

Sharia Supervisory Board: Effectiveness in The Supervisory Function of Islamic Financial Institutions in Yogyakarta

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Abstract

In order for people to feel safe and comfortable storing their assets in Islamic financial institutions (LKS), it is necessary to implement the supervision of the Sharia Supervisory Board (DPS) to stand firm without any interest. The purpose of this study is to assess the effectiveness of supervision, the operation of the Sharia Supervisory Board (DPS) in supervising Islamic financial institutions in Indonesia, both in the banking and non-bank sectors. This research uses qualitative research, is descriptive and tends to use content analysis. The results of this study show that the implementation of DPS performance in LKS is still contextual in fulfilling the requirements for the establishment of Islamic financial institutions, which is still focused on understanding the actualization of financial products in order to be able to run in accordance with the rules of Article 27 of PBI No. 6/24/PBI/2004, DPS is leaning more towards Sharia contracts than Sharia Audits. So that the lack of effectiveness of DPS performance makes it less understanding of the Sharia contextual by workers in the Islamic finance sector has an impact on public loyalty and trust in making transactions on products issued by Islamic financial institutions.

Keywords: Efficiency, Supervisory Function, DPS, LKS, Yogyakarta.

Abstrak

Agar masyarakat merasa aman dan nyaman menyimpan asetnya di lembaga keuangan syariah (LKS), perlu dilaksanakan pengawasan Dewan Pengawas Syariah (DPS) agar berdiri teguh tanpa ada kepentingan. Tujuan dari penelitian ini adalah untuk mengkaji efektivitas pengawasan, operasional Dewan Pengawas Syariah (DPS) dalam melakukan pengawasan terhadap lembaga keuangan syariah di Indonesia, baik di sektor perbankan maupun non bank. Penelitian ini menggunakan penelitian kualitatif, bersifat deskriptif dan cenderung menggunakan analisis isi. Hasil penelitian ini menunjukkan bahwa pelaksanaan kinerja DPS dalam LKS masih bersifat kontekstual dalam memenuhi persyaratan pendirian lembaga keuangan syariah, yang masih difokuskan pada pemahaman aktualisasi produk keuangan agar dapat berjalan sesuai dengan aturan Pasal 27 PBI No. 6/24/PBI/2004, DPS lebih condong ke arah kontrak Syariah daripada Audit Syariah. Sehingga kurangnya efektivitas kinerja DPS membuat kurangnya pemahaman tentang syariah kontekstual oleh pekerja di sektor keuangan syariah berdampak pada loyalitas dan kepercayaan masyarakat dalam melakukan transaksi terhadap produk yang dikeluarkan oleh lembaga keuangan syariah.

Kata Kunci: Efisiensi, Fungsi Pengawas, DPS, LKS, Yogyakarta.

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1. BACKGROUND

One of the areas of the Islamic economy that has recently experienced growth is Islamic Financial Institutions (LKS). According to Islamic teachings, financial transactions must be free from haram or tayyib (principled benefits) transactions, such as

usury-free, harar-free, riswah-free, and masyir-free transactions. In general, it can be claimed that Islamic finance must comply with the guidelines contained in the muamalah fiqh (Asnaini & Yustati, 2017). This regulation will lead to a rather significant separation between conventional finance and Islamic financing

(Hendri & Tanjung, 2007). The establishment of a Sharia Supervisory Agency (DPS) in the organizational structure of the LKS, which is responsible for regulating the goods and operations of the company, is another distinctive feature (Gufron, 2005).

Islamic financial institutions in particular have a mandate function in addition to serving as a bridge between parties who are overfunded and those who need money. This means that if money is withdrawn in accordance with the terms of the agreement, it is necessary to maintain and take responsibility for the safety of money that is kept on hand and available at all times (Nuryadi, 2015). Islamic financial institutions require sharia supervisory boards to carry out their duties and ensure that they do not violate Islamic sharia law. The Sharia Council is a body that contributes to maintaining the Islamic nature of Islamic finance globally. The Indonesian Ulama Council established the DSN to fulfill this function in Indonesia (MUI). In Islamic teachings (sharia law), supervision (control) is divided into two categories: (1) control derived from tawhid itself and having faith in Allah Almighty; and (2) supervision from the leadership regarding the completion of the tasks that have been given, the suitability between the completion of the task and the planning of the task, and other matters. DPS is an independent judicial organization focused on financial institutions that must oversee, review, and direct the actions of other financial organizations (Mokoagow, Sri Windarti dan Fuady, 2015). However, it cannot be denied that in its implementation there are several Islamic Financial Institutions that experience various kinds of problems, one of which is that currently there are many problems faced by BMT including management problems, unprofessional human resources, less innovative products, and not yet maximizing digital so that the role of DPS becomes questioned in institutions and in banking there are many issues that make DPS only as a miniature Sharia in an institution whose function is to attract time to become a customer but forget about its role as a sharia audit organizer in the institution (Ilyas, 2021).

This study looks at how the effectiveness of the supervisory system function carried out by the Sharia Supervisory Board has a role and function in accordance with the duties (knowledge, attitudes, perceptions, systems and value orientations that affect behavior patterns in supervision of the operations of

Islamic financial institutions), to answer the following questions: How much influence does DPS performance have in carrying out tasks and functions on profitability growth. Islamic Financial Institutions? And How do customers of Islamic Financial Institutions respond to the level of confidence in DPS in guaranteeing Sharia-based financial products and systems?

Then several things will be described as follows: First, Related to Islamic Financial Institutions. Second, followed by the legal framework in Islamic Financial Institutions, Third analyzes the effectiveness of DPS in Islamic financial institutions from functions and tasks in the Yogyakarta region.

2. LITERATURE REVIEW

As far as the author has explored and known, there are several previous studies related to the theme to be discussed. In order not to repeat the discussion or repetition of research and can also complement the discourse related to research, it is necessary to have discourse or knowledge about similar researches that have been previously studied. Related to this study, previously there have been several researchers who raised similar themes, including:

First is the research of Kasim This study examines the scope of current audit practices in Islamic financial institutions between Malaysia and Indonesia. The results of this study show that more should be done for Indonesia in the process of pursuing the development of Islamic finance in Malaysia especially for this study, the audit perspective (Kasim, N., Sanusi, Z. M., Mutamimah, T., & Handoyo, 2013). *Secondly*, the research conducted by Izza discusses the Issues and Challenges of Sharia Auditor Competence in Indonesia, the results of this study found that there are three issues related to the competence of sharia supervisory boards in Indonesia, namely, 1) Imbalance of competence of sharia supervisory boards in accounting and finance with competence in the sharia field, 2) Certification of sharia supervisory boards in Indonesia is not optimal, 3) There is still a lack of universities that provide sharia accounting study programs so that the existing sharia supervisory board is still limited. Referring to the problems of matters that are challenges related to the competence of sharia auditors in Indonesia, namely, in terms of challenges 1) Increasing the competence of sharia supervisory boards, 2) Cooperation between DSN-MUI and OJK in realizing

sharia supervisory board certification, 3) Educational institutions are able to meet the needs of sharia supervisory boards of related industries (H Rabbani, 2014). *Third*, Yasni said in his research that, to become a sharia supervisory board, these two skills will be needed in the future to serve on the sharia supervisory board. This is because conducting sampling audits and ensuring that Islamic financial institutions operate in accordance with sharia both require knowledge of these two areas (Fauzi, A., & Supandi, 2019). *Fourth*, Tanjung argues that sharia auditors (DPS) do not need to have skills and knowledge in the field of accounting and auditing, having an understanding of Shari'a, which is the body of Islamic law, is enough (Izzatika, N. F., & Lubis, 2016). *Fifth*, Mujib in his findings has two practical implications for the identification of DPS members. Observations show that this is in view of elements designed to attract public attention. Another aspect that influences the possibility of forming bonds with society is the incompetence of DPS members (Mujib, 2017).

3. RESEARCH METHODS

In this research, qualitative research is a descriptive research and tends to use analysis, the theme is arranged in such a way as not to leave the focus of the discussion using analytical research methods based on content, and legal regulations, descriptive analysis studies related to the research topic. The data used is based on relevant sources and relies on several research journals that have been done before. Data on related documents from books, journals and primary sources from the distribution of questionnaires to Islamic finance customers in Yogyakarta. After the questionnaire data is obtained, mapping (data grouping) will be carried out, followed by the interpretation of the respondents' answer results (Adlini et al., 2022).

4. BASIC CONCEPTS

4.1. Islamic Financial Institutions (LKS)

Financial institutions that operate according to Islamic jurisprudence are known as "Islamic financial institutions." Riba, gharar, and maisir should not be used in the operations of Islamic financial organizations. These things are strictly prohibited, as revealed by the Quran and Hadith. Establishing Islamic financial institutions is mainly done to carry out Allah's instructions in the field of economics and

muamalah and liberate the Muslim community from practices that are contrary to the Islamic religion. It is not just the responsibility of individuals or organizations to carry out this mission; rather, it is the duty and responsibility of every Muslim to find solutions to the issues plaguing Muslims in the modern world. Treatment for diseases in the economic and social fields faced by society requires the application of Islamic law. The National Sharia Council (DSN) defines Islamic Financial Institutions (LKS) as financial organizations that issue Islamic financial products and have been granted operational authorization as Islamic Financial Institutions (Muheramtohad, 2017).

According to this definition, the LKS must meet two requirements: it must comply with Islamic Law and operate legally as a financial organization (Soemitra, 2017). Some of LKS's operational principles include Fairness, partnership, transparency, and universal principles. In carrying out its business, LKS must also pay attention to the system of payment of loans with a value that is not the value of the loan or that has been determined to be prohibited from agar the funder benefiting from the efforts of the institution that borrows money, income and losses must be divided, Islam forbids "making money from making money." Because money has inherent value, it is only used as a medium of exchange and not as a commodity. Then Gharar, or uncertainty and speculation, is not allowed. The outcome of a transaction must be thoroughly understood by both parties. An agreement in LKS is a written contract between a financial institution and a party outlining the rights and obligations of each party in accordance with sharia. The provisions listed below reflect contracts often used in LKS in the (Soemitra, 2017b), form of Al-Wadiah, Al-Mudharabah, Al-Musyarakah, muzara'ah, Al-Musaqah, Bai As-Salam (Antonio, 2001).

Alasan establishment of Islamic financial institutions to expand the network of Islamic financial institutions to remote places, create healthy Islamic financial institutions (banks and non-Islamic banks) based on efficiency and justice, and be able to increase community participation to support community economic efforts. improving the socioeconomic standards of the Indonesian people in order to reduce socioeconomic inequality. As a result, it will protect national development, which includes, increasing the number and quality of jobs, increasing the number of

job options, greatly boosting people's incomes, encouraging the involvement of the general public in the development process, especially in the field of financial economics where it is known that many people are still hesitant to interact with banks or other financial institutions.

4.2. Legal Structure of LKS

In Indonesia, a dual economic system applies, namely the conventional economic system and the Islamic economic system. These two systems have been rolling since the practice of the Islamic banking system, which was marked by the birth of Bank Muamalat in 1991. Then followed up with the birth of Law No. 7 of 1992 concerning Banking. In the Banking Law, Islamic banks are referred to as banks with a profit-sharing system. Then in 1998, Law No. 10 of 1998 concerning Amendments to Law No. 7 of 1992 concerning Banking was passed. In the Amended Law, the term bank has been used with sharia principles. The Amended Law also regulates dual system banking, namely conventional and sharia. The term Islamic bank was emphasized by the birth of Law No. 21 of 2008 concerning Islamic Banking. (Dr. Mardani, 2017)

In addition, in Indonesia, non-bank Islamic financial institutions are also developing, namely Sharia Insurance Institutions, Sharia Capital Markets, Sharia Pawnshops, Sharia DPLK (Financial Institution Pension Funds), Sharia Cooperatives, Companies with Sharia Principles, Waqf Agencies, Amil Zakat Agencies, and BMT (Baitul Malwat Tamwil). The development of Islamic financial institutions, both banks and nonbanks, is followed by the development of regulations regarding sharia economic law which is the legal umbrella for the enactment of Islamic financial institutions in Indonesia. The regulation is in the form of a law, government regulation, ministerial regulation, Bank Indonesia regulation, BAPEPAM-LK (Capital Market Supervisory Agency-Financial Institutions Regulation) which is now referred to as OJK (Financial Services Authority), Fatwa of the National Sharia Council, and PERMA No. 2 of 2008 concerning the Compilation of Sharia Economic Law, which is prepared as a guideline for religious court judges in examining and deciding sharia economic cases.

4.3. Sharia Supervisory Board (DPS)

The word "council" in the Great Dictionary Indonesian refers to a group of people assigned to make a decision after deliberation; The word "overseer" comes from the word "alert," which means overseer. where "Shari'a" refers to all the laws of God relating to human behavior beyond those governing morality. The term "sharia" can also be used to refer to amaliah law. The Sharia Supervisory Board is a separate and reputable organization with a focus on fiqh muamalat (Fiqh al-Muamalat). However, DPS may include members who are not only knowledgeable about Islamic law but also about fiqh muamalat and Islamic finance. The institution's sharia supervisory board has the task of supervising, reviewing, and directing the operations of financial institutions to ensure that they comply with Islamic Sharia law. Muamalat fiqh and contemporary Islamic financial economics are required to become members of the Sharia Supervisory Board (DPS). Creating a Sharia Supervisory Board based on how charismatic and well-known its members are in society, not on how much they know about the Islamic economy or finance, is the worst mistake Islamic banking makes today. DPS continued the expansion of the DSN by enacting a fatwa established by the DSN. DPS oversees all Islamic banking operations, including Islamic banks, sharia insurance, islamic capital markets, and others, to ensure that all Islamic financial institutions operate in accordance with the requirements of Islamic law. Because the management of Islamic financial institutions is now directly the task of the Board of Directors of an Islamic financial institution, DPS is not directly involved in its implementation. DPS is allowed to provide advice to implementing parties of Islamic financial institutions (Sultoni, 2019).

The implementation of DSN rulings relating to Islamic financial institutions is supervised by DPS, an independent organization consisting of sharia experts who also have knowledge of banking in Islamic financial institutions. DPS is an independent body, so in order to guarantee a waiver, it must take into account a number of factors. (a) In the sense of not being subject to administrative authority, DPS is not an employee of the bank. (b) The general meeting of shareholders elects DPS (GMS). (c) The AGM will decide on the honorarium of DPS. (d) DPS, like any other regulatory body, has a specific set of duties and responsibilities (Adnan & Uyuni, 2023).

The main responsibility of the scholars in DPS is to supervise the day-to-day operations of the bank to ensure that Sharia law is always followed. This is due to the very unique transactions that apply in Islamic banks compared to ordinary banks (Irham M, 2019). Therefore, it is important that the DSN develops and decides on this line of instruction. When drafting fatwas related to sharia-based financial activities aimed at the Islamic financial industry, DSN uses sharia principles as its main source of guidance. Furthermore, accommodation is carried out using existing sharia principles (Kurrohman, 2017).

DPS plays an important and vital role in how Islamic banking applies Sharia law. DPS is tasked with ensuring that all practices and goods used by Islamic banks comply with Sharia law. Due to the importance of the role of DPS, two laws in Indonesia Law Number 40 of 2007 concerning limited liability efforts and Law Number 21 of 2008 concerning Islamic banking include dps requirements in Islamic companies and Islamic banking institutions. DPS in banking organizations thus holds a strong legal position due to the importance and strategic nature of its existence. Based on these two laws, DPS is in a very clear and safe position and controls the growth of Islamic banks and Islamic businesses. The following provisions must be fulfilled by DPS members in accordance with Article 21 of PBI No. 24/6/PBI/2004 (Ilyas, 2021).

The duties of the Sharia Supervisory Agency (DPS) include advising the directors, heads of Sharia Business Units, and Sharia Branch Offices on sharia-related topics, acting as an intermediary between the bank and the DSN to submit plans and recommendations for the manufacture of goods and services from banks calling for research and fatwas from the DSN, as a replacement for DSN located in sharia-compliant banks. DPS is expected to provide a report to the DSN on the operations and progress of the Islamic banks it supervises at least once every year (Septiana et al., 2022).

Guidelines for implementing the decisions of members of the Sharia Supervisory Board (DPS) are required that islamic financial institutions must have a minimum of three DPS members, including one for the chairman, the dps membership duty time figure is 4 (four) years, but can be changed if he dies, requests 30 dismissals, recommended by the relevant Islamic financial institution, or damages the reputation of the DSN (Rosalina et al., 2022).

To select candidates for DSN members, the Board of Commissioners receives advice from the compensation committee and nominations regarding candidates for members of the Sharia Supervisory Board, the Board of Commissioners recommends candidates for members of the Sharia Supervisory Board to the board of directors based on the recommendations of the compensation and nomination committee, rapat the board of directors selects candidates for members of the Sharia Supervisory Board who will be asked to provide recommendations to the Indonesian Ulema Council based on certain considerations and taking into account the recommendations of the commissioners, the Indonesian Ulama Council makes recommendations for prospective DPS members who have been submitted by the board of directors or do not provide advice, the Bank requests Bank Indonesia approval for dps candidates who receive recommendations from the Indonesian Ulema Council , Candidates for members of the relevant Sharia Supervisory Board are approved or rejected by Bank Indonesia, the Indonesian Ulema Council recommends candidates for the Sharia Supervisory Board, and the general meeting of shareholders appoints such persons.

In Islamic financial institutions, an important element of the audit cycle and corporate governance structure is played by the Sharia Supervisory Board. The Sharia Supervisory Board also has a role in creating policies and procedures that management must comply with in its work, such as approving the release of new products and conducting sharia reviews, namely checks to ensure that actions taken by Islamic financial institutions do not conflict with Sharia law. (Haniffa, 2010)

5. RESULTS AND DISCUSSION

5.1. Functions and Roles of DPS in LKS

The Qur'an frees Muslims to give forms to economic concepts that include business, banks, insurance, and other institutions. In terminology fiqh is referred to as "sheikhsiyyah i'tibariyyah". As a result, the institution behaves as if it were an individual under the same obligation to fulfill zakat payments from its income as the individual does (Soemitra, 2017). In the operation of Islamic financial institutions, sharia as a norm is developed in the form of avoiding activities in bank services that contain usury, speculation, and fraud and seeking an

institutional atmosphere that reflects other sharia norms such as in the morals and code of ethics of financial institution providers. Establishment of a Sharia Supervisory Agency (DPS) in the LKS organizational structure, which is responsible for regulating the company's goods and operations as a form of maintaining sharia contextuality within the company (Gufron, 2005).

In Bank syariah system supervision or audit consists of three the first layer is an internal audit conducted by the internal auditor of the Islamic bank who is responsible for determining whether the financial statements of Islamic banks are appropriate and do not contain material misstatements, the second layer is an external audit conducted by auditors from outside Islamic banks, such as BI or public accountants, And the third layer is the financial statement review. Article 109 of Law Number 40 of 2007 reads as follows: (1) In addition to having a board of commissioners, business actors operating in accordance with sharia principles are required to have DPS. (2) On the proposal of the MUI, the GMS shall appoint one or more sharia experts to the DPS, as referred to in paragraph (1). (3) DPS is responsible for advising the Board of Directors and supervising the company's activities in accordance with Sharia law, as referred to in paragraph (1). Every business organized as a limited liability company is required by law to have a DPS. Thus, Law Number 21 of 2008, Article 32, stipulates that: (a) DPS must be established in Islamic banks and traditional commercial banks that have a UUS. (b) The GMS shall determine the DPS as referred to in paragraph (1) based on the proposal of the MUI. (c) DPS as referred to in paragraph (1) is in charge of advising the board of directors and monitoring the activities of the bank in accordance with Sharia law. (d) Additional rules relating to the establishment of DPS as referred to in paragraph (1), shall be governed by bank Indonesia regulations (Mujib, 2017).

Fatwa DSN MUI stipulates that the role of DPS is very important to maximize functions based on the Qur'an and Sunnah. DPS and DSN have greater responsibility than simply monitoring the activities of Islamic financial institutions; that its responsibility is to support the expansion and progress of Indonesia's Islamic economy and financial sector. The following tasks are carried out by DPS in accordance with the decision of the MUI leadership regarding the composition of the DSNMUI management number

Kep-98/ MUI / III / 2001 (Minarni, 2013). Obligations and functions of the Sharia Supervisory Board The responsibilities and authorities of DPS include evaluating and ensuring that operational standards and products released are in accordance with sharia principles, memantau the approval process for new bank products in accordance with the Fatwa of the National Sharia Council Majelis Ulama Indonesia, requesting fatwas from the Indonesian national sharia board regarding new products of banks that do not currently have them, conducting regular assessments of the process of collecting, distributing, and providing banking services to sharia standards, in order to carry out the task of requesting data and information about the sharia features of bank work units.

In the aspect of sharia auditor qualifications, there is a lack of it. Not all sharia supervisory boards understand the sharia audit mechanism, because in Indonesia, the average comparison of the two qualifications owned by the sharia supervisory board is currently not balanced, the average mastery of sharia science is higher. And the role of internal auditors who can synergize with the sharia supervisory board through internal sharia review has not been owned by the majority of Islamic financial institutions. (Kasim, N., Sanusi, Z. M., Mutamimah, T., & Handoyo, 2013)

This is backgrounded by the composition of the sharia supervisory board is diverse, namely some come from sharia backgrounds such as from members of the National Sharia Council and from ulama figures, some come from background practitioners or bankers such as from the main director of conventional banks, managers of conventional insurance companies and others. (Nuryadi, 2015)

Sharia auditors who come from their national sharia councils only have an understanding of sharia including fiqh muamalah, while sharia auditors who come from their practitioners understand the technicalities of auditing but they do not understand fiqh and fatwas. Supported by data obtained from the annual report of Islamic banking in 2014, namely, Bank Syariah Mandiri, Bank Muamalat Indonesia, Bank Rakyat Indonesia Syariah, Bank Mega Syariah, Bank Negara Indonesia Syariah, Bank Central Asia Syariah and Panin Bank Syariah shows that the number of sharia supervisory boards in Islamic banking with a sharia background is 84.2%, while the

other 15.8% have an accounting and financial background. (H Rabbani, 2014)

The competence of sharia auditors in Indonesia is due to the presence of sharia entities in Indonesia is relatively new, so that human resources have not been able to meet the needs of the current industry so that many sharia supervisory boards are recruited from the background of scholars and from factors of charisma and popularity in the community, not because of their knowledge in the fields of accounting, finance and sharia. Adding that the majority of sharia supervisory boards in Indonesia have not met the two competencies that must be met, because there is no binding law or regulation that requires the sharia supervisory board to have these competencies, so the competencies that must be possessed depend on each individual sharia supervisory board itself. (Mardian, 2013)

Being a sharia supervisory board is indeed necessary for both competencies in a timely manner, because to ensure that the operation of Islamic financial institutions in accordance with sharia requires understanding in the field of sharia and in conducting sampling audits requires understanding in the field of finance in general and accounting (Fauzi, A., & Supandi, 2019).

Different views related to the above issues can be seen from the meaning of DPS according to Law No. 21 of 2008 concerning Islamic banking. Article 32 paragraph 1 of the Law states that: (a) the Sharia Supervisory Board is a body established in Sharia Banks and Conventional Commercial Banks that have a UUS, (b) the Sharia Supervisory Board as referred to in paragraph (1) is appointed by the General Meeting of Shareholders on the recommendation of the Indonesian Ulama Council, (c) the Sharia Supervisory Board as referred to in paragraph (1) is in charge of providing advice and advice to the board of directors and supervising the Bank's activities in accordance with the Principles Sharia. Meanwhile, the role and function of DPS according to the Decree of DSN MUI No. Kep-98 / MUI / III / 2001 concerning the Composition of the Management of DSN MUI Masa Bhakti Th. 2000-2005 the most important of which is (a) conducting periodic supervision of Islamic financial institutions, and (b) reporting the development of products and operations of Islamic financial institutions it supervises to DSN at least twice in one fiscal year.

So the competencies that must be possessed by a sharia auditor (DPS) do not have to have the qualifications possessed by conventional auditors in general such as having skills and knowledge in the field of accounting and auditing, understanding the international accounting standards adopted and accounting and auditing standards that apply in the national area, understanding finance and business, understanding management theories and practices. However, it is enough to have knowledge in the field of sharia related to Islamic principles and law. The field of sharia referred to here is mainly about fiqh muamalah and has an understanding of As-Sunnah and fiqh science such as ushul fiqh and also the practices and operations of sharia entities and business processes carried out by these entities coupled with supporting characteristics such as good character and having a commitment to the Islamic economy. (Izzatika, N. F., & Lubis, 2016)

So in general, from the research that has been carried out, it is explained that the sharia supervisory board is only required to have an understanding of sharia and the business processes of an entity because the task of the sharia supervisory board, which is in charge of providing advice and advice to the board of directors and supervising the activities of Islamic financial institutions to comply with sharia principles, has not yet entered into financial audits. However, if the sharia supervisory board has sharia and financial competence at the same time, it will be better.

However, in its implementation in several studies, it is stated that there is still a problem of imbalance in accounting and financial competence with sharia competence that must be owned by DPS. Competence is not a priority factor in its implementation, but the understanding of the concept of Sharia is more advanced in providing understanding to the community. In fact, the function of the Sharia Supervisory Board is focused on the number of customers who can understand the concept of Sharia but in terms of lower supervision, this is explained in Abdul Mujib's research at the BMT Institute. (Mujib, 2017)

5.2. Analysis of the Effectiveness of the DPS Supervisory Function in LKS

5.2.1. DPS Performance Based Analysis

One of the determining factors for the effectiveness or not of a system is determined from the DPS role. In Indonesia currently the role of DPS is not

implemented in the best possible way, due to a number of main factors. among others:

- a. The conclusion of the DPS sharia compliance evaluation is given a limited legal position because sharia supervision procedures in Indonesian Islamic banking are currently ineffective and ineffective.
- b. DPS personnel have no expertise in economic, business, and accounting difficulties.
- c. When it comes to carrying out internal Islamic supervisory duties in Islamic banking, there is no efficient dps system or structure.

The function of DPS is currently more of a sharia counselor for management, a tool for marketing and communication of Islamic banks or other non-bank Islamic financial institutions, and a legislator of islamic financial institution products. On the other hand, it turns out that the Sharia Supervisory Board only monitors a few times a year and the one who has the authority to provide reports is the company's leadership to report field activities to the Sharia Supervisory Board. There is no doubt that there is a possibility that a bank or non-bank Islamic Institution will distort sharia principles as a result.

Developing DPS support services in the form of a good enough means toevaluate DPS in carrying out supervisory tasks as one of the options for optimizing the role of DPS in Islamic banking in Indonesia. The performance, independence, and competence of DPS determine the credibility of Islamic banks. Therefore, the position and function of DPS in internal sharia supervision must be maximized to create sharia compliance guarantees for all parties involved in Islamic banks.

Improving the external and internal environment of DPS is the first step to optimize its position and function in sharia internal supervision. The main task of Bank Indonesia as a regulator is to improve the external environment of DPS, in particular by developing effective and efficient sharia supervision mechanisms in order to realize a strong, effective and sharia-compliant Islamic banking system. Meanwhile, DPS and the management of Islamic banks are tasked with improving the internal environment of DPS in order to build an effective and efficient sharia compliance guarantee system and increase public trust in Islamic banks. As a sharia auditor, DPS adheres to a crucial principle: in order to protect justice and remain obedient to Islamic law, DPS must also carry

out community duties. To practice muamalat, one must refrain from persecuting others and taking advantage of unfavorable opportunities.

Financial institutions that apply sharia principles are expected to have a Sharia Supervisory Agency that can supervise all activities and procedures of financial institutions and institutions that do so in accordance with Islamic sharia law. In general, the sharia supervisory board should consist of individuals who more or less understand the relevant trade laws and are familiar with business contracts in order to regulate all banking activities in accordance with sharia principles. Article 27 of PBI No. 6/24/PBI/2004, which stipulates the duties, authorities, and obligations of the Sharia Supervisory Agency, provides an overview of the activities and functions that are the responsibility of the Sharia Supervisory Board of Islamic financial institutions (DPS).

It is expected that by carrying out the responsibilities of the Sharia Supervisory Board in Islamic financial institutions, they will be better prepared to carry out more thorough supervision of the operations and systems implemented in banks that adhere to sharia principles. Therefore, the proper implementation of the duties of the Sharia Supervisory Board will undoubtedly show the existence of a Sharia Supervisory Agency as an institution that manages the needs and desires of consumers who need it and ignores the rules and regulations of financial institutions that prioritize Islamic principles, and is able to foresee deviations and violations based on the financial principles of Islamic institutions or institutions. The establishment of the Sharia Supervisory Board is expected to enable it to become one of the comprehensive sources of information about the financial institution, including whether it has complied with Islamic banking rules correctly or still violates them.

5.2.2. Community Assessment Analysis of DPS in LKS

A financial institution's performance can be said to be effective if the performance has achieved the goals and standards set. Job standards are a number of criteria that become a measure in the performance assessment of the Sharia Supervisory Board, which is used as a comparison and the results of the implementation of the duties of a job or position. This examination or assessment is intended to determine to what extent from the established system is reliable the ability to provide adequate confidence that goals and

objectives can be achieved efficiently, and determine such structures are already functioning as desired. According to Hadari Nawawi in his work Human Resource Management for competitive businesses, the standard of work should include three main information as criteria for assessing the success or failure of a worker in carrying out a predetermined task. The three pieces of information are: (Masliana, 2011)

- a. Information about what tasks a worker should work on.
- b. Information on how to best carry out these tasks.
- c. Information about the maximum result that should be achieved in carrying out tasks in that way.

Empirical facts show that the performance and function of the Sharia Supervisory Board (DPS) is still far from what is expected in the implementation of its duties and functions, from these various studies shows the weak sharia supervisory board (DPS) in carrying out its duties and functions, in fact the role of the Sharia supervisory board is not only to ensure the running of sharia compliance in Islamic banks or non-bank Sharia institutions, furthermore it must also have the function of encouraging the growth and development of institutions Islamic finance in Indonesia. The weak role and function of the Sharia Supervisory Board (DPS) is not only due to the independence factor of DPS, but the regulations regarding sanctions given to Islamic banks that violate sharia regulations are not expressly enforced, so that Islamic banks that violate sharia regulations only receive public moral sanctions that cannot be measured (Fatah et al., 2022).

In supporting these empirical facts, researchers tried to dig up some information about the level of knowledge of customers of Islamic Banks or Islamic financial institutions regarding the Sharia supervisory board, especially in DI Yogyakarta. The respondents' data that filled out the questionnaire came from three regions including Sleman 57.1%, Bantul 7.1%, Yogyakarta City 35.7%, with the highest number of customers at Sharia Banks 57.1% followed by Sharia BPR Institutions 7.1%, Sharia BPD 7.1%, Sharia Pegadaian 7.1%, BMT 7.1%, Sharia Cooperatives 7.1%, Sharia Insurance 7.1%, and other institutions 7.1%. With the majority of jobs as ASN 43.1%, Entrepreneurship 22%, Student 20.6%, Farmer 7.1%, Employee 7.1%.

Then in the transaction rate of customers who often use the services of Islamic financial institutions

only around 14.3%, quite often 14.3%, rarely use 50% and never make transactions 21.4%. The reason respondents chose to use the services of Islamic Financial Institutions was because the job demands were around 35.7% of respondents, then Free from interest 21.4%, self-will 21.4%, Products that attracted 7.1% and other things outside of some of these categories 14.3%.

In general, respondents are also aware of the importance of sharia supervisory board institutions, it can be reviewed from the questionnaires that have been distributed, respondents who know the function of the Sharia supervisory board are around 50%, then respondents who state that the role of the Sharia supervisory board is important around 42.9%, as well as in creating accounts, saving and other transactions 85.7% read the contract rules written by the bank because bank employees have not been able to explain explicitly regarding the products offered and difficult for customers to understand (Irtan, 2020).

Although the implementation of the sharia concept has not been effective, it can reduce public trust in Islamic banks. In the application of sharia, it must also have an orientation on achieving actualized values in the form of educating individuals, upholding justice and benefit. This achievement can be realized if islamic bank regulations support the establishment of a good climate for the achievement of a socially just economy, in accordance with the economic ideals of pancasila. Sri Edi Swasono explained the concept of sharia economy which is oriented towards pancasila values, he explained that Sharia Economy thus is in line with the state constitution in fighting for Islamic values and the compatibility of sharia economy with pancasila economy in its struggle is not reduced and is more centered only on efforts to build Islamic banks, so usury is only seen in terms of banking interest.

The economic life of usury is instead fertile in a widely exploitative economic system, which allows systemic trade-offs for the poor and the weak who are subordinated and discriminated against, which allows brutalizas laissez-faire in a broad sense, which is precisely ignored by those who are weak by euphoria in developing Islamic banks, without regard to the need for deconstruction and restructuring of a usurious economic system (Sri Edi Swasono, 2008). Efforts that can be made to optimize the role of the Sharia Supervisory Board (DPS) in Islamic banks are, first, by establishing institutional dependence of sharia compliance authorities; second, enforcing strict

sanctions for violations of sharia by making clear and measurable regulations; third, strict selection of members of the Sharia Supervisory Board (DPS).

6. CONCLUSION

In the implementation of the performance of the Sharia Supervisory Board (DPS) in Islamic financial institutions, it is still contextual fulfillment of the requirements for the establishment of Islamic financial institutions, which is still focused on understanding the actualization of financial products in order to be able to run in accordance with Sharia regulations, in this case the role of DPS has not been able to carry out its functions as explained in article 27 of PBI No. 6/24/PBI/2004, where DPS leans a lot towards Sharia contracts rather than Sharia Audit which are 2 special components that must be owned by the Sharia supervisory board.

The limited performance system of the Sharia supervisory board makes the level of electability among customers only limited to knowing without understanding the role and performance carried out in supervision. The lack of effectiveness of this performance, which fails to provide understanding of the Islamic contextual by workers in the Islamic financial sector, has an impact on public loyalty and trust in conducting transactions on products issued by Islamic financial institutions.

7. REFERENCES

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