

# The Influences of Corporate Governance Mechanism and Compliance Function on Sharia Compliance of Indonesian Islamic Banks

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## ABSTRACT

This study aims to analyze the influences of the characteristics of Sharia Supervisory Board, Audit Committee, Internal Audit, and Compliance Function on sharia compliance in Sharia Commercial Banks in Indonesia. The characteristics of Sharia Supervisory Board is proxied by SSB size, and the characteristics of audit committee is proxied by the frequency of meetings. Moreover, the characteristics of internal audit and compliance function are proxied by members' competencies, size, and work programs. Sharia compliance is measured using sharia compliance indicators. The study uses panel data regression analysis by combining the cross-section data from seven Sharia Commercial Banks and time-series data within ten years. The result of this study indicates that the member competencies and size of internal audit and compliance function have positive effects on sharia compliance. This research contributes to the improvement of the internal audit function that not only ensures that management can achieve the entity's objectives through the correct mechanism, especially in Islamic banks that have a mission to maintain sharia compliance. Therefore, this study also recommends increasing the competence of internal audit human resources, especially the understanding of contracts and practices in Islamic banks.

Keywords: Sharia Supervisory Board, Internal Audit, Compliance Function, Audit Committee, Sharia Compliance.

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## 1. INTRODUCTION

The development of Islamic finance and banking industry in Indonesia in recent years has shown an increment which can be seen from the growth of the market share of Islamic banks in Indonesia. Regardless of the rapid growth, there are still several conditions that must be considered, such as lack of differentiation in business model, low quantity and quality of human resources, and low Islamic financial literacy and inclusion indexes. One of the strategies designed to strengthen the identity of Islamic banks is by strengthening the implementation of sharia principles and developing unique and competitive products according to sharia principles (OJK, 2021).

Sharia Supervisory Board (SSB) and Board of Directors, control function carried out by internal and external auditors, compliance function carried out by the internal sharia compliance department are included in the corporate governance mechanism. The smooth implementation of SSB functions is influenced by the size of SSB. Islamic banks that have more SSB members can have better financial performance and strengthen the role of the SSB in certifying financial products according to sharia compliance (Rahman & Bukair, 2013).

In addition, the control function carried out by internal audit (IA) also helps maintain good governance. Transparency and accountability are the aspects obtained by having an IA that works effectively (Islam & Bhuiyan, 2021). In addition, the effectiveness of sharia audits at work has a function to ensure the effectiveness of sharia control system, including to minimize the risk of sharia non-compliance and to promote good sharia practices in sharia banking sector (Khalid et al., 2017).

AAOIFI Governance Standard 3 (2020c) states that the effectiveness of sharia internal audit is reflected in the performance of sharia audits and cannot be separated from the competence possessed by internal auditors as a result of training and experience (Khalid et al., 2017). The problem is that there is no guarantee that internal sharia auditors will provide reasonable recommendations for sharia-compliant Islamic banking activities for their own institution since those professionals may not have acquired much experience and knowledge necessary to give advice or manage Islamic Financial Institutions. Other characteristics of internal auditors (IA) which can affect the effectiveness of IA include IA size and work program. As previously explained, the number of certified internal auditors is lacking, and, in fact, the quality of IA performance will improve when it has more staff (Alzeban & Gwilliam, 2014). In addition, the work program is also reflected in the performance of IA. This factor increases not only the effectiveness of internal auditors but also their credibility (Khalid et al., 2017).

Compliance function (CF) is carried out by sharia compliance unit to support sharia banking governance. This unit which is delegated by SSB is the first reference as an advisor for sharia compliance issues. Compliance function has the same characteristics as internal auditors. Similarly, CF size and work programs are influential factors in the effectiveness of the compliance function performance. In addition, sharia compliance unit staff need work programs designed based on the sharia principles implementation, and if the work programs are designed effectively, it will have a positive impact on sharia compliance monitoring (Khalid et al., 2017).

The implementation of good governance in Islamic banking industry cannot be separated from the role of audit committee (AC) which carries out its duties in the internal control of Islamic Banks. One of the duties is to evaluate the performance of the internal audit function. AC has a significant role in governance and coordination with internal audit. The presence of AC has a positive influence on disclosure of compliance (Sellami & Tahari, 2017). One of the factors that influences sharia compliance is the frequency of AC meetings which show the effectiveness of AC because the members of AC will provide more accurate decisions regarding evaluation and disclosure when meetings take place more frequently (Sellami & Tahari, 2017).

Therefore, the aim of this study is to examine the influence of the characteristics of Sharia Supervisory Board (SSB), Audit Committee (AC), Internal Audit (IA), and Compliance Function (CF) on sharia compliance. This is an empirical study on Islamic

Commercial Banks in Indonesia during 2011-2020. This study focuses on sharia compliance issues which play an important role in the Islamic banking industry in Indonesia and attempts to find the factors that influence sharia compliance. The difference between this study and the previous studies related to sharia compliance can be found in the variables used. Several previous studies discussed the characteristics of sharia supervisory board, such as those performed by Meutia (2019); Muhammad (2021); and Segarawasesa (2021). As for the research that discusses audit committee, it includes Andraeny (2021); Elgattani and Hussainey (2020); and Yamani et al. (2021). However, there is not much to find in the previous research discussing audit internal and compliance function. Alzeban (2018), Khalid et al. (2017); Puspitasari and Handayani (2020) point out the characteristics of audit internal, and Violita and Harbeni (2017) specifically address what compliance function is. This study is expected to give contribution in terms of identification of sharia compliance of Islamic banks. Understanding the factors that influence sharia compliance of Islamic banks will help Islamic bank management and regulators to develop strategies and policies related to the role of corporate governance, including to improve the internal audit function that not only ensures that management can achieve the entity's objectives through the correct mechanism, but also to maintain sharia compliance.

## **2. LITERATURE REVIEW AND HYPOTHESIS**

### **2.1 Corporate Governance Mechanism of Islamic banking**

Good corporate governance must be implemented in every business activity and all levels of organization. The different mechanism of sharia governance can be seen from the existence of SSB. According to Governance Standard of AAOIFI No. (1), SSB is defined as an independent body consisting of legal experts specializing in *fiqh muamalah* to supervise the operational activities as well as products/services of Islamic financial institutions in accordance with sharia principles (AAOIFI). The compliance to sharia principles can be strengthened by an effective sharia governance which consists of internal sharia audit and compliance functions (Ajili & Bouri, 2018).

Sharia internal audit is tasked with assessing the adequacy and effectiveness of controls related to compliance. Meanwhile, compliance function is in charge of ongoing monitoring process of a bank's operational activities as a whole and sharia compliance environment. Compliance function is listed in Bank of Indonesia Regulation No. 13/2/PBI/2011 concerning the Implementation of Compliance Function in Commercial Banks. Also, that for internal audit (IA) is stated in a copy of the regulation of the Financial Services Authority of the Republic of Indonesia No. 1/POJK.03/2019 concerning the Implementation of the Internal Audit Function in Commercial Banks.

#### **2.1.1 Competencies of IA and CF**

The ability to understand sharia principles and *fiqh muamalah* is needed to carry out a sharia internal audit. One of the competencies of professional qualifications that must be possessed by a sharia internal auditor is certification (Khalid et al., 2017). Meanwhile, CF must at least have certifications in banking, Islamic banking, and risk management (Puspitasari & Handayani, 2020). Having experience is also a determining competency required in audit and compliance functions as well as for performance effectiveness (Khalid et al., 2017).

#### **2.1.2 The Size of Internal Audit and Compliance Function**

The work quality of IA and compliance function will increase in line with the number of staff (Alzeban & Gwilliam, 2014). The more the number of members, the more effective the performance of sharia compliance supervision.

### 2.1.3 Internal Audit and Compliance Function Work Programs

The effectiveness of sharia internal audit is reflected in the performance of sharia audit series of activities starting from planning audit work, carrying out audit work properly, to communicating the results of audit to interested parties (AAOIFI, 2020c). The benchmarks of IA work program and compliance function can be seen from the realization of the implementation of their work programs (Khalid et al., 2017).

Furthermore, the embodiment of Islamic Bank governance is complemented by committees as a form of internal control function. Audit committee (AC) is one of the main factors contributing to the governance mechanism. Audit committee is a committee that assists with carrying out the oversight tasks and is responsible to Board of Commissioners (PBI, 2009). The presence of AC has positive influence on disclosure of compliance (Sellami & Fendri, 2017). One of the considerations for the effectiveness of AC comes from the frequency of audit committee meetings because AC members will make more accurate decisions regarding evaluation and disclosure when the meetings take place more frequently (Sellami & Fendri, 2017).

## 2.2 Sharia Compliance and Sharia Compliance Indicators (SCI)

Based on Islamic perspective, the main purpose of reporting is to show that the transactions, products, and activities comply with the sharia principles and rules (Rahman & Bukair, 2013). In line with what is stated in the regulation of Governance Standard for Islamic Financial Institutions No. 9, sharia compliance is a mechanism to ensure the compliance of financial institutions in arrangements, contracts and transactions which are in accordance with sharia principles and rules (AAOIFI, 2020b). Sharia compliance indicators are the indicators used in determining the level of sharia compliance in Islamic banks. This helps stakeholders evaluate the compliance of Islamic banks. Based on the regulations, several components related to sharia compliance are determined, called the SSB and other components that will be used as the indicators. Sharia compliance indicators in this case are divided into three approaches in terms of the effectiveness of organization as put forward by Damayanti (2016).

## 2.3 Research Hypothesis Development

### 2.3.1 Influence of Sharia Supervisory Board Size on Sharia Compliance

The ability to supervise and review all transactions to ensure that sharia compliance has been met is influenced by SSB size. The more the number of SSB members, the wider the collective knowledge and experiences to oversee management and to encourage Islamic banks to disclose more information (Elgattani & Hussainey, 2020). If there is a large number of SSB members, there is also a large possibility of *fiqh* or sharia experts presence, so the efficient and effective performance can be expected to be achieved. Hence, the decision making will be better and the Islamic banking products status will qualified resulting in an increase in the number of Islamic banking products which later will promote the customers' trust and satisfaction in using the products according to their preferences (Nomran et al., 2018). This is in line with the research conducted by

Andraeny (2021) and Segarawasesa (2021) that the number of SSB has a significant influence on disclosure of sharia compliance and the performance of Islamic banks. The hypothesis proposed in this study is:

H1: The size of sharia supervisory board has a positive effect on sharia compliance.

### 2.3.2 Influence of Internal Audit and Compliance Function Competencies on Sharia Compliance

The effectiveness of audit performance cannot be separated from the competencies possessed by the internal auditors as well as the compliance function staff (Khalid et al., 2017). The heads of the internal audit and compliance function must hold a degree in accounting and have good knowledge of internal audit or sharia internal audit, *fiqh muamalah* or *usul fiqh*, Islamic law, and sharia compliance function of sharia finance (AAOIFI, 2020b). Internal audit and compliance function competencies consist of knowledge and skills formed by education, training, and experience. Experience is another crucial competence for effective performance of internal audit and compliance function (Al-Twaijry et al., 2003). An adequate and competent sharia internal audit has a positive relationship to the effective performance of the audit. The previous studies that support the above statement are those of Khalid et al., (2017) and Puspitasari and Handayani (2020). Based on this explanation, the hypothesis proposed in this study is:

H2: Internal Audit and Compliance Function competencies have a positive effect on sharia compliance.

### 2.3.3 Influence of the size of Internal Audit and Compliance Function on Sharia Compliance

The effectiveness of audit performance in monitoring a company's transactions and activities increases along with the sufficiently larger number of internal auditors, thus resulting in more accurate detections of bad management opportunistic action and sharia non-compliance (Prawitt et al., 2009). Inadequate resources in internal audit and compliance function lead to lack of effectiveness in sharia compliance performance and reporting. The more members in the governance unit will encompass ranges of abilities and knowledge combined together to produce a better monitoring process (Rahman & Bukair, 2013). The more the number of members, the more effective the supervisory performance of sharia compliance. Similarly, Alzeban (2018) and Alzeban and Gwilliam (2014) argue that a sufficient number of IA will be able to increase the effectiveness of the performance of IA and compliance functions, so the ability to evaluate the compliance with sharia principles can be more effective. Based on this explanation, the hypothesis proposed in this study is:

H3: The size of internal audit and compliance function has a positive effect on sharia compliance.

### 2.3.4 Influence of Internal Audit and Compliance Function Work Programs on Sharia Compliance

Supervision on sharia compliance is carried out in two ways, namely preventive (ex-ante) by compliance function and curative (ex-post) by internal audit. The compliance function has responsibility for conducting studies on sharia compliance issues, while internal audit has responsibility for overseeing bank operations by conducting regular audits (Violita & Handarbeni, 2017). The performance of sharia internal audit is measured on the amount of reported sharia audit evidence, the number

of achievements in sharia internal audit plan, the recommendations from audit acceptance, and the improvement of audit implementation. Sharia internal audit must carry out its work in accordance with audit standards from planning to communicating the audit results to the interested parties. In the case of sharia banks, sharia internal audit must have a systematic supervision over the operational aspects and examine the policies and procedures, such as contracts, products, operational processes, and organizational structures in the context of sharia compliance. An effective work program is important to produce an effective performance in the context of supervising the implementation of sharia compliance, so the hypothesis proposed in this study is:

H4: Internal audit and compliance function work programs have a positive effect on sharia compliance.

#### 2.4.5 Influence of Frequency of Audit Committee Meetings on Sharia Compliance

Audit committee meeting is one of the considerations reflecting the professionalism of the audit committee function in providing supervision (Yamani et al., 2021). As meeting takes place more frequently, AC members will provide more accurate decisions regarding evaluation and disclosure (Sellami & Fendri, 2017). The audit committees that meet more frequently tend to be well informed, more careful, and have more discussions to increase knowledge about accounting and auditing related to their responsibilities (Elgattani & Hussainey, 2020). The research by Yamani (2021) also assumes that there is a positive relationship between AC number of meetings and sharia compliance. Based on this explanation, hypothesis proposed in this study is:

H5: The frequency of audit committee meetings has a positive effect on sharia compliance.

### 3. RESEARCH METHODOLOGY

#### 3.1. Population and Sample

The population of this study is the Islamic Commercial Banks in Indonesia existing between the years of 2011-2020. The sampling used purposive method with the following criteria: (1) Islamic Commercial Banks that consistently published the complete annual financial statements in the 2011-2020 period; and (2) Islamic Commercial Banks existing in the period which presented the data according to the research variables. Based on the criteria, there are seven Islamic Commercial Banks that met the criteria and were used as the samples of this study. The study collected the data of each bank's annual reports from their official websites.

#### 3.2. Operational Definitions and Variable Measurement

##### 3.2.1. Dependent variable

The dependent variable in this study is sharia compliance that is divided into three approaches in terms of the effectiveness of an organization as put forward by Damayanti (2016), namely input approach, process approach, and target approach. The input approach becomes a benchmark in the achievement of an organization related to human resources according to the needs of the organization, both physically and non-physically. The terms "input" in this context refers to the requirements fulfilled by its members. Process approach measures the number of activities carried out in an organization. The realization of the activities reported in the annual financial reports of Islamic Commercial Banks becomes the source of the data in the process approach. The output

becomes the benchmark in the target approach.

Sharia compliance indicators measure the level of compliance based on the information disclosed in the annual financial reports of Islamic banks in Indonesia. This measurement method uses scoring scale of 1 and 0 which indicates the existence and inexistence of information disclosure in the annual financial reports respectively, divided by total items. After the scoring was accomplished, the final calculation was used to classify the level of sharia compliance in the Islamic banks which consist of 0-25% (lowest), 26-55% (low), 56-80% (middle), 81-90% (high) and 91-100% (highest) (Puspitasari & Handayani, 2020).

### 3.2.2. Independent variables

The independent variables in this study are SSB size, the characteristics of Internal Audit and Compliance Function (competencies, size, and work program) and characteristics of Audit Committee.

#### 3.2.2.1. SSB size

In Indonesia, the regulator has stipulated the minimum number of SSB members at least two or at the maximum of 50% of the total members of Board of Directors. The measurements on SSB size uses the total number of SSB members.

#### 3.2.2.2. Characteristics of Internal Audit and Compliance Function

##### 3.2.2.2.1. Internal Audit and Compliance Function Competencies

The competencies include professional qualifications (Khalid et al., 2017). The competencies were measured based on the following criteria:

- a. Qualification in education was assessed based on the educational degree or background obtained in formal education. Score 2 was given if a member had sharia accounting or auditing background; score 1 was given if the member held financial / accounting / audit / sharia degree, and score 0 if the member had the educational background other than finance / accounting / audit / sharia.
- b. Professional qualification or certification was assessed based on the certificates obtained through non-formal education with the following conditions: Score 2 was given if the member had certification related to accounting, banking and Islamic banking (CPA, ACCA etc); score 1 was for those who held one of the certificates; and score 0 for those who did not have any certificate related to IA and CF.
- c. Work experience was measured by the length of employment (in years) following the required conditions. Score 2 was given for a member or division head with work experience in banking or finance-related fields for more than 12 years; score 1 for 6-11 years; and, score 0 for work experience less than 6 years.
- d. Training was assessed on the number of trainings attended during 1-year period while serving as the member of audit internal or compliance function in an Islamic bank. The range of scores given follow the criteria: Score 2 was given if the member attended more than 12 trainings on the subjects related to audit internal or compliance function; score 1 was for those attending trainings between 6-11 times; and, score 0 was for those attending training less than 6 times a year.

The measurement of each indicator of the competency characteristics of internal audit and compliance function as well as their final calculation were adopted from the research conducted by Puspitasari and Handayani (2020).

$$\text{Competency} = \frac{\Sigma \text{ total values of discover items}}{\Sigma \text{ ideal value}} \times 100$$

#### 3.2.2.2.1 Size of Internal Audit and Compliance Function

The quality of work of internal audit and compliance function will increase along with the increase in the number of staff (Alzeban & Gwilliam, 2014). The measurement of the number of IA and CF members in this study was based on 1-year assessment. The measurement was adopted from the study conducted by Puspitasari and Handayani (2020) by calculating the number of members of IA and CF

#### 3.2.2.2.2. Internal Audit and Compliance Function Work Programs

The measurement of internal audit and compliance function work programs was based on the realization of the work program implementation (Khalid et al., 2017). The following is the formula to calculate the work programs of both internal audit and compliance function adopted from the research conducted by Puspitasari and Handayani (2020).

$$\text{Work Program} = \frac{\Sigma \text{ realization of work program}}{\Sigma \text{ plan of work program}} \times 100$$

#### 3.2.2.3. Audit Committee Characteristics

Audit committee meetings are considered in reflecting the professionalism of audit committee in providing oversight. Yamani (2021) measures the number of audit committee meetings by calculating the total frequency of meeting.

### 3.3. Data Analysis Method

The data of this research were analyzed using descriptive statistical test and panel data regression model. There are three approaches to estimate the panel data regression model, namely Common Effect Model; Fixed Effect Model; and Random Effect Model. Chow Test (F-statistic test), Hausman test, and Lagrange Multiplier test are the model recovery tests to select the most appropriate approach of the three existing models. After going through three model recovery tests, Random Effect Model was selected to estimate the right model to analyze the data in this study. F-test and coefficient of determination test were also employed to test the feasibility of the research model. This study also uses control variable of profitability measured by return on assets.

## 4. ANALYSIS AND DISCUSSION

### 4.1. Descriptive Statistics

An overview on the characteristics of the research data distribution can be explained through the descriptive statistical tests. There are 70 data in this study. Table 1 shows the descriptive statistical test results. The data can be interpreted as there is an urge to increase the competencies of the internal audit work unit and compliance function as an effort to increase sharia compliance of Islamic Commercial Banks in Indonesia. Sharia compliance has an average value of 82.24%, included in the high category with the value range of 81-90%.



**Table 1. Descriptive Statistical Test Results**

Variable	Mean	Median	Maximum	Minimum	Std.Dev
SSB size	2.371	2	3	2	0.487
Competencies of IA and CF	52.946	53.125	87.5	25	13.363
IA and CF size	50.829	45	163	14	33.656
Work program of IA and CF	109.978	103.5	170	60	20.822
Frequency of Ac's meetings	13.8	12	55	3	8.476
ROA	0.97	0.92	3.81	0.02	0.71
SCI	82.243	82.14	96.43	60.71	8.872

#### 4.2 Regression Test Results of Random Effect Model

Table 2 shows the results of regression test where the probability value (F-statistic) is 0.0004, smaller than the significance level (alpha) of 0.05. so it can be concluded that the independent variables of this research affect simultaneously the dependent variable. Hence, this research model is feasible to interpret the effects of the independent variables on the dependent variable. Table 2 also shows the adjusted R-squared value of 0.2385 showing that sharia compliance can be explained by variables used in this study as much as 23.85%, and the remaining 76.15% can be explained by other variables which are not included in this study.

**Table 2. Results of Panel Data Regression Analysis (Random Effect Model)**

Variable	Coefficient	Prob.
Constanta	56.7849	0
SSB size	2.3061	0.171
Competencies of IA and CF	0.2954	0
IA and CF size	0.0568	0.0435
Work program of IA and CF	0.0388	0.3278
Frequency of Ac's meetings	-0.106	0.3064
ROA	-137.7803	0.2636
R-squared	0.3259	
Adjusted R-squared	0.2617	
F-statistic	5.076	
Prob(F-statistic)	0.0003	

#### 4.3 Influence of Sharia Supervisory Board (SSB) Size on Sharia Compliance of Islamic Commercial Banks in Indonesia

Based on the results of the analysis, Sharia Supervisory Board (SSB) size had the coefficient value of 2.3061 and the probability value of 0.1710. Thus, H1 is not supported which means that SSB size has no effect on sharia compliance in Indonesia. Large or small number of SSB members does not contribute to the level of sharia

compliance in the Islamic Commercial Banks in Indonesia. Elgattani and Hussainey (2020) argue that the more the number of SSB members, the wider the collective knowledge and experiences to oversee the management and to encourage Islamic banks to disclose more information. However, Muhammad (2021) states that small size of SSB will be able to improve the coordination between board members and make the oversight function more effective. This study result is in line with that of the research conducted by Meutia (2019) which reveals that SSB size does not affect the performance of *maqasid syariah*. This can also be explained from the descriptive statistic demonstrating the mean of SSB size of 2.371429 with the minimum value of 2.000 and the maximum value of 3.000 which agrees with the regulation stating that the minimum number of SSB members is two people or at the maximum of 50% of the total members of Board of Directors.

#### **4.4 Influence of the Internal Audit and Compliance Function Competencies on Sharia Compliance of Islamic Commercial Banks in Indonesia**

The results show that the coefficient value of IA and compliance function competencies was 0.2954 and probability value of 0.0000 so H2 is supported. It can be concluded that IA and compliance function competencies have a positive effect on sharia compliance. The higher the competencies of IA and compliance function staff, the higher the level of sharia compliance. Internal audit and compliance function competencies consist of knowledge and skills formed from education, training, and experience. The effectiveness of the performance of IA and compliance functions refers to the good governance system related to the achievement of objectives in compliance and internal control (Badara & Saidin, 2013). The existence of adequate and effective sharia internal audit procedures will also increase the effectiveness IA performance. The previous studies that support the result are those of Khalid (2017) and Puspitasari and Handayani (2020).

#### **4.5 Influence of the Size of Internal Audit and Compliance Function on Sharia Compliance of Islamic Commercial Banks in Indonesia**

The results show that the probability value of the size of IA and compliance function members was 0.0435 with the coefficient value of 0.0568, so H3 is supported. Hence, the size of IA and compliance function has a positive effect on sharia compliance. The effectiveness of audit performance increases in terms of monitoring specific transactions and company activities with a sufficient number of internal auditors which later results in greater number of detections of opportunistic mismanagement and sharia non-compliance (Prawitt et al., 2009). Inadequate resources in IA and compliance function may lead to lack of effectiveness of sharia compliance performance and reporting. The more members in governance, the more abilities and knowledge combined to conduct better monitoring process (Rahman & Bukair, 2013). The result of this study is corroborated with the previous research conducted by Alzeban (2018).

#### **4.6 Influence of Internal Audit and Compliance Function Work Programs on Sharia Compliance of Islamic Commercial Banks in Indonesia**

The results show the coefficient value of work programs is of 0.0388 and probability value is 0.3278, so H4 is not supported, meaning that this variable has no effect on sharia compliance in Indonesia. The result of this study does not in line with Khalid (2017) which states that work programs support the effectiveness of sharia supervision. The work programs do not contribute to the level of sharia compliance of Islamic

Commercial Banks in Indonesia because IA and compliance function work programs in sharia supervision cannot guarantee the fulfillment of sharia compliance. The role of IA and compliance function in this case is to assist SSB in sharia supervision. Even though the number of realized work programs has met or exceeded the predetermined plan, this has no effect on sharia compliance. The result of this study is in line with the research conducted by Puspitasari and Handayani (2020).

#### 4.7 Influence of Frequency of Audit Committee Meetings on Sharia Compliance of Islamic Commercial Banks in Indonesia

The probability value obtained by frequency of audit committee meetings was 0.3064 with the coefficient value of -0.1060. so H5 is not supported. Thus, it can be inferred that the frequency of AC meetings has no effect on sharia compliance in Indonesia. The more frequent or less frequent the meeting is does not always indicate the accuracy of decisions taken related to sharia compliance because the meeting agenda can be a more important and effective factor compared to the frequency of audit committee meetings. The result is in agreement with the research conducted by Sellami and Fendri (2017).

The variable ROA as control variable has coefficient value of -137.7803 and probability value of 0.2636, higher than alpha value 0.05, meaning that ROA does not influence sharia compliance.

This study also analyzes data based on audit characteristics and the number of members in the organ of corporate governance in table 3. The second model uses the independent variables namely competence, size and and work program of IA and CF, and frequency of AC meetings, while the third model uses the independent variables of the number of SSB and the number of IA and CF.

**Table 3. statistical analysis for model 2 and model 3**

Variable	Second Model		Third Model	
	Coefficient	Prob.	Coefficient	Prob.
Constanta	60.9476	0	84.335	0
The competence of IA and CF	0.2935	0.0007		
The number of IA and CF	0.0988	0.0116	0.1277	0.0014
Work programs of IA and CF	0.0098	0.8321		
The frequency of AC's meetings	0.0788	0.574		
The number of SSB			-2.7426	0.4174
ROA (Return on Assets)	-147.7346	0.3051	-214.8847	0.1549
R-squared		0.3052		0.1694
Adjusted R-squared		0.2509		0.1316
F-statistic		5.6223		4.4866
Prob(F-statistic)		0.0002		0.0063

The second model shows the results that the competence, the number of IA and CF, and the number of AC's meetings have a positive effect, while the work program and ROA has no effect. The third model shows the number of SSB and ROA has no effect, while

the number of IA and CF has a positive effect. These results are almost the same as the statistical results of the first model, where the number of SSB and work programs have no effect, while competence and the number of IA and CF have a positive effect to the sharia compliance in Indonesia.

## 5. CONCLUSION

This study aims to obtain the empirical evidence of the influences of the characteristics of Sharia Supervisory Board, Audit Committee, and Internal Audit and Compliance Function in Islamic Commercial Banks in Indonesia. The results show that the size of IA and the competencies of IA and compliance function have positive effects on sharia compliance of Islamic Commercial Banks in Indonesia, while the size of SSB, IA and compliance function work programs, and frequency of AC meetings show no effects on sharia compliance of Islamic Commercial Banks in Indonesia.

This study has contributed to illustrate the extent of sharia compliance in IFI and the role of CG mechanisms on it. The results showed that the sharia compliance score of Indonesian Islamic banks has a high score. Sharia compliance is one of the main factors that concern customers and the Muslim community towards IFI. IA and compliance functions are an important part of the successful implementation of CG so that IFI needs to select the right resources to sit in this division who have skills and competencies not only related to the banking industry but also have sufficient knowledge related to sharia.

The findings have the implications for several parties. First, the positive relationship between the size and competencies of internal audit and compliance function has an important role in Islamic banking effective performance. Competence in this case is related to educational background, certification, experience, and trainings received. This is still lacking and needs to be improved, especially in the educational aspect where the members of Internal Audit and Compliance function are on average do not have sharia study background and sharia professional certification. Second, the existence of sharia internal audits and compliance functions to ensure the operations and transactions in accordance with sharia principles will increase the trust of stakeholders.

This study has several limitations: First, since this study was limited to only seven Islamic Commercial Banks, so it is suggested that future research can expand the object of research, such as by comparing the level of sharia compliance of Islamic Commercial Banks in Indonesia with that of Islamic Commercial Banks in other countries or with other Islamic Financial Institutions, such as Sharia Business Unit or Sharia People's Credit Bank. Second, the measurement of sharia compliance indicators in this study was only based on the disclosures in the annual reports of Islamic Commercial Banks. The next study can use more comprehensive measurements, such as that in Fahlevi's research (2017) which uses Islamic Financial ratios and that in Segarawasesa (2021) which uses an identification for each transaction. Third, in the previous research, the size of SSB was able to influence sharia compliance, but this study did not reflect the contribution of SSB size to sharia compliance. The future research can combine SSB size with SSB competence based on educational level. Similar to IA and compliance function variables used in this research, the level of education can be added to measure the competence.

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