



RESEARCH PAPER

**Effect of Shariah Governance on the Prevention of Frauds in the
Pakistani Banking Industry**

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ABSTRACT

In the current world, both internal and external factors affect the financial system, demanding continual regulatory scrutiny. Several individuals continue to live and work in areas that are unaffected by the banking sector and outside the purview of banks. It is essential to take that market into account as doing so will enable bankers to generate healthy profits and aid in the growth of the economy. Investigating the effects of Shariah Governance on the avoidance of fraud in terms of a compliance audit is the goal of this study. Applying quantitative approaches, information was acquired from the top executives of Islamic and conventional banks that operate within Pakistan. For the survey, representatives from Islamic banks were approached. The hypothesized claims were tested using quantitative analysis, which was done using SPSS software. Bankers were questioned about financial fraud and offered counterarguments to their views as well as solutions for reducing banking fraud. The study's conclusions indicate managers obtain education, growth, and advice on fraud-prevention strategies. It requires guarding against internal fraud events and gaining the patrons' respect and confidence.

Keywords: Frauds Prevention, Opportunities, Sharia'h Governance, Social Responsibility

Introduction

In recent years, Pakistan's banking sector has undergone a new stage of development but is still beset by several problems, the major one of which continues to be political and economic instability. According to the State Bank of Pakistan report on financial inclusion, slightly more than a fifth of the adult population in the country has a bank account which shows a lack of interest and trust by the people.

The extremely rapidly expanding industry of the global banking industry is Islamic banking. Islamic banking and finance increased at an average growth rate of 12.46% per year (2012-2019), following the Islamic Finance Country Index Report (2019), with the total assets owned by Islamic banks (IBs) estimated at US\$2.591 trillion by the end of 2018. According to earlier research, the Islamic finance sector has retained its stability, efficiency, and higher asset quality while also recording low loan default rates (Baele et al., 2014; Hasan & Dridi, 2011; Hussien et al., 2019; Chapra, 2011; Mollah et al., 2017).

Pakistan is facing numerous challenges, which are escalating its economy. The current state of the economy in Pakistan is undoubtedly concerning; the most recent Economic Survey of Pakistan likewise portrayed a bleak picture of the national economy. Since the start of the current financial year, the Pakistani rupee's worth compared to the dollar has decreased by a fifth. The Pakistani banking sector can play its role to boost

economic activity. This research study will analyze the effectiveness of the governance system to prevent fraudulent activities within the Pakistani banking sector.

Literature Review

Fraud

From a religious point of view, fraud is a crime too and such acts have spread negativity in terms of financials too. To minimize fraud and its impacts, there are three phases. Phase one consists of the measures related to the rules and regulations to prevent it. Changing the behavior and culture of an organization helps in the reduction of fraud. When there is corporate governance, there are real goals that are achievable and regulatory policies that prevent such acts (Singleton, 2010). When a culture is developed on honesty, values, and openness, fraud is automatically reduced in that firm or company (Albercht, 2003).

Chaoul (2016) argued that dishonesty in financial reports and financial statements greatly reduces the audited financial reports' credibility. Compliance mechanisms and corporate governance practices are deemed viable in reducing fraudulent activities. Current studies suggest an exploration of the corporate governance structures to be improved in developing countries, specifically in Lebanon, in which corporate governance is found to be weak. Chaoul (2016) conducted a study to determine how fraudulent activities can be reduced and prevented through variables including; transparency of financial data, the efficiency of the board of directors, proactive measures of corporate social responsibility, audit committee initiatives, and board of directors efficiency. The result of the study revealed that fraudulent activities can be reduced substantially by increasing the independence of the board of directors and transparency of financial data.

Martins and Júnior (2020) conducted a study to understand the mitigation of fraudulent activities by a reduction of fraudulent financial reporting (FFR) in Brazilian firms. The study results revealed a total of 5.5% of cases in which FFR is found to posit a likely impact. 16.9% cases of bankruptcy and 17.7% likelihood of earning manipulation are revealed in the study.

Shariah Governance

Within the last decade, there has been an overwhelming increase in Islamic banking around the globe, which has dominated conventional banking (Muneeza, 2014). This led banks and other financial organizations to develop a system that operated on Islamic principles or the Shariah law. And to monitor these institutions, the concept of Shariah Governance was developed.

The Shariah Governance framework is defined as a structural process through which Islamic banks monitor, control, and conduct their activities (Alam et al., 2019). Shariah Governance derives its rules from the sources of Islamic law. Research shows that the idea and practices of Shariah Governance did not fully fulfill the purpose and requirements of Islamic financial institutions (Sulaiman et al., 2015).

It is important to have a Shariah Supervisory Board responsible for overseeing, controlling, auditing, and providing guidance on the implementation of Shariah in financial institutions or companies selling Shariah-compliant products and services to implement Shariah Governance (Novela, 2015).

Shari'ah Governance and the Prevention of Frauds

Ghofur & Santika (2020) explored the influence of Sharia compliance on Islamic Banks' profitability. The study analyzed 9 Islamic banks in Indonesia and examined their financial reports. Statistical analysis revealed a variable Profit-sharing ratio (PSR), Islamic investment ratio (IIR), and Islamic income ratio (IsIR). The study revealed an insignificant association between IsIR, PSR, and fraud. Ghofur & Santika (2020) results affirmed the absence of fraud in the Islamic banking system of Indonesia. This means that the lower the level of fraud, the higher probability of Shariah principal compliance and reduction in fraudulent activities.

Suryanto and Ridwansyah (2016) examined the Shariah Financial Accounting Standards, Auditor Competency Shariah, and Shariah Supervisory Board Independence in Islamic banking system frauds. The study investigated this influence via a sample of 48 individuals including; auditors working as part of the Islamic Supervisory Board and Islamic Banking. The evidence is brought from Indonesian banks and reveals that these variables simultaneously influence the prevention of fraud, specifically in Islamic banks. However, the independence of the partial Shariah supervisory board revealed no significant influence on the prevention of fraud, however, Islamic auditor competence was impacted partially.

D. Compliance Audit

The revised INTOSAI guidelines for government auditing were implemented in December 2016 and offered a methodological foundation for carrying out various public audits, particularly public compliance audits. The objective of the research was to uphold high standards of control to guarantee the public administration system's accountability and transparency. The goal of this research is to evaluate the circumstance as it is now and the likelihood of having the Supreme Audit Institution of Ukraine start doing public compliance audits. design, methodology, and strategy. The study's methodology was to compare the best practices in public auditing and execute a desktop analysis of theoretical scientific studies and open analytical data generated by governmental and non-governmental organizations (Slobodanyk, Y et al., 2018). Over the past 40 years, there have been several methods for sharing normative criteria for computerized compliance audit procedures (Dimiyadi et al., 2017).

The objective and impartial assessment of how closely an Islamic bank's activities adhere to Shari'ah guidelines and standards must be a part of any external audit of Islamic banks to have an unbiased evaluation of the Shari'ah governance and compliance environment of an Islamic bank. The audit companies would need to take the necessary steps to be able to conduct the Shari'ah audit of an Islamic bank in terms of technique and resources ([State Bank of Pakistan, 2018](#)).

Following ACFE and AICPA (2002), the board of directors and audit committee are tasked with independently supervising management and serving as an impartial check and balance; the auditors evaluate the threat to the business in all aspects of the bank's procedures; the auditors assist in the creation of control systems to identify and prevent fraud by investigating and assessing the effectiveness and sufficiency of internal controls; and the fraud specialist. All such organizations collaborate to fight fraud, but it takes the commitment of every worker in the company to stop fraud (Omar & Abu Bakar, 2012).

Opportunities

The Fraud Triangle model has been broadly acknowledged as the overall intellectual strategy to portray the circumstance (Said et al., 2017). This model portrays three elements that impact representatives' misrepresentation in particular, perceived pressure, perceived opportunity, and perceived rationalization. The first one can gravely lead an individual to

act inappropriately and an individual who works under tension paying little mind to the financial or non-money related point would lead to fraud commitment. This may influence them to perform in an exploitative way to defend themselves in specific circumstances. The second point of this model alludes to the circumstance, climate, or framework in a company that may make a few spaces or capacities for its representatives to be deceitful (Siregar & Tenoyo, 2015). In a circumstance where the opportunity exists, a fraudster would typically try to reason his activity by defending it as a standard to make it appears to be legitimate and satisfactory (ACFE 2014).

If there is no opportunity present and the organization has no weaknesses in its structure, no matter how much the pressure is, no one can commit any sort of fraud in that organization (Hooper et al., 2010).

Numerous studies on fraud in organizations have been conducted, and the overall conclusion is that opportunity has a positive connection with the prevalence of fraud (Abdullahi & Mansor, 2015; Asmah et al., 2020; Schuchter & Levi, 2016). The fraud triangle hypothesis was combined with ethics by Said et al. (2017) to identify fraud in Malaysia's banking sector. The opportunity was discovered to be positively connected to employee fraud. Similar findings were made by Mandella et al. (2018) who identified weak internal controls, insufficient training, and fraud rules as the main contributors to fraud in Ghana's banking institutions. The claim that internal control flaws can be significant contributors to fraud is supported by other research (Asmah et al., 2020; Zakaria et al., 2016). Asmah, Atuilik, and Ofori (2020) claim that insufficient controls in some bank departments can encourage staff to commit fraud.

Theoretical Review

This study makes an effort to demonstrate the significance of using institutional theory in the Shariah governance of Islamic banks. This study, therefore, gives the literature a fresh perspective. First, we add to the body of knowledge on Shariah governance by explaining why institutional theory is more prominent (as compared to other theoretical frameworks) in the establishment and performance of the various governance organs (such as regulators, the board of directors, management, and Shariah supervisory boards) operating in this particular governance context. Second, by emphasizing how institutional theory more accurately captures the structures, practices, and laws of Shariah governance and is thus more pertinent in promoting transparency, independence, expertise, confidentiality, transparency, and disclosure, all of which lead to higher-quality Shariah governance. We provided evidence to support the claim that institutional theory is more pertinent to the application of Shariah governance and to demonstrate why regulators and businesses should place more emphasis on this theory when creating and implementing Shariah governance for Islamic banks. If this theory is applied correctly, Shariah principles may be applied, hence strengthening the legitimacy of its stakeholders. Third, we emphasize how the various institutional structures work together to achieve a common objective, such as encouraging good Shariah governance practices and putting them into action, by putting the structures, processes, and laws of Shariah governance into practice.

From a religious point of view, fraud is a crime too and such acts have spread negativity in terms of financials too. To minimize fraud and its impacts, there are three phases. Phase one consists of the measures related to the rules and regulations to prevent it. Changing the behavior and culture of an organization helps in the reduction of fraud. When there is proper governance, there are real goals that are achievable and regulatory policies that prevent such acts (Singleton, 2010). When a culture is developed on honesty, values, and openness, fraud is automatically reduced in that firm or company (Albercht, 2003).

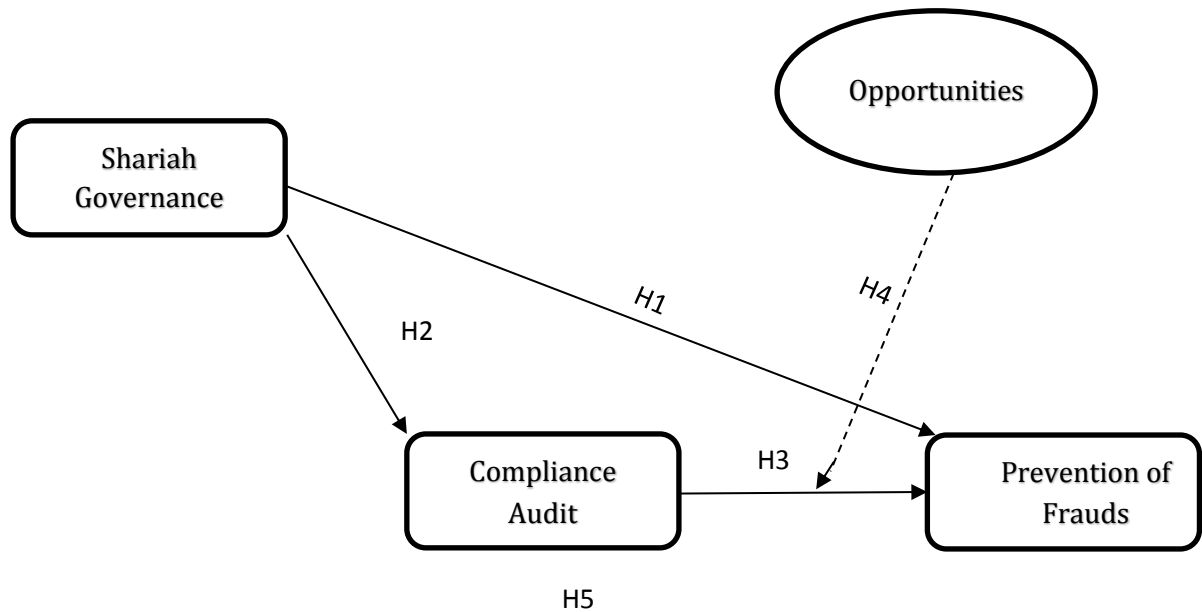


Figure 1: Theoretical Framework

Hypotheses

- H1: Shariah Governance has a positive and significant impact on the prevention of fraud in the Pakistani banking sector.
- H2: Shariah Governance has a positive and significant impact on the Compliance Audit in the Pakistani banking sector.
- H3: Compliance Audit has a positive and significant impact on the prevention of fraud in the Pakistani banking sector.
- H4: Opportunities play a moderating role between compliance audit and prevention of fraud in the Pakistani banking sector.
- H5: Compliance Audit plays a mediating role between Shariah governance and the prevention of fraud in the Pakistani banking sector.

Material and Methods

Research Design

To get a detailed knowledge of the subject, the investigators in this study combined several different methodologies. Both approaches were used to gather data. To verify the findings of quantitative data analyses carried out using statistical data analysis methods, the researcher gathered quantitative questionnaires and performed open-ended interviews. Quantitative data analysis is done using SPSS and SmartPLS, and quantitative themes are found using NVivo.

Population and Sampling

The research's target population consisted of Pakistani bank employees. Employees of public and commercial banks in Islamabad/Rawalpindi, Lahore, and Peshawar made up the sample for this study. They included chief operating officers, assistant managers, principal officers, internal auditors, vice presidents, and associate vice presidents (both male and female). There were 500 surveys distributed in total using a convenient technique

(Creswel, 2014; Saunders et al., 2009). Many well-known research studies were used to customize the survey. The target population was separated into strata to create a sample that was representative of the entire population.

Instrumentation

In this investigation, quantitative data were used. This was accomplished via a thoughtful questionnaire, which was facilitated by responses from a variety of respondents. For boosting the response rate from the sample, a set of questions was employed in the procedure. Structured questions make data processing easier since they make coding and analysis simpler (Neelankavil, 2007).

The questionnaires were adopted from the following sources.

Table 1
Resource of the Instrument

Variables	No. of items	Source
Shariah Governance	14	No source mentioned
Fraud	15 (from 3 categories)	KPMG, 2016
Opportunities	8	(Wolfe and Hermanson 2004, Din 2008, Kassem and Higson 2012, and Dellaportas 2013)
Banking Service Quality (GLOVAL scale of services and values)	9	No source mentioned

Validity and Reliability of Instrument

33 respondents were used as a pilot study to see if the questions were appropriate. We had the opportunity to refine the survey's question structure, making the survey's questions more relevant and meaningful. Additionally, this has aided in the proper reordering and flow of the questions (see Bryman, 2008; Yin, 2009). The first 33 responses collected via the questionnaires were then used in pilot research to assess the scale's validity and reliability. Participants from the twin cities were selected expressly for the pilot study, and following data collection and analysis over one week, additional procedures were required. The results of the pilot study indicate that all objects were eligible for further data collection after the necessary adjustments to the descriptions of a select few items.

Data Collection

In this study, primary information was gathered from bank professionals working in both public and private banks in two of Pakistan's largest cities (Rawalpindi, Islamabad, Lahore, and Wah). To produce more precise and genuine data for this study, a personal visit to the respondent is justified.

This research was carried out in Pakistan, a country with a broad range of bank managers, internal auditors, and external auditors working in both public and private banks in Pakistan's largest cities provided the information.

Data Analysis

Descriptive and inferential statistics were employed to evaluate the facts in this study. Version 22 of the Statistical Package for Social Sciences (SPSS) was utilized to perform the descriptive analysis. In addition, the inferential analysis used SmartPLS 3.

Descriptive Statistics

The initial test of an assumption is typically a descriptive statistic, which uses numbers and graphics to show trends in data (Gravetter & Wallnau, 2013). In this study, percentages, frequencies, means, and standard deviation data were determined using descriptive statistical analysis. The demographic information and the study topics were described using descriptive analysis.

Results and Discussion

For the Main study data was collected from 423 respondents. Data analysis has been done in two phases.

Profiles of the Respondents

Demographic characteristics of the sample are as under

In this study 42% of respondents are from full-fledged Islamic banks; 32.3% of respondents are from stand-alone Islamic branches and 25.8% of respondents were from full-fledged conventional banks. This demographic variable shows that the sample is spread nearly to all types of organizations.

The table below shows that the respondents of the study are experienced, individuals. 3.1% of the respondents have a job experience of less than 1 year. The remaining 96.9% of respondents are quite experienced individuals consisting of 10.9% of the individual to be less than five years of experience and 21% of respondents have an experience of 6 to 10 years and 29.8% of individuals have experience above 11-15 years. 19.6% of respondents have experience of 16-20 years and 15.6% of respondents have more than 20 years of experience.

As far as the designation of respondents is concerned, 23% of the respondents were internal auditors, and only 7% were external auditors. The majority of the respondents were relationship managers in the current study.

Table 2
Demographic Characteristics of the Employees

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
DIPLOMA/ 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
Bank Manager	296	70.0

Construct Reliability and Validity

Utilizing factor loadings found in the SmartPLS, reflective constructs' convergence and discriminate validity were evaluated. These loadings show whether or not items strongly load on each of their latent variables or cross-load. Strongly predicted loadings and weak cross-loadings are characteristics of a perfect model (Struab et al., 2004). Particularly, items load above .70 on their respective constructs and the average variance extracted (AVE) is above .50 for each construct evidence of convergent validity. The below table shows the value of Cronbach's Alpha, rho_A, Composite Reliability, and Average Variance Extraction (AVE). Cronbach's Alpha value >0.70 is acceptable by SmartPLS, in our variables, the value is >0.70 which is an acceptable range. The value of rho_A, Composite Reliability, and AVE are within the accepted range.

Table 3
Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	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
Transparency	0.752	0.802	0.853	0.659
Executive Compensation	0.702	0.823	0.864	0.761
Shariah 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
Opportunity	0.931	0.935	0.940	0.512
Perceived Opportunity	0.834	0.839	0.883	0.602
Perceived Pressure	0.827	0.831	0.878	0.591
Perceived Rationalization	0.838	0.853	0.887	0.614
Prevention of Frauds	0.926	0.930	0.936	0.603

Hypotheses Testing

The theoretical model was split into further three models. The first model tested the impact of independent variables (Shariah Governance and Shariah governance) on the dependent variable (prevention of fraud). The second model tested the mediating variable (compliance audit) along with independent variables (Shariah Governance and Shariah governance) on dependent variables (prevention of fraud). The third model tested the moderating variable (opportunity and rationalization) along with the independent variable (compliance audit) on the dependent variable (prevention of fraud).

Model 1: Direct relationship between IV and DV

In model 1, the impact of independent variables (corporate governance and shariah governance) on dependent variables (prevention of frauds). The below-given figure shows the outcomes of the analysis done by SmartPLS.

Direct Relationships

The above figure shows the relationship of independent variables with dependent variables. The results show that corporate governance has a positive and significant impact on the prevention of frauds (Coefficient = 0.356, $p < 0.001$), and shariah governance has also a positive and significant impact on the prevention of frauds (Coefficient = 0.172, $p < 0.05$). The below table shows the path coefficient of each relationship. The results are as hypothesized in H1 and H2.

Table Error! No text of specified style in document.
Path-Coefficient for Direct Relationship

Relationship	Coefficient (β)	Sample Mean (M)	SD	T Value	P Value
Shariah Governance -> Prevention of Frauds	0.172	0.171	0.061	2.830	0.005

Model 2: Mediation by Compliance Audit

The table 5 shows the mediation by compliance audit where corporate governance and shariah governance are independent variables, and prevention of fraud is the dependent variable.

The path results show that Shariah governance has a significant impact on compliance audit (coefficient = 0.387, $p < 0.001$), compliance audit has a significant impact on the prevention of frauds (coefficient = 0.313, $p < 0.001$), whereas Shariah governance has a positive and insignificant direct impact in the presence of compliance audit on prevention of frauds (coefficient = 0.051, $p > 0.05$). The indirect effect also has a significant impact on the prevention of frauds (coefficient = 0.121, $p < 0.001$) which supports mediation of compliance audit between shariah governance and prevention of frauds. Hence, H3 is accepted. The results are given in the below table.

Table 5
Path Coefficients for Mediation by Compliance Audit between Shariah Governance and Prevention of Frauds

Relationship	Coefficient (β)	Sample Mean (M)	SD	T Value	P Value
Compliance Audit -> Prevention of Frauds	0.313	0.308	0.056	5.642	0.000
Shariah Governance -> Compliance Audit	0.387	0.385	0.059	6.500	0.000
Shariah Governance -> Prevention of Frauds	0.051	0.057	0.065	0.787	0.432
Shariah Governance -> Compliance Audit -> Prevention of Frauds	0.121	0.118	0.028	4.349	0.000

Moderation by opportunities over Direct Relationship

The results show audit compliance has a significant impact on the prevention of frauds (coefficient = 0.247, $p < 0.001$), opportunities have a significant impact on the prevention of frauds (coefficient = 0.384, $p > 0.05$), whereas moderating effect (compliance audit x opportunities & rationalizations) has insignificant impact on the prevention of frauds (coefficient = 0.005, $p > 0.05$). Based on these values, we can say that moderating variable has an insignificant impact on the dependent variable because moderating effect (interaction term) has an insignificant impact on the dependent variable. So, we can conclude that our finding does not support the moderation of opportunities & rationalizations between compliance audit and prevention of fraud. H5 stands as rejected.

Table 6
Path coefficients for Moderation by Opportunities & Rationalizations over the Relationship between Compliance Audit and Prevention of Frauds

Relationship	Coefficient (β)	Sample Mean (M)	SD	T Value	P Value
Compliance Audit -> Prevention of Frauds	0.247	0.247	0.053	4.640	0.000
Opportunities -> Prevention of Frauds	0.384	0.386	0.058	6.652	0.000
Moderating Effect 1 -> Prevention of Frauds	0.005	0.007	0.045	0.111	0.912

The below table shows the effect size of the moderator in the model. However, researchers suggest that .005, .01, and .025 are more realistic values for small, medium, and large effects in moderation tests (Aguinis et al., 2005; Hair et al., 2017; Kenny, 2016). Based on the results, there is no moderating effect (0.000) on the prevention of fraud. It indicates that opportunities & rationalizations do not contribute to explaining the effect of compliance audit on the prevention of fraud.

Table 7
Effect size of Moderator between Compliance Audit on Prevention of Frauds

Variables	Employee Creativity
Compliance Audit	0.053
Moderating Effect 1	0.000
Opportunities	0.130

Table 8
Summary of Accepted/Rejected Hypothesis

Hypotheses	Statements	Accepted/Rejected
H1.	Shariah governance has a positive and significant impact on the prevention of fraud.	Accepted
H2.	Shariah Governance has a positive and significant impact on the Compliance Audit in the Pakistani banking sector.	Accepted
H3.	Compliance audit has a positive and significant impact on the prevention of fraud.	Accepted
H4:	Opportunities play a moderating role between compliance audit and prevention of fraud in the Pakistani banking sector.	Rejected
H5.	Compliance Audit plays a mediating role between Shariah governance and the prevention of fraud in the Pakistani banking sector.	Accepted

The main findings of the research are that the company's board of directors is the primary entity responsible for corporate governance in banks. As a result, the process of board appointment, the makeup of the board, and the board committees all have a significant impact on the governance of banks. This contrasts favorably with the Basel Committee, which acknowledges that the board of directors and senior management of banks bear the major responsibility for a sound governance system.

After this survey, the first hypothesis was proved true, which states that Shariah Governance has a positive and significant impact on the prevention of fraud in the Pakistani banking sector. It is following the past studies by Ghofur & Santika (2020) who explored the influence of Sharia compliance towards Islamic Banks profitability. The second hypothesis states that Shariah Governance has a positive and significant impact on the Compliance Audit of the Pakistani banking sector. This has also been proved true since the state bank of Pakistan mentions in their report that the audit companies would need to take the necessary steps to be able to conduct the Shari'ah audit of an Islamic bank in terms of technique and resources. The third hypothesis states that the compliance audit has a positive and significant impact on the prevention of fraud. This hypothesis was also proved true in the study by Omar and Abu Bakar (2012) who mentioned that auditors assist in the creation of control systems to identify and prevent fraud by investigating and assessing the effectiveness and sufficiency of internal controls. The fourth hypothesis states that the opportunities play a moderating role between compliance audit and prevention of fraud in the Pakistani banking sector. The hypothesis was not proved correct. This was proved following the study by Hooper et al. (2010). It is mentioned that if there is no opportunity present and the organization has no weaknesses in its structure, no matter how much the pressure is, no one can commit any sort of fraud in that organization. The last hypothesis mentions that compliance Audit plays a mediating role between Shariah governance and the prevention of fraud in the Pakistani banking sector. It is following the report by the State Bank of Pakistan which mentions that the objective and impartial assessment of how closely an Islamic bank's activities adhere to Shari'ah guidelines and standards must be a part of any audit of Islamic banks to have an unbiased evaluation of the Shari'ah governance and compliance environment of an Islamic bank

Conclusion

Fraud in the banking industry leads to mistrust and insecurity among the general public. Which consequently results in less financial inclusion, especially in economies like Pakistan. Less financial inclusion limits the scope of the banking industry to assist the economies by offering loans to help boost small and medium businesses. It is observed that many managers are not well aware of business models and their associated transactional frameworks.

Auditors play a crucial part in fraud prevention and detection. For a very long time, fraud has become among the most difficult and insoluble issues for businesses around the globe; but, since Enron, WorldCom, and some other crises, the subject has received considerably more interest and analysis. Frauds have resulted in massive losses in the banking sector to the economy as a whole (Fatoki, 2014).

Theoretical and Practical Implications

The results of the present study have provided several theoretical implications and some practical implications, particularly for the industry players and the regulators. The theoretical implication relates to the CG, SG, and CA variables which are newly introduced into the present study. There have been limited studies to date that examine their effect on the prevention of fraud in Islamic and conventional banks in Pakistan. Likewise, field studies on the difference between local Islamic banks (LIBs) and foreign Islamic banks (FIBs) in terms of CG, SG, and CA are challenging to find. Thus, the theoretical contribution of the

present study lies in it being the first to support the direct positive impact of CG, SG, and CA on the prevention of fraud in the banking industry in Pakistan. For the industry players, the results revealed that they must focus primarily on the Sharia's Governance, and Compliance Audit in managing frauds in the banks. As much as ensuring Shariah compliance in the financial transactions of Islamic banks is critical, the results show that the industry players should treat corporate governance issues as their top priority in managing risk in their banks at this juncture.

Recommendations for Future Research

Instead of using empirical research, this research mainly relies on earlier studies. Several facets of Islamic financing were not covered (such as Islamic insurance, Islamic microfinance, and Halal industries). Future scholars can therefore use Shariah governance techniques and practices of establishing regulations by the relevant regulators and institutions. Future research can use institutional theory to examine how Islamic social finance, Islamic microfinance, and Islamic insurance adhere to Shariah governance. With regulatory laws, standards, and restrictions, researchers can conduct quantitative and qualitative research in the aforementioned areas. Thirdly, the use of institutional theory in Islamic finance would improve.

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