

Islamic Corporate Governance, Audit Quality and Islamic Banking Growth

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ABSTRACT

This study aims to analyze the influence of Islamic Corporate Governance (ICG) on the growth of Islamic banking in Indonesia, with audit quality serving as a moderating variable. ICG in this research is represented by three key governance components: the Audit Committee, the *Sharia* Supervisory Board (SSB), and the Board of Directors (BOD). The study is motivated by the need to strengthen governance practices, accountability, and transparency within the Islamic banking sector, which continues to hold a relatively smaller market share compared to conventional banking institutions. An explanatory quantitative approach was employed, using secondary data derived from the annual reports of twelve Islamic commercial banks in Indonesia over the 2018–2022 period. The sample was selected through purposive sampling. Data were analyzed using Moderated Regression Analysis (MRA) with the support of EViews software to examine both the direct effects of ICG variables and the moderating role of audit quality. The findings reveal that the Audit Committee and the *Sharia* Supervisory Board do not have a direct impact on the growth of Islamic banking. In contrast, the Board of Directors demonstrates a significant positive influence on banking growth. Furthermore, the results indicate that audit quality moderates the relationship between the *Sharia* Supervisory Board and Islamic banking growth, suggesting that effective *sharia* supervision contributes more strongly to growth when supported by high audit quality. This study contributes empirically to the literature on Islamic corporate governance and offers practical recommendations for regulators, auditors, and Islamic financial institutions to enhance governance effectiveness and support sustainable industry growth.

KEYWORDS



Islamic Corporate Governance, Audit Committee, Sharia Supervisory Board, Board of Directors, Audit Quality, Growth of Islamic Banking.

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INTRODUCTION

Islamic banking in Indonesia is a vital component of the national financial system, offering alternative financial services based on *Sharia* principles, which prohibit *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation) (Kuyateh, 2025; Setiawan, 2023; Shahariman et al., 2024; Susilawati & Iskandar, 2025). However, despite Indonesia having the largest Muslim population in the world, the market share of Islamic banking only reached approximately 7.09% as of 2022—far behind Malaysia's 36.3% (OJK, 2022). This situation indicates that the growth potential of Islamic banking has not been fully optimized (Gheeraert & Weill, 2015; Harfandi & Ilahi, 2022).

One of the main factors believed to influence public trust and the performance of Islamic banking is Islamic Corporate Governance (ICG) (Khan & Bhatti, 2019). According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), ICG is a governance system that ensures all activities of Islamic financial institutions are carried out in accordance with Islamic principles, ensuring fairness, transparency, and accountability (Al-Muharrami & Mat Nawati, 2021). Therefore, ICG not only regulates the relationship between shareholders and management but also encompasses moral values and social responsibility toward all stakeholders (Usmani, 2018; Arshad et al., 2020). Moreover, implementing ICG

enhances the credibility of Islamic financial institutions and contributes to improved performance and customer trust (Elgammal et al., 2021; Alqahtani & Alenazi, 2022; Sayed et al., 2020; Wibisana & Saadati, 2022).

However, the successful implementation of such governance is inseparable from adequate audit quality. High-quality audits provide assurance that financial reports and *Sharia* compliance practices have been prepared correctly, are free from material misstatements, and align with Islamic principles. In the context of Islamic banking, audit quality is also related to the auditor's ability to assess the level of *Sharia* compliance and foster public trust in the integrity of financial reports (Khatib et al., 2022). Factors that can influence the growth of Islamic banking include public awareness of *Sharia* principles, adequate regulatory support, product and service innovation, and the sustainability of the financial performance of Islamic banking institutions (Nugroho et al., 2020).

Therefore, this study aims to analyze the influence of Islamic Corporate Governance (ICG)—specifically the components of the Audit Committee (AC), *Sharia* Supervisory Board (SSB), and Board of Directors (BOD)—on the growth of Islamic banking (measured by market share), with audit quality as a moderating variable. Research question: Does Islamic Corporate Governance (ICG) influence the growth of Islamic banking, and can audit quality moderate this relationship? This research is expected to provide theoretical contributions to the literature on *sharia* governance and audit accountability in the context of Islamic banking. Practically, the results can provide input for regulators, supervisors, and Islamic financial institutions to strengthen governance systems and audit quality, thereby increasing public trust and accelerating the growth of the national Islamic banking industry.

METHOD

This study employed a quantitative explanatory approach to empirically test the influence of Islamic Corporate Governance (ICG) on the growth of Islamic banking and the moderating role of audit quality. The analysis was conducted using Moderated Regression Analysis (MRA) in EViews software. The population consisted of all *Sharia* Commercial Banks (BUS) registered with the Financial Services Authority (OJK) during the 2018–2022 period. The sample was determined using purposive sampling with the following criteria: banks that published complete annual reports and were audited by a public auditor during the study period.

This study used secondary data in the form of annual reports, governance reports, and public auditor data sourced from the OJK website. The dependent variable was the growth of Islamic banking (Y), measured as market share = total BUS assets / total assets of the national banking industry. The independent variable (X) was ICG, measured through the following components: Audit Committee (AC) = number of audit committee members; *Sharia* Supervisory Board (SSB) = number of *sharia* supervisory board members; and Board of Directors (BOD) = number of board of directors members. The moderating variable (Z) was audit quality, operationalized as a dummy variable (1 = audited by an *AP* registered as a *sharia* auditor at the OJK; 0 = otherwise). The empirical model of this research was formulated as follows:

$$Y = \beta_0 + \beta_1 AC + \beta_2 SSB + \beta_3 BOD + \beta_4 AQ + \beta_5 (AC * AQ) + \beta_6 (SSB * AQ) + \beta_7 (BOD * AQ) + \varepsilon$$

RESULT AND DISCUSSION

1. Descriptive Results

Descriptive results show that the average market share of Islamic banking increased from 5.7% in 2018 to 7.09 % in 2022. The average number of audit committee members is 3–5 people, DPS members 2–4 people, and board of directors members 4–8 people.

2. Regression Test Results

Table 1. Multiple Linear Regression Test Results

Variables	Coefficient	Std. Error	t-Statistic	Prob.	Information
C (Constant)	-0.294160	0.827420	-0.355515	0.7249	Not significant
AC	0.019542	0.061756	0.316441	0.7540	Not significant
SSB	0.133906	0.115097	1,163415	0.2545	Not significant
BOD	0.133598	0.057075	2,340743	0.0266	Significant (+)
KA	-0.031364	0.130522	-0.240299	0.8118	Not significant

Source: EViews version 13 output (2025)

The regression results show that the Board of Directors (BOD) variable has a significant positive influence on the growth of Islamic banking. Meanwhile, the variables Audit Committee (AC), Sharia Supervisory Board (SSB), and Audit Quality (KA) are not statistically significant. This model illustrates that the strategic role of the board of directors has more influence on the growth of Islamic banks than the supervisory mechanisms of the committee or the Islamic board. The multiple regression model can be formulated as follows:

$$Y = -0.294160 + 0.019542AC + 0.133906SSB + 0.133598BOD - 0.031364KA + \varepsilon$$

Table 2. Results of Partial Significance Test (t-Test)

Variables	t-Statistic	Prob. Value	Influence Description
Audit Committee (AC)	0.316	0.754	Not significant
Sharia Supervisory Board (SSB)	1,163	0.254	Not significant
Board of Directors (BOD)	2,341	0.027	Significant positive
Audit Quality (AC)	-0.240	0.812	Not significant

Source: EViews version 13 output (2025)

Based on table 2, the partial test shows that the Audit Committee (AC) does not have a significant influence on the growth of Islamic banking ($p = 0.754$), which indicates that the audit committee's supervisory function is not optimal in driving growth performance. The Sharia Supervisory Board (SSB) also had no significant effect ($p = 0.254$), indicating that the role of the DPS is still symbolic in ensuring sharia compliance with financial performance.

The Board of Directors (BOD) has a positive and significant influence ($p = 0.027$), which means that the stronger the role and strategic policies of the directors, the greater the growth of Islamic banks. Audit Quality (KA) has a negative but insignificant influence ($p = 0.812$), so that partially it has not played a role in strengthening governance towards growth. Thus, only BOD is proven to have a significant partial influence on the growth of Islamic banking.

Table 3. Moderated Regression Analysis (MRA) Test Results

Variables	Coefficient	Std. Error	t-Statistic	Prob.	Information
C (Constant)	-0.363860	0.762222	-0.477367	0.6367	Not significant
AC KA	0.019763	0.060738	0.325374	0.7472	Not significant
SSB KA	0.136943	0.054445	2,515233	0.0177	Significant (+)
BOD KA	0.129113	0.111499	1,157973	0.2563	Not significant

Source: EViews version 13 output (2025)

Based on the results of Moderated Regression Analysis (MRA), only two interaction variables showed a significant influence, namely: SSB_KA (Sharia Supervisory Board × Audit Quality) → $p = 0.0177$. This result indicates that audit quality can strengthen the influence of efficiency and the role of the Sharia Supervisory Board on the growth of Islamic banking. In other words, audit effectiveness acts as a reinforcing factor for the sharia supervisory function, particularly in the context of compliance and transparency. Meanwhile, the other interaction variables (AC_KA and BOD_KA) were insignificant, indicating that the audit function is not yet strong enough to strengthen the influence of the audit committee and board of directors on bank growth.

The results of multiple linear regression show that the Board of Directors (BOD) has a significant influence on the growth of Islamic banking, while the Audit Committee (AC), Sharia Supervisory Board (SSB), and Audit Quality (KA) are not directly significant. The results of the partial test (t-test) strengthen the finding that only BOD has a significant partial effect on the growth of Islamic banks. The results of the MRA test show that audit quality (KA) acts as a moderating variable in the relationship between SSB and the growth of Islamic banks, but does not moderate the relationship between AC, BOD, and growth.

In general, these results illustrate that the effectiveness of sharia governance in Indonesia still depends on the role of the board of directors and managerial efficiency, while the supervisory function of sharia audits needs to be strengthened to have a greater impact on industrial growth.

The research results show that only the Audit Committee (AC) has a positive and significant impact on the growth of Islamic banking. An effective audit committee can strengthen transparency, reduce the risk of reporting errors, and increase public trust in bank performance. Meanwhile, the Sharia Supervisory Board (SSB) and Board of Directors (BOD) did not have a significant impact. This indicates that the DPS and board of directors are not yet optimal in driving the growth of Islamic banks, due to limited competence and independence, as well as the continued dominance of their symbolic role in implementing governance principles.

Audit quality also fails to moderate the relationship between ICG and bank growth. Although some banks have been audited by registered Sharia auditors, comprehensive audit practices and Sharia compliance oversight still need to be strengthened (Hudayati et al., 2023). Therefore, enhancing auditor capacity and the oversight role of audit committees are crucial for strengthening effective Sharia governance.

CONCLUSION

This study analyzed the influence of Islamic Corporate Governance (ICG)—specifically the Audit Committee (AC), *Sharia* Supervisory Board (SSB), and Board of Directors (BOD)—

on Islamic banking growth in Indonesia, with audit quality as a moderating variable. Results showed that AC and SSB had no significant effect on growth, while BOD exerted a positive and significant impact; notably, audit quality moderated the SSB-growth relationship, enhancing SSB effectiveness under high audit standards. Theoretically, the findings reinforce the critical role of effective BOD oversight and quality *Sharia* supervision in boosting Islamic bank performance. Practically, they highlight the need to bolster BOD and SSB competence, independence, and synergy, underpinned by robust audit quality, to improve governance and accountability in Indonesia's Islamic banking sector. For future research, scholars could explore additional moderators like digital innovation or regulatory changes, or extend the analysis longitudinally to assess post-2022 trends amid evolving *Sharia* compliance standards.

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