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## **Implementation of Internal Control System on Zakat Funds Management at Lembaga Amil Zakat Infaq dan Shadaqah Muhammadiyah (LAZISMU)**

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### **Abstract**

The rapid development of organizations which manage zakat shows that there needs to be an internal control implementation to minimize the chances of alms funds mishandling. The aim of this research is to assess the compliance and to evaluate the effectiveness of the internal control system on the management of alms funds at *Lembaga Amil Zakat Infaq dan Shadaqah Muhammadiyah (LAZISMU)* Yogyakarta Special Region according to the COSO 2013 internal control frameworks. This research uses a qualitative method with a case study approach. The research data is collected by means of interviews, observations, document inspection, and questionnaires. The research results show that the internal control system implementation on alms funds management at LAZISMU Yogyakarta Special Region is compliant with the COSO 2013 internal control frameworks, and can be categorized as sufficiently effective, with a percentage of 69.40%. This is because there are components which haven't been fully implemented by the organization.

**Keywords:** *Internal Control System, Zakat Funds Management, COSO 2013.*

### **1. Introduction**

The rise of Organisasi Pengelola Zakat (OPZ) is a positive indication, because if seen between the potential of zakat and the realization of zakat accumulation in Indonesia is still a very distant. Badan Amil Zakat Nasional (BAZNAS) mentioned that the potential of zakat in 2017 amounted to Rp286 trillion of year, but only collected Rp5 trillion. This is due to zakat fund managers are considered not to have human resources of optimal quality, that is competent (*kaffah*), has a high work ethic (*himmah*), and amanah. To avoid the occurrence of errors that are turn off for the institution or organization it is necessary to have a good internal control in order to avoid and reduce the existence of misappropriation and irregularities in the management and use of zakat funds.

According to the Committee of Sponsoring Organization (COSO), internal control is a system, structure or process implemented by board of commissioners, management and employees within a company that aims to provide adequate assurance that the purpose of such control is achieved. Internal control system can be done in various kinds of organizational activities, such as cash management activities, human resource management, preparation of financial statements, distribution of cash, and so forth. But this research focuses on internal control system of zakat funds management.

Lembaga Amil Zakat Infaq and Shadaqah Muhammadiyah Yogyakarta Special Region (LAZISMU DI Yogyakarta) is one of the OPZ formed by religious social organization located in DI Yogyakarta. Based on initial interviews conducted by researchers, LAZISMU DI Yogyakarta still has weaknesses in the management of zakat funds, such as the absence of Standard Operations (SOP) in

writing, the lack of professional Human Resources (HR), and the absence of segregation of duties so that researchers can conclude that conduct an internal control analysis on the management of zakat funds to become an accountable and transparent institution in managing zakat.

## **2. Literature Review**

### **Zakat**

According to the term, in the book of al-Hawi, al-Mawardi defines the zakat as the designation for certain taking of certain property, according to certain traits, and to be given to a particular group. Ash-Shiddieqy (2010) states that the outline of zakat is divided into two, namely *Zakat maal* (wealth) is a charity imposed on property owned by a person or institution with the terms and conditions set, and *Zakat fitrah* is obligatory zakat after month of Ramadan before Ied prayer by one *sha'* (2.5kg) from basic foodstuffs to cleanse and suffice the needs of the poor.

According to Mu'inan (2011), there are eight groups who are entitled to get the zakat contained in the Qur'an, namely fakir (*fuqara*), poor (*masakin*), manager of zakat (*Amil*), a person who only recently converted to Islam (*Muallaf*), the slaves (*Riqab*), the person who owes for the sake of sufficient primary life or other purposes that are halal (*Al-Gharimi*), *Sabilillah*, and *Ibnu-Sabil*. The definition of zakat management based on the Law of the Republic of Indonesia Number 23 Year 2011 on Zakat Management is the activity of planning, organizing, implementing, and supervising the collection and distribution and utilization of zakat.

### **The Management of Zakat**

Based on the Law of the Republic of Indonesia Number 23 Year 2011 on Zakat Management, the management of zakat is planning, organizing, implementing and supervising the collection and distribution and utilization of zakat. In the context of the Qur'an, zakat managers are referred to as *amil*. *Amil* zakat is a zakat management institution that is required to work professionally to manage the management of zakat. According to Djazuli (2002), in the management of zakat there are several principles that must be followed and obeyed so that the management of zakat can be successful as expected, namely the principle of openness, voluntary, alignment, professionalism and independence. In addition, the management of zakat effectively and efficiently, needs to be managed well. Therefore, in zakat management requires the application of management functions including planning, organizing, actuating, and controlling.

### **Internal Control System**

Internal control by the Committee of Sponsoring Organizations (COSO) is a process carried out by the board of directors, management and other personnel within an entity, designed to provide reasonable assurance regarding the achievement of objectives of financial reporting reliability, compliance with laws and regulations applicable, and effectiveness and efficiency of operations. Internal control according to the Islamic view can be called as *amanah* which is useful for management to maintain organizational property, improve the effectiveness and efficiency of performance, the attitude of trust in realizing the reliability of financial reporting and the creation of *akhlakul karimah* supporting the compliance of management policy. According to the Committee of Sponsoring Organizations (COSO) 2013 in the Internal Control-Integrated Framework (ICIF) there are five components in internal control, namely the control environment, risk assessment, control activities, information and communications, monitoring activities.

### Previous Research

Research conducted by Wardiwiyono (2012) shows that BMTs in Indonesia have implemented an internal control system for their funding activities. Aisyah (2013) indicates that the research undertaken has not fully reflected the application of good internal control system analysis of the transactions performed. Wardayati and Imaroh (2015) also pointed out that the internal control of fund management activities has several disadvantages, but overall control has been effective. Nurhayati (2016) shows that there is no one of components are categorized well.

### 3. Methodology

This type of research is a qualitative research with case study approach. According to Cresswell (2014) there are five approaches that can be used in qualitative methods, namely narrative research, phenomenology, grounded theory, ethnography, and case studies. However, this study uses a case study approach, since the case study approach is an approach that focuses on intensive and detailed case. Data source used is primary data source and secondary data source. Data collection techniques conducted in this study by conducting interviews, observation, document inspection, and questionnaires. Data analysis technique used in this research is model from Miles and Huberman (2014). The steps of data analysis activities used in this study, namely data reduction, data presentation, and conclusion. There are several steps taken by researchers in the process of data analysis, that are interviewing, transcribe the interview result, conducting member checking, reducing data, making coding and categorizing, drawing conclusions using triangulation techniques, and calculating questionnaires as supporting techniques triangulation with using Champion method (1990). The calculation formula is used as follows.

$$\% \text{ Value} = \frac{\text{Answer Yes}}{\text{Total Number of Questions}} \times 100$$

The results are categorized in Table 1 below.

**Table 1. Internal Control Effectiveness Score**

Skor	Remarks
0% - 25%	Ineffective
26% - 50%	Less Effective
51% - 75%	Effective Enough
76% - 100%	Very Effective

Test the validity of data used in this study, namely member checking and triangulation techniques.

### 4. Result and Discussion

Internal control analysis of zakat funds management is conducted to assess the extent to which the organization in performing internal controls on the management of zakat funds in LAZISMU DI Yogyakarta. The Organisasi Pengelola Zakat (OPZ) must have internal controls in running its activities, because internal controls can safeguard the organization's wealth and achieve

organizational goals. The results of interviews conducted on some employees LAZISMU DI Yogyakarta associated with the explanation of internal controls that have been implemented by the organization based on internal control components, namely as follows.

### **Control Environment**

Based on the calculation of the percentage of the five principles in the environmental control component indicates that the implementation of environment control component at LAZISMU DI Yogyakarta is in accordance with the internal control framework COSO 2013 and can be categorized quite effectively with the percentage of 69.63%. The following is the exposure associated with the control environment component.

#### *1. Ethical Integrity and Values*

Based on interviews, observation, and inspection of the application of integrity and ethical values in LAZISMU DI Yogyakarta is in accordance with COSO internal control framework. This is consistent with the result of the questionnaire calculation which is used to support the result of interview, observation, and document inspection indicating that the score of the control environment component in integrity and ethical values is 53.85% so that the application of integrity principle and ethical value in LAZISMU DI Yogyakarta is categorized as effective.

#### *2. Carry out Monitoring Responsibilities*

The results of questionnaires used as supporting in line with interviews, observation, and document inspection indicate that the implementation of supervision responsibility principle at LAZISMU DI Yogyakarta is 100% so it can be categorized as very effective and in accordance with COSO 2013 internal control framework.

#### *3. Structure, Authority, and Responsibility*

The results of the interviews show that the application of the principle of structure, authority and responsibility to LAZISMU DI Yogyakarta is in line with COSO 2013 internal control framework. This is in line with the calculation of the results of the questionnaire indicating that the application of the principle is categorized quite effectively with a percentage rate of 65.20%. This is because the organization does not have sufficient structure in accordance with the size and complexity of the organization and the lack of adequate written policies and procedures for the authorization and approval of each transaction.

#### *4. Commitment to Competence*

Interviews that have been conducted indicate that the implementation of commitment to the competence of LAZISMU DI Yogyakarta is in accordance with COSO 2013 internal control framework. This is in line with the results of the calculation of the questionnaire indicates that the application of the principle is categorized quite effectively with a percentage of 69.60%. This is because organizations have not provided career paths to employees, and there is no standard for new hiring and procedures such as training for new employees.

#### *5. Accountability of the Internal Control System*

The result of the interview shows that the implementation of accountability principle on internal control system at LAZISMU DI Yogyakarta is in accordance with COSO 2013 internal control framework. This is in line with the results of the calculation of the questionnaire indicating that the application of the principle is categorized quite effectively with a percentage rate of

72.53%. This is because LAZISMU DI Yogyakarta has not conducted performance measurement evaluation and give periodic appreciation.

## **Risk Assessment**

Based on the results of the interview and the calculation of the percentage of the four principles in the risk assessment component indicates that the application of risk assessment in LAZISMU DI Yogyakarta is in accordance with COSO 2013 internal control framework and is categorized as effective with the percentage of 69.82%. The following is an overview of the results of interviews on the second component of COSO 2013.

### *1. Goal Setting*

The results of the interviews show that the implementation of the principle of goal setting in accordance with the internal control framework COSO 2013 and the results of the calculation of the questionnaire showed that the application of the principle is categorized as very effective with a percentage of 76.07%. This is because the organization has not presented effectiveness reports on internal control in writing.

### *2. Risk Identification and Analysis*

The results of the interviews show that the application of risk identification and risk analysis principles in LAZISMU DI Yogyakarta is in accordance with the COSO 2013 control framework. This is in line with the results of the calculation of the questionnaire indicates that the application of the principle is categorized quite effectively with a percentage rate of 66.67%.

### *3. Risk Assessment*

The results of the interviews show that the application of risk assessment principles at LAZISMU DI Yogyakarta is in accordance with COSO 2013 internal control framework. This is in accordance with the results of the calculation of the questionnaire which shows that the application of risk assessment principles categorized quite effectively with percentage rate of 67.31%.

### *4. Identification and Analysis of Significant Change*

The result of the interview shows that the application of identification and analysis of significant changes principles is in accordance with the COSO 2013 control framework and the results of the questionnaire calculation shows that the application of the principle is categorized as less effective with the percentage rate of 50.00%. This is because the organization has not prepared a strategy if there is a change in the management model of zakat.

## **Control Activities**

Based on the results of the interview and the calculation of the percentage of the three principles in the risk assessment component shows that the implementation of the control activities component in LAZISMU DI Yogyakarta is in accordance with COSO 2013 internal control framework and can be categorized quite effectively with the percentage rate of 68.29%. The results of the interviews related to the components of control activities that are supplemented by observation, document inspection, and questionnaire can be described as follows.

*1. Develop Control Activities*

Based on the results of interviews shows that the application of the principle of development of control activities in LAZISMU DI Yogyakarta can be said in accordance with the internal control framework COSO 2013. It is in accordance with the results of the calculation of the questionnaire indicates that the application of the principle is categorized quite effectively with a percentage rate of 61.03%. This is because the organization does not have a physical security policy, procedures related to zakat revenue cycle and zakat fund distribution in writing.

*2. Developing General Control of Technology*

The application of the principle of developing general control of technology at LAZISMU DI Yogyakarta in accordance with the framework of control of COSO 2013. This is in line with the results of the calculation of the questionnaire indicates that the principle is categorized quite effectively with a percentage of 51.92%. This is because the organization has not implemented control on the security of information systems periodically and comprehensively, and the Area Manager has not conducted an assessment of the feasibility of information technology owned.

*3. Detailing Into Policies and Procedures*

Implementation of policy and procedure development principles at LAZISMU DI Yogyakarta in accordance with COSO 2013 internal control framework and aligned with the results of questionnaire calculation shows that the application of the principle is categorized very effective with the percentage level of 83.33%. However, LAZISMU DI Yogyakarta has not controlled the information system security periodically and comprehensively, and there are no preventative measures for potential damage and cessation of computer operation.

**Information and Communication**

Based on the results of interviews and the calculation of the percentage of the three principles in the components of information and communication shows that the implementation of information and communication components in LAZISMU DI Yogyakarta in accordance with the internal control framework COSO 2013 and can be categorized effective with a percentage rate of 69.25%. The results of interviews conducted by researchers related to control activities equipped with observation activities, document inspections, and questionnaires can be described as follows.

*1. Obtain and Produce Relevant Information*

Implementation of the principle of obtaining and producing relevant information on LAZISMU DI Yogyakarta in accordance with COSO 2013 internal control framework. This is in line with the results of the calculation of the questionnaire which shows that the application of the principle of obtaining and producing relevant information on LAZISMU DI Yogyakarta is categorized as very effective with a percentage rate of 80.77%.

*2. Internal Communication*

The implementation of internal communication principles at LAZISMU DI Yogyakarta in accordance with COSO 2013 internal control framework and aligned with the results of the calculation of the questionnaire indicates that the implementation of internal communication principles in LAZISMU DI Yogyakarta is categorized quite effectively with the percentage of 60.94%.

*3. External Communications*

The results of the interviews show that the implementation of communication principles in LAZISMU DI Yogyakarta can be said to be in accordance with the internal control framework COSO 2013. This is in line with the results of the calculation of the questionnaire indicating that the application of the principle of external communication in LAZISMU DI Yogyakarta is categorized quite effectively with a percentage rate of 73.72%.

**Monitoring**

Based on the results of the interviews and the calculation of the percentage of the three principles in the monitoring component indicates that the implementation of the monitoring component at LAZISMU DI Yogyakarta is in accordance with COSO 2013 internal control framework and can be categorized quite effectively with the percentage rate of 68.66%. The following is the exposure related to the results of the interview based on the principle of the supervisory component.

*1. Sustainability and Separate Evaluation*

The implementation of sustainability and separate evaluation principles in LAZISMU DI Yogyakarta is in line with COSO 2013 internal control framework. This is in line with the results of the calculation of the questionnaire which shows that the application of the principle is categorized quite effectively with a percentage rate of 64.62%.

*2. Evaluation and Reports of Weaknesses of Internal Control*

The results of the interviews show that the implementation of the evaluation principle and internal weakness report on LAZISMU DI Yogyakarta is in accordance with COSO 2013 internal control framework. This is in line with the results of the calculation of the questionnaire which shows that the application of evaluation principles and internal weakness report on LAZISMU DI Yogyakarta is categorized quite effectively with the percentage rate of 73.72%.

**5. Conclusion**

Based on the results of the analysis that has been done, the researchers can draw the conclusion that the implementation of internal control system on the management of zakat funds in LAZISMU DI Yogyakarta is in accordance with the framework of internal control COSO 2013. The level of effectiveness in running the internal control system on the management of zakat funds can be categorized quite effectively with a percentage of 69.32%. Based on the measurements made with the Champion method, the implementation of internal control system in LAZISMU DI Yogyakarta is still under very effective category. This is because there are still some internal control system components that have not been implemented by LAZISMU DI Yogyakarta.

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