

Strengthening Fraud Prevention in Islamic Banks: The Roles of Islamic Corporate Governance, Sharia Compliance, and Internal Control

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Abstract

This study aims to examine the influence of Islamic Corporate Governance (ICG) and Sharia Compliance on fraud prevention with Internal Control as a moderating variable in Islamic Commercial Banks in Indonesia for the period 2016 to 2024. This study uses a quantitative approach with 90 observations from 10 banks selected through a purposive sampling method. Sharia Compliance is measured using two proxies, namely the Islamic Income Ratio (IsIR) and the Profit Sharing Ratio (PSR). Data were obtained from annual reports, financial statements, and Good Corporate Governance (GCG) reports, then analyzed by Moderated Regression Analysis (MRA) using E Views 12 software. The results show that ICG has a negative but insignificant effect on fraud prevention, IsIR has a significant positive effect, and PSR has a significant negative effect. The moderating role of Internal Control produces varying findings, namely insignificant in the relationship between ICG and fraud, significant negative in the relationship between IsIR and fraud, and significant positive in the relationship between PSR and fraud. The novelty of this research lies in its comprehensive approach, integrating governance, sharia compliance, and internal control into the analysis of fraud prevention in Islamic banking. The results provide theoretical contributions to the literature on sharia governance and provide practical input for Islamic banking in strengthening transparency, accountability, and risk management.

INTRODUCTION

The development of the Islamic banking sector in Indonesia has seen significant progress over the past twenty years. Since the founding of Bank Muamalat Indonesia in 1992, the Islamic financial system has continued to experience rapid growth in terms of the number of institutions, branch networks, and total assets under management. (Rusydiana, 2019). Based on data from the Financial Services Authority (OJK, 2024) The total assets of Islamic Commercial Banks (BUS) increased from IDR 360.36 trillion in 2019 to IDR 594.71 trillion in 2023. This growth reflects increasing public trust in Islamic financial institutions as an economic system based on the principles of fairness, transparency, and ethics. However, this progress also presents new challenges, particularly related to the effectiveness of corporate governance, compliance with sharia principles, and the risk of fraud. (Noviyana et al., 2024).

The phenomenon of fraud in the banking industry poses a serious threat to the sustainability of Islamic financial institutions. In addition to causing financial losses and eroding public trust, fraud also violates Islamic values that emphasize trustworthiness, honesty, and social responsibility. Fraud is an intentional act committed with the aim of gaining personal or collective gain by

deceiving, misleading, or abusing the trust of others.(Rohmah, 2024)From an Islamic perspective, fraudulent behavior is a form of injustice, as mentioned in Surah Al-Muthaffifin, verses 1–3, which condemns those who cheat on the scales. Ibn Kathir's interpretation explains that fraud in transactions constitutes a breach of trust, the primary foundation of Islamic economic activity. Therefore, preventing fraud in Islamic banking is not only a legal requirement but also a moral and spiritual obligation.(Khairulazman et al., 2020).

Even though they operate in accordance with sharia principles, there have still been several reported cases of fraud in Islamic financial institutions, such as the case of corruption of People's Business Credit (KUR) funds at Bank Syariah Indonesia (BSI) Bengkulu.(Newswire, 2023), embezzlement of customer funds at BTPN Syariah Binuang(Winda, 2022), as well as alleged violations of the principle of prudence at Bank Victoria Syariah(Puspadini, 2024)These cases demonstrate persistent weaknesses in governance systems, the effectiveness of internal oversight, and the comprehensive application of Sharia principles. Therefore, a robust oversight system is needed through the implementation of Islamic Corporate Governance (ICG), enhanced Sharia Compliance, and strengthened Internal Control systems as an integrated risk management mechanism.

Islamic Corporate Governance is a management concept that focuses not only on the principles of transparency, accountability, and fairness, as in conventional good corporate governance, but also incorporates a spiritual dimension based on sharia values. It aims to ensure that all financial institution activities are conducted in accordance with Islamic law and provide benefits to all stakeholders.(Ahmad Sodiq, 2017)The Sharia Supervisory Board (SSB) plays a central role in this mechanism, ensuring that financial institutions' activities and products comply with Sharia principles. Effective implementation of ICG is believed to prevent opportunistic behavior and reduce the potential for fraud.(Salsabila & Kuntadi, 2022).

In addition to governance, Sharia Compliance also plays a crucial role in maintaining the integrity of Islamic financial institutions. Sharia compliance is measured through two main indicators: the Profit Sharing Ratio (PSR) and the Islamic Income Ratio (IsIR).(Djuwita et al., 2019). PSR describes the extent to which banks implement profit-sharing financing systems such as mudharabah and musyarakah, while IsIR indicates the proportion of halal income to total income.(Herdianto et al., 2016)And(F Amanna & Triyanto Nur, 2019)found that PSR and IsIR had a positive effect on fraud prevention, as both reflected the bank's commitment to the principles of fairness and transparency. However, different findings were reported by(Mujib, 2018)And(Dewi, 2018)which shows that Sharia Compliance does not have a significant effect on fraud prevention, so there are still empirical inconsistencies that need to be studied further.

Internal control systems act as the last line of defense in preventing fraud. Effective internal controls must ensure operational effectiveness, reliable financial reporting, and regulatory compliance.(Puspita & Adiputra, 2023). Previous research(Wardah et al., 2022);(Prastika & Latrini, 2018)While research shows that internal control has a positive influence on fraud prevention, most studies consider it an independent variable. However, in the context of Islamic banking, internal control has the potential to act as a moderating variable, strengthening the influence of ICG and Sharia Compliance on fraud prevention.

This empirical gap indicates that the relationship between ICG, Sharia Compliance, and fraud prevention is not yet fully consistent. Furthermore, most previous studies have only used Agency Theory as a theoretical foundation, whereas in the context of Islamic economics, managerial behavior is also influenced by moral and spiritual values, as explained in Stewardship Theory and

Sharia Enterprise Theory (SET). Agency Theory highlights the importance of oversight mechanisms to mitigate conflicts of interest between fund owners (shahibul maal) and managers (mudharib). (Mohammed & Muhammed, 2017) Stewardship Theory emphasizes trustworthy behavior and moral responsibility of managers. (Chrisman, 2019), while SET places Allah SWT as the main center of responsibility in economic activities (Nurul Pratiwi et al., 2024) The integration of these three theories is believed to provide a more comprehensive understanding of fraud prevention mechanisms in Islamic banking.

Based on this background, this study aims to analyze the influence of Islamic Corporate Governance and Sharia Compliance on fraud prevention with Internal Control as a moderating variable in Islamic Commercial Banks in Indonesia for the period 2016–2024. This study is expected to provide theoretical contributions by strengthening the concepts of governance and Sharia compliance, as well as practical contributions for Islamic banking regulators and management in strengthening supervisory systems based on Islamic values.

METHOD

This study uses a quantitative approach with a multivariate approach that aims to analyze the relationship between Islamic Corporate Governance (ICG) and Sharia Compliance on fraud prevention, with Internal Control as a moderating variable. This approach was chosen because it is able to explain the causal relationship between variables and test the role of internal control in strengthening the influence of Sharia governance and compliance with Islamic principles on fraud prevention. (Riza Bahtiar Sulistyan. Ratna Wijayanti Danar Paramita, 2021) The research was conducted on Islamic Commercial Banks (BUS) in Indonesia registered with the Financial Services Authority (OJK) during the 2016–2024 period.

The study population encompassed all Islamic Commercial Banks in Indonesia, while the sample selection was conducted using a purposive sampling method, based on specific criteria. The criteria used included: banks that consistently published annual reports and Good Corporate Governance (GCG) reports during the study period, had complete data on financial ratios and governance disclosures, and had their financial statements audited by an independent auditor. Based on these criteria, ten Islamic Commercial Banks met the requirements, with a total of 90 observations over the nine years of observation.

Research Sample

No.	Islamic Commercial Bank	Bank Code
1	Bank Aceh Syariah	BASS
2	Victoria Syariah Bank	BVS
3	West Nusa Tenggara Sharia BPD	BPDN
4	Panin Dubai Sharia Bank	BPDS
5	National Sharia Pension Savings Bank	BTPNS
6	Bank Muamalat Indonesia	BMI
7	Bukopin Sharia Bank	BSB

8	BCA Syariah Bank	BCAS
9	Bank Jabar Banten Syariah	BJBS
10.	Bank Mega Syariah	BMS

Source: processed by researchers (2025)

The type of data used in this study is secondary data, sourced from each bank's annual reports, financial statements, and GCG reports. The data was obtained from the official website of the Financial Services Authority (OJK) and the official websites of each Islamic Commercial Bank. (Sembiring et al., 2024) Data collection was conducted using a documentation method, which involved tracing, recording, and classifying numerical data relevant to the research variables. The data was then verified to ensure compliance with reporting periods and interbank consistency, ensuring valid and reliable processing.

Measurement of variables in research

No.	Variables	Indicator	Scale
1.	Islamic Corporate Governance	The value of all factors after being associated with the weight of the composite value of the GCG Self Assessment of Islamic general banks	Ratio
2.	Sharia compliance	Islamic Income Ratio $IslR = \frac{Pendapatan Halal}{pendapatan Halal + Pendapatan Non Halal}$ Profit sharing ratio $PSR = \frac{Pembiayaan mudharabah + pembiayaan musyarakah}{Total pembiayaan}$	Ratio
3.	Internal Control	To see whether internal control in Islamic commercial banks is effective or not, the internal control in this study is measured by looking at the composite value of the results of the self-assessment of the implementation of the internal audit function contained in the GCG implementation report carried out by Islamic commercial banks. $\text{Internal Control} = \frac{Skor}{Total Faktor Penilaian}$	Ratio
4.	Fraud	<i>Fraud</i> measured by looking at the number of internal frauds that occurred in Islamic banks as stated in the annual report implementation of GCG in Islamic banks.	Ordinal

Source: Processed by researchers (2025)

Data analysis was conducted using Moderated Regression Analysis (MRA) with the help of EViews 12 software. This analysis was used to test the direct influence of independent variables on fraud prevention as well as the moderating role of Internal Control in strengthening or weakening the relationship between variables.(Sofwatillah & Others, 2024). Before conducting the main analysis, the data was first tested through a series of diagnostic tests including stationarity, normality, multicollinearity, autocorrelation, and heteroscedasticity tests to ensure the feasibility of the model.(I. Sakti, 2018). After that, the Chow and Hausman tests were conducted to determine the best panel model among Pooled Least Squares (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM). The test results showed that the Fixed Effect Model (FEM) was the most appropriate model because it was able to significantly describe differences in characteristics between banks.(Bawono, Anton, 2018).

RESULTS AND DISCUSSION

RESULTS

Descriptive analysis

Descriptive statistical analysis was conducted to provide a general overview of the data characteristics of each research variable, which consists of Islamic Corporate Governance (X1), Islamic Income Ratio (X2), Profit Sharing Ratio (X3), Internal Control (Z), and Fraud (Y). This analysis includes measures of central tendency such as the average value (mean), the middle value (median), measures of dispersion in the form of standard deviation, and measures of data distribution shape such as skewness and kurtosis. In addition, normality testing using the Jarque-Bera test was conducted to ensure that the data is normally distributed and suitable for further analysis at the hypothesis testing stage. The descriptive statistical analysis in this study is as follows:

Descriptive Analysis					
Date: 08/05/25 Time: 19:49					
Sample: 2016 2024					
	X1	X2	X3	Z	Y
Mean	0.268469	0.289363	0.502007	0.588748	0.968231
Median	0.262451	0.292676	0.491651	0.589543	0.921177
Maximum	0.431364	0.366153	0.980063	0.743869	2.420481
Minimum	0.079181	0.217950	-0.314494	0.439206	-0.315066
Std. Dev.	0.092475	0.028252	0.300128	0.061094	0.584255
Skewness	-0.053442	-0.255128	-0.344088	0.231924	0.235634
Kurtosis	2.332728	2.970900	2.356353	2.816508	2.505673
Jarque-Bera	1.712537	0.979531	3.329508	0.933093	1.749201
Probability	0.424744	0.612770	0.189237	0.627164	0.417029
Sum	24.16221	26.04268	45.18060	52.98728	87.14075
Sum Sq. Dev.	0.761092	0.071036	8.016853	0.332191	30.38052
Observations	90	90	90	90	90

Source: Secondary data processed by Eviews 12 (2025)

Based on the descriptive test results above, the Islamic Corporate Governance variable (X1) has an average value of 0.268469 with a median of 0.262451, indicating that the level of implementation of sharia governance in Islamic Commercial Banks is relatively balanced. The minimum value of 0.079181 and the maximum of 0.431364 illustrates a variation that is not too wide between banks, so it can be concluded that the implementation of Islamic Corporate Governance principles is quite consistent in the Islamic banking industry. The standard deviation of 0.092475 indicates a low level of data distribution, which means there are no significant differences between banks in the application of these governance principles. The skewness value

of -0.053442 which is close to zero indicates an almost symmetrical data distribution, while the kurtosis value of 2.332728 approaching three indicates that the data distribution resembles a normal distribution. The results of the Jarque-Bera normality test of 1.712537 with a probability of 0.424744 (> 0.05) confirm that the data for variable X1 is normally distributed.

Furthermore, the Islamic Income Ratio (X2) variable shows an average value of 0.289363 with a median of 0.292676. This value indicates that the composition of halal income to total income of Islamic Commercial Banks is at a high level, reflecting good compliance with sharia principles. The minimum value of 0.217950 and the maximum of 0.366153 indicate a fairly wide range of variation between banks, thus reflecting differences in performance in generating income that is fully in accordance with Islamic principles. The standard deviation of 0.028252 indicates that the data variation is moderate. The skewness value of -0.255128 which is negative indicates that the data distribution is slightly skewed to the left, with the majority of values being above the average. The kurtosis value of 2.970900 is close to three, indicating a distribution that resembles a normal distribution. The Jarque-Bera test result of 0.979531 with a probability of 0.612770 (> 0.05) confirms that the data for variable X2 is normally distributed.

For the Profit Sharing Ratio (X3) variable, the average value is 0.502007 with a median of 0.491651, indicating that the profit sharing system in Islamic Commercial Banks tends to be balanced between values below and above the median. The minimum value of -0.314494 and the maximum of 0.980063 indicate a significant variation between banks in the implementation of the profit sharing system. The standard deviation of 0.300128 indicates moderate fluctuations, meaning that the level of profit sharing between Islamic banks still varies. The skewness value of -0.344088 is negative, indicating a slightly left-leaning distribution, meaning that most PSR values are above the average. The kurtosis value of 2.356353 indicates a platykurtic distribution, where the peak of the distribution is more sloping and the data spread is wider than a normal distribution. The Jarque-Bera normality test produces a value of 3.329508 with a probability of 0.189237 (> 0.05), so that the X3 data can be said to be normally distributed.

Meanwhile, the Internal Control (Z) variable has an average value of 0.588748 with a median of 0.589543, indicating that the level of internal control in Islamic Commercial Banks is in a relatively balanced and good condition. The minimum value of 0.439206 and the maximum of 0.743869 indicate that the effectiveness of the internal control system between banks still has variations, although within reasonable limits. The standard deviation of 0.061094 indicates low data fluctuation, meaning that the implementation of internal control in this industry is quite consistent. The skewness value of 0.231924 is positive, indicating a slight skew to the right, so that most values are above the average. The kurtosis value of 2.356353 indicates that the data distribution has a lower peak than the normal distribution. The Jarque-Bera test value of 0.933093 with a probability of 0.627164 (> 0.05) confirms that the Z variable data is normally distributed.

Finally, the Fraud variable (Y) which acts as the dependent variable has an average value of 0.968231 with a median of 0.921177, indicating a positive and relatively high value tendency. The minimum value of -0.315066 and the maximum of 2.420481 indicate quite large variations between banks, which indicates differences in the level of risk and fraud prevention. The standard deviation of 0.584255 indicates a moderate level of data variation. The skewness value of 0.235634 which is positive indicates the data distribution is slightly skewed to the right, indicating that most banks have an above-average level of fraud prevention. The kurtosis value of 2.505673 which is smaller than three indicates that the data distribution is platykurtic, with the peak of the distribution tending to be flatter. The Jarque-Bera test value of 1.749201 with a probability of

0.417029 (> 0.05) indicates that the data for variable Y is normally distributed.

Overall, the results of this descriptive analysis show that all research variables, both independent (X1, X2, X3), moderating (Z), and dependent (Y), have a normal data distribution with a Jarque-Bera test probability value greater than 0.05. This indicates that the data is suitable for use in moderation regression testing without requiring additional transformation. In addition, these results also show that the level of implementation of Islamic Corporate Governance, sharia compliance (through the Islamic Income Ratio and Profit Sharing Ratio), and the effectiveness of good internal control have the potential to contribute to increasing fraud prevention in Islamic Commercial Banks in Indonesia.

Stationarity Test

Stationarity Test Results

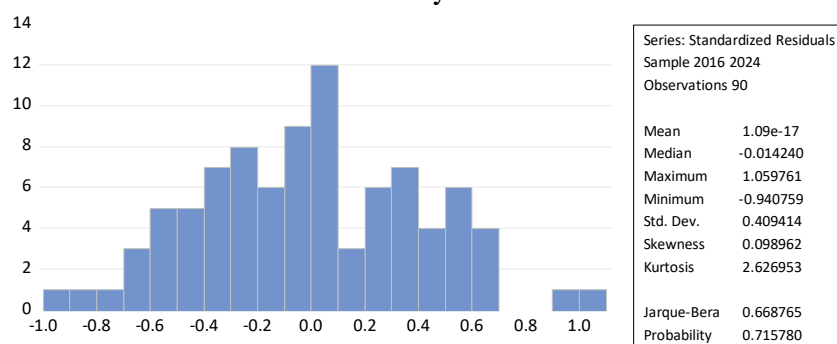
No	Variables	Probability	information	Level
1.	<i>Islamic Corporate Governance</i> (X1)	0.0002	Stationary	LLC Level
2.	<i>Islamic Income Ratio</i> (X2)	0.0000	Stationary	LLC Level
3.	<i>Profit Sharing Ratio</i> (X3)	0.0000	Stationary	LLC Level
4.	<i>Internal Control</i> (Z)	0.0000	Stationary	LLC Level
5.	<i>Fraud</i> (Y)	0.0000	Stationary	LLC Level

Source: Secondary data processed by Eviews 12 (2025)

Based on the test results presented in Table 4.2, all research variables, namely Islamic Corporate Governance (X1), Islamic Income Ratio (X2), Profit Sharing Ratio (X3), Internal Control (Z), and Fraud (Y), show probability values below 0.05 in the LLC test at the level level. This means that all variables are stationary at the level level without requiring a differentiation process. Thus, the panel data used has met the stationarity assumption, making it suitable for use in panel data regression analysis in the next stage.

Classical Assumption Test

Normality Test



Source: Secondary data processed by Eviews12(2025)

Based on the results of the normality test using the Jarque-Bera method on standardized

residuals, a probability value of 0.715780 (> 0.05) indicates that the residuals are normally distributed. This is reinforced by the skewness value of 0.098962, which is close to zero (indicating a symmetrical distribution) and kurtosis of 2.626953, which is close to 3 (a near-normal distribution). The residual histogram also shows a bell-shaped curve pattern, although not perfect, which further strengthens the indication of normality. Thus, the assumption of normality in the model has been met, so that the regression analysis can proceed to the next stage without violating this assumption.

Multicollinearity Test

	X1	X2	X3	Z
X1	1.000000	-0.076133	-0.183768	0.747420
X2	-0.076133	1.000000	0.190542	-0.136301
X3	-0.183768	0.190542	1.000000	-0.126271
Z	0.747420	-0.136301	-0.126271	1.000000

Source: Secondary data processed by Eviews12(2025)

Based on the correlation table above, the relationship between variables shows that most correlation values are below 0.80, so the indication of multicollinearity is relatively low. The highest correlation value is seen between X1 and Z at 0.747420, which is close to the warning limit but still below the general threshold of 0.80, so it cannot be said that serious multicollinearity has occurred. The correlation between other variables such as X1 with X2 (-0.076133), X1 with X3 (-0.183768), X2 with X3 (0.190542), X2 with Z (-0.136301), and X3 with Z (-0.126271) is relatively low, indicating that the linear relationship between these variables is weak. Thus, in general, this model does not show a significant problem of multicollinearity and can be continued to the regression analysis stage.

Autocorrelation Test

S.E. of regression	0.448995	Sum squared resid	14.91813
F-statistic	6.436988	Durbin-Watson stat	1.710549

Source: Secondary data processed by Eviews12(2025)

Based on the data processing results, the value of the Durbin-Watson statistic is 1.710549. Note that because the value of the Durbin-Watson statistic lies between 1 and 3, namely $1 < 1.710549 < 3$, the non-autocorrelation assumption is met. In other words, there is no high autocorrelation in the residuals.

Heteroscedasticity Test

Panel Period Heteroskedasticity LR Test
Equation: UNTITLED
Specification: Y C X1 X2 X3 X1_Z X2_Z X3_Z
Null hypothesis: Residuals are homoskedastic

	Value	df	Probability
Likelihood ratio	11.83520	10	0.2962

LR test summary:

	Value	df
Restricted LogL	-64.96849	83
Unrestricted LogL	-59.05089	83

Source: Secondary data processed by Eviews12(2025)

Based on the Panel Cross-section Heteroskedasticity Likelihood Ratio (LR) Test output, a likelihood ratio value of 11.83520 was obtained with 10 degrees of freedom (df) and a probability value (p-value) of 0.2962. This p-value greater than 0.05 indicates that at the 5% significance level, we fail to reject the null hypothesis stating that the residuals are homoskedastic. In other words, there is insufficient evidence to conclude that there is heteroskedasticity in the estimated panel model residuals. This indicates that the residual variance is relatively constant across cross-sections, so the panel regression model used can be considered to meet the homoskedasticity assumption. Therefore, these results support the reliability of the model parameter estimates because there are no indications of violations of assumptions that could cause the estimation to be inefficient.

Statistical Test

In panel data analysis, selecting a regression model is a crucial step because there are three approaches available: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). To select the best model, a series of tests are used, including the Chow test to compare CEM and FEM, the Hausman test to compare FEM and REM, and the Lagrange Multiplier (LM) test to compare CEM and REM. The results of these three tests form the basis for determining the model that best suits the characteristics of the research data. The following are the requirements for regression model testing.

Regression Model Testing Conditions

Testing	Results	Decision
Chow Test	Prob. > 0.05	CEM
	Prob. < 0.05	FEM
Hausman test	Prob. > 0.05	BRAKE
	Prob. < 0.05	FEM
Lagrange Multiplier Test	Prob. > 0.05	CEM
	Prob. < 0.05	BRAKE

Source: processed data 2025

Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.860772	(9,74)	0.0000

Source: Secondary data processed by Eviews12(2025)

Based on the data processing results in EViews, the Cross-section F value was obtained as 4.223994 with a probability of 0.0000. Because the probability value is smaller than the 0.05 significance level, the null hypothesis is rejected. This indicates that the Fixed Effect Model is more appropriate to use than the Common Effect Model in this study. Therefore, further analysis will use the FEM model or proceed to the next test to ensure the selection of the best model.

Hausman test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.018021	6	0.0201

Source: Secondary data processed by Eviews12(2025)

Based on the data processing results in EViews, the Chi-Square Statistic value was 14.973954 with a probability of 0.0201. Because this probability value is less than 0.05, the null hypothesis is rejected and it can be concluded that the Fixed Effect Model is the most appropriate model to use. This result is consistent with the previous test (Chow Test), which also recommended the use of FEM in this study.

Based on the model testing results, the Chow Test indicates that the appropriate model is the Fixed Effect Model (FEM). Furthermore, the Hausman Test confirms that the FEM is more appropriate than the Random Effect Model (REM), thus strengthening the decision to use the FEM. Therefore, the Lagrange Multiplier (LM) Test is unnecessary, as the LM test is only relevant when there is a consideration to choose between the Common Effect Model (CEM) and the REM.

With FEM selected as the best model, the subsequent panel regression analysis will use this approach to test the effect of independent variables on the dependent variable. This selection aligns with econometric guidelines, which state that FEM is appropriate when there are significant differences in individual characteristics between cross-sectional units, thus controlling for unobserved heterogeneity. The following are the data processing results:

Fixed Effect Model (FEM)

Dependent Variable: Y
Method: Panel EGLS (Cross-section weights)
Date: 08/10/25 Time: 11:16
Sample: 2016 2024
Periods included: 9
Cross-sections included: 10
Total panel (balanced) observations: 90
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.336868	0.480234	0.701467	0.4852
X1	-1.376551	5.262450	-0.261580	0.7944
X2	13.29569	6.229364	2.134357	0.0361
X3	-4.232354	1.628466	-2.598982	0.0113
X1 Z	7.056174	8.778307	0.803819	0.4241
X2 Z	-23.04824	11.39775	-2.022174	0.0468
X3 Z	7.176032	2.842591	2.524468	0.0137

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.566122	Mean dependent var	1.091026
Adjusted R-squared	0.478174	S.D. dependent var	0.680477
S.E. of regression	0.448995	Sum squared resid	14.91813
F-statistic	6.436988	Durbin-Watson stat	1.710549
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.495137	Mean dependent var	0.968231
Sum squared resid	15.33799	Durbin-Watson stat	1.604747

Source: Secondary data processed by Eviews12(2025)

The regression model used from the test results in table 4.10, for the MRA equation this study uses the formula:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_1 X_1 Z + \beta_2 X_2 Z + \beta_3 X_3 Z$$

If applied in the research used, it becomes:

$$Y = 0.336868 - 1.376551 + 13.29569 - 4.232354 + 7.056174 - 23.04824 + 7.176032$$

Hypothesis Testing

Determinant Coefficient (R²)

Based on the estimation results of the panel data regression model, the Weighted coefficient of determination (R²) value of 0.566122 indicates that approximately 56.61% of the variation in the dependent variable can be explained by the independent variables X1, X2, X3, and their interactions with the moderating variable Z (X1_Z, X2_Z, X3_Z) in the analyzed period and cross-section units. The Adjusted R² value of 0.478174 indicates that after considering the number of variables and the panel sample size, the model's explanatory power remains quite good, at 47.82%. The difference between the Weighted R² and Unweighted R² values (0.5661 vs. 0.4781) indicates that adding weights (cross-section weights) in the estimation can improve the

model's ability to capture panel data variations.

Model Fit Test (F Test)

The results of the F-test on panel data regression show that the F-statistic value is 6.436988 with a Prob(F-statistic) of 0.000000 ($p < 0.05$), meaning the model is statistically significant. This means that simultaneously all independent variables in the model, including interaction variables with moderation, have a significant influence on the dependent variable in the analyzed panel data. Thus, the panel data regression model used can be declared fit to explain the relationship between independent variables, moderating variables, and dependent variables within the observation period and across the studied entities.

Individual Testing (T-Test)

The Influence of Islamic Corporate Governance (X_1) on Fraud Prevention (Y)

Based on the partial test results, the regression coefficient value was obtained at -1.376 , with a t-value of -0.262 and a p-value of 0.7944 (> 0.05). The t-value is smaller than the t-table (1.987), indicating that Islamic Corporate Governance (ICG) does not have a significant effect on fraud prevention in Islamic Commercial Banks in Indonesia.

The Influence of Islamic Income Ratio (X_2) on Fraud Prevention (Y)

The test results show a regression coefficient value of 13.296 , with a t-test of 2.134 and a p-value of 0.0361 (< 0.05). Since the t-test value is greater than the t-table (1.987), it can be concluded that the Islamic Income Ratio (IsIR) has a positive and significant effect on fraud prevention.

The Influence of Profit Sharing Ratio (X_3) on Fraud Prevention (Y)

Based on the analysis results, the regression coefficient value was obtained as -4.232 , t-count -2.599 , and p-value 0.0110 (< 0.05). Because the absolute value of t-count is greater than t-table (1.987), it can be concluded that the Profit Sharing Ratio (PSR) has a negative and significant effect on fraud prevention.

The Effect of ICG on Fraud Prevention Moderated by Internal Control (Z)

The results of the interaction test between ICG and Internal Control ($ICG*Z$) showed a coefficient value of 7.056 , a t-value of 0.804 , and a p-value of 0.4241 (> 0.05). The t-value, which is smaller than the t-table (1.987), indicates that internal control does not moderate the effect of Islamic Corporate Governance on fraud prevention.

The Influence of Islamic Income Ratio on Fraud Prevention Moderated by Internal Control (Z)

Based on the results of the interaction test, a coefficient value of -23.048 was obtained, with a t-count of -2.022 and a p-value of 0.0468 (< 0.05). Since the absolute value of the t-count is greater than the t-table (1.987), it can be concluded that internal control negatively moderates the influence of the Islamic Income Ratio on fraud prevention.

The Effect of Profit Sharing Ratio on Fraud Prevention Moderated by Internal Control (Z)

The results of the interaction test between PSR and Internal Control ($PSR*Z$) show a coefficient value of 7.176 , with a t-count of 2.524 and a p-value of 0.0137 (< 0.05). Since the t-count value is greater than the t-table (1.987), it can be concluded that internal control positively moderates the effect of Profit Sharing Ratio on fraud prevention.

DISCUSSION

The Influence of Islamic Corporate Governance (X₁) on Fraud Prevention (Y)

The research results show that Islamic Corporate Governance (ICG) has no significant effect on fraud prevention in Islamic Commercial Banks in Indonesia. Based on Agency Theory, the relationship between fund owners (shahibul maal) and fund managers (mudharib) is vulnerable to information asymmetry, which can lead to moral hazard. Conceptually, the implementation of ICG is expected to reduce this potential through oversight, transparency, and accountability mechanisms. (Karbhari et al., 2020) However, these insignificant results indicate that the application of sharia governance principles still faces challenges in practical implementation, particularly in ensuring the effectiveness of the supervisory function and the internalization of sharia ethical values at the managerial level.

However, these findings do not indicate a weakness in the sharia system, but rather indicate that the implementation of ICG needs to be strengthened by improving the quality of supervision, management's ethical commitment, and integrating governance functions with a trust-based organizational culture. By strengthening the oversight dimension and agents' moral awareness within the Agency Theory framework, ICG has the potential to make a greater contribution to future fraud prevention efforts.

This result is in line with research conducted by (Muhammad et al., 2019), as well as (Najib & Rini, 2019), who found that ICG had no effect on fraud prevention in Islamic commercial banks. They argued that effective implementation of sharia governance remains difficult because Islamic banking in Indonesia is still in its development stage. This indicates that the existing governance structure is not yet fully capable of optimally preventing fraud. Therefore, continuous improvement efforts are needed to ensure that corporate governance is compliant with sharia principles and can be implemented effectively.

In addition, research (Azwirman et al., 2023) also supports these results by showing that ICG has no effect on fraud prevention. The limited understanding of human resources in Islamic banking regarding sharia mechanisms and principles has resulted in the suboptimal implementation of Islamic values. This situation has led to the public perception that Islamic banking practices are not significantly different from conventional banking. Therefore, strengthening the implementation of Islamic Corporate Governance is necessary to align it with Islamic principles and effectively prevent fraud.

However, the results of this study differ from the findings (Vebrian, 2025), (Supriatna et al., 2022), and (Milenia et al., 2022), which showed that ICG had a positive and significant impact on fraud prevention. They emphasized that a strong supervisory structure can minimize the potential for fraud in Islamic financial institutions. These differences in findings indicate that the effectiveness of ICG is highly dependent on the maturity of the governance system and the quality of implementation of Islamic values in each financial institution.

The Influence of Islamic Income Ratio (X₂) on Fraud Prevention (Y)

The results of the study indicate that the Islamic Income Ratio (IsIR) has a positive and significant effect on fraud prevention in Islamic Commercial Banks in Indonesia. This means that the higher the proportion of halal income earned by a bank, the stronger the institution's ability to prevent fraudulent practices. Based on Sharia Enterprise Theory (SET), halal income reflects the institution's level of compliance with sharia principles that emphasize the values of justice, trustworthiness, and responsibility. When operational activities are carried out in accordance with sharia provisions and are free from elements of usury, gharar, and maysir, the internal control

system will be oriented towards integrity and transparency, which are effective in preventing irregularities.

From the SET perspective, the success of banks in maintaining halal income also reflects spiritual responsibility to Allah SWT (hablun minallah) as well as social responsibility to fellow human beings (hablun minannas). (Suyuti & Muchran, 2023) Therefore, a high IsIR score not only reflects healthy financial performance but also strengthens an organizational culture based on Islamic ethics, thereby acting as a preventive mechanism against fraud.

In line with this theory, research by (Nawang Sari et al., 2022) and (Azwirman et al., 2023) shows that increasing IsIR has a positive impact on the financial performance of Islamic banks and has implications for reducing the risk of fraud. Similarly, (Sucipto et al., 2022) emphasized that although Islamic banks generally have high Islamic income ratios, the risk of fraud can still occur if income management is not conducted transparently. (Farida et al., 2021) found that Sharia compliance has a complex relationship with fraud, as in some cases, the influence of IsIR can conflict with the ideal concept of accountability. This suggests that the effectiveness of IsIR in preventing fraud depends not only on the magnitude of the halal income ratio, but also on the quality of implementation of Sharia principles in fund management and financial reporting.

Meanwhile, research that is inconsistent with these results is shown by (Anggraini, 2023), which concluded that IsIR and the Islamic Investment Ratio (IIR) had no significant effect on fraud in Islamic banks. This discrepancy in results suggests the possibility of other factors, such as differences in the maturity level of Islamic governance, the effectiveness of internal supervision, or varying interpretations of the Islamic income ratio in each institution. Therefore, although theoretically, IsIR is expected to strengthen fraud prevention, in practice, this influence can be dynamic and influenced by the context in which Islamic values are implemented in each bank.

The Influence of Profit Sharing Ratio (X_3) on Fraud Prevention (Y)

The research results show that the Profit Sharing Ratio (PSR) has a negative and significant effect on fraud prevention in Islamic commercial banks in Indonesia. This means that the higher the proportion of profit-sharing-based financing, the bank's ability to prevent fraud actually decreases. Based on Stewardship Theory, the relationship between the fund owner (shahibul maal) and the fund manager (mudharib) should be based on trust and moral responsibility to achieve shared goals. However, these results indicate that these values have not been fully internalized in financing practices.

In this theory, stewards are considered trustworthy and motivated by collective interests. However, in practice, profit-sharing financing often faces challenges such as information asymmetry and weak oversight, which can open up opportunities for moral hazard and hinder the effectiveness of fraud prevention. (Chrisman, 2019). This result is in line with the findings (Muhammad R. & Saleh, 2019), which states that PSR has a significant influence on fraudulent actions, as well as (Ridha & Umiyati, 2022), which confirms that PSR is a key component determining the level of fraud disclosure in Islamic banks. (Santika & Ghofur, 2020) He added that while the implementation of Sharia standards contributes to fraud reduction, variations in compliance levels can impact its effectiveness; thus, increasing PSR needs to be accompanied by strengthening overall Sharia compliance.

However, not all studies show similar results. (Najib & Rini, 2019) found that PSR was associated with reduced fraud, but emphasized the importance of considering other external factors in analyzing this relationship. In addition, (Farida et al., 2021) shows that there are other

factors that may have a greater influence than PSR in certain contexts, so that the results between studies are not completely consistent.

Thus, these findings do not indicate a weakness in sharia principles, but rather emphasize the need to strengthen stewardship values through enhanced ethical trustworthiness, spiritual-based supervision, and transparent governance so that profit-sharing mechanisms can function optimally in preventing fraud.

The Effect of ICG on Fraud Prevention Moderated by Internal Control (Z)

The research results show that internal control does not moderate the effect of Islamic Corporate Governance (ICG) on fraud prevention in Islamic commercial banks in Indonesia. This indicates that the existence of an internal control system has not been able to strengthen the relationship between the implementation of Islamic governance and the effectiveness of fraud prevention.

Within the framework of Agency Theory, this situation indicates that the oversight mechanisms established through ICG have not fully reduced information asymmetry and moral hazard between the principal and the agent. Internal control should ensure transparency and agent compliance, but the weak implementation of internal oversight indicates that this function is not functioning optimally.

Based on Stewardship Theory, managers should act as trustworthy stewards and prioritize the interests of the institution. These insignificant results indicate that these values of trustworthiness and moral responsibility have not been fully internalized in organizational practices. Strong internal controls should support stewardship behavior, but if they are merely administrative in nature without reinforcing ethical and spiritual values, they will not be sufficient to strengthen ICG's influence on fraud prevention.

Meanwhile, from the perspective of Sharia Enterprise Theory (SET), the implementation of ICG should not only be oriented towards accountability to humans (*hablun minannas*), but also to Allah SWT (*hablun minallah*). The insignificant role of internal control indicates that the spiritual dimension of the control system has not been fully integrated into the institution's governance.

Thus, these results do not indicate a weakness in the sharia system, but rather emphasize the need to strengthen the internal control function in a holistic manner—combining formal supervisory mechanisms (Agency Theory), management's moral commitment (Stewardship Theory), and spiritual and social orientation in sharia responsibility (SET).

This result is in line with research (Melsiana & Kabib, 2024b) who found that although ICG has the potential to reduce fraud, internal control does not always strengthen the relationship. Similar findings were also expressed by (Zahid et al., 2022) which states that the effectiveness of internal control depends on the context in which it is applied. On the other hand, research (Prativi et al., 2021) shows that strong internal control can help reduce the risk of fraud, although the consistency varies between institutions as also found by (MRP Sakti et al., 2021).

The Influence of Islamic Income Ratio on Fraud Prevention Moderated by Internal Control (Z)

The research results show that internal control negatively moderates the effect of the Islamic Income Ratio (IsIR) on fraud prevention in Islamic commercial banks in Indonesia. This means that the existence of an internal control system actually weakens the relationship between the level

of halal income and the effectiveness of fraud prevention. This condition reflects that the internal supervision implemented is not fully aligned with the spirit of the Sharia values inherent in the halal income component.

From an Agency Theory perspective, these results indicate that although internal control systems are designed to reduce information asymmetry between the principal and the agent, their implementation tends to be formalistic. When oversight overemphasizes administrative aspects without internalizing spiritual values, it can potentially lead to opportunistic behavior and moral hazard. In other words, strict controls without an understanding of Islamic values can weaken oversight's effectiveness and encourage manipulative behavior.

From a Stewardship Theory perspective, overly rigid internal controls can undermine the spirit of trust and moral responsibility that underpin steward behavior. In Islamic financial institutions, managers ideally act out of faith and moral commitment, not simply because of formal oversight. When internal controls are applied mechanically without regard for the trust dimension, the relationship of trust and collective responsibility is undermined, thereby reducing the effectiveness of fraud prevention.

Meanwhile, based on Sharia Enterprise Theory (SET), internal control should not only emphasize procedural compliance, but also reflect a balance between spiritual responsibility to Allah SWT (*hablun minallah*) and social responsibility to others (*hablun minannas*). A high Islamic Income Ratio should be evidence of Sharia compliance. However, if the supervisory system only assesses formal aspects without strengthening spiritual awareness, the essence of Sharia in control is weakened. As a result, the positive relationship between halal income and fraud prevention is reduced by the weak integration of ethical values in the control system.

Thus, these results do not indicate a weakness in the concept of halal income, but rather emphasize the importance of value-based, rather than simply rule-based, internal control. The synergy between oversight mechanisms (Agency Theory), the values of trust and moral responsibility (Stewardship Theory), and spiritual orientation (SET) is key to ensuring internal control strengthens—rather than weakens—the influence of sharia compliance on fraud prevention in Islamic banking.

In line with these results, (Melsiana & Kabib, 2024) found that strong internal controls do not always improve compliance with sharia principles. Large halal revenues can create opportunities for internal irregularities if not balanced with integrity and spiritual oversight. Similarly, (Anggraini, 2023) found that despite adequate corporate governance structures and sharia regulations, the Islamic Income Ratio had no significant effect on fraud. This indicates that the effectiveness of internal control depends heavily on the quality of the implementation of sharia values, not just the strength of its formal rules.

The Effect of Profit Sharing Ratio on Fraud Prevention Moderated by Internal Control (Z)

The research results show that internal control positively moderates the effect of the Profit Sharing Ratio (PSR) on fraud prevention in Islamic commercial banks in Indonesia. This means that an effective internal control system strengthens the relationship between profit-sharing financing mechanisms and fraud prevention efforts. This confirms the crucial role of internal oversight in ensuring transparency, honesty, and adherence to the principle of fairness in the implementation of profit-sharing contracts.

Within the framework of Agency Theory, these results demonstrate that the existence of internal controls can reduce information asymmetry and moral hazard between the fund owner

(principal) and the fund manager (agent). A sound oversight mechanism encourages transparent reporting, ensuring fair and accountable profit-sharing in accordance with Sharia principles. This reinforces the finding that PSR can be an effective economic instrument in mitigating fraud risk when supported by a transparent and structured control system.

From the perspective of Stewardship Theory, effective internal control contributes to fostering trustworthy behavior and moral responsibility among managers as stewards. A supervisory system that not only enforces pressure but also fosters a sense of collective responsibility and a work ethic based on Islamic values can foster an organizational culture of integrity. Therefore, PSR implemented under sound controls will further enhance the effectiveness of fraud prevention.

Furthermore, based on Sharia Enterprise Theory (SET), internal controls based on sharia values reflect a balance between vertical responsibility to Allah SWT (*hablun minallah*) and horizontal responsibility to fellow human beings (*hablun minannas*). When internal controls are integrated with Islamic spiritual and social values, the implementation of profit-sharing financing is oriented not only toward profit but also toward justice, trustworthiness, and blessings.

This finding is in line with research (Puspita & Adiputra, 2023) as well as (Milenia et al., 2022) which found that internal control plays an important role in strengthening the effectiveness of PSR in preventing fraud. However, research by (Melsiana & Kabib, 2024) showed different results, indicating that internal control is not always effective in suppressing fraud in profit-sharing transactions. Theoretically, the results of this study enrich the literature on the role of internal control as a moderating variable in strengthening the relationship between PSR and fraud prevention, while also confirming the relevance of Agency Theory, Stewardship Theory, and Sharia Enterprise Theory in the context of Islamic banking.

CONCLUSION

This study analyzes the influence of Islamic Corporate Governance (ICG) and Sharia Compliance on fraud prevention, with Internal Control as a moderating variable, in Islamic Commercial Banks in Indonesia for the period 2016–2024. The results show that ICG has a negative but insignificant effect on fraud prevention, indicating that the implementation of Sharia governance is not yet fully effective in reducing fraud. The implementation of ICG principles still focuses on formal compliance, so it needs to be strengthened through the active role of the Sharia Supervisory Board and more substantive internal audits.

Furthermore, the Islamic Income Ratio (IsIR) significantly influences fraud prevention, while the Profit Sharing Ratio (PSR) has a significant negative effect, indicating that profit-sharing financing can increase transparency and reduce the potential for fraud. Moderation results indicate that Internal Control strengthens the influence of PSR on fraud prevention, but weakens the relationship between IsIR and fraud prevention. These findings confirm that the effectiveness of governance and Sharia compliance is highly dependent on a robust internal control system aligned with Islamic values.

Theoretically, this research strengthens the relevance of Agency Theory, Stewardship Theory, and Sharia Enterprise Theory (SET) in the context of sharia governance. Internal control and the implementation of sharia values play a role in reducing information asymmetry, strengthening trustworthiness, and fostering spiritual and social responsibility. Practically, Islamic commercial banks need to strengthen a culture of trustworthiness, integrity, and Islamic-based

supervision. Meanwhile, regulators such as the Financial Services Authority (OJK) and the National Sharia Council (DSN-MUI) are advised to strengthen governance guidelines that emphasize effective implementation, rather than mere formal compliance.

Thus, this study confirms that the success of fraud prevention in Islamic banking depends not only on the application of formal governance and compliance principles, but also on the integration of spiritual and moral values and effective internal control systems in every operational aspect of Islamic financial institutions.

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