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Determinants of the Level of Islamic Bank Compliance with *Mudharabah* Principles: Evidence from Indonesia

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ABSTRACT

This study aims to examine the determinants of Islamic banks' compliance with the statement of financial accounting standards (SFAS) No.105 on *Mudharabah* principles. Using the purposive sampling technique, the samples of this study are Indonesian Islamic Banks (IBs) between 2009 and 2017 (96 observations). The data were analyzed using panel data regression. The results show a significant positive influence of the effectiveness of the Shariah Supervisory Board (SSB), the effectiveness of audit committees, tenure of CFO, and third party funds from the *Mudharabah* contract for the compliance level of the IBs financial reports with SFAS No.105. Meanwhile, the CFO educational background has a significant negative effect and institutional ownership did not have any significant effect on the compliance level. Thus, to attain a higher level of compliance with SFAS 105, the Indonesian IBs must improve the quality of the reporting system monitor through the effectiveness of SSB and the audit committees.

Penentu Tingkat Kepatuhan Laporan Keuangan Bank Syariah terhadap Prinsip Mudharabah? Bukti Empiris dari Indonesia

ABSTRAK

Penelitian ini bertujuan untuk menganalisis faktor-faktor yang mempengaruhi tingkat kepatuhan laporan keuangan bank umum syariah (BUS) terhadap PSAK 105 terkait akad mudharabah. Penelitian ini menggunakan 96 data observasi (2009 sampai dengan 2017). Dengan menggunakan metode regresi linier berganda dengan data panel, penelitian ini menunjukkan bahwa efektifitas dewan pengawas syariah (DPS), efektifitas Komite Audit, masa jabatan CFO, dan dana pihak ketiga mudharabah memiliki pengaruh positif signifikan terhadap tingkat kepatuhan terhadap PASK 105. Sedangkan latar belakang CFO berpengaruh negatif signifikan dan kepemilikan institusional tidak berpengaruh terhadap tingkat kepatuhan terhadap PSAK 105. Implikasi dari penelitian ini adalah BUS sebaiknya meningkatkan efektifitas sistem pengawasan pelaporan agar tingkat kepatuhan terhadap PSAK 105 meningkat. Sistem pengawasan pelaporan internal yang didukung oleh penelitian ini adalah efektifitas dewan pengawas syariah dan efektifias komite audit. .

1. Introduction

Mudharabah is a type of financing contract that relies on a profit and loss sharing scheme offered by Islamic Banks (IBs) in Indonesia. It plays a crucially important role in stimulating entrepreneurs' growth compared to other offered products from IBs (Hassan & Kayed, 2009). Hence, it is considered that the *mudharabah* based financial products may contribute to real economic and business practices within the community. However, the portion of *mudharabah* transactions in Indonesian Islamic Banks is the smallest compared to those other *shariah* based products, for instance, *murabahah* and *musyarakah* schemes. Based on the Islamic banking performance report issued by the Indonesian financial service authority (*Otoritas Jasa Keuangan* – OJK), the portion of *mudharabah* financing was only 4.8% in 2018. It decreased by -6.78% compared to 2017 (OJK, 2018).

Prior studies have identified the reasons behind the causes of the low *mudharabah* financing portion. Among the reason are high risk and uncertainty (Adnan & Purwoko, 2013; Diallo, Fitrijanti, & Tanzil., 2015; Warninda, Ekaputra, & Rokhim, 2019) and a high moral hazard possibility (Yousfi, 2013). To minimize these risks, adequate transparency of financial information is needed (Bushman & Smith, 2001; Fuchs, Ory, & Skrypacz, 2016). One form of transparency carried out by IBs is the sufficient information disclosure on *mudharabah* financing in their financial reports.

For stakeholders, the disclosure on *mudharabah* transactions in IBs is crucial information as it provides an overview of the bank's risk conditions. According to Amalina Wan Abdullah, Percy, & Stewart (2013), information related to *mudharabah* investment in IBs still needs improvement through a proper reporting system. In Indonesia, the accounting treatment for *mudharabah* transactions is regulated in *pernyatan standar akuntansi keuangan*/ PSAK 105 (or statement of financial accounting standard/ SFAS). The standard provides the guide for recognition, measurement, presentation, and disclosure of *mudharabah* transactions. The full adoption of SFAS 105 with *mudharabah* investment among companies potentially increases transparency, reliability, and greater comparability concerning *mudharabah* transactions in Islamic banking.

Mukhlisin, Hudaib, & Azid (2015) concluded that the uniformity of financial disclosure and reporting standards for Islamic financial institutions can facilitate better evaluation and strategic decision makings, and thus, the advancement of Islamic financial institutions. Meanwhile, Sellami & Tahari (2017) believe that information disclosure is very important for stakeholders as they need to assess risks that may occur and how these risks are managed by the company.

Furthermore, stakeholders also demand financial transparency and performance information. Higher transparency can be achieved by ensuring financial reports are fully comply with applicable accounting standards, for example, the information about *dewan pengawas syariah* (or Shariah Supervisory Board/SSB). Elamer, Ntim, Abdou & Pyke (2019) found that the existence of an SSB contributes to improved disclosure in Islamic banks. Besides, the presence of the SSB can also strengthen the effectiveness of the implementation of governance and accounting reforms for the sake of better compliance level of IBs business with the shariah provisions. According to Law No. 21 of 2008 regarding Islamic banking, the role of SSB is not only to oversee the compliance of banking activities to the Islamic jurisprudence but also advice directors regarding the implementation of Islamic banking rules.

However, Grassa, Chakroum, & Hussainey (2018) discovered that SSB also plays a role in the information disclosure of Islamic banking products and services. To optimize their role, SSB has formulated strategies to promote a culture of bank compliance, formulate compliance policies or principles, and establish compliance systems and procedures that are used to formulate bank internal rules and guidelines to minimize compliance risk (Bank Indonesia, 2011). Therefore, the role of SSB is significant in maintaining all operational activities including financial reporting prepared by Islamic banks following shariah principles. Farook, Hassan, & Lanis (2011) demonstrated a positive relationship between SSB governance and the level of financial report compliance.

A chief financial officer (CFO) also plays a decisive role in the level of compliance with the applicable accounting standard. Ge, Matsumoto, & Li Zhang (2011) unveiled that CFO style affects accounting choices as well as firm disclosure choices. The CFO style in determining accounting choices is strongly influenced by the demographic profiles of the CFOs such as gender, age, and educational background. Moreover, Geiger & North (2006) uncovered that companies with newly appointed CFOs have lower discretionary accruals than companies managed by a longer tenure of CFOs. CFOs also play the role of reporting mediation to directors and other top management (Milana & Maldaon, 2015).

They are also responsible for all financial transactions within the company, which is managing the company's fiscal activities and ensuring the compliance of the company accounting system with the accounting principles and standards set by regulators. In terms of maintaining the reputation of the company, CFO often withholds bad news that potentially harm company reputation (Kothari, Shu, & Wysocki, 2009). This is closely related to its role in managing the company's financial information to provide a positive signal for all company stakeholders.

Apart from CFO and SSB, another important aspect that shapes a company’s financial reporting is the audit committee. The existence and effectiveness of audit committees can contribute to the improvement of quality and compliance of the company's financial reporting (Glaum, Schmidt, Street, & Vogel, 2013; Mutmainnah & Wardhani, 2013). An intensive and proper supervision undertaken audit committee may reduce the existence of fraud in financial statements. The audit committee not only provides an internal oversight but also helps the auditors to maintain their independence because long-term audit engagements can reduce auditor independence. Other research conducted by Al-Akra, Eddie, & Ali (2010) and Sellami & Tahari (2017) also supports the conclusion that the audit committee stimulates the improvement of compliance level of corporate financial reporting on financial accounting standards.

The transparency of company information is often associated with stakeholder pressure on the need for this information. Stakeholder pressure is an important part that can affect financial reporting quality in achieving reporting objectives so that it can provide information on various parties who have different interests. Information on *Mudharabah* transaction is carried out by considering the existence of the main stakeholder.

Information disclosure is also a part of the mechanism to gain legitimacy. In other words, the company carries out financial reporting due to pressure from certain stakeholders to attain community legitimacy. Jayanti & Mutmainah (2013) found that stakeholder pressure may lead to the extension of company information disclosure. Thus, to reach an ideal level of transparency, companies need sufficient pressure from certain stakeholders, especially in the Islamic bank industry.

Previous research related to the compliance level of Islamic banks with accounting standards conducted by Sellami & Tahari (2017) who examined the influence of audit committee, listing status, type of auditor, age, size, and country of origins for the Islamic banks’ compliance level on accounting standards proposed by AAOIFI and IFRS. Other studies were conducted non in the setting of Islamic banking as the studies focused more on companies’ compliance on certain accounting standards and international disclosure regulations (Street & Gray, 2002 dan Hodgdon, Tondkar, Adhikari, & Harless, 2009). In addition, previous research measured the level of compliance with Islamic banks using several reporting items contained in AAOIFI FAS including *mudharabah, murabahah, zakat,* and SSB (Vinnicombe, 2010; dan Sarea, 2012). Unlike prior studies, this study investigates more specifically the compliance of Indonesian Islamic banks on the *mudharabah* accounting standards (as regulated in SFAS 105). Besides, new variables that have not been examined before are being tested in this study. The variables are characteristics of the CFO and stakeholder pressure as measured by third-party funds from the *mudharabah* contract.

CFO variable is an important factor in the case of Islamic banking because CFO has a role as a supervisor of the quality of the company's financial statements if there is a discrepancy in the financial statements indicating that the CFO has failed to carry out the monitoring function (Feng, Ge, Luo, & Sevlin, 2011). Meanwhile, Freeman & David (1983) concluded that stakeholders can influence company actions/ performance, so stakeholder pressure can also increase the scope of information disclosure related to *mudharabah* transactions in Islamic banking.

Therefore, the objective of this study is to examine the influence of CFO characteristics, the effectiveness of the audit committee and SSB and stakeholder pressure for the Islamic bank compliance level with the SFAS 105 on *mudharabah* principles and accounting standards. The next section reviews the recent works of literature on the compliance level of companies toward applicable accounting standards. Section III provides information related to the research design: sample, operationalization of variables, and data analysis method. Section IV shows the interpretation of data analysis and discussion of findings. Lastly, section V provides the main conclusion of this study followed by further research agenda for the research topic.

2. Literature review and hypotheses development

Characteristics of CFO and the compliance level with the SFAS 105

CFO is a person who directs the company's operational activities, including risk management and financial reporting. According to the Upper Echelons Theory, company performance is a reflection of the characteristics of the company's top management (Hambrick & Mason, 1984). One form of company performance is the company's financial reporting performance. CFO as part of the company's top management has a very important role in improving the quality of company reporting.

Geiger & North (2006) found that the quality of the company's financial statements will improve if the company's CFO does not have an individual interest in the company. Hence, the CFO decides on corporate reporting is purely based on his or her knowledge and experience without being distorted by his or her interests. Kim, Kitsabunnarat, Noftsinger (2007) argued that the length of tenure a CFO has contributed to the improvement of financial statement quality. This is because the tenure of top management reflects a maturity in decision making and knowledge of internal control risks.

In addition to the CFO tenure that represents experience and knowledge, another factor that affects the quality of financial statements is the CFO's educational background. This is reinforced by previous research which found that the educational background of CFO and other top management determines the improvement of quality of corporate financial reports (Hu, Huang, Li & Liu, 2017).

Top management who has a relevant educational background has a positive influence on the quality of the report, in this case, the compliance of financial statements with a standard or regulation. Ge et al., (2011) also concluded that the educational background of top management can influence the accounting choices made, thereby affecting the level of transparency of company information. Based on this description, the following hypotheses are proposed:

H_{1a}: CFO tenure has a positive effect on the level of compliance with SFAS 105.

H_{1b}: CFO educational background has a positive effect on the level of compliance with SFAS 105.

Effectiveness of the audit committee and level of compliance with SFAS 105

Bédard, Chtourou, & Courteau (2004) define the audit committee as a committee whose duty is to oversee the performance of the board of directors and to protect the interests of shareholders. Many prior studies have been conducted to investigate the role of the audit committee in the corporate reporting system. According to research Carcello, Hollingsworth, Klein, & Neal (2011) and Felo, Krishnamurthy, & Solieri (2005) the expertise possessed by the audit committee can improve the quality of financial information reported by the company. This means, with its expertise the audit committee can mitigate unintended actions of management, and thus, it leads to the improvement of the compliance of the company's financial statements.

DeZoort & Salterio (2001) study found that audit committees with a lot of experience support auditors than management. The expertise of the audit committee can be seen from the experience and certification they have. Farber (2005) revealed the characteristics of companies that manipulate financial statements, namely, low expertise of the audit committee and a few numbers of audit committee meetings.

The complexity of the problems in accounting and auditing faced by companies urgently requires audit committee members who have expertise in accounting and finance (Abbott, Parker, & Peters, 2004). In addition, research conducted by Sharma & Iselin, (2012) found a significant relationship between the tenure of the audit committee members and the accuracy of financial reporting. Having an audit committee, it will make it easier for top management and auditors to carry out their duties, namely to control and supervise corporate governance, especially aligning financial report with accounting standards.

Research conducted by Sellami & Tahari, (2017), Glaum et al., (2013), and Al-Akra et al., (2010) found that the audit committee has a significant positive effect on the level of compliance with accounting standards. Based on the description above, the second hypothesis in this study is:

H_2: The effectiveness of the audit committee has a positive effect on the level of compliance with SFAS 105

Stakeholder pressure and level of compliance with SFAS 105

The government is one of the main institutional stakeholders of every company. Through the formulation of regulations related to the reporting system, the government encourages companies to improve their reporting system quality and accuracy (Henriques & Sadorsky, 1999). El-Halaby & Hussainey (2016) demonstrated how institutional ownership may encourage companies to increase the level of compliance with shariah accounting standards. In addition, the main shareholder in the form of an institution will put pressure on Islamic banks to disclose complete, transparent, and accountable information following applicable standards.

However, if the main shareholder in an Islamic bank is a conventional company as the bank's holding company, it will not put great pressure on the Islamic bank to be more compliant with Islamic accounting standards. However, Schadewitz & Blevins (1997) found that there is a significant negative relationship between institutional ownership and the level of compliance with accounting standard disclosures.

Meanwhile, Farook et al., (2011) revealed that Investment Account Holders (IAH) can increase company information disclosure. So it can be concluded that the higher number of third-party funds from *mudharabah* financing, the higher the pressure Islamic banks face ensuring their financial reporting compliance on accounting standards. Based on this description, the hypotheses formulated are as follows:

H_{3a}: Stakeholder pressure (institutional share ownership) has a negative effect on the level of compliance with SFAS 105

H_{3b}: Stakeholder pressure (third party funds) has a positive effect on the level of compliance with SFAS 105

SSB effectiveness and level of compliance with SFAS 105

According to Grassa et al., (2018) SSB has an active role in authorization whose purpose is to control Islamic financial institutions. According to Farook et al., (2011) cross-membership at SSB can also influence a company's information disclosure in its business processes. In addition, cross membership is a priority because it can increase credibility and knowledge in a team so that SSB which has cross membership in its membership can explicitly add knowledge on the application of existing rules in Islamic Banking and gain insight into conducting company supervision.

Meanwhile, El-Halaby & Hussainey (2016) found that the number of SSB membership will increase the effectiveness of control and review of all transactions carried out, therefore membership and knowledge and experience have more implications for the supervisory process of Islamic banking. The existence of SSB which is completely independent of the intervention of the board of directors and executive management can carry out its role effectively and efficiently (Garas & Pierce, 2010) SSB that meets the aspects of independence, size, and reputation will be more effective in supervising company operations so that they are more compliant with Islamic law and comply with Islamic accounting standards. El-Halaby & Hussainey (2016) research also concluded that SSB has a positive effect on accounting standard compliance with Islamic bank financial reports. Based on this description, the fourth hypothesis in this study is:

H_4: The effectiveness of SSB has a positive effect on the level of compliance with SFAS 105

3. Research method

Research samples

The sample of this study is Indonesian Islamic Commercial Banks which are registered in the Indonesian Financial Service Authority (or OJK) and have *mudharabah* financial transactions between 2009 and 2017. Another criterion of the sample is that the IBs' financial statements have been audited by an independent auditor to ensure that the information used is free from material misstatement. Based on these criteria, the following research samples were obtained:

Table 1 Sample Criteria

No	Criteria	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Registered Islamic Banks and have *mudharabah* based financial products	6	11	11	11	11	12	12	13	13
2	Have not published financial report from 2009 to 2017	0	0	0	0	0	0	0	(1)	(1)
3	Islamic banks provide comprehensive and required data for the study	6	11	11	11	11	12	12	12	12
4	The financial report of Islamic Banks have been audited	6	11	11	11	11	12	12	12	12
Observations		6	11	11	11	11	12	12	12	12
Outliers		2								
Total observations		96								

Variable operationalization

Dependent variable

In this study, the dependent variable is the level of compliance with SFAS 105. The compliance level is measured by referring to the study of Fekete, Matis, & Lukacs (2011). The compliance index is formulated using a self-constructed method by analyzing SFAS 105 and Islamic banking financial reports related to the *mudharabah* contract. The results of the self-constructed system obtained 13 points related to recognition, measurement, presentation, and disclosure of SFAS 105, both related to Islamic banks as *shahibul maal* (fund owners) and *mudarib* (fund managers). The measurement of this variable uses a proportion calculated by the following formula:

$$\text{Effectiveness of audit committee} = \frac{\text{Total fulfilled criteria}}{\text{Total points}} \text{ x } 100\%$$

In determining the fulfilled points, a score 2 was given if the Islamic bank discloses quantitatively and qualitatively in the financial statements and notes to the financial statements. A score 1 was given for Islamic bank that discloses items in the financial statements or the notes on the financial statements quantitatively or qualitatively. A score of 0 was given if the Islamic banks did not provide the information in their financial statements. The following is the compliance index of SFAS 105 used in this study (dewan standar akuntansi syariah IAI, 2016):

Table 2 SFAS 105 compliance index

No	SFAS 105 compliance index	The referred paragraph in the SFAS 105
1.	Recognition, measurement, and disclosure of *mudharabah* financial products	In general, explaining the *mudharabah* financing accoun contained in the Islamic banking balance sheet is different from the *mudharabah* investment account anc the *mudharabah* temporary *syirkah* fund account, this explanation refers to paragraphs 12,13 and 38.
2.	The recognition of Islamic Bank as *Shahibul Maal* regarding the account title and total value of *mudharabah* fund investment	paragraph 12
3.	The recognition of Islamic Bank as *Shahibul Maal* regarding profit sharing of *mudharabah* based products	paragraph 20
4.	The recognition of Islamic Bank as *Shahibul Maal* regarding the account title and total value of *mudharabah* fund investment	paragraph 13,14,15
5.	The recognition of Islamic Bank as *Shahibul Maal* regarding profit sharing of *mudharabah* based products	paragraph 21,22,23
6.	The recognition of Islamic Bank as *Shahibul Maal* regarding the account title and total value of *mudharabah* fund investment	paragraph 38
7.	The recognition of Islamic Bank as *Shahibul Maal* regarding profit sharing of *mudharabah* based products	paragraph 38
8.	The recognition of Islamic Bank as *Mudharib* regarding the account title and total value of *mudharabah* fund investment	paragraph 25, 26
9.	The recognition of Islamic Bank as *Mudharib* regarding profit sharing of *mudharabah*	paragraph 29
10.	The recognition of Islamic Bank as *Mudharib* regarding profit sharing of *mudharabah* based products	paragraph 25, 26
11.	The recognition of Islamic Bank as *Mudharib* regarding profit sharing of *mudharabah* based products	paragraph 27,30
12.	Disclosure of Islamic Bank as *Mudharib* regarding account title and the total amount of *mudharabah fund investment*	paragraph 36 dan 39
13.	The recognition of Islamic Bank as *Mudharib* regarding profit sharing of *mudharabah* based products	paragraph 39

Independent variables

CFO Characteristics

The characteristics of the CFO tested in this study are tenure and educational background. The educational background is assessed with a number 1 if CFO has a formal accounting background at undergraduate (S1) or postgraduate (S2/S3), and 0 if it does not. The tenure is measured by the length of CFO tenure in the company.

$$\text{Effectiveness of audit committee} = \frac{\text{Total fulfilled criteria}}{\text{Total criteria}} \text{ x } 100\%$$

Effectiveness of audit committee

The audit committee's effectiveness is measured by its independency, expertise, size, number of meetings, and voluntary disclosure on the audit committee. The following is the formula to score the effectiveness of the audit committee

In determining the number of criteria/ points fulfilled by Islamic banks, this study uses 5 indicators of the effectiveness of the audit committee (Ika & Mohd Ghazali, 2012). Each indicator is measured by analytical content (Sellami & Tahari (2017), Glaum et al., (2013), and Al-Akra et al., (2010). The following are scoring procedures of the analysis content in detail:

1) The competence of the audit committee members is rated 1 if there is at least one member of the audit committee with a background and experience in accounting and finance, and 0 if it does not.
2) The level of independence is given a score of 1 if there are at least 2 members of the audit committee from external and 0 if it does not.
3) The size of the audit committee is assigned a value of 1 if the audit committee member consists of 3 or more members, and 0 if it is less.
4) Audit Committee meetings are measured with a value of 1 if the audit committee meets at least 5 meetings a year. And 0 if it is less than 5 meetings/ year.
5) Voluntary disclosure is measured with a value of 1 if the audit committee reports the voluntary disclosure and 0 if it does not.

Stakeholder pressure

The measurement of stakeholder pressure in this study adapted 2 proxies, which are institutional share ownership measured using the direct ownership method (El-Halaby & Hussainey, 2016) and third-party funds (Farook et al., 2011). The following are the formulas:

1) Institutional share ownership is measured using the proportion of institutional share ownership.
2) Third-party funds obtained from temporary *syirkah* financing (*mudharabah* financing funds) and transformed using the natural logarithm.

$$\text{Share ownership proportion} = \frac{\text{Total amount of institusional shares}}{\text{Total of shares}} \text{ x } 100\%$$

Effectiveness of SSB

The fourth independent variable is the effectiveness of SSB. The SSB effectiveness is measured using three dimensions, which are competence, size, and cross membership. The effectiveness of SSB is assessed by the formula for the total points fulfilled from the three dimensions of effectiveness divided by the total number of points in the dimension multiplied by one hundred percent. Hence, the results of these calculations a value shows the effectiveness of the SSB used in data testing. In determining the fulfilled points for each dimension of effectiveness, this study refers to and modifies the research of Farook et al., (2011) as follows:

1) SSB competency was given a score of 1 if there is at least 1 SSB member who has an educational background in economics, management, and accounting and 0 if not.
2) The size of the SSB is rated 1 if the SSB members consist of 3 or more and 0 if less than 3.
3) SBB cross membership is measured by giving a value of 1 if there is cross membership, and 0 if there is no cross membership.

After analyzing the content of the three dimensions of effectiveness, the effectiveness of SSB is calculated using the following formula:

$$\text{SSB Effectiveness} = \frac{\text{Total amount of fulfilled criteria}}{\text{Total of criteria}} \text{ x } 100\%$$

Control variables

The control variables in this study are bank size and bank age. Adopting the measurement proposed by Sellami & Tahari, (2017), the following are the control variable measures:

1) Size of Islamic banks. This is measured using the natural logarithm of total assets
2) Age of Islamic banks. This is measured by calculating the length of time the company was founded, starting from the first time it was established until the year the research was carried out (research year minus the year of establishment).

Data analysis was carried out using multiple linear regression with panel data. The research model used to test the hypothesis in this study is as follows:

$$CI_{it} = \alpha_{it} + \beta_1 BACKR\_CFO_{it} + \beta_2 MASJBT\_CFO_{it} + \beta_3 EFEV\_AC_{it} + \beta_4 STPRES\_INS_{it} + \beta_5 STPRES\_TPF3_{it} + \beta_6 EFEV\_SSB_{it} + \beta_7\_SIZE_{it} + \beta_8\_AGE_{it} + \varepsilon_{it}$$

Where:

CI	: Compliance index (SFAS 105)
BACKR_CFO	: CFO background
MASJBT_CFO	: CFO length of tenure
EFEV_AC	: Audit committee effectiveness
STPRES_INS	: Stakeholder pressure (institutional shares)
STPRES_TPF	: Stakeholder pressure (third party fund)
EFEK_SSB	: SSB effectiveness
SIZE	: Bank size
AGE	: Bank age
α	: Constant
ε	: Error

4. Results and discussion

The CFO tenure has a positive influence on the level of compliance with SFAS 105

The first hypothesis point a (H1a) predicts that the tenure of CFO has a positive effect on the level of compliance with SFAS 105. Based on the results of the regression analysis this study found that the hypothesis is supported as the p-value is 0.042 with a coefficient value of 0.0151975. The finding supports research conducted by Kim et al., (2007) and Geiger & North (2006), which shows that there is a significant positive relationship between the tenure of CFO and the application of accounting standards. The reason could be that the tenure of top management is a reflection of the maturity of the organization in decision making.

In addition, the CFO who has long served has a complete and accurate knowledge of the company's reporting system and also has high motivation in individuals regarding the presentation of quality financial statements.

Table 3 Descriptive statistics results

Variables	N	Mean	Min	Max	St.Dev
CI	96	0.86	0	1	0.23
MSJBT_CFO	96	3	1	14	3
BACKR_CFO	96	0.73	0	1	0.44
EFEK_KA	96	0.86	0	1	0.26
STPRES_INS	96	0.97	0.76	1	0.04
STPRES_DPK3*	96	2,879,996	0	3,181,603	3,296,627
EFEK_SSB	96	0.59	0	1	0.27
AGE	96	8	1	26	6
SIZE*	96	2,963,814	2,654,239	3,210,767	127,381

*in thousand Indonesian Rupiah (IDR).

Another possible reason is CFO who has held positions for a longer period are understands the internal control system of Islamic banks better, presentation of recording, measurement, and disclosure of the practice of shariah based contract activities, especially *mudharabah* financing. It is also reinforced that the average tenure of the CFO of Islamic banking in this study is more than 3 years. It means the CFOs have already sufficient time to understand the reporting process in their Islamic banks.

Table 4 Hypothesis result tests

Variables	**Coefficients**	***p_value***
MSJBT_CFO	0.0151975	0.042**
BAKCR_CFO	-0.1395701	0.009***
EFEV_CA	0.1407097	0.087*
STPRES_INS	-0.3222418	0.532
STPRES_TPF	0.0185896	0.012**
EFEV_SSB	0.2750101	0.003***
AGE	-0.0046052	0.374
SIZE	0.0153081	0.590
N	96	
Fstat	0	
R-Squared	39.30%	

***1% *statistically significant*; **5% *statistically significant*; *10% *statistically significant*

The CFO educational background has a positive impact on the level of compliance with SFAS 105

The first hypothesis point b (H_{1b}) states that the educational background of CFO has a positive effect on the level of compliance with SFAS 105. Based on the results of statistical testing, it is obtained that the p-value is 0.009 with a coefficient of -0.1395701. This shows that the educational background of CFO has a significant negative effect on the level of compliance with SFAS 105 so that H_{1b} is rejected. The results of this study contradict the results of Aier, Comprix, Gunlock, &

Lee (2005) and Hu et al., (2017) who found that there was a significant positive relationship between the educational background (accounting and economics) of CFOs on the quality of financial statements. This is presumably because the research conducted by Aier et al., (2005) was conducted companies that did not adopt shariah principles. Another reason could be that most of the CFO's educational background is in accounting and general economics, which allows a discrepancy in understanding the Islamic accounting standards applied by Islamic banking, especially SFAS 105.

Hu et al., (2017) found that a specific educational background can improve the quality of financial reporting specifically. Based on tabulation data obtained, most of the formal educational backgrounds at the CFO of Islamic banks in Indonesia are general Accounting rather than Islamic Accounting. For example, the CFO of Bank Syariah Mandiri (BSM) in 2017 earned a bachelor's degree from Agricultural Industry in 1988, the CFO of BSM in 2017 earned a master's degree in risk management from the faculty of economics in 2004, BNIS's CFO in 2017 earned a bachelor's degree in agriculture in 1989, CFO for BRIS in 2012-2017 earned a bachelor's degree in economics in 1984 and a master's degree in management in 1999.

This makes the CFO of Islamic banking have more in-depth knowledge of Economics and accounting, in general, Islamic accounting. Hence, CFOs refers more to general accounting standards rather than focusing on Islamic accounting standards. Therefore, the importance of many aspects of Islamic accounting including disclosures related to *mudharabah* transactions is not fully understood.

The influence of the audit committee for the level of compliance with SFAS 105

The second hypothesis H_2 states that the effectiveness of the audit committee (EFEK_KA) has a positive effect on the level of compliance with SFAS 105. As a p-value of 0.10 with a coefficient value of 0.1407097, this study revealed a significant positive influence between the effectiveness of the audit committee on the level of compliance with SFAS 105 at a significant level of 10%.

These results are consistent with Sellami & Tahari (2017), Glaum et al., (2013), and Al-Akra et al., (2010) who found the existence and effectiveness of company audit committees can improve the quality of reports through a process of monitoring and selecting a quality external audit. It can be linked to the main responsibility of the audit committee, namely to ensure the integrity of financial reporting practices. Islamic banks with an effective audit committee will have a higher level of accounting reporting compliance with Islamic financial accounting standards compared to Islamic banks that do not have an effective audit committee. It can be concluded that the existence of an effective audit committee in Islamic banks will increase the supervision quality of top management in the financial reporting process.

One of the important roles of the audit committee, in addition to monitoring reporting, is to select an external auditor who is competent in auditing Islamic banking. Hence, the deficiencies in the financial reporting system directed by the CFO can be complemented by the auditing system carried by the qualified auditors. Based on descriptive data, most of the audit committees in the companies have been effective with an average effectiveness value of 0.86 so that it can be concluded that the audit committee has functioned optimally in supervising the company's financial reporting. So that Islamic banking financial reports that have an effective audit committee tend to comply with applicable Islamic accounting standards.

The influence of stakeholder pressure for the level of compliance with SFAS 105

The stakeholder pressure is proxied by institutional ownership and third-party funds. The explanation for each of these proxies is as follows:

Institutional shares have a negative influence on the level of compliance with SFAS 105

The hypothesis H_{3a} predicts that institutional share ownership has a negative effect on the level of compliance with SFAS 105. The results of statistical testing show that the p-value is 0.532 with a coefficient value of -0.322418. It means that institutional ownership does not affect the level of compliance with SFAS 105. So that H_{3a} is rejected. The results of this study contradict which found that institutional ownership reduces the level of compliance with accounting standards. The results of this study are also inconsistent with research by Eng & Mak (2003) and Mangena & Pike (2005) who found that ownership structure affects the level of corporate disclosure. El-Halaby & Hussainey (2016) found that Islamic banks whose ownership structure is held by institutions does not focus on disseminating information completely. This is because the institution as the main shareholder has broad access to this information directly from the company.

Thus, it can be concluded that institutional share ownership does not affect the level of compliance because most of the data obtained from the financial statements of Islamic banks, institutional share ownership accounts for more than 90% of the shares. This is evidenced by the data, namely the mean (average) value of institutional ownership amounting to 0.9775404 (97.75%).

Most of the institutional ownership hold by conventional banks as the holding company. For example, 99% of BSM shares are owned by the parent institution, namely Bank Mandiri, 98% of Sharia BJB shares are owned by PT. BJB Tbk and 99% of the shares of BNI Syariah are owned by PT. BNI Tbk.

This situation has resulted in at least the pressure exerted by the main shareholders to be more compliant with Islamic accounting standards because the shareholding agencies of Islamic banks in Indonesia are mostly holding companies that are not engaged in sharia (conventional companies). Hence, the compliance with Islamic accounting standards is not a top priority desired by the main shareholders, but the main shareholders prioritize high-profit gains.

Third-party funds have a significant positive effect on the level of compliance with SFAS 105

As the regression test shows p-value is 0.012 with a coefficient of 0.0185896, thus the third party funds have a significant positive effect on the level of compliance with SFAS 105 (H_{3b} is accepted). The results of this study are consistent with Farook et al., (2011) which revealed a positive relationship between the proportion of third-party funds and the level of disclosure of Islamic bank financial reporting. Third-party funds are a reflection for Islamic banks to see the extent to which customers are interested and trusting in investing their funds in Islamic banks for Islamic contract products in this study, especially *mudharabah* contracts.

One of the main functions of Islamic banking is to collect funds from customers through sharia contracts. The more third-party funds collected by Islamic banking, the higher the responsibility of Islamic banking in terms of accountability to the owners of these third-party funds. This causes Islamic banking to further improve the quality of its reporting to increase customer confidence in investing in Islamic banking, especially through the *mudharabah* contract. In addition, *mudarabah* products are products that have a high level of risk, so customers demand good transparency from Islamic banks through financial reporting following standards. This aims to minimize the level of risk that the customer may bear. This is supported by research data which shows that the higher the third party funds (*mudharabah* contract) the better the level of compliance of Islamic banks.

Effectiveness of SSD (EFEV_SSD) has a positive effect on the level of compliance with SFAS 105

The last hypothesis H_4 states that the effectiveness of SSB (EFEV_SSB) has a positive effect on the level of compliance with SFAS 105.

Based on the results of statistical testing it is found that the p-value is 0.003 with a coefficient value of 0.2750101. This shows that the effectiveness of SSB has a significant positive effect on the level of compliance with SFAS 105. The results of this study support research conducted by Farook et al., (2011)which states that the effectiveness of SSB can increase the level of compliance with accounting standards and information transparency. In addition, this study also in line with the result of El-Halaby & Hussainey (2016) which concluded that SSB has a positive effect on compliance with Islamic accounting standards on Islamic bank financial statements.

In this study, the effectiveness of the SSB is quite high, namely 57%. Likewise, if the measure of the effectiveness of this SSB is detailed into each item that determines the effectiveness of the SSB, it shows a fairly high number. Based on the size of the SSB, the sample data shows that 95% of the sample is companies that have several SSB between 3 and 5. According to El-Halaby & Hussainey (2016), the number of ideal SSB members is 3 to 5 members.

This amount can improve SSB performance because it is ideal for discussion and coordination and allows for diversification of competences for SSB members. In addition, 40% of the sample or Islamic banks already have SSB members with accounting or economic competence who can encourage the application of better accounting standards. Meanwhile, based on the cross membership level of 50% of the sample or 6 out of 12 Islamic banks have SSB that also have positions in other places, according to El-Halaby & Hussainey (2016) the existence of SSB that has cross membership can increase membership skills and competencies so that it provides an understanding more comprehensive than the SSB monitoring function itself.

According to Farook et al., (2011) the reputation of SSB in accounting and economics can provide a deeper understanding of carrying out the supervisory function not only in the field of shariah but also on the application of accounting records and reporting in the operational disclosure of shariah contracts, especially *mudharabah* financing. This hypothesis will be more fulfilled and effective if the characteristics of SSB including the size of SSB, SSB reputation, and Cross Membership of SSB members are fulfilled, then the accounting disclosure will be more effective. It is proven in this study that the results obtained have a positive and significant relationship between the effectiveness of SSB and the level of compliance with SFAS105.

5. Conclusions

This study aims to analyze the determinants of the application of SFAS 105 in Islamic banking in Indonesia. Based on the results of the data analysis, it is concluded that the tenure of CFO, the effectiveness of the audit committee, stakeholder pressure with *mudharabah* third party fund proxies, and the effectiveness of SSB are proven to have a positive effect on the application of SFAS 105. Meanwhile, the educational background of CFO has a negative effect on the application of SFAS 105, and stakeholder pressure with a proxy of institutional ownership does not affect the application of SFAS 105. The positive effect of the three internal variables shows that the internal reporting system for Islamic banking, which consists of CFO, the effectiveness of the audit committee, and the effectiveness of SSB is an important part of the application of SFAS 105 in Islamic banking. From these results, it is also concluded that the investment account holder for *mudharabah* funds is very important to complement the internal reporting system of Syariah banking. *Mudharabah* fund owners can pressure Islamic banking to report under applicable standards.

For future research, it is suggested to consider CFO and/or SSB non-formal education as a part that can also increase knowledge and understanding of Islamic accounting standards. Future studies also need to develop other more detailed adherence indexes regarding other sources. In addition, the reporting supervision system related to the quality of internal auditors and the quality of external auditors can be used as independent variables that may affect the compliance level of company financial reports with SFAS 105. This research implies that Islamic banking must continue to improve the internal reporting supervision system through increasing knowledge of CFO, audit committee, and SSB so that the accountability and transparency of Islamic banking information related to the *mudharabah* contract are getting better.

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