

## ANALYSIS OF FACTORS ON SHARIA COMPLIANCE BASED ON AAOIFI STANDARDS

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### Abstract

In order to determine what elements affect sharia compliance in Islamic banking in Indonesia, this research looked at the following: ownership, management traits, sharia board of directors' expertise, and external audits based on AAOIFI criteria. Indonesian Sharia Business Units and Islamic Commercial Banks are the focus of this research. This study's findings indicate that sharia compliance is unaffected by the factors of ownership and the level of expertise on the board of directors. According to the AAOIFI, sharia compliance is significantly affected by management traits and external audit factors.

**Keywords:** *Sharia Compliance, AAOIFI, Good Governance.*

### A. INTRODUCTION

The large Muslim population in Indonesia has given rise to the emergence of sharia business lines that strive for a business system based on sharia principles. One of the sharia economies that implements the sharia system in its work process is sharia banking. Sharia banking first appeared in Indonesia in 1992. The monetary crisis in Indonesia in 1997 rendered traditional banking credit paralyzed, which primarily led to the development of sharia banking. There are two main types of Sharia banks: commercial banks that operate in accordance with sharia law and Islamic financial institutions that provide loans to individuals or families.

Sharia compliance is the obedience of Islamic banking in adhering to sharia compliance and compliance with the DSN Fatwa to create a culture of compliance in managing Islamic banking risks (Tazkiya & Muhammad, 2023). Regarding sharia compliance in Islamic banking conducted by Nurfallah et al. (2022), there is data on the zakat ratio of BCA Syariah from 2017 to 2021 which has a ZPR value in a worrying condition. The percentage of ZPR from 2017 to 2021 is still below 1% so that the performance of Islamic banking in distributing zakat is in a very unsatisfactory condition, but zakat and net assets increase every year

Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) was founded in 1991 and is based in Bahrain. It is an accounting and auditing body for Islamic institutions. AAOIFI was established with the aim of creating global standards for all sharia-based financial industries worldwide. According to Ali et al. (2023), AAOIFI is a leading organization in the field of Islamic accounting, finance and auditing which provides guidance on Islamic financial standards and principles used by Islamic financial institutions worldwide. El-Halaby et al. (2021), discovered that, in comparison to non-adopters, financially performing institutions and conservative organizations benefited from adopting AAOIFI.

The connection between a company's principle and the management (agent) hired to run the show is the subject of agency theory. Since agency theory clarifies the dynamic between agents and principals, it serves as the theoretical foundation for the present investigation (Jensen & Meckling, 1976).

The board of directors, or Islamic bank's board of directors, plays a crucial role in setting the bank's overall direction, policies, and decision-making processes. The purpose of this study is to examine the experience of the Board of Directors on the question of whether compliance with Sharia in accordance with AAOIFI requirements is influenced by boards with similar Sharia expertise. According to Al Quddus et al. (2023), a sharia bank's board of directors is primarily responsible for making long-term decisions and monitoring the institution's compliance with sharia law.

According to the study's findings, risk disclosure in Indonesian Islamic banks is positively impacted by public ownership and a board of commissioners with an Islamic economic background. Typically, ownership is tied to a company's stock (Suteja, 2020). Claims that opportunistic managerial behavior tends to rise when management owns a small percentage of the company's shares (Agustin et al., 2020).

Managerial characteristics in each manager are different. This also gives rise to a leadership style. Some companies usually have different managerial characteristics. The differences in this managerial system will of course affect the operating system of employee performance in it (Zakaria & Leiwakabessy, 2020). According to Millenia (2024), managerial implications are very important in the rules and regulations for implementing pro-environmental banking policies to support sustainable development.

Audit means an activity of collecting and testing data, carried out by a competent and independent party in order to determine the conformity of the audited information with the standards or criteria that have been set to be delivered to the parties who need it or are interested (Aolia, 2022). Sharia auditors must be certified and meet sharia audit standards. The role of external auditing has led to various studies being conducted, such as that conducted by Li & Xin (2023) who found that audits have a positive effect on going concern in financially-distressed clients.

## **B. METHOD**

Quantitative analysis is the research method used in this study. Suliyanto (2017) states that the goal of quantitative research is to measure data from a chosen sample and then extrapolate those findings to the population as a whole. This allows researchers to formulate a hypothesis that may serve as a working hypothesis until more evidence is gathered. Based on 14 Islamic Commercial Banks and 19 Islamic Business Units, the researcher used purposive sampling and obtained 11 samples to be used, including: Bank Muamalat Indonesia, Bank Panin Dubai Syariah, Bank Bukopin Syariah, Bank BJB Syariah, Bank NTB Syariah, Bank Aceh Syariah, Bank CIMB Niaga Syariah, BPD Jawa Timur Syariah, BPD Kalsel Syariah, BPD Kaltimara Syariah and BPD Kalbar Syariah.

## C. RESULTS AND DISCUSSION

### 1. Equation, Formulas, and Code

There is a disclosure index based on AAOIFI standards in this study, so the researcher decided to use SSB disclosure, CSR disclosure, and financial disclosure as the disclosure standards. This disclosure analysis is carried out by looking at information on Islamic banking. So that for each disclosure found it gets a value of 1 and for those that are not disclosed it gets a value of 0. The sharia disclosure used is AAOIFI standards number 1, 2, and 5.

**Table 1. Measurement Formulas**

No.	Variable	Measurement
1.	Sharia compliance (Y)	$\frac{\text{Disclosed items}}{\text{Number of disclosure items}} \times 100\%$
2.	Board of Directors (X1)	$\frac{\text{Board of Directors with Experience in Sharia Positions}}{\text{Number of Board of Directors}} \times 100\%$
3.	Ownership (X2)	$\frac{\text{Ownership shares}}{\text{Number of shares outstanding}} \times 100\%$
4.	Managerial Characteristic (X3)	$\frac{\text{Disclosed SGI items}}{\text{number of SGI items}} \times 100\%$
5.	External Audit (X4)	External auditing is measured by the external audit sharia license proxy, namely with a dummy variable, if you have a sharia license you get 1 point, if you don't have a sharia license you get 0 points.

### 2. Panel Data Regression Equation Analysis

A panel data regression model is used to achieve this goal. Based on the equation that was obtained using the panel data regression test, this was determined:

**Table 2. Panel Data Regression Equation Analysis**

Coefficient	
Panel Data Regression Equation	
Constanta	
X1	0.026
X2	-0.001
X3	0.479
X4	0.061

Regression equation model:  $Y = 0,371 + 0,025X1 - 0,001X2 + 0.479X3 + 0.061X4 + e$ . The constant ( $\alpha$ ) of 0.371 means that if all independent variables are equal to zero (0), then the level of sharia compliance is 0.371. The board of directors variable (X1) shows a regression coefficient value of 0.025 with a positive sign, meaning that if the board of directors variable Up one unit, Sharia compliance up 0.026, and the opinion that other independent variables are constants. The ownership variable (X2) represents the regression value of -0.001 with a negative sign, meaning that if the ownership variable increases by one unit, the level of sharia compliance will decrease by 0.001, assuming that the other independent variables are constant.

The managerial characteristics variable (X3) shows a regression coefficient value of 0,4789 with a positive sign, This means that if there is an increase in the

managerial characteristic variable, the sharia compliance variable increases by 0.479, Suppose the other independent variable is a constant. The external auditing variable (X4) represents the regression coefficient value of 0.061 with a positive sign, meaning that if the external auditing variable increases by one unit, the level of sharia compliance will increase by 0.061, assuming that the other independent variables are constant.

### 3. T-test Results

Using the formula  $(df) = \alpha (n - k)$  and a significance level of 0,05, the T statistical test on the t table yielded a result of 2.262157. With a significance level of 0.05 ( $\alpha = 5\%$ ), this study's hypothesis testing is conducted using a t test. In the table, you can see the t test results:

**Table 3. T-test Results**

Hypotesis	Coefficient	Std. Error	t-statistic	Probablity	Decision
X1	0.025	0.033	0.773	0.443	Not accepted
X2	-0.001	0.010	-0.084	0.932	Not accepted
X3	0.479	0.102	4.696	0.001	Accepted
X4	0.610	0.023	2.627	0.011	Accepted

(Y) Dependent Variable: Sharia Compliance

Based on the results of the hypothesis test, the value of the sharia office experience of the board of directors was found to be 0,443, which is greater than 0,05 ( $0,443 > 0,05$ ), so it is stated that sharia office experience does not have a significant influence on sharia compliance based on AAOIFI standards.

In this variable, the highest data was found in Bank Aceh Syariah, BPD Kaltimara Syariah, and BPD Kalsel Syariah with each year during the research period there were board directors who had sharia position experience, while the lowest value was in Bank BJB Syariah with an influence value of which only existed in two years of the research where there were board directors with sharia experience. Such as research conducted by Tazkiya & Muhammad (2023) that the term of office of sharia position of the board of directors has no influence on sharia compliance.

With a t-count value of -0,084 and a significance level of 0,932, the ownership variable is statistically significant at the 0,05 level or above. This disproves the notion that ownership positively affects shariah compliance and demonstrates that the ownership variable is insignificant. This study's findings corroborate those of Katsurayya et al. (2020), which found that ownership had no impact on shariah compliance as DPS, and not ownership, is responsible for supervising disclosures of shariah compliance. This study's findings contradict those of Kholifah & Nur (2022), which found that ownership affects the disclosure of shariah compliance in Islamic banking at the same time.

The t-count value for the managerial qualities variable is 4.696, and its significance value is 0,001, which is less than 0,05 ( $0,001 < 0,05$ ). This management traits positively impact shariah compliance, since the managerial characteristics variable is positively and significantly skewed towards shariah compliance. This value is found in BUS and UUS that can meet SGI, such as PT. Bank Panin Dubai Syariah which in 2022 and 2023 was able to meet 12 items with 85% of the SGI items themselves. This makes it clear that good management of course has a good level of shariah compliance. This supports the agency theory regarding the role of

management in corporate governance, because good management is also the cause of high levels of sharia compliance in BUS and UUS. This study's findings corroborate those of Dzahabiyah & Umiyati (2020), which assert that sharia compliance is significantly impacted by competent and sharia-compliant management.

The external auditing variable with the measurement indicator in the form of sharia competence in the form of a sharia license in the external auditor has a significance value of 0.011 which is smaller than 0,05 ( $0,011 < 0,05$ ) and a positive t-count value of 2,627. This proves the premise that external auditing positively affects sharia compliance, as it demonstrates that the variable of external auditing significantly affects sharia compliance. According to research by Nadiah & Filianti (2022), KAP who are not part of the Big 4 category are not as competent as external auditors that are (Big 4). Jusri et al. (2020), state that sharia auditors need to be well-versed in Islamic law and muamalah fiqh in addition to having strong accounting and auditing abilities and exhibiting unique traits associated with sharia auditing.

#### **D. CONCLUSSION**

Sharia compliance according to AAOIFI requirements in BUS and UUS registered with the OJK during the 2019–2023, regardless of the sharia board of directors' expertise, is not significantly affected. Sharia compliance according to AAOIFI requirements for BUS and UUS registered with OJK from 2019 to 2023 is unaffected by ownership. From 2019 to 2023, sharia compliance on BUS and UUS registered with OJK is positively and significantly affected by managerial characteristics according to AAOIFI criteria. For the years 2019–2023, sharia compliance with AAOIFI criteria for BUS and UUS is positively and significantly affected by external audits.

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