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BANKING FRAUD IN ISLAMIC BANKING GOVERNANCE: AN ISLAMIC LAW AND ECONOMIC ETHICS PERSPECTIVE FROM BPRS PURWODADI

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ABSTRACT

Banking fraud continues to challenge the governance of Islamic financial institutions despite the implementation of internal control, auditing, and risk management systems. Previous studies have predominantly examined fraud from procedural and compliance perspectives, with limited attention to the role of Islamic ethical values in fraud prevention. This study aims to examine how fraud is understood within Islamic banking governance and to develop a value-based fraud prevention framework. A qualitative case study was conducted at BPRS Purwodadi using in-depth interviews with seven key informants, supported by observation and document analysis. Data were analyzed using the interactive model of Miles, Huberman, and Saldaña. The findings indicate that participants understood fraud not only as a legal or procedural violation but also as a breach of institutional trust (amanah). Fraud was associated with organizational pressure, supervisory weaknesses, behavioral rationalization, and insufficient internalization of Islamic ethical values. These findings suggest that effective fraud prevention requires the integration of organizational control mechanisms, ethical internalization, and sharia governance. Based on these findings, the study proposes the Islamic Ethical Fraud Prevention Framework, which integrates structural control, ethical internalization, and sharia governance into a value-based approach to fraud prevention in Islamic banking. The framework contributes to the literature by providing an integrated perspective that combines governance mechanisms with Islamic legal and ethical principles.
Keywords: *banking fraud; Islamic law; Islamic economic ethics; institutional trust; maqasid al-shari'ah*

ABSTRAK

Fraud perbankan masih menjadi tantangan dalam tata kelola lembaga keuangan syariah meskipun sistem pengendalian internal, audit, dan manajemen risiko telah diterapkan. Penelitian sebelumnya umumnya mengkaji fraud dari perspektif prosedural dan kepatuhan, sementara peran nilai-nilai etika Islam dalam pencegahan fraud masih relatif kurang mendapat perhatian. Penelitian ini bertujuan menganalisis bagaimana fraud dipahami dalam tata kelola perbankan syariah serta mengembangkan kerangka pencegahan fraud berbasis nilai. Penelitian menggunakan pendekatan kualitatif dengan desain studi kasus di BPRS Purwodadi. Data dikumpulkan melalui wawancara mendalam terhadap tujuh informan utama, serta didukung oleh observasi dan analisis dokumen. Analisis data dilakukan menggunakan model interaktif Miles, Huberman, dan Saldaña. Hasil penelitian menunjukkan bahwa para informan memaknai fraud tidak hanya sebagai pelanggaran hukum atau prosedur, tetapi juga sebagai pelanggaran terhadap amanah institusional. Fraud dipandang berkaitan dengan tekanan organisasi, lemahnya pengawasan, rasionalisasi perilaku, serta belum optimalnya internalisasi nilai-nilai etika Islam. Temuan penelitian menunjukkan bahwa pencegahan fraud yang efektif memerlukan integrasi antara mekanisme pengendalian organisasi, internalisasi nilai etika, dan tata kelola syariah. Berdasarkan temuan tersebut, penelitian ini mengembangkan Islamic Ethical Fraud Prevention Framework yang mengintegrasikan structural control, ethical internalization, dan sharia governance sebagai pendekatan berbasis nilai dalam pencegahan fraud pada perbankan syariah. Kerangka ini memberikan kontribusi terhadap pengembangan literatur dengan menawarkan perspektif yang mengintegrasikan mekanisme tata kelola dengan prinsip-prinsip hukum Islam dan etika ekonomi Islam.
Kata Kunci: *fraud perbankan; hukum Islam; etika ekonomi Islam; amanah institusional; maqashid syariah*

INTRODUCTION

Banking is a strategic institution in the modern economic system, which acts as an intermediary between parties that have excess funds and those that need financing (Amelia et al., 2025), (Angnesia et al., 2026). Banking in Muslim majority countries, such as Indonesia, is not only an economic tool but also an institution that has moral and religious responsibilities. The banking system, especially the Islamic banking system, is expected to reflect the values of Islamic law and Islamic economic ethics in its governance practices. However, banking fraud still occurs even with the strengthening of regulatory frameworks and supervisory mechanisms (Amelia et al., 2025), (Rahajeng, 2022).

This phenomenon indicates that the improvement of regulations and internal control systems has not been entirely effective in eliminating the risk of misconduct in the financial industry. The banking industry has seen several fraud cases that show that violations occur not only due to weaknesses in supervision but are also linked to integrity, organizational culture and the ethical orientation of the individuals involved (Alfian et al., 2017). These conditions suggest that fraud cannot be understood solely as a failure of internal control or regulatory compliance. Rather, it reflects deeper organizational issues related to ethical culture, institutional trust, and the internalization of moral values within banking governance. Consequently, effective governance depends not only on the performance of control mechanisms but also on the successful internalization of ethical values within individual behavior and organizational culture (Thakor, 2021).

Fraud in the banking sector includes financial statement manipulation, internal corruption, moral hazard in financing, abuse of authority, and collusion between bank officials and customers (Muhtarom et al., 2025). Beyond its financial consequences, fraud weakens institutional trust, which constitutes the primary source of legitimacy for banking institutions. Because banking activities fundamentally depend upon public confidence, fraudulent practices undermine not only organizational performance but also the institution's social legitimacy. Consequently, fraud should be understood as a social and institutional phenomenon rather than merely as procedural misconduct (Antonio, 2001), (Alwi et al., 2021), (Stevansyah & Suhendah, 2023), (Gabrielli et al., 2024).

Although international reports consistently identify fraud as a persistent challenge within the banking industry, most institutional responses continue to emphasize strengthening internal control systems, risk management, and regulatory compliance. Such approaches have undoubtedly improved governance mechanisms; however, they have provided only limited attention to the social and ethical dimensions through which fraud emerges and is interpreted within organizations.

From the perspective of Social Construction Theory, organizational phenomena derive their meaning through continuous social interaction, shared values, and institutional practices rather than solely through formal rules and regulations (Berger & Luckmann, 1966). Accordingly, fraud should not be viewed merely as a legal violation but as a socially constructed phenomenon whose meaning reflects organizational culture, ethical norms, and institutional expectations. Within banking institutions, repeated interpretations of fraud shape how employees understand integrity, responsibility, and trust, thereby influencing the legitimacy of the organization itself.

Ethical culture likewise plays a fundamental role in sustaining institutional trust. Organizations characterized by strong ethical cultures encourage integrity, transparency, and accountability beyond formal compliance requirements. Conversely, weak ethical cultures create organizational environments in which unethical behavior may gradually become normalized despite the existence of comprehensive governance mechanisms. Consequently, fraud prevention should extend beyond procedural compliance by fostering ethical values that reinforce institutional legitimacy and public trust.

From the perspective of Islamic law, fraud is not merely viewed as a violation of positive law but as an unlawful act (*batil*) that contradicts the principles of justice and trustworthiness (*amanah*) (Siregar et al., 2025). Within this perspective, fraud represents not only an unlawful act but also a violation of the social trust (amanah) entrusted by society to financial institutions. Islam prohibits all forms of illegitimate acquisition of wealth, as reflected in the concepts of *ghulul* (embezzlement), *tadlis* (deception), and risywah (bribery) (Danladi Yusuf, 2016). This prohibition is rooted in the fundamental objectives of Islamic law (*maqasid al-shari'ah*), particularly the protection of wealth (*hifz al-mal*). The theory of *maqasid al-shari'ah* , developed by Al-Shatibi, identifies the protection of religion, life, intellect, lineage, and wealth as the primary objectives of Islamic law (Al-Shatibi, 2004). In the banking context, the protection of wealth extends beyond safeguarding individual assets to maintaining the collective stability of the financial system.

Maqasid al-shari'ah emphasizes that economic systems should be established on the principles of public benefit (maslahah) and the prevention of harm (*mafsadah*) (Siregar et al., 2025). Fraud clearly embodies elements of mafsadah because it generates losses, injustice, and economic inequality (Ibrahim et al., 2013). Consequently, fraud should not be regarded merely as an administrative violation but as a betrayal of the trust entrusted by society to banking institutions. This perspective broadens the meaning of fraud from a criminal act to a moral and spiritual concern.

In addition to the maqashid approach, Islamic business ethics provides a normative foundation for preventing fraud. Islamic economic ethics is grounded in the values of sidq (truthfulness), *amanah* (responsibility), ‘*adl* (justice), and *ihsan*(excellence and professionalism). These values require economic actors to conduct their activities with transparency and accountability (Siregar et al., 2025), (Ibrahim et al., 2013). In banking practices, sidq is reflected in the honest presentation of financial reports, amanah in the professional management of customer funds, and justice in financing policies that do not disadvantage any party. However, in practice, these values have often not been fully internalized within organizational cultures (Alkhyyoon et al., 2023), (Hendra et al., 2025).

Fraud Triangle Theory explains fraudulent behavior through the interaction of pressure, opportunity, and rationalization (Van Akkeren, 2023). Although this framework has become one of the most widely adopted approaches in fraud research, it primarily emphasizes organizational and psychological factors while paying relatively limited attention to ethical values, institutional trust, and religious responsibility. Consequently, the theory provides only a partial explanation for understanding fraud within Islamic banking institutions, where governance is expected to integrate legal compliance with moral and spiritual accountability.

Previous studies have predominantly explained banking fraud from the perspectives of internal control, auditing, risk management, and regulatory compliance ((Alfina, 2025), (Sari, 2022), (Fitri Setiabudi, 2025). These studies generally interpret fraud as a consequence of weaknesses in organizational control systems and emphasize procedural solutions for fraud detection and prevention. Comparatively little attention has been devoted to understanding fraud as a crisis of institutional trust (amanah) rooted in ethical culture and Islamic legal values. Consequently, limited research has integrated institutional trust, Islamic economic ethics, and sharia governance into a comprehensive framework for understanding and preventing fraud in Islamic banking.

Based on this research gap, the present study examines fraud as a manifestation of institutional trust failure within Islamic banking governance. Drawing upon Islamic law, Islamic economic ethics, and empirical evidence from BPRS Purwodadi, this study develops an Islamic Ethical Fraud Prevention Framework that integrates structural control, ethical internalization, and sharia governance. By positioning fraud as a crisis of institutional trust rather than merely a failure of internal control, this study offers a broader perspective for strengthening governance and fraud prevention within Islamic banking institutions.

RESEARCH METHOD

This study employed a qualitative approach with a case study design to gain an in-depth understanding of the construction of the meaning of banking fraud from the perspectives of Islamic law and economic ethics within the governance practices of Islamic banking institutions. A qualitative approach was selected because the study focused on exploring meanings, experiences, and interpretations of informants regarding fraud-related phenomena rather than measuring statistical relationships among variables (Miles et al., 2014), (Burns, 2013).

The research was conducted at BPRS Purwodadi, which was purposively selected as an information-rich case for examining fraud governance within Islamic banking. Although the bank has implemented Good Corporate Governance (GCG), risk management systems, internal auditing, and sharia compliance supervision through the Sharia Supervisory Board (Dewan Pengawas Syariah—DPS), fraud prevention remains a strategic concern due to the inherent operational risks faced by Islamic rural banks, particularly those related to financing activities, employee discretion, and organizational governance. This condition provides an appropriate empirical setting for exploring how fraud is understood and prevented beyond formal compliance mechanisms.

The selection of BPRS Purwodadi was also based on its governance structure, which integrates managerial control with sharia supervision in daily operational practices. Such characteristics enable the investigation of how institutional actors construct the meaning of fraud, internalize Islamic ethical values, and implement governance practices aimed at maintaining institutional trust (amanah). Rather than examining the occurrence of specific fraud cases, this study focuses on understanding how fraud prevention is socially constructed within an Islamic banking institution operating under comprehensive governance and sharia oversight.

This study constituted field research involving the direct collection of data from informants engaged in banking governance and supervisory systems. Informants were selected using purposive sampling based on their direct involvement in operational activities, internal supervision, risk management, and sharia compliance oversight. The study involved seven informants, consisting of one Operations Manager (MO-1), one Internal Auditor (AI-1), two Risk Management Staff members (MR-1 and MR-2), and three Sharia Supervisory Board Staff members (DPS-1, DPS-2, and DPS-3). The number of informants was determined according to the principle of data saturation, whereby data collection ceased when recurring thematic patterns emerged and no significant new categories were identified.

Table 1. Characteristics of Research Informants

Informant Code	Position	Organizational Role
MO-1	Operations Manager	Management of banking operations
AI-1	Internal Auditor	Internal supervision and auditing
MR-1	Risk Management Staff	Risk identification and mitigation
MR-2	Risk Management Staff	Monitoring and evaluation of operational risks
DPS-1	Sharia Supervisory Board Staff	Sharia compliance supervision
DPS-2	Sharia Supervisory Board Staff	Supervision of sharia contracts and transactions
DPS-3	Sharia Supervisory Board Staff	Monitoring the implementation of sharia principles

Data were collected through semi-structured in-depth interviews, non-participant observation, and document analysis. Interviews were conducted to explore informants' understanding of fraud definitions, forms of fraud, causal factors, prevention mechanisms, and the implementation of the values of trustworthiness (amanah), honesty, and justice within banking governance practices. All interviews were conducted with participants' consent, audio-recorded, and transcribed verbatim to ensure data accuracy. Non-participant observation was employed to examine the implementation of operational procedures, internal control systems, organizational culture, and compliance practices within banking activities. Document analysis was undertaken using relevant institutional documents, including standard operating procedures (SOPs), employee codes of ethics, risk management guidelines, sharia compliance manuals, internal audit reports, and other supporting documents related to fraud prevention systems (Burns, 2013), (Miles et al., 2014).

Data analysis followed the interactive model proposed by Miles, Huberman, and Saldaña (2014), consisting of data condensation, data display, and conclusion drawing and verification. The analytical process was conducted concurrently with data collection. Interview transcripts were analyzed using thematic analysis through open coding, axial coding, and selective coding procedures to identify major themes related to the meaning of fraud, causes of fraudulent behavior, fraud prevention mechanisms, trustworthiness (amanah), sharia compliance, and banking governance.

To enhance analytical rigor, thematic analysis was conducted through three stages of coding, namely open coding, axial coding, and selective coding (Williams & Moser, 2019). During the open coding stage, interview transcripts were examined line by line to identify meaningful expressions related to participants' experiences and interpretations of fraud. These initial codes were subsequently compared and organized into conceptually similar groups during axial coding, resulting in broader analytical categories that represented patterns across participants' accounts. Finally, selective coding was employed to integrate these categories into overarching themes that explained how participants constructed the meaning of fraud, identified its underlying determinants, and understood value-based fraud prevention within Islamic banking governance. Accordingly, the themes emerged inductively through the integration of multiple categories rather than from individual codes alone. The relationship between open codes, categories, and themes is presented in Table 2

Table 2. Coding Process

Open Codes	Categories	Themes
abuse of authority	governance violation	Fraud as institutional trust crisis
document falsification	procedural violation	Fraud as institutional trust crisis
performance pressure	organizational pressure	Fraud determinants
weak supervision	control weakness	Fraud determinants
rationalization of misconduct	behavioral justification	Fraud determinants
amanah	Islamic ethical values	Ethical fraud prevention
sidq	ethical culture	Ethical fraud prevention
justice ('adl)	moral responsibility	Ethical fraud prevention

Source: Processed Research Data (2026)

To enhance the credibility and validity of the findings, the study employed source triangulation and methodological triangulation (Burns, 2013), (Miles et al., 2014). Source triangulation involved comparing information obtained from different categories of informants, while methodological triangulation was conducted through the comparison of findings derived from interviews, observations, and document analysis. In addition, member checking was performed by requesting participants to review and confirm the researchers' interpretations of interview findings, ensuring that the reported meanings accurately reflected participants' perspectives.

The study adhered to established ethical principles, including informed consent, confidentiality of participant identities, data anonymity, and the exclusive use of collected information for academic purposes (Miles et al., 2014). All participants were provided with comprehensive information regarding the objectives of the study and their right to withdraw from participation at any stage of the research process without consequence.

This study conceptualizes banking fraud as a multidimensional phenomenon that cannot be fully explained through conventional governance and control mechanisms alone. Accordingly, the analytical framework integrates Fraud Triangle Theory, *maqasid al-shari'ah* , and Islamic economic ethics to examine fraud as both an organizational and ethical phenomenon. The integration of these perspectives provides the foundation for developing an Islamic Ethical Fraud Prevention Framework, which positions fraud as a manifestation of institutional trust (*amanah*) failure and emphasizes the role of ethical internalization in strengthening sustainable banking governance (Miles et al., 2014), (Williams & Moser, 2019),(Burns, 2013).

FINDINGS AND DISCUSSION

The Construction of Fraud as a Crisis of Institutional Trust (*Amanah*)

The interview findings obtained from seven key informants, consisting of one Operations Manager, one Internal Auditor, two Risk Management Officers, one Compliance Officer, and two representatives of the Sharia Supervisory Board (SSB), indicate that fraud is understood through diverse organizational experiences rather than solely through legal or procedural interpretations. Although each participant emphasized different aspects of fraud according to their institutional responsibilities, all ultimately associated fraud with the erosion of institutional trust (*amanah*), which forms the foundation of governance in Islamic banking. The Operations Manager (MO) primarily defined fraud from an operational perspective: *"Fraud in banking operations refers to intentional actions aimed at obtaining personal benefits through transaction manipulation, document falsification, or the misuse of authority entrusted by the institution.*"

For operational management, fraud represents a deliberate violation of organizational procedures that directly threatens institutional performance and accountability. The Internal Auditor (AI), however, emphasized fraud from an organizational governance perspective: *"Fraud not only causes financial losses but also damages the bank's reputation and public trust."*

Rather than focusing exclusively on financial losses, the Internal Auditor highlighted the reputational consequences of fraud, indicating that organizational credibility constitutes one of the most significant institutional assets. A somewhat different perspective emerged from the Risk Management Officers. Both participants associated fraud with weaknesses in governance processes rather than with individual misconduct alone. Risk Management Staff-1 (MR-1) explained that fraud risks generally increase when operational discretion is not accompanied by effective supervisory mechanisms, while Risk Management Staff-2 (MR-2) emphasized that inadequate documentation and inconsistent implementation of standard operating procedures frequently create opportunities for unethical practices. These responses illustrate that risk management personnel primarily perceive fraud as a governance risk requiring continuous organizational monitoring.

Meanwhile, representatives of the Sharia Supervisory Board interpreted fraud from a moral and religious perspective. SSB Staff-1 stated: *"From an Islamic perspective, fraud falls within the category of tadlis because it involves deception and the concealment of information that harms other parties."* Similarly, SSB Staff-2 emphasized: *"Fraud represents a violation of amanah and contradicts the principles of justice and wealth protection embedded in maqasid al-shari'ah ."* Unlike managerial participants, the SSB representatives viewed fraud not merely as organizational misconduct but as a violation of ethical responsibility and religious accountability. In their perspective, fraudulent behavior weakens the moral legitimacy of Islamic banking because it violates the trust placed by society in sharia-based financial institutions.

These differences demonstrate that participants constructed the meaning of fraud according to their respective organizational roles. Operational and audit personnel emphasized procedural compliance and governance effectiveness, whereas the Sharia Supervisory Board stressed ethical responsibility and the preservation of amanah. Nevertheless, these perspectives converged in recognizing that fraud ultimately constitutes a crisis of institutional trust rather than merely a breach of organizational procedures. Thematic analysis revealed that the construction of fraud is shaped by three major dimensions, as presented in Table 2.

Table 3. Construction of Fraud Meaning According to Informants

Dimension	Main Findings
Legal	Fraud is understood as deception, embezzlement, and abuse of authority
Organizational	Fraud is viewed as a violation of governance principles and operational procedures
Moral-Spiritual	Fraud is interpreted as a betrayal of trust and justice-related values

Source: Research Findings

The thematic analysis therefore indicates that fraud is socially constructed through organizational experiences, professional responsibilities, and Islamic ethical values. Rather than being interpreted solely as a legal offense, fraud is collectively understood as an erosion of institutional trust that threatens the legitimacy and sustainability of Islamic banking institutions.

Factors Contributing to Fraud in Banking Governance Practices

The thematic analysis revealed that participants associated fraud with four interrelated organizational conditions: organizational pressure, governance weaknesses, behavioral justification, and the insufficient internalization of Islamic ethical values. Rather than describing these conditions as isolated causes, the informants viewed them as mutually reinforcing factors that gradually increase the likelihood of fraudulent behavior within banking governance.

Operational managers primarily emphasized organizational pressure arising from performance expectations and operational responsibilities. The Operations Manager (MO) explained: *"High performance targets sometimes encourage employees to seek shortcuts in achieving organizational indicators."* This statement indicates that organizational expectations may unintentionally create conditions in which employees prioritize performance outcomes over procedural compliance, particularly when ethical considerations are not consistently reinforced. Participants also consistently identified weaknesses in governance mechanisms as an important condition contributing to fraud. The Internal Auditor (AI) stated: *"Most fraud cases emerge when there are supervisory loopholes or weaknesses in specific control processes."* Similarly, Risk Management Staff-1 (MR-1) observed: *"Fraud risk tends to increase in activities involving high levels of discretion and insufficient layered supervision."* Risk Management Staff-2 (MR-2) further explained: *"Weak documentation practices and non-compliance with standard operating procedures are often early indicators of potential fraud."*

Across these interviews, governance weaknesses were understood not simply as failures of internal control but as organizational conditions that create opportunities for misconduct to develop gradually. Another recurring finding concerned the way individuals justified unethical behavior. Rather than viewing misconduct as inherently acceptable, participants explained that perpetrators frequently rationalized their actions by minimizing the perceived consequences. As noted by the Internal Auditor (AI): *"Perpetrators frequently justify their actions by assuming that the misconduct is temporary and will not create significant consequences."* This finding suggests that behavioral justification enables individuals to reduce the moral conflict associated with fraudulent actions, particularly when organizational monitoring is perceived to be weak.

A distinctive finding emerging from interviews with the Sharia Supervisory Board was the importance of Islamic ethical values in shaping employee behavior. Both SSB representatives emphasized that fraud cannot be explained solely through organizational controls because ethical awareness influences how individuals respond to opportunities and pressures. SSB Staff-2 explained: *"Sharia compliance should not merely exist in documents and procedures; it must become a moral awareness embedded in employees' behavior."*

Similarly, participants consistently referred to amanah, honesty, and moral responsibility as essential organizational values that discourage fraudulent behavior. According to the informants, when these values are insufficiently internalized, formal governance mechanisms alone become less effective in preventing misconduct.

Table 4. Factors Contributing to Fraud Based on Field Findings

Theme	Indicators
Pressure	Performance targets, organizational demands, economic needs
Opportunity	Supervisory gaps, weak SOP implementation, excessive discretion
Rationalization	Justification of misconduct and normalization of violations
Moral Deficiency	Weak internalization of trustworthiness, integrity, and Islamic values

Source: Research Findings

The findings indicate that fraud within Islamic banking governance emerges through the interaction of organizational conditions and ethical factors rather than through a single causal mechanism. While organizational pressure, governance weaknesses, and behavioral justification were consistently identified across managerial participants, the Sharia Supervisory Board further emphasized that the effectiveness of fraud prevention ultimately depends upon the internalization of Islamic ethical values. Accordingly, the empirical findings suggest that fraud should be understood not merely as a consequence of procedural weaknesses but also as a manifestation of declining institutional trust and ethical responsibility within the organization.

Value-Based Fraud Prevention Model in Banking Governance

The findings demonstrate that BPRS Purwodadi adopts fraud prevention through the integration of structural governance mechanisms and Islamic ethical values. Participants consistently emphasized that effective fraud prevention cannot rely exclusively on formal control systems but requires the simultaneous development of organizational integrity and sharia-based ethical awareness. From the organizational perspective, participants identified several governance mechanisms that strengthen fraud prevention, including dual-control procedures, maker-checker verification, internal auditing, whistleblowing systems, enterprise risk management, and supervision by the Sharia Supervisory Board. The Operations Manager (MO) explained: *"Every transaction must pass through multiple verification stages, thereby minimizing opportunities for misconduct."* Likewise, Risk Management Staff-1 (MR-1) emphasized: *"Risk monitoring is conducted periodically through the identification of red flags and evaluations of compliance with operational procedures."*

Although participants acknowledged the importance of these governance mechanisms, they consistently argued that structural controls alone are insufficient. According to the Sharia Supervisory Board, fraud prevention ultimately depends on the successful internalization of ethical values throughout the organization. As explained by SSB Staff-2: *"Sharia compliance should not merely exist in documents and procedures; it must become a moral awareness embedded in employees' behavior."*

These findings indicate that governance and ethics jointly strengthen fraud prevention. Formal controls reduce opportunities for fraud, while ethical internalization reinforces employees' commitment to trust (amanah). Accordingly, this study proposes the Islamic Ethical Fraud Prevention Framework, integrating structural control, ethical internalization, and sharia governance to enhance institutional trust and fraud prevention.

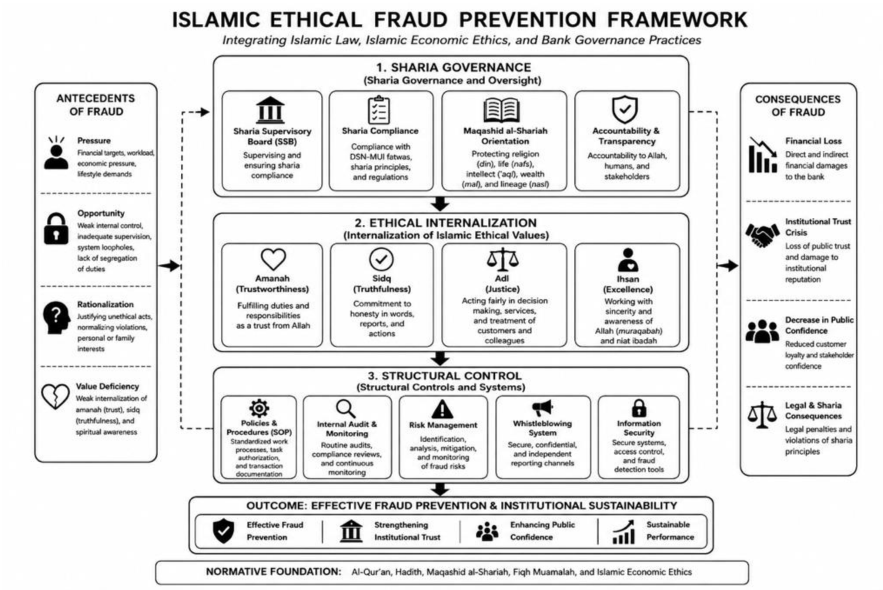

Figure 1. Islamic Ethical Fraud Prevention Framework
Source : Research Findings

Figure 1 illustrates the integration of structural control, ethical internalization, and sharia governance as a comprehensive fraud prevention mechanism. The framework suggests that effective fraud prevention cannot rely solely on procedural controls but must also be supported by the internalization of Islamic ethical values and substantive sharia governance. The interaction among these three dimensions contributes to the strengthening of institutional trust and sustainable banking governance.

Table 5. Islamic Ethical Fraud Prevention Framework

Component	Forms of Implementation
Structural Control	Internal audits, SOPs, risk management, whistleblowing systems
Ethical Internalization	Ethics training, integrity culture, exemplary leadership
Sharia Governance	Sharia supervision, implementation of *maqasid al-shari'ah* , moral development programs

Source: Research Findings

The proposed framework constitutes the principal contribution of this study. Unlike conventional fraud prevention models that primarily emphasize organizational controls, the Islamic Ethical Fraud Prevention Framework integrates structural governance, ethical internalization, and sharia governance into a unified approach for strengthening institutional trust. The findings therefore position fraud not merely as a procedural violation but as a crisis of amanah, suggesting that sustainable fraud prevention requires the simultaneous reinforcement of governance mechanisms, ethical culture, and spiritual accountability within Islamic banking institutions.

DISCUSION

Fraud as a Crisis of Institutional Trust (*Amanah*) in Banking Operations

The findings indicate that participants at BPRS Purwodadi consistently interpreted fraud as more than a violation of legal provisions or organizational procedures. Across managerial, audit, risk management, and Sharia Supervisory Board perspectives, fraud was understood as a breach of institutional trust (*amanah*) entrusted to the bank by customers, regulators, and society. This shared interpretation demonstrates that fraud carries social and moral consequences extending beyond financial loss.

This finding explains why participants repeatedly associated fraudulent behaviour with declining public confidence rather than merely with operational failure. Within banking institutions, financial intermediation depends fundamentally on public trust. Consequently, fraudulent conduct weakens organizational legitimacy because it challenges the credibility upon which banking relationships are established. Fraud therefore represents a disruption of the social contract between financial institutions and the communities they serve (Swandaru & Muneeza, 2022; Rahajeng, 2022; Angnesia et al., 2026).

Conceptually, these findings are consistent with Albrecht (2009) and Angnesia et al. (2026), who define fraud as intentional deception undertaken for personal gain. However, the present study extends this perspective by showing that organizational members themselves construct fraud primarily as a violation of amanah rather than simply an act of financial misconduct. This interpretation reflects the importance of institutional trust as a governance resource within Islamic banking (Albrecht, 2009; Angnesia et al., 2026).

From the perspective of Islamic law, amanah is not limited to individual honesty but represents an institutional obligation to manage entrusted resources responsibly. Consequently, fraudulent behaviour signifies the failure to fulfil both legal accountability and moral responsibility. This interpretation reinforces the *maqasid al-shari'ah* principle of hifz al-mal, in which protecting wealth also includes protecting public confidence in financial institutions (Ibrahim et al., 2013; Alkhyyoon et al., 2023; Hendra et al., 2025).

These findings also support organizational legitimacy theory, which argues that institutions maintain legitimacy when organizational behaviour remains consistent with socially accepted norms and ethical expectations (Swandaru & Muneeza, 2022), (Rahajeng, 2022), (Angnesia et al., 2026). Once fraud occurs, legitimacy deteriorates because stakeholders perceive that the institution has violated its social mandate. Thus, fraud should be understood not only as procedural misconduct but also as a crisis of institutional legitimacy arising from the erosion of public trust (Ibrahim et al., 2013), (Alkhyyoon et al., 2023), (Hendra et al., 2025).

Why Formal Governance Alone Cannot Prevent Fraud

The findings demonstrate that BPRS Purwodadi has implemented various governance mechanisms, including internal auditing, risk management, dual-control procedures, maker-checker systems, whistleblowing channels, and sharia supervision. Participants acknowledged that these mechanisms substantially reduce opportunities for misconduct by strengthening accountability and transaction monitoring. Nevertheless, almost all informants emphasized that formal governance mechanisms cannot eliminate fraud entirely because organizational procedures cannot supervise every individual decision. Employees continue to exercise discretion in numerous operational activities, creating situations in which ethical judgement becomes more influential than procedural compliance.

This observation partially supports Fraud Triangle Theory, which explains fraud through pressure, opportunity, and rationalization (Van Akkeren, 2023). The empirical findings confirm that organizational pressure, supervisory weaknesses, and behavioural rationalization remain relevant explanations for fraudulent behaviour. However, participants consistently emphasized that these factors become particularly dangerous when organizational members fail to internalize ethical values.

Accordingly, this study does not reject Fraud Triangle Theory but rather complements it by demonstrating that the effectiveness of organizational control depends substantially upon ethical culture. Formal supervision reduces opportunities for misconduct, whereas ethical internalization reduces the willingness to misuse those opportunities. Therefore, organizational governance should be viewed as an interaction between procedural control and value-based self-regulation rather than as reliance upon compliance mechanisms alone. This interpretation is consistent with previous studies emphasizing that organizational ethics and integrity strengthen the effectiveness of internal control systems (Thakor, 2021; Alkhyyoon et al., 2023; Stevansyah & Suhendah, 2023).

The findings further explain why several participants argued that fraud prevention begins before violations occur, namely through cultivating integrity during recruitment, employee development, leadership practices, and daily organizational interactions. In this sense, governance operates not only through institutional rules but also through organizational culture (Beekun, 1997; Qoyum, 2018).

Operationalizing Islamic Ethical Values in Anti-Fraud Governance

One of the most important findings of this study is that Islamic ethical values are not perceived merely as abstract religious principles but as practical governance mechanisms supporting fraud prevention. Informants consistently explained that amanah, sidq, and 'adl influence everyday organizational behaviour and strengthen existing governance structures (Amelia et al., 2025; Ibrahim et al., 2013; Muhtarom et al., 2025). Within internal auditing, amanah encourages auditors to maintain independence and objectivity despite organizational pressure. Auditing therefore functions not only as a compliance activity but also as an ethical responsibility to protect institutional trust. In standard operating procedures (SOPs), sidq reinforces the accuracy, transparency, and honesty of financial reporting and transaction documentation. Employees regarded truthful reporting as an ethical obligation rather than simply a technical requirement, thereby reducing opportunities for document manipulation. Similarly, the value of 'adl supports equitable decision-making in financing approval, supervision, and disciplinary processes. Fair governance reduces perceptions of organizational injustice that may otherwise encourage behavioural rationalization or unethical conduct (Beekun, 1997; Ibrahim et al., 2013; Qoyum, 2018).

These findings further demonstrate that whistleblowing systems become more effective when employees perceive reporting misconduct as a fulfilment of amanah instead of an act of personal disloyalty. Ethical internalization therefore strengthens the legitimacy and effectiveness of formal reporting mechanisms. Likewise, Sharia Supervisory Board activities extend beyond verifying legal compliance. Participants explained that sharia supervision also functions as ethical guidance by reinforcing awareness of accountability before both the institution and Allah. Consequently, sharia governance contributes simultaneously to procedural compliance and moral development within the organization (Abdurrahman, 2025; Danladi Yusuf, 2016; Muhtarom et al., 2025).

Taken together, these findings indicate that Islamic ethical values become operational through concrete governance practices rather than remaining solely normative concepts. Ethical culture therefore complements structural governance by encouraging voluntary compliance, strengthening accountability, and reinforcing institutional trust (Beekun, 1997; Ibrahim et al., 2013).

Islamic Ethical Fraud Prevention Framework: Theoretical and Practical Implications

Drawing upon empirical findings, this study proposes the Islamic Ethical Fraud Prevention Framework, consisting of structural control, ethical internalization, and sharia governance as three mutually reinforcing dimensions. Structural control comprises internal auditing, maker-checker procedures, whistleblowing mechanisms, risk management, and standard operating procedures. Its primary mechanism is reducing opportunities for misconduct through monitoring, segregation of duties, and accountability systems. The expected output is stronger procedural compliance and lower operational risk.

Ethical internalization encompasses ethics training, leadership example, organizational culture, and continuous reinforcement of amanah, sidq, and ‘adl. Its mechanism focuses on strengthening employees' moral awareness so that ethical behaviour emerges even when direct supervision is absent. The expected outcome is reduced rationalization and stronger organizational integrity. Sharia governance integrates Sharia Supervisory Board oversight with *maqasid al-shari'ah* principles and ethical guidance. Its mechanism emphasizes aligning governance practices with Islamic legal and ethical objectives while fostering moral responsibility throughout the organization. The expected output is enhanced institutional legitimacy and sustainable public trust (Al-Shatibi, 2004; Beekun, 1997; Abdurrahman, 2025).

Unlike conventional anti-fraud approaches that emphasize procedural compliance, the proposed framework demonstrates that sustainable fraud prevention requires continuous interaction among these three dimensions. Structural control addresses organizational vulnerabilities, ethical internalization shapes individual behaviour, and sharia governance reinforces institutional accountability. Together, these dimensions strengthen institutional trust as the foundation of governance in Islamic banking (Ibrahim et al., 2013; Beekun, 1997; Qoyum, 2018).

Accordingly, the principal theoretical contribution of this study is not to replace Fraud Triangle Theory but to extend it by incorporating institutional trust, Islamic economic ethics, and sharia governance into the analysis of fraud in Islamic banking (Van Akkeren, 2023; Hendra et al., 2025; Antonio, 2001; Muhammad et al., 2023). The framework broadens existing fraud literature by explaining that fraud within Islamic banking should be understood simultaneously as a governance failure and a crisis of institutional trust (amanah), thereby providing a more comprehensive foundation for anti-fraud governance in Islamic financial institutions.

CONCLUSION

This study examined how fraud is understood within the governance practices of BPRS Purwodadi from the perspectives of Islamic law and Islamic economic ethics. The findings indicate that fraud is constructed not merely as a legal or procedural violation but as a crisis of institutional trust (amanah) that undermines the legitimacy of Islamic banking institutions. Participants associated fraudulent behaviour with organizational pressure, supervisory weaknesses, behavioural rationalization, and insufficient internalization of Islamic ethical values, demonstrating that fraud emerges through the interaction of organizational and ethical factors. Based on these findings, the study proposes the Islamic Ethical Fraud Prevention Framework, which integrates structural control, ethical internalization, and sharia governance into a value-based approach to fraud prevention. The principal theoretical contribution of this study lies in extending Fraud Triangle Theory by incorporating moral-spiritual dimensions rooted in amanah, sidq, and 'adl within Islamic banking governance. Rather than replacing conventional governance mechanisms, the framework demonstrates that sustainable fraud prevention depends on the integration of formal control systems with ethical culture and sharia-based governance, thereby strengthening institutional trust as the foundation of Islamic financial institutions.

Theoretically, this study contributes to fraud literature by broadening conventional explanations of fraud beyond organizational control and behavioural factors toward a perspective centered on institutional trust, Islamic economic ethics, and sharia governance. Practically, the findings suggest that Islamic banking institutions should integrate ethical values into internal auditing, standard operating procedures, whistleblowing systems, leadership development, and sharia supervision so that fraud prevention is supported not only by procedural compliance but also by ethical consciousness throughout the organization. The proposed framework may also provide a reference for regulators and Islamic financial institutions in strengthening value-based anti-fraud governance.

This study was conducted as a single qualitative case study at BPRS Purwodadi and relied on data obtained from seven key informants, limiting the transferability of the findings to other Islamic banking institutions. Future research is encouraged to undertake comparative studies across Islamic and conventional banks, involve broader stakeholder groups such as regulators, audit committees, and customers, and employ quantitative or mixed-method approaches to examine the effectiveness of the proposed Islamic Ethical Fraud Prevention Framework in different institutional settings.

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