

Personal Prophetic Leadership, Sharia Compliance, And Islamic Corporate Governance: Sharia Banking Fraud Prevention Efforts

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Abstract

This study aims to discuss the chances of developing the concept of prophetic leadership, sharia compliance, and Islamic corporate governance can be linked as very important elements in preventing fraud in Islamic commercial banks. This type of research conducted in this research is qualitative research. The data collection technique used is literature study by collecting information and data with the help of various materials in the library such as documents, books, journals, notes, or by internet searching. The data analysis method using inductive and deductive thinking frameworks. The result of this study is that personal prophetic leadership (Perpec-L), sharia compliance, and Islamic corporate governance are an effort of Islamic banking to prevent fraud (corruption). This can be done by adopting the values contained in Perpec-L. Then by assessing the indicators contained in sharia compliance. Furthermore, by taking the existing principles of Good Corporate Governance (GCG) that are in accordance with Islamic norms and values.

1. Introduction

Fraud is a deliberate act by members of company management, parties who play a role in governance, employees or third parties who commit lies or fraud to obtain unfair or illegal profits. In Indonesia, fraud related to banking is described in Bank Indonesia Circular Letter No. 13/28/DPNP Year 2011 concerning the implementation of an anti-fraud strategy for Commercial Banks, which states that fraud is an act of storage that is intentionally carried out to deceive, deceive, or manipulate what happens within the Bank and/or use the Bank's facilities so as to result in the Bank, the customer, or other parties suffer losses and/or the fraudsters get financial benefits, either directly or indirectly. This fraudulent behavior does not only occur in Conventional Commercial Banks, but also in Islamic Commercial Banks.

Corruption is a form of behavior deviation. The rise of corruption is caused in part by the disregard for religious values and norms in society. Religion is only used as a community, not as an affection. There is no implementation of religious values or prevailing norms. Therefore, it is necessary to formulate a mature concept in the form of a personal prophetic leadership model as an alternative step in intrinsic character education that can overcome the problems of national morality and corrupt behavior in Indonesia.

Nowadays, a new concept of leadership based on the spiritual aspects of the human being has emerged, which is meant to be a personal prophetic leadership style. The intended prophetic leadership values refer to the example of the Prophet Muhammad SAW (Mansyur, 2013). Prophetic leadership is a collection of leadership values derived from the Prophet Muhammad SAW and Al-Qur'an as the basis for noble morality (morality) in managing one's own life in relation to preventing fraudulent behavior at Islamic Commercial Banks in Indonesia.

In addition, the emergence of issues regarding the weakness of corporate governance in the Islamic banking industry has increasingly attracted the attention of Islamic economics and finance experts as a fundamental reason in this study to reveal the existence of fraudulent practices (Hameed et al., 2004). Fulfillment of sharia values (sharia compliance) is one of the fundamental aspects that differentiates Islamic banking from conventional banking (Maradita, 2014).

Islamic Corporate Governance is the application of corporate governance based on Islamic principles giving an indication to the public that Islamic institutions, especially banks, are protected from fraudulent practices. Self-assessment is a form of commitment to Good Corporate Governance which is carried out regularly and refers to the parameters implemented by Bank Indonesia (Rahmayani, 2017).

Based on the description above, as well as an analysis of several internal cases of Islamic banks which include entanglement of Islamic bank employees who commit fraud (corruption) in Islamic banks. In this case the researcher is motivated to conduct research related to prophetic leadership, adherence to sharia principles, and Islamic corporate governance. The arguments put forward by researchers, namely prophetic leadership, sharia compliance, and Islamic corporate governance can be linked as very important elements in preventing fraud in Islamic commercial banks.

2. Research Method

This type of research conducted in this research is qualitative research. In a qualitative approach, researchers should use themselves as instruments, because non-human instruments are difficult to use flexibly to capture the various realities and interactions that occur. Researchers must be able to reveal social phenomena in the field by mobilizing all their sensory functions (Mulyadi, 2013).

The data collection technique used is literature study by collecting information and data with the help of various materials in the library such as documents, books, journals, notes, or by internet searching. The data analysis method used is qualitative data analysis using inductive and deductive thinking frameworks. In analyzing the data, the researcher first presented the data obtained in the field, regarding several cases of fraud that occurred in Islamic banking, then continued by suggesting concepts related to the research in question in order to get a conclusion, namely can the implementation of personal prophetic leadership be possible (Perpec- L), sharia compliance, and Islamic corporate governance to prevent fraud (corruption) that occurs in Islamic commercial banks in Indonesia.

3. Results and Discussions

Fraud

In the original language, fraud includes various acts against the law. In Indonesia, fraud related to banking is described in Bank Indonesia Circular Letter No. 13/28/DPNP of 2011 concerning the implementation of anti-fraud strategies for commercial banks, which states that fraud is an act of irregularity or deliberate omission to deceive, cheat or manipulate and/or use bank facilities so that losses occur and/or fraud perpetrators gain financial benefits either directly or indirectly (Tuanakotta, 2012).

This study focuses on fraud that occurs in work relationships or what is also known as internal fraud because the types of fraud that have the greatest risk for companies worldwide are

corruption and billing schemes, both of which are included in the occupational fraud category. According to Tuanakotta (2012), the Occupational fraud tree has three main branches, namely:

- a. Corruption consists of four branches, namely conflicts of interest, bribery, illegal gratuities and economic extortion.
- b. Asset misappropriation is the theft of company assets by someone who is authorized to manage or supervise these assets, for example theft of cash, inventories, and fraudulent expenses. This branch consists of two branches, namely cash and investment and other assets.
- c. Financial Statement Fraud, which includes fraudulent financial statements and fraudulent non-financial statements. Fraud in the financial statements is a form of deliberate misstatement or omission of amounts or disclosures that mislead users of the financial statements, such as presenting assets or revenue that are higher than the actual (asset/revenue overstatements) or presenting assets and revenue that are lower than the actual asset/revenue understatements).

Including Islamic banks, it does not rule out the possibility of fraud, so that with the implementation of Islamic corporate governance and implementation of Islamic principles properly and correctly, it can be used to prevent fraud practices in Islamic banks. In financial entities, to control fraud, a system called an anti-fraud strategy is used. Anti-fraud strategy is a form of commitment of a financial entity in controlling fraud (Sula, Alim, & Prasetyono, 2014). The anti-fraud strategy, which is implemented in the form of a fraud control system, has 4 (four) pillars as contained in Bank Indonesia Circular Letter No. 13/28/DPNP of 2011, namely:

- a. Prevention
The prevention pillar is part of the fraud control system which contains steps in order to reduce the potential risk of fraud, which at least includes anti-fraud awareness, identification of vulnerabilities and know your employee.
- b. Detection
The detection pillar is part of the fraud control system which contains steps to identify and find fraud in bank business activities, which includes at least a policy and mechanism for a whistle blowing surprise audit and a surveillance system.
- c. Investigation, reporting and sanctions
The pillars of investigation, reporting and sanctions are part of the fraud control system which at least contains steps in order to gather information (investigation), each report and imposition of sanctions for fraud in bank business activities.
- d. Monitoring, evaluation, and follow-up
The monitoring, evaluation and follow-up pillar is part of the fraud control system which at least contains steps to monitor and evaluate fraud, as well as follow-up mechanisms.

Personal Prophetic Leadership (Perpec-L)

Talking about prophecies cannot be separated from prophecy and apostleship. Prophetic comes from the word prophet which means prophet or apostle. Prophetic itself means prophetic. So, prophetic leadership is leadership that is prophetic. Actually, the main purpose of the prophetic task is to teach people how to get happiness and salvation in this world and in the hereafter (Moedjiono, 2002).

Prophets and messengers before being appointed as prophets have prophetic characteristics (*nubuwwah*) which are also known as *irkhash*. Like the Prophet Muhammad SAW since childhood

was known for his noble character as *al-amin* (trusted). In the context of Islam, the apostles and prophets are whole human figures. In doing da'wah, they not only provide good lessons, but also provide good examples. In particular, there are four characteristics of the prophets and messengers of Allah SWT, especially those inherited by the Prophet Muhammad SAW as revealed by Shihab (2006) as follows:

- a. *Shiddiq* (true). *Shiddiq* means right in terms of words and deeds. In everyday life, someone who has this character will be consistent with the truth, both in speech, attitude and behavior.
- b. *Amanah* (trustworthy). *Amanah* means trustworthy. In everyday life, someone who has this character must act honestly, have good morals, are committed to duties and obligations.
- c. *Fathanah* (smart). *Fathanah* is smart, clever, or clever. Someone who has this character must have good reasoning, wisdom, wise in decisions, and the ability to take lessons from the phenomena at hand.
- d. *Tabligh* (convey). *Tabligh* is conveying revelations or treatises from Allah SWT to others. A person who has this character conveys policies openly, involves others in decision making and has an open (transparent) attitude.

Sharia Compliance

Islamic banks, banks that carry out their business activities based on sharia principles. Fulfillment of Islamic values is one of the fundamental aspects that differentiates Islamic banking from conventional banking. Based on Indonesian bank regulation number 13/2/PBI/2011 concerning the implementation of the compliance function for commercial banks, what is meant by the compliance function is a series of actions or preventive measures to ensure that policies, regulations, systems and procedures as well as business activities are carried out by the bank in accordance with the provisions of Indonesian bank banks and applicable laws, including sharia principles for sharia commercial banks and sharia business units, as well as ensuring bank compliance with commitments made by banks to Bank Indonesia or other authorized supervisory authorities (Yaya, 2014).

In general, the basic concept of the compliance function functions as the implementation and manager of compliance risk in coordination with the work unit in risk management. The compliance function carries out preventive supervisory duties and is an important element in the management and operation of Islamic banks, capital markets, Islamic insurance, Islamic pawnshops and non-bank financial institutions (Islamic financial services cooperatives). This is done to ensure that the policies, provisions, systems and procedures carried out by Islamic banking are in accordance with the laws and regulations as well as the legal stipulations stipulated in the international standards of the IFSB, AAOIFI, and the Shariah Supervisory Board (Maradita, 2014).

Islamic Corporate Governance

Islamic Corporate Governance (ICG) is a set of regulations and efforts to improve systems and processes in organizational management by regulating and clarifying the relationships, powers, rights and obligations of all stakeholders, including the General Meeting of Shareholders (GMS), the Board of Directors, and board of Commissioners. The emergence of weaknesses in corporate governance issues that threaten business continuity and the credibility of Islamic banks as Islamic financial institutions, encouraging Islamic economics and finance experts to develop Islamic Corporate Governance of Islamic banks, known in some literatures as Islamic Corporate Governance (Hendro & Raharja, 2014).

Islamic governance seeks to find ways in which the economy, legal system and corporate governance can be guided by moral and social values based on sharia law. Its supporters believe

that all economies, companies, and business activities should aim at the welfare of individuals and society as a whole. In many ways, ICG has the same goals as conventional corporate governance, but in a moral code, ICG is based on Islam. A model from the ICG can be proposed to solve the objectives of sharia law with a stakeholder corporate governance model.

Basically, corporate governance is a system that includes input, process and output and a set of regulations that regulate the relationship between stakeholders, especially in the narrow sense of the relationship between shareholders, the board of commissioners and the board of directors for the achievement of company goals. The corporate governance is intended to regulate these relationships and prevent irregularities in implementing the company's strategy and to ensure that if mistakes occur, they can be corrected immediately.

Sharia Banking Fraud Prevention Efforts

The Indonesian government has made a lot of efforts to eradicate corruption through the process of investigation, investigation, prosecution, and trial in accordance with applicable laws. The government's efforts are only at the formal stage on the surface of society and have not touched every individual who has unique and psychological dynamics. Overcoming the problem of corruption must also be seen from the perspective of individuals who commit corruption because of the psychological factors that lead to corruption. Therefore, it is necessary to have a corruption eradication strategy that is more directed at prevention efforts based on an intrinsic preventive strategy. The success or failure of efforts to eradicate corruption is not only determined by the existence of certain legal instruments, but also by the existence of individuals who are psychologically aware of the principles of moral and religious values of each (Mansyur, 2013).

Personal prophetic leadership (Perpec-L) is a personal (individual) style of prophetic leadership that is not only owned by leaders, but also owned by each individual consciously and consistently carrying out their religious teachings, so that an awareness of autonomy and intrinsic individuals are realized in doing activity. There are five basic intrinsic characters of Perpec-L, namely: 1) living by faith; 2) worship-oriented work (vision and mission); 3) has four characteristics of the prophet (*amanah*, *tabligh*, *shiddiq*, and *fathanah*); 4) humanist; and 5) lead by conscience (Mansyur, 2013). The concept of Perpec-L can be an alternative in overcoming national problems, especially corruption and restructuring the life of a better nation.

The more urgent the need for moral leadership development in order to form an anti-fraud character, it is time for Islamic banking in Indonesia to be built by individuals with prophetic characteristics. Therefore, the presence of Perpec-L as an alternative to the concept of intrinsic leadership is very much needed in overcoming the problems of the Indonesian nation, especially corruption, and restructuring the life of a better nation.

The implementation of sharia principles in Islamic finance includes prohibition of usury, prohibition of fraud (*tadlis*), avoidance of speculation (*gharar*), violations of gambling (*maysir*), investments involving pigs, liquor and pornography (Yaya, 2014). There are several indicators that can be used as a qualitative measure to assess sharia compliance in Islamic banks according to Maradita (2014), including as follows:

- a. The contract used for the collection and distribution of funds is in accordance with the principles of sharia and applicable sharia rules, such as the mudharabah contract, musyarakah contract, murabahah contract, *salam* contract and so on.
- b. Zakat funds are calculated and paid and managed according to the rules and principles of sharia.

- c. All economic transactions and activities are reported fairly in accordance with applicable sharia accounting standards. Work environment and corporate culture in accordance with sharia.
- d. The business that is financed does not conflict with sharia.
- e. There is a Sharia Supervisory Board (DPS) as a sharia supervisor for all operational activities of a sharia bank.
- f. The source of funds comes from legal and lawful sources according to sharia.

As for quantitatively, the assessment of sharia compliance is based on the following four ratios (Hameed et al., 2004):

- a. Islamic income ratio
Namely to assess the percentage of Islamic income from all total income, both halal and non-halal
- b. Profit sharing ratio
To share the proceeds from mudharabah and musyarakah financing
- c. Zakat performance ratio
Namely the bank's wealth which must be based on net assets rather than net income which is emphasized in conventional methods
- d. Equitable distribution ratio
Namely income distributed to stakeholders as seen from the amount of money spent on qards and donations, employee expenses.

Shariah compliance in Islamic banking is the application of Islamic principles embodied in finance and banking and other related businesses. Where the compliance culture is the value of behavior and actions that support the creation of Islamic bank compliance with all Bank Indonesia regulations. Shariah compliance has a standard where sharia compliance is part of corporate governance. Shariah compliance is consistently used as a framework for the syariah banking system and finance in resource allocation, management, production, capital market activities and wealth distribution. So it can be understood that sharia compliance is the application of Islamic principles in policies, regulations, systems and procedures as well as business activities carried out by Islamic banks.

Shariah compliance is a manifestation of the fulfillment of all sharia principles in an institution that has the form, characteristics, integrity and credibility of a sharia bank. Therefore, the qualitative sharia compliance indicators mentioned above are deemed more appropriate to be used as sharia banking efforts to prevent fraud (corruption). The argument is, because the indicators contained are more comprehensive, covering a series of activity cycles carried out by Islamic banking, including the resulting inputs, processes and outputs. Thus, fraud in Islamic banking can be prevented by sharia compliance based on a sharia-compliant contract, management of zakat funds according to sharia, transactions and organizational culture that are in accordance with sharia, funded businesses that do not conflict with sharia, the existence of a Sharia Supervisory Board (DPS), and sources of funds that are lawful and in accordance with sharia.

The principles of Good Corporate Governance (GCG) are contained in Bank Indonesia Regulation No.11/33 /PBI/2009 as well as the Indonesian banking GCG guidelines issued by the National Committee on Governance Policy (KNKG) also use 5 principles in the implementation of GCG (Hendro & Raharja, 2014), namely:

- a. **Transparency**
Transparency contains elements of disclosure and provision of information in a timely, adequate, clear and comparable manner and is easily accessible to stakeholders and the public. Transparency is needed so that banks conduct business in an objective, professional manner and protect the interests of consumers.
- b. **Accountability**
Accountability looks at the clarity of functions in the organization and how to be accountable. Banks as institutions and officials who have the authority must be accountable for their performance in a transparent and accountable manner. For this reason, a bank must be managed in a healthy, measured and professional manner by taking into account shareholders, customers and other interests.
- c. **Responsibility**
Responsibility contains an element of compliance with statutory regulations and internal bank regulations in terms of the bank's responsibility towards society and the environment. Responsibility is needed in order to guarantee the maintenance of business continuity in the long term and to gain recognition as a good corporate citizen.
- d. **Independence**
Independence contains elements of independence from domination by other parties and objectivity in carrying out its duties and obligations. In relation to the principle of independence, the bank must be managed independently so that each organ of the company and all levels under it are not allowed to dominate each other and cannot be intervened by any party that can affect objectivity and professionalism in carrying out their duties and responsibilities.
- e. **Fairness**
Contains elements of fair treatment and equal opportunity in accordance with the proportions. In carrying out its activities, banks must always pay attention to the interests of shareholders, consumers and other interests based on the principles of fairness and equality of each party concerned.

The five main principles of GCG above are in accordance with Islamic norms and values in the activities and life of a Muslim. Najib & Rini (2016) argues that Islam is very intense in teaching the principles of justice, *tawazun* (balance), *mas'uliyah* (accountability), morality, *shidiq* (honesty), *amanah* (fulfillment of trust), *fathanah* (intelligence), *tabligh* (transparency), *hurriyah* (responsible freedom), *ihsan* (professional), *wasathan* (fairness), *ghirah* (sharia militancy), *idarah* (management), *khilafah* (leadership), *'aqidah* (faith), *ijabiyah* (positive thinking), *raqabah* (supervision), *qira'ah* and *ishlah* (organizations that continue to learn and always make improvements).

Maradita (2014), explained that the implementation of the GCG system in Islamic banking is expected to increase added value for all stakeholders through the following objectives:

- a. Increasing the efficiency, effectiveness, and sustainability of an organization that contributes to the creation of the welfare of shareholders, employees and other stakeholders and is an elegant solution in facing future organizational challenges.
- b. Increasing the legitimacy of organizations that are managed in an open, fair and accountable manner.
- c. Recognizing and protecting the rights and obligations of stakeholders.
- d. An integrated approach based on the principles of democracy, management and organizational participation in a legitimate manner.

- e. Controlling conflicts of interest that arise between principals and agents.
- f. Minimizes the cost of capital by providing positive signals for providers of capital. Improve financial performance and better perceptions of stakeholders on the company's future performance.

Through the above objectives, the implementation of GCG in Islamic banks is expected to increase public trust in Islamic banks, the growth of the Islamic financial services industry and the stability of the financial system as a whole will always be maintained, and the success of the Islamic financial services industry in implementing GCG will put Islamic financial institutions on a par with other international financial institutions (Maradita, 2014).

In addition, the principles of GCG which are in accordance with Islamic norms and values so that they can be called Islamic Corporate Governance, will be used as an effort of Islamic banking to prevent fraud (corruption) when the five principles in Islamic Corporate Governance (transparency, accountability, responsiveness, independence, and fairness) can be applied properly. The implementation of the functions of the five principles is divided into several factors, namely the implementation of the duties and responsibilities of the board of commissioners, the implementation of the duties and responsibilities of the board of directors, the implementation of DPS duties and responsibilities, the implementation of sharia principles in the activities of raising funds and channeling funds and services, handling collisions. Interests, implementation of the bank's compliance function, implementation of the internal audit function, implementation of the external audit function, maximum limits on fund distribution, and transparency of financial conditions.

4. Conclusions

The conclusion of this study is that personal prophetic leadership (Perpec-L), sharia compliance, and Islamic corporate governance are an effort of Islamic banking to prevent fraud (corruption). This can be done by adopting the values contained in Perpec-L, namely 1) living by faith; 2) worship-oriented work (vision and mission); 3) has four characteristics of the prophet (amanah, tabligh, shiddiq, and fathanah); 4) humanist; and 5) lead by conscience. Then by assessing the indicators contained in sharia compliance, namely 1) a contract that is in accordance with sharia principles; 2) Management of zakat funds in accordance with sharia principles; 3) Transactions are reported in accordance with applicable sharia accounting standards; 4) The financed business is not in conflict with sharia; 5) There is a Sharia Supervisory Board (DPS); and 6) Sources of funds come from legal and lawful sources according to sharia. Furthermore, by taking the existing principles of Good Corporate Governance (GCG) that are in accordance with Islamic norms and values, namely: 1) Transparency; 2) Accountability; 3) Responsibility; 4) Independence; and 5) Fairness.

Suggestions for Islamic banking are to prioritize the values that exist in personal prophetic leadership (Perpec-L) for employees, improve sharia compliance, and implement Islamic corporate governance. When implemented comprehensively, these three variables will be able to prevent fraud (corruption). Meanwhile, the suggestion for further researchers is that there is a need for empirical research to test how much influence personal prophetic leadership (Perpec-L), sharia compliance, and Islamic corporate governance have on fraud (corruption).

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