

# **A PROPOSED-INTERNAL AUDIT PROGRAM FOR NGO IN INDONESIA**

**(A STUDY ON CHILDREN DEVELOPMENT CENTER–SALATIGA CLUSTER)**

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## **ABSTRACT**

Children Development Centers (CDCs) as nonprofit organizations in education sector have been playing an important role in Indonesian society. CDCs reach Indonesian children who lack prosperity to have a better life. Therefore, it is necessary for CDCs to produce a reliable financial report which should be audited by an internal auditor through a standardized internal audit. However, there are few of internal auditors having an accounting knowledge background. Thus the study aims to develop an audit program which is based on the standardized internal audit model.

The study is a further research of the internal audit model for nonprofit organization. The study has employed a research and development approach. An audit program had been developed consists of seven audit procedures in the form of seven modules. During completing the procedures, there are seven forms to record audit findings.

To sum up, the developed audit program may assist internal auditors, especially who lack accounting knowledge, to run the proper internal audit process. The suggested further research is to develop other additional procedures such as management audit or procurement. Furthermore, other future research is to develop an audit program for another NGO which has obviously a different business process from CDCs.

**Keywords:** Internal Audit, Audit Program, Audit Procedure, Nonprofit Organization.

## INTRODUCTION:

Compassion Indonesia Foundation (CIF) through Children Development Centers (CDCs) is an example of nonprofit organization in education sector. CDCs reach Indonesian children who lack prosperity to have a better life. The organizations have been playing an important role in Indonesian society. It has been shown by the existence of CDCs Salatiga cluster which have been serving approximately three thousand children in a small town of Salatiga.

Child sponsors through the CIF and the local churches as the CIFs' partner are two main sources of funding in CDCs. These lead CDCs to produce a reliable financial report. Therefore, it is necessary to provide a standardized internal audit model. According to Haryani and Pranoto (2012), a standardized model will reduce or eliminate discrepancies amongst CDCs and assist internal auditors in conducting a comprehensive and standardized audit process to ensure the reliability of financial report.

This study aims to develop an audit program which is based on the standardized internal audit model. The audit program is necessary to apply the model. The program will consist of audit procedures. The audit program for CDCs will be different from profit-oriented organization since CDCs are nonprofit-oriented organization.

## RESEARCH URGENCY:

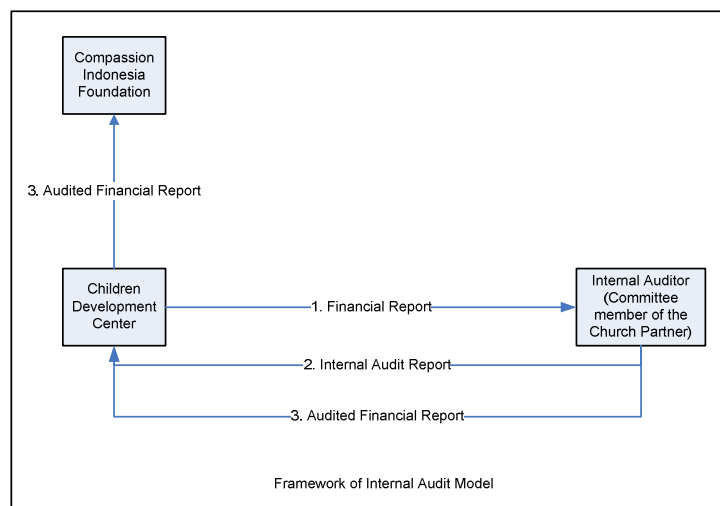
It is a fact that the assigned committees as the internal auditors in CDCs Salatiga cluster who have an accounting knowledge background are only a few in amount. The condition leads them having difficulties to run a proper audit process.

To deal with a lack of accounting knowledge of the internal auditors in CDCs is by providing a thorough audit program. The audit program is a simple guideline to accomplish an appropriate audit process. Besides, the program will guarantee the standardized audit process amongst CDCs.

## LITERATURE REVIEW:

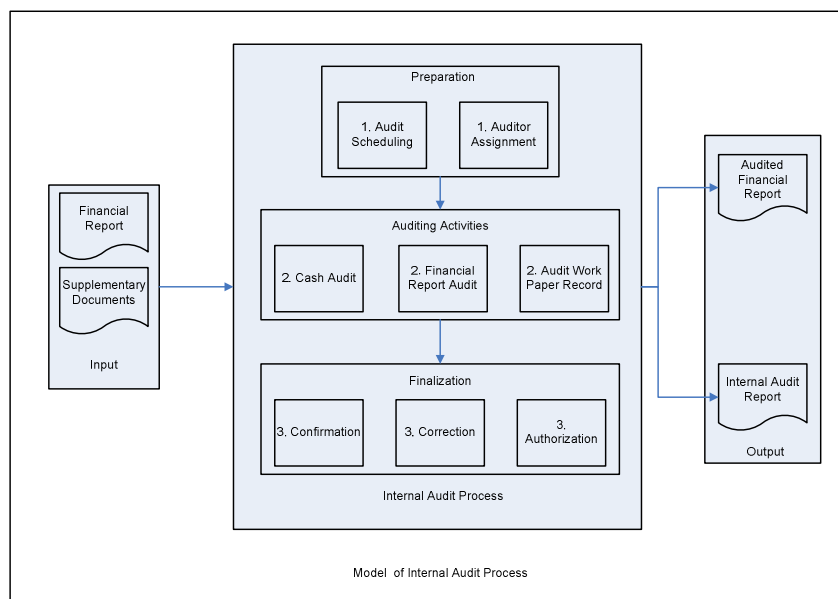
### PREVIOUS RESEARCH:

Haryani dan Pranoto (2012) developed an internal audit model which consists of a Framework of Internal Audit Model and a Model of Internal Audit Process as illustrated in figure 1 and 2. The framework has determined the flow of internal audit work. Further, the process consists of preparation, audit activities and finalization..



**Figure 1. Framework of Internal Audit Model (Haryani and Pranoto, 2012)**

USAID (2001) in a research of "Institutional Self Assessment: A Tool for Strengthening Non Profit Organizations" enlightened that an audit is one of evaluation instruments to evaluate organization. While, BPK Republic of Indonesia (2009) inferred that an internal auditor plays an important role to minimize a financial report difference. Effendi (2006) claimed that internal audit standard should ensure the implementation of internal audit execution, advance internal audit activities, establish a fundamental measurement in order to implement an internal audit process, and also support organization to build its process and operation.



**Figure 2. Model of Internal Audit Process (Haryani and Pranoto, 2012)**

### AUDIT PROGRAM:

Arens, Elder and Beasley (2012 p.196) defined that an audit program is the list of audit procedures for whether one or entire audit area. Therefore, the audit program comprises several audit procedures. Put in another way, combination of audit procedures forms the audit program (Arens, Elder, and Beasley, 2012 p. 434).

### AUDIT PROCEDURE:

The audit procedures are steps of testing transactions, ledgers and financial report. The design of audit procedures should be based on audit objectives, such as existence, completeness, accuracy, classification, and cutoff (Arens, Elder, and Beasley, 2012 p.178-180).

### CHILDREN DEVELOPMENT CENTER:

Children Development Center runs programs under the partnership between Compassion Indonesia Foundation and the partner church. CDC reaches and serves needy children in various ages of children, from 3-8 years old until 15-22 years old (YCI, 2007). The goal of CDC programs is to achieve children's development holistically.

### RESEARCH METHODOLOGY:

The study has employed the research and development approach. It has utilized a combination of descriptive and explorative method, and then followed by the development program (Borg and Gall, 1989). The study has described the organization need on the audit program in a population of 15 CDCs in Salatiga cluster. Moreover, the study has explored an audit program through developing audit procedures in form of modules. During the development of the audit program and audit procedures, an action research approach was applied. It comprised several systematic steps by putting an action into development, experiment and evaluation (Argyris, *et al*, 1985). Fifteen CDCs in Salatiga cluster who have been serving about three thousand children was chosen on purpose. According to Bodnar and Hoopwood (2006), the research steps which have been applied to design the audit program as follow:

#### 1. Preliminary study

In this phase, a literature study, the current audit procedures and the developed internal audit model in the previous research were studied. The result was two sections of internal audit program.

#### 2. Need analysis

The next phase, there was a need analysis of internal audit program. It defined several internal audit activities in each section of the audit program. There was an activity and six activities in the first and second section respectively.

#### 3. Model development

Based on internal audit program needs, there was a model development. The outcome of this phase was seven modules which contained detail procedure of each internal audit activities. Each module was constructed to facilitate internal auditors ease to use it.

#### 4. Model testing

The modules were tested, and then produced a module running feedback.

#### 5. Model evaluation and revision

The feedback is advanced by evaluation and revision of the modules. Then the final modules of the audit program were accomplished.

### RESULT AND DISCUSSION:

The audit objectives are able to be achieved by developing an audit program which is based on the previous research by Haryani and Pranoto (2012). The research result showed that need analysis of internal audit model is divided into three parts; among other are input, process and output. In the first part, input, cash opname and completeness verification is built. The second part is process. It consists of operational module and fairness verification. The last part, output, audit report is produced. In order to accomplish these three parts, it is necessary to prepare audit work papers to record the findings.

### INTERNAL AUDIT PROGRAM:

Internal audit program is divided into two sections, Section 1 and Section 2 of internal audit activities. The first section is cash opname procedure. The next six procedures are illustrated in the second section.

Procedures have a function as a guideline for internal auditors. Therefore, each procedure will be explained in a module which includes three elements, as follows: 1) General Terminology, 2) Operational Guidelines, and 3) Audit Forms. The purpose of General Terminology is to define general expressions used in all internal audit procedures, so all interest parties have a same language. The second element, Operational Guidelines, reveals terminology to elucidate a specific expression connected to audit procedures in a specific module. It also shows executor who execute the internal audit and recording activities that are related to fulfillment audit forms and guideline of performing audit procedures. The last element, Audit Forms, are audit work papers with forms code and title, correspond to audit procedures in a specific module

### INTERNAL AUDIT PROCEDURES:

Cash is the main asset in CDCs, since CDCs have a responsibility to use the cash fund for programs' funding. Cash opname has a purpose to prove the existence of the reported cash in the financial report. Therefore, cash opname should be unscheduled to give a guarantee that cash is accurately reported. CDCs have many programs every month. Hence, to prevent differences between physical cash and reported cash on the closing date, cash opname is conducted every week in addition of every month. Figure 3 describes the first section of internal audit program which has one procedure (Module 1). Module 1 is the Cash Opname Procedure which is conducted weekly and monthly. Materials to be prepared by treasurers are cash on hand, Log Book of Cash on Hand and in Bank, and outstanding cash form. Treasurer and internal auditor have to count the amount of physical cash plus outstanding cash. Then, internal auditor compares the amount with the stated amount on the Log Book of Cash on Hand and in Bank. Treasurer has to responsible of any differences. The finding is recorded on an audit work paper of Weekly Cash Opname Form (FA-01). Monthly Cash Opname Form and Recapitulation of Outstanding Cash use a provided form of CIF.

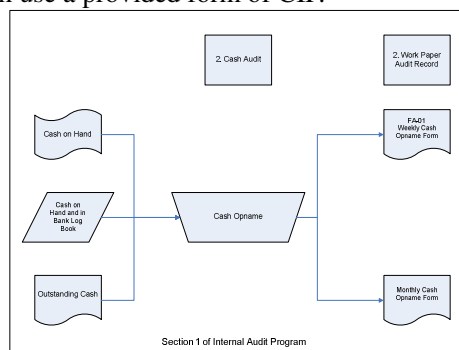
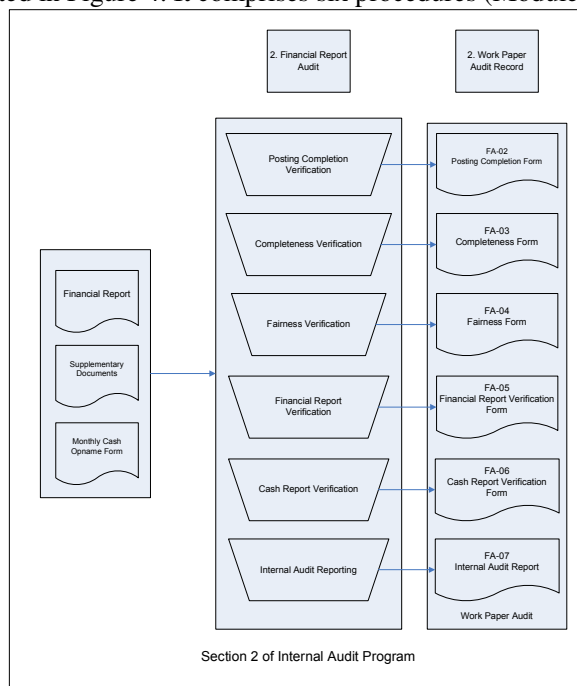


Figure 3. Section 1 of Internal Audit Program

The second section is illustrated in Figure 4. It comprises six procedures (Module 2 – Module 7).



**Figure 4. Section 2 of Internal Audit Program**

All cash in and cash out transactions are recorded in chronological order in the Log Book of Cash on Hand and in Bank. Further, the transactions have to be posted in the Ledgers. It is necessary to get a conviction that every transaction is completely posted. As a result, the second module is the Verification Procedure of Posting Completion. This audit procedure marks a posting completion of the amount in the Log Book of Cash on Hand and in Bank into Ledger. Besides, it confirms that both records are the same. It needs a Log Book of Cash on Hand and in Bank, also Ledgers of all accounts. The internal auditors give a mark (✓) to both the Log Book of Cash on Hand and in Bank and the connected Ledger when the amount of two books is the same. Any differences should be confirmed to and corrected by the treasurer. The auditors will record the findings on an audit work paper of Posting Completion Form (FA-02).

A Ledger has to be complemented by its transaction evidence. The next module is the Completeness Verification Procedure. This audit procedure verifies the transaction evidence completeness of a Ledger. All Ledgers and all transaction evidence should be prepared to confirm that the amount of Ledger comes from transaction evidence. Then, incomplete transaction evidence should be fulfilled by the treasurer. The findings of the verification will be documented on an audit work paper of Completeness Form (FA-03).

The existence of transaction evidence are not only evaluated by their completeness, but also their fairness. The module of Fairness Verification Procedure has a function to assure that all transaction evidence will be verified their fairness. Fairness refers to completeness, appropriateness and fairness according to a Guideline of Fairness Standard. All transaction evidence, both primary and supplementary documents, should be prepared. The audit process is to confirm that every amount of Ledger is complete, appropriate and fair. The unfair transaction evidence have to be confirmed to the treasurer. The internal auditor can disallow unfair transaction evidence. Once the internal auditor verifies the fairness of transaction evidence, it has to be recorded in a Fairness Form (FA-04).

Further, the Financial Report summarizes all transaction by each Ledger. Hence, the amount of Financial Report has to be the same as the amount of Ledger. It is conducted by Module 5 of Financial Report Verification Procedure. To confirm these two amounts, the procedure needs Financial Report and all Ledgers. The internal auditor assures these amounts and gives a mark (✓) in a Financial Report Verification Form (FA-05).

A Cash Report shows Income and Outcome during the month and Cash Balance on the closing date. The sixth module of Cash Report Verification Procedure guarantees that all amounts in the Cash Report are accurate. It includes the Cash Balance from previous month. Then, Cash Report previous month should be prepared. Cash transaction both Income and Outcome during the month can be obtained from Fund Transferred Memo, Financial Report, Monthly Cash Opname Form, copy of bank account, and Cash Detail 60, 70, 80. When internal auditor meets an inaccurate amount, it should be confirmed to and corrected by treasurer. After attaining accuracy for all

amounts in the Cash Report, it should be recorded in a Cash Report Verification Form (FA-06).

The last audit procedure is to summarize all aforementioned audit procedures. Therefore, all audit work papers (from FA-01 to FA-06) should be prepared. A marked item by ✓ in Internal Audit Report (FA-07) indicates that each audit procedure is completed. Finally, Internal Audit Report is ended by giving a signature in the Financial Report. This signature shows authorization of Financial Report.

### CONCLUSION AND RECOMMENDATION:

This study has answered a challenging potential research from the previous research of a proposed internal audit model. Since it was a model, it needs a detail advancement to assist internal auditors to run the internal audit process clearly.

Based on the findings, the audit program has been developed. The program consists of two sections in which there are seven procedures. All procedures in the form of modules provide guidelines to internal auditors to assure the reliability of audited financial report. During running the procedures, it is necessary for internal auditors to ask confirmations to staff of CDC (coordinator, treasurer and secretary), suggest corrections when they found mistakes in verification acts, and give authorization on the audited financial report when the report has reached the audit objectives.

In conclusion, the audit program which has apparent procedures is designed to facilitate internal auditors who have lack accounting knowledge. Therefore, it may assist internal auditors to run the proper internal audit process.

The suggested further research is to develop a management audit model or other additional procedures such as procurement. Moreover, other future research is to develop an audit program for another NGO which has obviously a different business process from CDCs.

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