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## THE EFFECT OF SHARIA SUPERVISORY COUNCIL AND SHARIA AUDIT ON SHARIA COMPLIANCE IN SHARIA FINANCIAL INSTITUTIONS IN PEKALONGAN DISTRICT

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### ABSTRACT

This study aims to obtain empirical evidence and to analyze the influence of Sharia supervisory boards and Sharia audits on Sharia compliance in Islamic financial institutions throughout the Pekalongan district. The population in this study is all management of Islamic financial institutions in the Pekalongan district. Sampling was carried out using the Slovin method which produced 53 samples. The data used is primary data obtained from the results of the questionnaire. The analytical tools used in this study are multiple linear regression, instrument testing, classical assumption testing, and hypothesis testing. Based on the results of hypothesis testing, it is known that the Sharia supervisory board has no effect on Sharia compliance. Meanwhile, Sharia audit has a positive effect on Sharia compliance.

**Keywords:** Sharia Supervisory Board, Sharia Audit, Sharia Compliance

### INTRODUCTION

The Islamic economic system is an economic system that is built on the basis of divinity and ethics, originating from al-aqidah al-Islamiyyah. Islam itself was sent down by Allah SWT to all mankind so that the Islamic economy works as well as possible to build goodness and prosperity. The alternative concept comes from a system of long-term economic development using a full focus on humans, with 2 values, namely the value of the economic system in the form of justice and balance. Besides that, it is accompanied by instrumental values in the form of zakat, social security, cooperation, profit-sharing systems, and institutions.

The law that underlies the legality of Islamic Banks is Law no. 21 of 2008, in article 1 of Law No. 21 of 2008 explicitly stated that Islamic banking is everything related to Islamic Banks and Islamic Business Units, including forums, business activities, and the process of carrying out sharia activities. Meanwhile, Islamic Banks are banks whose operational activities are carried out based on sharia principles, then they are classified into two, namely BUS (Sharia Commercial Banks) and Sharia People's Finance Banks. BUS (Sharia Commercial Bank) is a bank that provides payment traffic services according to sharia principles in all of its activities. Meanwhile, sharia principles are principles of Islamic law in banking based on fatwas issued by institutions authorized to issue fatwas in the field of sharia.

There are 3 (three) main functions that must be carried out by Islamic banks including (1) collecting funds in the form of savings and investments originating from residents, (2) channeling funds originating from deposits and investments to those in need, (3) providing services in the form of services (Pertiwi, 2019). There are many opportunities full of risks that will be faced by Islamic Banks in carrying out their main function of channeling funds to the public. One of the risks in question is financial risk, namely the failure of partners to fulfill their obligations. Islamic law stipulates the implementation of a system of Islamic rules and social life in a disciplined and strict manner, therefore sharia banking operations are also required to be carried out in accordance with the principles of

Islamic law that have been established by institutions that have authority or authority in the field of sharia.

The consequence of this decision is to demand that Sharia Bank Financial Institutions such as Sharia Banks and Non-Sharia Bank Financial Institutions such as Insurance and Sharia Capital Markets place shariah compliance as something that must be considered. So that shariah compliance then becomes the principle of credibility and integrity of Islamic banks (Mulazid, 2016).

Islamic banks exist to meet the needs of the Muslim community in channeling funds through Islamic financial institutions based on sharia in economic muamalah. The existence of Islamic banks and the necessity of channeling funds based on sharia shows that there is a close relationship between the conceptual and practical aspects of financial and economic activities in Islamic banks and Islamic sharia principles. In other terms, Islamic Bank Financial Institutions and Non-Bank Syariah Financial Institutions are required to operate differently from General Financial Institutions, and the difference lies in compliance with sharia rules.

The Sharia Supervisory Board is an entity within an Islamic financial institution whose existence and placement are determined based on the approval of the DSN-MUI (National Sharia Council of the Indonesian Ulema Council) (Nurhikmah, 2018). The Sharia Supervisory Board at the Islamic Financial Institution in Pekalongan when carrying out the supervisory function did not run optimally, because only about 60% should have disclosed 100%. In addition, the Sharia Supervisory Board does not have coercive and proper powers.

Sharia audit is a process of systematic verification of the compliance of all activities of Islamic financial institutions with sharia principles which include financial reports, products, use of technology, operational processes, parties involved in the commercial activities of Islamic financial institutions, policies, contracts, documentation, procedures and activities. others that require adherence to sharia principles (Yaacob, 2012).

Sharia audit can encourage Islamic financial institutions to avoid fraud from sharia principles. With sharia audits, sharia compliance in financial institutions will increase through supervision, whereby the stricter the audit activities are carried out, the more stringent the audit activities will result in the application of the principles and rules set out in company policies to be carried out properly and in accordance with applicable regulations. This statement is consistent with Misbah et al. (2022) and Purnamasari (2020), which state that sharia audit has a positive impact on sharia compliance.

This research was conducted with the aim of obtaining knowledge and analyzing the influence of the Sharia Supervisory Board and Sharia audit on Sharia Compliance in Financial Institutions in Pekalongan Regency both separately for each variable (partial) and together for all variables (simultaneous). This research can then become reference material and literacy for students regarding learning at Muhamadiyah Pekajangan University in Pekalongan, have a positive impact on Islamic financial institutions in Pekalongan Regency, and as scientific insight for future researchers.

## LITERATURE REVIEW

Iwan Triyuwono was the first to introduce shari'ate enterprise theory in 2000, where this theory is a theory development of enterprise theory which contains Islamic values in the theory. Enterprise theory covers the social and accountability aspects in the beginning (Triyuwono, 2006). Furthermore, Meutia (2010), states that the Shariah Enterprise Theory (SET) theory is considered the most appropriate for expressing the social responsibility of a company, the purpose of this company is an Islamic Bank.

Prabowo and Jasri (2017), based on the research they have conducted, state that the Sharia Supervisory Board can ensure that Islamic financial institutions operate in accordance with sharia principles as reflected in fatwas, rules and guidelines issued by the Sharia Supervisory Board, so that the Sharia Supervisory Board provides a major contribution to the success of Islamic financial institutions, because they managed to win the trust of shareholders and the public regarding the compliance of Islamic financial institutions with Sharia. The level of fulfillment of sharia principles depends on the performance of the Sharia Supervisory Board in carrying out its duties and functions. The Sharia Supervisory Board in Islamic financial institutions is very crucial. This hypothesis is in line with the research of Prabowo and Jasri (2017), Jalil (2018), Pratiwi (2019), Chandra (2020), Marfuah (2017, and Octaviani (2020) which states that the Sharia Supervisory Board has a positive influence on sharia compliance.

Sharia audit can encourage Islamic financial institutions to avoid deviations from Islamic principles. So that the existence of a sharia audit will be able to increase sharia compliance in financial institutions because the controls will be more stringent and will result in the principles and rules contained in company policies being implemented properly and in accordance with applicable regulations. Sharia audit affects sharia compliance in Islamic financial institutions because their image and credibility depend on what opinion a Sharia audit will give. This hypothesis is consistent with research conducted by Misbah et al. (2022), Fachrurrozi (2019), Devi (2020), Umdiana (2018), Faqih (2019) and Purnamasari (2020) which state that Sharia Audit has a Positive Effect on Sharia Compliance.

The Sharia supervisory board has a role in evaluating the conformity of all products and regulations established and implemented by Islamic banking based on sharia principles, while the sharia audit has a role in evaluating the products and regulations that have been implemented so that they comply with sharia principles. This makes the roles between the two related. If the Sharia Supervisory Board carries out its role properly under a supervisory activity, it will produce a good Sharia audit report and comply with applicable regulations. Sharia compliance in Islamic financial institutions will increase with the existence of a sharia audit.

## METHODS

The author in conducting this research is associative. Sugiyono (2012) stated that associative research is the formulation of a research problem that requires establishing a relationship between two or more variables. This research was conducted at all Islamic financial institutions in Pekalongan from December 2022 to January 2023. The population used by the author is all management of Islamic financial institutions in Pekalongan district. This study took samples using the Slovin method and the sampling technique used random sampling techniques. The data in this study used primary data, while the data collection technique used was an observation technique which included distributing questionnaires and carrying out interviews using a Likert Scale. The analysis tools were carried out using the Instrument Feasibility test, the Classical Assumption test and Multiple Linear Regression Analysis.

## RESULTS

Research result show on table 1 it can be understood that the variables have r count values greater than r table (0.2706).  $r \text{ table} = \frac{\sqrt{200}}{\sqrt{200+2}} = 0.2706$  with a sig value of 0.05, the results can be seen in table r. So that all research variable question items are declared valid and then these variable questions can be used in this study. Based on table 2 it can be understood that all Alpha values are greater than 0.60, so that all variables are declared reliable. So that the respondents' answers to the following statement indicators can be used in this study. Based on table 3 it can be understood that the Asymp. sig. (2-tailed) is greater than the significant value ( $\alpha = 0.05$ ) which is equal to 0.061, so the data used in this study is normally distributed. Based on table 4, it can be seen that all independent variables, namely the Sharia Supervisory Board and Sharia

Audit, have a tolerance value of  $> 0.10$  and a VIF value  $< 10$ , so it can be said that there is no multicollinearity between the independent variables in the regression model. Based on table 5 it can be seen that the significant values for all independent variables, namely the Sharia Supervisory Board and Sharia Audit are above the significant value ( $\alpha = 0.05$ ), so that it can be said that all of these independent variables do not occur heteroscedasticity. Based on table 6 it can be understood that the significant value for the Sharia Supervisory Board is 0.296 which is greater than the sig value. 0.05, then the sharia supervisory board has no effect on sharia compliance, while the Sharia Audit has a significant value of 0.000 which is below the significant value ( $\alpha = 0.05$ ), then Sharia Audit has an influence on sharia compliance.

Table.1 Validity Test Results for Sharia Supervisory Board ( $X_1$ ), Sharia Audit ( $X_2$ ), and Sharia Compliance (Y) Variables

NO	Item	r hitung	r table	Ket.
<b>Dewan Pengawas Syariah (<math>X_1</math>)</b>				
1.	P1	0,679	0,2706	Valid
2.	P2	0,774	0,2706	Valid
3.	P3	0,745	0,2706	Valid
4.	P4	0,759	0,2706	Valid
5.	P5	0,854	0,2706	Valid
6.	P6	0,735	0,2706	Valid
<b>Audit Syariah (<math>X_2</math>)</b>				
1.	P1	0,859	0,2706	Valid
2.	P2	0,910	0,2706	Valid
3.	P3	0,924	0,2706	Valid
4.	P4	0,888	0,2706	Valid
<b>Sharia Compliance (Y)</b>				
1.	P1	0,851	0,2706	Valid
2.	P2	0,799	0,2706	Valid
3.	P3	0,919	0,2706	Valid
4.	P4	0,724	0,2706	Valid
5.	P5	0,803	0,2706	Valid
6.	P6	0,728	0,2706	Valid
7.	P7	0,792	0,2706	Valid

Source: Processed primary data

Table. 2 Research Variable Reliability Test Results

Variabel	Alpha Cronbach's	Kriteria Umum	Ket.
Dewan Pengawas Syariah ( $X_1$ )	0,848	0,60	Reliabel
Audit Syariah ( $X_2$ )	0,916	0,60	Reliabel
Sharia Compliance (Y)	0,905	0,60	Reliabel

Source: Processed primary data

Table 3 Normality Test Results  
One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			53
Normal Parameters <sup>a,b</sup>	Mean		,0000000
	Std. Deviation		1,63167197
	Most Extreme Differences	Absolute	,155
		Positive	,117
		Negative	-,155
Test Statistic			,155
Asymp. Sig. (2-tailed)			,061 <sup>c</sup>

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source: Processed primary data

Table 4 Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	DPS	0,467	2,140
	AS	0,467	2,140

Source: Processed primary data

Table 5 Results of the Heteroscedasticity Test Using the Glejser Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6,619	1,104		5,996	,000
	DPS	-,038	,060	-,104	-,626	,534
	AS	-,256	,082	-,517	-3,112	,063

Source: Processed primary data

Table 6 Multiple Regression Test Results  
Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	13,348	1,939		6,883	,000
	DPS	,112	,106	,122	1,057	,296
	AS	,920	,145	,736	6,361	,000

a. Dependent Variable: SC

Source: Processed primary data

Table.7 Test Results f  
ANOVA<sup>a</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	304,576	2	152,288	55,001	,000 <sup>b</sup>
	Residual	138,442	50	2,769		
	Total	443,019	52			

a. Dependent Variable: SC

b. Predictors: (Constant), AS, DPS

Source: Processed primary data

## DISCUSSION

Based on data from table 7 for the Sharia Supervisory Board and Sharia audit variables which have a significant value of 0.00 less than 0.05 ( $\alpha = 5\%$ ), the Sharia Supervisory Board and Sharia audit simultaneously have a positive effect on Sharia Compliance of financial institutions sharia in Pekalongan Regency, so the third hypothesis is accepted. The Sharia Supervisory Board has no influence on Sharia Compliance. Based on table.6. The results showed that the Sharia Supervisory Board in Islamic financial institutions in Pekalongan Regency in carrying out their duties and functions has not been maximized, because so far 1.1% of respondents answered strongly disagree with one of the approval points and according to the results of the questionnaire with a high DPS value or with a maximum value of 30, high sc value or at a maximum value of 35, if the DPS value is reduced by 28, the SK value remains high or remains at a maximum value of 35, so the DPS does not affect sharia compliance. The management of Islamic financial institutions is in accordance with existing laws and under supervision or not under the supervision of DPS in accordance with sharia.

The results of the research conducted are in line with the results of research conducted by Syahrial (2022) and Taufikurrahman (2017) which show the findings that the Sharia Supervisory Board has no influence on Sharia Compliance. And this is not in accordance with the research conducted by Prabowo and Jasri (2017) which shows the findings that the Sharia Supervisory Board has a positive influence on Sharia Compliance. Sharia Audit has a positive effect on Sharia Compliance. Based on table.6. The results showed that Sharia audit has a positive effect on Sharia Compliance which is indicated by a significant value of 0.000 which is less than 0.05 ( $\alpha = 5\%$ ), so in conclusion the second hypothesis can be accepted. This shows that sharia supervision and audits are getting tighter, so that the principles and rules contained in company policies are well realized and in accordance with applicable rules, this is confirmed by the results of all respondents who agree with all of this and based on the scores from the questionnaire results indicate whether a high sharia audit score or a maximum of 20 a high SC value or a maximum value of 35, if a sharia audit score drops to 12, the SC value also drops to 28, thus indicating that sharia audit affects compliance with sharia. The presence of a sharia audit in an Islamic financial institution makes it possible to avoid deviations from sharia principles. Sharia compliance in Islamic financial institutions will increase with the existence of a sharia audit.

The results of this study are in line with research conducted by Misbah et al. (2022), Fachrurrozi (2019), and Purnamasari (2020) which state that Sharia Audit has a positive effect on Sharia Compliance. The Sharia Supervisory Board and Sharia Audit simultaneously have a positive effect on Sharia Compliance. Based on table.7. The results showed that the sharia supervisory board and sharia audit simultaneously had a positive effect on Sharia Compliance which was indicated by a significant value of 0.000 less than 0.05 ( $\alpha = 5\%$ ), so the third hypothesis was accepted. This means that the role of the Sharia Supervisory Board and Sharia Auditor in assessing the suitability of products and regulations issued by Islamic banks, as well as products and provisions that have

been implemented in accordance with sharia principles work optimally in accordance with their duties and functions, this can be seen from the results of the survey the majority of respondents stated that the Supervisory Board Sharia as a sharia auditor works optimally, even though 1.1% of respondents strongly disagree, in general it does not affect the work of the sharia supervisory board in accordance with its functions. This makes the roles of the two interrelated. The Sharia Supervisory Board in fulfilling its role as a Sharia Auditor properly, the sharia audit report will be good and in accordance with applicable sharia norms.

### CONCLUSION

The results of this study can be concluded that the sharia supervisory board has no effect on Sharia Compliance, sharia audit has an effect on Sharia Compliance, and simultaneously the sharia supervisory board and sharia audit have an effect on Sharia Compliance. Future research is expected to add to several other independent variables including the audit committee, board of directors, board of commissioners, etc. Which allows more influence on Sharia Compliance. So that it can provide a broad picture of what factors affect Sharia Compliance. And it is expected to use different agencies as research objects. As well as increasing the number of samples used, so that it will approach a more real picture of the results in actual conditions.

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