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The Role of Control Environment in Strengthening Internal Control and Preventing Fraud

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ABSTRACT

Financial information is very important for companies because it can be used for decision making and to attract investors. However, pressure to achieve financial targets, opportunities and rationalization from individuals often encourage individuals in companies to manipulate financial reports. The success of an internal control system in an organization is greatly influenced by the quality of a solid control environment, which does not only depend on the implementation of formal policies and procedures, but is also influenced by individual aspects and values upheld in the organization. This study aims to explore the effectiveness of the internal control environment in detecting and preventing fraud in companies. This study is expected to provide significant contributions to the development of more effective internal control policies that can be widely implemented, as well as provide practical guidance for companies in building an environment that prevents fraud and strengthens corporate governance. This study uses a qualitative approach with data collection techniques through observation, documentation and interviews. The data analysis method used in this study is thematic analysis, which involves the stages of data reduction, data presentation, and drawing conclusions. The findings of this study illustrate that the effectiveness of internal control depends on a strong control environment, supported by policies, individual factors, and organizational values. The integration of spiritual values strengthens integrity, transparency, and compliance. The integration of spiritual values into the control environment contributes significantly to the effectiveness of an organization's internal control system.

Keywords: *control environment, internal control, fraud*

ABSTRAK

Informasi keuangan merupakan hal yang sangat penting bagi perusahaan karena dapat digunakan untuk pengambilan keputusan, dan menarik investor. Namun, tekanan untuk mencapai target keuangan, peluang dan rasionalisasi dari individu sering kali mendorong individu dalam perusahaan melakukan manipulasi laporan keuangan. Keberhasilan sistem pengendalian internal dalam suatu organisasi sangat dipengaruhi oleh kualitas lingkungan pengendalian yang kokoh, yang tidak hanya bergantung pada penerapan kebijakan dan prosedur formal, tetapi juga dipengaruhi oleh aspek individu serta nilai-nilai yang dijunjung dalam organisasi. Penelitian ini bertujuan untuk mengeksplorasi efektivitas lingkungan pengendalian internal dalam mendeteksi dan mencegah fraud dalam perusahaan. Penelitian ini diharapkan dapat memberikan kontribusi signifikan dalam pengembangan kebijakan pengendalian internal yang lebih efektif dan dapat diimplementasikan secara luas, serta memberikan panduan praktis bagi perusahaan dalam membangun lingkungan yang mencegah terjadinya fraud dan memperkuat tata kelola perusahaan. Penelitian ini menggunakan pendekatan kualitatif dengan teknik pengumpulan data melalui observsasi, dokumentasi dan wawancara. Metode analisis data yang digunakan dalam penelitian ini adalah analisis tematik, yang melibatkan tahap reduksi data, penyajian data, dan penarikan kesimpulan. Temuan penelitian ini menggambarkan efektivitas pengendalian internal bergantung pada lingkungan pengendalian yang kuat, didukung oleh kebijakan, faktor individu, dan nilai-nilai organisasi. Integrasi nilai spiritual memperkuat integritas, transparansi, serta kepatuhan. Integrasi nilai spiritual dalam lingkungan pengendalian berkontribusi signifikan terhadap efektivitas sistem pengendalian internal organisasi.

Kata Kunci: *lingkungan pengendalian, pengendalian internal, fraud*

1. Introduction

Accounting plays a role in providing reliable information related to the operational activities of a business entity (Imoniana et al., 2020). Financial information is very important for companies because it can be used for decision making and to attract investors. However, pressure to achieve financial targets, opportunities and rationalization from individuals often encourage individuals in companies to manipulate financial reports. The practice of manipulating financial reports carried out by companies can create misleading perceptions for stakeholders, and has the potential to harm investors (Muhammad Iqbal & Espa, 2024). Therefore, the implementation of organizational control mechanisms is crucial to ensure that every accounting transaction is recorded and reported accurately. However, various national and global financial scandals have often occurred

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in the last decade. This certainly has a broad impact on all stakeholders. Cases of corporate fraud indicate the failure of the company's internal and external control systems, thus raising concerns for investors and shareholders (Zakaria et al., 2016).

Internal control is a series of systematic procedures implemented by an organization to protect assets and resources, improve operational efficiency, and ensure the accuracy and completeness of accounting data (COSO, 2013). This system must prioritize effective risk identification and monitoring, strengthen the role of management at all levels, build a reliable information system to detect and report anomalies quickly, and provide comprehensive reporting on all operational activities (Chalmers et al., 2019). Internal control is designed to provide reasonable assurance in achieving operational objectives, including the efficiency and effectiveness of business activities, the reliability of financial reporting, and compliance with applicable regulations. In addition, the entity's internal control system also serves to protect the organization's resources from the risk of loss due to misuse, waste, error, and fraud (Thomson, 2015). To be effective, internal control must include five main components, namely the control environment, risk assessment, control activities, monitoring, and information and communication systems that support transparency and accountability within the organization (COSO, 2013).

The control environment is the main foundation in the company's internal control system, because it plays a role in shaping the organizational culture, setting ethical standards, and ensuring compliance with policies and regulations. As the first element in the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, the control environment serves as the basis for the effectiveness of other components, namely risk assessment, control activities, information and communication, and monitoring. As an element that shapes the culture and structure of the organization, this environment determines the managerial direction and reflects the commitment to good governance. The control environment includes the organizational structure, human resource management policies and practices, employee competencies, management philosophy, operational style, and the integrity and ethical values adopted by the Company (Oswal, 2016). By establishing ethical standards, strict human resource policies, and effective oversight systems, companies can ensure that internal controls operate optimally to protect assets, improve operational efficiency, and strengthen stakeholder trust. In addition, the board of directors plays a critical role in providing strategic direction and oversight. Without strong integrity and ethics, the risk of fraud in an organization is higher. Therefore, the organizational structure must establish clear standards of behavior, establish appropriate performance benchmarks, and provide healthy incentives to prevent fraud (Ebimobowei, 2012).

Fraud or cheating, is one of the most detrimental problems for organizations, both financially and in terms of reputation. Fraud can be defined as an intentional and unlawful act, which aims to gain personal gain by harming other parties, especially companies (Reurink, 2018). Fraudulent actions have a wide impact, not only causing direct losses through financial losses, but also damaging stakeholder trust, reducing share value, and reducing the company's competitiveness in the market (Giannetti & Wang, 2016; Rizwan & Chughtai, 2023). Therefore, efforts to detect and prevent fraud are very important for the survival of the organization.

The underlying factors of fraud are often related to weak internal control systems and the inability of organizations to create an environment that supports transparency and accountability. Previous research has revealed that strengthening internal control is a form of preventive action implemented by management to prevent fraud (Kabue & Aduda, 2017). One of the risk factors causing accounting reporting fraud is a weak internal control environment (Bell & Carcello, 2000). An organization that has a good internal audit function will find it easier to detect fraud (Coram et al., 2008). The “Fraud Triangle” model explains three main elements that drive fraud, namely pressure, opportunity, and rationalization. When financial or personal pressures are not addressed properly, individuals within the organization may see opportunities to commit fraud, especially if the internal control system is not strong enough to identify and prevent such behavior. In addition, the rationalization that arises within individuals who commit fraud also plays an important role in reducing their guilt for the act.

Therefore, it is important for companies to build effective internal control and create an organizational culture that prioritizes integrity and transparency. Implementing clear policies, strict supervision, and education and training on ethics and compliance are important steps in preventing fraud. In addition, technology and data analysis tools can also be used to detect anomalies in suspicious transactions. With good control and a supportive culture, organizations can minimize the risk of fraud and maintain stakeholder trust, which in turn supports the sustainability and growth of the company.

This study aims to explore the effectiveness of the internal control environment in detecting and preventing fraud in companies. The focus of this study is to identify factors in controlling environments that contribute to the success or failure in reducing fraud risk, and to understand how organizational values, organizational culture and managerial commitment can strengthen internal control in organizations. With the increasing complexity of the business world and the dynamics of risks faced by companies, it is important for organizations to have an adaptive and responsive internal control environment to potential fraud. This research is expected to provide significant contributions to the development of more effective and widely implemented internal control policies, as well as provide practical guidance for companies in building an environment that prevents fraud and strengthens corporate governance.

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2. Theoretical basis

According to COSO (The Committee of Sponsoring Organizations of the Treadway Commission), internal control is a process implemented by the board of directors, management, and all personnel in an entity, which aims to provide reasonable assurance in achieving the organization's objectives. These objectives include operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable rules and regulations (COSO, 2013). Internal control is defined as the organizational planning and methods used by a company to protect assets, provide accurate and reliable information, improve and optimize operational efficiency, and encourage compliance with established management policies (Romney & Steinbart, 2018). Meanwhile, according to the American Institute of Certified Public Accountants (AICPA), internal control is organizational planning, and all coordinated methods and steps implemented in a business to protect assets, ensure the reliability of accounting data, improve operational efficiency, and encourage compliance with established managerial policies. (AU Section 320.08). From the several definitions of internal control above, it can be concluded that internal control is a process (which takes place continuously) that exists in an organization and is influenced by management to produce adequate assurance regarding the effectiveness and efficiency of operational activities, adequate presentation of financial reports, and compliance with applicable laws and regulations.

The internal control system has four main objectives, namely protecting company assets, ensuring the accuracy and reliability of accounting records and information, increasing operational efficiency, and assessing compliance with policies and procedures established by management. Internal control aims to ensure the reliability of financial reports, where management is responsible for preparing financial reports in accordance with applicable accounting standards, so that they can be used by investors, creditors and other stakeholders (Arens et al., 2015). In addition, internal control also serves to encourage operational effectiveness and efficiency by preventing waste and ensuring optimal use of resources. Finally, compliance with laws and regulations is an important aspect of internal control, because a good system not only includes regulations and sanctions but is also able to form a culture of compliance within the organization, especially in aspects related to accounting and financial reporting.

According to COSO (The Committee of Sponsoring Organizations of the Treadway Commission), internal control consists of five main components that play a role in ensuring the effectiveness of the control system in an organization, namely the control environment, risk assessment, control activities, information and communication, and monitoring. Control environment is the foundation that forms the organizational culture and increases awareness of the importance of control. Factors that influence the control environment include integrity and ethical values, commitment to competence, participation of the board of directors and auditors, philosophy and management style, organizational structure, distribution of authority and responsibility, and human resource policies. Risk assessment is carried out by identifying and analyzing risks that can hinder the achievement of organizational goals, so that mitigation strategies can be implemented effectively. Control activities include policies and procedures implemented to ensure that all operational activities run according to the planning and standards set. Information and communication play a role in conveying relevant information to all personnel, both internal and external to the organization, to support transparency and coordination in the control process. Finally, supervision is carried out by assessing the effectiveness and quality of the internal control system on an ongoing basis to ensure that the policies implemented remain appropriate and run optimally (COSO, 2013).

Previous research reveals that internal control is a process that exists in an organization and continues continuously. The internal control function is considered an important part because it is a key component of corporate risk management (Spira & Page, 2003).

In addition, internal control can also help organizations in meeting corporate objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes (Mihret & Grant, 2017). Internal control is a multi-dimensional concept that does not only consist of procedures or policies, but rather a continuous process that is influenced by various parties (board of directors, management, and other personnel) in an organization. The board of directors, management and other personnel in the organization have an important role in creating an effective internal control system because the integrity, ethical values, morals and competence possessed by all individuals in the organization are the basis for the effectiveness of the internal control system. The higher the level of morality possessed by individuals in the organization, the more the tendency to commit fraud will be avoided (Fernandhytia & Muslichah, 2020).

Previous research also revealed that strengthening internal control is a form of preventive action implemented by management to prevent fraud in the organization (Kabue & Aduda, 2017). Other studies have revealed that the risk factor causing accounting reporting fraud is a weak internal control environment (Bell & Carcello, 2000). Organizations that have a good internal audit function will find it easier to detect fraud (Coram et al., 2008).

3. Methodology

This study uses a qualitative approach that aims to understand and analyze the effectiveness of the internal control environment in detecting and preventing fraud in an organization. This approach was chosen because it allows researchers to explore in depth the phenomena that occur, including factors that influence the implementation of internal control in an entity. This study is descriptive qualitative, where data is collected and analyzed to gain

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an in-depth understanding of the effectiveness of the control environment in efforts to detect and prevent fraud.

3.1 Data

The data used in this study comes from:

a. Primary data, obtained through in-depth interviews with related parties, namely internal auditors, company management, and personnel responsible for internal control.
b. Secondary data, in the form of company documents, audit reports, relevant regulations, and academic literature related to internal control and fraud.

The author used four data collection techniques in this study. The four techniques are as follows:

a. Observation.
   The observation procedure is carried out to present a realistic picture of the internal control system in the company.
b. Documentation.
   Many facts and data are stored in materials in the form of documentation. The main nature of documentation data is not limited to space and time, thus providing an opportunity for researchers to find out things that have happened in the past.
c. Interview.
   Interviews are a tool for rechecking or proving information or statements previously obtained. The interviews conducted by the author in this study used a semi-structured interview technique. This interview technique is used because it is possible to have additional questions and to obtain more in-depth answers. Interviews are recorded and then the results of the interviews are documented in the form of interview transcripts. Interviews are conducted with key personnel including related parties, namely internal auditors, company management, and personnel responsible for internal control.

3.2 Analysis Method

Data analysis is the process of systematically searching and compiling data obtained from interviews, field notes, and other materials, so that it can be easily understood, and the findings can be communicated to others. The data analysis method used in this study is thematic analysis, which involves the stages of data reduction, data presentation, and drawing conclusions. Data obtained from interviews and documentation are categorized based on the main themes related to the effectiveness of the control environment in preventing fraud. Related to the validity of the data, this study uses triangulation techniques, both through source triangulation (comparison of data from various sources), method triangulation (combination of interviews, observations, and documentation), and conducting member checking with respondents to confirm the accuracy of the research findings. With this methodology, the study is expected to provide a comprehensive understanding of the role of the internal control environment in detecting and preventing fraud, as well as providing useful insights for organizations in strengthening their control systems.

4. Result and Discussion

4.1 Result

Internal control is important to implement in an organization. Internal control includes a system designed to protect the company from potential fraud or abuse of authority that can be carried out by employees or other internal parties and is carried out continuously. Evaluation of the effectiveness of internal control can be assessed by an internal audit process that is carried out independently.

BA said "Internal control is actually designed to protect the company from employees inside or inside the company who may commit fraud or similar actions. Audits have the same purpose. This is to ensure that the company carries out its work effectively and efficiently and the results achieved by the company or companies can be optimal."

Internal control is a system designed to protect a company from potential fraud or abuse of authority that can be carried out by individuals within the organization. This system functions to ensure that every transaction and operational activity of the company runs in accordance with established policies and procedures. In line with this, an internal audit is an evaluation carried out within an organization to assess the effectiveness of internal control, risk management, and corporate governance processes. Internal audits serve as an additional tool to ensure that the company operates efficiently and effectively. In addition, internal audits not only function to detect errors or fraud, but also aim to improve operational efficiency, ensure compliance with policies and regulations, and provide recommendations for improvement to improve the effectiveness and sustainability of the organization.

The implementation of strong internal controls and optimal implementation of internal audits will minimize the risk of fraud in the organization, increase transparency, and achieve better performance in accordance with established objectives.

The internal control system consists of five main elements that play a role in maintaining the effectiveness of control in an organization, namely the control environment, risk assessment, control activities, information and communication, and monitoring. The control environment serves as a basis for forming organizational culture and fostering awareness of the importance of control mechanisms.

DB said, “The control environment is the key. No matter how good a system is made, if the foundation is messed up, it will not work. In other words, the control environment is like the foundation of a building, it must be strong and sturdy. If the foundation is bad, not strong, fragile, the building above it will collapse. That is how important the role of the control environment is in the effectiveness of the company's internal control system.”

The control environment is a fundamental element in the internal control system that acts as a basis for the effectiveness of the overall control mechanism in an

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organization. Like the foundation of a building, the control environment must be built strong and sturdy so that the internal control system can function optimally. If the control environment is weak, then the various procedures and policies that have been designed will not run effectively, thereby increasing the risk of failure in risk management and fraud prevention. Therefore, the control environment has a very crucial role in supporting the successful implementation of the company's internal control system.

The effectiveness of internal control is highly dependent on the characteristics of the control environment in the organization which refers to the elements that form the atmosphere, culture, and structure in an entity.

AS said, "In theory, it is explained that the control environment consists of several factors. Such as the aspects of integrity and ethical values, commitment to competence, active involvement of the board of directors, philosophy and leadership style of top management, organizational structure, division of authority and responsibility, and policies related to human resource management. But I think that's not enough, the human or individual factor is also important. For example, the value held by individual personnel or employees, which may indeed come from within them, or be carried over from strong company values."

The control environment in an organization theoretically consists of various main factors that influence the effectiveness of the internal control system. These factors include integrity and ethical values, commitment to competence, active participation of the board of directors, philosophy and leadership style of top management, organizational structure, division of authority and responsibility, and policies related to human resource management. However, in addition to the structural factors and policies that have been set by the organization, the individual or human resource aspect also plays a significant role in the effectiveness of the control environment. The values held by everyone in the organization, whether derived from personal beliefs or formed through corporate culture, can affect the level of compliance, integrity, and effectiveness of the control system. Therefore, an optimal control environment approach not only considers aspects of organizational policies and structures, but also builds a strong ethical and value culture in each personnel.

Individual factors play a strategic role in ensuring the effectiveness of the control environment as an effort to prevent fraud. Integrity, ethics, and spiritual values inherent in individuals encourage compliance with internal control policies and procedures, thereby minimizing the opportunity for fraud. In addition, individual competence and professionalism ensure that the control system is implemented optimally. Leadership based on ethics and spiritual values also plays a role in forming a transparent and accountable organizational culture, while the whistleblowing mechanism allows early detection of fraud.

BA said, "Yes, in addition to internal control systems such as SOPs, separation of duties, internal audits, moral values, ethics, integrity and spiritual values inherent in the individual are very important. No matter how good the system is, if the individual is corrupt and does not have moral or ethical integrity, internal control will not work. The example of top management also plays an important role. Because if the boss is honest and sincere and does not cheat, surely his subordinates will feel ashamed if they do strange things. Furthermore, when the leadership itself becomes a role model, they will be better able to internalize the company values that are the core of the company."

Moral, ethical, integrity and spiritual aspects of individuals are crucial elements in ensuring the effectiveness of the internal control system. Although an organization has implemented control mechanisms, such as standard operating procedures (SOPs), segregation of duties, and internal audits, without individual commitment to ethical values, the effectiveness of internal control can be hampered. Leadership that integrates spiritual values and integrity plays a central role in building a transparent and accountable organizational culture. Ethical behavior from top management not only serves as a role model for employees, but also creates a work environment that encourages compliance with policies and regulations. Thus, internalization of organizational values through leadership that is oriented towards ethics and spiritual values becomes a determining factor in strengthening the internal control system and preventing and detecting fraud more effectively.

Strengthening the control environment in preventing fraud requires a comprehensive and sustainable strategy. One of the main steps is to improve the effectiveness of the control environment through the implementation of strict policies, more optimal supervision, and an organizational culture based on ethics and integrity. In addition, optimizing the use of technology in the internal control system can improve accuracy and efficiency in detecting anomalies or potential fraud more quickly and accurately. Strengthening training and increasing employee awareness regarding fraud prevention and detection is also a crucial aspect to ensure that all individuals in the organization have an adequate understanding of the risks and consequences of fraudulent actions. Furthermore, the role of management and the audit committee needs to be strengthened in building a more effective control environment, both through strict supervision policies and the implementation of ongoing evaluation mechanisms. Thus, the combination of these strategies is expected to create a more robust internal control system in detecting and preventing fraud effectively.

4.2 Discussion

Internal control is a system designed to ensure effectiveness, operational efficiency, and compliance with applicable regulations in an organization. One of the main objectives of internal control is to minimize the risk of fraud and abuse of authority by individuals within the

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organization. In practice, the effectiveness of the internal control system is highly dependent on the quality of the control environment, which includes aspects of organizational culture, ethics, and values held by individuals in the organization. In addition to structural factors and established policies, spiritual values also play an important role in forming a stronger control environment (Rodgers et al., 2015). Integration of spiritual values into internal control systems can be a fundamental element that strengthens a culture of integrity and transparency within an organization.

The internal control system is designed to prevent and detect fraudulent actions that have the potential to harm the organization. In line with what was stated by COSO (Committee of Sponsoring Organizations of the Treadway Commission), internal control consists of five main components, namely the control environment, risk assessment, control activities, information and communication, and monitoring. Previous research (Spira & Page, 2003; Mihret & Grant, 2017) shows that organizations that implement strong internal control systems have lower fraud incidence rates than organizations with weak internal control systems. In the context of this study, internal audit plays a central role in identifying and reducing fraud risks. Internal audit not only functions as a detection tool, but also as an evaluation instrument that can provide insight into the effectiveness of internal control policies and procedures that have been implemented.

This study shows that a strong control environment is a fundamental element in the internal control system. The control environment is the main foundation that determines the success of the implementation of the internal control system as a whole (Chan et al., 2021). Without a strong control environment, various procedures and other control mechanisms will not function optimally. The main factors that influence the control environment include integrity and ethical values, commitment to competence, involvement of top management and the board of directors, a clear organizational structure, and human resource policies that support compliance and professionalism. Commitment to ethical principles and integrity is the basis for preventing fraud, while individual competence ensures that each employee has adequate understanding and skills in carrying out their responsibilities. Strong and proactive leadership in overseeing and enforcing internal control policies will increase accountability in the organization, while a clear organizational structure prevents conflicts of interest and abuse of authority. In addition, human resource policies based on meritocracy, ongoing training, and a fair incentive system will encourage a work culture that is oriented towards compliance and integrity. In line with previous research (Rashid, 2022), A strong control environment has been proven to increase compliance with internal policies and external regulations, thereby supporting the effectiveness of the internal control system in preventing fraud and ensuring transparency and accountability in the organization's operations.

Thus, this study confirms that an effective control environment not only plays a role in maintaining compliance with organizational policies and procedures, but also contributes to improving operational efficiency and building a transparent and accountable corporate culture. To strengthen the control environment, organizations need to instill integrity values, implement policies that support good governance, ensure active involvement of all stakeholders in the internal control process and strengthen spiritual values both corporately and individually within the organization.

In addition to structural factors and organizational policies, individual factors play a strategic role in the effectiveness of internal control, where every individual in the organization, from employees to top management, must uphold ethical values and integrity so that the internal control system can function optimally. Personal morals and integrity are the main foundations, where individuals who have strong ethical values tend to be more obedient to organizational policies and commit fewer violations. Awareness of the risk of fraud also plays an important role, where education and training that increase employee understanding of the risk of fraud can reduce the likelihood of fraud. In addition, an organizational culture based on ethics can strengthen the effectiveness of the internal control system, because a work environment that emphasizes moral values will form more transparent and accountable habits and behaviors. This is in line with previous research (Rahmayanti, 2023), organizations that instill ethical and integrity values in their corporate culture have lower fraud rates compared to organizations that do not emphasize this aspect. Therefore, in addition to developing strict internal control policies, organizations must also ensure that every individual has a high awareness of the importance of internal control as an effort to maintain the sustainability and credibility of the organization.

This study shows that the integration of spiritual values in the internal control environment has a crucial role in building an organizational culture based on ethics and moral responsibility. Spiritual values that originate from religious principles and universal human values can encourage individuals to act with integrity, honesty, and high moral awareness in carrying out their duties. This is in accordance with previous research (Istiariani, 2024) which states that individuals who have a strong spiritual foundation are more likely to uphold the values of justice and transparency, thus minimizing the potential for abuse of authority or fraudulent actions. In addition, ethical leadership supported by spiritual values can create positive role models for employees, where top management not only acts as a policy supervisor, but also as a role model in implementing moral and ethical principles. Furthermore, this study strengthens previous findings (Chen & Yang, 2012) which states that an organizational culture that encourages compliance with policies and regulations will be stronger if supported by the awareness that compliance is not only a legal requirement, but also part of an individual's spiritual responsibility. As an effort to prevent fraud, the

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implementation of mechanisms based on spiritual values, such as ethics training, moral studies in the work environment, and codes of ethics that refer to moral principles, can be an effective strategy in forming a more resilient and sustainable internal control system.

The results of this study indicate that the integration of spiritual values in the control environment contributes significantly to the effectiveness of the organization's internal control system. Spiritual values, which include moral and ethical principles, serve as a foundation in forming an organizational culture that is oriented towards integrity, transparency, and responsibility (Ikhsan & Sukardi, 2020). To ensure that spiritual values become an integral part of the control environment in an organization, a systematic and sustainable strategy is needed. One step that can be taken is through spirituality-based ethics education and training, where the organization organizes training programs that instill awareness of the importance of honesty, responsibility, and transparency in every aspect of work. In addition, the implementation of policies that prioritize moral and spiritual values can also strengthen the internal control system by ensuring that every organizational decision is based on strong ethical principles. In supporting a healthy organizational culture, an incentive system for individuals who demonstrate behavior with integrity is also a strategic step to encourage compliance with policies and increase employee motivation in upholding organizational values. Furthermore, leadership that is an example of ethical behavior is a major factor in creating a work environment based on integrity and moral responsibility. When leaders apply spiritual values in their actions and decisions, employees will be more motivated to follow the same ethical standards, thus forming a strong organizational culture that is oriented towards the common good.

Strengthening the control environment in preventing fraud does not only depend on the formal policies and procedures implemented in the organization, but also on individual factors and values held by each member of the organization. Integration of spiritual values into the internal control environment can be a key factor in increasing the effectiveness of the control system, forming an organizational culture based on integrity, and preventing fraudulent acts. Therefore, organizations need to develop strategies that combine structural approaches and spiritual values to create a more robust and sustainable internal control system.

5. Conclusion

Based on the results of the study, it can be concluded that the effectiveness of the internal control system in an organization is highly dependent on a strong control environment, which is not only determined by formal policies and procedures, but also by individual factors and values adopted in the organization. The integration of spiritual values plays an important role in forming a work culture based on integrity, transparency, and moral responsibility, to minimize the risk of fraud and increase compliance with policies and regulations. Spirituality-based ethics education and training, the implementation of policies that prioritize moral values, and incentive systems for behavior with integrity are the main strategies in strengthening the control environment. In addition, leadership that is an example in behaving ethically can encourage individuals in the organization to uphold the same moral standards. However, this study has several limitations, including limitations in the scope of empirical data that can be used to measure the direct impact of the integration of spiritual values on the effectiveness of internal control. Therefore, further research is recommended to use broader quantitative methods, such as surveys and statistical analysis, to test the causal relationship between spiritual values and internal control systems. In addition, further research can also explore the influence of cultural factors and the external environment on the effectiveness of internal control in various types of organizations.

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