JETBUS Journal of Education Transportation and Business
E-ISSN: 3062-8121 P-ISSN: 3062-813X
Vol. 2 No. 1 June 2025

Implementation of Good Corporate Governance in Preventing Fraud in Islamic Banking

Joni Hendra[1] Cindy Anggraini[2] Zakiyah Amini[3] Putri Nurhidayah[4] Hidayatunnisa[5]
Sekolah Tinggi Agama Islam Negeri Bengkalis, Province of Riau, Indonesia[1,2,3,4,5]
Email: joniqizel77@gmail.com[1] canggraini081@gmail.com[2] zakiyahamini27@gmail.com[3] putrinurhidayah0305@gmail.com[4] hidyatunnisaa@gmail.com[5]

Abstract

Islamic banking is a rapidly growing financial sector in Indonesia, along with increasing public awareness of the financial system based on Islamic sharia principles. Despite having a strong ethical foundation, Islamic banking still faces serious challenges, especially in terms of fraud risk. Fraud in the banking world can be in the form of abuse of authority, manipulation of financial reports, and producer deviations that can harm customers and the institution as a whole. This study aims to analyze the role of Good Corporate Governance (GCG) in preventing fraud in the Islamic banking sector. GCG is a corporate governance system that focuses on the principles of transparency, accountability, responsibility, independence, and fairness in order to create effective, efficient, and ethical management. The research method used is a literature study by reviewing various literature such as books, journals, and relevant documents. The results of the study show that the implementation of GCG as a whole can minimize the opportunity for fraud through strengthening the internal supervision system, increasing transparency of reporting, and optimizing the role of the Sharia Supervisory Board and an independent audit committee. With strong GCG, Islamic banking can increase public trust, strengthen institutional integrity, and support the sustainable growth of the Islamic financial sector. Therefore, the implementation of GCG is not only a compliance requirement, but also a strategic need in maintaining the stability and reputation of Islamic banking in Indonesia.

Keywords: Good Corporate Governance

INTRODUCTION

Islamic banking is one of the fastest growing sectors in Indonesia, along with the increasing public awareness of the importance of financial principles in accordance with Islamic sharia. Given that Islamic banking has different characteristics and principles compared to conventional banking. Islamic banking operates based on the principles of Islamic sharia, which emphasizes justice, transparency and prohibition of usury, gharar and maysir(Muhith, 2012). Despite its strong ethical foundation, the sector is not immune to fraudulent practices. However, with this growth, the challenges of maintaining integrity and public trust are also increasing. One of the main challenges faced by Islamic banking is the risk of fraud, which can harm customers, institutions and the overall reputation.(Kurnialis et al., 2022). Fraud in the context of finance and accounting is defined as an act of deception that is done intentionally to gain an unlawful advantage. According to the Association of Certified Fraud Examiners (ACFE), fraud includes a variety of actions that harm other parties, both individuals and organizations and can be in the form of fraud, embezzlement or manipulation of financial statements. The fraud triangle theory developed by Dr. Donald Cressey explains three main elements that contribute to fraud such as the need or drive that drives individuals to commit fraud. This pressure can be financial, such as mounting debt, or non-financial such as the expectation of meeting performance targets. The existence of situations that allow individuals to commit fraud without being detected. This opportunity often arises due to weak internal supervision, lack of control or non-compliance with existing procedures(Muhammad et al., 2023).

Rationalization theory explains that fraudsters often rationalize their actions. Individuals involved in fraud tend to have distorted views of ethics and morality that allow them to believe that their fraudulent actions are justified. (Widyanto & Fadhilah, 2022). In recent years, cases of fraud in Islamic banking have begun to be revealed, covering various forms of fraud such as abuse of authority, manipulation of financial reports and fraud in investment products. Factors that trigger this fraud can be a lack of internal supervision, product complexity, low levels of financial literacy and information technology that can open up loopholes for committing fraud. These fraud cases not only harm Islamic banking institutions financially, but can also damage the reputation and public trust in the Islamic banking system as a whole. Therefore, it is important for Islamic banking institutions to improve their monitoring systems, customer education, and transparency in their operations to prevent fraud in the future.

Good Corporate Governance (GCG) refers to the systems and processes used to direct and control a company. GCG aims to create transparency, accountability and fairness in the management of the company, so as to increase stakeholder trust and encourage sustainable growth.(Hasan et al., 2022). In the context of Islamic banking, GCG also includes compliance with Islamic principles. Generally accepted GCG principles include disclosure of relevant and accurate information to stakeholders so that they can make informed decisions, management responsibility in managing the company and the obligation to be accountable for performance to stakeholders and fair treatment of all stakeholders including shareholders, employees, customers and the community. In Islamic banking, GCG has an additional dimension related to compliance with Islamic principles. This includes the Sharia Supervisory Board (SSB) which is very important in ensuring that all products and services offered by Islamic banks are in accordance with Islamic law. The SSB is responsible for providing advice and recommendations regarding Islamic compliance. Islamic banks must have an effective system to ensure that all transactions and operations comply with Islamic principles including the prohibition of riba, gharar and maysir(PI Dewi, 2020)

The implementation of Good Corporate Governance (GCG) is one of the most important solutions in preventing fraud in the Islamic banking sector. GCG is a set of principles and practices that aim to ensure that financial institutions operate transparently, accountably and responsibly. By implementing GCG, Islamic banking can strengthen integrity and public trust, and reduce the risk of fraud. By consistently implementing GCG principles, Islamic banking can not only prevent fraud, but also increase public trust in the Islamic financial system. This will contribute to the sustainable growth and stability of the Islamic banking sector in the future. Based on the background above, the author is interested in discussing the implementation of Good Corporate Governance in preventing fraud in the Islamic banking sector. What are the principles of good corporate governance applied in Islamic banking? How is good corporate governance (GCG) implemented to prevent fraud? With this problem formulation, research can be focused on answering relevant questions and contributing to the understanding of the role of GCG in preventing fraud in Islamic banking.

RESEARCH METHODS

Creswell & Creswell define qualitative research as an approach to exploring and understanding the meanings of individuals or groups associated with social or human problems. The research process involves emerging questions and procedures, data usually collected in participant settings, inductive data analysis built from the specific to the general.(Yusanto, 2019). In reviewing this paper using the library research method by critically and in-depth review of library materials relevant to the paper material such as books and journals that are worthy of being used as references. As stated by Miqzaqon T and Purwoko that library research is a study used in collecting information and data with the help of various materials available in the library such as documents, books, magazines, historical stories and so on.The technique used in data collection in this paper uses secondary data, namely by collecting data indirectly by examining the object in question.After collecting several journals and books related to the discussion material, the next step is to analyze the material through a literature study with the results of the analysis being descriptive.(Assyakurrohim et al., 2023).

This study uses qualitative research to understand the factors that influence the effectiveness of GCG in preventing fraud. This study was conducted using a literature review method. This study will examine in more depth the influence of Good Corporate Governance on fraud prevention. In searching for literature that will be used as study material in this study, the author uses several keywords that are relevant to the research objectives, namely "Good Corporate Governance", "Fraud Prevention", "Fraud Prevention", and "fraud"(Fadli, 2021). Literature search was conducted using several electronic databases such as Google Scholar, Scopus, ProQuest, ScienceDirect, ACM Digital Library, IEEE Xplore, and Springer. The literature review process used several inclusion criteria, namely: (1) studies in the form of journal publications that have gone through a peer review process, (2) Journals are written in Indonesian or English, (3) Journals are publications published in 2011-2021, and (4) Full text of the articles to be reviewed is available.(B et al., 2023).

RESEARCH RESULTS AND DISCUSSION

In addition to fulfilling legal obligations like conventional banks, Islamic banks also have moral and spiritual responsibilities. This is reflected in the expectation of employee integrity and a commitment to implementing Islamic sharia principles in business operations, including avoiding usury and promoting transactions that are in accordance with religious teachings. Good Corporate Governance (GCG) is the key to the success of Islamic banking in Indonesia. With a Muslim majority population, the implementation of GCG is essential to build public trust and attract international investment. The Bank for International Settlements (BIS) has established international guidelines to ensure effective implementation of GCG(Hasan et al., 2022). In the principle of openness, first, banks must disclose information in a timely, adequate, clear, accurate, and comparable manner and be easily accessible to stakeholders in accordance with their rights. Second, the information that must be disclosed includes, but is not limited to, matters relating to the company's vision, mission, business objectives and strategies, financial condition, composition and compensation of management, controlling shareholders, cross shareholding, executive officers, risk management, internal control and monitoring systems, compliance status, systems and implementation of Good Corporate Governance principles, and important events that may affect the condition of the bank. Third, the principle of openness adopted by the bank does not reduce the obligation to comply with bank confidentiality provisions in accordance with applicable laws and regulations, official confidentiality, and personal rights. Finally, bank policies must be written and communicated to interested parties and those entitled to obtain information about the policy.

The success of the principle of accountability in banking depends on 4 main pillars, first, a clear division of responsibilities that is aligned with the company's strategy. Second, the competence and understanding of the role of each individual in implementing GCG. Third, the existence of an effective internal monitoring and control system. And fourth, the use of an objective and transparent performance measurement system, accompanied by a fair reward and punishment mechanism.(Azlina et al., 2023). In the principle of responsibility, first to maintain the continuity of its business, banks must adhere to the principle of prudence and ensure the implementation of applicable provisions. Second, banks must act as good corporate citizens, including caring about the environment and carrying out social responsibility. In the principle of independence, first banks must avoid unreasonable domination by certain stakeholders and be free from conflicts of interest. Second, banks in making decisions must be objective and free from any pressure from any party.(Marciano et al., 2021). In the principle of fairness, first the bank must always pay attention to the interests of all stakeholders based on the principles of equality and fairness. Second, the bank must provide an opportunity for all stakeholders to provide input and express opinions for the interests of the bank and have access to information in accordance with the principle of openness.(Sari et al., 2022).

The application of the Good Corporate Governance principle in Islamic banks is strictly regulated in Article 34 Paragraph (1) of Law Number 21 of 2008, which emphasizes that Islamic banks are required to implement good governance that includes the principles of transparency, accountability, responsibility, professionalism, and fairness in carrying out their business activities. The form of application of the Good Corporate Governance principle in Islamic banking is supervision carried out by the National Sharia Council of the Indonesian Ulema Council (MUI) in general and the Sharia Supervisory Board specifically in each Islamic bank. The implementation of Good Corporate Governance is oriented towards processes, systems, procedures and regulations that enable entities to act with a framework or guideline to achieve goals and increase effectiveness and efficiency in creating economic sustainability and social goals (Sari et al., 2015). Previous research has shown a positive influence of the implementation of Good Corporate Governance on fraud prevention through the implementation of Good Corporate Governance principles. The implementation of good Good Corporate Governance will make company management more focused and clearer in the division of tasks, responsibilities and supervision of work.(Yusmad, 2021). The implementation of the principles of Good Corporate Governance (transparency, accountability, responsibility, independence, fairness) will encourage professional company management so as to improve the company's performance and performance to be better. These principles of Good Corporate Governance enable the parties responsible for corporate governance to demonstrate good performance and prioritize the interests of all stakeholders to achieve the company's goals.

Fraud can have bad consequences, including losses for an organization or company, both in the public and private sectors. Every company will try to minimize the risk of fraud by making various efforts to prevent fraud that may occur in the company. Forms of fraud can be corruption (either in the form of bribery, kickbacks, illegal gifts, economic extortion, or conflicts of interest), misuse of assets or manipulated reports.(Iqbal et al., 2024). One form of fraud that occurs is fraud related to the company's financial statements containing the company's financial position, company performance, company cash flow to the accountability of the company's management for the use of all company assets or resources. In addition, financial statements are a form of benchmark for company performance and are used as guidelines for managing the company's finances for interested external parties such as investors or prospective shareholders. Good Corporate Governance practices improve financial performance by preventing fraud so that investor confidence in investing in a company. The high risk of fraud is a major concern for company leaders or public organizations. The implementation of Good Corporate Governance can be done by focusing on five important things, namely shareholders, equal treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board of directors and board of commissioners. The implementation of Good Corporate Governance is considered to be able to prevent fraud, especially in the form of misuse of assets and manipulation of financial statements.

Good Corporate Governance acts as a company control tool in preventing fraud, especially in financial reporting that involves parties involved in company management to act in accordance with established regulations. The implementation of Good Corporate Governance can be a control in controlling company performance in achieving targets and preventing stakeholder losses.(S. Dewi & Utama, 2020). Good Corporate Governance is able to prevent fraud, one of which is through the mechanism of an independent and professional audit committee as an extension of the Board of Commissioners in carrying out the function of supervision and monitoring of corporate governance. The Audit Committee is responsible for: (1) ensuring that corporate governance is carried out in accordance with established regulations, effectively and free from conflicts of interest, (2) ensuring and providing information related to the preparation of financial reports that are in accordance with the actual conditions related to the company's financial condition, performance or work results, planning and long-term commitments, (3) carrying out supervision and internal control of the company. The corporate governance structure that can be measured through board members with international experience, audit committee effectiveness, internal audit effectiveness and the presence of Big-4 KAP can prevent fraud in financial statements. Board members with international experience can help promote and implement more proactive fraud prevention measures in companies or organizations. The presence of internal audit is also able to carry out control functions and identify the possibility of "red flags" if there is an opportunity for fraud in financial statements. The audit committee is able to suppress fraud in financial statements by continuously increasing control and supervision efforts on financial performance including in the use of company resources by management. The implementation of Good Corporate Governance has a positive impact on increasing transparency and accountability in the management of local government finances and identifying potential disruptions or obstacles in achieving company goals, thereby reducing fraud.(Muzdalifah, 2024).

CONCLUSION

The implementation of Good Corporate Governance (GCG) is a key factor in maintaining the stability and integrity of Islamic banking in Indonesia. Islamic banking, which is based on the principles of justice, transparency, and compliance with Islamic law, continues to face serious challenges related to the potential for fraud. Fraudulent practices, whether in the form of financial statement manipulation, asset misuse, or other forms of fraud, can damage public trust, disrupt the stability of financial institutions, and harm the reputation of the Islamic financial system. In this context, the implementation of GCG principles has a strategic role in creating an effective monitoring system, reducing the opportunity for fraud, and improving institutional performance. Transparency encourages the delivery of clear and accurate information to stakeholders. Accountability ensures that every actor in the organization understands and carries out their responsibilities. The principle of responsibility encourages institutions to comply with regulations and act ethically. Independence ensures that decision-making is free from undue influence or pressure, while the principle of fairness emphasizes the fair treatment of all stakeholders.

BIBLIOGRAPHY

Assyakurrohim, D., Ikhram, D., Sirodj, RA, & Afgani, MW (2023). Case Study Method in Qualitative Research. Journal of Science and Computer Education, 3(1), 1–9.

Azlina, N., Shabri, H., & Qizam, I. (2023). Determinants of Risk Profile on the Performance of Islamic People's Financing Banks in West Sumatra Province. Al-Bank: Journal of Islamic Banking and Finance, 3(2), 91–101.

B, AU, Jannati, P., Malahati, F., Qathrunnada, & Shaleh. (2023). Qualitative: Understanding the Characteristics of Research as a Methodology. Journal of Elementary Education, 11(2), 341–348.

Dewi, PI (2020). Implementation of Good Corporate Governance (GCG) in Islamic Banking Institutions. Al-Tsarwah Scientific Journal, 3.

Dewi, S., & Utama, AS (2020). Principles of Good Corporate Governance in Islamic Banking in Indonesia. Social and Humanities.

Fadli, MR (2021). Understanding Qualitative Research Method Design. Humanika: Scientific Study of General Courses, 21(1), 33–54.

Hasan, Z., Saifunnajar, Azlina, N., Mansur, M. Al, & Saifullah. (2022). Implementation of Whistleblowing System to Prevent Sharia Banking Crime In Indonesia. AZJAF, 3, 32–52.

Iqbal, M., Bastian, A., Sabran, IAH, & Harahap, S. (2024). Analysis of the Application and Implementation of Sharia Good Corporate Governance Principles in Islamic Banking. Santri: Journal of Islamic Economics and Finance, 2(1), 330–339.

Kurnialis, S., Uliya, Z., & Aulasiska, M. (2022). Development of Sharia Banking in Muslim Countries. SYARIKAT: Journal of Sharia Economics, 5, 109–119.

Marciano, B., Syam, A., Suyanto, Ahmar, N., & Gayatri, M. (2021). Implementation of Good Corporate Governance to Prevent Fraud: A Literature Review. Journal of Accounting and Finance, 3(2), 972–981.

Muhammad, E., Kurniawan, F.A., Hotimah, E., & Hanafi, A. (2023). Fraud in the Islamic Financial Industry: Literature Exploration. Pelita Bangsa Islamic Economics Journal, 8, 101–10114.

Muhith, A. (2012). HISTORY OF SHARIA BANKING. Journal of Islamic and Educational Studies, 01.

Muzdalifah, M. (2024). The Influence of Good Corporate Governance on Fraud in Banking Companies Listed on the Indonesia Stock Exchange. Journal of Accounting Students, 3(2), 188–197.

Sari, EN, Parasmono, AP, & Djasuli, M. (2022). Application of Good Corporate Governance Principles in Islamic Banking Institutions from an Islamic Sharia Perspective in Indonesia. Journal of Economics and Business, 2(3), 616–622.

Widyanto, A., & Fadhilah, FN (2022). Analysis of Fraud Components in Detecting Financial Statement Fraud in Islamic Commercial Banks Listed on the Indonesia Stock Exchange for the 2014-2018 Period. At-Tamwil: Islamic Economic and Finance Journal, 1.

Yusanto, Y. (2019). Various Qualitative Research Approaches. 1(1), 1–13.

Yusmad, MA (2021). Application of Good Corporate Governance Principles in Supervision of Islamic Banking. Journal of Law, 4(2), 266–285.