

# The Strengthening of Internal Control System as an Effort to Maximize the Functions of the Supervisory Agency

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**Abstract**—This study aims to determine the application of internal control to the management of funds at the Paramitra Foundation, Indonesia. The research method used is a qualitative descriptive method that uses a case study approach. Data collection is done through interviews and documentation which is then analyzed based on the components of internal control according to COSO. Every institutional management will always be associated with the competence of the manager. One of these competencies is the ability to carry out internal control functions to improve, directing, controlling, and supervising various activities so that the foundation's goals are achieved. The results of the study indicate that the internal control implemented by the Paramitra Foundation has several weaknesses, but overall the control has been running effectively. Documents in the form of financial records are sufficient even though they are still manual based systems. This is evidenced by the findings of financial record documents that can be used as a basis for information sources that can be used to monitor the foundation's operational activities. In addition, each employee has a task assigned according to the responsibilities of each party concerned.

**Keywords**—*internal control, foundation, COSO*

## I. INTRODUCTION

The level of socio-economic inequality in society is one of the impacts of development politics that are oriented towards pursuing national economic growth, this condition is one of the things that underlies the weakness of the lower classes of society. There is limited space for access to resources for most of the lower class society, make community empowerment as one of the media to minimize it.

Community empowerment is an effort to build communities so that they have the initiative to carry out social activities in the hope of improving their own situations and conditions. Efforts to enable and empower the community can be done in 3 ways, including: (a) Enabling, is creating a situation that allows the birth of community potential to develop; (b) Empowering, is strengthening the potential or power of the community by increasing their capacity; (c)

Protecting, is building a protection system for the community that is being developed.

Foundation as one of the media in implementing community empowerment management, with good management, the goal of community empowerment will be realized, i.e.: institutional improvement (better institutions), business improvement (better business), improved income (better income), environmental improvement (better environment), improvement of life (better living), and community improvement (better community). Internal control system is also known as internal control which is a process influenced by personnel and information technology systems that help the organization to achieve certain goals. These systems play an important role in preventing and detecting fraud and protecting both physical (machinery and property) and intangible (such as reputation or intellectual property rights such as trademarks) organizational resources.

In general, internal control is part of each system that is used as procedures and guidelines for the operational implementation of a particular company or organization. In the corporate environment, internal control is defined as a process implemented by the leadership (board of directors) and management as a whole, designed to provide a belief in the achievement of company goals. To make all elements of internal control run well, there are several components of the internal control system that must be considered, i.e.:



Fig. 1. Components of internal control.

Paramitra Foundation focuses its activities on strengthening the economy, strengthening social, economic and political rights of the community. The principles that Paramitra adheres to are openness, accountability, equality, empowerment, advocacy, mediation, and participation. To realize one of the principles of foundation management, namely accountability, it is necessary to have control in carrying out the functions contained in the foundation. Therefore, the implementation of internal control will be very useful to realize an accountable foundation management. Maximizing the internal control function will greatly assist the implementation of the foundation's activities in achieving its goals.

**II. LITERATURE REVIEW**

*A. Training on Motivation and Managerial Skills*

In the motivational training, in addition to the material, simulation games are also used to motivate employees at the Paramitra Foundation. Meanwhile, managerial skills training which includes the delivery of material on financial, operational and human resource aspects, which is carried out in the following ways: (a) Teaching. This method is a knowledge transfer method where the delivery of material will be carried out in one direction from the facilitator to the participants; (b) Teach to Learn. In this method, participants will be given time to explain what they have learned during the training to other participants. This is done with the belief that participants have understood the material presented by the facilitator when they can explain it to others; (c) Practice (practice). The participants will practice through the application of the theory obtained.

*B. Training on the Use of IT in the Internal Control System of the Paramitra Foundation.*

Utilization of information technology is the optimal use of computers, software/software, and others, in this case the computer is the most important part of information technology which will greatly help improve the quality of information [1].

Utilization of information technology is the optimal use of computers, software/software, and others of the same kind [2]. IT and web developments, as well as regulations, have a significant impact on operations, systems and information quality. People in the organization must be aware of global issues and develop an understanding and their impact on the organization, or in other words, changes that come from outside the organization must be properly accommodated by human resources within the organization.

*C. Design and Manage the Internal Control System Together in the Form of Clear Policies and Procedures*

The Internal Control System is an integral process for actions and activities carried out continuously by all leaders and all employees to provide adequate assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with regulations. legislation (PP No. 60 of 2008, Article 1, number (1).

**III. RESEARCH METHODS**

The research method used is a qualitative descriptive method using a case study approach. Data was collected through interviews and documentation which were then analyzed based on the internal control components according to COSO.

The concept of Internal Control System or management control as formulated by The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a process carried out by the commissioners, management, and other employees, designed to provide reasonable assurance in achieving objectives: (1) Reliability of financial statements, (2) Effectiveness and efficiency of operations, (3) Compliance with applicable laws and regulations.

Statement of Accounting Standard No.45 explicitly explains that the preparation of these financial statements is intended as a form of accountability for non-profit organizations for funds obtained to donors, third parties and the public.

Based on the concept above, and as well as the problems, needs of partners as well as the conditions and character of partners, the solution that can be done is to improve the competence of management and employees through the implementation of internal control in non-profit organizations, namely: Paramitra Foundation, Malang Regency.

**IV. RESULTS AND DISCUSSION**

*A. Paramitra Foundation Profile*

Paramitra is committed to developing the focus of its activities on strengthening the social, economic, and political rights of the community through various media of action based on priority issues that have become experiences. Legally, Paramitra Foundation has been registered and approved by the

Ministry of Law and Human Rights of the Republic of Indonesia cq the Directorate General of General Legal Administration with the Decree of the Minister of Law and Human Rights of the Republic of Indonesia Number AHU – 6333.AH.01.04 of 2012.

*B. Analysis of Paramitra Foundation's Internal Control Activities based on COSO Components*

Every institutional management will always be associated with the competence of the manager. One of these competencies is the ability to carry out internal control functions to improve, direct, control, and supervise various activities so that the foundation's goals are achieved.

TABLE I. CONTROL ENVIRONMENT

Control Environment	already	not yet	Weakness	Recommendation
Commitment to the values of integrity	✓		There has not been an increase in HR capacity Financial record documents are still manual based systems.	Capacity building of human resources is carried out through various trainings. Computerized financial records are carried out.
Independent management oversight and exercise for the development and performance of internal controls.	✓			
Management with oversight of the board, structure, reporting lines, and the authorities and responsibilities in achieving the objectives.	✓			
The organization demonstrates a commitment to attracting, developing, and retaining competent individuals in line with its goals.		✓		
Organizations hold individuals accountable for internal responsibilities that they control in pursuit of goals.	✓			

TABLE II. RISK ASSESSMENT

Control Environment	already	not yet	Weakness	Recommendation
The organization establishes objectives with sufficient clarity to allow the identification and assessment of risks associated with the objectives.	✓		High cost in anticipating risk.	Considering the fraud triangle in dealing with the risks faced.
The organization identifies risks to the achievement of these objectives across these entities.	✓			
Organizations consider the potential for fraud in assessing risk		✓		
The organization identifies and assesses significant changes	✓			

TABLE III. CONTROL ACTIVITIES

Control Environment	already	not yet	Weakness	Recommendation
The organization selects and develops control activities that contribute to risk mitigation towards the achievement of objectives	✓		Financial management is limited to top management	Maximize the function of internal control
The organization selects and develops general control activities over technology to support the achievement of objectives	✓			
Organizations deploy supervisory activities as embodied in policies		✓		

TABLE IV. INFORMATION AND COMMUNICATION

Control Environment	already	not yet	Weakness	Recommendation
The organization obtains or produces and uses relevant, quality information to support the functioning of other components of internal control.	✓			
The internal organization communicates the information, including objectives and responsibilities for internal control, needed to support the functions of other components of internal control	✓			
The organization communicates with outside parties on matters that affect the functioning of other components of internal control pengendalian	✓			

**TABLE V. SUPERVISION**

<b>Control Environment</b>	<b>already</b>	<b>not yet</b>	<b>Weakness</b>	<b>Recommendation</b>
Organizations select, develop, and conduct ongoing and/or separate evaluations to ascertain whether components of internal control are present and functioning.	✓		The repair decision-making process is too long	To authorize the evaluation of internal control to the head of the internal control division.
The organization evaluates and communicates internal control deficiencies on a timely basis	✓			

## V. CONCLUSION

The results of the study indicate that the internal control implemented by the Paramitra Foundation has several weaknesses, but overall the control has been running effectively. Documents in the form of financial records are sufficient even though they are still manual based systems. This is evidenced by the findings of financial record documents that can be used as a basis for information sources that can be used to monitor the foundation's operational activities.

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