

**FINAL REPORT
JOINT RESEARCH
UNIVERSITAS ISLAM BADUNG & UNIVERSITI UTARA MALAYSIA**

**INTERNAL AUDIT EFFECTIVENESS: A CASE OF ZAKAT INSTITUTION OF
INDONESIA**

THE TEAM OF RESEARCH:

**Dr. Sri Fadilah, SE.,M.Si,Ak,CA
Dr. Rini Lestari, SE.,M.Si,Ak,CA
Dr. Mohd Hadafi Sahdan
Mr. Ahmad Zamil Abdul Khalid**

**THE INSTITUTION OF RESEARCH AND COMMUNITY SERVICES
UNIVERSITAS ISLAM BANDUNG
APRIL, 2020**

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THE RESEARCH AUTHORIZATION

Research Title : Internal Audit Effectiveness : A Case of Zakat Institution of Indonesia

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Research Budget : RM. 5.000,-

Bandung, 20 April 2020

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Rector of Universitas Islam Bandung

Signed for and on behalf of;
Vice Rector for Academic Affair of
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In the presence of;
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Head of Institution of Research and Community Services
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CHAPTER 1

INTRODUCTION

1.1 Research Background

As the background of the research begins with issues relating to the concept of implementing zakat both as a personal religious obligation and zakat as a very popular component of public finance. Act no. 23 of 2011 concerning Management of Zakat becomes a more powerful legal reference in the management of zakat in Indonesia. In the law, zakat institutions consist of government-based zakat institutions, namely the National Zakat Amil Agency (BAZNAS) and community based (LAZ). The zakat institution is a public institution because it manages sharia-based public funds.

The government-based zakat institution named BAZNAS is currently experiencing very rapid development. The most prominent developments are the governance of zakat institutions. In addition to the support of Law 23 of 2011, the BAZNAS regulations were also made to implement the management of technical zakat institutions. Many regulations have been made and implemented to support good governance of zakat institutions. Many of the keys to the success of zakat management are monitoring, evaluation and control (Fadilah et al. 2011). The role is united in the role of the internal control of zakat institutions (Fadilah, et al. 2011) (1). This is in accordance with the BAZNAS decision that obliges or requires each BAZNAS of the provincial, city and district levels to have an internal audit unit (SAI). However, the conditions in the regional BAZNAS are not the same in terms of readiness because there are still many obstacles that are experienced and owned. Including BAZNAS in West Java, no more than 10% - 15% already have internal auditors. The regulation has been implemented for a year in BAZNAS throughout Indonesia. There are several conditions for internal auditor rules including (1) Having a structurally internal audit unit (BAZNAS, 2018). Also, the constraints faced by BAZNAS in implementing SAI include: limited collection of zakat funds, so they cannot afford internal audit personnel (BAZNAS, 2018).

There are at least three things as the important role of internal audit, namely (1) information on findings in organizational system processes (2) organizational problem solving and (3) organizational system improvements. Competency improvement for

internal personal auditors in public fund management organizations, especially zakat funds, is expected to have a significant effect on internal control and even the growth of institutions. On the other hand, the latest legislation regulates sharia audits which basically aiming to ensure the collection, distribution and utilization of zakat and the use of amil rights have been carried out in accordance with sharia principles. Internal audit functions are very important for ZIS management organizations to gain trust from the public. (IMZ, 2015)

1.2 Identification of problems

Based on this/the stated background, the problem in this study can be formulated as follows:

1. What are the obstacles of the implementation of the internal audit at the zakat institution.
2. How is the internal audit implementation model at the zakat institution
3. How is the effectiveness of internal audit implementation at zakat institutions.

1.3 Special purpose

Become a reference for zakat institutions to implement internal audits effectively in improving zakat governance at zakat institutions. Formation of cooperation documents with BAZNAS of West Java and Output papers published in reputable journals.

1.4 Urgency of Research

The urgency of this research, originated from various problems that were allegedly a barrier to the lack of good governance at the zakat institution. The impact is the low level of public trust in zakat institutions institutionally. This can be seen from the achievement of zakat realization which is still low around 454 billion (West Java BAZNAS, 2018) compared to the huge potential of zakat around 25.5 trillion (BAZNAS Jabar, 2018). Many factors that influence the good governance of zakat institutions include the lack of monitoring and evaluation of all activities. For this reason, there needs to be a tool that can improve monitoring and evaluation by implementing an internal audit all zakat institutions.

Internal Audit is an audit executor / auditor who performs tasks within the company to determine the extent to which the procedures and policies that have been previously formed are obeyed, determine whether the management of the assets of the organization / company has been implemented properly, determine how effective and efficient the organization / company activity procedures , and assess the effectiveness of the information produced by each unit within the organization / company (Mulyadi, 2012). Thus, internal audit implementation will provide confidence that the implementation of all organizational procedures and policies in the implementation is as it should. Internal audit is very important because it aims to help members of the organization to be able to carry out their tasks effectively. In internal audit activities try to do analysis and provide various suggestions and assessments needed for management.

The internal audit objectives that can be achieved will determine the effectiveness of the internal audit implementation. However, on the other hand, there are still many zakat institutions or other organizations that are constrained in the implementation of internal audits. These constraints if not addressed will have an impact on the low effectiveness of achieving internal audit objectives, the goals of the zakat institution and people's trust will remain low.

Based on the description above, the urgency of this research is to analyze and examine how to implement internal audits effectively in improving the governance of zakat at the zakat institution, identifying the constraints faced and the internal audit implementation model which is most suitable for zakat institutions.

CHAPTER II

LITERATURE REVIEW

2.1 State of The Art

Internal audit is the examination carried out by the company's internal audit unit on the company's financial reports and accounting reports and reviews compliance with policies determined by the top leadership, government regulations, and provisions of professional associations (Sukrisno, 2015) Internal audit is an assessment process carried out sequentially and objectively carried out by internal auditors to different operational activities and controls within the organization (Sawyer, 2015). Internal audits are carried out to determine whether:

1. Information about the company's finances and operations is correct and reliable.
2. Possible obstacles that will be faced by the company are known and minimized.
3. Regulations for external companies and internal policies can be established and obeyed.
4. Operational activities are satisfactory.
5. The use of company resources is used effectively and efficiently.
6. The goals of the organization / company are achieved effectively. This was discussed with the management and provided assistance in the form of advice to members to carry out their duties as effectively as possible.

Furthermore, Sawyer (2015) suggested that internal audit has various functions including:

1. Supervision of all activities that are difficult for top management to handle.
2. Identification and minimization of risks.
3. Report Validation to the manager.
4. Support and assist management in technical fields.
5. Replace the decision making process.
6. Analyze the future (not for things that have happened).
7. Helping managers in managing the company.

Another factor that must be considered related to internal audit is the implementation of internal control, because it has a relationship that affects each other.

Internal control in the context of nonprofit organization (Not For Profit Organization Management) as a process carried out by people, from top leaders to executors, designed to provide reasonable guarantees for achieving organizational goals with conditions:

1. Efficient and effective activities;
2. Reliability of information;
3. Adherence to applicable laws and regulations.

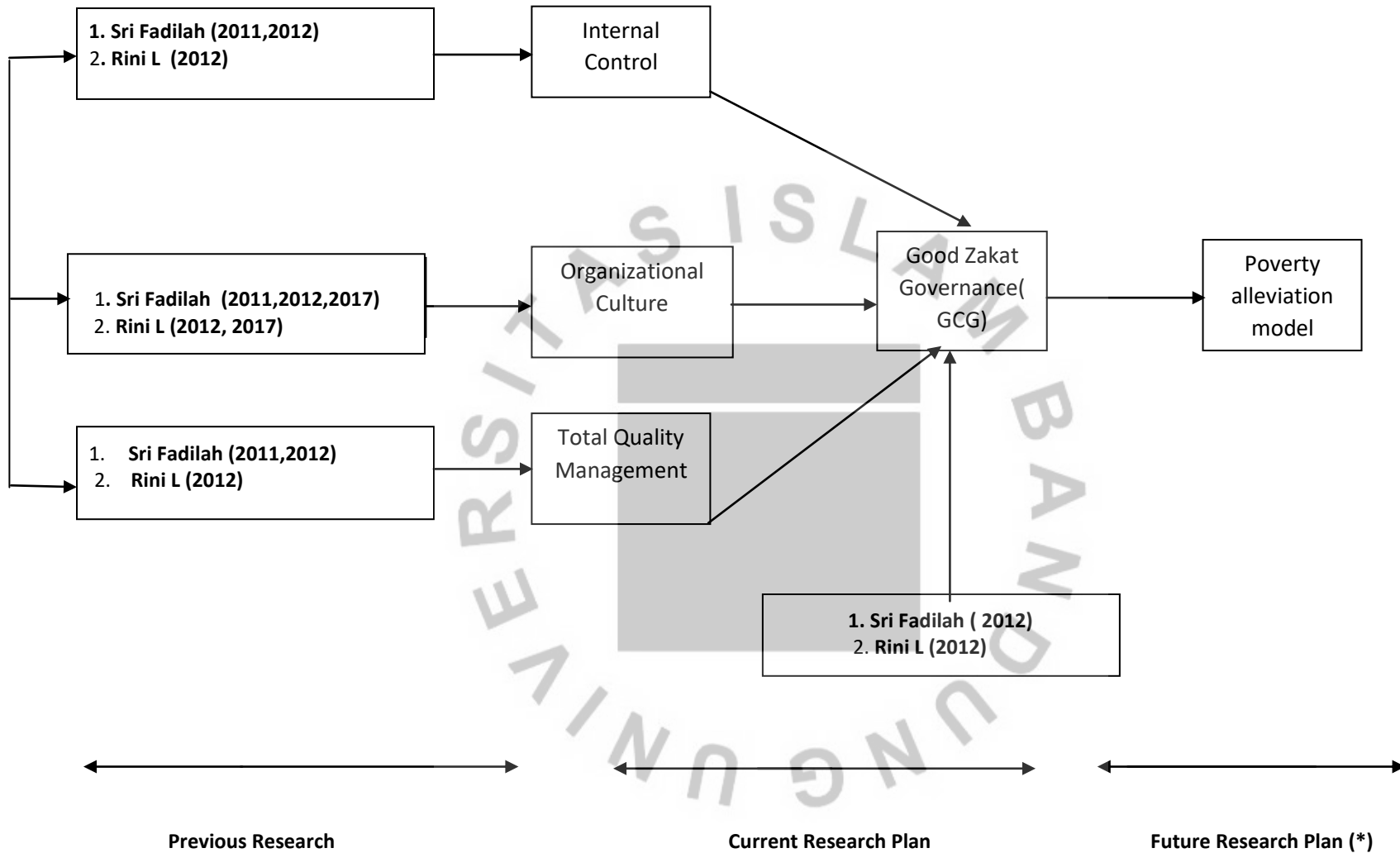
Internal control makes it clear that internal control not only affects reliable financial reports but shows that controls should be effective for all operations, and compliance with applicable laws and regulations. The controlling environment committee consists of:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and communication
5. Monitoring

Then, internal audit can support the organization / company in achieving its goals by means of a structured and disciplined approach. The internal audit approach is carried out by evaluating and increasing the effectiveness of risk management, controlling and governance processes. For the zakat institution, the intended purpose is increasing community trust, providing excellent service to the community (muzaki and mustahik), achieving budget realization in accordance with the plan set and its potential.

2.2 The Research Roadmap

Furthermore, based on the state of the art to support the urgency and understanding of this research, it can be seen from the research roadmap, as follows



(*)The future research plan is (a) to continue by adding a poverty alleviation model variable, (b) to relate good governance with organizational performance, (c) to enter intervening / moderating variables between variables of good governance on organizational performance

Picture 1 Research Roadmap

CHAPTER III

RESEARCH METHODS

3.1 Research Method

The research method used in this study is a case study research method that is a research conducted to discuss one particular case in one organization in depth. Case studies were conducted at BAZNAS, West Java Province. Case studies present a broader view by carrying out empirical investigations of contemporary phenomena in natural contexts using a variety of evidence, so that case studies are generally more exploratory than confirmatory, therefore case study researchers identify various behavioral and event themes or categories rather than test relationships or test the hypothesis.

The case study design that the researcher applied in this study is a single case design because it only examines the effectiveness of internal audits in public organizations namely BAZNAS of West Java.

3.2 Data Collection Techniques and Data Analysis Design

3.2.1 Data Collection Techniques

To obtain the data needed to answer research problems several data collection techniques are used. The data collection techniques used in the study are:

1) *Indepth Interview*

This technique aims to obtain information that is not explored in the questionnaire related to this research variable. This interview was conducted in addition to the leadership, Amil and the West Java BAZNAS Internal Audit Unit.

2) *Observation*

This technique aims to better understand and provide certainty about the information provided by West Java BAZNAS leaders.

3) *Documentation*

In this study, documentation techniques were used to obtain unexplored information from interviews with BAZNAS of West Java and possibly and other agencies related to the research variables.

3.2.2 Data Analysis Design

Data analysis is done to be able to draw conclusions. The data analysis techniques include:

Step 1 : The Problem and Question Formulation-The Phenomenon

Step 2: The Data Generating Situation-The Protocol Life Tex

Step 3: The Data Analysis-Explication and Interpretation

Qualitative data analysis is carried out interactively and continues continuously to completion. Miles and Huberman (Sugiyono, 2005: 91) state the stages of interactive data analysis that are interconnected and that are ongoing continuously that is divided into:

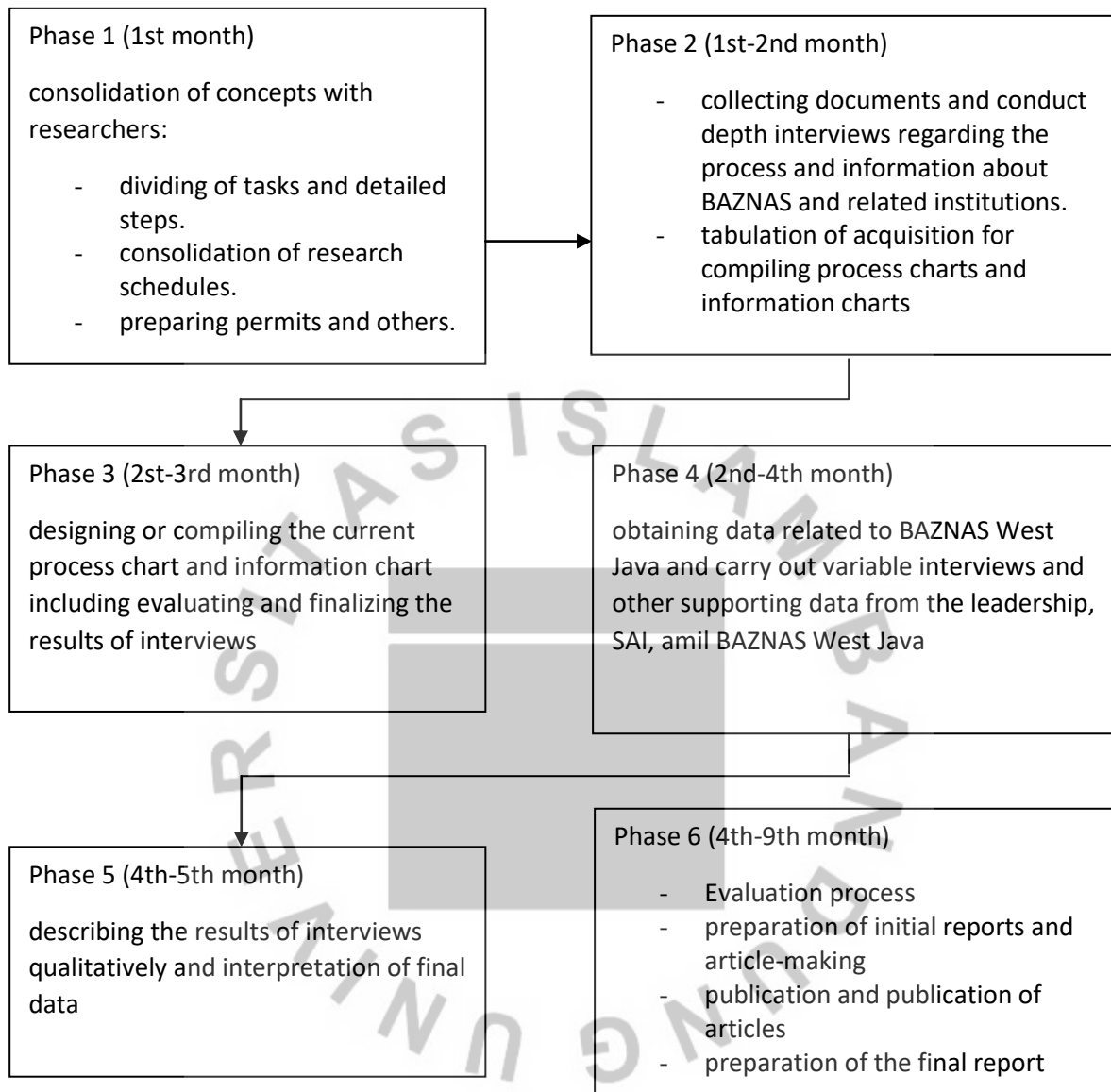
- 1) *Data Collection*
- 2) *Data Display*
- 3) *Data Reduction*
- 4) *Conclusions: Drawing/verifying*

When the conclusion stage has been done, it is possible that the researcher would be reconnected with the data collection stage in number 1), and could be connected with stages 2) and 3) as well.

The validity of the data in this study will be examined by comparing observational data with the results of direct interview data. For this, researchers can do: 1) submit various kinds of questions, 2) check with various data sources.

3.3 Flow of Research Activities

The overall flow of research activities will be seen in the picture below:



Picture 2 Flow of Research Activities

3.4 RESEARCH SCHEDULE

Planned Year Activities

No	Name of Activity	Month											
		1	2	3	4	5	6	7	8	9	10	11	12
1	Phase 1: Concolidation of concepts research.												
2	Phase 2: - Collect documents - Preparation and Depth interview												
3	Phase 3: Design and compile process charts and information charts												
4	Phase 4: - Collecting data on BAZNAS and other data related to research												
5	Phase 5: - Data tabulation - Description of data from depth interviews and other sources												
6	Phase 6: - Data processing - Evaluation process - Preparation of initial reports - Dissemination of research result - Compilation of research result												

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Description BAZNAS West Java Province

4.1.1 Profile BAZNAS West Java Province

Ancestor BAZNAS West Java Province originated from UPZ Governments of West Java Province, to collect ZIS of civil servants and the Environment Employees in West Java province, with the idealism of them for them, then During the Leadership of H. Ahmad Heryawan (Kang Aher) strengthened by the Governor's Regulation and continuous education about zakat awareness, together with the inauguration of the West Java BAZDA Management, so that ZIS fund raising is more optimal and touches all civil servants who have reached the zakat nishab.

Bazda first established in 1974, and then after it was amended by Decree of the Minister of Religion of the Republic of Indonesia Number 118 of 2014 concerning the Establishment of the National Zakat Agency Province. So it becomes BAZNAS Province, along with the expansion of the province in Indonesia, the Decision was revised by Decree No. 186 of the Minister of Religious Affairs in 2016 on Amendments to the Decree of the Minister of Religion No. 118 of 2014 concerning the establishment of the National Zakat Province. Chairman of the National Zakat Agency Provi the West Java was confirmed by West Java Governor Decree No. 450.12 / Kep.156-Yansos / 2015 about the leadership of the National Zakat Agency (BAZNAS) West Java Province Period from 2014 to 2019 on January 23, 2015. Later in the year 2016 Leadership structure changes, then the decision was revised to West Java Governor Decree No. 450.12 / Kep.919-Yansos / 2016 on Amendments to the West Java Governor Decree No. 450.12 / Kep.156-Yansos / 2015 of the Chairman of the National Zakat Agency (BAZNAS) West Java Province Period 2014 s / d. 2019

Date of establishment: BAZNAS West Java province was established on January 26, 2015. Taxpayer Identification Number (TIN): 31.500.662.7-423.000. BAZNAS office of West Java province is located at: Complex PUSDAI West Java Province Jl. Diponegoro 63 Bandung 40115. Telephone (022) 8252-6395, 0812-1010-9494 with the e-mail address: baznasprov.jabar@baznas.or.id, [Www. baznasjabar.or.id](http://www.baznasjabar.or.id). Badan Amil Zakat Nasional (BAZNAS) is the institution which manages the national zakat. BAZNAS is a non-structural government agency which is independent, while at the provincial level named BAZNAS West Java Province, located in the capital city of the province. BAZNAS West

Java Province is responsible to the Governor of West Java through the Regional Secretary and responsible to BAZNAS (Center). BAZNAS legal basis is as follows:

- a. Law No. 23 of 2011 on Zakat Management.
- b. PP 14 of 2014 on the implementation of Law No. 23 of 2011 on Zakat Management.

In principle, the empowerment of ZIS funds is carried out through programs offered by zakat institutions. Broadly speaking, there are four groups of programs offered by Zakat Institutions, namely health, economics, education and charity programs. Basically, the type and number of programs offered by zakat institutions will depend on: The amount of funds managed by zakat institutions; The scope of services / targets of mustahik targeted and mustahik needs. The naming of the four program groups will be different, because it will be adjusted to the designation, terminology and main activities of the zakat institution. The purpose of the presentation of programs offered by zakat institutions is to: Knowing how empowerment activities Zakat funds are packaged in the form of programs offered zakat institution.

- a. See coverage that can be provided by each institution of zakat.
- b. See creativity and innovation with regard to the creation of programs that offer zakat institution.

Even the last few years, has floated the zakat institutions increasingly broad program areas. BAZNAS center has designed a program to be implemented by BAZNAS Indonesia, both at the provincial . Programs designed covers the following areas: Health (healthy), Education (Smart), Economics (Independent), Social, Humanitarian (Care), and Dakwah and Islamic symbols (Takwa).

In designing the utilization programs, a lot of which is taken as a basis for the program's performance will be associated with the use of social and economic value of zakat is the level of effectiveness of the use and zakat in accordance with the designation of zakat is pilantropi religious funds (Sri, et al: 2017). One factor that is used as a basis for achieving the social and economic value of the use of zakat are areas of excellence. This basis is still being implemented in the West Java region, because the province of West Java has a large area (27 Provinces), has advantages in each region and a good level of creativity of West Java citizens (BAZNASJabar: 2017). There are several advantages of regional advantage as the basis for the utilization of zakat including: equitable distribution of regional welfare, increasing regional competitiveness, and alleviating regional poverty, and achieving the effectiveness of zakat utilization so that it is expected that the utilization of high socio-economic value of zakat is achieved (BAZNASJabar: 2017).

4.1.2 Basic Law Institute, Operations and Head of West Java province BAZNAS

BAZNAS West Java Province as an accountable zakat institution, of course everything that is done must be based on legal basis both vertical and horizontal legal basis. This legal basis will be linked to the legal basis of institutions, operations and leaders of West Java Province BAZNAS. Below is explained the position and distinguished based on legal basic position as follows:

A. Basic Sharia Law

1. Al-Qur'an
2. Al Hadith
3. MUI fatwa

B. Basic National Law

1. Law No. 23 of 2011 on the Management of Zakat
2. Government Regulation No. 14 Year 2014 on the Implementation of the Law 23/2011
3. The Presidential Instruction No. 3 of 2014 concerning Optimization of Zakat Collection at Central Government Institutions, Regional Governments, BUMN and BUMD
4. Presidential Decree No. 8 of 2001 on the National Zakat Agency
5. Decree of the Minister of Religion No. 118 of 2014 on the Establishment of the National Zakat Agency
6. Decree of the Director General of Islamic Community Guidance No. 568 of 2014 concerning the Establishment of the District and City Level National Amil Zakat Board in Indonesia
7. Perbaznas No. 1 2014 On Appointment Advisory Leader
8. Perbaznas No. 2 2014 On Licensing Recommendations LAZ
9. Perbaznas No. 3 2014 About Working Procedures Baznas Prov / city / county
10. Perbaznas No. 4 2014 On Preparation RKAT
11. Perbaznas No. 1 2016 On Preparation RKAT (revised)
12. Perbaznas No. 2 2016 About Governance UPZ
13. Perbaznas No. 1 2018 About the Code of Conduct of Zakat
14. Perbaznas No. 2 2018 On Certification of Zakat
15. Perbaznas 3 2018 About the Distribution and Utilization of Zakat
16. Perbaznas No. 4 2018 About Zakat Management Reporting
17. Perbaznas No. 5 2018 On Financial Management of Zakat

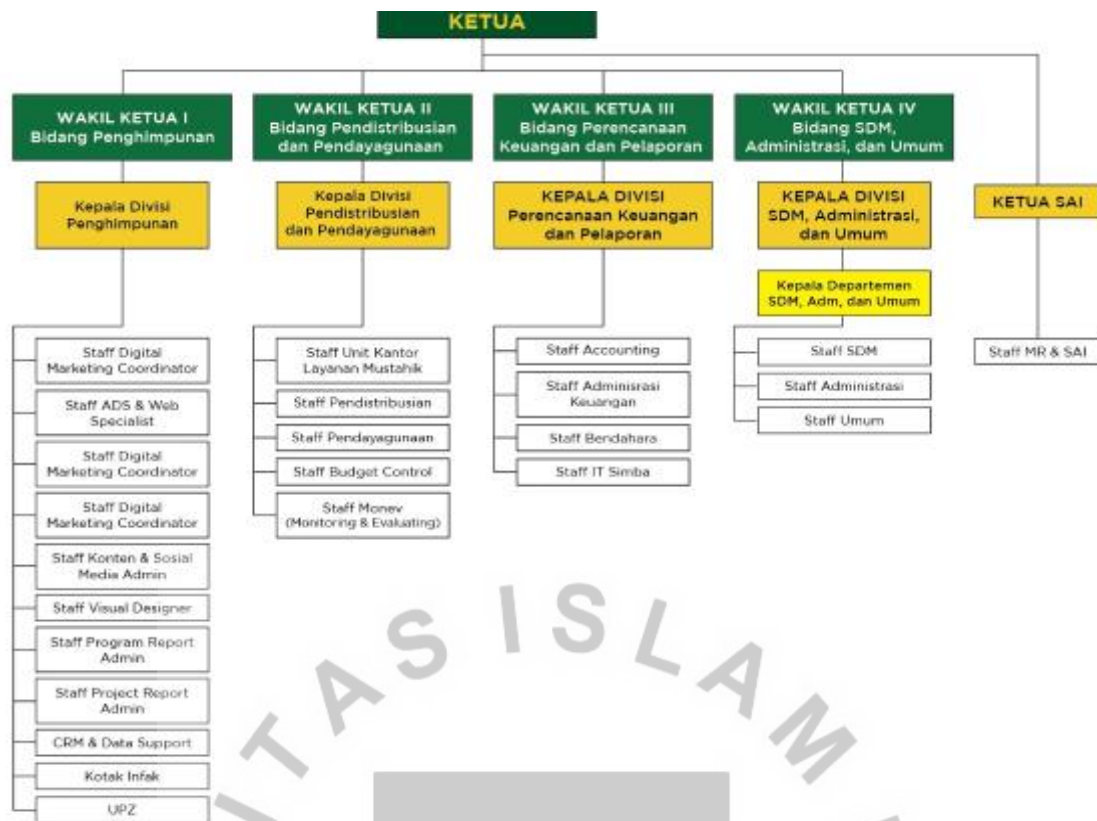
18. Perbaznas No. 6 2018 On Cooperation in Environmental Guidelines for Zakat Management
19. Perbaznas No. 1 2019 On on the Procedure for Appointment and Dismissal of Chief BAZNAS Provincial and District / City
20. Perbaznas No. 2 2019 About the Duties and Authorities of the National Zakat Agency Chief Provincial / District / City
21. Statement of Financial Accounting Standards (SFAS) 109 On Accounting for Zakat Management.

C. Local Regional Law of BAZNAS West Java Province

1. West Java Governor Decree No. 450 / KEP. 136-Yansos / 2015 on January 23, 2015 On Establishment BAZNAS West Java Province
2. West Java Governor Decree No. 450.12 / Kep.156-Yansos / 2015 of the Chairman of the National Zakat Agency (BAZNAS) West Java Province Period 2014 s / d. 2020
The legal basis can be used as the basis for measuring accountability and compliance BAZNAS West Java Province in carrying out its operations, and the basis for the internal audit process.

4.1.3. BAZNAS Organizational Structure of West Java Province

Internal audit is an audit carried out with the aim of ensuring that the components of the institution have carried out their duties and functions in accordance with institutional regulations. This means that an understanding of the organizational structure becomes important related to the implementation of internal audit, it is caused by information about each task and the main functions of each institution reflected in the organizational structure and job descriptions. It can also be seen how the relationship between the command and the coordination path between the parts both vertical and horizontal nature. Below, a picture of the organizational structure of BAZNAS of West Java Province is presented.



(Source. BAZNAS Province Java Barat.2019)

4.1.4 BAZNAS Strategic Aspects of West Java Province

To be able to realize good governance of zakat, BAZNAS of West Java Province applies strategic aspects. Strategic aspects are needed as a direction for all organizational activities. The strategic aspects of BAZNAS West Java Province as follows:

1. Vision

Become a superior and trusted zakat manager at the national level

2. Mission

- a. **Coordinate** the District / City BAZNAS, and LAZ in achieving National targets;
- b. **Optimally** measure collection of zakat throughout West Java;
- c. **Optimizing** the distribution and utilization of zakat to reduce poverty, increase social welfare, and moderate social inequality;
- d. **Implement** a transparent and accountable financial management system based on the latest information and communication technology;
- e. **Implement** a system of excellent service to all zakat stakeholders;
- f. **Mobilizing** Islamic da'wah and consolidating all elements of the Islamic Community for the awakening of zakat;

- g. **Actively involved** in leading the zakat-conscious movement at the provincial level in West Java that has a national impact;
 - h. **Maintaining** zakat as an instrument of regional development towards a just, prosperous, prosperous and religious community;
 - i. **Developing** superior and trustworthy amil zakat competencies as well as being a reference at the National level;
3. Work culture Values Institute
- a. Amanah a. Discipline
 - b. Professional b. Integrity
 - c. Enthusiastic c. Customer Focus
 - d. Communicative d. Partnership
 - e. giving evidence e. Zero Interest

4.2 Strategic Plan (Document Plan) and the Annual Work Plan and Budget (Document RKAT)

4.2.1 Strategic Plan (Plan)

In addition to the above, West Java Province BAZNAS has a strategic plan (Renstra document) prepared in 2015 that will be valid until 2020 in accordance with the current leadership period for the 2015-2020 period. Then the strategic plan documents will be spelled out in detail to achieve the vision, mission that has been prepared in such a way in the short term period of one year by preparing the Annual Budget Work Plan (RKAT) document. The urgency of the strategic plan for BAZNAS West Java Province are:

1. Position BAZNAS as a government agency that serves as an organizer and coordinator of the national charity;
2. BAZNAS coordination and synergy with the Ministry / Agency in alleviating poverty and reducing social inequality;
3. BAZNAS Strategic Plan as a guide in the realization of the vision and mission management of national zakat;
4. Building an optimal and measured national zakat performance both in the collection and distribution;
5. The magnitude of the potential for a national charity in which the strategic plan is intended as a lever the realization of collecting and distributing.

Then, the purpose of formulating a strategic plan for BAZNAS in West Java Province is to construct the vision and mission of the institution. The purpose of the planned strategic plan is

1. As mandated by Law No.23 of 2011 concerning Management of Zakat, the purpose of national zakat management is:
2. Improving the effectiveness and efficiency of services in the management of zakat.
3. Increasing the benefits of zakat to realize community welfare and poverty reduction.

The BAZNAS policy direction in line with the priority agenda of development in 2015-2019 (Nawa Cita), namely: improving the quality of human life and the people of Indonesia, with the roadmap as follows:



Picture. 4.3 Roadmap Strategic Plan BAZNAS West Java Province

4.2.2 Annual Budget Plan Document (RKAT)

The RKAT document contains all policies and programs that are spelled out in financial units related to the collection, distribution, utilization and management activities (financial, accounting, administration and HR). RKAT documents compiled annually are determined by the Chairman of the West Java Province BAZNAS and endorsed by the central BAZNAS.

Then, the RKAT document becomes a reference for internal auditors in carrying out their audit activities, because all the plans of the institution for one year are reflected in the contents of the RKAT. Realization of RKAT will be used as a measurement of performance, both financial and non-financial. Furthermore, this strategic aspect plays an important role in the internal audit process because it will determine the effectiveness of all operations, policies and programs of the institution will be aimed at achieving the vision

1. Planning functions

- a. All activities especially the financial aspect stems from RKAT
 - b. In compiling RKAT, sure in accordance with sharia regulation and regulation government and BAZNAS (perbaznas No. 1 yr. 2016)
 - c. As a planning tool, the figures in RKAT is a number that can be implemented (not just numbers)
 - d. Ensure that all activities have been budgeted in RKAT
 - e. Set KPI for each program
2. Coordination function
- a. RKAT should be coordination amongst the media / field harmoniously
 - b. RKAT implementation should involve all sections / fields to the achievement of KPI
 - c. Coordinate with BAZNAS Province West Java and BAZNAS especially reporting.
3. Control function
- a. Make a comparison between the budget in RKAT with realization.
 - b. Perform an analysis of both positive and negative deviation to set the gains
 - c. Analyze what caused the deviations.
 - d. Analysis results for the action plan / follow-up for future improvement (Continuous Improvement))

An in-depth understanding of the Ranstra document and the RKAT document for internal auditors is to know and ensure that in its operational activities BAZNAS West Java Province must be able to achieve its vision, mission, objectives and plan details and realization as part of performance measures.

4.3 Role of Intermediation Zakat In BAZNAS West Java Province

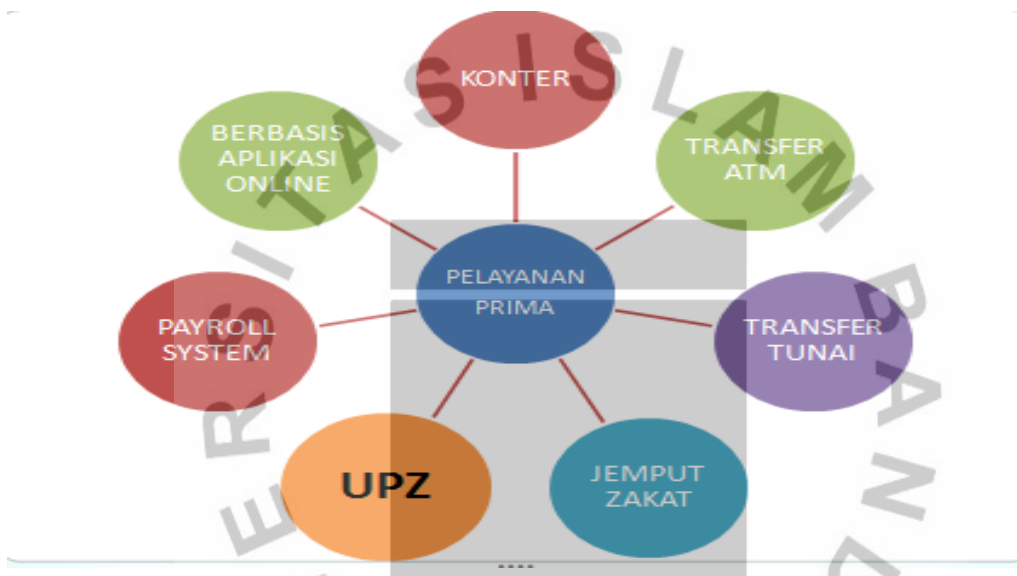
BAZNAS of West Java Province is a government-based zakat institution at the provincial level, in accordance with Law Number 23 of 2011 is one of the zakat institutions given the authority to carry out the intermediary role of zakat. The role of zakat intermediation in BAZNAS West Java Province consists of deposits zakat, infak and etc.

4.3.1 Deposits Zakat, Infak and Alms (ZIS)

ZIS fund raising role, is the role assigned to optimize the collection of zakat from muzaki. Optimization of this role must be started from the zakat potential both at the national level that is more than 217 trillion (BAZNAS.2010) and West Java levels by 17 trillion (BAZNAS PROVINCE JABAR.2017). With regard to the potential of such

charity, arranged various collection strategies tailored to the needs, abilities, environmental changes and partnerships built by BAZNAS West Java Province. Below is a collection strategies and programs implemented and the strategy image

1. Zakat Collectors Unit (UPZ)
2. Payroll System State Civil Apparatus (ASN) and West Java provincial government employees.
3. Transfer cash via ATM and bank transfer
4. pick Zakat
5. Counter muzaki and Box Infak (Kofak)
6. Raising based online application (online marketing)



Picture. 4.4 Strategic Raising ZIS BAZNAS West Java Province

As for the facilities provided to muzaki will be presented in the following figure:



Picture. 4.5 Facilities Facility Muzaki BAZNAS West Java Province

Zakat collection program in BAZNAS West Java Province from year to year has increased positively. Performance PHP division from 2015 to 2019 experienced a positive trend that is growing both quantitatively (number of collection) or qualitative (collection program). 2019 succeeded in obtaining nominations ie zakat collection growth program. The success of programmed PHP division is inseparable from the role of internal audit unit that constantly oversees the internal audit activities, especially the achievement of strategic planning program and RKAT PHP accordance with operational processes in accordance with standard operating procedures (SOP) and the applicable regulations.

4.3.2 Zakat Fund Management, Infak and Alms (ZIS)

After the ZIS funds are collected by the collection division (PHP division), then the funds are managed accordingly in accordance with applicable regulations before the distribution and utilization of ZIS funds (PDP division). Below are the functions of zakat fund management which covers the planning, finance and reporting (PKP) and HR, administration and General (SAU) divisions:

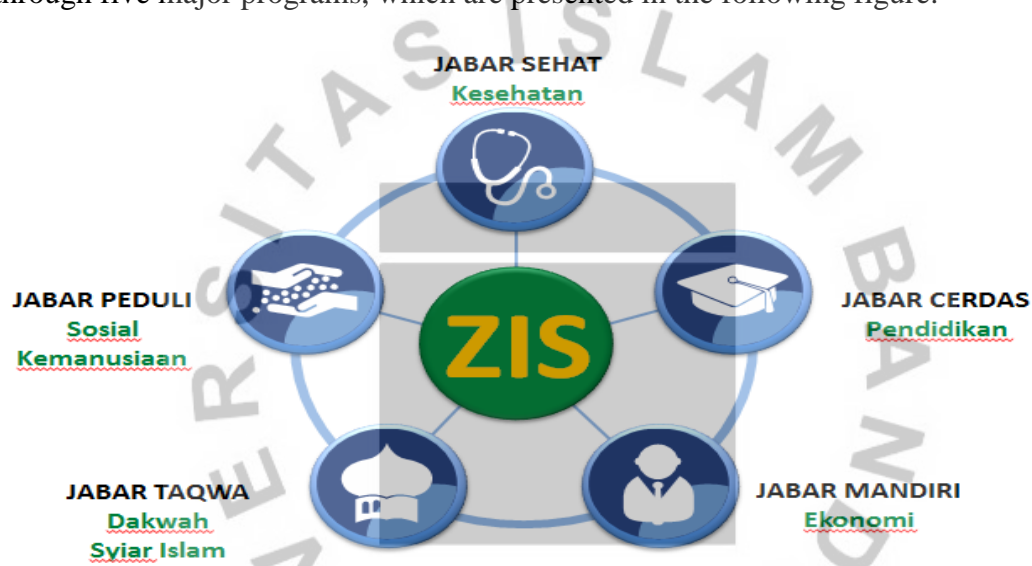
1. Financial management
2. Information Technology (SIMBA)
3. Accounting (Reporting = SFAS 109)
4. Auditing (Inspection)
5. The Internal Audit Unit
6. Asset management
7. Human Resource Management / Amil
8. Records management
9. Adiministrasi and Secretariat
10. Implementation of ISO 9001: 2015
11. The function of the Sharia Supervisory Board (DPS)
12. Accreditation Zakat (MORA RI)

Thus it appears that the internal audit process carried out by the internal audit unit is in the ZIS fund management area. However, the organizational structure is separated and is accountable directly to the chairman (see organizational structure). PKP division performance from 2015 to 2019 experienced a positive development that is developing both quantitatively (implementation of governance) and qualitatively (indicators of governance that have been achieved). In 2019, he won a nomination and became the winner of the 2019 BAZNAS award in the best zakat management category. The success of the PFM program is inseparable from the role of the internal audit unit which always

oversees the internal audit activities, especially the achievement of the PFM program in accordance with the strategic plan and RKAT with operational processes in accordance with standard operating procedures (SOP) and applicable regulations.

4.3.3 Distributing and Utilization of Zakat funds, Infak and Alms (ZIS)

The next intermediary role is channeling and ZIS to mustahik which consists of 8 asnaf, namely Fakir, Poor, Amil, Riqab, Gharimin, Mualaf, Fisabilillah and Ibnu-sabil. The role of distribution is divided into 2 programs, namely the distribution of Zakat (consumption) and zakat utilization (productive and empowerment). Baznas West Java province distribute and utilize zakat, donation, charity and other religious social funds through five major programs, which are presented in the following figure:



Picture. 4.1 Program Zakat BAZNAS West Java Province

Furthermore, the success of a program will be measured by indicators that have been determined. Below, a zakat fund distribution program is presented with optimization of each size index:

Table 4.1 Distribution of Zakat Optimization Program

No.	Program	Optimizing Program
1	Jabar Sehat	National Zakat Index (IZN) - SDG's Achievement Healthy society, etc.
2	Jabar Smart	National Zakat Index (IZN) - SDG's Achievement Educating the nation, etc. - Eradicating illiteracy, etc.

No.	Program	Optimizing Program
3	Jabar Mandiri	National Zakat Index (IZN) - SDG's Achievement Alleviating poverty, etc. - Independence of food Improving the welfare
4	Jabar Care	National Zakat Index (IZN) - Addressing emergency Handling disaster, etc.
5	Jabar Takwa	National Zakat Index (IZN) - Anticipating Apostasy Kembangkan piety
6	Zakat Community Development (ZCD)	National Zakat Index (IZN) - Community Empowerment Zakat Village Index (IDZ) - Job opportunities SDG's Achievement - Developing SMEs

Source: BAZNAS Province West Java. 2019

The performance of the PDP division from 2015 to 2019 experienced a positive development that is developing both quantitatively (the number of programs) and qualitatively (the value of the use of social economic zakat). In 2015, he won the BAZNAS award for the best ZCD program and in 2019 received two nominations, namely the distribution and utilization of zakat. The success of the PDP program is inseparable from the role of the internal audit unit which always oversees the internal audit activities, especially the achievement of the PDP program in accordance with the strategic plan and RKAT with operational processes in accordance with standard operating procedures (SOP) and applicable regulations.

4.4 Applicable Standard Operating Procedures (SOPs) and Implementation of ISO 9001: 2015 in BAZNAS, West Java Province

To streamline operational activities at BAZNAS in West Java Province, it has several standard operating procedures (SOP) in the fields in accordance with BAZNAS West Java Province internal business processes. Even for now, BAZNAS of West Java Province has obtained an ISO 9001: 2015 implementation certificate as a governance standard. The effectiveness of SOP implementation will depend on the role of the Internal Audit Unit (SAI) in carrying out monitoring and evaluation and evaluation functions, as well as regular ISO audits to ensure that all organizational components have carried out their main duties and functions according to the existing SOPs. The principle and purpose of the ISO

audit is to make continuous improvements. The SOPs in BAZNAS West Java Province are as follows:

1. SOP for raising funds
2. Satisfaction Measurement
3. SOP Muzaki
4. SOP Unit Gatherer Zakat
5. SOP Handling of Complaints and Feedback Muzaki
6. SOP Muzaki Service
7. SOP Submission Help
8. SOP Request Help
9. Approval Procedure SOP Help
10. Delivery Reporting Procedures SOPs Help
11. SOP Accounting
12. SOP Bangker / Banking
13. SOP Administration and Finance
14. General and Administration SOP
15. SOP Human Resources Management
16. SOP IT Support
17. SOP Financial Audit
18. Operational Audit SOP and Program
19. Sharia Audit SOP
20. SOP Implementation and Audit Reports
21. Follow-Up SOP on Audit Results
22. SOP Special Audit
23. Legal Document Preparation SOP
24. SOP HR – Recruitment
25. SOP HR – Attendance
26. SOP HR – Training
27. SOP HR - Ratings Amil
28. SOP HR - PHK
29. SOP GENERAL – Procurement
30. SOP GENERAL - Control and Asset Maintenance
31. SOP GENERAL - Control and Care Work (Lingker)
32. SOP GENERAL - Official Travel (Perdin)

4.5 Reporting At BAZNAS West Java Province

The reporting of zakat institutions especially BAZNAS including BAZNAS of West Java Province must refer to BAZNAS Regulation Number 4 of 2018 concerning Reporting on the Implementation of Zakat Management (State Gazette No. 420 of 2018). Where this reporting is done twice a year (six months and year-end). The types of reports disseminated to the National Perbazznas consist of.

1. Performance reports
 - a. Format refers to the Guideline of 1/2016 PERBAZNAS RKAT.
 - b. Coupled with the realization column and the percentage of achievement in each format
 - c. Already available on the application SIMBA:
 - d. Performance reports
 - e. Comparison with Prior Year report (still in the preparation stage)
2. Financial statements
 - a. Using standard SFAS 109
 - b. Consists of:
 - Six months unaudited financial statements
 - Audited year-end financial statements
 - c. In the case of zakat can not deliver year-end financial statements audited by public accounting firms, business Zakat can submit unaudited financial statements by attaching a certificate of inability to do the audit (4/2018 PERBAZNAS article 7 point 1)
 - d. Already available on the application Simba
3. Zakat management report (LPZ)
 - a. Must be performed by BAZNAS, BAZNAS provincial / district / city
 - b. Special LAZ not need to create this kind of report
 - c. National LPZ contains a compilation:
 - BAZNAS + per province + LAZNAS
 - d. LPZ Province contains a compilation:
 - BAZNAS Province + per district / city LAZ + + Province Representative LAZNAS
 - e. LPZ district / city contains a compilation:
 - BAZNAS District / City + LAZ District / City Representative LAZ + Province

f. Already available on the application Simba

More will be presented zakat management reporting structure for the implementation of BAZNAS including BAZNAS West Java Province, as follows:

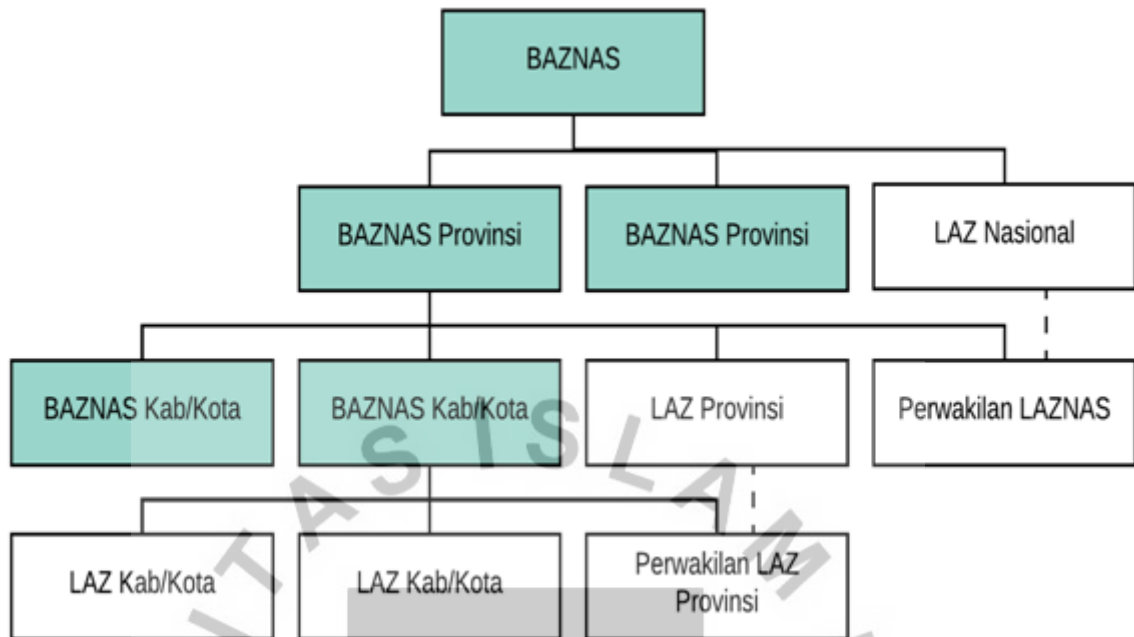


Figure 4.8 The implementation of Zakat Management Reporting Structure

BAZNAS Regulation also regulates the corridors of time reporting as presented in the table below:

Table 4.4 The collection period Reports

No.	Zakat Management	Six months (current year)	End of year (next year)
1	BAZNAS	15 AGS	15 MAR
2	BAZNAS Province	31 JUL	28 FEB
3	BAZNAS District / City	21 JUL	15 FEB
4	LAZNAS	31 JUL	28 FEB
5	representative LAZNAS	21 JUL	15 FEB
6	LAZ Province	21 JUL	15 FEB

No.	Zakat Management	Six months (current year)	End of year (next year)
7	LAZ Representative Province	15 JUL	31 JAN
8	LAZ District / City	15 JUL	31 JAN

Source: Perbaznas No. 4/2018

Regulations related to reporting are very tightly regulated with many types of reports and use SIMBA in full, so the implementation is needed supervision activities in all divisions, financial and accounting human resources and the implementation of SOP in accordance with the requirements to be the main factor. This is where the role of internal audit through the function of the internal audit unit BAZNAS West Java Province becomes very important and determines its effectiveness.

4.6 Types of Audit Conducted by BAZNAS West Java Province

BAZNAS West Java until it's been doing some good audit process that is mandatory (required by regulation) and which are volunetary (voluntary). Party auditing of internal (SAI) and external (KAP, the Ministry of Religious Affairs, WQA). Listed below are the audits that have been implemented in BAZNAS West Java Province:

Table 4.5 Types of Audit Conducted at BAZNAS, West Java Province

No.	Audit type	Auditors	Audit object	Execution time
1	Audit of financial statements	The external auditor (KAP)	Annual finance report	2015, 2016, 2017, 2018 All WTP opinion And 2019 are being audited.
2	Audit Fund Budgets	The external auditor (KAP)	1. Grants or financial assistance funds from the central government (APBN) 2. Grants or financial assistance fund of the	2015 WTP opinion

No.	Audit type	Auditors	Audit object	Execution time
			local government (budget)	
3	Internal audit	The Internal Audit Unit (SAI)	1. operational audit 2. compliance audits	- Minimal done per six-month - Every time supervision and monitoring of all internal audit object
4	Sharia audit	Auditor of the Ministry of Religious Affairs (MORA RI-External)	Implementation of the principles of sharia	2018 opinion Shariah compliance
5	Audit ISO 9001: 2015	Auditor of WQA (External)	Implementation of components and principles of ISO 9001: 2015	2018 and repeated every year once the monitoring and evaluation per semester.
6	audit program	The Internal Audit Unit (SAI)	RKAT and Strategic Plan implementation in accordance with a predefined program indicator	Performed at least 6 months

4.7 Implementation of Internal Audit in BAZNAS West Java Province

BAZNAS West Java Province as a government-based zakat institution which is also demanded by the community to manage the organization professionally. BAZNAS West Java Province carries out a major task that is a functional task that is carrying out the intermediation role and the task of coordinating BAZNAS of cities and regencies in West Java as many as 27 BAZNAS cities / regencies throughout West Java. Furthermore, functional tasks consist of (1) Optimizing the collection of zakat funds, (2) management

and reporting of zakat funds and (3) distribution and utilization of zakat. Optimization of the collection and distribution and utilization of zakat is to illustrate the role of zakat intermediation. And the task as coordinator for 27 BAZNAS cities / regencies throughout West Java is the task of BAZNAS at the provincial level. Meanwhile, what is meant by coordination here is all the activities of coordination down (top down) and coordination up (bottom up) in all aspects of zakat management.

Structurally organisasi, in essence, there are four areas of the institution BAZNAS West Java Province, namely:

1. Field of zakat collection
2. The distribution and utilization of zakat
3. The areas of planning, finance and reporting
4. The field of human resources and general administration

Four areas that will be the object of an operational audit / internal audit of the audit process (Dahlan.2015) The government zakat institutions including BAZNAS Province West Java

For the position of the internal audit unit in BAZNAS generally can be in the position of organizational structure, which has direct responsibility to the chairman of BAZNAS as a form of independence of the internal audit unit (Marus et al.2018). The second form, the internal audit unit, is not in the organizational structure, but utilizes the competence of retired BPK, BPKP or regional government inspectorates. For BAZNAS of West Java Province, the internal audit unit is in the organizational structure and has independence both in fact and in behavior (Christine et al. 2011).

Furthermore, the scope of the internal audit at BAZNAS West Java Province is the same as the audit conducted so far, namely:

1. Audit of Financial Statements

This audit is to ensure that all transaction in BAZNAS West Java Province has been in accordance with the accounting standards of SFAS 109 charity that RKAT and strategic planning and implementation agency. Internal audits are used to prepare the financial reports audited by KAP. Performance reports and management reports zakat. Then, prepare for an external audit of the financial statements to intra- unqualified opinion (WTP). BAZNAS West Java provincial obtain WTP opinion since 2015.

2. APBD Fund Audit

An audit of the use of APBD funds, to ensure that the use of APBD is in accordance with the requirements of the Regional Grants Utilization Paper (NPHD) and to ensure

that all APBD fund uses are in accordance with government accounting standards (SAP). Internal audits are carried out to ensure that the use of APBD funds is in accordance with their allocation (NPHD). The use of APBD funds must be in accordance with the conditions required including those in accordance with Government Accounting Standards (SAP). Compliance with BAZNAS West Java Province in the applicable provisions is very important

3. Operational and compliance audits

This audit was carried out to ensure that all procedures carried out in all operations in BAZNAS in West Java Province were in accordance with applicable operational procedures (SOP). Compliance of all amil components (leaders and amil of executors) BAZNAS of West Java Province on internal and external provisions will be the object of operational and compliance audits. These operational and compliance audits will form the basis of other audits.

4. Sharia audit

Shariah audit on BAZNAS West Java Province conducted by the Ministry of Religious Affairs of the Republic of Indonesia. The Internal Audit Unit (SAI) preparing sharia audit preparation and ensure that all transactions in accordance with Islamic principles. Then escort the sharia audit to be conducted by the Ministry of Agama.RI. BAZNAS West Java Province has obtained opinions "Under Sharia" in 2018 from the Ministry of Religious Affairs of the Republic of Indonesia.

5. Audit ISO 9001: 2015.

BAZNAS West Java Province has been awarded ISO 9001: 2015 as an effort to improve the quality of the management of zakat. ISO 9001: 2015 as an effort to make and retain continuous improvement. The task of the internal audit unit BAZNAS West Java Province is to ensure that the principles of ISO 9001.2015 can be run as it should and help implement the audit recommendations ISO, also obtained recertification of ISO 9001: 2015.

6. Zakat Program Audit

The zakat program audit is an audit that contains (monitoring and evaluation) on the zakat program (zakat distribution) which consists of zakat distribution and zakat utilization. The purpose of the zakat program audit is to ensure that zakat is channeled to the asnaf which is required in a sharia manner, ensuring that the distribution of zakat has the value of the benefits of zakat as the purpose of zakat. The program audit carried out by the BAZNAS West Java Province internal audit unit, specifically in the distribution and

utilization division of zakat, is to ensure that the program performance indicators (Key performance Indicators) can be achieved in accordance with the KPIs set out in the RKAT and institutional records. Basis to audit the internal audit unit BAZNAS Province West Java is the regulatory consisting of:

1. Vertical Regulation (Quran and hadith)
2. National regulation (Law 23 of 2011 until Perbaznas issued by BAZNAS center)
3. Regulatory regions (West Java Governor Regulation).
4. Internal regulations (SOPs applicable and policies led BAZNAS Province West Java).

Then, the time for conducting an audit by the internal audit unit at the BAZNAS of West Java Province is carried out officially every six months (semester). Supervision activities continue to be carried out all the time (daily), sometimes even audits can be carried out specifically for exceptional cases (Lawrence et al.2012). The hope is that with supervision and control carried out in accordance with the operational time of the BAZNAS of West Java Province for the process of continuous improvement and implementation of audit recommendations.



CHAPTER V

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Based on the discussion of research that has been described in Chapter IV, the conclusions of this study:

1. Basic laws and regulations for the implementation of internal audit BAZNAS West Java Province consist of: (a) the basis of Sharia law; (B) Basis of National Law; (C) Basis of Regional Law BAZNAS West Java Province, and (d) Internal regulations BAZNAS West Java province
2. Documents that serve as the basis of internal audits BAZNAS West Java province, consisting of: RKAT, strategic planning, financial statements, performance reports, and reports Zakat Management.
3. Areas of internal audit BAZNAS region of West Java province, namely: (a) the field of zakat collection; (B) The field of distribution and utilization of zakat; (C) The field of planning, finance and reporting, and (d) Field of the Secretariat, and general administration.
4. Types of Audits conducted at BAZNAS West Java Province, namely: Audit of Financial Statements, Audit of Regional Budget Funds, Internal Audit, Sharia Audit, ISO 9001: 2015 Audit and Zakat Program Audit.
5. Implementation of internal audit BAZNAS West Java province performed by the Internal Audit Unit (SAI) which are structurally independent. The purpose of internal audit is to ensure operational and compliance organization is in compliance with applicable regulations.
6. The Internal audit results and recommendations are submitted to the Chairperson or leadership to be followed up. The effectiveness of the internal audit implementation can be seen from the follow-up of the recommendations of the internal audit results for continuous improvement. For this reason, the implementation of internal audit in BAZNAS of West Java Province can achieve its effectiveness which supports the performance of the institution.

5.2 Recommendation

Based on the above research results there are still weaknesses, especially the limited number of internal audits so that sometimes there is an accumulation of audit activities, especially the zakat program audit. That is because the zakat program is spread in the West Java region.

1. For this reason, there is still a need for internal audit unit personnel who will carry out internal audit activities.
2. For the next study, it is necessary to examine the implementation of internal audit at non-governmental zakat institutions (LAZ).



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**FINAL REPORT
JOINT RESEARCH
UNIVERSITAS ISLAM BADUNG & UNIVERSITI UTARA MALAYSIA**

**INTERNAL AUDIT EFFECTIVENESS: A CASE OF ZAKAT INSTITUTION OF
INDONESIA**

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**THE INSTITUTION OF RESEARCH AND COMMUNITY SERVICES
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