

Reconstruction of Sharia Supervisor Frameworks in Islamic Banking: Strengthening to Enforcement Sharia Compliance

Muhammad Syarif Hidayatullah^{1*}, Fathurrahman Azhari², Mahmud Yusuf³, Aliyu Dahiru Muhammad⁴

¹ Faculty of Sharia, Universitas Islam Negeri Antasari Banjarmasin, Indonesia

^{2,3} Faculty of Islamic Economics and Business, Universitas Islam Negeri Antasari Banjarmasin, Indonesia

⁴ International Institute of Islamic banking and Finance, Bayero University Kano, Nigeria

* Corresponding author: muhmadsyarif@uin-antasari.ac.id

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ABSTRACT

As Islamic banking continues to expand beyond its traditional markets, the integrity of Sharia compliance emerges as a central concern within global financial governance. Nevertheless, much research revealed that Sharia supervision was still weak and not optimal. The research objective of this paper was to formulate a reconstruction of Sharia supervisors in Islamic banking as a solution to the Sharia supervision problem in Islamic banking, which was still considered weak and had not been optimal. This research was qualitative with a library research design. Based on the study conducted, the reconstruction of sharia supervisors as a solution to the problems of sharia supervision was carried out to overcome the problems of competence, independence, and effectiveness of supervisory performance. The reconstruction formulation was related to the certification of the Sharia Supervisory Board with the addition of training material on legislation and legal regulations for business and the financial industry, as well as strengthening the profession, the establishment of Sharia supervisory board regulations with provisions on the right to impose sanctions, then the decentralization of sharia supervisors with the formation of the Sharia Supervisory Secretariat of representative in the province with authority as regional coordinator.

Keywords: sharia supervisor, islamic banking, sharia compliance

INTRODUCTION

Ideally, the presence of Islamic banks is expected to accommodate the Muslims' interests in banking transactions to avoid prohibited transactions, especially *ribawi* practices, as is the business pattern of conventional banks. Islamic banking activities represent the Sharia economic system, which, among its characteristics, is based on pure investment and a participatory system.¹ However, it turns out that reality does not align with these high expectations. A

¹ Retna Anggitaningsih and Al Furqon Dono Hariyanto, "Analysis of Differences in Financial Performance Between Shari'a Banks and Conventional Banks In Indonesia," *IQTISHODUNA: Jurnal Ekonomi Islam* 12, no. 2 (October 1, 2023): 335, <https://doi.org/10.54471/iqtishoduna.v12i2.2405>.

gap between theoretical and practical aspects presents a mismatch between conception and implementation. The perception that arises of “*Islamic banks are still not Sharia*” does not only come from ordinary people who equate Islamic banks with conventional banks and assume that Islamic banks are not Sharia based on their generality or ignorance, but criticism of the unshariah of Islamic banks also comes from ulema, academics, and researchers, those who are competent in the field of Sharia economics or are experts in the study of Islamic jurisprudence, whose perceptions are based on knowledge, expertise or scientific studies that are realized in research.

Although the regulatory framework for Islamic banking and finance is well developed, the regulatory and supervisory framework in many jurisdictions has not addressed the unique risks in this industry.² Sharia compliance risk management is one of the main challenges to the growth of Islamic banking and finance, including in countries with a majority Muslim population, such as Indonesia.³ Violations of Sharia principles in Islamic banking in most Islamic banks, as per Abdul Lathif’s study, are caused by two factors, namely the suboptimal role of Sharia supervisors and a lack of knowledge about Sharia principles by Islamic bank employees.⁴ Several other studies were in line with and support Abdul Lathif’s statement regarding the lack of optimal role of Sharia supervisors in enforcing Sharia compliance, such as the writings of Taufik Kurrohaman⁵, Rahma Yudi Astuti⁶, Dewi Sukma Kristianti⁷, and Isa Ansori⁸.

The role of the Sharia Supervisory Board (*hereinafter referred to as SSB*) in maintaining the application of Sharia principles in the form of Sharia contracts and transaction provisions in *the National Sharia Council of the Indonesian Ulema Council* (DSN-MUI) fatwa is vital from a practical perspective. SSB must supervise the business operations of the Islamic banks; hence, they comply with

² Akbar Komijani and Farhad Taghizadeh-Hesary, “An Overview of Islamic Banking and Finance in Asia,” *ADBI Working Paper*, no. 853 (2018): 11, <https://www.econstor.eu/handle/10419/190274>.

³ Karen PY Lai and Michael Samers, “Conceptualizing Islamic Banking and Finance: A Comparison of Its Development and Governance in Malaysia and Singapore,” *The Pacific Review* 30, no. 3 (2017): 16.

⁴ Abdul Latif, “Tehnik Pengawasan Kualitas Kepatuhan Syariah (Sharia Complaince),” *MALIA: Jurnal Ekonomi Islam* 10, no. 1 (2018): 89.

⁵ Taufik Kurrohman, “Peran Dewan Pengawas Syariah Terhadap Syariah Compliance Pada Perbankan Syariah,” *Jurnal Surya Kencana Satu: Dinamika Masalah Hukum Dan Keadilan* 8, no. 2 (2017): 49.

⁶ Rahma Yudi Astuti, “Analisa Kinerja Dewan Pengawas Syariah Di Bank Syariah,” *Al Tijarah* 1, no. 2 (2015): 194-210.

⁷ Dewi Sukma Kristianti, “Integrasi Prinsip Syariah Dalam Fungsi Intermediasi Lembaga Keuangan Syariah,” *Undang: Jurnal Hukum* 3, no. 2 (2020): 315-39, <https://doi.org/10.22437/ujh.3.2.315-339>.

⁸ Isa Ansori, “Problematika Dewan Pengawas Syariah Dan Solusinya,” *Nizham Journal of Islamic Studies* 1, no. 1 (2013): 19-34.

the provisions of Sharia principles contained in the DSN-MUI fatwa.⁹ The existence of SSB in the Islamic Financial Institution (*hereinafter referred to as IFI*), especially Islamic banks, plays a central and urgent role in maintaining conformity between the concept of Sharia financial transactions that have been promulgated by the DSN-MUI and the implementation of financial products run by Islamic banks. Therefore, enforcing sharia principles in banking to create a sharia compliance ecosystem is closely related to the position of SSB in carrying out sharia supervision.

METHODS

The research method was qualitative research with a library research design. This research carried a conceptual approach through qualitative descriptive analysis. The research object was the reconstruction of Sharia supervisors in Islamic banking. This paper reviewed the concept of Sharia supervisors in Islamic banking, which then described the problems that occurred and formulated solutions to overcome the problems through the reconstruction of Sharia supervisors to realize the effectiveness of supervision for enforcing Sharia compliance.

RESULT AND DISCUSSION

Sharia Supervisor in Islamic Financial Institutions: The Existence of a Sharia Supervisory Board in the Islamic Financial System in Indonesia

There are Sharia principle guidelines in the construction of Sharia principle enforcement to maintain Sharia compliance in products and services implemented in Islamic banks; thus, supervision efforts are carried out in a structured manner. The Sharia financial fatwa formulation DSN has issued is then applied in Islamic banking operations. Starting from the process of \enforcing Sharia principles, there was an extension of DSN called the Sharia Supervisory Board (SSB). According to the decision of the National Sharia Council of the Indonesian Ulema Council Number 1 of 2000 concerning Basic Guidelines for the National Sharia Council of the Indonesian Ulema Council, the SSB is a body within the Islamic Financial Institution (IFI). It is tasked with supervising the implementation of DSN decisions in the IFI. Furthermore, in the Organizational Regulations of the Indonesian Ulema Council Number Kep-407/MUI/IV/2016 concerning the Articles of Association and Bylaws of the National Sharia Council, the Indonesian Ulema Council explains SSB as a DSN-MUI tool recommended for Islamic Financial Institutions, Sharia Business Institutions, and other Sharia Economy Institutions, which has the main task of supervising the implementation of DSN-MUI fatwas and decisions in each institution.

⁹ Abdul Manan, Fauzi Yusuf Hasibuan, and Ramlani Lina Sinaulan, "Peluang Dan Tantangan Pengelolaan Perbankan Syariah Serta Urgensi Keberadaan Dewan Pengawas Syariah Di Indonesia," *PAKUAN LAW REVIEW* 8, no. 1 (2022): 327.

Supervision of Sharia compliance is known as Sharia supervision or Sharia review.¹⁰ Supervision by SSB is closely related to sharia principles and sharia compliance. The establishment of the SSB has become a legal obligation and makes it an integral part of the current Islamic financial architecture. In carrying out its supervisory function, SSB is tasked with supervising IFI and ensuring that its products and operations comply with sharia principles.¹¹ The SSB is part of the relevant IFI, and its submission is related to the DSN-MUI recommendations.

The existence of SSB is a structural part, and the obligation to have one for IFI has been stated generally through a juridical basis in the form of law, i.e., in Law No. 40 of 2007 concerning Limited Liability Companies. Companies that carry out business activities based on Sharia principles and have a Board of Commissioners must have a Sharia Supervisory Board (SSB). The SSB consists of one or more Sharia experts appointed by the General Meeting of Shareholders (GMS) on the recommendation of the Indonesian Ulema Council (MUI). In this case, SSB provides advice and suggestions to the Board of Directors and supervises the Company's activities; thus, they comply with Sharia principles. This law is the general basis that Sharia companies or Islamic financial institutions (IFI) must have SSB in their institutional structure, whether non-bank financial institutions or banks. A more detailed explanation regarding the legal basis for SSB regulation in institutions or companies in the Islamic finance industry in Indonesia can be seen in the Table below:

Table 1. Legal Basis for the Existence of the Sharia Supervisory Board in the Sharia Financial System in Indonesia

NO	INSTITUTION	LEGAL BASIS
1	Islamic Insurance	Law Number 40 of 2014 concerning Insurance Government Regulation Number 39 of 2008 concerning Second Amendment to Government Regulation Number 73 of 1992 concerning Implementation of Insurance Business Minister of Finance Regulation Number 18/PMK.010/2010 concerning Implementation of Basic Principles for Carrying out Insurance and Reinsurance Businesses with Sharia Principles
2	Islamic Issuers	Financial Services Authority Regulation Number 15/POJK.04/2015 concerning

¹⁰ Agus Triyanta, *Hukum Perbankan Syariah: Regulasi, Implementasi Dan Formulasi Kepatuhanya Terhadap Prinsip-Prinsip Islam* (Malang: Setara Press, 2016), 112.

¹¹ Matthias Casper, "Sharia Boards and Sharia Compliance in the Context of European Corporate Governance," *Preprints and Working Papers of the Center for Religion and Modernity*, 2012, 4.

		Implementation of Sharia Principles in the Capital Market
3	Islamic Mutual Fund Company	Financial Services Authority Regulation Number 61/POJK.04/2016 concerning Implementation of Sharia Principles in the Capital Market to Investment Managers
4	Islamic Cooperative	Regulation of the Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia Number 11/PER/M.KUKM/XII/2017 on implementing Sharia Savings and Loans and Financing Business Activities by Cooperatives.
5	Islamic Pawnshop	Financial Services Authority Regulation Number 31/POJK.05/2016 concerning Pawnshop Business
6	Islamic Financing/ Islamic Leasing Company	Regulation of the Chairman of the Capital Markets and Financial Institutions Supervisory Agency Number Per-06/BL/2012 concerning Amendments to the Regulation of the Chairman of the Capital Markets and Financial Institutions Supervisory Agency Number Per-03/BL/2007 concerning Activities of Financing Companies Based on Sharia Principles
7	Islamic Pension Fund Institution	Financial Services Authority Regulation Number 33/POJK.05/2016 concerning the Implementation of Pension Programs Based on Sharia Principles
8	Islamic Bank	<p>Law Number 21 of 2008 concerning Sharia Banking</p> <p>Financial Services Authority Regulation Number 16/POJK.03/2022 concerning Islamic Commercial Banks</p> <p>Financial Services Authority Regulation Number 12 of 2023 concerning Islamic Business Units</p>
9	Islamic Microfinance Institutions (LKMS)	Law Number 1 of 2013 concerning Microfinance Institutions;
10	Islamic Guarantee Company	Law Number 1 of 2016 concerning Guarantees

In contrast to other IFI, e.g., Islamic Pawnshops, Islamic Insurance, or Islamic Cooperatives, Islamic banks have their regulations in the form of a law that specifically regulates Islamic banking and differentiates it from conventional banking regulations, i.e., Law Number 21 of 2008 concerning Islamic Banking. Before the presence of the Islamic Banking Law, the Law which became the juridical basis for Islamic banking was still under the same umbrella as conventional

banking, whose regulations were mixed with legal and formal, i.e., Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 on Banking. This law regulates and accommodates the existence of SSB for banks that carry out business activities based on Sharia principles. More specifically, in a separate law relating to the regulation of Islamic banking, it is stated that SSB must be formed in Islamic Banks and Conventional Commercial Banks that have Sharia Business Units (UUS), which are also regulated juridically in Bank Indonesia and Financial Services Authority (OJK) Regulations. The obligation to have SSB also applies to Sharia People's Financing Banks (BPRS).

Reconstruction of Sharia Supervisor: Solutions to the Sharia Supervision Problems in Islamic Banking

The role of ulema who are institutionally part of the institutional structure, such as members of the DSN and SSB ulema, certainly needs to be in synergy with the applicable regulations in the context of Sharia economic and financial progress and strive to be objective in their actions and provide responses and input for evaluation materials. The role of these two institutions is indeed not only at the level of supervision of Islamic financial institution products, with DSN as a formulator of Sharia principles through Sharia economic fatwas,¹² then SSB as supervisor of the implementation of Sharia principles and issuing Sharia opinions based on DSN fatwas.¹³ Furthermore, it has a significant role as a party that contributes positively to the transformation of contemporary Islamic law in Indonesia and maintains sharia compliance to ultimately encourage the development and progress of the national sharia economy and finance.¹⁴

The nature of the delegation of authority given by customers to SSB is *trustful*; hence, the dimension of SSB's responsibility, apart from being a formal institution, is also to Allah SWT. The role of monitoring, providing advice, and clearly explaining what is right and wrong is an irreplaceable role of the ulema.¹⁵ In carrying out its bank supervision function, SSB performs its duties guided by the provisions issued by Bank Indonesia in the form of SSB supervision working papers. Based on the SSB working paper, the Islamic Bank will record events related to product practices based on Sharia substance.¹⁶ It is a monitoring pattern that will

¹² Novea Elyssa Wardhani, "The Existence Of Fatwa Of The National Sharia Council (Dsn)- Indonesian Ulema Council (MUI) In Answering All Doubts In Achieving Legal Certainty," *Baltic Journal of Law & Politics* 16, no. 3 (2023): 3624.

¹³ Arjan; Hirsanuddin; Muhamimin, "Juridical Review of Sharia Supervisory Board Supervision on Sharia Banking Products," *JL Pol'y & Globalization* 108 (2021): 92.

¹⁴ Mahmud Yusuf et al., "Islamic Banks: Analysis of the Rules of Fiqh on the Fatwa of the National Sharia Board-Indonesian Ulama Council," *International Journal of Law, Environment, and Natural Resources* 3, no. 1 (2023): 25.

¹⁵ Direktorat Perbankan Syariah Bank Indonesia, "Peran & Fungsi DSN dan DPS", disampaikan pada Pelatihan Dasar Perbankan Syariah Bank Syariah Mandiri (Jatiluhur, 3 Desember 2004).

¹⁶ Muhammad, *Audit & Pengawasan Syariah Pada Bank Syariah: Catatan Pengalaman* (Yogyakarta: UII Press, 2011), 110.

depend on the scope and management.¹⁷ Supervision is a process where someone who serves as a supervisor ensures that resources are obtained and used effectively and efficiently in achieving organizational goals.¹⁸ In the context of Islamic banking, the operation of Islamic bank products is under Sharia principles because of the objectives of the business activities carried out by Islamic banks. It is a Sharia principle in *mu'amalah* (banking transactions, raising funds, financing, and services).

The main task of the SSB is to supervise the business activities of Sharia financial institutions; hence, they comply with the provisions and principles promulgated by the DSN-MUI.¹⁹ According to Perwataadmadja and Antonio, the SSB's task is to discuss problems and business transactions that are presented to it; thus, conformity or non-compliance with Islamic Sharia can be determined.²⁰ Legal opinions, advice, and directions issued by SSB are also the basis for auditors to examine Islamic banks' financial reports to assess whether they have prepared their financial reports per the provisions of Sharia principles.²¹

SSB has a unique role within the scope of Sharia Financial Institutions. This uniqueness is none other than the two roles within SSB, i.e., as guarantor of Sharia products and supervisor of Sharia operations. The two roles possessed by SSB are one interconnected unit. The role of SSB as a guarantor of the implementation of Sharia principles by IFI makes SSB an institution whose position is as a liaison media (*bridge*) for sharia provisions regarding IFI and IFI's understanding of these Sharia provisions. Meanwhile, SSB's role as supervisor is further due to its role as guarantor. The uniqueness of SSB as an institution guarantees that SSB also supervises the implementation of Sharia by IFI. In simpler terms, the two roles of SSB above will converge on the role of SSB as the front guard in enforcing Sharia principles in operationalizing its financial activities.²² If the SSB is not optimal in carrying out its role, there will likely be deviations from Sharia principles in operating the IFI.

Heretofore, the role of SSB, ideally as a supervisor in sharia supervision at IFI, has not been implemented optimally. SSB has only been able to act as a Sharia advisor for management, a communication and marketing tool for Islamic banks, and a legislator for IFI products. In contrast, the roles of maximally developing IFI under sharia principles have not been implemented.

¹⁷ Siriyama Kanthi Herath, "A Framework for Management Control Research," *Journal of Management Development* 26, no. 9 (2007): 910.

¹⁸ Erik Strauß and Christina Zecher, "Management Control Systems: A Review," *Journal of Management Control* 23, no. 4 (February 2013): 236, <https://doi.org/10.1007/s00187-012-0158-7>.

¹⁹ Adrian Sutedi, *Perbankan Syariah: Tinjauan Dan Beberapa Segi Hukum* (Bogor: Ghalia Indonesia, 2009), 142.

²⁰ Karnaen Perwataadmadja and Muhammad Syafi'i Antonio, *Apa Dan Bagaimana Bank Islam* (Yogyakarta: Dana Bhakti Prima Yasa, 1999), 2-3.

²¹ Hisham Yaacob and Nor Khadijah Donglah, "Shari'ah Audit in Islamic Financial Institutions: The Postgraduates' Perspective," *International Journal of Economics and Finance* 4, no. 12 (2012): 226-27.

²² Kuat Ismanto, *Manajemen Syariah: Implementasi TQM Dalam Lembaga Keuangan Syariah* (Yogyakarta: Pustaka Pelajar, 2009), 114-15.

Therefore, various matters can affect the supervision process and result in confusing supervision, just a formality. It does not protect bank users to comply with sharia principles. In his book, Adrian Sutedi also states that quite a few SSBs rarely come to Islamic Banks where SSBs are placed. Even if they come only for coming, they do not check the format and editorial contracts according to Sharia principles, how to restructure the bank, reschedule, determine margins, etc. SSB sometimes only once a month, or even months, without coming directly to Islamic Banks to be monitored. Hence, it is not surprising that many Islamic banking practices deviate from Sharia principles.²³

Non-optimal role of SSB can be influenced by competency factors, such as human resources,²⁴ which master sharia and economic issues simultaneously. SSB and DSN can act effective role if they have human resources who not only master normative *mu'âmalah* jurisprudence but also have knowledge and mastery of economic, financial, system, and operational issues. In some way, not anyone can become an SSB if considering the ideal capacity for this profession. Adequate scientific competency standards are needed to monitor Sharia compliance in Sharia financial institutions, such as mastering the science of *mu'âmalah* jurisprudence and understanding the DSN-MUI Fatwa to be careful in determining the suitability of Sharia as well as deviations or violations of Sharia principles that may occur in practice.²⁵ As per Basiruddin and Ahmed's research findings, the urgency of competence for SSB is that higher competence and frequency of Sharia Supervisory Board meetings reduced the risk of Sharia non-compliance.²⁶

It is not enough for someone to become SSB only to understand finance and banking, nor is it enough to be just a Muslim cleric or scholar who does not understand economic issues, especially banking. SSB must be a scientist or graduate competent in *fiqh al-mu'âmalah* and modern financial economics, especially banking operations. By realizing these qualifications, the role of SSB will be more optimal in carrying out its duties. On the other side, it will increase the credibility of Islamic banks in public.

A mistake that can occur in Islamic banks in Indonesia when appointing SSB is appointing people who are famous in Islamic mass organizations or Islamic science (not Sharia) but who are not competent in the field of Islamic

²³ Bagya Agung Prabowo and Jasri Bin Jamal, "Peranan Dewan Pengawas Syariah Terhadap Praktik Kepatuhan Syariah Dalam Perbankan Syariah Di Indonesia," *Jurnal Hukum Ius Quia Iustum* 24, no. 1 (2017): 126.

²⁴ Neni Sri Imaniyati, Harits Numan, and Lina Jamilah, "Analysis of the Role and Responsibility of Sharia Supervisory Board (DPS) on Sharia Compliance Supervision in Islamic Banks in Indonesia," *J. Legal Ethical & Regul. Issues* 22 (2019): 1.

²⁵ Hamdah Rosalina et al., "Sharia Supervisory Board Practices in Conducting Operational Supervision in Sharia Microfinance Institutions," *ITQAN: Journal of Islamic Economics, Management, and Finance* 1, no. 1 (2022): 30.

²⁶ Rohaida Basiruddin and Habib Ahmed, "Corporate Governance and Shariah Non-Compliant Risk in Islamic Banks: Evidence from Southeast Asia," *Corporate Governance: The International Journal of Business in Society* 20, no. 2 (2020): 240.

banking and finance. Some SSBs do not understand Islamic banking operations and do not supervise their banks optimally. This reality benefits Islamic banking management because they can do whatever they want. Moreover, it is not strictly supervised. However, in the long term, it will be detrimental to the Sharia economic movement, not only for the Islamic bank concerned but also for the economic movement and Islamic Banks as a whole and the progress of Islamic Banks in the future. Therefore, it is unsurprising that many people consider Islamic banks as the same as conventional ones.²⁷

The existence of SSB in carrying out its duties optimally related to upholding Sharia principles will significantly influence public confidence and trust in Islamic banking and the tendency to use Islamic bank products and services. The function and role of SSB in Islamic Banks have a strong relationship with managing Islamic banking risks, i.e., reputation risk, which impacts other risks, such as liquidity risk.²⁸ Apart from its role in Sharia law issues in Islamic financial institutions, SSB can also positively disclose corporate ethics.²⁹ SSB characteristics can also influence the financial performance of the Islamic banks they supervise.³⁰

SSB has complex tasks, i.e., supervising and guaranteeing that the Sharia financial institutions concerned can run on Sharia rails. Therefore, SSB should consist of people who have mastered *fiqh al-mu'amalah*, finance, and economics to carry out this task.³¹ The tasks entrusted to the SSB greatly influence the aspects of Sharia compliance that the IFI must maintain. Sharia compliance is an absolute requirement that must be fulfilled by Sharia financial institutions that carry out business based on Sharia principles. It is explicitly stated that Sharia compliance is the *raison de entre* for these institutions.³²

To optimize the role of SSB, something that needs to be paid attention to and should receive special attention is the issue of human resources (HR) and performance.³³ The standardization of the Sharia Supervisory Board needs

²⁷ Agustianto, "Dewan Pengawas Syariah Dan Manajemen Risiko Bank Syariah - Dakwatuna.Com," accessed April 10, 2021, <https://www.dakwatuna.com/2014/08/22/56114/dewan-pengawas-syariah-dan-manajemen-risiko-bank-syariah/#axzz6rcQSDIBU>.

²⁸ Raed Abu-Mounes, "Reputational Risks and Sharia Compliance in Islamic Banks in a Case Study on the Reserves in Central Banks and How to Form Sharia Supervisory Board," *DIRASAT: SHARI'A AND LAW SCIENCES* 43, no. 1 (2016): 219, <https://archives.ju.edu.jo/index.php/law/article/view/7071>.

²⁹ Hasan Mukhibad, "The Role Of Sharia Supervisory Boards in Meeting Maqasid Syariah- Study on Islamic Banks in Indonesia," *European Journal of Islamic Finance*, no. 13 (2019): 7, <https://www.ojs.unito.it/index.php/EJIF/article/view/3620>.

³⁰ Ibtissem Baklouti, "Is the Sharia Supervisory Board a Friend or an Enemy of Islamic Banks?," *Journal of Islamic Marketing* 13, no. 2 (2022): 526.

³¹ Sepky Mardian dkk., "Bagaimana Dewan Pengawas Syariah Melakukan Pengawasan Operasional Bank?," *Banque Syar'i: Jurnal Ilmiah Perbankan Syariah* 6, no. 1 (30 Juni 2020): 35, <https://doi.org/10.32678/bs.v6i1.2429>.

³² Mardian et al., 34.

³³ Gary Gagarin, "Optimalisasi Peran Dewan Pengawas Syariah (DPS) Pada Perusahaan Asuransi Syariah Di Indonesia," *Istinbath: Jurnal Hukum* 14, no. 2 (2017): 172.

special attention considering its capacity as a Sharia compliance audit and competency as a benchmark for standards and quality of performance.³⁴ The existence of standardization of the Sharia Supervisory Board will be a necessity considering that the form of service provided by the Sharia Supervisory Board involves confirming the quality of a statement of Sharia conformity (assertion), which must account for the assertion to other parties, both to the public and to regulators who supervise performance and development of Sharia financial institutions, such as the National Sharia Council, Bank of Indonesia, and the Financial Services Authority (OJK).³⁵

SSB certification facilitated by DSN-MUI has been applied well. It must follow the DSN-MUI *Muamalah* Maliyah and Fatwa Training process, as well as Sharia Supervisor Training. However, it is necessary to add training material on legislation and legal regulations for business and the financial industry because Indonesia is the rule of law. Indeed, Sharia financial institutions, in their operational legality, are also based on national legal rules apart from being based on Islamic law. It is deemed necessary for a sharia supervisory board to understand. Moreover, training materials are also needed to strengthen the professional synergy between lines and to support supervisory performance with an integrated synergy between lines on Sharia compliance in Sharia financial institutions, which is then carried out competency exams to test skills and professionalism to be worthy of becoming SSB. In this certification process, synergy between various stakeholders must be established to be carried out ideally and on target, namely cooperation between DSN-MUI, OJK, Ministry of Religion, and Ministry of Manpower.

In addition, the issue of independence can hinder SSB's performance. The issue of independence in the method of appointment will affect the independence of the Sharia board.³⁶ SSBs are appointed by the GMS and paid for by the management of the relevant IFI, which is the object of supervision. It can trigger a tendency towards subjectivity or reluctance in reprimanding and correcting Sharia financial institutions that have employed and paid them. Therefore, future improvements must be made in this aspect of SSB independence. Hence, it can be recommended to optimize the role of SSB in maintaining Sharia compliance by fortifying SSB through separate regulations on SSB, which need to be formulated by the Financial Services Authority. This regulation can strengthen the SSB, including the authority to impose sanctions on Sharia financial institutions that violate Sharia principles with guarantees and mandates from the

³⁴ Nor Aishah Mohd Ali, Zurina Shafii, and Shahida Shahimi, "Competency Model for Shari'ah Auditors in Islamic Banks," *Journal of Islamic Accounting and Business Research* 11, no. 2 (2020): 383.

³⁵ Khotibul Umam, "Urgensi Standarisasi Dewan Pengawas Syariah Dalam Meningkatkan Kualitas Audit Kepatuhan Syariah," *Panggung Hukum: Jurnal Perhimpunan Mahasiswa Hukum Indonesia* 1, no. 2 (2015): 135.

³⁶ Nurhastuty Wardhany and Shaista Arshad, "The Role of Shariah Board in Islamic Banks: A Case Study of Malaysia, Indonesia, and Brunei Darussalam," in *2nd ISRA Colloquium*, 2012, 18.

Financial Services Authority, giving them the right to supervise and oversee the enforcement of Sharia principles.

Additionally, to realize the effectiveness of Sharia supervision, it is necessary to restructure Sharia supervisors in Islamic banking with supervisors representing provincial areas. Due to current circumstances, the SSB of Islamic Banks, numbering two to five people, only stayed in the head office (centralized). Consequently, a capacity with this quantity will be challenging to supervise Islamic bank offices spread across many provinces. Therefore, it is necessary to carry out restructuring through the decentralization of Sharia supervisors with the extension of the SSB to represent the supervision of each provincial region with the presence of the Sharia Supervisory Secretariat (*hereinafter referred to as SSS*), whose position is as a representative of the SSB to coordinate supervision in the provincial areas held by SSS. Hence, the responsibility for Sharia supervision will be more effective in the future with a complementary and synergistic division of tasks between DSN-MUI, SSB, and SSS.

CONCLUSION

The Sharia supervisory function held by the Sharia Supervisory Board (SSB) in Sharia Banking has a central position and an urgent role in enforcing Sharia compliance. Several problematic matters became factors that impact enforcing Sharia compliance with Sharia principles, i.e., issues of independence, competence, and effectiveness of supervisory performance related to the quantity of SSB and the scope of Islamic Banks being supervised. The reconstruction of Sharia supervisors as a solution to overcome these problems is through professional certification of the Sharia Supervisory Board, which DSN-MUI facilitates in collaboration with the OJK and the Ministry of Religion as well as the Ministry of Manpower which includes DSN-MUI Muamalah Maliyah and Fatwa Training, Sharia Supervisor Training, Legislation Training and Business and Financial Industry Legal Regulations, Inter-Line Synergy Professional Strengthening Training and Competency Exams which shape the qualified and capable SSB's selection. Furthermore, the solution to the issue of independence requires restructuring by issuing a special regulation for the Sharia Supervisory Board from the Financial Services Authority, with the existence of this regulation. One of them is regulating the right to give sanctions to SSB for OJK guarantees and mandates to strengthen the position of SSB for particular Islamic banking and general Islamic finance institutions. Then, regarding the effectiveness of supervisory performance, it is necessary to restructure Sharia supervisors through decentralization of Sharia supervisors by establishing Sharia Supervisory Secretariat (SSS) as an extension of the Sharia Supervisory Board (SSB), the SSB representative in each provincial region as the scope of its supervision. Hence, Sharia supervision, which was initially centralized, is no longer similar, through the presence of Sharia supervisory representatives in each province.

Author's Contribution

Muhammad Syarif Hidayatullah, Fathurrahman Azhari: Contribute to formulating research ideas, collecting data, processing data, and interpreting data, writing systematics, and research methods.

Mahmud Yusuf, Aliyu Dahiru Muhammad: Contributing to analyzing interpretation results, the language proofread.

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The author declares that there is no conflict of interest.

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