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WHAT IS A VIOLATION OF SHARIA PRINCIPLES OR GOVERNANCE THE CAUSE OF SHARIA BANK LIQUIDATION IN INDONESIA?

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ABSTRACT

This study aims to explain whether violations of sharia principles or poor governance caused the failure of Islamic Rural Banks (BPRS) in Indonesia. This research is expected to contribute to Sharia practitioners and regulators to make improvements to the regulations and practices of BPRS in the future so that BPRS and Islamic banks, in general, can perform their intermediation function as well as possible. This research was conducted by conducting interviews through questionnaires with auditors who have the competence and capability to provide information and facts that occurred in Sharia BPRs and have audited the closing balances of liquidated Sharia BPRs several times. The methodology in this research is qualitative, and the nature of this research is descriptive analysis. The results of this study conclude that there are sharia and governance violations in BPRS. Sharia violations are still very low concerning the failure of the BPRS due to speculation and transactions that contain an element of uncertainty (gharar). Meanwhile, the violation of governance is very strongly related to the failure of the BPRS because of the dual role of the shareholder in the management of the BPRS.

Keywords: Bank Failed; Bank Liquidation; Islamic Bank

INTRODUCTION

Islamic bank based on Article 1 number 7 Law Number 21 of 2008 concerning Sharia Banking is a bank engaged in business activities following Sharia principles. According to the type, Islamic banks consist of Sharia Commercial Banks ("BUS") and Sharia People's Financing Banks ("BPRS"). BUS is a sharia bank that provides services in payment traffic and BPRS does not provide services in payment traffic and also cannot perform fundraising actions in the form of demand deposits. In addition to BUS and BPRS, there is also a Sharia Business Unit (UUS), which is a unit of conventional commercial banks.

Islamic banks in conducting their business must comply with the principles of Islamic teachings. Islamic banking and finance apply various principles and ethics in their governance, in addition to the mechanism free from usury, there are also several prohibitions on non-ethical practices that are prohibited by Sharia. These practices include uncertainty (gharar), cheating, and speculation (maisir) (El Qorchi in (Prawasta and Zen, 2016). Islamic banks avoid the practice of usury, so they use profit sharing instead of interest. This is the difference between Islamic banks (BUS and BPRS) with conventional banks. Islamic banks are also required to manage their funds with integrity and prudence in the application of profit sharing with customers based on sharia principles. This profit-sharing system provides benefits for both parties.

Activities carried out by Islamic banks (BUS and BPRS) are fund-raising activities. In practice, every financing activity in Islamic banking is always contained in a written document or written agreement/contract to regulate the rights and obligations of the parties. In all transactions with financial institutions, both conventional and sharia, the agreement/contract is very important. In order to have strong legal force, the agreement/contract is made authentically. An authentic deed is a deed made by or in the presence of an authorized official for that purpose in accordance with the provisions of the law. Even though it is made in the form of an authentic deed, it must still pay attention to and use the provisions of sharia economic law, so that clauses or contents may not contain forbidden elements such as usury, gharar, tyranny, maisir and riswah. (Parmitasari Indah, 2020)

There are three types of accounts in Islamic banks: current accounts, investments, and savings. Current accounts in Islamic banks are almost similar to conventional banks. As for the investment account, in the beginning, the investor agrees to share the profits and losses at the agreed ratio. Meanwhile, savings accounts that apply in Islamic banks provide various services such as transactions based on buying and selling, leasing and lending, and borrowing. These systems are established in Islamic insurance (Takaful) and Islamic bonds (Sukuk) (Fasih Faisal, 2012).

In the last three years, the financial services authority has revoked the business licenses of 5 Sharia BPRs that were categorized as failed, namely in the provinces of Papua, West Java, West Kalimantan, and East Java, and Bengkulu. BPR/BPRS failures are generally caused by governance failures and fraud (Suwandi et al., 2019), (Ashari and Nugrahanti, 2020). However, specifically for the failure of the BPRS, no literature examines whether there are elements of a violation of Sharia principles that have contributed to the failure of the BPRS.

Based on the above background, the focus of the problem in this research is (a) whether the failure to apply sharia principles or poor governance causes the failure of Islamic Rural Banks (BPRS) in Indonesia and (b) If there is a violation of Sharia principles and poor governance management, which one contributed the most to failure?

The purpose of this research is to find out the cause of the failure of the BPR/BPRS in the audit findings. While the benefits of research are theoretical, namely providing ideas for strengthening the application of sharia principles and governance in BPRS, and practical benefits, as input for banking practitioners, regulators, and DSN MUI in avoiding and mitigating sharia violations to ensure that BPRS exists in the banking industry does not fall.

Literature review

Implementation of Sharia Compliance

Sharia compliance in sharia banks is "the application of Islamic principles, sharia and their implications for the reputation and trust of Islamic banks ."Sharia compliance has international standards prepared and set by the Islamic Financial Service Board (IFSB), in which compliance with sharia principles is part of corporate governance (IFSB), 2009). According to (Adrian Sutedi, 2009), compliance with sharia principles in Islamic bank operations includes not only products but also systems, techniques, and corporate identity. Therefore, a corporate culture that includes clothing, decorations, and corporate image is one aspect of sharia compliance in Islamic banks. The aim is none other than to create a collective morality and spirituality that, when combined with the production of goods and services,

Viewed from the perspective of the community, especially users of Islamic banking services, sharia compliance is the core of the integrity and credibility of Islamic banks (IFSB, 2009). Islamic banks are intended to meet the needs of the Muslim community to implement Islamic teachings as a whole (kâffah), including the distribution of funds through Islamic banks. Public trust and confidence in Islamic banks are based on and maintained through the implementation of Islamic legal principles adapted to the operational rules of the institution. Without compliance with sharia principles, people will lose the privileges they seek, affecting their decision to choose or continue to use the services provided by Islamic banks.

Following the standards issued by (AAOIFI, 2003), the fulfillment of the principles of sharia compliance is one of the essential pillars in the context of developing Islamic financial institutions. Meanwhile, according to (Antonio, 2007) states that the principles of sharia compliance in Islamic financial institutions include: a. Non-Riba b. Zakat c. Stay away from Haram d. Stay away from Gharar (uncertainty) and Maysir (speculation) f. Takaful (bearing each other's burdens).

Indicators of sharia compliance based on Islamic economic principles are a. The principle of mutual benefit b. Free of manipulation c. Halal and good d. Does not contain ugliness/harm. Based on the description above, the indicators of sharia compliance area. Free of Riba b. Manage zakat, infaq, and alms activities c. Stay away from illegal transactions d. Avoid speculation and uncertain transactions, e. The principle of mutual benefit f. Halal and good g. Does not contain badness/harm h. Referring to the sharia fatwas of DSN MUI. (Wahyuningsih, 2016).

Previous Research

Research conducted by (Bawono, 2018) will predict the bankruptcy of Islamic banks in Indonesia in 2014-2016 by measuring existing financial ratios using the Altman Z method. The scoring model shows that the performance of working capital on total assets and a book value of equity on the book value of total debt can predict the accuracy of the bankruptcy of Islamic banks in Indonesia by 92%. However, the researcher suggests that in future research, a bankruptcy prediction model is needed to examine the failure of Islamic bank management based on how far the company has implemented the effectiveness of implementing good corporate governance.

According to the results of research (Suwandi at al., 2019) concludes that there is a significant influence on the implementation of governance on the failure of BPR/BPRS, namely (1) there is a dual role between shareholders and members of the board of directors; (2) BPR/BPRS compliance in paying premiums with the right amount; (3) completeness of the statement letter from the board of directors; (4) completeness of the statement letter from the commissioner; and (3) the status of the previous BPR/BPRS was it ever designated as a BDPK.

Research by (Khan et al., 2018) investigates cases of Shariah governance and compliance in Islamic banks worldwide. This study explores the fundamentals of Islamic banking policy instruments from a sharia perspective to assess the business implementation of Islamic banks. (Khan et al., 2018) finds that the governance of Islamic banks has failed to preserve religious, ethical, and social values and the sanctity of Islamic banks. The business that is run, the distribution and collection of deposit funds in Islamic Banks is based on interest and the time value of money; this is a clear violation of Sharia. Most Muslim businesses and community groups have shown increasing concern over serious Sharia governance and compliance issues in Islamic banks.

The results of (Chapra and Ahmed., 2008) research regarding the governance of Islamic banks (from 14 Islamic banks in Bahrain, Bangladesh, and Sudan) found that 288 customers (62%) of the 463 respondents stated that they would transfer their funds to another Islamic bank if it were suspected that this was happening. "sharia violations" in the operations of Islamic banks. This shows that compliance with Sharia principles significantly influences customer behavior in choosing Islamic banks. This is in line with the empirical study by (Hafij, 2014) on Islamic banks in Bangladesh regarding sharia compliance in Islamic banks, showing that the sharia compliance status of Islamic banks in Bangladesh is vulnerable. Sharia violations are pretty high in terms of investment activities due to lack of knowledge, lack of sincerity in carrying out Sharia,

Research of (Hamsyi, 2019) on the influence of GCG and Sharia Compliance on the Profitability of Islamic Banks in Indonesia. The sharia compliance variable is proxied from the

Islamic Income Ratio (IsIR) 'and Profit Sharing Ratio (PSR). The results showed that the GCG and PSR variables had a negative value indicating no effect of GCG and PSR on profitability (ROE). In contrast, the IR variable affected the ROE value. This study provides valuable information for assessing the compliance of Islamic banks based on Sharia principles. According to the research above, the implementation of sharia governance in Islamic banks is a must to increase the reputation and public trust in Islamic banks. Reputation is essential in establishing partnership relationships between Islamic banks and customers. Reputation is the basis for assessing whether a company is worthy of being a partner (Hamza, 2013).

Conceptual Framework

Based on the literature that has been submitted, the conceptual framework in this study can be explained that there are liquidity and capital problems in Islamic banks that cause banks to become bankrupt, allegedly due to the ineffectiveness of implementing good corporate governance in accordance with (Suwandi et al., 2019) and (Bawono and Setyaningrum, 2018).

The Deposit Insurance Corporation (LPS) is an authority established by the State to guarantee deposits and maintain the banking system's stability (Ashari and Nugrahanti, 2018). Following its function, IDIC has the authority to settle bankrupt and become failed banks by liquidating failed banks whose business licenses are revoked by the OJK. The management of the Bank in liquidation (BDL) prepares the bank closing balance on the date the OJK revokes the Bank's business license. Furthermore, IDIC assigns an Auditor to audit the closing balance sheet to provide an opinion on the fairness of the assets and liabilities of the failed Bank on the date of revocation of the business license.

From the audit conducted, in addition to providing an opinion on the presentation of the Bank's financial statements in liquidation, the Auditor can analyze the violations that occurred in the Bank that caused the Bank's failure. For Islamic banks, in this case (Khan et al., 2018), (Hafij, 2014), (Hamsyi, 2019), and the application of Sharia principles (Antonio, 2007), (Wahyuningsih, 2016), and (Adrian Sutedi, 2009).

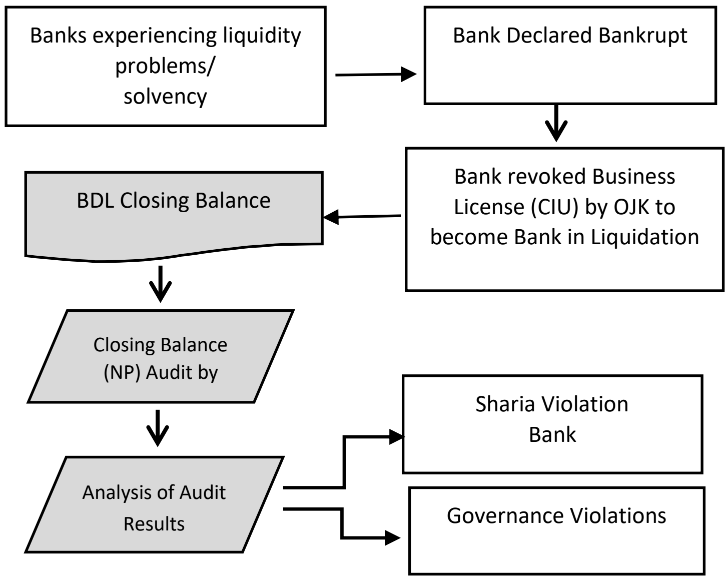

Figure 1. Conceptual Framework Source: Author

METHODS

This research method is qualitative research through studies on exceptional cases. In this study, the final report is structured in a flexible writing structure (Creswell, 2009), including a series of interpretation techniques to describe, decode, translate, and adapt to its meaning about phenomena in everyday social life (Cooper and Schindler, 2011). Furthermore, is multi-method in focus, involving an interpretive and naturalistic approach to the problems studied, as well as studying various things in the everyday environment, trying to understand, or interpret phenomena according to the meaning understood by society (Wahyuni, 2015).

The primary data source in this study is information obtained directly from the resource person as the object of research (Sugiyono, 2014) through oral or behavior carried out by the resource person regarding the variables studied (Cooper and Schindler, 2011). This study's primary data sources are from auditing bank NPs in liquidation (BDL), namely Auditors/KAP partners who have/are currently auditing BDL. In comparison, the secondary data sources in this study are research data obtained by researchers indirectly through other people or documents (Sugiyono, 2014). This study obtained secondary data from scientific journals, mass media, and others related to the implementation of Sharia and banking governance in Indonesia and other countries.

The implementation of this research in 2021 and data collection until December 31, 2021, and ten (10) BPRS have been liquidated by the Financial Services Authority and underwent a liquidation process by the IDIC as follows:
This research survey was conducted on five auditors who have audited in the last 5 (five) years, namely from PT BPRS Al Hidayah (2016) to PT BPRS Gotong Royong (2020). The survey was conducted through a google form submitted to the relevant 5 (five) Auditors via e-mail.

The discussion of Sharia in this study uses the factors of applying Sharia principles, namely: (a) Free of Riba; (b) Managing Zakat, infaq, and alms activities; (c) Avoiding illegal transactions; (d) Avoid speculation and uncertain transactions; (e) The principle of mutual benefit; (f) Halal and suitable; (g) Does not contain any harm/damage; (h) Referring to the sharia fatwas of DSN MUI (Wahyuningsih, 2016). Meanwhile, regarding governance, the results of (Suwandi et al., 2019) state that there is a significant influence on the implementation of governance on the failure of BPR/BPRS, namely (1) there is a dual role between shareholders and members of the board of directors; (2) BPR/BPRS compliance in paying premiums with the right amount; (3) completeness of the statement letter from the board of directors; (4) completeness of the statement letter from the commissioner.

RESULTS AND DISCUSSION

Based on the questionnaire submitted by the author to 5 (five) KAP auditors as resource persons who have handled audits of 10 liquidated Sharia BPRs, the author received responses/answers from all sources, with the profile of the sources as shown in Table 2. Following table 2, it is known that the Auditor who acts as a resource person has experience in carrying out assignments to failed banks. As of September 30, 2021, most auditors have performed more than four assignments. Four out of five auditors stated that the last time they audited was within the last two years of assignment, and two auditors conducted closing balance sheet audits in the last two years. According to the profile above, the authors conclude that the auditors who were the resource persons in this study have sufficient competence and capability, so they are worthy of being a reference in this study.

Audit Procedures Performed by Auditors

The main audit procedures performed by auditors in the closing balance sheet audit are confirmation, inquiry, observation, inspection, and analytical procedures performed by five auditors. Meanwhile, vouching is carried out by four auditors, and one Auditor carries out other procedures such as tracing back and recalculation. The majority of auditors stated that audit procedures that could directly or indirectly detect sharia violations in failed BPRS were confirmation, inquiry, observation, and inspection procedures (stated by three auditors). Meanwhile, most auditors stated that audit procedures that could directly or indirectly detect a violation of governance in a failed BPRS were the vouching, confirmation, and audit procedures. Inquiry and observation (stated by three auditors). More details can be seen in table 3.

Violation of Sharia Principles in Sharia Banks

According to the research, sharia violations in Islamic banks that were liquidated more than twice were found by three auditors in a row as a violation of (1) speculation and uncertain transactions, (2) the absence of management of Zakat, infaq, and alms, and (3) does not apply the principle of mutual benefit. Meanwhile, other Sharia violations were found twice by one Auditor, namely (1) the principles of halal and sound were not applied, (2) things that contained terrible and harmful things occurred, and (3) there were violations of sharia fatwas of DSN MUI. The Auditor did not find only one Sharia violation. Namely, the Auditor did not find any usury practices in Sharia BPR. More details can be seen in the following table 4.

According to the study's results, it was also found that, in general, all sharia violations were found in Sharia BPRs that had been liquidated, although relatively low. Only related to usury was not found by the Auditor. This finding is in line with empirical studies conducted by (Hafij, 2014), (Khan et al., 2018), and (Hamsyi, 2019). This study also found that there are three Sharia principles that, according to the auditors, are most likely to cause bank failure, namely the non-applicability of the principle of mutual benefit within the Islamic banking environment, illegal transactions occurring, and speculation and uncertain transactions occurring. The existence of sharia violations indicates that even though every Islamic Bank is required to have a Sharia supervisory board as a supervisor for the owners/management/employees of Islamic banks. The Sharia code of ethics must be available to every person from the beginning of the appointment of directors and recruitment of employees. It must be part of the employee induction process.

Violation of Governance in Islamic Banks

According to the study results, violations of governance in failed Islamic banks that three auditors found more than twice in succession were violations of (1) concurrent positions of shareholders with members of the Board of Directors and (2) BPRS had entered BDPK status. While other Sharia violations were found one and two times by two auditors, namely (1), there was a delay in paying premiums. Finally, other Sharia violations were found once by two auditors, namely (1) a statement from the Board of Directors that was not submitted to the IDIC and (2) a Commissioner's letter that was not submitted to the IDIC. More details can be seen in the following table 5.

Three auditors found governance violations such as the dual role of the owner and bank management more than twice. Meanwhile, historically, liquidated BPRs have been designated as BDPK Banks at least once before being liquidated. Although it has the highest weight, four auditors found it more than two times. In our opinion, this is indeed a routine regulatory process, so this is not discussed in depth.

Regarding governance, statements from the Board of Directors and Commissioners that were not submitted to IDIC were found twice and once by two auditors. Meanwhile, regarding the governance of compliance letters in paying premiums, it was found once each by two auditors. The governance violations committed by the liquidated BPRS above are in line with the unhealthy governance practices identified in the research of (Suwandi et al., 2019) and (Khan et al., 2018), which state that the governance of Islamic banks has failed to ensure that religious, ethical, and social values are maintained. And the sanctity of Islamic banks. According to (Bawono and Setyaningrum, 2018) state that bank bankruptcy is not solely due to financial problems but must be seen how the implementation of governance in banks.

Violations in the dominant Islamic Bank cause the Bank's failure.

According to the results of the study, four auditors stated that in the closing balance sheet audits, they had found sharia violations and five auditors found violations of governance.

The findings in the audit carried out in full are attached. Based on the Auditor's answer in Table 6, the sequence of findings of the most violations occurring in failed Islamic banks.

According to table 7 and table 8, the highest order of auditor findings related to Sharia violations is speculation and transactions that contain an element of uncertainty (gharar). Meanwhile, the highest order of governance violations is that a bank has been designated as a bank under special supervision (BDPK).

Sharia Violations and the Occurrence of Governance Violations

Regarding whether the occurrence of sharia violations will lead to governance violations, there is no majority opinion from the sources. Respondents' answers were almost evenly distributed for each criterion ranging from "no relationship" to " very strongly " answers, with one answer for each except the firm answer (weight 4) no one chose.

Table 9 shows that, on average, the relationship between sharia violations and governance violations occurring in Islamic banks is categorized as "weak ."Thus, in general, violations of Sharia principles have nothing to do with violations of governance in Sharia BPRs. Auditors who choose moderate to unrelated criteria argue that sharia violations are religious, moral principles, while governance is regulatory so that sharia violations do not always result in governance violations. There are other conditions besides Sharia violations that cause governance violations. Meanwhile, one Auditor answered "very strongly" with the consideration that any intervention from shareholders to the Board of Directors due to the dual roles between shareholders and members of the board of directors is also a violation of Sharia.

From the research results above, it can be concluded that not all/only some of the sharia violations can have implications for the occurrence of governance violations in liquidated Islamic banks.

Sharia Violation and Bank Failure

Furthermore, regarding whether sharia violations were the cause of bank failures, the majority of sources, namely 2 (two) auditors, stated that there was no relationship between sharia violations and bank failures. Meanwhile, three auditors each stated weak, moderate, and very strong.

From the description in table 10, it can be concluded that, on average, the relationship between sharia violations in Islamic banks and bank failures is within the "weak" criteria. Thus it can be concluded that the failure of Sharia BPR in Indonesia is not due to Sharia violations but other reasons. Other causes are referred to by non-macroeconomic factors as surveyed by the (International Association of Deposit Insurers (IADI), 2005) in member countries: unhealthy banking practices, poor risk management, poor corporate governance, and the occurrence of fraud. Management or embezzlement (Ashari and Nugrahanti, 2018) and ethical violations (Ashari and Nugrahanti., 2020).

Governance Violations and Bank Failure

Furthermore, regarding whether governance violations in Islamic BPRs cause bank failures, the majority of informants, namely 4 (four) auditors, stated that there is a strong link between governance violations and bank failures. At the same time, the remaining Auditor stated that the relationship was moderate.

From the description in table 11, it can be concluded that governance violations are the leading cause of the failure of BPRS in Indonesia with the "very strong" criteria. Thus, the failure of Islamic banks is primarily due to governance violations. This conclusion aligns with (Suwandi et al., 2019) that bank failures are mainly due to poor governance. The most dominant thing that causes bank failure is the dual position/role between shareholders and members of the board of directors, which causes nepotism and intervention from shareholders to bank management.

To avoid any violation of Sharia or governance that causes bank failure, the Auditor provides input to BPRS for BPRS to improve the precautionary principle, strengthen policy synergy between supervisory authorities and other stakeholders, conduct more intensive supervision and guidance on Sharia BPR, Sharia Supervisory Board, and supervisory authorities better in conducting supervision.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The role of Islamic banking is vital as an alternative financial intermediary institution for Muslim communities who believe that Islamic teachings must be implemented thoroughly (kâffah). These teachings include activities in the banking sector that must be carried out through Islamic banks. For this reason, to accommodate the community's wishes, Islamic banks must maintain public trust and maintain Sharia values through the consistent implementation of Sharia principles in bank operations. With the loss of consistency in compliance with Sharia principles in sharia banking, sharia banks will lose the privileges of sharia banks so that people can switch to other financial institutions other than Sharia.

In this study, it can be concluded that there are sharia violations and governance violations. In terms of sharia violations that occurred in Islamic banks with the failure of the BPRS, it was included in the "weak" category. Meanwhile, the relationship between governance violations and the occurrence of a BPRS failure is included in the "very strong" criteria. In addition, this study also found that the highest order of auditor findings related to Sharia violations was speculation and transactions containing an element of uncertainty (gharar). Meanwhile, the highest order of governance violations is that a bank has been designated as a bank under special supervision (BDPK).

Recommendation

The author recommends that to avoid sharia or governance violations that lead to bank failure, BPRS improves prudential principles, strengthens policy synergy between supervisory authorities and other stakeholders, conducts more intensive supervision and guidance on Sharia BPRs, Sharia Supervisory Boards, and supervisory authorities to do better in supervising. This study has limitations that are expected to be followed up by further researchers, namely: (a) the available previous research literature regarding Sharia BPRs that experienced bankruptcy is very limited; (b) the data analyzed are entirely limited to the data available from the answers to the questionnaires received by the author from the auditors who have audited the BPRS. The author suggests that in the following research, the number of sources obtained will be increased and completed with the results of interviews with related parties.

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Tables

Table 1. Names of BPRS liquidated by OJK

No	SRB name	Business License Revocation Date (CIU)
1	PT BPRS Babussalam	May 1, 2009

2	PT BPRS Syarif Hidayatullah	July 29, 2011
3	PT BPRS Hidayah Jakarta	June 19, 2015
4	PT BPRS Al Hidayah	April 25, 2016
5	PT BPRS Sadiq Amanah	September 1, 2016
6	PT BPRS Jabal Tsuru	January 21, 2019
7	PT BPRS Safir Bengkulu	January 30, 2019
8	PT BPRS Muamalat Yotefa	May 15, 2019
9	PT BPRS Harukat	11 October 2019
10	PT BPRS Gotong Royong	June 5, 2020

Source: OJK Press Release

Table 2. Resource Profile

Criteria	Description	freq.
Number of Assignments	1 to 3 times	1
	4 to 6 times	1
	7 to 10 times	1
	More than ten times	2
Amount		**5**
Last Year of Assignment	0 to 2 years	4
	2 to 5 years	1
	5 to 10 years	0
	More than ten years	0
Amount		**5**
Last Assignment	Closing Balance Audit	2
	TL Responsibility Accountability Audit	1
	Final Balance Sheet Audit	2
Amount		**5**

Source: Author

Table 3. Audit Procedures in the Balance Sheet Audit of Islamic Banks in Liquidation

Audit Procedure	Main Procedure		Resource Person's Answer Procedures Can Detect Sharia Violations		Procedures Can Detect Governance Violations	
	Yes	Not	Yes	Not	Yes	Not
Vouching	4	1	2	3	3	2
Confirmation	5	0	3	2	3	2
Inquiry	5	0	3	2	3	2
Inspection	5	0	3	2	2	3
Observation	5	0	3	2	3	2
Analytical Procedure	1	4	1	4	1	4

Source: Author

Table 4. Sharia Violations in BPRS

Items Violations found in an audit	Finding Frequency	Number of Auditors who found
a. The Practice of Riba	There isn't any	-
b. No Management of Zakat, Infaq, and Alms	More than two times	Three auditors
c. Illegal Transaction Occurs	More than two times	Three auditors
d. Speculation and uncertain transactions occur	More than two times	Three auditors
e. The principle of mutual benefit is not applied	More than two times	Three auditors
f. Halal and sound principles are not applied	Two times	One Auditor
g. Bad things happen and/or harm	Two times	One Auditor
h. DSN-MUI Sharia fatwas have been violated	Two times	One Auditor

Source: Data processed by researchers

Table 5. Conditions of Governance in BPRS

Items according to (Suwandi et al., 2019)	Finding Frequency
a. There is a dual role between shareholders and members of the board of directors	More than eight times
b. The liquidated BPR/BPRS does not comply with paying premiums	More than two times
c. A statement letter from the board of directors was not submitted to LPS	More than two times
d. A statement letter from the commissioner was not submitted to LPS	More than two times
e. BPRS was once designated as a Bank Under Special Supervision	More than eight times

Source: Data processed by researchers

Table 6. Violation Discovery by Auditor

Audit Finding	Answer				Information
	Yes	Frequency	Know	Don't know	
Sharia Violation	4	More than 21 findings	1	0	For multiple audits
Governance Violations	5	More than 18 findings	0	0	For multiple audits

Source: Data processed by researchers

Table 7. The highest order of findings of Sharia violations

No	Type of Violation	Order
1	Speculation and uncertain transactions occur	1
2	No Management of Zakat, Infaq, and Alms	2
3	The principle of mutual benefit is not applied	2

4	Illegal Transaction Occurs	3

Source: Data processed by researchers

Table 8. The highest order of Governance violations

No	Items according to (Suwandi et al., 2019)	Order
1	BPR/BPRS has been designated as BDPK	1
2	There is a dual role between shareholders and members of the board of directors	2
3	BPR/BPRS are not compliant with paying premiums	3

Source: Data processed by researchers

Table 9. Relationship between Sharia Violations and Governance Violations

Connection	Answer Source person	Weight	Average Frequency x Weight
No connection	1	0	0
Very weak	1	1	1
Weak	1	2	2
Moderate	1	3	3
Strong	0	4	0
Very strong	1	5	5
Amount	**5**		**2.2**

Source: Data processed by researchers

Table 10. Sharia Violations and Bank Failures

Connection	Resource Person's Answer	Weight	Average Frequency x Weight
No connection	2	0	0
Very weak	1	1	1
Weak	0	2	0
Moderate	1	3	3
Strong	0	4	0
Very strong	1	5	5
Amount	**5**		**1.8**

Source: Data processed by researchers

Table 11. Violations of Governance and Bank Failure

Connection	Resource Person's Answer	Weight	Average Frequency x Weight
No connection	0	0	0
Very weak	0	1	0
Weak	0	2	0
Currently	1	3	3
Strong	0	4	0
Very strong	4	5	20
Amount	5		4.6

Source: Data processed by researchers