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Non Performing Financing, Efficiency, Fraud, and Good Corporate Governance Influence on Profitability in Sharia Banks

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Abstract:

This study aims to examine impact of Non Performing Financing, Efficiency (BOPO), Fraud and Good Corporate Governance Influence on Profitability on sharia Commercial Bank in Indonesia. The independent variables used in this study are first, Non-Performing Financing, Secondly, Efficiency (BOPO), third, Fraud, fourth, the Sharia Supervisory Board and fifth, Audit Committee. While the dependent variable of this study is Profitability. The research method uses secondary data in the form of annual reports and good corporate governance reports of Islamic banks in Indonesia. The results showed a significant influence between BOPO and Audit Commitee on Profitability and insignificant influence between NPF, Fraud and the Sharia Supervisory Board on Profitability. Future studies are expected to test by adding other variables.

Introduction

The development of Sharia bank in Indonesia is based on two considerations. First is the very large market coverage in Indonesia, where consumers choose not to use conventional bank services because they prefer to follow sharia rules. Second, the Islamic banking system as an alternative that can be implemented as a restructuring program with the help of the Indonesian government initiative (Fitriyah Nida Laili dan Solikhin M, 2019).

According to Sholihin, 92010), the assessment of banking performance, one of which can be seen through the level of profitability which shows how much profit is generated by the company. The ratio that is generally used to measure the level of profitability is by using Return On Asset (ROA), with the consideration that Bank Indonesia as a banking supervisor and supervisor prioritizes the profitability value of a bank as measured by assets where most of the funds come from public savings and later by the bank. must be channeled back to the community (Rosiana, R., Syihabudin, & Nurmeilani, 2019).

(Sukmadilaga & Nugroho, 2017) stated that the higher the Return on Assets (ROA) of a bank, the greater the level of profit achieved by the bank and the more optimal the bank manages its assets so that it can increase the value of the bank. Moreover, the function of Islamic banks is not only to get profit but also to have social functions such as concern for poverty alleviation and also environmental sustainability so that with increasing profits, the role of Islamic banks contributing to social aspects is also getting bigger (Nugroho, L., & Tamala, 2018).

Table 1: Development of Financial Ratios of Islamic Commercial Banks and Sharia Business Units

Rasio	2013	2014	2015	2016	2017	2018	2019
CAR	14,42%	15,94%	15,02%	16,63%	17,91%	20,39%	20.59%
ROA	2%	0,80%	0,49%	0,63%	0,63%	1,28%	1,73%
NPF	2,62%	4,08%	4,84%	4,42%	4,77%	3,25%	3,23%
FDR	100,32%	98,97%	88,03%	85,99%	79,65%	78,53%	77,91%
BOPO	78,21%	81,02%	97,01%	96,22%	94,91%	89,18%	84,45%

Source: Islamic Banking Statistics, 2019

Table 1.1 shows that the ROA of Islamic banks in 2015 was 0.49% which did not meet the standard ratio set by Bank Indonesia, according to SE No. 6/73/INTERN 24 December 2004 with a minimum ROA of 0.5%. However, starting in 2016 ROA has increased and has exceeded the minimum ROA requirement of 0.5%.

The concept of asset quality is the possibility of the return of funds that have been invested in the form of financing or what is commonly referred to as productive assets. Banks must be able to maintain stability through two components, namely profitability and capital.

Non Performing Financing (NPF) is a ratio used to measure a bank's ability to handle the risk of credit default by debtors. Hermina., Rida., Suprianto, (2014) wrote that the NPL ratio shows the ability of bank management to manage credit / non-performing loans for credit / financing that has been provided by the bank. Suhartatik & Kusumaningtyas, (2013) state that Non-Performing Financing (NPF) can be measured by a comparison between the amount of non-performing financing and the total financing.

Bank Indonesia sets a tolerance rate for bank health with a maximum NPF level of 5%. Based on Islamic Banking statistics issued by the Financial Services Authority (OJK) regarding the non-performing financing (NPF) ratio of Islamic commercial banks as of December 2019 was 3.23%, this figure is still below the provisions set by BI. However, it becomes a yellow light for Islamic commercial banks because the value is close to the maximum value set by BI.

In addition, the soundness of a bank is also influenced by the efficiency aspect. The aspect of efficiency in the banking world is an important factor because it reflects a banking that is healthy, transparent, professional and prudent and is able to maintain its stability (Elsa, E., Utami, W., & Nugroho, 2018). Efficiency is also the company's ability to produce optimal output with the company's resources.

Good company performance, namely in terms of optimal income and in terms of effective and controlled expenditures can also increase the interest of investors to allocate funds to the company (Utami, W., & Nugroho, 2017).

The assessment of the efficiency aspect is assessed using the BOPO ratio (Operating Costs and Operating Income). The BOPO ratio is a ratio that measures the level of efficiency and ability of a bank in carrying out its operational activities, which states that the smaller the BOPO indicates that the bank is more optimal in carrying out its business activities. The higher the cost, the more inefficient the operational activities are, so the income is also getting smaller.

Fraud is a global phenomenon that has existed for a long time and continues to increase from day to day (Inaya, L. & Isito, 2016). According to Inaya & Obayusi, (2020), no economic entity can survive amid the occurrence of fraud in its operations. Fraud has been identified as one of the causes of the underdevelopment of most financial institutions around the world. Fraud shook the foundations and credibility of most Nigerian banks causing some banks to run into trouble.

In the perspective of the financial industry, particularly the banking sector, fraud remains a big problem, especially the turbulent days related to the financial crisis (Georgios, 2016). Chance (opportunity) refers to the method by which crimes can be committed. This is an important element in the fraud triangle because, a potential fraudster may have the desire to commit fraud but without a perceived opportunity, fraud is unlikely.

Elghuweei, Opong, Ntim, & Avison Lynn, (2017) stated that companies that are better managed are less likely to be significantly involved in earnings management than companies that are not well managed. Companies that incorporate Islamic religious values and beliefs into their operations through the formation of Islamic Governance committees tend to be less involved in earnings management.

The performance of Islamic banking can be influenced by several factors, one of which is the existence of the Sharia Supervisory Board (DPS) in the corporate governance system. The importance of the role of the Sharia Supervisory Board is inseparable from the differences in governance structures in Islamic banking with conventional banks, where the governance structure of Islamic banks will involve more parties due to the special characteristics of Islamic banks, namely the obligation to comply with sharia principles (sharia compliance).) in running its business (Rahmat, 2017).

The audit committee is entrusted with the process of preparing financial reports and maintaining the creation of a company supervision system and the implementation of corporate governance. The sharia supervisory board has the main task of supervising the day-to-day operations of Islamic banks to comply with the guidelines and provisions of Islamic law (Sunarwan, 2015: 5-6).

This study is a development of the research of Inaya & Obayusi, (2020) which states that fraud has a significant and negative effect on financial performance in Nigeria. This finding is shown from the Total Amount of Bank Fraud (TABF) and Foreign Exchange Malpractices (FEM) significantly affect the reported figures for ROA and ROE.

Nugroho, L. & Anisa, (2018) and Ferdyant, Ferly., Anggraini, Z, (2014) stated NPF has a negative effect on stability. but on the contrary, Rima Cahya Suwarno dan Ahmad Mifdlol Muthohar, (2018) shows that NPF has a positive and insignificant effect on financial performance (ROA).

Nugroho, L & Bararah, (2018) stated that the efficiency proxied by the BOPO ratio also had a negative and significant impact, on the contrary, the research of Nugroho, L. & Anisa, (2018) stated that the efficiency proxied by the BOPO ratio had no effect on stability.

(Nugroho, L & Bararah, (2018) state that GCG has a negative and significant effect on financial stability (ROA). On the other hand, Rima Cahya Suwarno dan Ahmad Mifdlol Muthohar, (2018) shows that GCG has an insignificant positive effect on financial performance (ROA).

Based on the explanation above, research on the profitability of Islamic banks is still very interesting to study, the development of higher Islamic transactions must be balanced with healthy Islamic financial institutions.

Literature Review and Hyphotesis Development

Agency theory is the basic thing used to understand the relationship between principal and agent. Based on this theory, there is a separation between the owner (principal) and the manager of the company (agent), giving rise to the agency problem. Furthermore, the separation of owners and managers also creates information asymmetry, namely a situation where the agent has access to information that is not owned by the principle party. The difference in interest causes the agent to abuse its obligation to convey information to the principal by providing or withholding the information requested by the principal if it is profitable for the agent (Jensen & Meckeling, 1976).

Profitability is the company's ability to generate revenue or profit. Profit is the goal of a business organization including banks. Therefore, one of the key financial indicators for assessing a bank's performance is the bank's ability to generate profits through its assets or commonly referred to as return on assets (ROA).

To overcome this, it is necessary to implement Good Corporate Governance along with its principles and mechanisms to ensure that rights and relationships among all stakeholders are guaranteed (Anugerah, 2014). Siringoringo, (2012) states that the agency relationship in banks is more complex than that of non-bank companies.

Furthermore, in Islamic banks, according to Elsa, E., Utami, W., & Nugroho, (2018), conflicts of interest between agents and principals should not occur because of the same goal, namely implementing Islamic maqasid. Thus Islamic banks as an entity not only prioritize profit alone, but have social goals such as overcoming social problems such as alleviating poverty, reducing unemployment and preserving the environment and ensuring that Muslims carry out Islamic teachings in kafah or totality.

Profitability is the company's ability to generate income or profit. Profit is the goal of a business organization, including banks. Therefore, evaluating bank performance, one of the key financial indicators is the bank's ability to generate profits through its assets or commonly known as return on assets (ROA).

Allah SWT has invited humans to seek profit from this earth, on the condition that they are always grateful. One form of gratitude is sharing with others. Therefore, the company's goal to achieve maximum profit should be accompanied by the company's goal of sharing with others, nature and the environment, whether it is sharing in the form of giving a portion of the profit, sharing knowledge and technology, or sharing in other ways that are considered beneficial for the benefit of the people. It is not a benefit that is beneficial for oneself or a group, so that in an Islamic perspective, profit must be balanced with the implementation of social aspects (People and Planet) so that the use of profits must be balanced and provide benefits to all stakeholders with or provide benefits (Nugroho, L., & Tamala, 2018).

Asset quality is all the total rupiah assets owned by the bank with the intention of obtaining the expected income. One of the calculations on the asset quality ratio used is according to SEBI/No.7/10/DPNP dated March 13, 2005 concerning Rating Agencies and Ratings recognized by Bank Indonesia, one of which is NPF. This ratio shows the quality of credit assets which if the collectibility is substandard, doubtful and bad from the total financing as a whole, then the bank is facing non-performing loans (Soekapdjo, Nugroho, Badawi, & Utami, 2018).

Non-Performing Financing (NPF) shows the ability of bank management to manage non-performing financing provided by banks, the higher the NPF ratio, the worse the quality of bank financing, which causes the number of non-performing loans to increase Thus, a high NPF indicates a bank is in a problematic condition and the possibility of achieving profit is lower due to the large number of loans that are not repaid by the borrower. Credit in this case is the distribution of credit given to third parties, not including credit to other banks (Sukmadilaga & Nugroho, 2017).

The development of technology has created financial technology (fintech)-based services so that it becomes a new competitor for the banking industry. This competition requires banks to change towards faster business processes and business models that suit the needs of customers. However, banks must also be able to perform efficiencies such as creating branchless services so that banks are able to survive in the midst of competition while maintaining good performance (Nugroho, L & Bararah, 2018).

The bank must be able to exercise control over operating costs compared to the operating income it earns. The indicator commonly used in measuring efficiency is the OEOI ratio, which is the ratio between operating costs and operating income. Furthermore, the more a bank is able to suppress OEOI, the more it has the ability to control spending so that the bank can increase the potential for revenue to be received which will directly increase ROA).

The fraud diamond is a new theory that explains the fraud phenomenon proposed by (Wolfe, (2004). Fraud diamond is a form of development and refinement of the Fraud triangle theory according to (Cressey, 1953). Fraud diamond is a theory that can be used to improve fraud prevention and detection by considering Pressure, Opportunity, and Rationalization, by adding a qualitative element that is believed to have a significant influence on fraud, namely Capability.

Large value fraud usually occurs because someone has the right abilities and a good position in an organization. The opportunities provided are entry points to commit fraud, incentives and rationalizations can draw people in that direction. But the person must have the ability to recognize open doors as opportunities and take advantage of them by walking not once, but repeatedly. (Wolfe, 2004).

As part of the Good Corporate Governance mechanism, the Sharia Supervisory Board has a very important position in efforts to improve the performance of Islamic banking through supervision of the company's operations and product development so that it remains within the corridor of sharia.

Based on Bank Indonesia Regulation No. 6/17 / PBI / 2004 article 28 paragraph 3 states that members of SSB who have competence are those who have knowledge and experience in sharia muamalah and banking or finance in general. While reputation can be said to be the track record of DPS members in improving company performance (Nugraheni, 2018).

According to Safiullah, Md. & Shamsuddin, (2018), Nomran, N. M., Haron, R., & Hassan, (2018), and Shittu, I., Ahmad, A. C. & Ishak, (2016) several characteristics of SSB that can affect the performance and risk of Islamic bank financing include: Number of Members, Education, Multiple Positions, Competence, Number of Meetings, Reputation, and Changes in the Composition of DPS members.

The audit committee as an extension of the commissioner's hand is an element of corporate governance that can prevent fraud by carrying out an oversight function of the company's internal control system (Anugerah, 2014).

The audit committee is in charge of controlling the internal control system to achieve good corporate governance (Rustiarini, 2012). The existence of an audit committee is certainly expected to be able to prevent fraud. Research from (Beasley, 1996) states that the audit committee has a negative relationship with fraud. (Al-Najjar, 2011) states that the greater the proportion of the audit committee, the better the supervision provided, so that its performance in ensuring the effectiveness of the company's internal controls will be better.

Rima Cahya Suwarno dan Ahmad Mifdlol Muthohar, (2018) shows that NPF has a positive and insignificant effect on the financial performance (ROA) of Islamic commercial banks in Indonesia for the 2013-2017 period. Rohman Taufikur & Dian Safitrie, (2018) show that CG which is proxied by an independent board has a positive effect on profitability (ROE), CG which is proxied by an independent board has a negative effect on NPF and NPF has no effect on profitability (ROA).

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Rohman Taufikur & Dian Safitrie, (2018) show that CG which is proxied by an independent board has a positive effect on profitability (ROE), CG which is proxied by an independent board has a negative effect on NPF and NPF has no effect on profitability (ROA). Disclosure of GCG, SSB, temporary syirkah funds, and NPF affects profitability (Mukhibad & Khafid, 2018).

(Zarrouk, H., Ben Jedidia, K., & Moualhi, 2016) revealed that profitability is positively influenced by the effectiveness of bank operations, asset quality and capital. Hartutik dan Budi Asmita, (2016) explained that there is a significant relationship between the Good Corporate Governance (GCG) of Islamic Banks and the quality of financing and the level of profitability of Islamic Banks.

Wasiuzzaman, (2014) in his research by examining the impact of bank characteristics and macroeconomics on the profitability of Malaysian Islamic banks. The results show that capital and asset quality have an inverse relationship with profitability, then inflation and GDP are also positively affected.

Ferdyant, Ferly., Anggraini, Z, (2014) show that the risk of financing has a negative and significant effect on the profitability of Islamic Banking, meaning that the greater the Non-Performing Finance (NPF), the smaller the Return on Assets (ROA) obtained.

The difference in research results and differences in the use of independent variable proxies from the above research motivated researchers to reexamine different variables, namely by examining the Effect of Asset Quality as proxied by NPF, Efficiency as proxied by BOPO, Fraud is proxied by Opportunity - In Effective Monitoring and Good Corporate Governance on Financial Profitability in Islamic Commercial Banks (ROA) in

Indonesia. The strength of this research is to examine several independent variables from previous studies which are then examined together in this study. The research period uses a different period, namely the latest research year in accordance with the latest data obtained by the researcher.

Based on a review of the theory and previous studies, the hypotheses proposed in this study are as follows:

H1 = Non Perforing Financing has an effect on Profitability
H2 = BOPO has an effect on Profitability
H3 = Fraud has an effect on Profitability
H4 = The Sharia Supervisory Board has an effect on Profitability
H5 = The Audit Committee has an effect on profitability

Method

In this research, the type of research used is causal research. namely explaining the effect of an independent variable on the dependent variable. The independent variables in this study include Non Performing Financing, BOPO, Fraud and Good Corporate Governance while the dependent variable is ROA at Islamic Commercial Banks in Indonesia.

The data used in this study is secondary data obtained from the Annual Report and GCG Report of Sharia Banks 2014–2019. The total sample used in this study is 58 Financial Statements and GCG Reports of Sharia Banks.

The dependent variable (Y) is a variable that can be influenced by other variables. The dependent variable used in this study is profitability which is proxied by ROA. Profitability shows the performance of a company to generate profits so that it can affect investment decision making.

$$ROA = (Profit\ Before\ Tax) / (Average\ Total\ Assets)$$

Asset quality in this study is proxied by the ratio of Non Performing Financing (NPF). Non Performing Financing is the same term as Non Performing Loan (NPL) in conventional banks. NPL is a ratio used to measure a bank's ability to cover the risk of credit failure by debtors (Suhartatik, N., Kusumaningtyas, 2013). The formula used to measure Non Performing Financing (NPF), namely:

$$NPF = [\ (Amount\ of\ Non\text{-}performing\ Financing) / (Total\ Financing)\ ] \times 100\%$$

Efficiency in this study are Operational Costs and Operating Income (BOPO) which are formulated as follows:

$$BOPO = (Operating\ Expenses)/(Operational\ Income)$$

Fraud in this study is Opportunity, namely Ineffective Monitoring which is formulated as follows:

$$IM = \frac{\text{Number of Independent Commissioners}}{\text{Total Board of Commissioners}}$$

The Sharia Supervisory Board used in this study is the characteristic of the Sharia Supervisory Board by using the Number of DPS Meetings calculated based on the number of meetings held by the Sharia Supervisory Board for one year (Nugraheni, 2018).

$$\text{Number of DPS Meetings (MEET)} = \sum \text{Meetings in One Year}$$

The audit committee as an extension of the commissioner's arm is an element of corporate governance that can prevent fraud by carrying out an oversight function (oversight function) on the control system of the company's internal control system (Anugerah, 2014). The implementation of the duties and responsibilities of the Audit Committee in this study is measured by looking at the number of Audit Committees for one year contained in the report on the implementation of GCG for Islamic commercial banks.

Results and Discussion

Descriptive statistics test results

Descriptive statistical analysis provides an overview of data seen from the minimum value, maximum value, mean value, and standard deviation of data.

The output of the Descriptive Statistics on Table 5.1 shows the number of respondents (N) as many as 58. The minimum NPF is 0.04 and the maximum is 4.97, where the average is 2.4743. The minimum BOPO is

73.32 and the maximum is 109.62, where the average is 92.4831. The minimum fraud is 0.25 and the maximum is 1, where the average is 0.6278. DPS meetings are held a minimum of 5 times and a maximum of 26 times, where the average DPS meeting is 13.69 times. The audit committee has a minimum of 2 members and the maximum of 7 members, where the average is 3.79. The minimum ROA that occurs is -1.12 and a maximum of 3.22, where the average is 0.8621.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPF	58	.04	4.97	2.4743	1.51511
BOPO	58	73.32	109.62	92.4831	6.84401
Fraud	58	.25	1.00	.6278	.18224
Rapat DPS	58	5	26	13.69	4.223
Komite Audit	58	2	7	3.79	1.210
ROA	58	-1.12	3.22	.8621	.83915
Valid N (listwise)	58				

Source: Data Processing, 2021

Classic assumption test

The results of the Watson-Durbin autocorrelation test show that the resulting Durbin Watson (DW) number is 1,950. We will compare this value with the table value that uses a significance value of 5% with a sample size of 58 and the number of independent variables 5. Based on the table DW T=58 and K5, we get dl = 1.3953 and du 1.7673, then 1.950 > 1.7673 and (4-du) or 2.2327 > 1.7673 then there is no positive and negative autocorrelation or it can be concluded that there is no autocorrelation.

Model feasibility test reports l

Table 3: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.962[a]	.926	.919	.23917	1.950

a. Predictors: (Constant), Komite Audit, BOPO, Rapat DPS, Fraud, NPF
b. Dependent Variable: ROA

Source: Data Processing, 2021

The amount of R Square is 0.926, which means that 92.6% of the profitability variable in Islamic banks can be explained by variations of the five independent variables (NPF, BOPO, Fraud, DPS, and KA). While the remaining 0.074 or 7.4% is explained by other variables.

The results of the calculated F test are 129,938 and the significance value is 0.000. Because the probability is much smaller than 0.05, the regression model can be used to predict NPF, BOPO, Fraud, Sharia Supervisory Board, and Audit Committee which together affect other profitability (ROA).

Table 4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37.163	5	7.433	129.938	.000[b]
	Residual	2.974	52	.057		
	Total	40.138	57			

a. Dependent Variable: ROA
b. Predictors: (Constant), Komite Audit, BOPO, Rapat DPS, Fraud, NPF

Source: Data Processing, 2021

Hypothesis test

The results of the t-statistical test show that of the five independent variables included in the regression model, the NPF variable is 0.188, the Fraud variable is 0.087 and the DPS is 0.236 and all three are far above 0.05. While the BOPO variable is 0.000 and the Audit Committee where both have a value below 0.05.

Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.102	.624		19.400	.000
	NPF	.042	.032	.076	1.334	.188
	BOPO	-.121	.007	-.987	-18.197	.000
	Fraud	.322	.184	.070	1.747	.087
	Rapat DPS	-.009	.008	-.046	-1.200	.236
	Komite Audit	-.061	.028	-.087	-2.152	.036

a. Dependent Variable: ROA

Source: Data Processing, 2021

The results of hypothesis testing are shown in table 4. In the first hypothesis, a significance value of 0.188 > 0.05 with a t value of 1.334 can be concluded that the NPF has a positive and insignificant effect on profitability, so the first hypothesis is rejected. In the second hypothesis, a significance value of 0.000 <0.05 with a t value of -18197, it can be concluded that the BOPO has a negative and significant effect on profitability, so the second hypothesis is accepted. In the third hypothesis, the significance value is 0.087 > 0.05 with a t value of 1.747, it can be concluded that the proportion of fraud has a positive and insignificant effect on profitability. so that the third hypothesis is accepted. In the fourth hypothesis, a significance value of 0.236 > 0.005 with a t value of -1.200, it can be concluded that DPS has a negative and insignificant effect so that the fourth hypothesis can be rejected. In the fifth hypothesis, the significance value is 0.036 <0.005 with a t value of -2.152, it can be concluded that the Audit Committee has a negative and significant effect on profitability, so the fifth hypothesis can be rejected.

Conclusion

Based on the regression analysis that has been done, the following conclusions can be obtained:

1. Non-Performing Financing has no significant positive effect on profitability at Islamic Commercial Banks. This shows that the higher the Non-Performing Financing, the greater the profitability. Non-Performing Financing in this study does not support the initial hypothesis.
2. BOPO has a negative and significant effect on profitability at Islamic Commercial Banks. This shows that the smaller the BOPO value, the higher the profitability. BOPO in this study supports the initial hypothesis.
3. Fraud (ineffective monitoring) has a positive and insignificant effect on the profitability of Islamic Commercial Banks in Indonesia. These results indicate that high ineffective monitoring results in greater profitability. Fraud (ineffective monitoring) in this study supports the initial hypothesis.
4. Implementation of the Duties and Responsibilities of the Sharia Supervisory Board has a negative and insignificant effect on the profitability of Islamic Commercial Banks. This shows that the more DPS holds meetings, the lower the profitability value. The implementation of the duties and responsibilities of the Sharia Supervisory Board in this study does not support the initial hypothesis.
5. The Audit Committee has a negative and significant effect on the profitability of Islamic Commercial Banks. This shows that the smaller the number of audit committee members, the greater the profitability. The Audit Committee in this study did not support the initial hypothesis.

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