

The Analysis of Compliance with Internal Control Principles at Bank Syariah XXX Based on the COSO Integrated Framework 2013

Yarsita Salsabila Al Khansa^{1*}, Evony Silvino Violita²
Magister Akuntansi Universitas Indonesia
Corresponding Author: Yarsita Salsabila Al Khansa
salsabila.alkhansa19@gmail.com

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ABSTRACT

This research aims to analyze the compliance with internal control principles at Bank Syariah XXX using the COSO Integrated Framework 2013. The research methodology is qualitative, involving documentation studies and interviews with relevant stakeholders in the bank. The analysis results indicate that Bank Syariah XXX has implemented the internal control principles proposed by the COSO Integrated Framework 2013. Supporting factors for this implementation include management commitment, a solid understanding of Sharia principles, and an integrated information system. This study provides valuable insights for Bank Syariah XXX to continually enhance the effectiveness of its internal controls in accordance with applicable standards.

INTRODUCTION

To remain competitive in business and industry, company management must evolve in line with the developments in the business world. The increasing complexity and breadth of activities and issues faced by organizations drive them to establish internal control systems. Efforts must be made to ensure that internal controls are carried out by forming an internal supervision unit that functions to provide adequate confidence in achieving the company's goals. According to Mulyadi (2010:163), the broad understanding of internal control is a system that includes organizational structure, methods, and coordinated measures to safeguard the organization's wealth, verify the accuracy and reliability of accounting data, promote efficiency, and encourage adherence to management policies.

Based on OJK Regulation No. 7 of 2016, Article 16 states that banks are financial institutions that form effective internal control structures to prevent excessive risk-taking and control the risks that have been taken. Building an effective internal control structure allows the timely identification of risks that could harm the bank and provides recommendations to prevent these risks. The transformation of financial technology enables bank customers to use various products and services. On the other hand, technological advancements lead to the emergence of complex products, increased risk diversity, and uncertain market conditions.

In this study, the author chose an Islamic bank with a structure similar to conventional banks, including having commissioners and directors. To test the level of understanding and management commitment of Bank Syariah XXX to internal control principles, the author selected the COSO Integrated Framework, globally recognized as a reference framework that helps assess the extent to which Bank Syariah XXX complies with evolving standards and regulations. This research is crucial to understanding the extent to which the implementation of the COSO Integrated Framework aligns with the specific needs of an organization, especially in the context of Islamic banking. The diversity and flexibility in the COSO Integrated Framework allow Islamic banks to integrate Shariah principles and business needs into the framework. Therefore, the selection of the COSO Integrated Framework as the internal control framework provides strong and relevant guidance for Bank Syariah XXX, ensuring that their internal control system complies with global standards, Shariah values, and applicable regulations.

The aim of this research is to determine the effectiveness of internal controls at Bank Syariah XXX through the COSO theory and relevant regulations. This study provides insights and knowledge related to theoretical practices of internal control at Bank Syariah XXX. It can also serve as a reference for other researchers conducting similar studies. This research offers practical benefits, serving as a benchmark for future research, providing additional information on the Internal Control System, offering additional insights for companies, especially in internal control, and emphasizing the importance of financing for Bank Syariah XXX, contributing to the business experience for customers in obtaining financing and increasing their income.

LITERATURE REVIEW

Internal Control

Internal control, according to COSO (Committee of Sponsoring Organizations), is a process influenced by the board of directors, management, and employees designed to provide reasonable assurance that organizational objectives can be achieved through: efficiency and effectiveness of operations, reliable financial reporting, and compliance with applicable laws and regulations.

Components of Internal Control

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has formulated five components of internal control covering essential aspects of risk management and operational sustainability. These components are:

1. Control Environment:
 - Encompasses the culture and ethics of the organization.
 - Involves how management creates an environment that supports internal control.
 - Includes core values, integrity, and work ethics.
2. Risk Assessment:
 - Involves evaluating risks that may impact goal achievement.
 - Entails identification, assessment, and response to these risks.
 - Deep understanding aids in designing appropriate controls.
3. Control Activities:
 - Encompasses policies and procedures ensuring policy execution.
 - Involves tasks like task segregation, authorization, and supervisory actions.
 - Aims to prevent, detect, and correct errors or non-compliance.
4. Information and Communication:
 - Focuses on effective communication and the flow of information.
 - Includes accurate and timely reporting and communication mechanisms.
 - Ensures all involved parties understand their roles in achieving objectives.
5. Monitoring Activities:
 - Involves continuous monitoring to ensure internal controls function as expected.
 - Includes periodic monitoring and reviews of control effectiveness.
 - Enables corrective measures if non-compliance or issues are found.

Together, these components form the COSO Integrated Framework, providing holistic guidance for designing, implementing, and evaluating internal control systems within an organization.

Principles of Internal Control

There are 17 principles representing fundamental concepts related to the five components of COSO internal control. This is done to enhance management's understanding of how effective internal control occurs (Widyastuti, 2015).

1. The organization demonstrates commitment to integrity and ethical values.
2. The Board of Directors shows independence from management and oversees the development and performance of internal control.
3. Management establishes an organizational structure, reporting lines, and appropriate authority levels to achieve objectives.
4. The organization demonstrates commitment to attract, develop, and retain competent individuals in line with organizational goals.
5. The organization ensures accountability of each individual for their internal control responsibilities in achieving organizational objectives.
6. The organization sets clear objectives to enable identification and assessment aligned with organizational goals.
7. The organization identifies risks in achieving objectives at all levels and analyzes risks as a basis for determining how they should be managed.
8. The organization considers the potential for fraud in risk assessment to achieve objectives.
9. The organization identifies and evaluates any changes that may have a significant impact on the internal control system.
10. The organization selects and develops control activities contributing to risk mitigation up to the level of acceptable goal achievement.
11. The organization selects and develops general technology control activities to support goal achievement.
12. The organization implements control activities through policies consistent with expected objectives and procedures used to implement those policies.
13. The organization obtains or generates and uses relevant and quality information to support internal control functions.
14. The organization communicates information internally, including objectives and responsibilities of internal control, necessary to support internal control functions.
15. The organization communicates with external parties regarding issues affecting internal control functions.
16. The organization selects, develops, and performs ongoing and/or separate evaluations to ensure whether internal control components are available and functioning within the organization.
17. The organization evaluates and communicates weaknesses in internal control in a timely manner to those responsible for corrective action, including senior management and the board of directors.

These principles form a comprehensive framework to assist organizations in designing, implementing, and monitoring their internal controls.

METHODOLOGY

The research conducted by the author employs a qualitative approach aimed at understanding phenomena that do not require quantification. This study adopts a qualitative case study design, focusing on Bank Syariah XXX. The examination involves internal documents, including policies, procedures, and other relevant documents. Interviews were conducted with the Head of the Internal Audit Unit (SKAI), Deputy Head of SKAI, and SKAI staff. The author employs a semi-structured interview. The questions have been tailored to the specific characteristics and objectives of the organization. The list of is based on adjustments with the components and principles referencing the COSO Integrated Framework 2013, as well as modifications derived from similar previous research. The researcher utilized a descriptive-qualitative technique to analyze data in this study. Qualitative data analysis techniques involve data reduction, data presentation, and drawing conclusions.

RESEARCH RESULT AND DISCUSSION

Control Environment Principles

Table.1 Control Environment

Control Environment		
Principle	Suitable/ Not Suitable	Evidence
Integrity and Organizational Ethics	Suitable	Having a Code of Ethics as the Company's commitment to carrying out compliance functions.
Parameters for the execution of tasks and responsibilities of the board in managing the organization.	Suitable	The organizational structure clearly outlines the parameters for the execution of tasks and responsibilities of the board in managing the organization.
Organizational Structure	Suitable	Having a clear organizational structure that functions effectively by demonstrating clear lines of authority and responsibility in operational activities.
Processes for attracting, developing, and retaining competent individuals.	Suitable	Training to develop skills through training and development programs.
Clarity regarding performance standards, incentives, and rewards to encourage performance accountability.	Suitable	Rewards for high-performing employees, and if there is a violation, sanctions in the form of a Warning Letter will be issued.

Principles of Risk Assessment

Table.2 Risk Assessment

Risk Assessment Components	Suitable/ Not Suitable	Identification Results
1. The organization establishes objectives with sufficient clarity to enable the identification and assessment of risks related to those objectives.	Suitable	Guidelines for implementing Risk Management in the Company are formulated in accordance with POJK No. 8/POJK/.03/2014 and SEOJK No. 10/SEOJK.03/2014 regarding the Assessment of the Health Level of Sharia Commercial Banks and Sharia Business Units.
2. The organization identifies risks to the achievement of objectives across the entity and analyzes risks as a basis for determining how they should be managed.	Suitable	The determination of risk profile factor ratings at Bank Syariah XXX is carried out in the following stages: 1. Determination of the Inherent Risk rating and the Quality of Risk Management Implementation rating for each risk.
3. The organization considers the potential for fraud in assessing risks to the achievement of objectives.	Suitable	2. Determination of the risk rating based on the 3. Assessment of the Inherent Risk rating and the Quality of

<p>4. The organization identifies and assesses significant changes that may affect the internal control system.</p>	<p>Suitable</p>	<p>Risk Management Implementation rating.</p> <p>4. Determination of the composite Inherent Risk rating and the composite Quality of Risk Management Implementation rating, taking into account the significance of each risk to the overall risk profile.</p> <p>5. Determination of the Risk Profile factor rating based on the results of risk rating determination, determination of the composite Inherent Risk, and the Quality of Risk Management .</p>
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Control Activities

Table.3 Control Activities

Control Activities	Suitable/ Not Suitable	Identification Results
<p>The organization selects and develops control activities that contribute to mitigating the risk of achieving objectives at an acceptable level.</p>	<p>Suitable</p>	<p>At Bank Syariah XXX, the Risk Management Committee (KMR) is tasked with providing recommendations to the Chief Executive Officer, including recommendations for the formulation of risk management policies, determination of risk appetite and risk tolerance, as well as the assessment of the effectiveness of the implementation of the risk management framework.</p>
<p>The organization selects and develops general technology control activities to support the achievement of goals.</p>	<p>Suitable</p>	<p>There is a system that supports the Anti Money Laundering and Prevention of Terrorism Financing (AML and PTF) program by coordinating with the Information Technology Division in the maintenance of the Anti</p>

		Money Laundering System (SAPU).
The organization disseminates control activities through policies that define expectations and procedures that translate policies into action.	Suitable	Conducting discussions on the Risk Profile report presented by the Work Unit overseeing Risk Management once every 3 (three) months or more, and fostering a risk management culture throughout the organizational hierarchy.

Information and Communication

Table.4 Information and Communication

Information and Communication	Suitable/ Not Suitable	Identification Results
The organization generates and utilizes relevant and quality information.	Suitable	The Sharia Bank XXX Handbook, which contains procedures, authorities, policies, and responsibilities.
Internally, the organization communicates information, including objectives and responsibilities for internal control, necessary to support internal control functions.	Suitable	Oral information is obtained through daily briefings by superiors, and written information is available in the Sharia Bank XXX Handbook, which contains procedures, authorities, policies, and responsibilities. Additionally, a manual guidebook is provided to each employee.
The organization communicates with external parties about matters that affect internal control functions.	Suitable	Internal and external reports have also been prepared within Sharia Bank XXX.

Monitoring Activities

Table.5 Monitoring Activities

Monitoring Activities	Suitable/ Not Suitable	Identification Result
Monitoring activities include the process of assessing the quality of internal control performance over time.	Suitable	Monitoring is carried out by carrying out the duties and responsibilities assigned to them in accordance with the Company Manual (BPP)
Ensure that everything is running as desired and whether it has been adapted to changing circumstances.	Suitable	-

CONCLUSIONS AND RECOMMENDATIONS

Bank Syariah XXX has implemented internal controls based on the COSO framework theory, following the concepts outlined in the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The components of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities have been applied by Bank Syariah XXX. This can be considered in line with the 17 principles found in the 5 components of the COSO Integrated Framework.

Referring to the theory of COSO effectiveness, if each of the five components and relevant principles has been implemented, achieving goals will be more manageable. In conclusion, Bank Syariah XXX has understood that effective internal control is not just about financial security but also involves creating a strong foundation for compliance, efficiency, and an ethical culture within the organization. By integrating these elements, Bank Syariah XXX ensures that they not only manage risks well but also maintain the trust of customers, stakeholders, and the general public. Overall, the internal controls of Bank Syariah XXX have proven to be effective and serve as a key factor for the performance and integrity of financial institutions in this ever-evolving and changing era.

ADVANCED RESEARCH

This writing has several limitations that should be considered for future research. The limitations of this study include data constraints, as some internal bank information may be confidential or challenging for researchers to access, especially when dealing with financial data and client information. These limitations can affect the depth of the analysis. Additionally, external information, such as government regulations or developments in the financial market, may be difficult to access or fully understand by the researcher. This can restrict the understanding of the external context that could influence the internal

controls of the bank. Furthermore, this case study is specific to a particular bank and may not be directly applicable to other banks. It is important to acknowledge the uniqueness of each financial institution, and findings from this study may not be universally generalized to different banking contexts.

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