

OFFICIAL NEWS

Internal Audit Standard
for Zakat Management
Organization

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- Zakat Management Organization is a non-profit institution which has an authority to collect public fund such as *zakat*, *infaq* and *sodaqoh* or the other charities fund. As such, it is important for Zakat management organizations to have a high level standard of governance system to preserve the accountability and transparency principles in its operations. Thus, it will increase the public trust towards zakat management organization.
- In fact, many zakat management organizations are largely do not have a minimum governance standard including a minimum standard for internal audit. Hence, to overcome the situation, the National Board of Zakat of Republic Indonesia cooperates with the Central Bank of Indonesia, IRTI-IsDB and 8 representatives of Islamic Countries launched a global zakat initiative namely Zakat Core Principles.
- The document of Zakat Core Principles (ZCP) consists of 18 standards related to the Zakat management. The purpose of the document is to provide a minimum governance standard for zakat management organization as well as Basel Core Principles (BCP) for financial institutions. Internal Audit standard in zakat management become a concern on the 15th standard of ZCP.
- The 15th ZCP is encouraged zakat management organization to own sufficient, relevant, experienced and qualified resources to perform an internal audit in the organization. Nevertheless, the document also recommended zakat management organization to conduct a regular audit plan in order to preserve transparency and accountability principles.
- Currently the national internal audit standard for zakat management has not been found so that the zakat management organization do not own a guideline on how internal audits are conducted at zakat institutions. Hence, in the absence of

it, the study attempts to explore and design the internal audit standard for zakat management organization.

- The study involved 13 experts to design the ideal internal audit standard for zakat management organization. The study also employed Content Analysis, Linkert-Scale and Delphi Method as a methodological approach. After six months research, the study successfully designed 21 standards of internal audit for zakat management organization which provide a comprehensive internal audit standard related to the zakat management.
- In addition, to test the robustness of the designed internal audit standard, the rater agreement test is used to see the consensus level among the experts. The test revealed that all of internal audit standards (3 main and 21 sub-standards) attained the p-value less than *alfa* 0.05 means that the consensus level among the experts is strongly robust.

A. An Overview of Internal Audit Standard

According to the Institute of Internal Auditors' (IIA) the Internal audit process is an independent and objective assessment process designed to provide added value to an institution that will ultimately improve the performance of the institution in evaluating and improving the ability to manage risk, the internal control system and effective governance process.

Furthermore, internal audit has a pivotal function as an independent appraiser within an organization that aims to test and evaluate all activities within the organization. The purpose of the internal audit process itself is to help members or stakeholders or shareholders to know the condition of the organization by providing the results of analysis, assessment, recommendations, consultation and information related to the results of the internal audit process that has been carried out. Hence, the purpose of internal audit is to promote effective control at a rational cost in an organization (Trenerry, 1999).



Figure 1. The process of Internal Audit

Source: Audit Researchomatic (2012), drawn by Author

As depicted at Figure 1, the internal audit processes are commonly consist of four steps which are planning stage, field work step, reporting process and follow up action. The planning stage the member team of internal audit will request an Audit Charter from the organization to determine the internal audit objective. Afterwards, based on the audit charter the internal auditor will conduct an assessment to determined audit objective and

this phase is the longest stage since the auditor will check all of aspects in organization which determined as objective of internal audit. Moreover, in the next stage, the team will give the audit report to the board of audit committee which latterly the board will decide several actions to overcome the audit findings.

B. Internal Audit for ZMO

Zakat management organizations have similar function as well as financial institution in terms of intermediary function. Financial institutions collect public fund from their creditors to be distributed to their debtors whilst zakat management organizations collect public fund namely zakat, *infaq* and *sadaqah* from their *muzakki* to be distributed to eight *asnaf* or *mustahik* which is determined in the Holy Quran. As such, not only financial institution, zakat management organization also will facing reputation and financial risk exposures.

There are some studies which found that currently zakat management organizations facing several problems related to transparency and accountability aspects due to unprofessional management of zakat fund. Hence, to stipulate the current condition, there is a zakat global initiative namely the Zakat Core Principles (ZCP) have been launched by the National Board of Zakat of Republic Indonesia, Central Bank of Indonesia, IRTI-IsDB together with 8 representatives Islamic countries in 2017.

The ZCP comprises of 18 standards. The aim of ZCP is to provide a minimum governance standard for zakat management organization globally. The 15th standard of ZCP is encouraged zakat management organizations around the world to have a minimum standard in terms of *Shariah* control and Internal Audit. Hence, to accommodate the mandate of ZCP and in the absence of national standard regarding internal audit for zakat management organization, we have already conducted the study entitled *Designed Shariah Control and Audit Internal Standard for Zakat Management Organization*.

By refereeing to the established internal audit standards such as the internal audit standard of central bank of Indonesia, financial service authority (OJK) and Government of the Republic of Indonesia (see figure 2) we used integrating methodology by combining Content Analysis method and Decision Making Method (Linkerts Scale and Delphi). Moreover, the study also involving 13 experts in Zakat area.

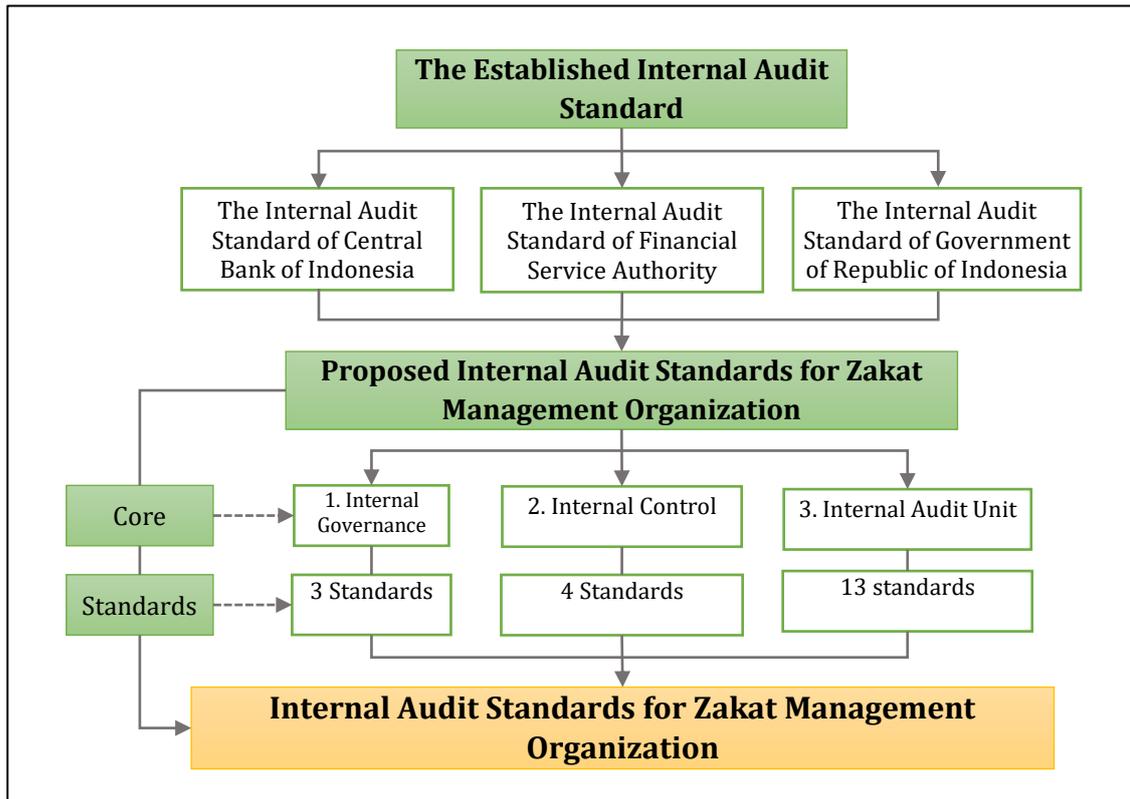


Figure 2. Conceptual Framework of Internal Audit Standard for Zakat Management Organization

Source: Hakim *et al* (2018) modified

Figure 2 presents the conceptual framework of the study. By using content analysis approach, the study attempts to make established standards as mentioned above as main reference. Afterwards, we bring this issue to the expert’s forum in form of focus group discussion to obtain the expert’s judgment regarding the framework of internal audit standards for zakat management organization.

Eventually, after 6 months of research, the study successfully designed 21 standards of internal audit standards for zakat management organization including the result of expert’s judgment on each element as follows:

Table 1. The Survey Result on Designed Internal Audit Standard of ZMO

1.	Internal Governance Standard for Zakat Management Organization	Agree	Neutral	Disagree	Rank (Delphi)
1.1	Zakat Management Organizations are required to have an Internal Governance standard and it must be submitted to the Zakat Authority no later than 30 (thirty) days from the the guidelines are formed.	11	1	1	3

1.2	In preparing the Internal Governance Standard, Zakat Management Organizations must consider total assets, operational funds, collection, products and services offered, including new products and services, operational complexity, office networks, risk profiles of each zakat management activity, the method used to data processing and risk measurement, and related provisions that apply.	12	1	0	1
1.3	The Internal Governance Standard for Zakat Management Organizations includes at least 5 (five) main elements, namely: a. control environment; b. risk assessment; c. control activities; d. information and communication; and e. Internal control monitoring	13	0	0	2

2.	Internal Control Standard for Zakat Management Organization	Agree	Neutral	Disagree	Rank (Delphi)
2.1	Zakat Management Organizations must implement the functions of the Internal Control System by adopting the Bank's Internal Control System.	9	3	1	4
2.2	Technical Guidelines for Internal Control Systems of Zakat Management Organization is a standard reference for Internal Governance Systems that must be met by Zakat Management Organizations so that Zakat Management Organizations can expand and deepen the system according to the needs of the Zakat Management Organization.	12	1	0	1
2.3	In the case that Zakat Management Organization has its own internal audit standards, then the standard must at least meet the technical instructions of the Bank's internal control system.	7	5	1	5
2.4	In case of internal control system of Zakat Management Organizations which not meet the guidelines for the standard implementation of the Internal Control System of zakat, then they must adjust and perfect it by referring to the Internal Audit Standards set by the Zakat Authority.	12	1	0	3
2.5	Based on the technical guidance of the internal control system of the Zakat Management Organization, the Zakat Management Organization must: a. Arranging the Internal Audit Charter; b. Establish an Internal Audit Work Unit (SKAI); c. Develop an internal audit guide.	12	1	0	2

3.	Internal Audit Workforce Unit for Zakat Management Organization	Agree	Neutral	Disagree	Rank (Delphi)
3.1	The Internal Audit Unit is in charge and responsible for assisting the Board of Trustees and Directors in carrying out supervision by describing operationally both the planning, implementation and monitoring of audit results.	13	0	0	1
3.2	The Internal Audit Unit is in charge and responsible for making analysis and assessment in the fields of finance, accounting, operations and other activities through direct inspection and indirect supervision.	13	0	0	3
3.3	The Internal Audit Unit has the duty and responsibility to identify all possibilities to improve and enhance the efficient use of resources and funds.	12	1	0	5
3.4	The Internal Audit Unit is in charge and responsible for providing corrective advice and objective information about the activities examined at all levels of management.	13	0	0	4
3.5	The Internal Audit Unit is a work unit that is directly responsible to the president director of Zakat Management Organization.	12	0	1	8
3.6	In carrying out its duties, the Internal Audit Unit submits a report to the Board of Trustees and Directors with a copy to the Zakat Authority (a copy reports to the Zakat Authority are intended to be used as information in order to improve compliance procedures in zakat management).	9	3	1	7
3.7	The Head of the Internal Audit Unit is appointed and dismissed by the Board of Trustees / Directors with the approval of the Zakat Authority.	6	4	3	9
3.8	The Board of Trustees and the Board of Directors must ensure that the Internal Audit Unit can carry out the task independently. In this case the Board of Trustees must review the planning and implementation of the audit and monitor the follow-up of audit results.	12	1	0	6
3.9	Both the Internal Audit Unit and each Internal Auditor must be independent in conducting audits and express their views and thoughts in accordance with their profession and generally accepted audit standards at Zakat Management Organization..	13	0	0	2
3.10	The Zakat Management Organization is obliged to submit a report to the Zakat Authority regarding the implementation of the Internal audit function, including reports on the appointment or dismissal of the Internal Audit Unit head with the consideration and reasons for appointment or dismissal.	7	4	2	11

3.11	Zakat Management Organizations must submit a report to the Zakat Authority regarding the implementation of the Internal audit function, including the implementation report, the results of Internal audit and confidential audit results.	8	3	2	12
3.12	The Zakat Management Organization is obliged to submit a report to the Zakat Authority regarding the implementation of the Internal audit function, including a special report on each Internal audit finding that is expected to disrupt the continuity of operations of the Zakat Management Organization.	10	2	1	10
3.13	Zakat Management Organization is obliged to submit a report to the Zakat Authority regarding the implementation of the Internal Audit function, including the external review report which contains the results of the IAU's work and its compliance with the Zakat Management Organization's Internal Control System.	9	2	2	13

To conclude, based on the survey result on the designed internal audit standards as shown at table 1, majority respondent expressed their agreement on the standard means that the standards are quit applicable for zakat management organization. Furthermore, the result of study also could be an initial reference for the Zakat Authority around the globe to develop the internal audit standard more comprehensively which eventually the management of zakat reaches the high level of good governance along with the increasing of public trust to zakat management organization.

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