

Analysis of the Effect of Shariah Supervisory Board (SSB) Function on Earning Quality of Islamic Banks

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Abstract

Objective - This study aims to identify the effect of Shariah Supervisory Board (SSB) function on the level of earnings quality in Indonesian Islamic banks. SSB criteria used in this study are size, frequency of Meeting and educational background (Finance / Accounting).

Method - Panel data regression is employed to analyze the effect of Shariah Supervisory Board characteristics on the earning quality of Islamic bank. The data were taken from 11 full-fledge Islamic banks in Indonesia with available financial statements from period 2010 to 2015.

Results - The size of Shariah Supervisory Board members has a positive effect on the improvement of earning quality in Islamic banking. Two other variables, namely the frequency of SSB meetings and educational background do not affect the improvement of earnings quality.

Conclusion - Studies of the role of Shariah Supervisory Board to the quality of financial statements is still limited, especially in the quality of earning that became the basis in determining the distribution of Islamic banks profit sharing. The main contribution in this research is that the role of SSB should be improved in order to increase the quality of financial reporting.

Keyword: *Earning quality, Shariah Supervisory Board (SSB), Islamic/Islamic Bank.*

Abstrak

Tujuan - Penelitian ini bertujuan mengidentifikasi fungsi DPS terhadap tingkat kualitas laba di perbankan syariah Indonesia. Kriteria DPS yang digunakan dalam penelitian Jumlah DPS, Frekuensi Rapat DPS dan Riwayat pendidikan (Keuangan/Akuntansi) DPS.

Metode - Regresi data panel dilakukan untuk menganalisis pengaruh karakteristik DPS tersebut terhadap kualitas laba bank syariah. Data diambil dari 11 Bank Umum Syariah di Indonesia dengan periode laporan keuangan 2010 hingga 2015.

Hasil - Jumlah anggota DPS berpengaruh positif terhadap peningkatan kualitas laba di perbankan syariah. dua variabel lainnya, yaitu Frekuensi rapat DPS dan Riwayat pendidikan tidak berpengaruh terhadap peningkatan kualitas laba.

Kesimpulan - Studi tentang peran DPS terhadap kualitas laporan keuangan masih terbatas, khususnya pada kualitas laba yang menjadi basis dalam penentuan distribusi bagi hasil bank syariah. Kontribusi utama pada penelitian ini adalah bahwa peran DPS harus ditingkatkan dalam rangka peningkatan kualitas laporan keuangan.

Kata Kunci: *Kualitas laba, DPS, Bank Syariah*

1. Introduction

Islamic banks have become a solution for Muslims in conducting financial transactions to support economic activities. In 1992, the first Islamic banks operated in Indonesia. Those opportunities are followed by conventional banks that operated windows channeling or Islamic Business Unit to spin off from the parent company. This is due to the enormous potential of Islamic banking services in Indonesia.

In general, Islamic banks operate almost the same as conventional banks, which collect funds from the surplus and allocating funds to the deficit party. However, Islamic banks have more products than in conventional banks. Islamic financial services must be in accordance with the values and rules of Islamic law, among which must avoid *maysir* (gambling), *gharar* (uncertainty) and *riba* (interest) elements. In Islamic banks, every customer needs have certain characteristics, so they required contracts with a certain scheme. For consumptive financing, Islamic banks use Murabahah, Salam or Istisna' contract, while for working capital financing they use Mudharabah or Musharakah contract. In addition, if customers want to apply for lease financing, then Islamic banks can use Ijarah contract. And there are many other contracts to meet the needs of customers, such as Hiwalah, Kafalah, and so on.

To meet the needs of dhuafa community, Islamic banks can distribute zakat, infaq and shodaqoh. If zakat, infaq, and shodaqoh's fund is limited then it will be distributed to dhuafa community with a priority scale. However, Islamic banks are also allowed to use *qardhul hasan* contracts where the customers only have to refund the principal cost without being charged from profit sharing or margin.

Public awareness of non riba transaction increased with the spread of Islamic propagation. As Allah SWT expresses firmly in the Qur'an about the obligation to abandon the transaction of Riba (Surah Al-Baqarah: 275). Now there are 12 full fledge Islamic banks operated in Indonesia. The development of Islamic banks can be seen in the following figure.

Indikator	2014	2015	2017	Indicator
			Jan	
Bank Umum Syariah				Sharia Commercial Bank
- Total Aset	204,961	213,423	248,819	- Total Assets
- Jumlah Bank	12	12	13	- Number of Banks
- Jumlah Kantor	2,163	1,990	1,681	- Number of Offices
- KC	447	450	474	Branch Offices
- KCP	1,511	1,340	1,207	Sub Branch Offices
- KK	205	200	192	Cash Offices
- ATM	3,350	3,571	3,142	ATMs/ADMs
- Jumlah Tenaga Kerja	41,393	51,413	51,168	- Number of Employees
Unit Usaha Syariah				Sharia Business Unit
- Total Aset	67,383	82,839	95,470	- Total Assets
- Jumlah Bank Umum Konvensional yang memiliki UUS	22	22	21	- Number of Conventional Banks that have Sharia Business Unit
- Jumlah Kantor UUS	320	311	285	- Number of Offices
- KC	138	138	150	Branch Offices
- KCP	140	129	135	Sub Branch Offices
- KK	42	44	48	Cash Offices
- ATM	132	145	133	ATMs/ADMs
- Jumlah Tenaga Kerja	4,425	4,403	4,555	- Number of Employees
Total Aset BUS dan UUS	272,343	296,262	344,290	Total Assets
Total Kantor BUS dan UUS	2,483	2,301	1,966	Total Number of Offices
Total ATM BUS dan UUS	3,482	3,716	3,275	Total Number of ATMs/ADMs
Total Tenaga Kerja BUS dan UUS	45,818	55,816	55,597	Total Number of Employees
Bank Pembiayaan Rakyat Syariah				Sharia Rural Bank
- Jumlah Bank	163	163	166	- Number of Banks
- Jumlah Kantor	439	446	451	- Number of Offices
- Jumlah Tenaga Kerja	4,704	5,102	4,478	- Number of Employees
Ket: r) Angka-angka diperbaiki			Note: r) Revised figures	

Figure 1: Statistics of Islamic banking development in Indonesia (2017)

The total Asset of Full fledged Islamic banks equal to Rp. 248.8 trillion which is found from 13 Islamic banks, while total asset of 21 Sharia business unit equal to Rp. Rp. 95.4 trillions and 166 Sharia rural banks. However, along with the development of Islamic banks, there are some Indonesian people who doubt the implementation of Islamic law in Islamic banking operations (Mukhlisin, 2017). This should be basis of evaluation and introspection of each Islamic bank. The improvement of Good Corporate Governance (GCG) is expected to provide solutions to the doubts and disappointments of the community towards Islamic bank.

The uniqueness of GCG structure in Islamic bank is the existence of Shariah Supervisory Board (SSB) (Grassa & Mautoussi, 2012). The role of SSB in Islamic banking is very important. They have a responsibility to ensure that business activities in Islamic banks are in line with Islamic rules, halal products and also providing benefit of all stakeholders in order to avoid things that violate the values of Islam. SSB plays a role in ensuring that all Islamic bank must comply with Islamic law. This body will assist the Board of Directors in controlling managers to conduct business activities in Islamic banks. The Shariah Supervisory Board is part of the Islamic banking governance component that plays a role in providing oversight of the policies and

decisions of the Board of Directors or Managers in the implementation of banking service (Khandelwal, 2009).

The improvement of the company's financial statements quality is also one of the contributions that are not less important in carrying out the function of SSB (Rini, 2014). They must ensure that every policy of the board of directors and managers is in accordance with the goals of Islamic (Maqosid Asy Islamich). Including in determination of the financial policies that have impacts on stakeholders are: Employee wages, the distribution of zakat funds, Corporate Social Responsibility (CSR), etc. the main goal of Islamic banks activities is realization of benefit to the people (Abdul rahman, 2012)

One of the financial policies undertaken by Islamic bank management is allocation of allowance for losses on financing provided to customers or called by Loan Loss Provision (LLP) (Taktak et al., 2010). This allocation is conducted to avoid the fluctuation of profit volatility in Islamic banking. There is an indication of moral hazard in the LLP determination. This is proposed to maintain the benefit of every stakeholder. Therefore, Shariah Supervisory Board is required to play an important role in ensuring that the policy in determining the LLP ratio is not harmful and provides justice amongst stakeholders in Islamic banks.

Overallocation in the determination of LLP will have an impact for each stakeholder. Therefore, the role of SSB and other structures is crucial in determining the LLP ratio policy for financial statements in every period. So that no element of tyranny will affect some stakeholders. If the LLP ratio is closer to normal, it will further improve the quality of earnings.

There have been several previous studies conducted with mix results. Hamdi & Zarai (2014) conducted study on 90 Islamic banks, they found that Shariah Supervisory Board has no effect on the minimization of earnings management. This is due to the fact that SSB is not involved in making financial related policies. However, Rini (2014) conducted a study on 33 Islamic banks in Indonesia found that the role of Shariah Supervisory Board have a significant effect on the quality of financial statements. The higher of SSB size in Islamic banks is expected to improve the quality of earnings. This is because the role of SSB is very significant in every policy line proposed by the board of directors and managers of Islamic banks. Especially, in terms of determination of profit, it will be more accurate if taken consideration from many sources. The large size of SSB will provide an opinion comparison in the event of any disagreements or debates among SSB members. So the result is not subjective from one person's opinion.

The frequency of Shariah Supervisory Board meetings is also considered to have an effect on the quality of earnings. Meeting of SSB members is a coordination and discussion linked to

matters related to Islamic bank operations. The more frequent the member meetings being held, the faster to provide solutions of the problems faced by Islamic banks (Shittu et al., 2016). In overseeing the financial performance of Islamic banking, intensive meetings will result quality decisions or policies. The higher intensity of the SSB meeting, it is expected to boost the performance of Islamic banking. This includes also in determining the profitability of Islamic banks that have been prepared by managers. If the specified profit is resulted from the discretionary loan loss provision, then it will affect the revenue share which will be distributed. As in the study Shittu et al. (2016), it uses the intensity or frequency of meetings as a factor affecting earning per share.

In addition, financial or accounting background of Shariah Supervisory Board is also expected to affect the quality of earnings. SSB qualification is expected to improve the quality of earnings. SSB is also required to understand in the field of accounting and finance, because Islamic banks can't operate without the both fields of knowledge. By having the insight and knowledge of accounting and finance, SSB's decision will be more qualified, especially related to the financial statements. Faradila & Cahyati (2013) concluded that the competence of SSB can reduce earnings management in the financial statements of Islamic banks. Appropriate qualifications and expertise in the field of Islamic and finance are required to monitor the implementation of operations in Islamic banks (Ghayad, 2008; Alnasser & Muhammad, 2012). For example, determining non-halal income depends on the level of SSB expertise in Islamic and financial accounting (Rashidah & Faisal, 2012); Wardhany & Arshad, 2012). In analyzing whether a transaction is halal or haram using Islamic sciences and accounting / financial expertise is to provide solutions to such transactions in the accounting system.

Based on the study from Abdullah, Percy and Stewart (2013) who examined the relationship between disclosure rates and the role of the Shariah Supervisory Board, they found that only five of the 23 SSB conducted Islamic compliance verification in allocating profit/loss share and in terms of the validity of the zakat calculation. This result may be influenced by a lack of accounting and finance expertise in SSB qualifications.

This study aims to identify the function of SSB to the level of earnings quality in Indonesian Islamic banking. The main product of Islamic banking is profit loss sharing. Therefore, profit becomes the most important source of data in the implementation of the profit sharing distribution. Then, the management of Islamic banks must provide accurate and reliable financial statements. Especially in terms of profit determination, Islamic Banks are granted discretionary loan loss provision which will affect the amount of profit (Othman & Mersni, 2014). If the profits determination is inaccurate, it will harm other stakeholders, especially for

customers who deposit their money for less than one year. Therefore, it is necessary to measure the quality of earning.

The quality of earning in Islamic banks can be measured by Discretionary Loan Loss Provisions (Taktak et al, 2010). The lower value of the discretionary LLP the higher level of the quality of earning. The SSB criteria used in this study are Size of SSB, Frequency of SSB Meeting and Educational Background of SSB (Finance/Accounting).

2. Research Methods

This research is a quantitative research by conducting panel data regression between independent variable and dependent variable. The data panel is defined as a combination of the series data and cross section data.

The data employed in this study is secondary data taken from the financial statements of 12 full-fledge Islamic Banks in Indonesia which are published through the website of each Islamic bank in Indonesia. Period of financial statements employed in this study is the financial statements of each Islamic bank from period 2010 to 2015. So the estimation of observation data in this study are 68 yearly financial reports. The samples in this study must meet the following criteria:

- a. Full-fledge Islamic banks in Indonesia
- b. Islamic banks with six period's Annual report.

2.1. Data Analysis Method

Data are taken from the financial statements which are downloaded through the websites of each Islamic Bank. The financial statements used are the last 6 years from each Islamic Bank. Data are analyzed using Eviews software to run data panels. This data panel regression uses the unbalanced data panel method due to the limitations of data, some of which do not have a predetermined period. This is due to different in the operation of those Islamic banks.

2.2. Analysis Model

$$DLLP_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 MEET_{it} + \beta_3 EDU_{it} + \epsilon_{it} \dots \dots \dots \text{Formula 1}$$

DLLP : The level of earning quality as measured by the Discretionary LLP

SIZE : Number of SSB members

MEET : Frequency of SSB meetings

EDU : 1 if at least one member of SSB has a financial or accounting educational background.
0 is otherwise.

2.3. *Variable Measurement*

The dependent variable is the earning quality. Based on the research conducted by Othman and Mershni (2014) Loan Loss Provision is a combination of nondiscretionary and discretionary LLP, so to get the result of discretionary LLP is to subtract LLP with nondiscretionary LLP.

$$LLP = \text{Nondiscretionary LLP} + \text{Discretionary LLP}$$

$$\text{Discretionary LLP (DLLP)} = LLP - \text{Nondiscretionary LLP}$$

Discretionary LLP is obtained from the residual estimate of the following regression:

$$LLP_{it} = \beta_0 + \beta_1 NPF_{it-1} + \beta_2 \Delta NPF_{it} + \beta_3 \Delta TF_{it} + \varepsilon_{it} \dots \dots \text{Formula 2}$$

- LLP : Loan Loss Provision
- NPF : Non Performing Financing
- ΔNPF : Changes of Non Performing Financing
- ΔTF : Changes of Total Financing

With the absolute value approach, the earning quality variable is measured by omitting the minus sign (-). This is because if the value is further away from the number 0, then the lower the earning quality. The smaller the residual value estimation, the higher the level of earning quality of Islamic banks. The independent variable as described in the following table:

Table 1. Definition of Independent Variables

No	Independent Variables	Definition
1	Size of SSB	Number of SSB in each Islamic bank
2	SSB Meetings	Frequency of meetings conducted or attended by SSB for a year
3	Educational Background	Education or certification on Financial or Accounting training ever taken by at least one of the SSBs.

2.4. *Panel Data Estimation Method B*

There are three models of panel data estimation:

a) Common Effect Model

The Common Effect or Pooled Least Square Model is an estimation model that combines time series data and cross section data using the OLS (Ordinary Least Square) approach to estimate its parameters.

b) Fixed Effect Model

Fixed Effect Model is a technique of estimating panel data by using dummy variable to capture the difference of intercept. The definition of Fixed Effect is based on the difference between the intercept of the company, but the intercept is the same between times period (time in variant). In addition, this model also assumes that the regression coefficient (slope) remains between firms and between times period.

c) Random Effect Model

Random Effect Model is a model of panel regression estimation with assumption of coefficient of slope and intercept is different between individual and inter-time (Random Effect). The inclusion of dummy variables in the Random Effect Model aims to represent ignorance about the actual model.

2.5. Development of Research Hypothesis

2.5.1. The Effect of Number of SSB Members on the Earning Quality

The more number of SSB members in Islamic banks is expected to improve the quality of earnings. This is because the role of SSB is very significant in every policy line proposed by the board of directors and managers of Islamic banks. So the resulting decisions, especially in terms of determination of profit, will be more accurate and accurate if taken consideration from many sources. As the study by Hamdi & Zarai (2014) found that the number of SSB has no effect on earnings management mitigation. However, Rini (2014) found that the role of SSB affects the quality of financial statements. Hence the first hypothesis in this study is as follows:

H1: The number of SSB members influences the Quality of earnings level

2.5.2. Effect of Frequency of SSB Meeting on the Earnings Quality

The higher intensity of the SSB meetings is expected to boost the performance of Islamic banking. This includes also in determining the profitability of Islamic banks that have been prepared by managers. If the profit determined as a result of the discretion of the allowance for excessive losses, it will affect the revenue share to be distributed. As in the study Shittu et al. (2016) uses the intensity or frequency of meetings as a factor affecting earning per share. Then the second hypothesis in this study is as follows:

H2: Frequency of meetings of SSB affects the earnings quality level

2.5.3. Effect of Financial Education or Accounting to the Earnings Quality

SSB qualification is expected to enhance the quality of earnings. SSB is also required to understand the both field of accounting and finance. Because Islamic banks operation cannot be

separated from the both fields. By having the insight and knowledge of both accounting and finance, SSB's decision will be more qualified, especially related to the financial statements. As the study by Hamdi & Zarai (2014) found that the competence of SSB has no effect on earnings management mitigation. Furthermore, Faradila & Cahyati (2013) concluded that the competence of SSB can reduce earnings management in the financial statements of Islamic banks. Then the third hypothesis in this study is as follows:

H3: Financial or accounting education affects the quality of earnings.

3. Discussion and Results

3.1. Data Description

From the 12 Islamic Banks, one of Islamic Bank is excluded in this study because it has only two financial reporting periods, namely the Bank Tabungan Pensiunan Negara Syariah. The Islamic bank has just undertaken spin off in 2013. In addition, there are two Islamic banks that do not have financial statements in 2015. Therefore, the collection target of 60 observations data is not succeeded, so the observation data employed in this study only 53 observations data.

3.1.1. Description of Data Statistics 1

Table 2. Description of Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
LLP	53	10.94	1.58	8.37	13.81
NPF	53	0.03	0.02	0.00	0.07
Δ NPF	53	0.01	0.04	-0.03	0.30
Δ TF	53	6.37	1.86	2.24	9.45

Loan Loss Provision (LLP) has an average of 10.94 and a minimum of 8.37 and a maximum of 13.81, indicating that Islamic banks in Indonesia are still relatively high in allocating allowance for losses. Non Performing Financing (NPF) has an average of 0.03 and a minimum of 0.00 and a maximum of 0.07, indicating that the NPF of Islamic banks in Indonesia are still relatively small below 10%. While changes in NPF (Δ NPF) have an average of 0.01 and a minimum of -0.03 and a maximum of 0.30, this indicates that Islamic banks in Indonesia are not very fluctuated in NPF. In addition, the change in the number of financing at the Indonesian Islamic Bank is still quite high with an average of 6.37 and a minimum of 2.24 and a maximum of 9.45. This shows that the growth of Islamic bank financing from year to year is still quite high.

3.1.3 Description of Data Statistic 2

Table 3. Description of Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
DLLP	53	0.15	1.52	-3.68	3.89
SIZE	53	2.38	0.49	2	3
MEET	53	14.28	4.11	7	30

The Discretionary Loan Loss Provision (DLLP) has an average of 0.15 and a minimum of -3.68 and a maximum of 3.89, indicating that Islamic banks in Indonesia are still doing earning management but it is still lower. The size of SSB (SIZE) has an average of 2.38 and a minimum of 2 persons and a maximum of 3 persons, indicating that each Islamic bank in Indonesia has SSB of more than one person and the majorities have two persons SSB members. While the frequency of SSB meetings (MEET) has an average of 14.28 times and a minimum of 7 times and a maximum of 30 times, it shows that SSB of Islamic banks in Indonesia have high frequency of meetings. In addition, five out of 11 (45%) of Islamic Banks have SSB with an accounting and financial education background (EDU). This indicates that almost of SSB members have no accounting and financial education background.

3.2 Test of Classic Assumption Data Panel 1

3.2.1 Normality Test

The normality test is intended to test whether the residual values that have been standardized in the regression model are normally distributed or not.

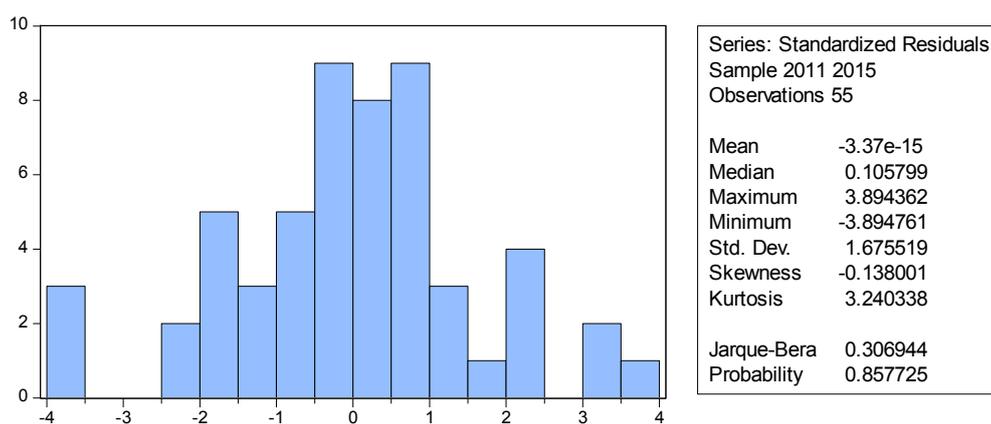


Figure 2. Normality Test (Formula 2)

By using the Jarque Bera test, it has a significance above 0.05, which means that the residual is normally distributed.

3.2.2 Multicollinearity Test

Multicollinearity test aims to test whether in the regression model that formed there is a high or perfect correlation between independent variables. If all correlation values between independent variables are below or equal to 0.8, then it can be concluded that it is free of multicollinearity.

Table 4. Multicollinearity Test

Variable	NPF	_NPF	_TF
NPF	1.000000	0.110723	0.109788
_NPF	0.110723	1.000000	-0.191723
_TF	0.109788	-0.191723	1.000000

3.3 Test of Classic Assumption Data Panel 2

3.3.1. Normality test

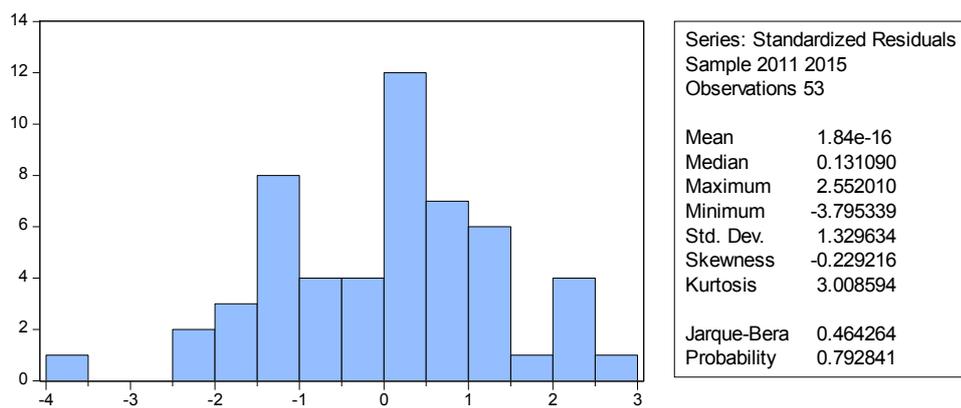


Figure 3: Normality Test (Formula 1)

The normality test is intended to test whether the residual values that have been standardized in the regression model are normally distributed or not. By using the Jarque Bera test, it has a significance above 0.05, which means that the residual is normally distributed.

3.3.2. Multicollinearity Test

Multicollinearity test aims to test whether in the regression model that formed there is a high or perfect correlation between independent variables.

Table 5. Multicollinearity Test

Variable	SIZE	MEET	EDU
SIZE	1.000000	-0.408274	0.563086
MEET	-0.408274	1.000000	-0.198638
EDU	0.563086	-0.198638	1.000000

If all correlation values between independent variables are below or equal to 0.8, then it can be concluded that it is free of multicollinearity

3.3.3. Heteroscedasticity Test

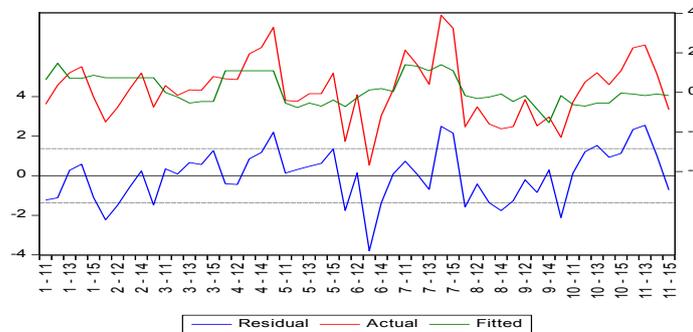


Figure 4 : Heteroscedasticity Test

Heteroscedasticity test aims to test whether in the regression model that formed the variation inequality of the residual regression model.

3.3.4. Autocorrelation Test

Autocorrelation test aims to determine whether there is a correlation between members of a series of observational data sorted by time or space. Autocorrelation can be detected through the Durbin-Waston (DW) method.

Table 6. Autocorrelation Test

DW	0.936753
DI	1.4523
DU	1.6815
DW < DI	0.936753 < 1.4523
There is a positive autocorrelation	

3.4. Panel Data Estimation Method for Formula 1

Discretionary LLP is obtained from estimated residuals from the following regression:

$$LLP_{it} = \beta_0 + \beta_1 NPF_{it-1} + \beta_2 \Delta NPF_{it} + \beta_3 \Delta TF_{it} + \varepsilon_{it}$$

- LLP : Loan Loss Provision
NPF : Non Performing Financing
 Δ NPF : Non Performing Financing Changes
 Δ TF : Total Financing Changes

Data were analyzed using Eviews software to regressing data panels. Determination of discretionary LLP value is obtained from estimated residual from Random Effect.

3.5. Selection of Panel Regression Model 1

In order to get the best model, two tests were performed: Chow test and Hausman test.

a) Chow Test

Chow test is a test to determine the Fixed Effect or Common Effect model that is more appropriate to be use in estimating panel data. By looking at the probability value (Prob.) For Cross-section F. If the value is >0.05 (specified at the beginning as the level of significance or alpha) then the selected model is CE, but if <0.05 then the selected model is FE. In the above table, it shows that the value of Prob. Cross-section F of 0.0001 whose value is <0.0 5. So it can be concluded that the FE model is more appropriate than the CE model.

b) Hausman Test

Conducted to compare/choose which model is the best between FE and RE, by looking at probability value (Prob.) Cross-section random. If the value is >0.05 then the selected model is RE, but if <0.05 then the selected model is FE. In the table above, it shows that the value of Prob. Cross-section random of 0.8319 whose value is >0.05. So it can be concluded that the RE model is more appropriate than the FE model. From two model selection tests it can be concluded that **Random Effect** model is better than FE and CE model.

3.6. Selection of Panel Regression Model B

a) Chow Test and Hausman Test

Not used because fixed effect model can't run data.

b) LM Test

Lagrange Multiplier (LM) is a test to determine whether the random effect model or common effect model that is more appropriate to be used. The LM test is based on the distribution of chi-squares with degree of freedom by the number of independent variables.

- a. If the result from LM count > Chi-Square table, then use random effect
- b. If the result from LM count < Chi-Square table, then use common model.

The value of Chi Squared table on degrees of freedom 2 and alpha 5% is 7,815 (see Chi Squared table) and the LM count is 6.336, so if the LM value is bigger compared to Chi Squared table, then the model chosen is common model.

c) Significance Test

1. Correlation Analysis

Partial correlation analysis is used to determine the relationship between two variables in which other variables considered influential are controlled or made fixed (as control variables).

Table 7. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.040548	1.555778	-0.668828	0.5067
SIZE	-0.898083	0.504708	1.779412	0.0314*
MEET	-0.076161	0.050718	-1.501642	0.1396
EDU	0.353993	0.465879	0.759841	0.4510

From the above common effect model obtained coefficient of determination R^2 (R-square) between SIZE, MEET, and EDU with DLLP is 0.234628. Then the value of R is $\sqrt{0.234628} = 0.484384145$. The result shows that there is a moderate relationship between the three independent variables with the dependent variable.

2. The Panel Data Regression Equation 2

This model of analysis is a quantitative analysis used to determine the extent of the influence between independent variables with dependent variables.

$$DLLP_{it} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 MEET_{it} + \beta_3 EDU_{it} + \varepsilon_{it}$$

$$\text{DLLP} = -1.04054790681 - 0.898082908792 * \text{SIZE} - \\ 0.0761609475941 * \text{MEET} + 0.353993426317 * \text{EDU}$$

3. Partial Regression Coefficient Test (t test)

The t test is used to look at the significance of individual independent effects on the dependent variable by assuming other variables are constant. The result shows that SIZE has a significant negative effect on earning quality with the coefficient -0.898083 and level of significant is 5% (0.0314). It means that the higher size of SSB the lower the discretionary loan loss provision or the higher the earning quality of Islamic bank. However, both MEET and EDU have no significant effect on earning quality which is shown by significant value above 5%, 0.1396 for MEET and 0.4510 for EDU.

4. Coefficient of Determination (R^2)

Determination coefficient analysis is used to know the percentage of SIZE, MEET and EDU against DLLP. And based on the output table of the common effect model above, it can be seen that the R-square value of 0.234628 means that together the SIZE, MEET and EDU variables have contributed to explain the DLLP of 23%.

d) Hypothesis Test

1. The Size of SSB Members Influence against the Level of Earning quality

The result shows that there is a positive correlation between the size of Shariah Supervisory Board and the quality of earning in Islamic bank. The large size of SSB members improve the quality of earning in Islamic banks. This explains that with the presence of more than one member of SSB, potentially reduce the discretionary allowance for the elimination of productive assets in Islamic banking. Decisions taken from more than one opinion will be more objective than the one-person decision. So the policies issued are completely balanced and not only in favor of one's interests. Because the risk level of Islamic banks is quite high, then allocating discretionary LLP is considered safe in the face of Indonesia's uncertain economic condition. So that management decision making which also includes SSB recommendations, the result generated in a more careful decision. As the study conducted by Rini (2014), she found that the size of SSB members affected the quality of financial statements. And the results of this study are not in line with the research of Ghayad (2008), Anwar, et al. (2011) and Suryanto (2014), who conducted research on the role of SSB on the degradation in earning management of Islamic banks.

2. The Effect of SSB Meeting Frequency on Earning quality Level

Meeting frequency of SSB has no effect on earnings quality. This is because the allocation of LLP is a policy issued by the management of Islamic bank. The frequency of meetings in a year does not affect management policy, so it does not affect the earning quality of Islamic banks. SSB tends to be less involved in strategic decision-makers, and the tendency of information asymmetry between top management and SSB. This is in line with the research of Shittu et al. (2016) which uses the intensity of SSB meetings as a factor that does not affect earnings per share.

3. The Effect of Financial or Accounting Education on Earning quality Level

The educational background of financial or accounting has no effect on the level of earnings quality. This is due to the lack of expertise of some SSB in the field of accounting and finance, so they do not to affect the overall earning quality. The earnings management policy is dominated by the Board of Directors and the Audit Committee decisions. In addition, Abdullah et al (2013) stated that only 5 of the 23 SSB perform Islamic compliance verification in allocating profit or loss sharing and in terms of the validity of zakat calculations. This shows that there is still a lack of knowledge of SSB about finance and accounting. And there is also the issue of information unconformity between board of directors and SSB. This result is in line with Hamdi & Zarai's (2014) found that the competence of SSB has no effect on profit management mitigation.

4. Conclusion & Recommendations

This study aims to analyze the effect of Shariah Supervisory Board's function on improving the quality of earning in Islamic banks. Data obtained from the financial statements of 12 full fledged Islamic Banks in Indonesia with annual report period from 2010 to 2015. Due to data limitations, the amount of observation data obtained amounted to 53 observation of the target 60 data observation. SSB function variable consists of Size, Frequency of Meetings and Educational Background of financial and or accounting. The quality of earning is measured by the Discretionary Loan Loss Provision.

The conclusion that can be drawn from this study is that the size of SSB has significant effect to the earning quality. This is a factor that affects the low quality of earning. This explains that with the presence of more than one member of SSB has potentially reduced the discretionary Loan Loss Provision in Islamic banks. However, the other two variables are the frequency of SSB meetings and the educational background of financial and accounting has no effect on the quality of earning in the financial statements of Islamic banks. This shows that SSB is still weak

in providing supervision on the indication of earning manipulation in the financial statements of Islamic banks. The more frequent the meetings of SSB can not guarantee to improve the earning quality of Islamic banks. Similar with the lack of expertise in accounting and finance cause of the lack of supervision ability on the earning quality.

Further research could add a sample of Baitul Mal Wa Tamwil (BMT) and Islamic Rural Bank (Bank Perkreditan Rakyat Syariah) which are the both have Shariah Supervisory Boards. Furthermore the issues regarding the level of SSB independence in providing supervision of Islamic banks. The research method can be added by interviewing SSB members to investigate how far the role of SSB towards the policy determination related to the quality of financial statements.

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