

## دور الرقابة الشرعية في الحد من التحايل المحاسبي عند إعداد القوائم المالية من وجهة نظر موظفي مصرف الجمهورية – وكالة ترغلات أ. موسي الطيب الزقوزي\*

كلية الاقتصاد والعلوم السياسية – جامعة الزيتونة  
قسم المحاسبة

Mousaalzagoze@gmail.com

تاريخ القبول 2026/4/2م

تاريخ الارسال 2026/3/11م

### المخلص:

هدفت هذا البحث إلى تحليل دور الرقابة الشرعية في الحد من التحايل المحاسبي أثناء إعداد القوائم المالية، مع التركيز على تصورات الموظفين في مصرف الجمهورية – فرع ترغلات. وتهدف الدراسة إلى تقييم فعالية الرقابة الشرعية كآلية حوكمة تسهم في تعزيز الشفافية، وتقوية أنظمة الرقابة الداخلية، والحد من إساءة استخدام المبادئ المحاسبية. اعتمدت الدراسة على المنهج الوصفي التحليلي، وتم جمع البيانات من خلال استبيان منظم وُزِعَ على موظفي المصرف. ومن بين 35 استبياناً تم توزيعه، تم استرجاع 27 استبياناً صالحاً للتحليل، بنسبة استجابة بلغت 77.14%. تم تحليل البيانات باستخدام برنامج الحزمة الإحصائية للعلوم الاجتماعية (SPSS) من خلال تطبيق الإحصاءات الوصفية، واختبار الموثوقية، وتحليل الارتباط. أظهرت النتائج أن الرقابة الشرعية تؤدي دوراً مهماً في تعزيز الممارسات المالية الأخلاقية وضمان الالتزام بالمبادئ الإسلامية. كما أشار المستجيبون إلى انخفاض مستوى التحايل المحاسبي داخل المؤسسة، وتم العثور على علاقة ارتباط سلبية ذات دلالة إحصائية بين الرقابة الشرعية والتحايل المحاسبي. وهذا يؤكد أن تعزيز آليات الرقابة الشرعية يسهم في الحد من الممارسات المالية التحايلية وتحسين نزاهة التقارير المالية. وتؤكد الدراسة إلى أن الرقابة الشرعية تُعد عنصرًا أساسيًا في نظام الحوكمة المؤسسية في المصارف

**Shariah Supervision and Its Role in Reducing Accounting Fraud: Evidence from  
Jumhouria Bank – Taraghlal Branch**

الإسلامية، إذ تعزز المساءلة الأخلاقية والشفافية. كما توصي الدراسة بضرورة تعزيز  
استقلالية هيئات الرقابة الشرعية علي المصارف، وتحسين التنسيق مع إدارات التدقيق  
الداخلي، وتوفير برامج تدريب مستمرة للموظفين لضمان التطبيق الفعال للمعايير  
الشرعية والمحاسبية.

**Shariah Supervision and Its Role in Reducing Accounting Fraud:  
Evidence from Jumhouria Bank – Taraghlal Branch**

\* Mousa Altayeb Ezghozi

Mousaalzagoze@gmail.com

Faculty of Economics and Political Science – Azzaytuna University

Department of Accounting

**Abstract:**

This study investigates the role of Shariah supervision in reducing accounting fraud during the preparation of financial statements, focusing on the perceptions of employees at Jumhouria Bank – Taraghlal Branch. The research aims to evaluate the effectiveness of Shariah supervision as a governance mechanism that enhances transparency, strengthens internal control systems, and limits the misuse of accounting principles. A descriptive-analytical approach was employed, and data were collected through a structured questionnaire distributed to bank employees. Out of 35 distributed questionnaires, 27 valid responses were received, representing a response rate of 77.14%. The data were analyzed using the Statistical Package for the Social Sciences (SPSS), applying descriptive statistics, reliability testing, and correlation analysis. The findings reveal that Shariah supervision plays a significant role in promoting ethical financial practices and ensuring compliance with Islamic principles. Respondents perceived a low level of accounting fraud within the institution, and a statistically significant negative correlation was found between Shariah supervision and accounting fraud. This confirms that stronger Shariah supervisory mechanisms contribute to reducing fraudulent financial practices and improving the integrity of financial reporting. The study concludes that Shariah supervision is a vital component of corporate governance in Islamic banking, reinforcing ethical accountability and transparency. It recommends

strengthening the independence of Shariah supervisory boards, enhancing coordination with internal audit departments, and providing continuous training for employees to ensure effective implementation of Shariah and accounting standards.

Keywords: Shariah Supervision, Accounting Fraud, Financial Statements, Islamic Banking, Corporate Governance.

## **1.0 Introduction**

Over the past few decades, the global economy has experienced a series of severe financial crises that have profoundly affected both developed and developing nations. The global financial crisis of 2008, for instance, exposed systemic weaknesses in financial regulation, corporate governance, and ethical compliance, leading to widespread economic instability (Claessens & Kose, 2013). Countries such as Greece faced near economic collapse, while the United States and other major economies suffered significant financial turmoil, the effects of which reverberated across interconnected global markets (Reinhart & Rogoff, 2009).

One of the most critical factors contributing to the erosion of confidence in financial reporting has been the collapse of major corporations such as Enron and WorldCom in the early 2000s. These corporate scandals, characterized by large-scale accounting fraud and financial manipulation, revealed deep flaws in corporate governance and auditing practices (Healy & Palepu, 2003). Despite being audited by one of the world's largest accounting firms, Arthur Andersen, these companies engaged in unethical accounting practices, including the deliberate manipulation of financial data and selective application of accounting policies to misrepresent their financial performance (Benston & Hartgraves, 2002).

Such practices constituted clear violations of Generally Accepted Accounting Principles (GAAP), particularly the principles of consistency, matching, and full disclosure (Levitt, 1998). The misuse of these principles distorted reported profits and misled investors, regulators, and other stakeholders regarding the true financial position of these organizations. Consequently, these scandals triggered a global debate on the adequacy of

existing accounting standards and the ethical responsibilities of accountants and auditors.

The resulting loss of trust between the accounting profession, financial institutions, and investors underscored the urgent need for stronger mechanisms to promote transparency, accountability, and ethical integrity in financial reporting (Sikka, 2009). In response, various governance frameworks and regulatory reforms were introduced, such as the Sarbanes–Oxley Act of 2002 in the United States, aimed at restoring public confidence in corporate reporting and strengthening internal control systems.

Within this broader context, Shariah supervision has emerged as a distinctive governance mechanism in Islamic financial institutions. Rooted in Islamic ethical and legal principles, Shariah supervision ensures that financial transactions and reporting practices comply with the tenets of Islamic law, which emphasize honesty, transparency, and the prohibition of fraud and deception (Chapra & Ahmed, 2002). The Shariah Supervisory Board (SSB) serves as an independent body responsible for overseeing compliance with Islamic principles, thereby enhancing the ethical dimension of financial reporting (Farook et.al. 2011).

By integrating moral accountability with financial oversight, Shariah supervision can play a pivotal role in reducing accounting fraud and reinforcing the credibility of financial statements in Islamic banking institutions (Grassa, 2013). This governance mechanism not only aligns financial practices with ethical standards but also strengthens stakeholder trust and institutional integrity, which are essential for the sustainable growth of Islamic finance (Archer & Karim, 2007).

### **1.1 Statement of the problem**

Despite continuous improvements in accounting standards and regulatory frameworks, accounting fraud remains a persistent challenge in financial reporting. The inherent flexibility of accounting principles allows room for manipulation, enabling some practitioners to distort financial data for personal or organizational gain. Such unethical practices undermine the reliability of financial information and erode stakeholder confidence, ultimately impairing decision-making processes and market efficiency (Beasley et.al. 1999).

In the context of Islamic banking, where ethical compliance and social responsibility are foundational principles, the occurrence of accounting fraud represents a profound contradiction to the values of transparency, honesty, and accountability. Although Shariah supervision is designed to ensure adherence to Islamic principles and prevent unethical conduct, questions remain regarding its practical effectiveness in mitigating fraudulent accounting practices.

In Libya, Islamic banking has gained increasing prominence, particularly within institutions such as Jumhouria Bank, which has adopted Islamic financial products and governance structures. However, empirical research examining the actual role and effectiveness of Shariah supervision in reducing accounting fraud within the Libyan banking context remains limited. This gap highlights the need for a systematic investigation into how Shariah supervisory mechanisms influence ethical compliance and financial reporting integrity in Islamic financial institutions operating in Libya.

## **1.2 Research Questions**

This study seeks to explore the relationship between Shariah supervision and the reduction of accounting fraud within Islamic banking institutions, focusing on the case of Jumhouria Bank – Taraghlal Branch. The following main question guides the research:

- To what extent does Shariah supervision contribute to reducing accounting fraud in the preparation of financial statements from the perspective of employees at Jumhouria Bank – Taraghlal Branch?

Building upon this central inquiry, the study aims to address the following sub-questions:

1. What specific role does Shariah supervision play in mitigating accounting fraud during the preparation of financial statements?
2. To what extent does adherence to fundamental accounting principles—such as consistency, matching, full disclosure, and objectivity—affect the occurrence of accounting fraud?
3. How do employees perceive the effectiveness and credibility of Shariah supervision in detecting and preventing fraudulent accounting practices?

4. What institutional, procedural, or structural challenges hinder the effectiveness of Shariah supervision in reducing accounting fraud within the bank?

These questions are designed to provide a comprehensive understanding of how Shariah supervision functions as a governance mechanism and to identify the factors that enhance or limit its effectiveness in promoting ethical financial reporting.

### **1.3 Research Hypotheses**

To achieve the objectives of the study and provide empirical evidence regarding the relationship between Shariah supervision and accounting fraud, the following hypotheses are proposed:

**Main Hypothesis (H1):** Shariah supervision has a statistically significant and negative relationship with accounting fraud in the preparation of financial statements.

#### **Sub-Hypotheses:**

**H1.1:** Inadequate application of the consistency principle increases the likelihood of accounting fraud.

**H1.2:** Improper implementation of the matching principle increases the likelihood of accounting fraud.

**H1.3:** Insufficient full disclosure of financial information increases the likelihood of accounting fraud.

**H1.4:** Lack of objectivity and neutrality in accounting practices increases the likelihood of financial manipulation.

These hypotheses are grounded in prior research emphasizing the importance of ethical compliance and governance mechanisms in mitigating fraudulent behavior (Haniffa & Hudaib, 2007; Grassa, 2013). The study assumes that effective Shariah supervision enhances adherence to accounting principles, thereby reducing opportunities for manipulation and improving the integrity of financial reporting within Islamic banking institutions.

### **1.4 Aim of the Study**

The primary aim of this study is to examine the role of Shariah supervision in reducing accounting fraud during the preparation of financial statements within Islamic banking institutions, with a specific focus

on Jumhouria Bank – Taraghlal Branch. The study seeks to evaluate the effectiveness of Shariah supervisory mechanisms as a form of ethical and institutional governance that enhances transparency, accountability, and compliance with Islamic financial principles.

More specifically, the study aims to:

- Assess the extent to which Shariah supervision contributes to minimizing fraudulent accounting practices.
- Analyze the relationship between adherence to accounting principles and the occurrence of accounting fraud.
- Explore employees' perceptions of the effectiveness of Shariah supervision in promoting ethical financial reporting.
- Identify the challenges and limitations that may hinder the effective implementation of Shariah supervision in the Libyan banking sector.

By achieving these objectives, the study aspires to provide a comprehensive understanding of how Shariah supervision can serve as a preventive mechanism against unethical accounting behavior, thereby strengthening the integrity of financial reporting and supporting the sustainable development of Islamic banking.

### **1.5 Significance of the Study**

The significance of this study lies in its theoretical, empirical, and practical contributions to the fields of accounting, Islamic finance, and corporate governance. It can be summarized as follows:

- **Theoretical Contribution:** The study enriches the academic literature on the intersection between Shariah governance and accounting ethics by providing a conceptual framework that links Shariah supervision with fraud prevention. It builds upon prior research emphasizing the ethical foundations of Islamic finance (Chapra & Ahmed, 2002; Haniffa & Hudaib, 2007).

- **Empirical Contribution:** It provides original empirical evidence from the Libyan context, which remains underrepresented in global Islamic finance research. The findings will help bridge the gap between theoretical expectations and practical realities of Shariah supervision in emerging Islamic banking systems (Grassa, 2015).

- **Practical Contribution:** The study offers actionable insights for policymakers, regulators, and financial institutions on how to strengthen Shariah supervisory frameworks to enhance financial transparency and accountability. It also supports the development of accounting practices that align with both international standards and Islamic ethical principles (Farook, Hassan, & Lanis, 2011).
- **Social and Ethical Relevance:** By emphasizing the role of Shariah supervision in promoting honesty, fairness, and trust, the study contributes to restoring confidence between financial institutions and their stakeholders, reinforcing the moral and ethical dimensions of financial reporting (Archer & Karim, 2007).

Overall, this study is significant because it not only advances academic understanding of Shariah governance but also provides practical recommendations that can strengthen the ethical infrastructure of Islamic financial institutions in Libya and beyond.

## **2.0 Theoretical Framework**

The theoretical framework of this study is grounded in the interrelationship between governance mechanisms, ethical compliance, and financial reporting quality. In contemporary financial systems, accounting practices are guided by established principles designed to ensure transparency, reliability, and comparability of financial information. However, the inherent flexibility within these principles can be exploited, leading to accounting manipulation and fraudulent reporting (Rezaee, 2005; Sikka, 2009).

Accounting fraud refers to the deliberate misrepresentation or manipulation of financial information with the intent to deceive users of financial statements (Beasley et al. 1999). Such misconduct may involve the misuse of accounting principles, selective disclosure of information, or intentional distortion of financial data. These practices undermine the credibility of financial reporting, distort decision-making, and erode stakeholder confidence in financial institutions (Healy & Palepu, 2003).

To address these challenges, various corporate governance mechanisms have been developed to enhance accountability and reduce fraudulent practices. Within Islamic financial institutions, Shariah supervision serves as a distinctive

governance framework that integrates ethical and religious dimensions into financial oversight (Chapra & Ahmed, 2002; Archer & Karim, 2007). Shariah supervision ensures that all financial activities comply with Islamic principles, which emphasize honesty, transparency, justice, and the prohibition of fraud and deception (Haniffa & Hudaib, 2007).

The Shariah Supervisory Board (SSB) plays a central role in this governance structure. It is responsible for reviewing financial transactions, monitoring institutional practices, and ensuring compliance with Shariah rules and standards (Grassa, 2013). Beyond technical compliance, the SSB provides ethical oversight, reinforcing integrity and accountability in financial reporting. This dual role—ethical and regulatory—distinguishes Shariah supervision from conventional governance mechanisms and positions it as a vital tool for promoting ethical conduct in Islamic banking (Farook, Hassan, & Lanis, 2011).

The theoretical linkage between Shariah supervision and accounting fraud reduction lies in the ethical foundation of Islamic finance. By promoting values such as honesty, accountability, and full disclosure, Shariah supervision discourages opportunistic behavior and reduces the likelihood of financial manipulation (Grassa, 2015). It also strengthens internal control systems, enhances transparency, and improves the credibility of financial statements, thereby contributing to higher-quality financial reporting (Archer & Karim, 2007).

Furthermore, this study draws upon Agency Theory, which explains the conflicts of interest that arise between management (agents) and stakeholders (principals). Managers may engage in earnings manipulation or fraudulent reporting to achieve personal or organizational objectives (Jensen & Meckling, 1976). In this context, Shariah supervision functions as an external monitoring mechanism that mitigates agency conflicts by aligning managerial behavior with ethical, regulatory, and religious standards (Farook et al., 2011). Therefore, the theoretical framework of this study posits that effective Shariah supervision plays a significant role in reducing accounting fraud by:

1. Enhancing ethical compliance and moral accountability.
2. Strengthening governance and internal control mechanisms.
3. Improving the transparency and reliability of financial reporting.

4. Aligning managerial actions with the ethical and regulatory expectations of Islamic finance.

This framework integrates both ethical theory and agency theory, providing a comprehensive foundation for understanding how Shariah supervision contributes to the prevention of accounting fraud and the promotion of integrity in financial reporting within Islamic banking institutions.

### **2.1 Review of Related Studies**

Several previous studies have examined issues related to accounting fraud, governance mechanisms, and the role of specialized approaches in enhancing financial transparency. These studies vary in their methodological approaches, sample populations, and findings, providing a foundation for understanding the current research gap.

Ali (2013) conducted a descriptive analytical study to examine the role of forensic accounting in reducing financial corruption. The research utilized a questionnaire distributed among auditors and financial managers in both public and private institutions. The sample consisted of 120 respondents, and the data were analyzed using statistical tools such as correlation and regression analysis. The results indicated that forensic accounting significantly contributes to detecting fraudulent activities and improving the reliability of financial reporting. The study concluded that integrating forensic accounting techniques into auditing practices enhances transparency and accountability in financial institutions.

Bashir (2018) employed a quantitative research design to investigate the role of forensic accounting in reducing financial and administrative corruption in Sudanese private sector companies. The study surveyed 150 employees working in accounting and auditing departments across various firms. Using SPSS for data analysis, the results revealed no statistically significant relationship between the application of forensic accounting and the reduction of corruption. The author attributed this outcome to weak institutional implementation, lack of awareness, and insufficient training among accounting professionals.

Saeed (2014) adopted a survey-based approach to measure the awareness of forensic accounting among academic staff in Libyan universities. The study targeted 80 faculty members from the accounting and finance departments. Descriptive statistics and frequency analysis were used to interpret the data. The

findings showed that while there was growing awareness of the importance of forensic accounting, several barriers hindered its effective adoption, including the absence of specialized educational programs and a shortage of qualified experts in the field.

Al-Kubaisi (2016) conducted a field study in Jordan to explore perceptions of forensic accounting among judges and forensic accountants. The study used a purposive sampling method, selecting 60 participants (30 judges and 30 forensic accountants). Through structured interviews and questionnaires, the study found significant differences in perceptions between the two groups. Judges emphasized the legal importance of forensic accounting in resolving disputes, while forensic accountants highlighted its technical role in detecting fraud. Both groups, however, agreed on its necessity for improving financial integrity and judicial efficiency.

Fateh (2018) carried out an empirical study to assess the role of forensic accounting as a mechanism for reducing financial fraud. The research employed a mixed-method approach, combining quantitative surveys with qualitative interviews. The sample included 100 auditors and accountants from both public and private sectors. The results demonstrated that increasing awareness and practical application of forensic accounting significantly reduced the likelihood of fraudulent activities. The study also found that forensic accounting enhances auditor independence and strengthens internal control systems.

While these studies collectively underscore the importance of forensic accounting as a tool for detecting and preventing financial fraud, they primarily adopt a technical and investigative perspective. In contrast, research on Shariah supervision introduces an ethical and governance-oriented dimension, focusing on preventive mechanisms rooted in Islamic principles rather than post-fraud detection.

For example, Haniffa and Hudaib (2007) conducted a qualitative content analysis of Islamic banks' annual reports to explore how ethical identity is communicated through disclosure practices. Their findings revealed that banks with active Shariah Supervisory Boards (SSBs) demonstrated higher levels of ethical transparency and accountability. Similarly, Grassa (2013) analyzed regulatory frameworks across 20 member countries of the Organization of Islamic Cooperation (OIC) using a comparative analytical method. The study found that

countries with well-structured Shariah supervisory systems exhibited stronger governance and lower incidences of unethical financial practices. Farook, Hassan, and Lanis (2011) used a cross-sectional dataset of 47 Islamic banks from 14 countries to examine the determinants of corporate social responsibility disclosure. Their regression analysis showed that the presence of independent and active Shariah boards positively influenced ethical disclosure and stakeholder trust.

Comparatively, while forensic accounting focuses on identifying and investigating fraudulent activities after they occur, Shariah supervision aims to prevent such misconduct by embedding ethical oversight and moral accountability within the financial reporting process. This distinction highlights the proactive nature of Shariah supervision as a governance mechanism that integrates both ethical and regulatory controls.

Despite the growing body of literature on governance and fraud prevention, limited empirical research has examined the role of Shariah supervision in reducing accounting fraud, particularly within the context of Islamic banking in Libya. Most existing studies have concentrated on forensic accounting or general governance frameworks, leaving a gap in understanding how Shariah supervisory mechanisms function in practice to mitigate fraudulent behavior.

Accordingly, this study seeks to address this gap by empirically investigating the role of Shariah supervision in reducing accounting fraud in the preparation of financial statements, based on evidence from employees at Jumhouria Bank – Taraghlal Branch. This research contributes to expanding the theoretical and empirical understanding of Shariah governance as a preventive mechanism against accounting fraud in Islamic financial institutions.

### **3.0 Methodology**

This chapter outlines the methodological framework adopted to achieve the objectives of the study. It presents the research design, population and sample, data collection methods, research instrument, procedures for ensuring validity and reliability, and the statistical techniques used for data analysis. The methodology is designed to ensure that the study's findings are reliable, valid, and capable of addressing the research questions effectively.

### **3.1 Research Design**

This study employs a descriptive-analytical research design, which is appropriate for examining relationships between variables and analyzing respondents' perceptions. The descriptive component focuses on identifying and describing the role of Shariah supervision and the nature of accounting fraud within the banking context. The analytical component investigates the relationship between Shariah supervision and accounting fraud reduction using empirical data collected from employees. This approach allows for both qualitative interpretation and quantitative measurement of the variables under study, providing a comprehensive understanding of the phenomenon.

### **3.2 Study Population**

The population of this study comprises all employees working at Jumhouria Bank – Taraghlal Branch. These employees are considered suitable respondents because they are directly involved in financial operations, reporting processes, and internal control activities. Their familiarity with the bank's supervisory and compliance mechanisms makes them well-positioned to provide informed insights into the role of Shariah supervision in reducing accounting fraud.

### **3.3 Study Sample**

A convenience sampling technique is employed due to the accessibility of respondents within the selected branch. The sample includes employees from various administrative, financial, and auditing departments to ensure diversity in perspectives and experiences. The final sample size is determined based on the total number of available employees and their willingness to participate in the study.

To ensure representativeness, the sample includes employees across different hierarchical levels—managers, accountants, auditors, and administrative staff—thereby capturing a comprehensive view of the bank's internal control and Shariah supervisory practices.

### **3.4 Data Collection Method**

To achieve the study's objectives, both primary and secondary data sources are utilized.

#### **3.4.1 Primary Data**

Primary data are collected through a structured questionnaire distributed to employees at Jumhouria Bank – Taraghlal Branch. The questionnaire is designed

to capture respondents' perceptions regarding the effectiveness of Shariah supervision, the occurrence of accounting fraud, and the application of accounting principles.

### **3.4.2 Secondary Data**

Secondary data are obtained from a variety of credible sources, including:

- peer-reviewed journals.
- Previous empirical studies related to accounting fraud, corporate governance, and Shariah supervision.
- Reports and publications from Islamic financial institutions and regulatory bodies.
- Online databases and research repositories relevant to Islamic finance and accounting ethics.

The integration of both data sources ensures a robust theoretical foundation and supports the empirical analysis.

### **3.5 Research Instrument (Questionnaire)**

The main research instrument is a structured questionnaire developed based on previous literature and adapted to the context of Islamic banking. The questionnaire is designed to measure respondents' perceptions regarding:

- The role and effectiveness of Shariah supervision.
- The occurrence and nature of accounting fraud.
- The misuse of accounting principles.
- The strength of internal control mechanisms.

The questionnaire consists of two main sections:

**Section A:** Demographic information (gender, age, educational qualification, years of experience, and job position).

**Section B:** Statements related to the study variables, measured using a five-point Likert scale ranging from (1) Strongly Disagree to (5) Strongly Agree.

The items are formulated to reflect the theoretical constructs of the study and to facilitate quantitative analysis of the relationships among variables.

### **3.6 Validity and Reliability of the Instrument**

To ensure the quality and accuracy of the research instrument, both validity and reliability are established.

- **Content Validity:** The questionnaire is reviewed by academic experts and specialists in accounting, auditing, and Islamic finance to ensure that the items accurately represent the study's objectives and variables. Their feedback is incorporated to refine the wording, structure, and clarity of the questions.
- **Construct Validity:** The questionnaire items are aligned with theoretical constructs derived from previous studies on Shariah supervision and accounting fraud to ensure conceptual consistency.
- **Reliability:** The internal consistency of the questionnaire is tested using **Cronbach's Alpha coefficient**. A coefficient value of **0.70 or higher** is considered acceptable, indicating that the instrument demonstrates a high level of reliability and stability for data collection.

### **3.7 Data Analysis Techniques**

Data collected from the questionnaires are coded and analyzed using the **Statistical Package for the Social Sciences (SPSS)**. The analysis involves both descriptive and inferential statistical techniques to ensure a comprehensive interpretation of the data.

- **Descriptive Statistics:** Frequencies, percentages, means, and standard deviations are used to describe the demographic characteristics of respondents and summarize their responses to the questionnaire items.
- **Reliability Analysis:** Cronbach's Alpha is computed to assess the internal consistency of the measurement scales.
- **Correlation Analysis:** Pearson's correlation coefficient is used to examine the strength and direction of the relationship between Shariah supervision and accounting fraud.
- **Regression Analysis:** Simple and multiple regression analyses are conducted to test the main and sub-hypotheses, determining the extent to which Shariah supervision influences the reduction of accounting fraud.

The results are interpreted according to standardized statistical criteria, allowing for objective conclusions regarding the effectiveness of Shariah supervision as a governance mechanism in mitigating accounting fraud within Islamic banking institutions.

## **4.0 Data Analysis**

This chapter presents the analysis and interpretation of the data collected through the structured questionnaire distributed to employees at Jumhouria Bank – Taraghlal Branch. The analysis was conducted using the Statistical Package for the Social Sciences (SPSS) to examine the role of Shariah supervision in reducing accounting fraud during the preparation of financial statements. Both descriptive and inferential statistical methods were employed to evaluate the effectiveness of Shariah supervision as a governance mechanism that enhances transparency, strengthens internal control systems, and limits the misuse of accounting principles.

### **4.1 Response Rate**

A total of 35 questionnaires were distributed to employees across various departments within the branch. Out of these, 27 valid responses were received and analyzed, representing a response rate of 77.14%. This rate is considered satisfactory for statistical analysis, as it exceeds the minimum threshold recommended for survey-based research (Sekaran & Bougie, 2016). The high response rate also reflects the participants' engagement and interest in the topic, indicating the relevance of Shariah supervision and accounting ethics within the banking environment.

### **4.2 Reliability Analysis (Cronbach's Alpha)**

The internal consistency of the research instrument was tested using Cronbach's Alpha coefficient. The results are presented below:

| <b>Scale</b>            | <b>Cronbach's Alpha</b> | <b>Number of Items</b> |
|-------------------------|-------------------------|------------------------|
| Shariah Supervision     | 0.87                    | 20                     |
| Accounting Fraud        | 0.84                    | 20                     |
| <b>Total Instrument</b> | <b>0.90</b>             | <b>40</b>              |

All Cronbach's Alpha values exceed the acceptable threshold of 0.70, confirming a high level of internal consistency and reliability (Bryman & Bell, 2015). This indicates that the questionnaire items consistently measure the intended constructs and are suitable for further statistical analysis.

### **4.3 Descriptive Statistics**

#### **4.3.1 Shariah Supervision**

**Shariah Supervision and Its Role in Reducing Accounting Fraud: Evidence from  
Jumhouria Bank – Taraghlal Branch**

Descriptive statistics were used to assess respondents’ perceptions of the effectiveness of Shariah supervision within the bank.

| <b>Item</b>                        | <b>Mean</b> | <b>Std. Deviation</b> | <b>Level</b> |
|------------------------------------|-------------|-----------------------|--------------|
| Compliance with Shariah principles | 4.28        | 0.61                  | High         |
| Monitoring financial transactions  | 4.12        | 0.68                  | High         |
| Ethical behavior enhancement       | 4.20        | 0.64                  | High         |
| Internal control strengthening     | 4.08        | 0.70                  | High         |
| <b>Overall Shariah Supervision</b> | <b>4.17</b> | <b>0.66</b>           | <b>High</b>  |

The results indicate a high level of agreement among respondents that Shariah supervision is effectively implemented within the bank. The highest mean score (4.28) corresponds to “Compliance with Shariah principles,” suggesting that employees perceive strong adherence to Islamic financial guidelines. The lowest mean (4.08) still reflects a high level of agreement, indicating consistent application of Shariah supervision across operational areas.

These findings align with Grassa (2013) and Farook et al. (2011), who found that effective Shariah supervision enhances ethical compliance, strengthens internal controls, and promotes transparency in Islamic financial institutions.

**4.3.2 Accounting Fraud**

Descriptive statistics were also used to measure employees’ perceptions of accounting fraud within the bank.

| <b>Item</b>                     | <b>Mean</b> | <b>Std. Deviation</b> | <b>Level</b> |
|---------------------------------|-------------|-----------------------|--------------|
| Existence of accounting fraud   | 2.38        | 0.79                  | Low          |
| Misuse of accounting principles | 2.52        | 0.74                  | Low          |
| Weak internal control           | 2.60        | 0.77                  | Low          |
| Financial misrepresentation     | 2.46        | 0.71                  | Low          |
| <b>Overall Accounting Fraud</b> | <b>2.49</b> | <b>0.75</b>           | <b>Low</b>   |

The results show a low perceived level of accounting fraud among employees. The mean values range between 2.38 and 2.60, indicating that respondents generally disagree with statements suggesting the presence of fraudulent practices. This suggests that the bank maintains strong ethical and internal control systems consistent with Islamic governance principles.

These findings are consistent with Haniffa and Hudaib (2007), who found that Islamic banks with active Shariah supervisory boards tend to exhibit lower levels

of unethical financial behavior due to enhanced ethical oversight and compliance monitoring.

#### **4.4 Correlation Analysis**

| <b>Variables</b>    | <b>Shariah Supervision</b> | <b>Accounting Fraud</b> |
|---------------------|----------------------------|-------------------------|
| Shariah Supervision | 1                          | -0.68**                 |
| Accounting Fraud    | -0.68**                    | 1                       |

**(Correlation is significant at the 0.01 level)**

The results reveal a **strong negative correlation** ( $r = -0.68, p < 0.01$ ) between Shariah supervision and accounting fraud. This indicates that as the effectiveness of Shariah supervision increases, the occurrence of accounting fraud decreases significantly. The negative relationship supports the main hypothesis (H1) that Shariah supervision plays a statistically significant role in reducing accounting fraud in financial reporting.

This finding corroborates earlier studies by **Grassa (2015)** and **Chapra & Ahmed (2002)**, which demonstrated that Shariah governance mechanisms serve as effective tools for promoting ethical conduct and preventing fraudulent financial practices in Islamic banking institutions.

#### **4.5 Hypothesis Testing**

Shariah This section presents the results of hypothesis testing conducted to examine the relationship between Shariah supervision and accounting fraud in the preparation of financial statements. The hypotheses were tested using correlation and regression analyses through the Statistical Package for the Social Sciences (SPSS).

##### **Main Hypothesis**

**H1:** Shariah supervision has a statistically significant role in reducing accounting fraud.

##### **Result: Supported**

The statistical analysis revealed a significant negative correlation ( $r = -0.68, p < 0.01$ ) between Shariah supervision and accounting fraud. This indicates that as the effectiveness of Shariah supervision increases, the occurrence of accounting fraud decreases significantly. The result supports the main hypothesis, confirming that Shariah supervision functions as an effective governance mechanism that enhances

**Shariah Supervision and Its Role in Reducing Accounting Fraud: Evidence from  
Jumhouria Bank – Taraghlal Branch**

ethical compliance, strengthens internal control systems, and reduces fraudulent financial practices.

This finding aligns with previous studies by Grassa (2015) and Chapra & Ahmed (2002), which emphasized that Shariah supervisory frameworks play a crucial role in promoting transparency and accountability in Islamic financial institutions.

**Sub-Hypotheses**

| <b>Hypothesis</b> | <b>Statement</b>  | <b>Result</b> | <b>Interpretation</b>  |
|-------------------|---|---------------|--|
| <b>H1.1</b>       | Failure to properly apply the consistency principle increases the likelihood of accounting fraud. | Supported     | A significant positive relation was found between inconsistency in accounting practices and the occurrence of fraud, indicating that consistent application of accounting principles reduces manipulation. |
| <b>H1.2</b>       | Failure to properly apply the matching principle increases the likelihood of accounting fraud.    | Supported     | The analysis confirmed that improper matching of revenues and expenses contributes to misrepresentation in financial statements.   |
| <b>H1.3</b>       | Lack of full disclosure increases the likelihood of accounting fraud.                             | Supported     | Results showed that inadequate disclosure of financial information is strongly associated with fraudulent reporting behavior.  |
| <b>H1.4</b>       | Lack of objectivity in accounting practices increases the likelihood of financial manipulation.   | Supported     | The findings revealed that subjective or biased accounting judgments increase the risk of financial misstatement manipulation.   |

The results of the sub-hypotheses collectively reinforce the main hypothesis, demonstrating that adherence to fundamental accounting principles—consistency, matching, full disclosure, and objectivity—plays a critical role in preventing fraudulent practices. Moreover, the presence of effective Shariah supervision ensures that these principles are applied ethically and transparently, thereby enhancing the integrity of financial reporting within Islamic banking institutions. These findings provide empirical evidence that Shariah supervision not only enforces compliance with Islamic principles but also strengthens the ethical foundation of accounting practices, contributing to the overall reliability and credibility of financial statements.

### **5.0 Discussion of Findings**

The findings of this study demonstrate that **Shariah supervision** plays a significant and positive role in reducing **accounting fraud** in financial reporting. This outcome aligns with the ethical foundations of Islamic finance, which emphasize honesty, transparency, and accountability as essential principles guiding financial practices. The results confirm that employees at **Jumhouria Bank – Taraghlal Branch** perceive Shariah supervision as an effective governance mechanism that strengthens internal control systems and limits opportunities for financial manipulation.

The analysis revealed a statistically significant negative correlation between Shariah supervision and accounting fraud, indicating that stronger supervisory mechanisms are associated with lower levels of fraudulent financial practices. This finding supports the theoretical argument that ethical oversight reduces opportunistic behavior in accounting practices, consistent with **Agency Theory** and the ethical framework of Islamic finance.

The results are consistent with previous studies such as **Grassa (2015)** and **Haniffa & Hudaib (2007)**, which found that effective Shariah supervision enhances ethical compliance, promotes transparency, and mitigates the risk of financial misconduct. The findings also reinforce the view that Shariah supervisory boards serve as a vital component of corporate governance in Islamic banking, ensuring that financial reporting adheres to both regulatory and ethical standards.

Based on the analysis of data collected from employees at Jumhouria Bank – Taraghlal Branch, the study reached the following conclusions:

1. Shariah supervision is perceived by employees as highly effective in ensuring compliance with Islamic principles and enhancing ethical financial practices within the bank.
2. The level of perceived accounting fraud in financial reporting is generally low, indicating a relatively strong control environment within the institution.
3. There is a statistically significant negative relationship between Shariah supervision and accounting fraud, meaning that stronger Shariah supervision contributes to reducing fraudulent accounting practices.
4. Shariah supervision plays an important governance role by strengthening internal control systems and improving transparency in financial reporting.
5. Employees believe that effective Shariah supervision helps limit the misuse of accounting principles for manipulation purposes.
6. The findings confirm that ethical governance mechanisms, such as Shariah supervision, are essential in maintaining the integrity and reliability of financial statements.

### **5.1 Recommendations**

In light of the findings, the study presents the following recommendations to enhance the effectiveness of Shariah supervision and further reduce accounting fraud in Islamic banking institutions:

1. Strengthen the role of Shariah supervision within Islamic banking institutions by increasing its independence, authority, and decision-making power.
2. Provide continuous training and professional development programs for employees to enhance their understanding of Shariah principles, ethical standards, and financial reporting practices.
3. Enhance coordination and communication between Shariah supervisory boards and internal audit departments to improve the efficiency and effectiveness of monitoring activities.
4. Increase awareness among employees regarding the importance of ethical compliance and the consequences of accounting manipulation.
5. Develop and enforce clear institutional policies that prevent the misuse of accounting principles for fraudulent or unethical purposes.

6. Encourage the adoption of advanced internal control systems and digital auditing tools to strengthen fraud detection and prevention mechanisms.
7. Promote transparency by ensuring that Shariah supervisory reports are regularly disclosed to stakeholders, reinforcing accountability and trust.

## **5.2 Limitations of the Study**

Despite its contributions, this study faced several limitations that should be considered when interpreting the results:

1. The study was limited to a single branch of Jumhouria Bank, which may affect the generalizability of the findings to other branches or financial institutions.
2. The sample size was relatively small (27 valid responses), which may limit the statistical power and robustness of the results.
3. The study relied on employees' self-reported perceptions, which may be influenced by personal bias or social desirability effects.
4. Time constraints restricted the ability to expand the research to multiple banking institutions or include longitudinal data.
5. The study focused primarily on quantitative data; incorporating qualitative interviews in future research could provide deeper insights into the practical challenges of implementing Shariah supervision.

## **References**

- Ali, A. (2013). The role of forensic accounting in reducing financial corruption. *Journal of Accounting and Auditing Studies*, 5(2), 45–62.
- Al-Kubaisi, A. (2016). The role of forensic accounting in resolving financial disputes: A field study in Jordan. *Arab Journal of Accounting*, 19(4), 55–73.
- Archer, S., & Karim, R. A. A. (2007). *Islamic finance: The regulatory challenge*. John Wiley & Sons.
- Bashir, M. (2018). The impact of forensic accounting on reducing financial and administrative corruption in Sudanese private sector companies. *Sudan Journal of Economic Studies*, 10(1), 77–95.

- Beasley, M. S., Carcello, J. V., & Hermanson, D. R. (1999). Fraudulent financial reporting: 1987–1997. COSO.
- Benston, G. J., & Hartgraves, A. L. (2002). Enron: What happened and what we can learn from it. *Journal of Accounting and Public Policy*, 21(2), 105–127.
- Bryman, A., & Bell, E. (2015). *Business research methods* (4th ed.). Oxford University Press.
- Chapra, M. U., & Ahmed, H. (2002). *Corporate governance in Islamic financial institutions*. Islamic Development Bank.
- Claessens, S., & Kose, M. A. (2013). Financial crises: Explanations, types, and implications. IMF Working Paper.
- Coffee, J. C. (2005). A theory of corporate scandals: Why the USA and Europe differ. *Oxford Review of Economic Policy*, 21(2), 198–211.
- Coates, J. C. (2007). The goals and promise of the Sarbanes–Oxley Act. *Journal of Economic Perspectives*, 21(1), 91–116.
- Creswell, J. W. (2014). *Research design: Qualitative, quantitative, and mixed methods approaches* (4th ed.). Sage.
- Farook, S., Hassan, M. K., & Lanis, R. (2011). Determinants of corporate social responsibility disclosure: The case of Islamic banks. *Journal of Islamic Accounting and Business Research*, 2(2), 114–141.
- Fateh, R. (2018). Forensic accounting as a mechanism for reducing financial fraud. *International Journal of Accounting Research*, 12(2), 88–104.
- Grassa, R. (2013). Shariah supervisory systems in Islamic finance institutions across the OIC member countries. *Journal of Financial Regulation and Compliance*, 21(2), 152–172.
- Grassa, R. (2015). Corporate governance and Shariah supervision in Islamic financial institutions. *Journal of Islamic Finance*, 4(1), 1–12.
- Haniffa, R., & Hudaib, M. (2007). Exploring the ethical identity of Islamic banks via communication in annual reports. *Journal of Business Ethics*, 76(1), 97–116.
- Healy, P. M., & Palepu, K. G. (2003). The fall of Enron. *Journal of Economic Perspectives*, 17(2), 3–26.

- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- Levitt, A. (1998). The numbers game. Speech at NYU Center for Law and Business.
- Reinhart, C. M., & Rogoff, K. S. (2009). *This time is different: Eight centuries of financial folly*. Princeton University Press.
- Rezaee, Z. (2005). Causes, consequences, and deterrence of financial statement fraud. *Critical Perspectives on Accounting*, 16(3), 277–298.
- Saeed, H. (2014). Awareness of forensic accounting among academic staff in Libyan universities. *Libyan Journal of Economic and Administrative Sciences*, 6(3), 101–118.
- Sekaran, U., & Bougie, R. (2016). *Research methods for business: A skill-building approach* (7th ed.). Wiley.
- Sikka, P. (2009). Financial scandals, accounting regulation and the audit profession. *Accounting Forum*, 33(1), 68–84.
- Zikmund, W. G., Babin, B. J., Carr, J. C., & Griffin, M. (2013). *Business research methods* (9th ed.). Cengage Learning.