

## Committee of Sponsoring Organization of the Treadway Commission (COSO) Framework as a Control Framework Construction Internal Sharia Based

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### Abstract

*COSO internal control Framework is an operational activity that is widely used for more effective and efficient performance. The purpose of this study is to analyze internal control based on the COSO Framework concept and the concept of Islamic sharia and a comparison between the two. The method used in this research is descriptive qualitative with a database of phenomena and the substance of the meaning of the phenomenon. The findings in this study that the COSO Framework as an internal control system that is proven to be effective and can uncover various cases of violations that occur in the world, both at the organizational and government scale. In principle the COSO Framework 's internal control concept based on the principle of distrust of the organizational hierarchy (management, board of directors, employees, shareholders) . On the other hand, the concept of internal control based on the concept of Islamic sharia is based on aspects of one's spirituality and religiosity (tawhid and taqwa). The concept of Islamic internal control is not based on fear of rule of law, control, people should have faith that everything they do is supervised by God and will be accounted for in life after life with inner awareness. Comparison of the concept of internal control between COSO Framework and Islam in principle are not contradictory, but the concept of Islamic internal control is complementary and fills the empty space in the COSO internal control concept. Tawhid and Taqwa are the first foundations of the COSO Framework which will have a major impact on the successful implementation of the COSO Framework within the organization or institution to prevent everyone in every element in the organization and institution from doing bad or wrong things.*

### Keywords

Coso frame work; internal control; sharia



## I. Introduction

The implementation of effective internal control is a basic principle of internal in an institution or organization . This means that internal control becomes a basic framework in every implementation of operational activities , so that they become effective, and ensure that its effectiveness (Anderson and Eubanks, 2015). Main activities of internal control is a function of control over activities at all levels of management. The importance of internal control causes every organization (government, private, public and professional institutions) today to provide special attention to internal control (Syakur *et al.* , 2020) . Existing phenomena and inadequate personnel performance, indications of weak compliance (*compliance*) with the rules that have been set. There are differences in interpretation in the implementation or implementation operational activities so that inefficient and effective operations are a signal weak internal control (Hermanson *et al.* , 2012 ; Bongani, 2013 ) .

Actual internal control for solving existing problems by applying the internal control model of the *Committee of Sponsoring Organization of the Treadway Commission (COSO) Framework* (Bongani, 2013 ; Anderson and Eubanks, 2015) . Implementation of *COSO Framework* 's internal controls widely accepted and can be applied as a policy regulation on the *requirements* of the Organization's standards . The internal control system designed as policies and guidelines to be implemented by staff to meet this demand. *COSO Framework* *The framework* provides an explanation of the multi-dimensional concept of internal control. Therefore the *COSO model* *The framework* is designed to provide confidence adequate regarding the achievement of three groups of goals, namely: (1) Efficiency and Effectiveness Operations, (2) Financial Reporting Reliability, and (3) Legal Compliance and applicable regulations. To achieve this goal, there are five components: principal internal control system that can be implemented effectively, which includes: *Control Environment, Risk Assessment, Control Activities, Information & Communication* and *Monitoring* ( Basri, 2014 ; Ayoub *et al.* , 2019 ) .

Weak internal control will cause deviations such as acts of corruption and other deviant activities ( Hermanson *et al.* , 2012 ; Basri, 2014 ) . Weaknesses of the internal control system are divided into: three: (1) control, accounting and reporting systems, where records are inaccurate and the reporting process is not in accordance with the provisions; (2) Structural weakness internal control al ; (3) No have formal SOPs, (4) there is no adequate segregation of duties and functions. Many cases of giant corporations ( Enron, Phar-Mor, Grazy Eddie ) who went bankrupt due to weakness or bad internal control ( Pirayesh *et al.* , 2012 ) . Weak internal control has high market *value* lower and better internal control means better company performance also. ( Altamuro and Beatty, 2010 )

*COSO Framework Internal Control* is a concept formed and developed with dichotomy between life and spirituality ( Ngumar *et al.* , 2019 ) . Concepts and their derived values influence users *COSO Framework* internal control model . Result Consequences thinking man of course just have advantages and weakness. View main which only focus on aspect material causing abandonment to aspect which character non-material such as spiritual and religious ( Bashar and Dutsin, 2018 ) . Islam is a religion that has perfect rules including rules in internal control. Islam has the principle of internal control no same with approach conventional method that separates religion from organizational life ( Putra, 2013 ) . The principle Islam has rules (sharia) in controlling internal in organization or interaction activities with fellow human beings. Mechanism control internal control \_ personal and social or legality law no can violate principles base sharia. The concept and model of internal control applied by Islam is deemed necessary to be elaborated in depth, its implementation and effectiveness in a government organization, as well as what are the most basic components in internal control in government organizations. ( Putra, 2013 ; Ngumar *et al.* , 2019 ) .

## II. Research Method

### 2.1 Sample and Type of Research

Implementation of internal control is the responsibility of the top management of the government organization. This research is a descriptive qualitative research that utilizes data in the form of observations of phenomena and focuses more on the substance of the meaning of the phenomenon. Descriptive qualitative research is strongly influenced by the strength of words and the arrangement of sentences used. Descriptive qualitative research that is the focus is the process and meaning of the results of observing phenomena. In this

research, the focus is on human elements, objects and institutions and their interactions between these elements in the form of events, behaviors and phenomena.

## 2.2 Data Analysis Procedure

Data analysis procedures carried out are a) the concept of internal control of the *Committee of Sponsoring Organization of the Treadway Commission* (COSO), b) the concept of internal control based on Islamic sharia, c) comparative analysis to see the implementation between the two concepts developed by COSO and those carried out in Islamic leadership period to get answers or facts whether there is a comparison or not of the concept being studied. Triangulation is used to test the validity of the data based on *credibility*. Testing of data based on t-regulatory as a method for testing data from those used from various sources and various times. Source triangulation by cross-checking the data obtained from various literature review sources.

There are three steps used (Sugiyono, 2013), namely a) data reduction, namely choosing the main things, focusing on the important things, looking for themes and patterns. b) data presentation in the form of narrative text, c) comparative analysis to see the implementation between the concepts carried out during the Islamic leadership period and the concepts developed by COSO. Third, data verification, in the form of drawing conclusions and verification.

Field data records are reduced, summarized, and then sorted into the main points, selecting the most important. Analytical memos are intended to make it easier for researchers to be able to see the overall picture or certain parts of the research data. The memo data is linked to other files according to the problem at hand. From data records, then reduction is carried out and then analyzed in a memo that supported by various sources as references.

## III. Results and Discussion

### 3.1 COSO Framework Internal Control System

COSO internal control is an effective and efficient operational activity within an organization or institution (Altamuro and Beatty, 2010; Syakur *et al.*, 2021). Track records in archival form show that the operational activities of the organization are duties and functions related to government organizations. The operational activities of government organizations are one system because they consist of: components that interact with each other and produce one the output is in the form of policies in government organizations (Rohmatin *et al.*, 2020; Soorguli and Al-Kake, 2020). COSO *framework* internal control system has been widely used that the most widely used in the world (Soh and Martinov Bennie, 2011; Roussy and Perron, 2018). The main things that exist in the COSO elements (*control environment*, *risk assessment*, *control activities*, *information and communication*, and *monitoring activities*), where these elements have principles in the implementation of the COSO *framework* (Gao and Zhang, 2019). Control environment (*control environment*) according to the COSO framework, related with: integrity and ethical values; commitment to competence; management philosophy and operating style; organizational structure; determination of authority and responsibility; human resource policies and practices (Pirayesh *et al.*, 2012; Bongani, 2013; Fajar *et al.*, 2021).

The five elements of COSO's internal control which are described in 6 people in the company, namely the Directors and Managers, were returned 5. The answers obtained varied, after cross-*checking* through observation and interviews show a different reality (

Son, 2013 ) . Of the 17 elements, only 9 elements have been implemented, but not fully implemented. Based on the performance of the system, it can be understood that the COSO *framework* is a control framework created and determined as a result of the frequent emergence of various mega cases of fraud that occur in various countries. Among them is the case of Enron ( 2001 ) involving the CEO and internal auditor , Lehman Brothers (2008), Nissan-Mitsubishi-Renault (2018), while in Indonesia there are cases of Lippo Bank (2002) , and Garuda Indonesia (2019). In addition, indications of fraud (fraud ) have been found in several State Universities in the last 10 years based on the results of operational audits conducted by the Supreme Audit Agency ( Ngumar *et al.* , 2019 ; Wahyuningsih, 2020 ; Sudarmanto and Utami, 2021 ) . These cases show that organizational leaders (CEOs, COOs, and so on) should be *leaders* in internal control to achieve organizational goals . ( Syakur *et al.* , 2021 ) . Practical steps in minimizing these incidents, the government establishes an element of internal control that is applied to all companies or institutions in running the wheels of their organization ( Altamuro and Beatty, 2010 ; Hermanson *et al.* , 2012 ) .

The important element of internal control in the COSO *framework* in an organization or government institution is not easy, because government cannot be separated from the elements of politics and power . Power is a pleasant position, encompassing a variety of material and material pleasures, material and immaterial, *visible* and *invisible* , so to get it often through exciting competitions and few people are willing to give it up. ( Ayoub *et al.* , 2019 ) . Power is actually formed through the victory of a certain group over another ( Hermanson *et al.* , 2012 ) .

### 3.2 Internal Control System in Sharia View

The nature of control and supervision has been recorded in the Qur'an and also given the example of the Prophet Muhammad. The internal control process in Islam can be explained by analogizing the control process in management above with Islamic philosophy. Based on the history and philosophy of Islam from various sources of knowledge, the general description is as follows: First, the message in this case regulates, provisions, provisions in the form of orders or prohibitions, promises and punishments made and determined by Allah SWT intended for all human beings. ( Bashar and Dutsin, 2018 ) . This is the ultimate standard that all human beings must adhere to. Second, the Prophet conveyed messages to humans by pouring them into the Koran and then spreading them through da'wah with various methodologies. This is an internalization process for all humans in carrying out their lives. Third, many people accept, understand, and apply all the standards set by Allah SWT through the Prophet. Fourth, there are also many who ignore (reject) and continue to carry out their old practice (associating partners with God), then against the established standards. Fifth, as a corrective action, Allah SWT provides an opportunity for humans who have deviated from the rules / standards set for repentance (apologies). Sixth, Allah has sent Raqib and Atid as His Angels to every human being to record all their deeds, and will be presented on the day of reckoning. ( Islam and Barghouthi, 2017 ) .

Taqwa is the concept of the highest state of human spiritual closeness to God. Al-Qur'an Surah Al-Hujurat 49:13 states that the most honorable man in the eyes of God is he who is most pious. ( Gao and Zhang, 2019 ; Ngumar *et al.* , 2019 ) . Taqwa is the best way to return to God because the ultimate goal of human life is to return to God in a state of taqwa ( Islam and Barghouthi, 2017 ) . The main point of taqwa is the feeling of being united. The Qur'an does not state a specific definition of taqwa. However, he provides

several indicators about actions that make a person very close to taqwa, there are several indicators that direct someone towards taqwa ( Sudarmanto and Utami, 2021 ) like:

- a. Forgiveness (Al-Baqarah 2:237),
- b. Justice (Al-Maidah 5:8),
- c. Patience (Al-Baqarah 2:153; Al-Anfal 8:66),
- d. Honesty (Al-Tawbah 9:119) and
- e. Other good deeds (Ali Imran 3:104, 110; Annisa 4:114)

### 3.3 Analysis Between COSO and Sharia Internal Control

The system of self-control in Islam has been very clearly stated in our holy al- Quran and al-Hadith. Among the verses related to this are contained in Surah Ali Imran verse 4 and verse 110, Surah At-Taubah verse 71, and Surah An-Nisa' verse 83. While the hadiths as narrated from Abu Hurairah ra and the hadith t -hadith t the history of Imam Muslim in al-kutub al-sittah ( Ngumar *et al.* , 2019 ) . These verses and hadiths recommend that humans do good deeds and prevent rather than do evil that will damage the morals and behavior of society. ( Sudarmanto and Utami, 2021 ) . The implementation and model of good internal control according to an Islamic perspective is based on instructions, provisions, provisions in the form of orders and prohibitions, promises and punishments set by Allah SWT both those stated in the Qur'an and al-Hadith. Overall implementing and reflecting the recommendations for all elements in Islam, humans are broadcast through da'wah as a methodology and enforce the rules that have been set with all kinds of sanctions for those who violate ( Ngumar *et al.* , 2019 ; Sudarmanto and Utami, 2021 ) .

The fundamental component in internal control in government organizations or institutions starts from a control environment based on religious spirituality ( Sudarmanto and Utami, 2021 ) . The environment for controlling the integrity, ethics and character of a person will be formed by the spiritual and religious conditions that exist in himself and his surroundings , so that character can be formed from an early age. The values of ethics and integrity will not be achieved if you only rely on others to supervise . Transcendental responsibility is the responsibility of the creator of the universe (Allah SWT). The role model in Islam is the character of the Prophet and his morals are included in his leadership style . The concept of the COSO *framework internal control environment* in reality does not include sub - components in the form of spirituality and religiosity ( Islam and Barghouthi, 2017 ; Fajar *et al.* , 2021 ; Sudarmanto and Utami, 2021 ) . In contrast to the control system in the Islamic concept, in addition to spirituality and religiosity, there are also leadership traits and styles as exemplified by the Prophet in leading the country and doing business, having strong abilities, integrity, trustworthiness, courage, anticipatory learning, intelligence, noble character and *self-leadership abilities*. ( Sudarmanto and Utami, 2021 ) . This can be seen when the Prophet was 12 years old, where the Prophet participated in a trade trip to Syria with his uncle, Abu Talib. As an adult, he took the initiative to do business. In running his business, the Prophet Muhammad used other people's capital from rich merchants and orphans who were unable to run their own capital. Then from running the business, he gets wages as a partner. Since then the Prophet often traveled to various countries such as Syria, Yemen and Bahrain for business. His expertise in business accompanied by a good reputation and integrity made Prophet Muhammad SAW nicknamed Al-Amin (trusted) and Ash-Siddiq (honest) by the people of Mecca. . The noble character of the Prophet SAW is reflected in outward cleanliness, reasoning and intelligence, oral fluency and beauty of speech, generosity and generosity, courage, shyness , lowering the gaze, sympathy and compassion, keeping promises and maintaining friendship, humility, and justice, and trust.

The leadership style in running the government (post-Rasulullah SAW), Islamic leaders take many actions which are anticipatory steps in shaping the control environment. ( Islam and Barghouthi, 2017 ; Sudarmanto and Utami, 2021 ) . This action is part of the implementation of its internal control. The characteristics possessed by Islamic leaders, good religious knowledge, distinctive leadership style in setting policies and managing human resources are techniques in forming a good control environment. When all these things have been owned and engraved in himself and his soul, it will be easy to form a control environment that is in accordance with the Al-Quran and Al-Hadith. ( Islam and Barghouthi, 2017 ; Fajar *et al.* , 2021 ) . As a result of the implementation of the control system, many progress and developments have occurred, starting from the expansion of the state, technological advances in printing state currency, construction of educational places, forming a police organization to maintain the defense and security system, to prohibiting officials from receiving gifts and holding concurrent positions in their activities. This is part of one way of implementing its internal control to minimize the harm of each activity or assess the risks that will occur later and have an impact on the stability of the country where the COSO *framework* clearly does not have a spirit or soul in its framework, so it is necessary to call " Ruhillah or God's Light" to perfect *the* internal control framework . The *spirit* is filled with monotheism or belief in the religious values of each individual who will humanize the COSO framework that has been compiled and determined, so that it is not just a pile of procedures and concepts. ( Sudarmanto and Utami, 2021 ) . Internal control is actually born ( Altamuro and Beatty, 2010 ; Ayoub *et al.* , 2019 ; Syakur *et al.* , 2021 ) because a) distrust of people of different levels (management, board of directors, employees, shareholders), b) most of the sub-elements of the control environment are related to human behavior, c) other elements of COSO also depend on human behavior , d) based on previous research and phenomena around the world prove that there are still cases of fraud happening here and there even though internal controls have been implemented. Therefore, the key point of internal control is people, as the driving force at every level of management in the institution, moreover, people must have a solid foundation in doing everything. ( Sudarmanto and Utami, 2021 ) . Meanwhile, in the view of Islamic sharia, internal control is not based on fear of the rule of law and supervision . But it is based on the belief that everything that is done is supervised by God Almighty and will be taken into account in life after life with inner awareness. This is what I call Tawhid and Taqwa, thus, it will be the basis for every human being before deciding to do something.

#### IV. Conclusion

COSO as an internal controller is widely used in companies or government. COSO as an internal control system does not include spiritual and religious elements in the internal control aspect. While in Islam the internal control system is Tawhid and Taqwa . The concept can be a complement that is offered to fill the lost soul within the COSO concept framework. Tawhid and Taqwa are the first foundations of COSO which will have a major influence on the successful implementation of COSO in organizations or institutions to prevent everyone in every element in organizations and institutions from doing bad or wrong actions.

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