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Shariah Governance and the Utilisation of Non-Halal Funds: The Role of Supervisory Boards in Indonesian Islamic Microfinance

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Abstract:
This study examines the role of the Shariah Supervisory Board (DPS) in overseeing the utilisation of non-income funds (TBDSP) at BPRS Syarikat Madani, Riau Islands, Indonesia. Using a qualitative juridical-empirical method, it integrates normative analysis of DSN-MUI fatwas and statutory provisions with empirical insights from interviews with bank managers and DPS members. The findings reveal that TBDSP funds, mainly derived from late payment penalties, are classified as benevolent deposits and allocated for social purposes such as disaster relief, scholarships, Islamic education support, and Qardh al-Hasan loans, consistent with DSN-MUI Fatwa No. 123/2018 and the Board of Directors' Decree No. 034/SK-DIR/X/2023. The DPS authorises major disbursements, ensures compliance with Shariah regulations, and monitors reporting to the Financial Services Authority. However, its supervisory role remains largely procedural, with limited evaluation of the social impact of fund utilisation. The study highlights the need to strengthen DPS capacity through standardised Shariah audit mechanisms and digital transparency tools to align practice with maqashid al-shariah. Theoretically, it extends Shari'ate Enterprise Theory by emphasising the integration of impact evaluation into Shariah governance and positioning DPS as both a compliance guardian and a driver of institutional legitimacy in Islamic microfinance.

Keyword: Shariah Supervisory Board, Non-Halal Funds, Islamic Microfinance

INTRODUCTION

The Islamic finance industry has undergone remarkable expansion over the last four decades, evolving from a niche sector into a significant component of the global financial system. Estimates suggest that global Islamic finance assets have already surpassed USD 2 trillion, reflecting both the increasing demand for ethical finance and the institutionalization of Shariah governance (Kristianingsih et al., 2022; Tuzzuhro et al., 2023). This growth has been particularly pronounced in Muslim-majority economies such as Indonesia, Malaysia, and several Middle Eastern countries, where financial practices are closely intertwined with religious identity and socio-economic development goals (Alam, 2021; A. Arifin et al., 2023; Khalid et al., 2018). Scholars consistently emphasize that the long-term sustainability of this industry depends not only on its capacity to provide competitive products but also on its credibility in ensuring Shariah compliance (Hamza, 2013; Mollah, 2015; Thnaibat, 2024)ion, and the role of oversight bodies has emerged as one of the most central debates within contemporary Islamic finance literature (Alam, 2021; Haridan, 2018; Kok, 2022).

In Indonesia, the significance of Islamic finance is further magnified by the country's demographic position as home to the world's largest Muslim population. Alongside Islamic commercial banks (BUS) and Islamic business units (UUS), Shariah People's Financing Banks (BPRS) play a unique role by targeting micro, small, and medium enterprises (MSMEs), thus directly linking Shariah-compliant finance with grassroots economic empowerment (Aninda, 2022; Fauzi, 2018; Harahap & Harahap, 2019)itutions operate on principles of fairness and risk-sharing, which distinguish them from conventional banking practices and allow them to cater to underserved communities (Darwanto et al., 2019; Salihin, 2021). Historically, the institutional form of BPR was recognized in Indonesia through Presidential Decree No. 38/1988 and later adapted into Shariah-oriented BPRS under Bank Indonesia Regulation No. 11/23/PBI/2009 (Aninda, 2022; Salihin, 2021). Despite their strong legal basis and social orientation, BPRS face persistent challenges such as the lack of innovative financial products, limited technological infrastructure, and weak institutional capacity in governance and risk management (Dwi, 2024; Firmansyah & Hidayat, 2024; Lukito, 2021). These challenges make them particularly vulnerable to issues of non-compliance and operational inefficiency compared to larger Islamic banks.

One of the critical areas of vulnerability in BPRS, and in Islamic banking more broadly, concerns the treatment of non-halal income, often conceptualized as funds that should not be recognized as income (TBDSP). This category includes revenues derived from transactions inconsistent with Shariah principles, such as interest (riba), contract violations, and unidentified fund ownership (Ali & Hussain, 2013; Hanefah, 2020; Nurhadi, 2019; Yunus, 2017)). According to DSN-MUI Fatwa No. 123/2018, these funds may not be utilized for internal institutional purposes such as training, promotion, or operational financing, but must instead be allocated to socially beneficial activities (Hasim & Nursobah, 2024; Mutaqin et al., 2024). However, several empirical and normative studies indicate recurring misuse of these funds in practice, reflecting governance gaps and weak monitoring (Johari, 2021; Orhan, 2022)arative studies further highlight that while Malaysia has developed relatively standardized frameworks for purification and disclosure of non-permissible income, many other jurisdictions—including parts of Indonesia—still exhibit inconsistencies and lack of harmonization (Hamza, 2013; Hanefah, 2020). These challenges make the issue of non-halal funds an urgent area of research with both theological and practical implications.

In this context, the Shariah Supervisory Board (Dewan Pengawas Syariah, DPS) assumes a particularly strategic role as the institutional mechanism designed to safeguard Shariah compliance. DPS, as an extension of the DSN-MUI, is mandated to oversee contracts, transactions, and financial reporting in order to prevent deviation from Shariah principles (Muhamad Zaini, 2024; Nurjaman & Witro, 2022). A considerable body of scholarship has identified independence, expertise, and effectiveness of DPS as critical determinants of Shariah governance quality (Kok, 2022; Mollah, 2015; Sueb et al., 2022; Thnaibat, 2024). Nonetheless, recurrent issues such as dual positions, limited technical competence, and weak enforcement mechanisms continue to undermine the optimal functioning of DPS in many institutions (D. ; K. Arifin D. ;. Anwar, S., 2024; Haridan, 2018; Lukito, 2021; Triasari & de Zwart, 2021). Recent research also emphasizes that DPS effectiveness depends on broader systemic factors, including regulatory clarity, institutional support, and continuous training (Dwi, 2024; Hidayatullah, 2025; Rahmatika, 2024). Hence, the DPS becomes not only a religious supervisory entity but also a key node within the overall architecture of Islamic corporate governance.

Despite the abundance of literature on Shariah governance, most studies have focused on Islamic commercial banks and larger financial institutions, leaving micro-level institutions such as BPRS relatively understudied. Prior work has established robust links between Shariah supervisory effectiveness and financial performance at the macro level (Alam, 2021; Mollah, 2015; Thnaibat, 2024), yet little is known about how these dynamics play out in small-scale institutions whose operational realities are distinct (Dasopang, 2025; Minaryanti & Mihajat, 2023; Suaidi, 2025). Specifically, the role of DPS in monitoring the use of TBDSP funds remains underexplored, even though misuse of such funds directly challenges the credibility of Shariah governance (Aziz et al., 2022; Dwi, 2024; Firmansyah & Hidayat, 2024). Moreover, the complexity of Indonesia's regulatory environment, where fatwas must be transformed into binding regulations through OJK or Bank Indonesia, adds another layer of ambiguity and potential inconsistency (Hartini et al., 2025; Renie, 2021; Tarmidzi et al., 2024). This lacuna in the literature underscores the urgency of empirical investigations focused specifically on the BPRS sector.

This study addresses the existing gap by examining the role of the Shariah Supervisory Board in monitoring and validating the appropriateness of TBDSP fund utilization at PT BPRS Syarikat Madani, the first Shariah People's Financing Bank established in the Riau Islands. As an institution operating under the oversight of the Financial Services Authority (OJK) and guided by DSN-MUI, BPRS Syarikat Madani provides a compelling setting for understanding how Shariah governance is shaped through the interaction between regulatory frameworks and localized institutional practice (Ermaini et al., 2025; Judijanto et al., 2025), the research is structured around two core questions: (1) How are TBDSP funds allocated and applied within BPRS Syarikat Madani? and (2) What role does the DPS assume in ensuring that such practices remain aligned with Shariah principles?

By pursuing these inquiries, the study seeks to contribute to the broader scholarly discussion on Islamic finance governance. It offers insights into the operational dynamics of Shariah supervision at the micro level, strengthens the conceptual connection between the management of non-halal income and the effectiveness of Shariah supervisory functions, and highlights implications for regulators, practitioners, and academics engaged in the development of Islamic financial institutions (Hamza, 2013; Mollah, 2015; Thnaibat, 2024). The findings are expected to enhance understanding of how governance mechanisms can support greater accountability, compliance, and institutional maturity within the Islamic finance ecosystem.

METHOD

This study applies a qualitative research design with a juridical-empirical orientation, combining doctrinal legal analysis with field-based inquiry. Such an approach is considered appropriate for Islamic finance research, where regulatory provisions and Shariah principles are embedded in both legal texts and institutional practices (Hamza, 2013; Mukti Fajar, 2013). By situating the law in action rather than merely law in books, the juridical-empirical method provides insights into how formal Shariah rules are interpreted, enforced, and occasionally contested within financial institutions (Mollah, 2015). Previous studies in Islamic banking governance similarly highlight the necessity of bridging normative frameworks with empirical realities to capture compliance dynamics and governance gaps (Alam, 2021; Haridan, 2018). The aim of this research design is therefore to assess both the formal validity of rules and their practical application in BPRS operations.

The subject of this study is PT BPRS Syarikat Madani, a Shariah People's Financing Bank located in the Riau Islands, while the object of inquiry is the role of the Shariah Supervisory Board (DPS) in monitoring the utilization of funds that should not be recognized as income (TBDSP). The case of BPRS Syarikat Madani was selected due to its pioneering role in the region, its compliance obligations under OJK regulations, and its oversight by the DSN-MUI, making it a relevant site for examining Shariah governance in practice (Aziz et al., 2022; Nurjaman & Witro, 2022). The DPS in this institution represents a microcosm of broader debates on independence, effectiveness, and competence of Shariah supervision across Islamic financial institutions (Kok, 2022; Mollah, 2015). Furthermore, the institution has been directly involved in managing TBDSP funds, making it an illustrative case for evaluating how regulatory standards and fatwa provisions are operationalized.

Data were gathered through a combination of field interviews and documentary analysis. Semi-structured interviews were conducted with the Operations Manager and DPS members of BPRS Syarikat Madani to obtain qualitative insights into the supervisory practices, compliance challenges, and interpretations of Fatwa DSN-MUI No. 123/2018 on TBDSP utilization. These interviews were complemented by the analysis of statutory and regulatory documents, including Law No. 21/2008 on Shariah Banking, Law No. 4/2023 on the Development and Strengthening of the Financial Sector, and related OJK and Bank Indonesia regulations. Academic literature and journal articles were also consulted to provide secondary perspectives on DPS roles, Shariah governance, and non-halal fund management (Firmansyah & Hidayat, 2024; Rahmatika, 2024; Thnaibat, 2024). This multi-source strategy ensures a comprehensive understanding of both normative frameworks and empirical practices.

The collected data were analyzed using a descriptive-analytical approach, combining doctrinal legal interpretation with thematic coding of interview transcripts. The analytical framework was guided by Shari'ate Enterprise Theory, which emphasizes accountability, justice, and transparency in managing entrusted funds (Dewi et al., 2024; Lenap et al., 2021). Triangulation was applied by cross-validating interview results with statutory instruments, fatwas, and secondary scholarly sources to enhance reliability (Kok, 2022; Sueb et al., 2022). This methodological integration is consistent with best practices in Islamic finance research, where both legal-normative validity and institutional practices must be scrutinized (Alam, 2021; Hamza, 2013). By combining doctrinal and empirical perspectives, the method ensures a balanced account of both regulatory expectations and lived realities in the governance of Islamic banks.

RESULT AND DISCUSSION

Sources of TBDSP Funds in BPRS Syarikat Madani

The empirical evidence collected during fieldwork indicates that the principal source of funds that may not be recognized as income at BPRS Syarikat Madani derives from penalties imposed on customers who deliberately delay installment payments despite being financially capable. These penalties are formally anchored in the principle of taʿzīr, which seeks to instill discipline among clients while simultaneously deterring opportunistic behaviour. As the head of the Tanjungpinang branch, Karlina, explained, "for able customers who intentionally postpone their obligations, the bank imposes fines according to the agreement signed at the beginning of the contract" (Interview, July 19, 2024). Importantly, the proceeds from these sanctions are never booked as bank income; instead, they are categorised as benevolent deposits under the label infaq titipan, and are subsequently channelled into social activities. This practice demonstrates an effort to comply with Shariah principles while also maintaining social legitimacy among customers.

From a normative perspective, this practice reflects the dual authority of fatwa provisions and internal institutional decrees. The management of BPRS Syarikat Madani explicitly refers to DSN-MUI Fatwa No. 17/2000 on sanctions for customers who delay payments and DSN-MUI Fatwa No. 123/2018 concerning funds that should not be recognised as income. These provisions unequivocally prohibit the use of such funds for internal bank interests, such as training, promotion, or tax payments, mandating instead their allocation for social welfare purposes. At the institutional level, these stipulations are operationalised through the Decree of the Board of Directors No. 034/SK-DIR/X/2023, which defines these resources as "benevolent funds" and regulates their collection, recording, and utilisation. In the OJK online reporting system (APOLO), these resources are consistently categorised as benevolent rather than income, which demonstrates a regulatory alignment between internal practice and external oversight requirements.

When contrasted with international literature, the classification of such funds in BPRS Syarikat Madani is consistent with global understandings of non-permissible income in Islamic finance. Studies have demonstrated that non-halal revenues typically originate from sources such as interest receipts, invalid contractual arrangements, penalties, and unidentified ownership (Ali & Hussain, 2013; Hanefah, 2020; Yunus, 2017). Malaysian Islamic banks, for instance, have developed relatively standardised frameworks for the purification and disclosure of these funds, whereas practices in Indonesia, especially among smaller institutions such as BPRS, remain less harmonised (Hamza, 2013). What distinguishes the case of BPRS Syarikat Madani is the use of religiously sensitive terminology, namely infaq titipan, to frame penalty-derived funds as benevolent rather than punitive. This reduces the stigma of fines among customers while maintaining Shariah compliance. This linguistic and institutional framing reflects the social embeddedness of Islamic finance in local cultural contexts.

As an observation, the categorisation of fines as benevolent deposits illustrates how regulatory obligations are translated into everyday institutional practice. Rather than perceiving penalties purely as financial sanctions, BPRS Syarikat Madani constructs them as instruments of social solidarity, explicitly linking customers' delayed payments to community-oriented benefits such as disaster relief or assistance for orphans. This approach aligns with the Shari'ate Enterprise Theory, which emphasises accountability and distributive justice as integral dimensions of Islamic economic practice (Lenap et al., 2021). At the same time, it raises questions about transparency and standardisation, since the reliance on contextual terminology and internal decrees may generate ambiguities in reporting and cross-institutional comparison. The reliance on managerial discretion, while socially resonant, could risk undermining uniformity in Shariah compliance across the sector if not continuously monitored by DPS and external regulators.

Utilization Patterns of TBDSP Funds

Field data show that the benevolent funds collected by BPRS Syarikat Madani, primarily from late payment penalties, are systematically allocated for various social purposes. These include direct assistance to victims of natural disasters, support for orphans and the poor, provision of scholarships for underprivileged students, and contributions to the maintenance of mosques and Islamic educational institutions. The bank has also established a mechanism for distributing small-scale Qardh al-Hasan loans with a ceiling of ten million rupiah, designed to provide interest-free financial support to customers in urgent need. As noted by Ade Fikri, a member of the operations team, "these funds are never treated as income but are used exclusively for social welfare and community support" (Interview, August 27, 2024). Such practices reveal an attempt to transform financial sanctions into instruments of solidarity, aligning operational realities with Shariah expectations.

From a regulatory standpoint, these utilization patterns are firmly anchored in DSN-MUI Fatwa No. 123/2018, which stipulates that non-halal income must be channelled into socially beneficial activities and explicitly prohibits their use for institutional gains. The Decree of the Board of Directors of BPRS Syarikat Madani No. 034/SK-DIR/X/2023 further specifies categories of eligible allocation, ranging from disaster relief and educational support to productive activities for the poor. Importantly, the decree also requires that every distribution of funds be reviewed and approved by the Shariah Supervisory Board, particularly in cases where the amount exceeds a certain threshold. This demonstrates not only the alignment of BPRS practices with national fatwa and OJK regulatory frameworks, but also the internalisation of Shariah governance principles into everyday financial operations.

A comparison suggests both convergence and divergence. In Malaysia, for instance, non-halal income is generally redirected towards structured corporate social responsibility programmes or community development projects, with detailed reporting requirements to enhance accountability (Hanefah, 2020; Yunus, 2017). Research in the Gulf region similarly highlights the role of non-permissible income in funding charitable institutions, although practices often differ in terms of disclosure and institutional monitoring (Hamza, 2013; Orhan, 2022). BPRS Syarikat Madani's approach is broadly consistent with these models, yet the reliance on relatively simple reporting and the absence of innovative instruments such as digital disclosure or integrated CSR platforms illustrate a developmental gap. This suggests that while compliance with the letter of the fatwa is evident, the broader objective of transparency and institutional credibility may still require further reinforcement.

The utilisation of TBDSP funds at BPRS Syarikat Madani embodies the spirit of maqashid al-shariah, particularly in preserving life through disaster relief and preserving intellect through scholarships. However, the effectiveness of these allocations is difficult to measure, since reporting remains largely administrative and does not include impact evaluation. The introduction of Qardh al-Hasan is laudable as a mechanism of social inclusion, yet it also carries the risk of moral hazard if not accompanied by stringent monitoring of beneficiaries and repayment patterns. Moreover, the reliance on managerial discretion in determining beneficiaries, while socially sensitive, could lead to inconsistency and unequal treatment without a clear framework of accountability. These observations underline the necessity of continuous guidance from DPS and more rigorous evaluation procedures to ensure that the use of benevolent funds does not merely fulfil formal compliance but also delivers tangible social value.

Supervisory Role of the DPS

Field data reveal that the Shariah Supervisory Board (DPS) at BPRS Syarikat Madani plays a decisive role in approving, monitoring, and reporting the utilization of funds that may not be recognised as income. Every use of benevolent funds exceeding fifteen million rupiah requires explicit approval from the DPS, alongside the signatures of the board of directors, thereby ensuring that large-scale disbursements are subject to heightened scrutiny. As explained by Riswandhi Ismail, "the DPS must review every major allocation, not only to ensure compliance with fatwa, but also to guarantee that funds reach their intended social purposes" (Interview, June 4, 2024). In addition, the DPS is responsible for verifying the periodic reports submitted to the Financial Services Authority (OJK) through the APOLO system, a process designed to ensure consistency between internal records and external regulatory oversight.

From a normative perspective, the role of DPS is grounded in several key legal frameworks. Law No. 21 of 2008 on Islamic Banking and Law No. 40 of 2007 on Limited Liability Companies both stipulate that Islamic banks must appoint at least three DPS members with competence in Shariah jurisprudence. Moreover, the DSN-MUI Decree No. Kep-98/MI/III/2001 outlines the functions of DPS, which include providing guidance to management, conducting periodic supervision, and reporting developments to DSN at least twice per fiscal year. These regulations establish the DPS as a unique institutional mechanism that combines religious authority with corporate governance functions. In the case of BPRS Syarikat Madani, these normative provisions are operationalised through the Board of Directors' Decree No. 034/SK-DIR/X/2023, which explicitly requires DPS oversight in all matters related to the utilisation of benevolent funds.

When placed in dialogue with the existing literature, the supervisory practices of DPS at BPRS Syarikat Madani appear to reflect broader global patterns, while also manifesting specific challenges typical of smaller institutions. Scholars have observed that DPS effectiveness is often constrained by issues of independence, dual roles, and limited resources, particularly in contexts where supervisory capacity is still developing (Haridan, 2018; Kok, 2022; Mollah, 2015). Comparative studies further indicate that DPS in larger Islamic banks usually adopt a more formalised role, supported by professional Shariah audit units, whereas DPS in smaller banks such as BPRS tend to operate in a more reactive and administrative manner (Sueb et al., 2022; Thnaibat, 2024). The findings from BPRS Syarikat Madani confirm this tendency, as the supervisory role of DPS remains more focused on compliance verification rather than proactive governance or strategic guidance.

From a critical perspective, this administrative orientation, while necessary for formal compliance, raises concerns regarding the substantive effectiveness of DPS supervision. The monitoring of benevolent funds is primarily procedural, with emphasis on documentation and approval, but less attention is paid to evaluating the actual social impact of fund distribution. This indicates a gap between regulatory compliance and the higher objectives of Shariah governance, namely maqashid al-shariah, which demand that financial practices contribute directly to the preservation of life, intellect, and social justice. The absence of systematic impact assessment mechanisms also means that DPS may not fully capture whether benevolent funds genuinely achieve their intended social outcomes. Such gaps risk undermining stakeholder trust, particularly in communities that increasingly demand transparency and accountability in Islamic financial practices.

The broader implication is that the role of DPS in institutions like BPRS must extend beyond procedural oversight to include strategic coaching and community-oriented evaluation. DPS should be envisioned not only as a supervisory organ ensuring Shariah compliance, but also as a guardian of institutional legitimacy and public trust. In this regard, capacity-building programmes, continuous training in Shariah audit methodologies, and the integration of digital reporting tools could enhance DPS effectiveness. Strengthening the independence and competence of DPS would also align with global best practices and reinforce the credibility of Islamic banking in Indonesia. Ultimately, the supervisory role of DPS must be understood as both a religious and governance function, whose success determines the sustainability of Islamic financial institutions in the eyes of regulators, customers, and society at large.

Governance Challenges and Implications

The findings of this study highlight several challenges that limit the effectiveness of Shariah governance in BPRS Syarikat Madani. The supervisory role of DPS has largely remained administrative, with an emphasis on documentation, approval of fund utilisation above certain thresholds, and the submission of reports to OJK. While these tasks ensure formal compliance, they do not always translate into substantive evaluation of the social impact of benevolent funds. Furthermore, the reliance on local terminology such as infaq titipan reflects a socially sensitive approach, yet this linguistic framing risks obscuring the need for measurable accountability. Observations also indicate that reporting practices remain procedural, with limited innovation in transparency or impact disclosure, thereby constraining the credibility of the institution in the eyes of external stakeholders.

These challenges resonate with findings in the wider literature, where scholars have consistently pointed to issues of independence, competence, and limited resources as structural weaknesses of DPS across Islamic financial institutions (Haridan, 2018; Kok, 2022; Mollah, 2015). DPS effectiveness is often compromised by conflicts of interest and insufficient expertise, while small institutions are especially vulnerable to weak supervisory practices (Haridan, 2018; Kok, 2022; Mollah, 2015). Comparative research has also shown that in Malaysia and the Gulf region, non-halal income is managed through more standardised mechanisms of Shariah audit and structured CSR, whereas in Indonesia, especially in smaller BPRS, supervision remains fragmented and personality-driven (Hanefah, 2020; Thnaibat, 2024; Yunus, 2017). The case of BPRS Syarikat Madani therefore reflects broader patterns while also illustrating the specific vulnerabilities of micro-level Islamic banks.

The implications of these findings are twofold. On a practical level, there is a pressing need to strengthen the institutional capacity of DPS through continuous training, standardisation of Shariah audit procedures, and the adoption of digital reporting mechanisms that could enhance transparency and stakeholder trust. On a theoretical level, the study demonstrates the relevance of Shari'ate Enterprise Theory in understanding accountability, yet also suggests that the framework needs to incorporate tools for evaluating the actual social outcomes of fund utilisation. Without such evaluative dimensions, Shariah governance risks becoming overly procedural, satisfying formal requirements without ensuring that benevolent funds genuinely contribute to the maqashid al-shariah, such as the preservation of life, intellect, and social justice.

From a reflexive perspective, the role of DPS should be understood not merely as a compliance-oriented function but as a catalyst for institutional legitimacy. As Islamic banking continues to expand in Indonesia, public trust will increasingly depend on whether DPS can combine doctrinal oversight with proactive guidance and social evaluation. BPRS Syarikat Madani illustrates that benevolent funds can serve as a bridge between financial discipline and community welfare, yet this potential will remain underutilised unless supervisory mechanisms evolve. DPS must therefore be envisioned as both guardians of Shariah integrity and promoters of social accountability, whose effectiveness ultimately determines the credibility and sustainability of Islamic financial institutions in society.

CONCLUSION

This study concludes that the funds which may not be recognised as income at BPRS Syarikat Madani, primarily originating from late payment penalties and categorised as benevolent deposits, have been allocated for social purposes such as disaster relief, scholarships, and Qardh al-Hasan loans in accordance with DSN-MUI Fatwa No. 123/2018 and the Board of Directors' Decree No. 034/SK-DIR/X/2023. The Shariah Supervisory Board has played a pivotal role in ensuring compliance by approving major disbursements, monitoring reporting to OJK, and prohibiting institutional misuse of such funds. Nevertheless, the supervisory function remains predominantly administrative, with limited evaluation of the actual social impact, reflecting governance challenges commonly identified in smaller Islamic banks. The findings imply that enhancing DPS capacity, introducing standardised audit mechanisms, and adopting digital reporting tools are necessary steps to strengthen transparency and align fund utilisation more closely with the objectives of maqashid al-shariah. By highlighting both compliance achievements and areas for improvement, the study contributes to Shari'ate Enterprise Theory and underlines the importance of DPS not only as guardians of Shariah compliance but also as catalysts of institutional legitimacy and social accountability.

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