

Research:

INTERNAL FRAUD AT SYARIAH BANKING IN INDONESIA IS A CERTAINTY

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Abstract. *This research has been describing an internal fraud happened at Syariah Banking in Indonesia. The development of Syariah banking should have to be in compliance with a good internal controlling system and management, otherwise, the internal fraud would happen either internally or externally. The bank with syariah principles should have to be applied accordingly in order to avoid any internal fraud happened in it which is tauhid, syariah and moral values. Nevertheless, such a value application is not quite easy to be implemented refers to Nabi Muhammad SAW has been shown the implementation of shidiq, fatonah, amanah and tabligh (ShiFat)*

Keyword : Internal fraud

INTRODUCTION

Cheating has become a culture at all level, the lowest level, middle level and the highest one. Cheating issue has been being a trending topic in printed media, electronical media and television. Fraud is very interesting to be discussed in order to give a good solution how to solve it. Though the intensity of the discussion have been conducted but it has not been sufficient to stop fraud activities. Having done a collective activity to fight the corruption at least it would be necessary to make people realized about their idealism to conduct the right thing.

Fraud (cheating) has become a phenomenal thing either in a superpower country or in a developing country (Festi, T et.al, 2014) and it has not been happening not only at a big company, but also at a grassroots company (Hamdani, 2016).

Fraud cases have been happened at the huge companies such as, Enron, Worldcom, Xerox, Tyco, Global Crossing, etc refers to the failure of the huge companies in United State. Such the case has been happened as well at PT Barata Indonesia, PT PLN, Merpati, Kimia Farma, etc as a prove that cheating has happened too in a developing country refers to Indonesia (Report KPK, 2011). Accounting and ethics code violation accusations has involved 10 huge KAP (Public Auditing Office) in Indonesia. It happened in 1997 before the economics crisis occurred, those 10 KAP had been appointed to conduct an audit in 37 banks. The result of the audit discovered the financial condition of the bank were good. But in 1998 after the economics crisis happened in Indonesia those banks showed bad situation refers to financial matter. (Putra, Y.H.S. 2012)

Cheating had happened at grassroots companies refers to the cooperative economics enterprises such as Cipaganti Karya Guna Persada and Langit Biru. Cheating at Cipaganti had involved a president director and two CEO . Since 2008 up to May 2014, they had been cheating the customers by collecting their money amounting to Rp 3.2 trillion (quintillion) refers to housing, petrol station, transportation, hotels, heavy tools and mining investments. The investment business cheating had been conducted by the Cooperative Langit Biru (KLB). The related CEO had been cheating 140.000 customers amounting to Rp 6 trillion. The customers were promised to obtain 17 – 30% interest and a lot of people were interested in it. The aforementioned matters have explained that cheating has happened either at some big companies or small/grassroot companies.

Such a cheating dilemma has happened not only at some conventional companies but also at some syariah business refers to syariah banking which is having the same problems. Internal fraud has involved either some permanent employees or non permanent employees resulting a huge amount has been reached. (Report GCG Bank Syariah, 2013)

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It is said that internal fraud is good corporate (GCG) as the realization of financial transparency that has been announced to the public. Nevertheless, this kind of information has explained that such an internal fraud has been occurred at syariah banking. Such a cheating intensity refers to either permanent or non permanent employees has improved and decreased each year. This condition is noticed as an inconsistent situation. Therefore, the implementation of GCG at syariah banks has not showed any decreasing cheating level at the internal bank.

In 2010 – 2014 internal fraud at Foreign exchange (devisa) BUSN and Non devisa had reached 2.96. This figure had almost reached the figure of 3, but refers to the average level of the financial management 1.6182 or it is considered good. Nevertheless, the GCG at syariah banks does not mean that they are free from the internal fraud activity.

Such a cheating has happened at the internal of the company due to pressure, opportunity and rationalization factors. Those kind of factors are wellknown as fraud triangle (Sukirman and Sari, 2013). A cheating happened at syariah financial enterprise could be avoided by the implementation of Moslem Working Ethics (EKI) and Internal Controlling System (SPI). Implementing EKI and SPI could be able to reduce at least the willingness of the people to do such a cheating regardless of pressure, opportunity and rasionalization factors (Hamdani, 2016)

This research has been trying to describe and to solve the internal fraud problems at Syariah Banking in Indonesia through the implementation of Moslem Working Ethics improving the human resources' moral spiritually and the internal controlling system refers to supervision all the operational process and company's assets.

EXPLANATION

A. The development of Syariah Banking in Indonesia.

Syariah banks networking has been increasing more in the third quarter 2015 than the previous quarter, it has established new 246 offices and the total of the networking offices are 9.298 instead of 9.052. The biggest increasing has happened at the payment point which is 232 and followed by syahriah channelling office, ATM syariah, further more 58, 43 Syariah Cash offices and other 4 offices But, there are 87 KCP / supporting branch offices and 4 branch offices have been reduced in Indonesia. Herebelow is the table about networking offices of syariah general banks in the quarter III 2015

Table 1 Office Network Bank Umum Syariah

STATUS KANTOR	TW-I	TW-II	TW III- 2015				
			JAWA	SUMATERA	BALENTB-NTT	KALIMANTAN	SULAMPUA
Kantor Pusat Bank Umum Syariah	12	12	12	-	-	-	-
Kantor Cabang (Dalam Negeri) Syariah	574	581	311	139	24	53	50
Kantor Cabang (Luar Negeri)	-	-	-	-	-	-	-
Kantor Cabang Pembantu (Dalam Negeri) Syariah	1,651	1,622	896	388	47	109	95
Kantor Cabang Pembantu (Luar Negeri) Syariah	-	-	-	-	-	-	-
Kantor Kas Syariah	245	245	168	45	3	19	14
Unit Usaha Syariah	20	22	11	6	1	3	1
Payment Point	667	774	468	319	4	97	118
Kas keliling/kas mobil/kas terapung Syariah	79	78	35	16	4	9	14
ATM/ADM Syariah	3,487	3,619	2194	682	102	313	371
Layanan Syariah/Office Channeling (di KC/KCP Konvensional)	1,967	2,099	1428	411	73	180	65
TOTAL	8,702	9,052	5,523	2,006	258	783	728

Sources : Report of the Profile of Syariah Banking Industries (LPIP) OJK, 2015.

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The III quarterly report 2015 explained that a positive increasing had happened eventhough the development of the Indonesia Economics had shown a slowdown movement. Syariah banking assets (BUS+UUS) has increased up to Rp 274,3 trillion or 0.3% increasing where the third parties savings (DPK) has increased to Rp 216.4 trillion or 1.4% increasing (qtq).

During the reporting periode , it was noted that the amount of PYD (financing given) had decreased to Rp 205.9 trillion or < 0.1 % (qtq). Syariah General Bank had invested more capital to increase the Capital Adequacy Ratio (CAR) to 15.1 %. At the end of the reporting periode, it had noted that the national clients had reached to 4.6% and assets proportion of BUS and UUS had still been dominating the assets refers 97.5 % of BUU+UUS+BPRS (III quarterly report of 2015 of Financial Services Authority (OJK).

Based on the report of shares noted on Syariah Shares List (DES) and issued by OJK, there were not any significant increasing up to the III quarterly periode in 2015 showing 334 shares or 58.6% of 570 emitents. Following figures has been provided to explain the development of syariah shares based on the industrial sector:



Picture 1. Syariah in Indonesia

Based on IHSG, shares index of Syariah in Indonesia (ISSI) has decreased to 14.9 % which is 134.4. The similar information has noted that there has been decreasing 14.5% refers to Rp 2.449,1 trillion against the total market shares around 55.9%. Jakarta Islamic Index (JII) has decreased 15.4 % refers to 556.9. The value of shares index JII has been decreasing 15.1 % as well refers to 1.609.9 trillion which is the market is 36.8% against the total of the capital noted in Bursa office.

B. Trigger factors that create cheating.

Taking away one's property could be done by force using either knife or gun but other tools have been used tricky to cheat. The first action is wellknown as robbery and the second one is cheating (fraud) (Suprajadi L, 2009)

Fraud has covered deception, confidence and trickery as well as concealment strategy.

Cheating is not easy to be disclosed since it has been hidden properly. They think that they would never be discovered. A systematic way to detect any cheating happened is to educate the people working in the bank about cheating theory and to make them understand about cheating awareness and a methodology that designs how to find out the cheating. (Suprajadi L, 2009).

Cheating could be happened either at the internal or external of the company (Putra, Y.H.S. 2012).

1. Internal company
 - a. Employees

The employees who have been doing a cheating because they want to get their own personal profit by misusing some assets belong to the company. This kind of cheating could be related to cash receivable, assets stealing, price marked up, illegal transactions.

b. Management

The management has conducted a cheating due to company's need or his/her own purposes

The management has been manipulating, counterfeiting, modifying the accountancy records or supporting documents which are the important resources to prepare a financial report. They have conducted an intentionally omissions about the important transactions on the financial report.

2. External Company.

Cheating by the external company has happened because of the violation of the professional ethics of conduct refers to auditors, public accountant. Conflict of interest has been happening all the time such as un-independent auditor or accountant refers to Enron case. The external party has had the potential opportunity to make a cheating happened relating to customers, distributors or suppliers of the company.

In general cheating has happened obviously due to a pressure or an opportunity which is acceptable commonly. (Sofia, I.P. 2014). The aforementioned reason has created strong pillars called fraud triangle (Sukirman and Sari, M.P.2013). The following is the fraud triangle diagram.



Source: Sukirman and Sari, 2013.

Picture 2 Fraud Triangel

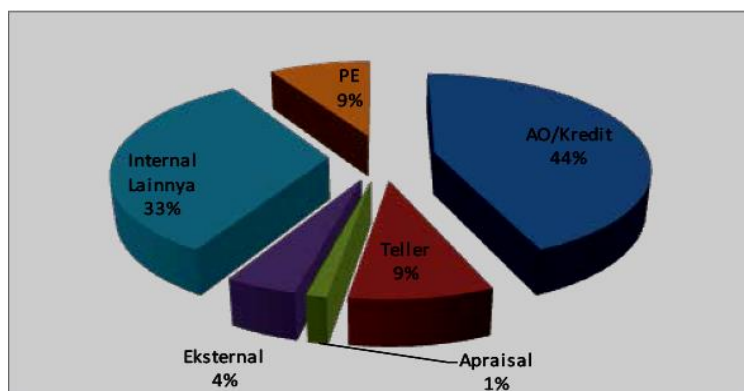
The first element is either a financial or non financial pressure. Financial factor has happened due to glamour life-style. Non Financial factor has happened in order to cover bad performance. Greedy has been an internal pressure so that someone would surely have a desire to conduct such a cheating.

The second factor is an opportunity. They believe that their activity would never been able to be detected. Such a cheating is going to happen again and again since there is not any serious punishment been applied. It has happened because of weak internal controlling, lack of management supervision as well as insufficient procedures.

The third element is rasonalisation refers to acceptable action to do it. Fraud executors would try to find the way to justify or legalize what they have been doing. Rasonalisation is such an attitude or a character or a chain of value of the management or employees to conduct such a cheating which has been considered as legal. (Amin, M. N. 2011)

Based on the executors, fraud activity could be done by the internal bank, external bank or altogether. Fraud activity which has been done by the internal bank called internal fraud refers to some tellers, executive officers, employees who are in charged to manage a credit. The internal fraud has happened and has been done by 60% internal bank persons, mostly are the officers who are in charge for a credit section which is reflecting toRp. 57.800 million losses. The external cheating which has been conducted by the external party refers to the appraisal officer which is reflecting to Rp 619,010 million losses. Fraud activities which have been conducted by the external parties are as follows; the credit initiation process, the customer's saving counterfeiting refers to presignature on a blank form, counterfeiting signature, cheating, blacking out, fake credit, credit reengineering, manipulation, illegal executives responsibilities, credit robbery, transferring the income to their private account. The following fraud activities based on the executors:

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Picture 3. Fraud Fraud executors

According to bank classification there are 53.9% fraud has happened at BUMN bank and 2.8% at KCBA. It is indicating that the internal controlling system refers to the implementation of a risk management has been applied better at KCBA than the other banks.

Table 2 Fraud based on bank classification.

Jenis Bank	Jumlah Bank	Jumlah Kerugian (Dalam Juta)
BUMN	4	334,238
BUSD	15	243,283
BUSND	3	3,938
BPD	10	31,637
KCBA	4	1,755
Campuran	7	4,159
Total	43	619,010

Sumber: Laporan Profil Industri perbankan (LPIP) OJK, 2015

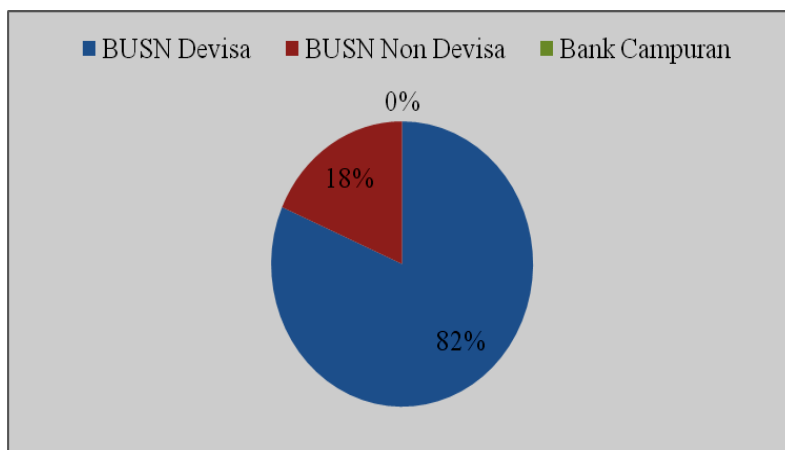
Internal fraud at syariah banking could be done by either permanent employees or non permanent employees. The following table has explained the internal fraud occurred at Syariah banking in Indonesia refers to the GCG Bank Syariah report for the periode of 2010 up to 2014.

Table 3 Internal Fraud at Syariah Banking in Indonesia

BUSN Devisa	BUSN Non Devisa	Bank Campuran	Total
234	53	0	287

Source: Laporan GCG Bank Syariah Tahun 2010-2014.

Based on the aforementioned data, it has explained that an internal fraud has been happening more at BUSN Devisa which is 234 cases than at BUSN non devisa which is 53 cases, but there is none at any consolidation bank. Based on the percentage of internal fraud happened at syariah banking, the following table has explained it :



Picture 4.
Internal Fraud happened at Syariah Banking in Indonesia

The percentage of internal fraud happened at syariah banking has explained that at BUSN Devisa are higher than BUSN non devisa which is 82 % vs 18%, but at the consolidation banks are zero.

Cheating potential has been conducted by the employee of Syariah bank internally either by permanent employees or by non permanent employees.

C. Why has internal fraud happened?

It is a big challenge for Syariah banking in Indonesia when the intensity of internal fraud has happened Muhammadiyah economics potential mapping in 2012 has been describing that there are three aspects to be considered in developing a company management. Basic principles are referring to beliefs, Islamic law and moral. Herebelow is a modified picture:



Source : Modifikasi Peta Potensi Ekonomi Muhammadiyah, 2012

Picture 5 Syariah Bank building

The Syariah banking building has been designed based on the main principle which is 'tauhid' believe in God. The other principles of the building are 'syariah' Islamic Law and 'akhlak' moral. The implementation of syariah and moral has been a reflection of tauhid. A weak tauhid will jeopardize the implementation either syariah or moral. The syariah principle has been leading the economics activity to be in compliance with the syariah laws. Nevertheless, 'akhlak' has been leading the people to place moral and ethics as the priority to

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reach the objectives. Akhlak is the reflection of the soul driving the people attitude. Akhlak which has reflected a faith would be able to create GCG and good market share (Peta Potensi Ekonomis Muhammadiyah, 2012).

By analyzing the aforementioned syariah banking building, it has explained that the main principle is Tauhid since Tauhid has been relating a lot with divinity. Being good and faith are the manifestation of beliefs Illahiah. Believing in God would develop his / her Godliness awareness. Allah SWT knows what someone has been doing good or internal fraud. Refers to Q. S. Al Hasyir article 18: "Hi people who has faith, believe in Allah and you should have to be aware of what you have been doing as long as you are alive and think about the next (after live). Believe in Allah and Allah discovers what you have done".

When someone has a divine services, he or she is able to manage the company internally easier since he/she would surely realize that everything what he / she has been doing Allah is watching it.

Furthermore principle is syariah (Islamic laws) as the main pillar of faith which is some experiences need to be applied in compliance with Allah will (do what Allah allows and leave what Allah forbids)

When an internal fraud has happened in syariah banking, it discovers that the implementation to perform such value has not been applied yet totally (Hamdani, 2016)

D. Internal fraud problem solving

Minimizing fraud happened in the bank, it is not only applying the prevention but also an improving internal controlling system refers to detection the problem and investigation altogether. Eventhough the system of the company is excellent but it is not going to work when the ethics are not being applied. (Nawatmi, 2010. That is why Islamic ethics are the most important thing to be applied in syariah financial enterprises especially in syariah banking. To strengthen the related research, Hamdani (2016) described that to avoid any internal fraud would happen, the implementation of Islamic ethics and internal controlling is a must. Because those two factors have been able to reduce people desire to conduct such a cheating eventhough there is an opportunity, pressure and rationalization which is the main factor for someone to conduct a cheating.

The efforts to avoid any internal fraud refers to SE BI 13/28/DPNP regarding the strategic way of anti fraud within a Common Bank. The bank must have and implement the special policy about fraud management by implementing an Anti Fraud Workforce and other regulation refers to Wistle Blower punishment.

CONCLUSION AND SUGGESTIONS

An increasing of syariah banking assets against the national banking assets is 4.6 % which is still being dominated by syariah banking (BUS+UUS+BPRS) refers to 97.5 %. (III Quarterly Report of the Financial Services Authority in 2015)

Fraud which is involving the internal and external bank could happen within syariah banking. Banks with syariah principles have not been able to erase totally the internal fraud.

The internal fraud obviously has happened due to a pressure, opportunity and rationalization. Especially when a person has been trapped within relativisme area reflecting to disorganized ethics which is neglecting the ethics principles.

Syariah banking has been integrating the principles of aquida, syariah and akhlak to avoid any internal fraud would happen, so that good sharia governance will exist. Internal fraud has happened due to lack of values implementation. Furthermore, the implementation of Islamic ethics and internal controlling system are able to reduce someone's desire to conduct such a cheating eventhough there is an opportunity, pressure and rationalization. (Hamdani 2016)

In order to guarantee that good sharia governance and SPI have been applied accordingly, syariah banking has to perform management and SPI reconstruction by implementing ShiFat principles (shidiq, fathonah, amanah and tabligh) refers to what Nabi Muhammad SAW had been doing within sharia compliance and ethics controlling.

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