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Analysis of the Effectiveness of the Sharia Supervisory Board in Maintaining Integrity and Sharia Compliance in Islamic Mutual Funds in the Indonesian Capital Market

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ABSTRACT

The Islamic capital market in Indonesia has experienced rapid growth in line with the increasing public awareness of the importance of sharia-compliant investments. One of the prominent instruments is the Islamic mutual fund, which requires supervision from the Sharia Supervisory Board (Dewan Pengawas Syariah/DPS) to ensure that all its activities comply with sharia provisions. This study aims to analyze the effectiveness of DPS supervision in maintaining the integrity and sharia compliance of Islamic mutual funds in the Indonesian capital market. The method used in this study is a library research approach, by reviewing various sources such as OJK regulations, DSN-MUI fatwas, capital market industry reports, and relevant previous studies. The findings indicate that the DPS plays a strategic role in maintaining investor confidence in the integrity of Islamic mutual fund products. However, the effectiveness of supervision still faces several challenges, including the limited number and competence of DPS members, suboptimal coordination mechanisms with OJK and DSN-MUI, and a lack of transparency in sharia compliance reporting. Therefore, strengthening DPS capacity through enhanced competency, sharia certification, and a more comprehensive supervisory evaluation system is necessary. Effective supervision is expected to reinforce the integrity and credibility of the Islamic capital market in Indonesia.

Keywords: *Sharia Supervisory Board, Islamic Mutual Fund, Sharia Supervision, Integrity, Sharia Compliance.*

INTRODUCTION

The Islamic capital market in Indonesia has demonstrated rapid growth over the past decade. This development is driven not only by growing public awareness of the importance of investments that are in accordance with Islamic principles, but also by regulatory and government policy support through the Financial Services Authority (Otoritas Jasa Keuangan/OJK) (Otoritas Jasa Keuangan, 2023) and the National Committee for Islamic Economy and Finance (Komite Nasional Ekonomi dan Keuangan Syariah/KNEKS) (Komite Nasional Ekonomi dan Keuangan Syariah, 2023). Both institutions play an important role in strengthening the national Islamic financial ecosystem and establishing a more robust legal framework for the development of the Islamic capital market in Indonesia.

One investment instrument that has experienced significant growth is the Islamic mutual fund, which has become a halal investment alternative for the broader public. Islamic mutual funds implement the principles of *mudharabah* and *wakalah* in their operational structure, thereby providing investors with the opportunity to earn returns without violating sharia principles (Wijayanti, 2023). Based on reports by OJK (2023) and JESS (2024), the number of Islamic mutual funds has continued to increase year by year, indicating a high level of interest from retail investors in sharia-based products.

In the context of compliance with Islamic law, the Sharia Supervisory Board (Dewan Pengawas Syariah/DPS) plays a strategic role as the gatekeeper of integrity and sharia compliance for every Islamic investment product. The DPS is responsible for issuing fatwas, providing opinions, and supervising the investment activities carried out by investment managers to ensure that all activities remain consistent with sharia provisions (Lahsasna, 2016). International research indicates that the existence of a Sharia Supervisory Board (SSB) in various countries plays an important role in ensuring effective sharia governance (Elamer et al., 2020).

Nevertheless, the effectiveness of the supervision conducted by the DPS remains a subject of academic and practical concern. Several studies have identified constraints in the implementation of the supervisory function, such as the limited number and competence of DPS members, dependency on investment managers, and suboptimal coordination between the DPS, OJK, and DSN-MUI (Al-Amer, 2018). Additional challenges arise from aspects of independence and transparency in sharia compliance reporting, which have not yet been fully disclosed to the public (Khan & Mirakhor, 2017).

At the international level, research indicates that the effectiveness of an SSB depends greatly on its professionalism, independence, and the quality of sharia

audits conducted on a periodic basis (Routledge, 2024). In Indonesia, the DPS performs a similar function, but still faces various structural and administrative obstacles that require further examination to ensure that sharia governance can operate optimally. Therefore, a literature-based academic study is needed to assess the extent to which DPS supervision can effectively maintain the integrity and sharia compliance of Islamic mutual funds.

METHOD

This study employs a library research method with a qualitative descriptive approach, aimed at analyzing the effectiveness of Sharia Supervisory Board (DPS) supervision of Islamic mutual funds in the Indonesian capital market. The data used is secondary in nature, obtained from national and international scientific journals, academic books, and official reports from OJK, DSN-MUI, and KNEKS covering the past 10 years (2015–2025). Data collection was conducted through systematic searches of trusted sources such as Scopus, Google Scholar, and Garuda Dikti using the keywords "sharia governance," "reksa dana syariah," and "pengawasan DPS." Data analysis was carried out through content analysis, involving stages of data reduction, categorization, interpretation, and conclusion drawing to identify patterns and relationships between concepts in the reviewed literature (Krippendorff, 2018). Data validity was maintained through source triangulation and critical analysis of findings from various sources of literature, ensuring that the conclusions drawn are academically justifiable.

RESULTS AND DISCUSSION

The literature review indicates that the effectiveness of Sharia Supervisory Board (DPS) supervision of Islamic mutual funds in the Indonesian capital market is strongly influenced by three main factors: (1) sharia governance structures, (2) supervisory mechanisms and quality, and (3) the institutional capacity of the DPS in performing its functions of issuing fatwas, conducting sharia audits, and reporting. The DPS plays a central role in ensuring that all investment activities conform to sharia principles, particularly in evaluating the compliance of portfolios, transactions, and financial instruments used by investment managers (Fatmawati, 2022).

First, from the perspective of sharia governance, DPS effectiveness is related to its position and independence within the organizational structure of investment management institutions. Research shows that the more independent the DPS is from management, the higher the level of sharia compliance and reporting transparency. However, in Indonesia, the position of the DPS is often consultative rather than that of the primary decision-maker, which limits the

scope of its supervision. Several other studies have also noted that DPS involvement in the formulation of investment policies is often merely formal, and has yet to become an integral part of the strategic decision-making process (Yaacob & Donglah, 2016).

Second, the mechanism and quality of DPS supervision are critical determinants of sharia compliance effectiveness. Based on the General Guidelines for Sharia Governance, the DPS has three main functions: providing sharia compliance opinions, conducting periodic sharia audits, and reporting the results to regulators (OJK & DSN-MUI, 2020). In practice, not all DPS bodies carry out internal audits systematically due to limited resources and member competency. Furthermore, DPS members in Indonesia frequently hold concurrent positions in multiple Islamic financial institutions, which reduces their concentration and overall supervisory effectiveness. These findings are consistent with global research by Routledge, which emphasizes the importance of a standardized sharia audit framework to guarantee the integrity of sharia governance in the Islamic financial industry.

Third, in terms of institutional capacity, DPS effectiveness is greatly determined by the competence, integrity, and professionalism of its members. Research by KNEKS (2023) affirms that the majority of DPS members in Indonesia continue to be predominantly from a fiqh background, with limited knowledge of risk management, investment, and capital market instruments. This situation causes their analysis of mutual fund products to be more normative than technical in nature. Research by JESS (2024) also shows that investment managers often dominate in determining investment strategies, while the DPS only performs administrative compliance verification (JESS Journal, 2024). Therefore, enhancing DPS capacity through certification, sharia audit training, and collaboration with OJK is an urgent necessity.

Beyond internal factors, the effectiveness of DPS supervision is also influenced by regulatory support and reporting systems. The OJK has issued an annual Sharia Compliance Report that serves as a reference for investment management institutions to report on supervisory activities. However, this mechanism has not yet been made fully transparent to the public. Greater information disclosure regarding the results of sharia supervision can increase investor confidence in Islamic investment products. Such transparency is also an important indicator of the integrity of Islamic mutual funds within the context of sustainable finance (Ali et al., 2021).

Based on the synthesis of various sources of literature, it can be concluded that DPS in Indonesia has already contributed to maintaining sharia compliance, but its effectiveness remains largely limited to administrative and symbolic

aspects. A gap persists between the ideal of sharia governance and its actual implementation. The inhibiting factors include: (1) the lack of DPS members' technical competence, (2) the absence of standardized sharia audit protocols, (3) weak transparency in reporting, and (4) suboptimal coordination between the DPS, DSN-MUI, and OJK (Edinburgh University Press, 2019).

To improve supervisory effectiveness, several strategies may be implemented: (a) strengthening DPS independence through regulations that restrict concurrent appointments; (b) enhancing professional competence through sharia auditor certification; (c) implementing external sharia audits by independent parties to ensure objectivity; and (d) expanding sharia compliance information disclosure so that it can be monitored by the public and investors. These efforts are aligned with the principles of *maqashid syariah*, which seek to uphold justice, trustworthiness, and the common good in economic activity (Fadhila, 2021).

Accordingly, the findings of this literature review reveal that the Sharia Supervisory Board serves as a vital pillar of integrity within the Islamic capital market system, yet it still requires structural and professional strengthening in order to ensure that every investment activity operates in accordance with Islamic principles and meets public expectations for transparency and accountability (Komite Nasional Ekonomi dan Keuangan Syariah, 2023).

CONCLUSION

Based on the findings of the literature review, it can be concluded that the Sharia Supervisory Board (DPS) plays a highly strategic role in maintaining the integrity and sharia compliance of Islamic mutual fund products in the Indonesian capital market. The DPS functions as the guardian of Islamic values through the issuance of opinions, audits, and compliance reporting against Islamic principles. However, the current effectiveness of DPS supervision still faces a number of structural and functional constraints.

First, the role of the DPS in the sharia governance structure remains consultative and has not yet achieved full independence. DPS involvement is often limited to administrative verification, while strategic investment decisions continue to be dominated by investment managers. Second, the sharia audit mechanism has not been functioning optimally due to the absence of standardized protocols and a shortage of human resources with expertise in investment and capital market finance. Third, the transparency of supervisory outcomes has not been sufficiently disclosed to the public, meaning that investor confidence in the sharia supervisory process still needs to be strengthened.

In general, the effectiveness of the DPS in Indonesia is moderate, in that supervisory functions have been carried out but have not yet reached the optimal level consistent with international sharia governance principles. To achieve robust integrity in the Islamic capital market, it is necessary to improve DPS professionalism, refine sharia audit regulations, and foster closer collaboration among the DPS, OJK, and DSN-MUI.

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