

**A PROPOSED-INTERNAL AUDIT
MODEL FOR NGO IN INDONESIA
(STUDY ON CHILDREN DEVELOPMENT CENTER–SALATIGA CLUSTER)**

Endang Haryani,

Faculty of Information Technology
Satya Wacana Christian University
Indonesia

Titin Pranoto,

Faculty of Information Technology
Satya Wacana Christian University
Indonesia

ABSTRACT

Children Development Center has to present an audited financial report to both the Compassion Indonesia Foundation and the partner church as an accountability form of program's fund spending. But, the internal auditors who are assigned to maintain its reliability face problems of unstandardized internal audit process. Thus the study aims to develop a standardized internal audit model.

Research and development approach has been employed in this study. The survey of 15 centers has been a basis to describe the strength and weakness of the current internal audit. It concluded a need analysis of internal audit model. A generic model had been developed consists of the framework and the process model of internal audit. The framework is a scope of internal audit work, while the process model determines input, process, and output of standardized internal audit.

The study has concluded that unstandardized internal audit has made many discrepancies. They could be reduced or eliminated by running the standardization model of internal audit. Potential future research is to develop the further model in detailed modules which will be ready to apply in the centers. Moreover, other future research is to develop the model for another NGO which has a different business process from the center

Keywords: Internal Audit, Accountability, Standardized, NGO.

INTRODUCTION:

A non-profit organization is usually related to Non-Governmental Organization (NGO). In Indonesia, NGO is commonly referred to Society Self-Supporting Institution (Lembaga Swadaya Masyarakat/LSM) which has rapidly grown, mostly in religious and advocacy sector. However, there are some NGOs in education sector, for example Compassion Indonesia Foundation. The foundation's headquarter is in Colorado, United State of America. It has been making partnership relations with churches all over Indonesia in the form of Children Development Center (YCI, 2007).

The center has been established to make changes of lack prosperity children's life through a holistic children development approach. The center regards the children as the most valuable asset and serves them with children development programs. Therefore, the center is an agent of change to reach a better life for children and their family.

Based on its business process, the center is operated by gathering fund from child sponsors through the foundation and from the local church as the foundation's partner. Hence, the center has to present a financial report to both the foundation and the local church. It is an accountability form of program's fund spending.

During this time, the financial report is audited every month by a committee member of partner church as an internal auditor. Additionally there is an audit process every year by the foundation's auditor as an external auditor (YCI, 2007). This annual audit has had a standardized model for all centers in Indonesia since it has been directly executed by external auditor which is assigned to audit some centers back-to-back in a given period. However, the monthly internal audit still has no standardized model for committee of each partner church. It is caused by two factors, the foundation does not provide internal audit model for committee and not all of committee has an accounting background knowledge especially auditing.

This research has a purpose to produce an internal audit model for the centers. The model will be a generic model which consists of a framework and a process model. The model aims to standardize the internal audit process of the centers and to facilitate the centers through their committee to execute a standardized internal audit.

RESEARCH URGENCY:

Financial report is a form of accountability to stakeholders which are Compassion International, Compassion Indonesia, child sponsor, and partner church. Therefore, the financial report should be audited by independent party. The goal of internal audit process by committee is to maintain the financial report accountability to the foundation. Likewise it is a preparation for the external audit process by the foundation's auditor. Thus, it is important to develop the internal audit model for the centers all over Indonesia.

The assigned committee as the internal auditor does not need having an accounting background. It has caused an unstandardized execution of internal audit process among centers in Indonesia. Consequently, the internal audit does not meet with its goal which is to maintain the accountability of financial report. Hence, it is a need to standardize internal audit process through the development of internal audit model for the centers in Indonesia.

LITERATURE REVIEW:

PREVIOUS RESEARCH:

USAID (2001) in a research of "Institutional Self Assessment: A Tool for Strengthening Non Profit Organizations" explained that in order to assess autonomously an organization capacity, it needs a comprehensive evaluation instrument which includes Accounting System, Financial Report, Cash In Flow, Cash Out Flow and Audit

BPK Republic of Indonesia (2009) concluded that to overcome financial report deviation, it needs a significant role from an internal auditor. Moreover, audit result from an internal auditor should be better than an external auditor or at least can reduce the deviation.

Effendi (2006) in a publication of "Development of internal audit profession in 21st century" stated that the function of internal audit standard is to describe obviously that the basic principle of internal audit execution will be implemented, to prepare an implementation framework and promote value added of internal audit activities, to determine a basic measurement on internal audit implementation, and to assist organization development in its process and operation.

INTERNAL AUDIT:

According to KOPAI -the organization consortium of internal audit profession in Indonesia- in the Profession standard of internal audit (2004:9), stated that Internal Audit is an assurance activity and an independence and objective consultation, which is designed to deliver a value added process and enhance organization operation

activity. Internal Audit helps organization to reach its purpose, through a systematic and regulated approach to evaluate and increase the effectiveness of risk management, controlling and governance process.

FUNCTION OF INTERNAL AUDIT:

The person who has the responsibility of internal audit process has to manage internal audit function effectively to ensure that it gives a value added for the organization (KOPAI, 2004:19 – 20). The functions are 1) Planning, 2) Communication and agreement, 3) Resource management, 4) Policy and procedure, 5) Coordination, and 6) Report to leader and board of supervision.

SCOPE OF ASSIGNMENT:

Internal audit function is to execute an evaluation and to give a contribution in increasing risk management process and also controlling and governance, by using a systematic, regulated and comprehensive approach (KOPAI, 2004: 20 – 22). The scopes are 1) Risk management, 2) Controlling, and 3) Governance process.

EXECUTION OF ASSIGNMENT:

In audit execution, an internal auditor has to identify, analyze, evaluate, and make a documentation of sufficient information to reach the purpose of assignment (2004:23 – 24). The assignments are 1) Identify information, 2) Analyze and evaluation, 3) Documenting information, and 4) Assignment supervision.

NON-PROFIT ORGANIZATION:

Non-profit organization is an organization which has a main objective to support one issue to attract people attention for a not commercial goal, with no attention on generating profit-oriented things (no monetary issues). Non-profit organization includes church, public school, public donation, public hospital and clinic, politic organization, society support in legislation, volunteer service organization, labor union, professional association, research institution, museum, and public service.

The character and the goal of non-profit organization obviously have been seen by comparing it with profit organization. Non-profit organization is established to make change in individual or community, while profit organization clearly aims to make profit. Non-profit organization regards people as the most valuable asset, because all of this organization activity is about from, by and to human being.

In Indonesia, non-profit organization has been rapidly developed, mostly in religious and advocacy sector. Above and beyond, education sector has been growing now.

CHILDREN DEVELOPMENT CENTER:

Children Development Center is a primary form of the partnership between Compassion Indonesia Foundation and the partner church. Therefore, the center is a part of the church, which is one of executor element in supporting sector. Through the center, the partner church seizes and serves needy children. The center serves various ages of children, from 3-8 years old until 15-22 years old (YCI, 2007).

Partner Development is the goal of the foundation's work to increase the partner church capacity to get more effective in performing children development programs holistically.

RESEARCH METHODOLOGY:

This research was a combination of descriptive which has described a real phenomenon of current internal audit process in a population of 15 centers in Salatiga and explorative which has explored an internal audit model by the "research and development approach", which was a research program that is followed up by the development program (Borg and Gall, 1989). The internal audit model has been developed by systematic steps of action research, which is a process of action, reflection, evaluation and innovation by applying survey, development, experiment and evaluation (Argyris, *et al*, 1985).

The location of the research, Children Development Center Salatiga cluster which has 15 centers, was chosen on purpose. Data consists of primary and secondary data. Primary data was the result of guided interview and the observation on the current internal audit process. While secondary data such as the center financial report was gathered by documentation study.

The research steps which have referred to the development system of Bodnar and Hoopwood (2006) were designed as follow:

1. **Preliminary study:** At this first stage, there was activities among others were literature study, data cluster acquiring, survey team determining, guided-questions drafting, the current internal audit understanding. The result was the strengths and weaknesses of the current internal audit process.
2. **Need analysis:** The next stage, there was a need analysis of internal audit process. It determined a description of internal audit process needs.
3. **Model development:** Based on internal audit process needs, there was a model development. The outcome of this stage was a prototype model of internal audit process.
4. **Model testing:** The prototype model was tested and produced a model running feedback.
5. **Model evaluation and revision:** The feedback is refined with evaluation and revision of the prototype. Then the final result was a model of internal audit process.

RESULT AND DISCUSSION:

DESCRIPTION OF THE CURRENT INTERNAL AUDIT:

Based on the rules of Compassion Indonesia Foundation, at the end of month on the book-closing date, secretary of the center has to finish the financial report. Then it will be sent to the committee member of church partner. The committee has a function as an internal auditor, who handles the internal audit process. During auditing process, internal auditor can carry out verification and confirmation; even inquire correction needed from the secretary. The result of this process is an audited financial report. The secretary has to submit it to the foundation by no later than the 6th of subsequently month. For example, the audited financial report of May 2012 has to be submitted by no later than 6th June 2012.

The survey of 15 centers has showed that there are many differences of internal audit amongst internal auditors. Some auditors sign the report without conducting verification and confirmation, although the remains doing it. Besides, there are several auditors who execute the incomplete procedures. For example, there are auditors who do not carry out the cash opname procedure which is a must. Regarding the audit time period, auditor should have accomplished the process before the due date of audited financial report submission. Nevertheless several auditors finish it over the submission due date. Even more, some auditors let the financial report submitted without carrying out the internal auditing.

Below are the strengths and weaknesses of the current internal auditing:

	Strength	Weakness
Input	<ul style="list-style-type: none"> • Format of both financial report and supplementary document has been established by the foundation. • Person who handles financial report making has been determined by the foundation. • Person who manages internal audit process has also settled by the foundation. 	<ul style="list-style-type: none"> • Frequently cash on hand is not equal to cash in bank log book. • Sometimes transaction document is incompletely filled. • Project report is not included in supplementary document. • Transaction document is only a part of ledger attachment.
Process	<ul style="list-style-type: none"> • Time period of internal audit process has been set by the foundation. 	<ul style="list-style-type: none"> • Some auditors do not understand how to complete a general auditing process and activity. • Several auditors have audited only by sample of ledgers and transaction documents. • Audit activities are not the same among centers. • Audit finalization activities are not the same among centers. • There is no transaction document fairness checking.
Output	<ul style="list-style-type: none"> • Audited financial report is a requirement of the foundation. 	<ul style="list-style-type: none"> • Financial report which has been sent to Compassion Indonesia may not be audited. • There is no proof that all components of financial report have been audited.

NEED ANALYSIS OF INTERNAL AUDIT MODEL:

According to the strengths and weaknesses above, need analysis of internal audit model can be defined as follow:

1. Input:

- Cash opname is necessary to get done every week to prevent the difference risk of on hand and in bank log book.
- Verifying the completeness of transaction document filled is necessary to do to prevent an illegal document.
- Project report including its transaction document copy should be attached in financial report.

2. Process:

- Operational module including terminology, verification guideline and audit work paper should be provided.
- Audit Work paper is required to set and will become an internal audit fullness to ensure that the completeness, supplementary, audit activities and finalization have been achieved.
- Verifying the transaction document fairness is needed to assurance the financial report fairness.

3. Output:

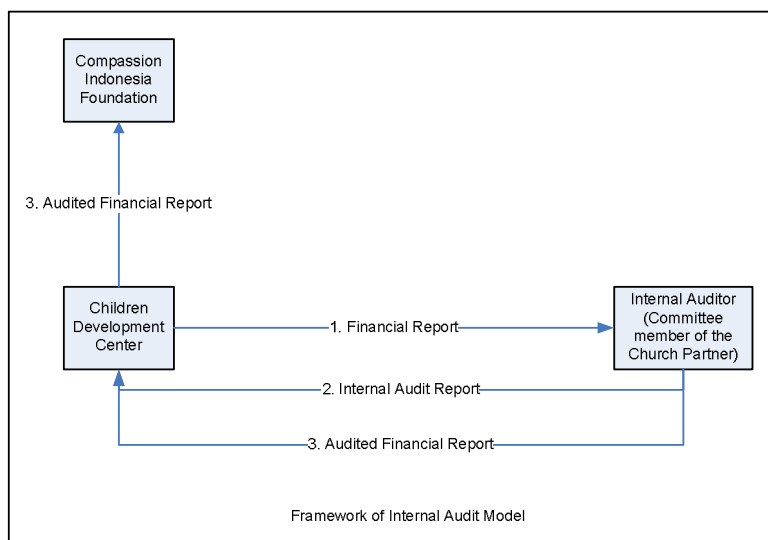
- Audit report should be presented in module as a part of work paper audit to make sure that all internal audit procedure has been completed.
- Audit report which has been signed by internal auditor must be a basis for secretary to submit the audited financial report to Compassion Indonesia.

INTERNAL AUDIT MODEL:

FRAMEWORK OF INTERNAL AUDIT MODEL:

The framework is a scope of internal audit work. It should facilitate internal auditors to have the same point of view to internal auditing work. The framework describes the importance of internal auditing to produce a reliable audited financial report. The stakeholders of financial report have been also explained by the framework. Finally, it illustrates the flow of internal auditing.

At the end of the month on the book-closing date, secretary of the center must finish the financial report. It is sent to a committee member of the church partner who handles its auditing. The committee member has a function as an internal auditor manages an internal auditing. The results of internal auditing are the audited financial report and the internal audit report. The audited financial report should be submitted to the foundation before the 6th of next month. The internal audit report is a track record of internal audit process. It should be kept by secretary as an input to make the next month financial report. The explanation above is described on picture 1 below.



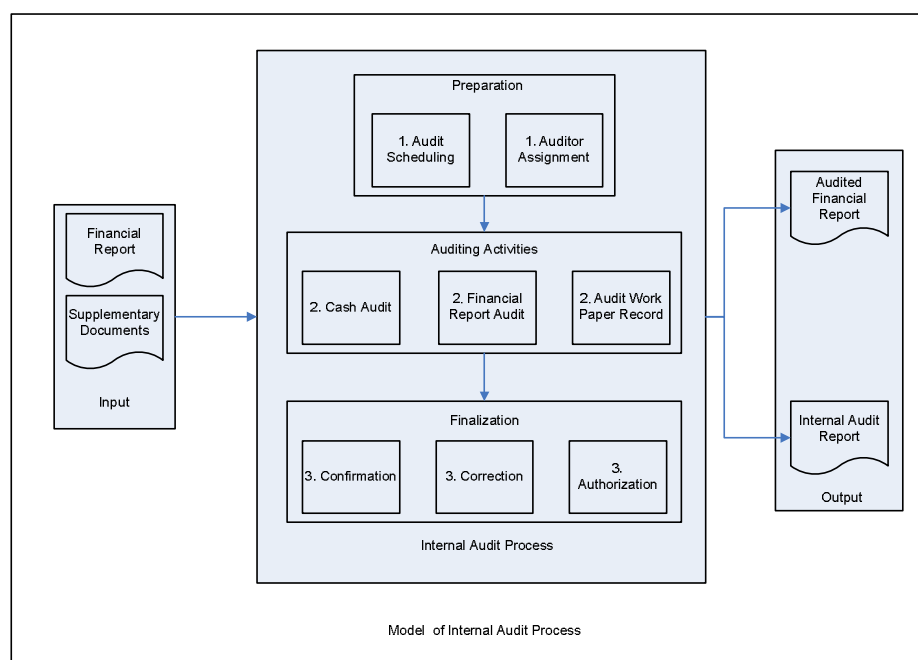
Picture 1: Framework of Internal Audit Model

INTERNAL AUDIT PROCESS MODEL:

Input of internal audit consists of financial report and its supplementary document which are cash report, cash on hand and in bank log book, ledgers, transaction documents, supporting documents and etc.

Internal audit includes preparation, audit activities and finalization. Preparation step includes audit scheduling and auditor assignment. Audit scheduling is on one day or more between book-closing date and before the 6th of the following month. While, auditor assignment is an auditing task giving to a committee member of the church partner. The following step is to conduct audit activities which are cash audit and financial report audit, also audit work paper record. Findings in audit activities step which do not meet with rule of internal auditing will go through the finalization step. The finalization is started with confirmation action which is an asking questions activity to get a clearness and affirmation of the recorded data/information. If there is a mistake of data/information during confirmation, there will be the following finalization, correction activity. It is an activity to fix inaccurate data/information according to its transaction document. During the internal audit process, auditor also fills the audit work paper. When all recorded data/information are confirmed their accuracy and the audit work paper is fulfilled, and then the finalization will be ended with authorization which means giving an approval on the financial report.

Output of internal audit includes the audited financial report and the internal audit report. The audited financial report is the financial report which has been marked by both audit process ticks that indicate it has gone through an internal audit process and internal auditor's signature that signify an authorization. Whereas the internal audit report is a conclusion of work paper audit which should record all tracks of internal audit process.



Picture 2. Model of Internal Audit Process

CONCLUSION AND RECOMMENDATION:

The study of the current internal audit has found many deviations; among others are the audit input is incomplete, the audit process is not comprehensive and unstandardized amongst the centers. Therefore, the audited financial report as an audit output has not gone through the appropriate audit process. Then, its reliability could not be ensured.

Based on the findings, the generic internal audit model has been developed. The model consists of the framework and the process model of internal audit. It is a guideline for internal auditors to execute the comprehensive and standardized audit process. By the existence and compliance of this standardization model, the reliability of the financial report could be guaranteed.

The study has concluded that internal audit without standardization could make many discrepancies. They could be reduced or eliminated by running the standardization model of internal audit.

Potential future research is to develop the further model in detailed modules which will be ready to apply in the centers. Moreover, other future research is to develop the model for another NGO which has a different business process from the center.

REFERENCES:

- [1] Argyris, C., Putnam, R. and Smith, D. 1985. *Action Science*, San Francisco, Jossey-Bass.
- [2] Bodnar, George H. and William S. Hopwood. (2006). "*Accounting Information System*". New Jersey: Prentice Hall.
- [3] Borg, Walter R. and Meredith Damien Gall. 1989. *Educational Research: An Introduction*. Fifth edition. New York: Longman.
- [4] BPK RI. 2009. *Fungsi Pengawasan Internal*. Pemeriksaan No 118/Edisi Agustus-September 2009/Tahun XXVII
- [5] Effendi, Arief. 2006. *Perkembangan Profesi Internal Audit Abad 21*, Universitas Internasional Batam.
- [6] KOPAI. 2004. *Standar Profesi Audit Internal*. Jakarta.
- [7] USAID. 2001. *Institutional Self Assessment: A Tool for Strengthening Non Profit Organizations*. International Publications Program.
- [8] YCI. 2007. *Buku Panduan Kemitraan*. Bandung.
