Tianjin Daxue Xuebao (Ziran Kexue yu Gongcheng Jishu Ban)/
Journal of Tianjin University Science and Technology
ISSN (Online): 0493-2137
E-Publication: Online Open Access
Vol:55 Issue:02:2022
DOI 10.17605/OSF.IO/MXU8K

EFFECT OF CORPORATE AND SHARIAH GOVERNANCE ON PREVENTION OF FRAUDS IN BANKING SECTOR OF PAKISTAN: MEDIATING ROLE OF COMPLIANCE AUDIT

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Abstract
This study is prompted by the reality that fraud frequently happens within the sharia banking industry, which is founded on Islamic values. The Shariah Islamic Banks works by following Islamic principles that are free of interest in all aspects of its operations. According to ACFE (Association of Certified Fraud Examiners) statistics in 2016, banks and corporations are the most vulnerable to fraud. Islamic banks may follow Sharia norms; however, this does not guarantee that they will not be involved in fraud. Several replace Islamic banks because of fraud. This could be a result of a lack of sharia governance practices application. The survey was performed in both conventional and Islamic banks, with the findings indicating that implementing Shariah governance and corporate audit was advantageous in preventing fraud and strengthening Islamic banking services. Since Islamic banks are a banking enterprise that integrates the rules of banking and Islamic teachings, this investigation has crucial consequences. Sharia banking should be harmonized with the capabilities of decent human skills. The quantitative research was conducted from the participants working in multiple Islamic and conventional banks operating in Pakistan. The results support the hypothesis that both corporate governance and Shariah laws are essential for banks to operate effectively. These laws and governance procedures also help in reducing the fraudulent activities in banks, hence increasing profits and benefits both for banks and their customers. The findings of our research will help in the operations in banking sector and in future, the different researchers can also investigate further discussing single regulations and their individual benefit for the banks.

Keywords: Prevention of Frauds, Shariah Governance, Corporate Governance, Compliance Audit

1. INTRODUCTION

The financial system in Pakistan has experienced a period of evolution in recent years, but it is nevertheless beset by problems, the most serious of which being political instability and economic unpredictability. On the one hand, banks are profitable, defaults are decreasing, and there is an excess of liquidity throughout current history, but then, on the other hand, the country's financial conditions have worsened in the previous two years caused by political instability. Approximately 16 percent of the public has accounts, per research conducted by the State Bank of Pakistan on financial intermediation, indicating a loss of confidence and credibility on the part of the public (SBP – 2018).

According to the recent earnings statement of Pakistan's leading banks, three Sharia law and three conventional (National Bank of Pakistan, United Bank Limited, Allied Bank, Meezan Bank, Bank Islami, Al-Barakah), major financial indicators of National Bank of Pakistan (NBP) had also improved considerably, as well as the bank had also

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outstripped its peers throughout operating profits caused by variations in corporate strategy during the first half of the present calendar year. Even though most banks are experiencing a major drop in profitability based on a variety of factors such as varied measures and a reduction in trade activity, NBP claimed a 46 percent increase. Two of the main six banks, though (Allied Bank and Dubai Islamic Bank), had their after-tax income plummet during the same period. The profits of Pakistan's leading banks are thought to be a measure of the country's banking program's health (Khan, 2015).

Because interest is forbidden in religion Islam, the Islamic financial system consists of goods that do not contain riba (interest) and therefore are based on Shariah rules; thus, it is also known as interest-free financial services. As per research by Pakistan's State Bank, more than 300 Islamic financial institutions operate in nearly 75 countries (SBP, 2018).

Several Islamic banks are plagued with fraud instances, which may be attributable to a lack of Islamic governance application. It's because implementing sharia governance practices is a critical component of maintaining the Islamic finance industry's growth and stability (Grassa, 2015). Numerous research works on Islamic financial governance have indeed been conducted, including one that relates the governance functionalities of Islamic banks and conventional banks, as well as one performed by some other researcher that describes how the integration of sharia governance contributes to Islamic banks' engagement and trust.

After the European banking collapse in the 1980s, bankruptcies just after Latin American and Asian crises in the 1990s (Hanif, 2012), and most recently, the subprime mortgage crisis in 2008, the ongoing discussion on governance has presented new issues for the banking industry (Uslaner, 2010). It raised significant concern about bank governance in the face of this kind of challenge.

Previous research has found no substantial differences between Shariah and conventional regulation in financial services. This investigation will shed light on the subject. The fraud triangle approach would also be used in this research to improve internal financial services following conventional and Islamic banking.

Fraudulent activities in banks, both inoperative banks and also in bank income statements, have still not been adequately exposed, particularly in the case of the Pakistani financial system (Baker et.al, 2017). The research will assess the below-mentioned gaps by examining the Pakistani banking industry for both traditional and Islamic governance practices, as well as concentrating on financial fraud. Shariah legislation is also being recognized as a factor in the avoidance of financial fraud in Pakistani banks.

2. RESEARCH AIM

The goal of this study is to look into the tactics that some Pakistani bank managers might use to better understand the function of corporate leadership in minimizing bank collapses. The population was made up of Pakistani bank executives. The year in which Pakistan's government rebuilt the economy following the 2018 election. In addition, the goal of this research is to emphasize the relevance of Shariah principles in the Islamic banking system as well as the function it has performed in the avoidance of Islamic financial frauds.

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The basic objectives of the research are:

- To examine the influence of shariah and corporate governance towards the avoidance of fraud in the banking sector of Pakistan.
- To recognize the influence of shariah and corporate governance on quality of service in the traditional and Islamic banks in Pakistan.
- To examine the impact of compliance audit on the prevention of fraud in the banking sector of Pakistan.
- To evaluate the mediating effect of compliance audit between the shariah law, corporate governance, and prevention of frauds in the banking sector of Pakistan.

The results of this research will be important not just for management, leadership, employees, organizations, and investigators, but mostly for banks for the reason to combat increasing corruption and economic fraud concerns. In Asian countries such as Pakistan, financial frauds such as scamming, creating bogus accounts, and so on are more common than in industrialized countries.

3. Literature Review

A. Fraud

Fraud is a comprehensive judicial word that refers to some intentional conduct committed by one or multiple people that involves the utilization of fraud as a method of obtaining an unfair or illegal advantage. Any deliberate deceptive, deceiving, or fraudulent way of depriving somebody unlawfully of anything of worth or evading an obligation by deception is considered fraud (Ahmed, 2021).

Fraudulent actions range from faked financial documents to complex corporate schemes that are painstakingly planned and executed (Ahmed, 2021). In the 4th version of the Black Law Dictionary, printed in 1968, fraud is defined as "an deliberate immorality of reality to stimulate another in dependence on that to part with several valuable thing affiliated to him or to give up a lawful authority," "a untrue depiction of a consequence, in words or actions, by false or inaccurate accusations, or by dissimulation of the reality that may have been revealed, that betrays and is meant to mislead another" (Ahmed, 2021).

As per investigators and counsellors, fraud, like some other sins, is supposed to be defined by three criteria, namely:

- a ready supply of ruthless criminals,
- The availability of suitable objectives, and
- The non-appearance of capable caregivers.

The A-B-C catalog, often known as the "bad apple, bad bushel, and bad crop" model, has recently been designed as a component of behavioral forensics' expanding subject, a growing and spreading field. As per Ramamoorti (2019), the theory asserts that every fraud has a central, unavoidable feature, which is the presence of one or maybe more individuals.

When determining fraud, the A.B.C. (apple, bushel, and crop) theory proposes that one person leads to a cohesive unit, which leads to a total historic and cultural element.

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The A.B.C. hypothesis eliminates the need to investigate a complicated portent like a fraud (Ramamoorti, 2019). There is also an obvious expectation that different inquiry components (i.e., apple, bushel, and crop) will be baptized depending on the extent of fraud execution. A single person implicated in fraud will be classified as a bad apple underneath the A.B.C. typology. This is an incidence of a terrible bushel while there are participants and so the agreement of several people is involved (Ramamoorti, 2019). Additionally, once the establishment's top leaders engage in unethical behavior and the whole of the society is poisonous, it becomes a bad crop model. The bad crop phenomenon has the potential to disrupt a whole sector.

Another viewpoint concentrates on the regularity of criminal behavior. The divergent association hypothesis is what it's termed (Ramamoorti, 2019). This theory's primary components could be summarized as follows:

- Criminal behavior is learned rather than inherited. Criminal behavior is not devised by someone who has not been trained enough in delinquency.
- Criminal behavior is learned through interpersonal communication and verbal encounters.
- The fundamental learning of criminal behavior takes place with close groups of people.

According to Ramamoorthy, learning about crime entails learning about the means of committing the crime as well as the goals, determinations, explanations, and insolences that go along with it (2019). An individual may become a robber as a result of an overabundance of ideas (or private reactions), which adds to the misuse of the laws.

The Agency hypothesis is also discussed by Ramamoorti (2019). External governance contrivances (such as activist shareholders, the marketplace for corporate regulation, and financial forecasts) can deter executives from acting speculatively, according to this view. According to Ramamoorti's (2019) expanding concept of cognitive component, outer governance might intrude on senior executives' feelings of autonomy and force away from their innate incentive, potentially leading to financial fraud. His findings show that the pressure from activist investors, the marketplace for business regulation, and financial analysts increase the likelihood of economical fraud among administrators. His research examines outward regulation from the perspective of a senior official and questions one among agency theory's central tenets: that imposing an outward duty on directors reduces the risk of moral danger.

B. Shariah Governance

Qatan coined the phrase "Shari'ah governance" in 2003, stating that "the Shari'ah management system is an innovative building component of the Islamic economic architecture" (Ginena & Hamid, 2015). Standard-setting agencies like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Service Board (IFSB) gradually adopted this idea to describe the regulation of Shariah law compliance in Islamic banking institutions. The Shariah principles governance control is known by the IFSB (2009) as "a collection of institutional and organizational structures by which IFIs assures that there has been efficient independent oversight of Shariah law compliance and over issuing of applicable

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Shariah law declarations and their propagation, and also an inner and yearly Shariah law compliance review/audit."

The definition demonstrates that IFIs or Islamic Banks have roles or organs in place to ensure that all services and business activities inside the corporation are compliant with Shariah law standards at all times and layers. The Shariah supervisory board must cooperate and engage with various operations inside the Islamic Bank to efficiently perform its obligations. Before making Shariah law judgments, the Shariah supervisory board might have to collaborate with the Religious law research unit and conformance unit in the product creation process (Fatmawati et al., 2020).

The Sharia laws corporate regulatory model is a structure that Islamic banks use to control, supervise, and execute their operations (Alam et al, 2019). The principles of Shariah financial regulation are derived from Islamic teachings. According to studies, corporate governance as a concept and practice does not fully meet the goals and needs of Islamic banking institutions (Sulaiman et al, 2015). This kind of governance makes it easier for Islamic banks to pursue social equality and uphold their Islamic beliefs while conducting business. It's essentially the Islamic take on corporate governance. Because this research is looking into the role of corporate governance in preventing fraud in the Banking sector of Pakistan, it's vital to first go through the characteristics and procedures of Sharia laws governance.

The Islamic Financial Services Board (IFSB) defines Shariah governance practices and whatever it comprises, whilst Institutions offering Islamic Financial Services (IIFS) have established certain criteria for its successful and smooth execution. Below are the guidelines:

- Issuing Shariah-compliant remarks
- The IIFS representatives who supervise the activities' compliance must be provided a lot of knowledge about Shariah's resolution.
- Institutional Shariah compliance must be reviewed, and any instances of non-compliance must be addressed and resolved.
- The Shariah board shall evaluate and check the compliance with Shariah procedures on an annual basis, and the conclusions should be documented.

To apply sharia corporate structure, you'll need a Sharia governing board. The committee is in charge of overseeing, monitoring, inspecting, and advising on shariah principles in important financial institutes and organizations. (Rama & Novela, 2015). Shariah governance, per Ginena and Hamid (2015), is a complete framework that monitors how Islamic Financial Institutions follow Shariah regulations in their economic activities and dealings.

In Pakistan's commercial banking sector, Islamic banks are rapidly gaining ground (Hassan, et al., 2017). Islamic banks' overall income annually is steadily increasing, owing to their effective control over financing decisions. The united endeavor of the Board members and the Shariah Advisory Committee is the source of this great decision-making ability. The profitable hits to Islamic Institutions' balance sheets attract new buyers and motivate other traditional banks to start Islamic Banking.

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C. Corporate Governance

The set of rules, policies, and procedures through which businesses are governed and regulated is known as corporate governance. Corporate governance entails balancing the interests of a variety of stakeholders, including shareholders, managing buyers, suppliers, financiers, government, and also the general public. Shareholders, Employees, Consumers, People, and Community, among others, are all components of corporate governance, that is defined as a set of connections that comprises not just the firm's founder but all additional groups like Stockholders, Staff members, Customers, Persons, and Society (Khan et al., 2021).

Inside the Banking institutions, Halbouni, Obeid and Garbou (2016) looked at the importance of information systems and corporate governance for detecting and minimizing fraud. Domestic and foreign auditors, as well as account balances, were questioned regarding corporate governance and information technology in the setting of an ethical attitude, the efficacy of audit committees, staff training programs, and both internal and external auditing operations. These people's perspectives were tested in terms of recognizing and preventing fraud. Studies discovered some intriguing insights into corporate governance's role in fraud prevention and detection in the United Arab Emirates. According to the investigation, technology plays an important role in identifying and combating fraud. Furthermore, the same study found no significant variation in the utilization of traditional auditing procedures and technology by audit teams from inside and outside the organization. According to the survey, corporation leaders and senior managers in the Emirates are not able to comprehend that an environment of honesty has a low beneficial impact on fraud detection and prevention. It is necessary to build systematic procedures that are connected using information technology that can detect and prevent fraud.

Chaoul (2016) claimed that duplicity in business financial information undermines the trust of audited financial statements. Compliance systems and corporate governance practices have been found to be effective in decreasing fraud. Current research suggests looking into ways to strengthen corporate governance frameworks in underdeveloped countries, particularly in Lebanon, where corporate governance is shown to be lacking. Chaoul (2016) did research to see how fraud may be decreased and prevented by examining variables such as financial information transparency, executive board competence, effective corporate responsibility actions, audit committee efforts, and executive board efficiency. The study found that improving the ability of the board executives and the accuracy of financial data could significantly minimize fraudulent behaviors.

Martins and Júnior (2020) did research to better understand how to mitigate fraudulent actions in Brazilian businesses by reducing false financial reporting (FFR). The study looked at 314 publicly traded firms in order to determine the probability of default and the possibilities of earning management. FFR is determined to have a likely influence in 5.5 percent of cases, according to the study's findings. The investigation uncovered 16.9% of bankruptcy instances and 17.7% of the risk of earning fraud.

D. Compliance Audit

Compliance auditing is an organized, impartial, and recorded procedure for gathering objective proof and fairly assessing it to evaluate whether or not audit requirements

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are met (ISO 9000 Quality Systems Handbook, 2017). Economic, excise duties, ecologic, and fraud explorations are all different kinds of auditing that businesses undergo (Thakore et al., 2019).

In banking institutions, adhering to corporate governance is indeed a strategy to safeguard the public against bank capital losses. Another viewpoint is that Corporate governance can add profits to shareholders while also safeguarding other interests of the community. As a result, there is a perception that obeying applicable regulations by bank administration has an impact on enhancing the integrity of ownership and other administrative entities, hence improving compliance with corporate governance.

According to Abdul Rahman (2008), Shariah compliance is primarily internal. The audit team must undertake the compliance audit. Even though this gives stakeholders considerable confidence and faith in IFIs, Ahmed and Chapra (2002) pointed out that there are concerns and obstacles, like independence, secrecy, and a lack of Islamic and financial professionals. For minimizing these problems and threats, Grais and Pellegrini (2006) advocated for the creation of an externally and internally model that focuses on market regulation and serves as a guide for the Shariah Board by standardization and harmonization. Exchanges would be reviewed by IFIs' internal investigation units under the proposed structure, while external auditors would've been responsible for providing a viewpoint upon that compliance of a IFIs' activities (Omar, 2019).

i. Role of the Board of Directors

The board members are responsible for establishing a precise corporate governance framework, as well as for establishing an appropriate occupational integrity plan, consciously acknowledging scam-related events that lead to fraud, and retaining exclusive supervision and control of such fraudulent practices. The executive board seems to be in charge of reviewing and maintaining an understanding of prevention and detection of fraud, monitoring regulatory activities, and overseeing deception by corporate executives and personnel (In'airat, 2015). Because the management is in charge of establishing acceptable regulations for giving the necessary work atmosphere for a company, it should also oversee in-house controlling methods implemented by the administration and establish a good working atmosphere at the greater level. The executive board must also be able to maintain and compensate independent professionals, as well as provide evidence of active engagement to independent auditors (In'airat, 2015).

ii. Role of the Audit Committee

The audit team is typically entrusted by the management board to minimize the danger of fraud within large corporations (Sadique, et al., 2019). The audit committee must be consisted of independent directors, at minimum one financial specialist (preferably an economist), and meet alone with the inside audit offices regularly in the exclusion of management.

To reduce the danger of a scam, the audit team should be involved in the risk management process. It must have an informal and honest conversation with the independent auditors, especially when it comes to fraud issues and threats (Sadique, et al., 2019). The audit team should also have clear, uncluttered lines of

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communication with competent legal counsel to whom it would turn when deception is suspected.

iii. Role of Firm Management

Management is responsible for creating and executing the fraud risk administrative program, even though the audit team serves as the supervisor. As part of this role, the company must reduce risk, set a particular tone just at top of the organization, create enough internal committees, and report to the senior management on fraud prevention systems and regulations to evaluate their performance (Sadique, et al., 2019). One example of governance is a senior ethics officer, who reports to the management board on threat control efforts in a variety of organizations.

To be more specific, all levels of management and personnel should be aware of the scam and its alerts, as well as their roles within the internal control framework. They must also study and comprehend the strategy and procedural manuals, and help establish and design a strong regulatory structure as required (Sadique, et al., 2019). Organizational management must participate in control efforts, report suspicious deception incidents, and cooperate with investigations.

iv. Shariah Governance and Frauds

Fraud is a crime from a theological standpoint, and such activities have propagated negativity in the business world. There can be three stages to minimizing fraud and its consequences. The first phase comprises the laws and regulations that will be used to prevent it. The elimination of fraud is aided by changing an agency's behavior and attitudes. There are actual goals that can be achieved if corporate law is in place, as well as regulatory measures that discourage such behavior (Singleton, 2010). Frauds inside some company or business are naturally minimized whenever a culture of honesty, integrity, and transparency is formed.

For the purpose to implement rules and laws in SG growing international marketplaces, various models are available (Wardhany and Arshad, 2012). They use their own centralized SGF in Malaysia. In Bangladesh, however, there is indeed a unique body for Islamic insurance businesses called the CSCIIB. This board is based on Islamic principles and allows businesses to obey the laws and regulations. And it is also in charge of the complex Shariah issues as well as the application of Islamic items.

v. Role of Shariah Corporate Governance in the prevention of frauds

Ghofur and Santika (2020) investigated the impact of shariah principles on the financial performance Of banks. The study looked at the financial records of nine Indonesian Islamic banks. Profit-sharing ratio (PSR), Islamic investment ratio (IIR), and Islamic income ratio (IIR) were discovered to be variables in statistical analysis (IR). According to the findings, there is no link between IsIR, PSR, and fraud. The findings of Ghofur & Santika (2020) confirmed the absence of fraud in Indonesia's Islamic Financial sector. This demonstrates that shariah adherence is strictly enforced in the state. This indicates that the fewer the number of frauds, the more likely the shariah principles will be followed and fraudulent actions will be reduced.

Suryanto and Ridwansyah (2016) investigated the role of shariah Financial Accounting Standards, Shariah Auditor Competency, and Shariah Supervisory Board Independence in Islamic banking system frauds. The study looked into this influence

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using a group of 48 people, including auditors who work for the Islamic Supervisory Board and Islamic Banking. The evidence comes from Indonesian banking and shows that all such factors have a simultaneous impact on fraud protection, particularly in Islamic institutions. Rather, the provisional Shariah supervisory panel's independence had no significant effect on detecting fraud; yet, Islamic auditor competency had a minor impact.

Ghoniyah and Amilahaq investigated how to reduce fraud inside the Islamic banking sector. The research was carried out in Indonesia, and the importance of adhering to shariah standards when it came to concerns of fraud was stressed. In Islamic banking, profits are distributed according to the bank management's definition of 'muamalah.' This study involved eight banks, and also the findings of the research were analyzed during five years. The information was gathered from the firms' websites and put through the Sobel test. The outcomes of the study revealed that the corporate dividend scheme and adherence to shariah law reduced the number of scams. Furthermore, the impact of Islamic shariah on scammers or frauds was mediated by profit distribution.

In Islamic banking organizations, shariah obligations are applied for the benefit of consumers and to deliver good services. There is a portion of the population that believes the Islamic financial system is more acceptable than traditional banking. Shariah law in Sharia banking organizations is weak in various nations. According to Rini (2014), a small degree of shariah compliance increases the risk of fraud in the Islamic financial system. To prevent the occurrence of deception, the rules of shariah must be scrupulously followed. Yusuf, Ahmad, and Razimi performed yet another study (2016). The purpose of the research was to analyze the framework, architecture, and notion of fraud about theories like the Fraud Diamond Theory and the Fraud Triangle Theory. Its goal was to look at Islamic shariah principles in Islamic financial institutions via the lens of Shariah Enterprise Theory. It was determined that if this hypothesis is correctly implemented, there are fewer concerns with Islamic financial crimes.

E. THEORETICAL REVIEW

The agency idea underpins governance practices. It is referred to as the foundation of corporate management studies by Bosse and Phillips (2016). It explains the relation between corporate governance and returns on assets (Asogwa et al., 2019).

Typically, organizations and financial organizations have several stockholders. The stockholders are divided into three groups: owners, executives, and customers. According to agency theorists, proprietors' interests frequently diverge from those of managers, resulting in conflict (Hull & Dawar, 2014). The primary reason for this is that both parties want to maximize their profits, and the owner's goals may be overwhelmed by the administrators' (Mitnick, 2015). Personal motivations of management may block the lengthy shareholder's purpose of wealth maximization.

According to the agency theory, disagreement can jeopardize a firm's financial position and influence its outcome. When there is a power difference in a company, one side may take advantage of their situation to pursue their personal goals. Managers typically accomplish this by deceiving shareholders by manipulating financial

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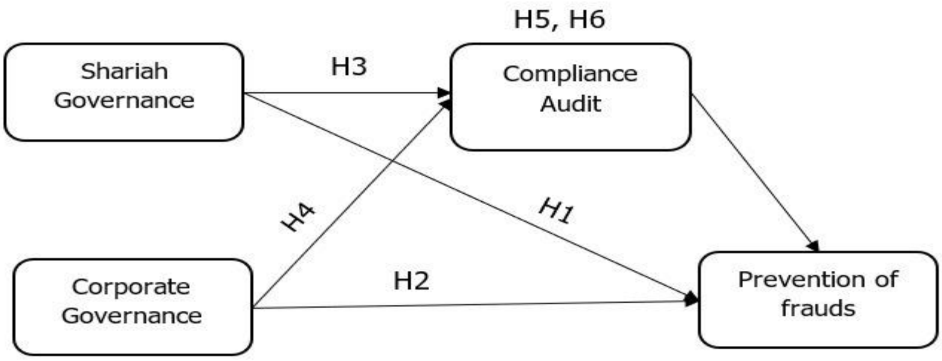
information for their gain, which has an impact on the level of earnings. The majority of the time, these issues are related to the financial connection (Ewert & Wagenhofer, 2015). The corporation incurs certain costs, known as agency costs, as a result of the struggle amongst investors. Agency costs are described by Hussain et al. (2017) as the sum of monitoring, contracting, and possible losses.

On the basis of above literature review, the theoretical framework of the study is given below.



F. Hypothesis of the Study

H1: Shariah Governance has a positive and significant impact on the prevention of fraud in the Pakistani banking sector.

H2: Corporate governance has a positive and significant impact on the prevention of fraud in the Pakistani banking sector.

H3: Shariah Governance has a positive and significant impact on the Compliance Audit in the Pakistani banking sector.

H4: Corporate Governance has a positive and significant impact on the Compliance Audit in the Pakistani banking sector.

H5: Compliance Audit has a positive and significant impact on the prevention of fraud in the Pakistani banking sector.

H6: Compliance Audit plays mediating role between Shariah governance and prevention of frauds in the Pakistani banking sector.

4. Research Methods

A research design is a structure for developing a research strategy. The researcher's plan that describes the methodology and technique for gathering and analyzing relevant data is known as research design. The timeframe range, types of the environment, and unit to analyze are all explored in the study design. Individuals from Islamic and traditional banks had been invited to complete the surveys in the context of their workplace.

The sampling unit could be an item or a person whose personality and characteristics are being studied. Individuals, groups, industries, organizations, countries, and cultures can all be used as units of study. Executives, managers, and some other

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personnel from banking institutions in Islamabad and Rawalpindi will form the survey analysis unit. The current study's target demographic included all employees of Pakistan's five financial institutions. Dubai Islamic Bank, National Bank of Pakistan, Albaraka Bank Group, Askari Bank, and Meezan Bank are the banks in question. The people who worked in these places represented a wide range of ages. The present study included 423 participants from various banks as its sample.

The information was gathered from workers of Pakistani banking institutions. Data from the banking industry was gathered using a random sample technique. The participants of Pakistani banking institutions were given an adequate amount of questionnaires based on the planned sample size. A self-administered questionnaire was given to sampled individuals and was sent to them. The managers of the sampled responders have also been contacted.

5. Results

i. Profile of the Participants

Data evaluation is crucial to fulfilling the study goals and improving the overall credibility of the research. As a consequence, this chapter offers the information gathered from 423 respondents who work in Pakistani banking, as well as the results of the quantitative tests and the discussions of the results.

The table given below illustrates that the participants for this study are seasoned professionals. Only 1 percent of participants have less than almost a year of work experience. The other 96.9% of responders are quite skilled, with 10.9 percent having only about five years' employment, 21% having six to ten years' history, and 29.8% having more than eleven to fifteen years' expertise. 19.6% of interviewees have about twenty years of experience, while 15.6 percent have a little more than twenty years of experience.

In terms of the participants' designations, 23% were company employees and only 7% were public bodies. In the present study, the greater number of participants were interaction managers.

Table 1: Demographic Characteristics of the Employees, (N=423)

Demographics	Frequency	Percentage
Gender		
Male	389	92.0
Female	34	8.0
Age of Respondents		
25-30 Years	33	7.8
31-35 Years	58	13.7
36-40 Years	132	31.2
41-45 Years	107	25.3
46-50 Years	48	11.3
Above 50	45	10.7
Education		
BBA	13	3.1
MBA	159	37.6

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DIMPLOMA/ ACCA/CA/CIMA	89	21.0
MS/PhD	162	38.3
Type of Organization		
Full-fledged Islamic Bank	178	42.0
Stand-alone Islamic Branch	136	32.2
Full-fledged Conventional Bank	109	25.8
Job Experience		
Less than 1 year	13	3.1
1 to 5 years	46	10.9
6 to 10 years	89	21.0
11-15 years	126	29.8
16-20 Years	83	19.6
Above 20 years	66	15.6
Designation		
Internal Auditor	98	23.0
External Auditor	29	7.0
Relationship Manager	296	70.0

ii. Construct reliability and validity

Factor loadings from SmartPLS were used to examine the convergent and discriminate validity of reflective constructs. These loadings show whether items cross-load or fail to load strongly on their corresponding latent variable. Strongly predicted loadings and low cross-loadings would be excellent in an ideal model (Straub et al., 2004). When elements load greater than 0.70 on their respective constructs and the average variance extracted (AVE) is above.50 for each construct, convergent validity is proven. Cronbach's Alpha, rho A, Composite Reliability, and Average Variance Extraction values are shown in the table below (AVE). SmartPLS considers a Cronbach's Alpha value of >0.70 to be acceptable; our variables have a value of >0.70, which is within the acceptable range. The rho A, Composite Reliability, and AVE values are all within acceptable limits.

Table 2: Construct Reliability and Validity

	(α)	rho_A	CR	AVE
Audit Committee	0.837	0.881	0.891	0.674
Board of Governance	0.902	0.909	0.926	0.678
Internal Control	0.782	0.800	0.849	0.585

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Transparency	0.752	0.802	0.853	0.659
Executive Compensation	0.702	0.823	0.864	0.761
Corporate Governance	0.767	0.895	0.719	0.671
Shariah Governance	0.925	0.929	0.936	0.512
Compliance Audit	0.788	0.825	0.853	0.540
Prevention of Frauds	0.926	0.930	0.936	0.603

NOTE: CRONBACH’S ALPHA(A)>0.7

iii. Hypotheses Testing

The theoretical model was further divided into three models. The first model looked at how independent variables like corporate governance and shariah governance affected the dependent variable (prevention of frauds). On dependent variables, the second model examined the mediating variable (compliance audit) in conjunction with independent variables (corporate governance and shariah governance) (prevention of frauds).

Model 1: Direct Relationship Between IV and DV

The influence of independent factors (corporate governance and shariah governance) on dependent variables is examined in Model 1. (prevention of frauds). The results of SmartPLS's analysis are depicted in the diagram below.

The relationship between independent and dependent variables is depicted in the diagram above. Corporate governance has a strong positive and significant influence on fraud protection (Coefficient = 0.356, p = 0.001), and shariah law has a positive and significant impact on fraud prevention (Coefficient = 0.172, p = 0.05). The path coefficient of every relationship is shown in the table beneath. The results match the H1 and H2 hypotheses.

Table 3: Path Coefficients for Direct Relationships

	β	M	SD	T Value	p
CG->POF	0.356	0.357	0.06	5.912	0.00
SG->POF	0.172	0.171	0.06	2.830	0.00

Note: $p<0.001$
Note: CG=Corporate Governance, SG= Shariah Governance and POF=Prevention of Fraud

iv. Mediation Analyses

Model 2: Mediation by Compliance Audit

The mediation by compliance audit is depicted in Figure 3, where corporate governance and shariah governance are independent variables and fraud prevention is a dependent variable.

Corporate governance has a significant impact on compliance audit (coefficient = 0.345, p0.001), compliance audit has a massive effect on fraud prevention (coefficient = 0.313, p0.001), and corporate governance does have a positive and significant direct

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effect on detecting fraud in the existence of compliance audit (coefficient = 0.248, p0.001). The indirect effect has a considerable influence on fraud prevention (coefficient = 0.108, p0.001), which confirms compliance audit mediation among corporate governance and fraud reduction. As a result, H3 is approved. The outcomes are listed in the table below.

Table 4: Path Coefficients for Mediation by compliance audit between corporate governance and prevention of frauds.

Relationship	(β)	(M)	SD	T Value	P-Value
CA ->POF	0.313	0.308	0.056	5.642	0.000
CG->CA	0.345	0.344	0.056	6.158	0.000
CG->POF	0.248	0.246	0.061	4.045	0.000
CG->CA->POF	0.108	0.106	0.025	4.258	0.000

Note: $p<0.001$

The outcome of the research path reveals that shariah governance has a significant effect on compliance audit (coefficient = 0.387, p0.001), compliance audit has a significant impact on preventing fraud (coefficient = 0.313, p=0.001), and shariah governance have a significantly positive direct effect on fraud prevention (coefficient = 0.051, p>0.05) in the existence of compliance audit. The indirect effect has a considerable influence on fraud prevention (coefficient = 0.121, p0.001), which supports compliance mediation among shariah governance and fraud prevention. As a result, H3 is approved. The results are listed in the table below.

Table 5: Path Coefficients for Mediation by compliance audit between shariah governance and prevention of frauds.

Relationship	(β)	M	SD	T Value	P-Value

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CA->POF	0.313	0.308	0.056	5.642	0.000
SG->CA	0.387	0.385	0.059	6.500	0.000
SG->POF	0.051	0.057	0.065	0.787	0.432
SG->CA->POF	0.121	0.118	0.028	4.349	0.000

Note: p<0.001

6. Discussion

The purpose of this study was to determine the influence of shariah and corporate governance on fraud detection and prevention in the Banking sector of Pakistan, as well as the influence of shariah and corporate governance on quality of service. Corporate governance has a major effect on compliance audit (coefficient = 0.345, p0.001), compliance audit has a significant impact on fraud prevention (coefficient = 0.313, p0.001), and corporate governance does have a positive significant direct effect on preventing fraud in the availability of compliance audit (coefficient = 0.248, p0.001). The indirect impact has a considerable influence on fraud prevention (coefficient = 0.108, p0.001), which supports compliance audit mediation between corporate governance and fraud prevention. These findings back up Ghofur & Santika's (2020) research on the impact of sharia compliance on the financial performance Of banks. Our first two hypotheses, that Shariah Governance has a positive and considerable impact on fraud prevention in the Pakistani banking system, have been proven right. In Pakistan's banking sector, corporate governance has a favorable and considerable impact on fraud prevention. Both Shariah and corporate governance are thought to have a favorable and considerable effect on compliance audits in the Pakistani banking sector. It also was shown true and corroborated prior studies by Rini (2014), who determined that a poor degree of shariah compliance in the Islamic financial system led to a higher risk of fraud. As a result, it is determined that Shariah and corporate governance all have a significant impact on the prevention of Islamic banking fraud. In addition, the implementation of corporate governance standards boosted banking services significantly.

7. Conclusions and Suggestions

First and foremost, readers should exercise caution when extrapolating our findings. This is because we did not cover Pakistan's Islamic insurance businesses and non-bank financial organizations. Because the study is controversial, further research in Pakistan and other jurisdictions could involve additional management executives and board of directors, as well as a focus group discussion with the participation of regulators or a third party. Second, we concentrate solely on Pakistani practices rather than those of other countries. Future studies could broaden our findings to include more than one jurisdiction (e.g. Bahrain, Indonesia, and Malaysia). Further research can be done to see if similar effects exist in other Islamic institutions, such as service, real estate, Islamic microfinance, and cooperatives. At last, we are offering future

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research directions so that concerned researchers can investigate and evaluate the impacts analyzed in other countries and sectors, such as Islamic insurance, Halal industries, Islamic cooperative societies, and microfinance organizations, in quantitative or qualitative aspects.

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