

Corporate Governance and Fraud Prevention in Indonesian Islamic Banks

ABSTRACT - The rapid growth of Islamic banking in Indonesia has increased the importance of strengthening governance and fraud prevention mechanisms within Islamic financial institutions. Alongside the expansion of Islamic Commercial Banks, concerns regarding fraud and deviations from Sharia principles have also become more prominent. This study aims to examine the influence of the audit committee, internal control, and Sharia compliance on fraud in Islamic Commercial Banks in Indonesia listed with the Financial Services Authority (OJK) during the 2021–2023 period. The study employs a quantitative approach using secondary data obtained from annual reports and Good Corporate Governance reports. The sample consists of 13 Islamic Commercial Banks observed over three years, resulting in 39 observational data points selected through a saturated sampling technique. Data analysis was conducted using panel data regression with EViews 12 software. The findings indicate that the audit committee has a negative and significant effect on fraud, suggesting that stronger supervisory functions contribute to reducing fraudulent practices within Islamic banking institutions. Meanwhile, internal control and Sharia compliance measured through the Profit-Sharing Ratio demonstrate positive but insignificant effects on fraud. These results imply that formal control systems and compliance indicators alone may not effectively minimize fraud risk without strong implementation, supervision, and organizational integrity. The study highlights the importance of strengthening governance quality, supervisory effectiveness, and ethical practices in supporting fraud prevention within Islamic Commercial Banks in Indonesia.

ABSTRAK - Tata Kelola Perusahaan dan Pencegahan Fraud pada Bank Syariah di Indonesia. Pertumbuhan perbankan syariah di Indonesia yang terus meningkat memperkuat urgensi penerapan tata kelola yang efektif serta mekanisme pencegahan fraud pada lembaga keuangan syariah. Seiring berkembangnya Bank Umum Syariah, potensi kecurangan dan penyimpangan terhadap prinsip-prinsip syariah juga menjadi isu yang semakin relevan. Penelitian ini bertujuan untuk menganalisis pengaruh komite audit, internal control, dan syariah compliance terhadap fraud pada Bank Umum Syariah yang terdaftar di Otoritas Jasa Keuangan (OJK) selama periode 2021–2023. Penelitian menggunakan pendekatan kuantitatif dengan data sekunder yang bersumber dari laporan tahunan dan laporan Good Corporate Governance Bank Umum Syariah. Sampel penelitian mencakup 13 Bank Umum Syariah yang diamati selama tiga tahun, sehingga diperoleh 39 observasi penelitian dengan teknik sampel jenuh. Analisis data dilakukan menggunakan regresi data panel dengan bantuan perangkat lunak EViews 12. Hasil penelitian menunjukkan bahwa komite audit berpengaruh negatif dan signifikan terhadap fraud, yang mengindikasikan bahwa peran pengawasan yang efektif mampu menekan tingkat kecurangan dalam perbankan syariah. Sebaliknya, internal control dan syariah compliance yang diukur melalui Profit Sharing Ratio menunjukkan pengaruh positif namun tidak signifikan terhadap fraud. Temuan ini mengisyaratkan bahwa keberadaan sistem pengendalian dan indikator kepatuhan syariah secara formal belum tentu efektif dalam menurunkan risiko fraud tanpa didukung oleh implementasi yang konsisten, pengawasan yang optimal, serta integritas organisasi. Oleh karena itu, penguatan tata kelola, efektivitas pengawasan, dan penanaman nilai etika menjadi aspek penting dalam upaya pencegahan fraud pada Bank Umum Syariah di Indonesia.

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INTRODUCTION

The development of Islamic banking in Indonesia has experienced substantial growth since the enactment of Law Number 21 of 2008 concerning Islamic banking. This regulatory framework strengthened the institutional foundation of Islamic financial institutions and encouraged the expansion of Islamic Commercial Banks in terms of both fund collection and financing activities. Alongside this rapid growth, Islamic banking has become increasingly important in supporting financial inclusion and providing financial services that align with Sharia principles. However, the expansion of the industry has also introduced various operational and governance challenges, particularly those related to the risk of fraud and deviations from Sharia principles (Awaluddin et al., 2023).

Fraud remains one of the major concerns in the banking industry because it can undermine public trust, weaken institutional credibility, and generate significant financial losses. According to the Financial Services Authority Regulation Number 39/POJK.03/2019 concerning the Implementation of Anti-Fraud Strategies for Commercial Banks, fraud refers to dishonest acts, deviations, or intentional deception occurring within banks or through banking services with the purpose of misleading or harming customers, banks, or other parties for the financial benefit of the perpetrators (OJK, 2019). In the context of Islamic banking, fraud not only threatens financial stability but also contradicts the ethical and moral foundations embedded in Sharia principles (Sari et al., 2024).

Previous studies have identified several factors associated with fraud in banking institutions, including the effectiveness of the audit committee, internal control systems, and the implementation of Sharia compliance. The audit committee plays a significant role in supporting the supervisory function of the board of commissioners and strengthening internal oversight mechanisms. Effective supervision from the audit committee is often associated with stronger governance practices and lower opportunities for fraudulent activities. Nevertheless, weaknesses in coordination and limited monitoring activities may reduce the effectiveness of supervision. This issue was reflected in the case of Bank Muamalat Indonesia in 2021, where internal fraud cases increased to 10 incidents while the frequency of audit committee meetings declined to six meetings annually despite the presence of three audit committee members. The case illustrates how limited supervisory intensity may contribute to weaker oversight and increase the potential for fraud (Maisaroh & Nurhidayati, 2021).

Internal control is another important aspect frequently discussed in relation to fraud prevention. Internal control refers to a set of policies and procedures designed to ensure operational efficiency, safeguard assets, maintain accurate financial reporting, and reduce opportunities for fraudulent behavior. Weak internal control systems may create loopholes that can be exploited for personal interests without timely detection. The fraud case at BTPN Syariah in 2022 demonstrates the vulnerability arising from inadequate control mechanisms, where a former employee manipulated and embezzled customer financing funds ranging from IDR 1 million to IDR 6 million (Sadaah, 2024).

In addition to governance and control mechanisms, Sharia compliance represents a distinctive element in Islamic banking operations. The consistent implementation of Sharia principles is

expected to strengthen ethical conduct and minimize practices that conflict with Islamic values. However, inadequate supervision and inconsistent application of Sharia principles may create opportunities for misconduct and fraudulent activities. A notable example occurred at Bank Muamalat Indonesia, where 83 fraud cases were reported within a year, including embezzlement of customer funds and falsification of financial records by bank employees. One case involved the misuse of funds from 21 customer accounts at the Mataram branch, causing losses of approximately IDR 9 billion (Najib & Rini, 2016). This incident demonstrates how weaknesses in Sharia compliance and supervision can facilitate fraudulent practices within Islamic banking institutions.

Although previous studies have discussed fraud in the banking sector, the existing literature still presents several limitations. Many studies primarily focus on conventional banking institutions, while research examining fraud determinants in Islamic Commercial Banks remains relatively limited. In addition, prior research tends to analyze the role of audit committees, internal control, and Sharia compliance separately, resulting in limited understanding of how these variables collectively influence fraud within Islamic banking institutions. Existing studies also often emphasize governance and financial aspects without adequately considering the unique characteristics of Islamic banking, particularly the role of Sharia compliance as an ethical and supervisory mechanism. Furthermore, empirical evidence related to fraud in Indonesian Islamic banking institutions remains inconsistent, indicating the need for further investigation within the specific regulatory and institutional context of Indonesia.

This study responds to these gaps by examining the influence of audit committees, internal control, and Sharia compliance on fraud in Islamic Commercial Banks in Indonesia through an integrated perspective. The study seeks to provide a more comprehensive understanding of how governance mechanisms, control systems, and compliance with Sharia principles interact in influencing fraud risks within Islamic banking institutions. The findings are expected to contribute to the development of literature on Islamic banking governance and fraud prevention, particularly by enriching empirical evidence regarding fraud determinants in Islamic Commercial Banks. In practical terms, the study may provide insights for banking management, regulators, and other stakeholders in strengthening supervisory systems, improving internal control effectiveness, and reinforcing Sharia compliance practices to minimize fraud risks in Islamic financial institutions.

LITERATURE REVIEW

Theoretical Foundation

Agency theory explains the relationship between principals and agents within an organization, where conflicts may arise because both parties often pursue different interests. Jensen and Meckling (1976) argued that agency problems emerge when agents possess greater access to information than principals, creating information asymmetry. In the banking sector, this condition may increase the risk of fraud when management or employees misuse information for personal benefit, ultimately causing financial losses and reducing institutional credibility. Within Islamic banking institutions, agency problems may also weaken transparency and accountability, particularly when supervision and monitoring mechanisms are ineffective.

In addition to agency theory, fraud in organizations can also be understood through the Fraud Triangle Theory introduced by Cressey (1953). This theory explains that fraudulent behavior generally arises from three main elements: pressure, opportunity, and rationalization. Pressure refers to financial or non-financial demands experienced by individuals, while opportunity emerges from weak supervision or inadequate control systems that enable fraudulent actions to occur. Rationalization reflects the justification used by perpetrators to consider their actions acceptable. The Fraud Triangle Theory has been widely used in studies examining fraud because it provides a framework for understanding the underlying factors that encourage unethical behavior within organizations (Cressey, 1953).

Fraud itself is defined as a dishonest act, deviation, or intentional deception occurring within banks or through banking services with the purpose of misleading customers, banks, or other parties, resulting in financial losses for victims while generating benefits for perpetrators (Fadillah & Rakhmawati, 2022). In this study, fraud is measured using the number of internal fraud cases disclosed in the corporate governance reports of Islamic Commercial Banks. This measurement reflects the extent of fraudulent practices occurring within banking institutions.

Determinants of Fraud in Islamic Banking

The audit committee represents one of the essential governance mechanisms in supporting effective supervision within a company. Spraakman et al. (2007) explained that the audit committee is established by the Board of Commissioners to oversee company management and improve the effectiveness of financial reporting and organizational performance. A well-functioning audit committee may strengthen monitoring activities and reduce opportunities for fraudulent behavior. Conversely, weak supervision and limited coordination within the audit committee may increase fraud risk within banking institutions. The audit committee variable in this study is measured using the total number of audit committee members (Purwiyanti & Laksito, 2020).

$$KA = \sum \text{Number of Audit Committee Members}$$

Internal control also plays an important role in minimizing fraud within organizations. According to COSO (2013), internal control refers to a series of processes involving the board of commissioners, management, and other organizational personnel aimed at achieving objectives related to operational effectiveness, reliable financial reporting, and compliance with regulations. Strong internal control systems can reduce opportunities for fraud through effective monitoring, risk management, and clear operational procedures. On the other hand, weak internal controls may create vulnerabilities that facilitate manipulation, misuse of authority, and financial misconduct.

Another important factor in Islamic banking is Sharia compliance. Nurhidayah and Prasetyo (2021) explained that Sharia compliance distinguishes Islamic banking from conventional banking systems because all banking activities must conform to Islamic principles, particularly in financial and commercial transactions. Consistent implementation of Sharia principles is expected to strengthen ethical conduct and reduce the likelihood of fraudulent practices. In

contrast, weak implementation and inadequate supervision of Sharia principles may increase the potential for misconduct within Islamic financial institutions.

Sharia compliance in this study is measured using the Profit Sharing Ratio (PSR), formulated as follows (Nurhidayah & Prasetyo, 2021):

$$PSR = \frac{\text{Mudharabah Financing} + \text{Musyarakah Financing}}{\text{Total Financing}}$$

Conceptual Framework and Hypothesis Development

The conceptual framework of this study is grounded in Agency Theory and Fraud Triangle Theory, which explain the importance of supervision, control systems, and ethical compliance in minimizing fraudulent behavior within organizations. Agency theory emphasizes that information asymmetry between principals and agents may create opportunities for actions that prioritize personal interests over organizational objectives (Jensen & Meckling, 1976). Meanwhile, Fraud Triangle Theory explains that fraud may arise when pressure, opportunity, and rationalization coexist within an organization (Cressey, 1953). In the context of Islamic banking, effective governance mechanisms, strong internal controls, and consistent implementation of Sharia principles are expected to reduce opportunities for fraud.

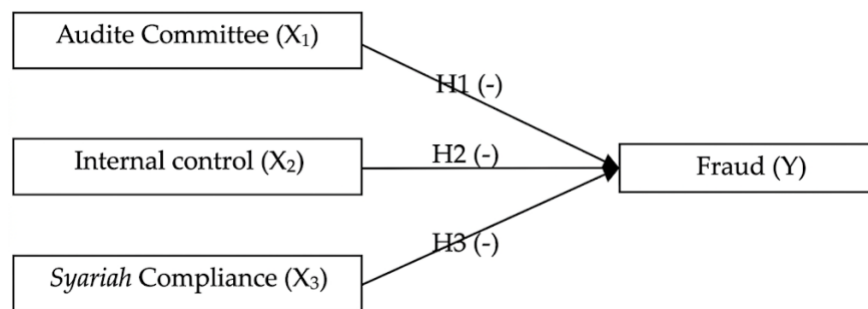


Figure 1. Conceptual Framework

Audit Committee and Fraud

The audit committee serves as an important governance mechanism responsible for supporting the supervisory function of the Board of Commissioners and improving the quality of corporate oversight. Effective audit committees may strengthen monitoring activities, evaluate financial reporting processes, and ensure compliance with applicable regulations and internal policies (Sprakman et al., 2007). Strong oversight can reduce information asymmetry between management and stakeholders, thereby limiting opportunities for fraudulent behavior.

From the perspective of Fraud Triangle Theory, effective supervision may reduce the “opportunity” element that encourages fraud. Audit committees with adequate membership and active involvement are generally considered more capable of identifying irregularities and monitoring organizational activities. Previous studies have also indicated that stronger audit committee effectiveness is associated with lower levels of fraud and financial misconduct within banking institutions (Purwiyanti & Laksito, 2020). Therefore, the presence of an effective audit

committee is expected to reduce fraud in Islamic Commercial Banks. Based on the explanation above, the following hypothesis is proposed:

H1: The audit committee has a negative and significant effect on fraud in Islamic Commercial Banks in Indonesia listed with the Financial Services Authority during the 2021–2023 period.

Internal Control and Fraud

Internal control represents a system designed to ensure operational effectiveness, reliable financial reporting, asset protection, and compliance with applicable regulations (COSO, 2013). Effective internal control systems help organizations minimize the risk of irregularities through monitoring mechanisms, segregation of duties, and risk management procedures. Conversely, weak internal controls may create opportunities for individuals to commit fraud without timely detection.

In Agency Theory, internal control functions as a mechanism that limits opportunistic behavior arising from information asymmetry between principals and agents. Similarly, Fraud Triangle Theory highlights that weak control systems increase the opportunity for fraudulent actions. Previous studies have shown that effective internal control systems contribute to fraud prevention and strengthen organizational accountability within financial institutions. Therefore, stronger internal control is expected to reduce the occurrence of fraud in Islamic Commercial Banks.

Based on the explanation above, the following hypothesis is proposed:

H2: Internal control has a negative and significant effect on fraud in Islamic Commercial Banks in Indonesia listed with the Financial Services Authority during the 2021–2023 period.

Sharia Compliance and Fraud

Sharia compliance constitutes a fundamental characteristic that distinguishes Islamic banking from conventional banking systems. Islamic banks are required to conduct financial and commercial activities in accordance with Islamic principles, including fairness, transparency, accountability, and the prohibition of unethical practices (Nurhidayah & Prasetyo, 2021). Consistent implementation of Sharia principles is expected to strengthen ethical behavior within banking operations and encourage greater responsibility among organizational members.

From the perspective of Agency Theory, Sharia compliance may reduce agency conflicts because Islamic principles emphasize honesty, trustworthiness, and accountability in transactions. In addition, Fraud Triangle Theory suggests that stronger ethical values and supervision can weaken the rationalization element that often justifies fraudulent behavior. Previous studies have indicated that effective implementation of Sharia compliance may contribute to reducing unethical practices and strengthening governance within Islamic financial institutions. Therefore, higher levels of Sharia compliance are expected to reduce fraud in Islamic Commercial Banks.

Based on the explanation above, the following hypothesis is proposed:

H3: Sharia compliance has a negative and significant effect on fraud in Islamic Commercial Banks in Indonesia listed with the Financial Services Authority during the 2021–2023 period.

METHODOLOGY

Research Design

This study employs a quantitative research approach to examine the influence of the audit committee, internal control, and Sharia compliance on fraud in Islamic Commercial Banks in Indonesia. Quantitative research was selected because it allows the relationship among variables to be measured objectively using numerical data and statistical analysis. The study focuses on Islamic Commercial Banks registered with the Financial Services Authority during the 2021–2023 period.

The population of this study consists of all Islamic Commercial Banks operating in Indonesia and listed with the Financial Services Authority during the observation period. The sampling technique used is saturated sampling. According to Sugiyono (2020), saturated sampling refers to a sampling technique in which all members of the population are included as research samples. Since the population comprises 13 Islamic Commercial Banks observed over a three-year period, the study obtained a total of 39 observational data points.

This study investigates fraud as the dependent variable, while the audit committee, internal control, and Sharia compliance function as independent variables. Fraud is measured using the number of internal fraud cases disclosed in the annual reports and Good Corporate Governance reports of Islamic Commercial Banks. The audit committee variable is measured using the total number of audit committee members, while Sharia compliance is measured using the Profit Sharing Ratio (PSR).

Data Collection Method

This study uses secondary data obtained from annual reports and annual Good Corporate Governance (GCG) reports published by Islamic Commercial Banks during the 2021–2023 period. These reports were selected because they provide comprehensive information regarding corporate governance practices, internal fraud cases, financial activities, and Sharia compliance implementation within Islamic banking institutions.

The internal control variable is measured using a composite score derived from the self-assessment results reported in the implementation of Good Corporate Governance. The assessment includes several dimensions related to governance and supervisory practices within Islamic banks. These dimensions consist of the duties and responsibilities of the board of commissioners, the duties and responsibilities of the board of directors, the adequacy and implementation of committee functions, the duties and responsibilities of the Sharia supervisory board, the implementation of Sharia principles in fundraising, financing, and service activities, the management of conflicts of interest, the implementation of compliance functions, internal audit functions, external audit functions, compliance with legal lending limits, and transparency

in financial and non-financial reporting related to GCG implementation (GCG Implementation Report, 2023).

The composite assessment reflects the extent to which Islamic banks have implemented effective internal control mechanisms. Higher assessment scores indicate stronger implementation of internal control systems and governance practices within the organization.

Internal control in this study is measured using the following formula adopted from Yang and Li (2020):

$$\text{Internal Control Score} = \sum_{i=1}^n S_i \quad (1)$$

Where:

- S_i = Factor Score (Internal Control Indicator)
- n = Total Number of Assessed Indicators

Data Analysis Method

This study employs panel data regression analysis to examine the effect of the audit committee, internal control, and Sharia compliance on fraud in Islamic Commercial Banks in Indonesia. Panel data analysis was selected because it combines cross-sectional data from several banks with time-series data over the observation period, enabling a more comprehensive analysis of the relationship among variables.

The regression model is used to evaluate the extent to which the independent variables influence fraud as the dependent variable. The analysis process includes model estimation and statistical testing to assess the significance of each independent variable. The panel data approach also allows the study to capture variations across banks and across observation periods more effectively than using cross-sectional or time-series analysis alone.

The general regression model used in this study is formulated as follows:

$$FRD_{it} = \alpha + \beta_1 KA_{it} + \beta_2 IC_{it} + \beta_3 PSR_{it} + \varepsilon_{it} \quad (2)$$

Where:

- FRD_{it} = Fraud
- α = Constant
- $\beta_1, \beta_2, \beta_3$ = Regression coefficients
- KA_{it} = Audit Committee
- IC_{it} = Internal Control
- PSR_{it} = Sharia Compliance
- ε_{it} = Error term
- i = Bank entity
- t = Observation period

RESULTS AND DISCUSSION

This study employs panel data regression analysis to examine the effect of the audit committee, internal control, and Sharia compliance on fraud in Islamic Commercial Banks in Indonesia during the 2021–2023 period. Panel data combine cross-sectional and time-series data, allowing the analysis to capture variations across entities and observation periods simultaneously. The data analysis process was conducted using E-Views 12 software. According to Ghozali (2022), panel data regression analysis generally consists of three estimation models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Determining the most appropriate model requires several specification tests, including the Chow test, Hausman test, and Lagrange Multiplier (LM) test. The results of these tests are presented below.

Panel Data Regression Model Selection

Basuki and Prawoto (2016) stated that panel data regression analysis requires selecting the most appropriate estimation model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The model selection process in this study involved the Chow test and Hausman test.

Chow Test

The Chow test is used to determine whether the Fixed Effect Model or the Common Effect Model is more suitable for the regression analysis (Basuki & Prawoto, 2016). The results of the Chow test are presented in Table 1.

Table 1. Results of the Chow Test

Effect Test	Statistic	d.f	Prob.
Cross-section F	4.117166	(12,23)	0.0018
Cross-section Chi-square	44.724998	12	0.0000

(Source: Processed Data, 2025)

Based on Table 1, the probability value of the cross-section F test is 0.0018, which is lower than the significance level of 0.05. These results indicate that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM) for this study.

Hausman Test

The Hausman test aims to determine whether the Fixed Effect Model or the Random Effect Model is more suitable for panel data regression analysis (Basuki & Prawoto, 2016). The results of the Hausman test are presented in Table 2.

Table 2. Results of the Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	12.166002	3	0.0068

(Source: Processed Data, 2025)

Table 2 shows that the probability value of the cross-section random test is 0.0068, which is lower than 0.05. Therefore, the Fixed Effect Model (FEM) is considered more appropriate than the Random Effect Model (REM).

Lagrange Multiplier Test

Basuki and Prawoto (2016) explained that the Lagrange Multiplier (LM) test is generally conducted when the Common Effect Model or Random Effect Model is selected during the model selection process. Since the Chow test and Hausman test results both indicate that the Fixed Effect Model is the most appropriate model for this study, the Lagrange Multiplier test was not required.

Panel Data Regression Estimation

After determining the appropriate estimation model, panel data regression analysis was conducted using the Fixed Effect Model (FEM). The regression estimation results are presented in Table 3.

Table 3. Panel Data Regression Estimation Results Using the Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.261068	3.724159	2.218237	0.0367
X1 (Audit Committee)	-1.213740	0.545919	-2.223296	0.0363
X2 (Internal Control)	0.871129	12.23487	0.071201	0.9439
X3 (Sharia Compliance)	0.153858	1.048841	0.146754	0.8846

(Source: Processed Data, 2025)

Based on Table 3, the regression equation in this study can be formulated as follows:

$$Y = 8.261068 - 1.213740X_1 + 0.871129X_2 + 0.153858X_3$$

The regression results indicate that the constant value is 8.261068. This value suggests that when the independent variables, namely the audit committee, internal control, and Sharia compliance, are assumed to be constant, the predicted fraud value is 8.261068.

The audit committee variable (X1) has a coefficient value of -1.213740, indicating a negative relationship with fraud. This result suggests that an increase in the audit committee variable is associated with a decrease in fraud. Meanwhile, the internal control variable (X2) has a coefficient value of 0.871129, indicating a positive relationship with fraud. Similarly, the Sharia compliance variable (X3) has a coefficient value of 0.153858, which also reflects a positive relationship with fraud.

The significance test results further show that the audit committee variable has a probability value of 0.0363, which is lower than the significance level of 0.05. This finding indicates that the audit committee has a significant effect on fraud. In contrast, the internal control variable and Sharia compliance variable have probability values of 0.9439 and 0.8846, respectively, both of which exceed 0.05. These results indicate that internal control and Sharia compliance do not have a significant effect on fraud during the observation period.

Hypothesis Testing Summary

To evaluate the proposed hypotheses, this study uses the probability value (Sig.) and t-statistic obtained from the Fixed Effect Model (FEM) regression analysis. A hypothesis is accepted when the probability value is below the significance level of 0.05. The summary of hypothesis testing results is presented in Table 4.

Table 4. Hypothesis Testing Summary

Hypo-thesis	Statement	Coefficient	t-Statistic	Prob.	Decision
H1	The audit committee has a negative and significant effect on fraud in Islamic Commercial Banks in Indonesia.	-1.213740	-2.223296	0.0363	Accepted
H2	Internal control has a negative and significant effect on fraud in Islamic Commercial Banks in Indonesia.	0.871129	0.071201	0.9439	Rejected
H3	Sharia compliance has a negative and significant effect on fraud in Islamic Commercial Banks in Indonesia.	0.153858	0.146754	0.8846	Rejected

(Source: Processed Data, 2025)

Table 4 shows that only the audit committee variable has a significant effect on fraud, with a probability value below 0.05 and a negative coefficient direction. These findings indicate that stronger audit committee supervision is associated with lower levels of fraud in Islamic Commercial Banks.

Meanwhile, the internal control and Sharia compliance variables do not demonstrate significant effects on fraud because their probability values exceed the 0.05 significance level. In addition, both variables show positive coefficient directions, indicating that increases in internal control scores and Sharia compliance measured through the Profit Sharing Ratio (PSR) were not associated with reductions in fraud during the observation period.

Discussion

The Effect of the Audit Committee on Fraud

The findings of this study indicate that the audit committee has a negative and significant effect on fraud in Islamic Commercial Banks in Indonesia. The regression results show a t-statistic value of -2.223296 with a probability value of 0.0363, which is lower than the significance level of 0.05. These results suggest that stronger audit committee oversight is associated with lower levels of fraud within Islamic banking institutions. Therefore, the first hypothesis (H1) is accepted.

The negative relationship between the audit committee and fraud demonstrates the importance of effective supervisory mechanisms in reducing opportunities for fraudulent behavior. The audit committee plays a central role in monitoring financial reporting practices, evaluating the effectiveness of internal supervision, and ensuring organizational compliance with applicable regulations. Strong oversight from the audit committee may increase transparency and accountability within banking operations, thereby limiting opportunities for manipulation and financial misconduct.

These findings are consistent with Agency Theory proposed by Jensen and Meckling (1976), which explains that conflicts of interest may arise between principals and agents due to information asymmetry. In banking institutions, management generally possesses greater access to internal information than shareholders and other stakeholders, increasing the possibility of opportunistic behavior. The audit committee functions as an independent supervisory mechanism that helps reduce information asymmetry and strengthens monitoring of managerial activities. Effective oversight from the audit committee may therefore minimize the potential for fraud and improve governance quality within Islamic Commercial Banks.

The results of this study also align with Fraud Triangle Theory introduced by Cressey (1953), particularly regarding the opportunity element. Weak supervision may create opportunities for individuals to engage in fraudulent behavior without detection. Conversely, effective audit committee oversight can narrow these opportunities through stricter monitoring, evaluation of financial reporting, and coordination with internal and external auditors.

Empirically, these findings support previous studies conducted by Maisaroh and Nurhidayati (2021) and Putri and Saud (2021), which reported that the audit committee has a negative and significant effect on fraud. The consistency of these findings indicates that the audit committee remains an important governance mechanism in reducing fraud risk within banking institutions, including Islamic Commercial Banks in Indonesia.

The Effect of Internal Control on Fraud

The results of this study show that internal control has a positive but insignificant effect on fraud. The regression analysis produced a t-statistic value of 0.071201 with a probability value of 0.9439, which exceeds the significance level of 0.05. These findings indicate that internal control did not significantly influence fraud in Islamic Commercial Banks during the observation period. Consequently, the second hypothesis (H2) is rejected.

Although internal control is theoretically expected to reduce fraud, the findings suggest that the existence of internal control mechanisms alone may not be sufficient to prevent fraudulent practices effectively. Formal control systems may exist within organizations, yet their implementation may not function optimally in practice. Weak monitoring, ineffective evaluation procedures, and insufficient follow-up on identified violations may reduce the effectiveness of internal control systems in detecting and preventing fraud.

This phenomenon can be explained through Fraud Triangle Theory proposed by Cressey (1953), particularly the opportunity dimension. Fraud opportunities may still emerge when internal control systems are implemented only administratively without effective supervision and enforcement. In some cases, organizational actors may exploit weaknesses in procedures or manipulate existing systems for personal interests. As a result, the presence of internal control structures does not necessarily guarantee lower fraud risk if the controls are not supported by strong ethical commitment and organizational accountability.

From the perspective of Agency Theory, internal control functions as a mechanism to reduce opportunistic behavior arising from information asymmetry between principals and agents (Jensen & Meckling, 1976). However, ineffective implementation of internal controls may

weaken the monitoring function and reduce the ability of organizations to detect irregularities. This condition may explain why internal control did not demonstrate a significant influence on fraud in this study.

The findings are consistent with the study conducted by Arizah (2022), which also reported that internal control has a positive and insignificant effect on fraud. These results indicate that the effectiveness of internal control depends not only on the existence of formal procedures but also on the quality of implementation, organizational culture, and management commitment to maintaining integrity and accountability within banking operations.

The Effect of Sharia Compliance on Fraud

The findings indicate that Sharia compliance, measured using the Profit Sharing Ratio (PSR), has a positive but insignificant effect on fraud in Islamic Commercial Banks in Indonesia. The regression results show a t-statistic value of 0.146754 with a probability value of 0.8846, which is higher than the significance level of 0.05. Therefore, the third hypothesis (H3) is rejected.

The results suggest that higher levels of Sharia compliance measured through the Profit Sharing Ratio were not associated with significant reductions in fraud during the observation period. Although profit-sharing financing reflects Islamic banking principles emphasizing fairness and risk sharing, the implementation of such financing mechanisms may still encounter several operational challenges (Musa et al., 2022). These challenges include information asymmetry between banks and customers, weak monitoring of financing activities, and the possibility of manipulation in profit reporting.

Fraud Triangle Theory provides a relevant explanation for these findings, particularly regarding the opportunity and rationalization dimensions (Cressey, 1953). Profit-sharing financing arrangements may create opportunities for manipulation when banks face difficulties in verifying customers' financial reports or monitoring business performance accurately. In addition, fraudulent actions may be rationalized as efforts to maintain business continuity, improve financial performance, or avoid contractual obligations. Under such conditions, Sharia compliance measured solely through financial ratios may not fully reflect the substantive implementation of Islamic ethical principles within banking operations.

From the perspective of Agency Theory, information asymmetry between banks and financing recipients may increase the risk of opportunistic behavior (Jensen & Meckling, 1976). Customers generally possess more complete information regarding the actual performance of financed businesses, while banks rely heavily on reported financial outcomes. Limited transparency and weak supervision may therefore increase the possibility of fraud despite the implementation of Sharia-based financing contracts.

These findings are consistent with the study conducted by Saleh (2019), which found that Sharia compliance measured using the Profit Sharing Ratio has a positive and insignificant effect on fraud. The results indicate that the implementation of Sharia principles in Islamic banking requires not only formal compliance through financing structures but also stronger ethical values, transparency, accountability, and effective supervision to reduce fraud risk within Islamic financial institutions.

Research Implications

The findings of this study provide several managerial implications for Islamic Commercial Banks, regulators, and other stakeholders involved in the Islamic banking industry. Since the audit committee was found to have a negative and significant effect on fraud, strengthening the effectiveness of the audit committee should become a strategic priority for banking management. Islamic banks need to ensure that audit committee members possess adequate competence, independence, and experience in governance, financial supervision, and risk management. In addition, more intensive coordination between the audit committee, internal auditors, and external auditors may improve the effectiveness of monitoring activities and reduce opportunities for fraudulent behavior.

The results also indicate that internal control did not significantly reduce fraud during the observation period. This finding suggests that the existence of formal internal control systems alone is insufficient if implementation and supervision are not conducted effectively. Therefore, Islamic Commercial Banks need to strengthen the quality of internal control practices through regular evaluations, continuous monitoring, and stricter enforcement of compliance procedures. Management should also encourage the development of an organizational culture that emphasizes integrity, transparency, and accountability in daily operations. Employee training related to ethics, fraud awareness, and risk management may further enhance the effectiveness of internal control systems within Islamic banking institutions (Ibrahim & Kamri, 2017).

Regarding Sharia compliance, the findings imply that compliance measured through the Profit Sharing Ratio has not yet demonstrated a significant role in reducing fraud. This condition highlights the importance of strengthening the substantive implementation of Sharia principles rather than focusing solely on financial indicators. Islamic banks need to reinforce ethical values such as honesty (*sidq*), trustworthiness (*amanah*), and responsibility in financing activities and financial reporting processes. The role of the Sharia Supervisory Board should also be strengthened to ensure that Sharia principles are implemented consistently not only in contractual structures but also in operational practices and governance mechanisms.

For regulators, particularly the Financial Services Authority and institutions responsible for Islamic banking supervision, the findings underline the importance of improving governance standards and supervisory regulations related to fraud prevention in Islamic financial institutions. Regulatory authorities may encourage stronger governance practices through stricter evaluation of audit committee effectiveness, enhancement of internal audit quality, and reinforcement of Sharia governance frameworks. More comprehensive fraud monitoring and reporting mechanisms may also support greater transparency and accountability within the Islamic banking sector.

Overall, the study highlights that fraud prevention in Islamic Commercial Banks requires an integrated approach involving governance quality, effective supervision, ethical organizational culture, and consistent implementation of Sharia principles. Strengthening these aspects may contribute to improving institutional credibility, maintaining public trust, and supporting the sustainable development of Islamic banking in Indonesia.

CONCLUSION

This study examined the influence of the audit committee, internal control, and Sharia compliance on fraud in Islamic Commercial Banks in Indonesia listed with the Financial Services Authority during the 2021–2023 period. The findings indicate that the audit committee has a negative and significant effect on fraud, suggesting that stronger supervisory functions and more effective governance mechanisms contribute to lower levels of fraudulent activity within Islamic banking institutions. In contrast, internal control and Sharia compliance measured through the Profit Sharing Ratio (PSR) show positive but insignificant effects on fraud. These findings suggest that the existence of formal control systems and Sharia-based financing indicators alone may not necessarily reduce fraud risk when implementation effectiveness, monitoring quality, and ethical practices remain limited in organizational operations.

The results of this study provide important implications for the development of governance and fraud prevention practices in Islamic banking. The significant role of the audit committee highlights the importance of strengthening supervisory effectiveness, transparency, and accountability within Islamic financial institutions. The findings also indicate that fraud prevention requires more than formal governance structures and compliance indicators. Internal control systems need to function effectively in practice through continuous monitoring, organizational integrity, and stronger enforcement mechanisms. Similarly, Sharia compliance should not only focus on financial ratios and contractual structures but also reflect the substantive implementation of Islamic ethical values such as honesty, trustworthiness, and accountability in banking activities. From a theoretical perspective, the findings support Agency Theory and Fraud Triangle Theory, particularly regarding the role of supervision and opportunity in influencing fraudulent behavior within organizations.

This study has several limitations that should be considered when interpreting the findings. First, the relatively small sample size of 39 observational data points may limit the generalizability of the results to the broader Islamic banking sector in Indonesia. Second, the measurement of the main variables relies primarily on quantitative and administrative indicators that may not fully capture qualitative dimensions such as organizational culture, ethical commitment, and managerial intent. Fraud in this study is measured using cases disclosed in Good Corporate Governance reports, meaning that undetected or unreported fraud cases are not included in the analysis. Consequently, the positive relationship between internal control and fraud may reflect the effectiveness of stronger control systems in identifying and reporting fraud rather than indicating weaknesses in fraud prevention. Similarly, the indicators used to measure internal control and Sharia compliance may not entirely represent the effectiveness of their implementation in practice. Therefore, future research is encouraged to use larger and more diverse samples, incorporate qualitative approaches, and employ data triangulation techniques to obtain a more comprehensive understanding of fraud and governance practices in Islamic banking institutions.

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