors assist the management in designing and maintaining the adequacy and effectiveness of internal control structure. The Shariah auditors are also responsible for assessing the adequacy and effectiveness of each of the control system which guarantees the quality and integrity of the financial reporting process.

Fraud Prevention in Shariah Banks

Fraud is a despicable act seen from the aspect of religiosity and diversity. Such an act negatively impacts other parties in terms of financial aspect. The efforts to reduce fraud is divided into three phases. The first phase is the phase of fraud prevention measures. The most effective way is through changes in behavior and organizational culture that give more attention to fraud. Efforts are implemented through corporate governance structure, tone at the top, setting realistic goals and policies as well as procedures to prevent deviation of acts (Singleton, 2010). Albercht (2003) argues that the prevention of fraud can be achieved through efforts to create a culture of honesty, openness, and minimizing the fraud actions.

The second phase is the detection of fraud. This can be done by observation (surveillance), anonymous tips, sudden audits, legal actions, and the enforcement of ethics and policies related to fraud. Other factors that can reduce fraud are rewarding employees who contribute to the detection of fraudulent behaviours and enforcing anti-fraud culture (Singleton, 2010). The detection phase of fraud is different from investigation. This stage aims to identify symptoms that often occur, which lead to fraud. On the other hand, at the investigation stage, such aspects as who does the

fraud, the scheme used, the time when the fraud occurs, motivations underlying the fraud, and the assets/funds that have been taken have been determined.

Fraud detection can be done through two approaches: inductive and deductive methods. The inductive method is done by commercial data-mining software and digital analysis of company databases. The deductive method is carried out by the following steps: understanding the business process of organizations, understanding the types of fraud that might occur, determining the symptoms that often occur, using the database and information systems to look for symptoms and determining whether there are acts of fraud or other factors that cause the symptoms to occur (Albercht, 2003).

Hypothesis Postulation

Islamic financial system does not only cover commercial transactions, but also deals with financial institutions to meet the demands of the industry. Financial systems or financial institutions which are based on Islamic principles are free from the element of *riba* or usury.

Financial contracts which can be developed to replace *riba* are: *musharaka* and *mudharaba*. With the Shariah accounting standard, financial statements are expected to provide information that is relevant and credible. The independence of Shariah Board is an obligation that must be carried out by the Shariah Supervisory Board as a party that is entrusted with the responsibility to make reports and verification; the outputs of the reports and verification are not only used by clients, but also by third parties or public (investors/shareholders, creditors, government, society). The Shariah Supervisory Board is a profession emerging due to the public demand for a guarantee of consistency and loyalty in the implementation of Islamic Shariah.

In addition to Shariah Financial Accounting Standard and the independence of Shariah Board, another important factor in the Islamic banking industry is the competence of Shariah auditors. Shariah auditors are expected to use their competence in undertaking independent assessments of any activities aiming to encourage the compliance with conditions set by management and to improve the function of control by providing constructive and protective suggestions so that the goals and objectives of banks can be achieved efficiently. The sustainability of Shariah financial accounting standard, the independence of Shariah board, and the competence of Shariah auditors are expected to detect and prevent fraud to occur in the banking industry.

Research related to the impact of the implementation of financial accounting standard toward fraud prevention has been done by Santoso (2008) and Darwanis (2013). The findings of the research show that the implementation of financial accounting standard affects the prevention of fraud. Furthermore, the research of Widiyanto (2010) and Junaedi (2014) indicates that the independence of Shariah

Supervisory Board is proved to reduce planned or hidden crime. Other studies by Rosnida (2011), Hendro (2006) and Suryanto (2016), examining the competence of auditors on the prevention of fraud, show that the competence of the auditors affects the prevention of fraud. Based on the previous studies, two hypotheses are discussed in this study as follows.

3. Research Methodology

This section discusses the sampling method, data collection process and validity tests. The end of this section discusses the formation of hypothesis and tests the statistical techniques used in this study. The population of this research is Islamic/Shariah banking industry in Indonesia on May 2016, consisting of:

- a. Islamic Conventional Banks : 12 banks
- b. Islamic Business unit Bank : 22 banks
- c. Islamic Rurel Bank : 166 banks

The samples or subjects of the research are Islamic/Shariah banks located in Bandar Lampung, Indonesia. The Islamic/ Shariah banks in Bandar Lampung were taken as sample because they are regarded as representing the population which applies Shariah financial accounting standard in Shariah banking industry in Indonesia. This is due to the consideration that the application of accounting standard in Shariah banks in Indonesia is relatively homogeneous. It adheres the Guidelines of Financial Accounting Standard (PSAK) and the Accounting Guidelines for Indonesian Shariah Banking (PAPSI) as stipulated in the Guidelines of the Bank of Indonesia (PBI).

The samples are Shariah internal auditors and Shariah supervisory board members. One hundred copies of the questionnaire were distributed. From that number, 65 questionnaires were returned by the participants; 17 questionnaires were incomplete. Therefore, 48 questionnaires were processed.

Data Collection and Quality Tests

This research employed census sampling for data collection. It involved all Shariah internal auditors and Shariah supervisory board members. The data quality tests in this study comprises reliability and validity tests using SPSS software version 18.0. The reliability test was aimed to measure the questionnaire which is an indicator of variables or constructs. The measurement of reliability was done through *Cronbach Alpha* test. A construct is categorized as reliable if it generates *Cronbach Alpha* value ≥ 0.60 (Ghozali, 2005). The validity test was used to determine whether the questionnaire was valid or not. A questionnaire is said to be valid if the questions are able to reveal data which the questionnaire measures. The validity test was done by implementing bivariate correlation among indicator scores of total constructs. If the correlation indicates significant results, each question indicator is valid. One way to test the normality is using Kolmogorov-Smirnov on the residual standard value resulting from the regression equation. If the result of one sample of the

Kolmogorov-Smirnov is greater than the significant level used ($\alpha = 0.05$), the distribution of data spreads normally and *vice versa*. This test is employed to determine whether there are high or perfect correlations between variables in the regression model. When the independent variables are perfectly correlated, the regression equation resulted cannot be used. The statistical instrument which is often used to test multicollinearity disorders is the value of tolerance or VIF (Variance Inflation Factor). The limit of tolerance value is > 0.10 and $VIF < 10$ (Suliyanto, 2011)

This test is used to determine whether variant inequality of the residual occurred from one observation to another in the regression model. In this study, *Gleyser* test was used to detect the presence of heteroscedasticity by regressing the absolute value of residual with independent variables with the regression equation (Ghozali, 2005).

Hypothesis test

The two hypotheses that were developed based on the previous studies and with the support of the literature review of this study are as follows:

- H1. Shariah financial accounting standard, the independence of Shariah Board, and the competence of Shariah auditors have a simultaneous effect on the prevention of fraud.
- H2. Shariah financial accounting standard, the independence of Shariah Board, and the competence of Shariah Auditors has a partial effect on the prevention of fraud.

The above hypotheses were examined using F and t statistics. The F test was conducted to examine the simultaneous effect of the implementation of Shariah financial accounting standard, the independence of Shariah Board, and the competence of Shariah auditors against fraud prevention in Islamic banks in Indonesia. The t test, also known as the individual significance test, aims to show how the independent variables partially affect the dependent variables.

Data analysis

For easy understanding the variables have been given short names as follows. These names are used in the following sections, specifically in the multicollinearity, heteroskedasticity test and ANOVA.

AKS	: Shariah accounting standard
IDS	: The independence of Shariah Board
KA	: The competence of Shariah auditors
PF	: Fraud prevention

Data Quality Test

The data quality test includes reliability and validity tests. The reliability test was conducted with Cronbach Alpha test using SPSS. A construct is said to be reliable if

it generates Cronbach Alpha > 0.60 (Ghozali, 2005). The results indicate that the data are reliable and valid. The summary of the test results is presented in the following Tables 1 and 2.

Table 1. Results of Reliability Test

Variables	Cronbach Alpha Value	Category
Shariah financial accounting standard	0.733	Reliable
The independence of Shariah Board	0.729	Reliable
The competence of Shariah auditors	0.841	Reliable
Fraud prevention	0.970	Reliable

Table 2. Results of Validity Test

No	Variable	Range of Correlation	Significance	Category
1	Shariah financial accounting standard	0.780**-0.811**	0.01	Valid
	The independence of Shariah Board		0.01	Valid
2	Shariah Board	0.776**-0.816**	0.01	Valid
	The competence of Shariah auditors			
3	Shariah auditors	0.796**-0.854**	0.01	Valid
4	Fraud prevention	0.772**-0.854**	0.01	Valid

Note: (**) means significant correlations in each number and have the possibility of two-way (two-tailed)

Classic Assumption Test

In order to test normality of the data Kolmogorov Smirnov statistic was used. Based on the normality test, all variables have normal distribution. The significance value is bigger than 0.05. Therefore, it can be concluded that all variables have normal distribution. Multicollinearity test was used to find the correlation among the dependent variables. Table 3 reveals the results of multicollinearity test. As presented on the above table, the VIF value of each variable is less than 10 and the tolerance value is less than 1. Therefore, all variables are free from the symptoms of multicollinearity.

Table 3. Multicollinearity Test and results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.996	1.011		-.985	.327		
total_AKS	.169	.068	.059	2.496	.014	.668	1.498
total_IDS	-.034	.052	-.013	-.657	.513	.982	1.018
total_IA	1.405	.035	.947	40.254	.000	.668	1.496

Note: a. Dependent Variable: total_PF

The results of the heteroskedasticity test using SPSS are presented in the following Table 4.

Table 4. Results of Heteroskedasticity Test**Coefficients^a**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-.334	1.011		-.330	.742		
total_AKS	-.017	.067	-.032	-2.260	.796	.677	1.477
total_IDS	-.053	.052	-.104	-1.020	.310	.983	1.018
total_KA	.039	.035	.138	1.121	.265	.678	1.474

a. Dependent Variable: Absut

The results show that $\text{sig} > \alpha$ with α 0.05. Therefore, there are no symptoms of heteroscedasticity in this model.

Hypotheses Test**F Test**

To test the effect of the independent variables on the dependent variables, F test was used. From the calculation, with a confidence level of 95% or $\alpha = 0.05$, $F_{\text{table}} 2.719$ was obtained. The $F_{\text{calculation}}$ was 869.351. The results of the F test are presented in the following Table 5.

Table 5. Results of ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	4774.987	3	1591.662	869.351	.000
Residual	175.763	96	1.831		
Total	4950.750	99			

Note: Predictors: (Constant), total_AKS, total_IDS, total_KA

F-test

Figure 1 illustrates the results of the hypotheses test. This shows that the value of $F_{\text{calculation}} > \text{value } F_{\text{table}}$ is on the rejection area of H_0 , therefore, it can be concluded that the variables of Shariah financial accounting standard, the independence of Shariah Board, and the competence of Shariah auditors have a simultaneous effect on fraud prevention in Shariah banks in Indonesia. The first hypothesis, that Shariah financial accounting standard, the independence of Shariah Board, and the competence of Shariah auditors have a simultaneous effect on fraud prevention, is accepted.

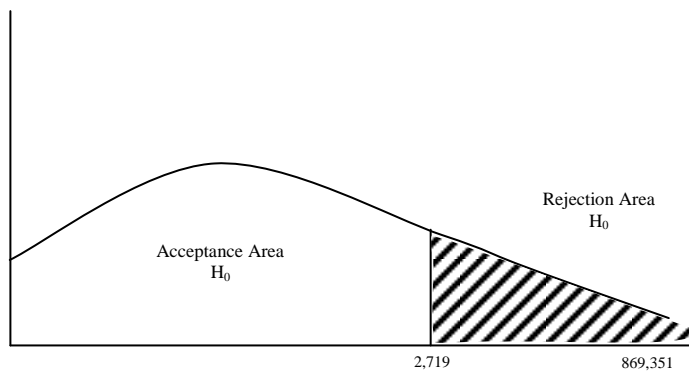


Figure 1. F-curve

t- Test

To determine the partial effect of Shariah financial accounting standard, the independence of Shariah Board, and the competence of Shariah auditors toward fraud prevention, t test was used. From the analysis using error rate (α) = 0.05, t_{tabel} 1.990 was revealed. The results of SPSS outputs are presented in the following Table 6.

Table 6. Results of t test

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-.996	1.011		-.985	.327
total_AKS	.169	.068	.059	2.496	.014
total_IDS	-.034	.052	-.013	-.657	.513
total_KA	1.405	.035	.947	40.254	.000

Note: a. Dependent Variable: total_PF

From the above calculation, the following $t_{\text{calculation}}$ was obtained, presented in the following Figure 2.

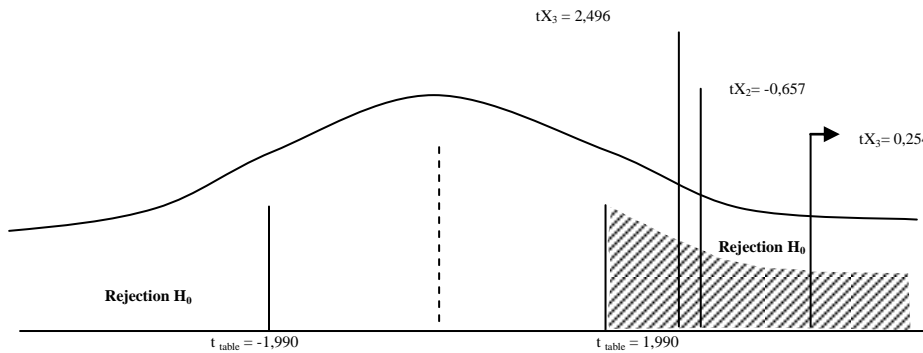


Figure 2. t Test Curve

4. Results and Discussion

Descriptive Statistics

Data of this study were collected by distributing a questionnaire to the respondents, who were Shariah internal auditors and Shariah Supervisory Board members at Shariah conventional banks, Shariah banks, and Shariah peoples credit banks in Bandar Lampung. Forty eight respondents were involved in the study. The characteristics of the respondents are presented in the following Table 7.

Table 7: Characteristics of Respondents

Item	Category	Number	Percentage
Gender	Male	27	56.25
	Female	21	43.75
Age	The number of questionnaires processed	48	100
	≤ 40 year	8	16.67
	> 40 year	40	83.33
	The number of questionnaires processed	48	100
Education	S2 (master degree)	17	35,41
	S1 (bachelor)	21	43,75
	D3 (diploma)	2	4,17
	SMA (senior high school)	6	12,50
	SMP (junior high school)	2	4,17
	The number of questionnaires processed	48	100

Findings

The influence of Shariah financial accounting standard on fraud prevention in Shariah banks: From Figure 2, it is know that the $t_{\text{calculation}}$ the variable Shariah financial accounting standard was 2.469. Using $\alpha = 0.05$, t_{table} 1.990 was obtained. This suggests that the variable Shariah financial accounting standard has a significantly positive influence on the prevention of fraud in Shariah banks. Therefore, the hypothesis that Shariah financial accounting standard partially affects the quality of fraud prevention in Shariah bank **is accepted**.

The influence of the independence of Shariah Board on fraud prevention in Shariah banks: It is found that the $t_{\text{calculation}}$ of the independence of Shariah Board was -0.657. By using $\alpha = 0.05$, t_{table} 1.990 was obtained. It can be seen that the value of $t_{\text{calculation}} < \text{value } t_{\text{table}}$. This indicates that the independence of Shariah Board has no effect on the prevention of fraud in Islamic banks. Therefore, the hypothesis stating that the independence of Shariah Board has a significant effect on fraud prevention in Islamic banks **is rejected**.

The influence of Shariah auditors' competence on fraud prevention in Shariah banks: As shown in Figure 2, $t_{\text{calculation}}$ of the competence of Shariah auditors was 40.254. By using $\alpha = 0.05$, t_{table} 1.990 was obtained. From the results, it was revealed that $t_{\text{calculation}} > \text{value } t_{\text{table}}$. This indicates that the competence of Shariah auditors have a positive effect on the prevention of fraud in Islamic banks. Therefore, the hypothesis that the competence of Shariah auditors has a partial effect on the quality of fraud prevention in Shariah banks **is accepted**.

From the calculation result with a confidence level of 95% or $\alpha = 0.05$, F_{table} of 2.719 was obtained, while the value of $F_{\text{calculation}}$ was 869.351. So, $F_{\text{calculation}} > F_{\text{table}}$. Therefore, Shariah financial accounting standard, the independence of Shariah

board, and the competence of Shariah auditors simulataneously affect fraud prevention in Shariah banks. With the Shariah accounting standard, financial statements may provide information that is relevant and credible. Accounting standard is also used by users of financial statements, such as investors, creditors, government, and public as a reference for understanding and analyzing financial statements; this enables them to make appropriate/right decisions.

Therefore, Shariah accounting standard has an important role for the preparers and users of financial statements, so that they have the same interpretation of information contained in the financial statements. This will minimize the occurrence of fraud. The independence of Shariah board is necessary in Shariah banking. It will increase the application of Shariah law in the practices of Islamic banking. Additionally, competent auditors are needed to prevent irregularities in the activities of Islamic banking.

The variables are important as fraud has been widespead and manipulative tricks have often been used. The synchronization of the variables of Shariah financial accounting standard, the independence of Shariah Board, the competence of Shariah board will assist in the early prevention and detection of fraud. This research supports the discourse presented by DR. Mohammad Hudaib in the Discussion Forum of Shariah Financial Institutions (2015) related to the prevention of fraud, that there are four important issues related to fraud prevention in Islamic banking; the four should be connected to each other. They are the clarity of the scope of Shariah audits, SAK-based recording which separates the conventional and Shariah, the competence of auditors, and the independence of Shariah board.

a. Shariah accounting standard has a partially significant effect on the prevention of fraud in Shariah banks

It is revealed that $t_{\text{calculation}}$ of Shariah accounting standard was 2.469. By using $\alpha = 0.05$ t_{tabel} 1.990 was obtained. Thus, $t_{\text{calculation}} > t_{\text{tabel}}$. The variable Shariah accounting standard has a significant positive effect on the prevention of fraud in Shariah banks. This study shows that the improvement of record keeping based on procedures and Shariah financial accounting standard will have implications for the prevention of fraud in Islamic banks. The research highlights Santoso's (2008) and Darwanis' (2013) studies which suggest that the application of financial accounting standard has an implication for the prevention of fraud.

b. The independence of Shariah board has a partially significant effect on the prevention of fraud in Shariah banks

Based on $t_{\text{calculation}}$, the variable of the independence of Shariah board was -0.657. By using $\alpha = 0.05$, t_{tabel} 1.990 was obtained. Thus, it can be seen that $t_{\text{calculation}} < \text{value } t_{\text{tabel}}$. This shows that the independence of Shariah board do not affect the variable of fraud prevention in Shariah banks. Therefore, the hypothesis that the independence of Shariah board has a partially significant effect on the prevention of fraud in Shariah banks is rejected.

Shariah supervisory board is an independent institution in Islamic banks which is responsible for supervising the compliance of the operations of the banks to Shariah. Its duties and functions have a legal basis in terms of *fiqih* and banking legislation in Indonesia. However, in Shariah banking industry, the Shariah supervisory board is still often considered as not having absolute independence, despite the fact that all Shariah banks have Shariah supervisory board. Ideally, the Shariah supervisory board is inseparable from Shariah banks, as Islam does not recognize the separation of business and religion (Ihsan & Prasetyaningrum, 2004). This arises because, unlike external auditors, members of Shariah supervisory board are bank employees and paid by the banks. This causes a debate as Shariah supervisory board produces independent reports to shareholders. Due to such an aspect, the independence of Shariah supervisory board is often questioned.

This is different from the results of Widiyanto's (2010) and Junaedi's (2014) studies which show that the independence of Shariah board is proved to reduce planned or hidden crime. However, Karim's (1999) study indicates that the independence of Shariah supervisory board is still questioned; the Shariah supervisory board does not guarantee its ability to detect fraud.

c. The competence of Shariah auditors has a partially significant effect on the prevention of fraud in Shariah banks

Based on the calculation, the $t_{\text{calculation}}$ was 40.254. By using $\alpha = 0.05$, t_{table} 1.990 was obtained. It was revealed that $t_{\text{calculation}} > \text{value } t_{\text{table}}$. This shows that the variable of the competence of Shariah auditors has a positive effect on the prevention of fraud in Shariah banks.

Auditors must have the ability to understand the criteria used and to determine evidence needed to support conclusions which they make. They must also be independent. The information which the Shariah auditors collect will not be useful if they are not independent; the information should not be biased (Arens & Loebbecke, 2009).

The competence of auditors is needed by the auditors to maintain the quality of their work. Auditors who have adequate competence should be able to detect fraud or abuse in their workplace. The analytical skill possessed by auditors will help them prevent fraud to happen in their institutions (Sawyer, 2006).

This finding supports the research of Hendro (2006) and Rosnidah (2011), which suggests that competence and professionalism are key requirements of auditors; competence is part of professionalism. Good competence and professionalism of auditors will help them detect fraud in their workplace.

5. Conclusions

Shariah financial accounting standard, the independence of Shariah board, and the competence of Shariah auditors have a simultaneous effect on the prevention of fraud in Shariah banks in Indonesia. The synchronization of the three variables will help to detect and prevent fraud to occur. This research supports the discourse proposed by Dr. Mohammad Hudaib in the Discussion Forum of Shariah Financial Institutions (2015) related to the prevention of fraud, that there are four important issues related to fraud prevention in Islamic banking; the four should be connected to each other. They are the clarity of the scope of Shariah audits, SAK-based recording which separates the conventional and Shariah, the competence of auditors, and the independence of Shariah board.

Shariah accounting standard has a partial effect on the prevention of fraud in Shariah banks. The improvement of book keeping based on procedures and Shariah financial accounting standard will have implications for the prevention of fraud in Shariah banks. The research highlights Santoso's (2008) and Darwanis' (2013) studies which suggest that the application of financial accounting standard has an implication for the prevention of fraud.

The independence of Shariah supervisory board does not have a partial effect on the prevention of fraud in Shariah banks. In Shariah banking, Shariah supervisory board is often considered as having absolute independence. Almost all Shariah banks have Shariah supervisory board. Ideally, Shariah supervisory board is inseparable from the banks although it is an evaluative board. It is because Islam does not recognize the separation of business and religion (Ihsan & Prasetyaningrum, 2004). This is different from the research of Widiyanto (2010) and Junaedi (2014) which shows that the independence of Shariah board will reduce hidden or planned crime. However, this study aligns with the research of Karim (1999) which suggests that the independence of Shariah supervisory board is still questioned. Thus, the Shariah supervisory board does not guarantee its ability to detect fraud.

The competence of Shariah auditors has a partial effect on the prevention of fraud in Shariah banks. The competence of auditors is needed to maintain the quality of auditors in performing their work. Auditors who have adequate competence should be able to detect fraud and abuse in their workplace. The analytical ability of auditors will help them prevent fraud to occur in their institutions (Sawyer, 2006). This supports the research of Hendro (2006) and Rosnidah (2011) which show that competence and professionalism are key requirements of auditors.

Suggestions

The data analyzed in this study are based on the perceptions of the respondents which could change over time. Future research needs to conduct interviews or to get involved directly in the activities of companies. Thus, the conclusions of this study are based on data obtained with specific questionnaire. In this research, the number

of respondents involved is limited. Therefore, the results are not maximum. Future research can involve more respondents so that the results can be generalized.

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