

The Effect of The Board of Commissioners, Audit Committee and Sharia Supervisory Board on Disclosure of Islamic Social Reporting in Sharia Banking in Indonesia

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Abstract

This study aims to examine the effect of the Board of Commissioners, Audit Committee and Sharia Supervisory Board on the disclosure of Islamic Social Reporting (ISR) at Islamic Commercial Banks in Indonesia in 2015 - 2020. Hypothesis testing is carried out using panel data regression analysis . The results showed that the Board of Commissioners had no significant effect on Islamic Social Reporting (ISR). While the Audit Committee and Sharia Supervisory Board have a positive and significant impact on Islamic Social Reporting (ISR). The results of this study indicate that good corporate governance is very important for the disclosure of information on Islamic Social Reporting at Islamic Commercial Banks.

Keywords (12 fonts)

Board of Commissioners, Audit Committee, Sharia Supervisory Board and Islamic Social Reporting (ISR)

1. Introduction (12 fonts)

The development of sharia banking in Indonesia has increased from year to year. According to data published in the Sharia Banking Statistics for December 2020 by the Financial Services Authority, there are 14 Sharia Commercial Banks in Indonesia with a total of 2,034 offices , 20 Sharia Business Units with a total of 392 offices and 163 Sharia Financing Banks spread across throughout Indonesia. This shows that Islamic banking is experiencing quite rapid development, which of course does not escape the role of management which must maintain and improve the survival of the company. Apart from paying attention to financial performance, management must also pay attention to non-financial performance. Non-financial performance is a tool for organizations to see whether the processes carried out so far have had an impact on achieving overall company goals, including achieving financial goals (Zamzami & Novita, 2021)

One of the non-financial performances that must be considered is social responsibility or what is known as Corporate Social Responsibility (CSR). CSR is not only found in conventional economics, but is also developing in sharia economics. In Indonesia, regulations regarding CSR are regulated by Law Number 40 of 2007 concerning Limited Liability Companies which explains that companies are obliged to carry out social responsibilities and report them in the company's annual report. Meanwhile, Law Number 25 of 2007 concerning CSR disclosure, which was previously voluntary , has become mandatory .

Initially, CSR referred to the Global Reporting Initiative (GRI) Index, but if you look at the conventional GRI guidelines, it would be inappropriate to use it as a benchmark for CSR in sharia banking. Sharia banking in Indonesia was previously based on a conventional system and then continued to be based on CSR in accordance with Islamic law or what is called Islamic Social Reporting (ISR). ISR is an interesting topic to discuss in sharia accounting studies because so far the measurement of CSR disclosure in sharia institutions still mostly refers to the Global Reporting Initiative Index (GRI Index) (Abadi et al., 2020) . The presence of ISR is a necessity regarding the disclosure of social activities in sharia business entities (Yusuf, 2017) .

The Islamic Social Reporting (ISR) Index contains a compilation of standard CSR items set by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) which was then further developed by researchers regarding CSR items that should be disclosed by an Islamic entity (Othman & Thani, 2010). ISR is a sharia-based corporate social performance reporting standard. Lestari (2013) stated that ISR is believed to be a starting point in terms of corporate social responsibility disclosure standards that are in accordance with an Islamic perspective. So ISR is important for sharia banking to show the public regarding the bank's compliance in implementing sharia principles.

To encourage the realization of sharia banks that comply with sharia principles, the management of sharia banks refers to Corporate Governance. Corporate Governance is a rule that regulates, manages and supervises companies in carrying out their company activities to obtain added value. Among the Corporate Governance components that can influence the extent of ISR disclosure are the board of commissioners, audit committee and sharia supervisory board. As research conducted by (Khoirudin, 2013) revealed that factors that are thought to influence ISR disclosure include several components of Corporate Governance including the size of the board of commissioners and the sharia supervisory board. The next company organ that is thought to influence ISR disclosure is the audit committee (Sari & Marsono, 2013).

The Board of Commissioners has the responsibility to ratify and periodically review the company's policies and strategy as a whole, both understanding the main risks faced by the company and determining the level of risk that can be tolerated (*risk tolerance*) and ensuring that the board of directors has taken appropriate steps to control these risks. The board of commissioners is divided into two, namely the independent board of commissioners and the delegate board of commissioners. Independent Commissioners are commissioners from outside parties who are appointed based on the decision of the General Meeting of Shareholders (GMS). Meanwhile, delegate commissioners are commissioners appointed based on the decision of the board of commissioners meeting. It can be concluded that independent commissioners come from outside the company while delegate commissioners come from one of the board members in the company. With supervision carried out by the board of commissioners, information can be manipulated by management to a minimum, so it is hoped that it can expand ISR disclosures. The larger the size of the board of commissioners, the better the supervision in managing the company. In line with research conducted (Khoirudin, 2013) which revealed that the variable size of the board of commissioners has a positive effect on ISR.

The audit committee assists the board of commissioners in carrying out internal supervision, providing suggestions to support the effectiveness of internal auditors and external auditors and strengthening auditor independence. The existence of this audit committee is an effort to improve the way the company is managed and supervise the disclosure of corporate social responsibility for the sustainability of its business (Rachmawati, 2017). Based on research (Rachmania & Alviana, 2020), the audit committee has an influence on ISR disclosure.

Apart from that, the sharia supervisory board can also influence ISR disclosure. The sharia supervisory board has the authority to monitor the company's compliance in carrying out its activities in accordance with sharia principles. With the existence of a sharia supervisory board, supervision of ISR disclosures will be more effective in accordance with sharia principles. Research Ningrum et al. (2013) reveals that sharia supervisory board variables influence ISR disclosure. However, research Inuzula et al., 2015 reveals that the sharia supervisory board has no influence on ISR disclosure.

Research conducted by Merina & Verawaty (2016) shows that sharia banking companies that disclose the ISR Index are better than companies listed on JII. The research results prove that disclosures made by companies that operate with the sharia concept, such as sharia banking, actually fulfill the ISR index better than conventional non-sharia banking companies, such as companies listed on JII. Research (Utari et al., 2020) shows that all Sharia commercial bank CSR indices measured using the Islamic Social Reporting (ISR) method experience fluctuating development but tend to increase from year to year. The maximum value of ISR Index disclosure from 2014-2018 was 81.25% or 39 of the 48 CSR disclosure items.

Previous research only used the number of members listed in the company's annual report on the board of commissioners, audit committee and sharia supervisory board. In this research, apart from using the number of

independent commissioner board members, the measurement of the board of commissioners also adds the number of commissioner board meetings . Likewise, measuring the audit committee uses the number of meetings of audit committee members and measuring the sharia supervisory board using the education level of the sharia supervisory board and the number of meetings of sharia supervisory board members listed in the company's annual report. Having meetings or meetings between company management can help management monitor, provide assessments and evaluate company performance so that it is hoped that they can expand the company's ISR disclosures .

1.1 Objectives (11 fonts)

This research aims to examine the influence of the Board of Commissioners, Audit Committee and Sharia Supervisory Board on the disclosure of Islamic Social Reporting (ISR) in Sharia Commercial Banks in Indonesia in 2015 - 2020 .

2. Literature Review (12 fonts)

Gray et al. (1995) stated that the theory underlying CSR disclosure is legitimacy theory. Legitimacy theory was first put forward by Dowling and Pfeffer (1975) who revealed that legitimacy can be said to be a benefit or potential source for companies to be able to survive and survive. Legitimacy theory is rooted in the idea of a social agreement between corporations and society (Pratama & Deviyati, 2022) .

CSR is an online operation a company that is committed not only to increasing financial company profits, but also to socio-economic development that supports the company's ESG (*Environmental, Social and Governance*) aspects . Initially, the development of sharia banking was based on an online convention system (CSR) which is then encouraged based on sharia in the form of Islamic Social Reporting (ISR) . ISR is the development of social responsibility based on sharia. This index was determined by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and then developed by subsequent researchers. This index is a social performance report that includes community expectations not only regarding the role of companies in the economy, but also the role of companies from a spiritual perspective. Those who can influence ISR are the board of commissioners, audit committee and sharia supervisory board.

The board of commissioners includes the number of independent commissioners in a company and the board of commissioners meetings listed in the annual report. Based on Bank Indonesia regulation Number 15/13/PBI/2013, the number of members of the board of commissioners is at least 3 (three) people and at most the same as the number of members of the board of directors. The presence of a board of commissioners is expected to improve the quality of company information. The greater the number of the board of commissioners, the more effective the monitoring mechanism will be. The importance of the existence of a board of commissioners in a company encourages management to express the social responsibility of sharia banking. By increasing the intensity of meetings held by members of the board of commissioners, company performance can be improved and disclosure of corporate social responsibility can be increased.

The audit committee is measured by the number of meetings held by the audit committee in the current year. The number of audit committee meetings is the total meeting of members of the audit committee held in one year, so it is hoped that if the meetings held by the audit committee are more frequent, it will be able to improve performance and will facilitate coordination within the audit committee so that it will run effectively.

The sharia supervisory board has an important role in disclosing ISR for the development of sharia banking because it is believed to give confidence to the public that the bank where they deposit their money will be halal. The sharia supervisory board includes the education level of the sharia supervisory board and the frequency of sharia supervisory board meetings. DPS with a high level of education is considered to be more expert and understand all aspects of company operations including ISR . In addition, the frequency of DPS meetings is important because DPS requires meetings to ensure that company activities comply with sharia principles and achieve company goals, including ISR disclosure .

2.1. Research Hypothesis

a. The Influence of the Board of Commissioners on Islamic Social Reporting

Khoirudin's research (2013) shows that there is a positive influence of the Board of Commissioners on Islamic Social Reporting. This research reveals that the size of the board of commissioners has a positive effect on the disclosure of Islamic Social Reporting. This supports the legitimacy theory which reveals that the board of commissioners has an important role because it is tasked with supervising the company and conveying all information to stakeholders, including information on disclosing social responsibility. So, the first hypothesis in this study is as follows:

H1: The Board of Commissioners has a positive influence on the disclosure of Islamic Social Reporting in Islamic banking in Indonesia.

b. The Influence of the Audit Committee on Islamic Social Reporting

The audit committee is measured by the number of meetings held by the audit committee in the current year. The number of audit committee meetings is the total meeting of members of the audit committee held in one year, so it is hoped that if the meetings held by the audit committee are more frequent, it will be able to improve performance and will facilitate coordination within the audit committee so that it will run effectively. The results of research (Rachmania & Alviana, 2020) show that the audit committee has an influence on Islamic Social Reporting (ISR) disclosure. The hypothesis in this research is as follows:

H2: The Audit Committee has a positive influence on the disclosure of Islamic Social Reporting in Islamic banking in Indonesia.

c. The Influence of Sharia Supervisory Board Variables on Islamic Social Reporting

The sharia supervisory board has an important role in disclosing ISR for the development of sharia banking because it is believed to give confidence to the public that the bank where they deposit their money will be halal. Research results showing that there is influence from the Sharia Supervisory Board on Islamic Social Reporting are found in research (Ningrum et al., 2013). This research reveals that the sharia supervisory board has a positive influence on the disclosure of Islamic Social Reporting (ISR).

H3: The Sharia Supervisory Board variable has a positive effect on Islamic Social Reporting disclosure of sharia banking in Indonesia.

3. Methods

Testing this research uses panel data regression analysis. Before testing the hypothesis, classical assumptions are first tested which include tests for normality, multicollinearity, heteroscedasticity and autocorrelation. Next, hypothesis testing is carried out with the following research model:

$$ISR = \alpha + \beta_1 DK_{it} + \beta_2 KA_{it} + \beta_3 DPS_{it} + e$$

Where:

ISR = Islamic Social Reporting Disclosure

α = constant

DK = Board of Commissioners

KA = Audit Committee

DPS = Sharia Supervisory Board

e = error

4. Data Collection (12 fonts)

This research uses secondary data sourced from annual sharia banking reports registered with the Financial Services Authority (OJK) and/or the official websites of each company. The population to be studied is sharia banking in Indonesia for the 2015-2020 period. The sampling technique used in this research is *purposive sampling technique* with the sample determination in the research as follows:

1. Sharia Commercial Banks registered with the OJK during the sample observation period 2015 - 2020.
2. Sharia Commercial Banks always present complete annual reports for the 2015 - 2020 period which can be accessed from each bank's website based on the research sample.

There are 14 Sharia Banks in Indonesia in the 2015-2020 period so the amount of data in this research is 84 observations.

5. Results and Discussion (12 fonts)

Research data testing uses panel data regression analysis with the *evIEWS 10 tool*, so all images and tables of test results come from this tool. Before testing the hypothesis, classical assumptions are first tested which include tests for normality, multicollinearity, heteroscedasticity and autocorrelation.

5.1 Classic Assumption Test Results

a. Normality test

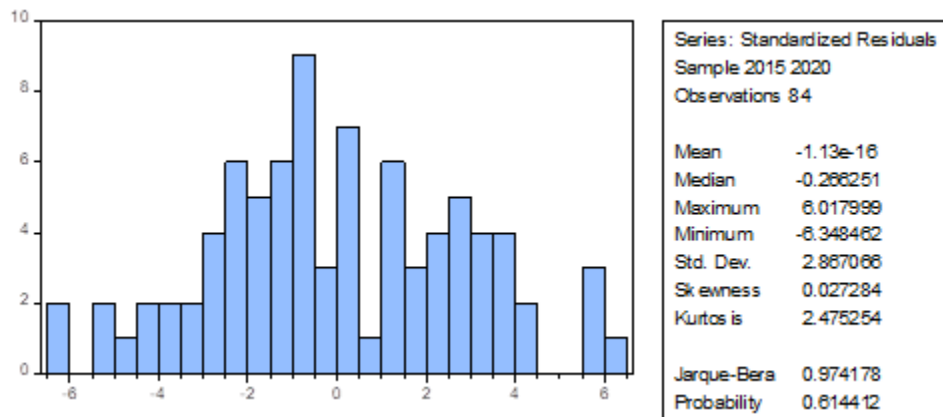


Figure 2. Normality test results

Based on the normality test results from Figure 2 above, it shows that the Probability value for *Jarque-Bera* is 0.614. This value is greater than the level of significance (α) (0.05) or $0.614 > 0.05$, which means that H_0 is accepted. So it can be concluded that in the normality test, the data used for this research is normally distributed.

b. Multicollinearity Test

Table 1. Multicollinearity test results

	DK	KA	DPS
DK	1,000000	0.256827	0.225541
KA	0.256827	1,000000	0.226729
DPS	0.225541	0.226729	1,000000

Based on the results of the multicollinearity test from table 1 above, it shows that the independent variables have an r value below 1 or less than 0.8. So it can be concluded that in the multicollinearity test, the data does not have multicollinearity problems.

c. Heteroscedasticity Test

Table 2. Heteroscedasticity test results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	1.590076	1.075952	1.477832	0.1441
DK	0.060699	0.081180	0.747626	0.4573
KA	0.001680	0.036876	0.045560	0.9638
DPS	0.014817	0.069188	0.214155	0.8311

Based on the results of the heteroscedasticity test from table 2 above, it shows that the probability value of the variables for the Board of Commissioners (0.4573), the Audit Committee (0.9638) and the Sharia Supervisory Board (0.8311) is above the *level of significance* (α) (0, 05) can be interpreted as meaning that there is no heteroscedasticity problem. So it can be concluded that in the heteroscedasticity test, there is no heteroscedasticity problem.

d. Autocorrelation Test

Table 3. Autocorrelation test results

Mean dependent var	79.80952
SD dependent var	5.687603

Akaike info criterion	5.337241
Schwarz criterion	5.829192
Hannan-Quinn Criter	5.535001
Durbin-Watson stat	1.835098

The dw value in table 3 of the autocorrelation test is 1.8350 compared to the dL value of 1.5723 and dU 1.7199 with the 4-dU value of 2.2801 and 4-dL 2.4277. So the dw value is in the range $dU < dw < 4-dU$, so it can be concluded that in this study there is no autocorrelation problem.

5.1 Hypothesis Test Results

After testing the classical assumptions, the next step is to test the hypothesis on the research model. There are 2 testing models that can be used, namely the Fixed Effect Model and the Random Effect Model. So, to determine the correct model, the *Chow* test and Hausman test are first carried out. Both tests obtained the result that the most appropriate model test was using *the Fixed Effect Model*. Next, hypothesis testing is carried out with the following testing stages:

a. Coefficient of Determination (R²)

Table 4. Results of the coefficient of determination

R-squared	0.745893
Adjusted R-squared	0.685211

Based on table 4, it is known that the adjusted coefficient of determination (Adjusted R-squared) is 68.52% of the dependent variable Islamic Social Reporting (Y) which can be explained by the variables Board of Commissioners (X1), Audit Committee (X2) and Sharia Supervisory Board (X3). The remaining 31.48%, the Islamic Social Reporting (Y) variable is explained by other independent variables.

b. Simultaneous Test (F Test)

Table 5. Simultaneous test results

F-statistic	12.29177
Prob(F-statistic)	0.000000

Based on the results of the simultaneous test or F test in table 5 above, it is known that the value of Prob. the F-Statistic is 0.0000. This value is smaller than the level of significance (α) (0.05) or $0.0000 \leq 0.05$. So it can be concluded that in the simultaneous test or F test, the variables of the Board of Commissioners, Audit Committee and Sharia Supervisory Board together have an influence on Islamic Social Reporting (ISR).

c. Partial Test (t Test) and Regression Analysis

Table 6. Partial test results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	67.75897	2.068927	32.75077	0.0000
DK	-0.116803	0.156117	-0.748172	0.4570
KA	0.496545	0.070908	7.002657	0.0000
DPS	0.411260	0.133040	3.091259	0.0029

Based on table 6, it is known that the variable Board of Commissioners (DK) has a value of Prob. the t-Statistic is 0.4570. This value is greater than the level of significance (α) (0.05) or $0.4570 > 0.05$, which means that the Board of Commissioners variable has no influence on Islamic Social Reporting (ISR). The Audit Committee (KA) variable has the value Prob. at t-Statistic of 0.0000. This value is smaller than the level of significance (α) (0.05) or $0.0000 \leq 0.05$, which means that the Audit Committee variable has an influence on Islamic Social Reporting (ISR). The Sharia Supervisory Board (DPS) variable has the value Prob. the t-Statistic is 0.0029. This value is greater than the level of significance (α) (0.05) or $0.0029 \leq 0.05$, which means that the Sharia Supervisory Board variable has an influence on Islamic Social Reporting (ISR). Based on this table, the regression model equation is as follows:

$$ISR = 67.758 - 0.116DK + 0.496KA + 0.411DPS + e$$

A constant value of 67.758 indicates that if the variables of the Board of Commissioners (DK), Audit Committee (KA) and Sharia Supervisory Board (DPS) are considered constant or fixed, then Islamic Social Reporting (ISR) is 67.758. The negative regression coefficient value for the Board of Commissioners (DK) variable is 0.116, meaning that if the Board of Commissioners experiences an increase of 1 unit, Islamic Social Reporting (ISR) will experience a decrease of 0.116. The regression coefficient value for the Audit Committee (KA) variable is 0.496, meaning that if the Audit Committee experiences an increase of 1 unit, Islamic Social Reporting (ISR) will also experience an increase of 0.496.

The regression coefficient value for the Sharia Supervisory Board (DPS) variable is 0.411, meaning that if the Sharia Supervisory Board experiences an increase of 1 unit, Islamic Social Reporting (ISR) will also experience an increase of 0.411.

6 . Discussion

The research results show that the board of commissioners has no influence on ISR disclosure. This result means that large or small numbers of members and the volume of board of commissioners meetings do not guarantee that the company will be concerned about ISR disclosure. These results are in line with research by Rachmania & Alviana (2020) which revealed that the board of commissioners has no influence on ISR disclosure.

The audit committee has been proven to have a positive influence on ISR disclosure. The audit committee assists the board of commissioners in carrying out internal supervision, providing suggestions to support the effectiveness of internal auditors and external auditors and strengthening auditor independence. The existence of this audit committee is an effort to improve the way the company is managed and supervise the disclosure of corporate social responsibility for the sustainability of its business (Rachmawati, 2017) . The results of this research are in line with the research results of Rachmania & Alviana (2020)

The sharia supervisory board has the authority to monitor the company's compliance in carrying out its activities in accordance with sharia principles. With the existence of a sharia supervisory board, supervision of ISR disclosures will be more effective in accordance with sharia principles. This role is proven by research results which show that the sharia supervisory board has a positive influence on ISR disclosure.

7. Conclusion

The research results show that the board of commissioners has no influence on ISR disclosure, while the audit committee and sharia supervisory board have a positive influence on ISR disclosure in Islamic banking in Indonesia. These results indicate that there are many other factors outside the audit committee and sharia supervisory board that can encourage sharia banking in Indonesia to disclose ISR. Disclosure of ISR is important so that customers can be more confident that the sharia bank where they entrust their funds has carried out social activities based on sharia principles.

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