

## **The Internal Control System of Universitas Klabat Indonesia: An Assessment**

**Linne Sibilang\***

*Fakultas Ekonomi Universitas Klabat*

**This study assessed the Internal Control system in Universitas Klabat, Manado-Indonesia, Internal Control itself is a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, (3) compliance with applicable laws and regulations. It's a process, a means to an end, not an end in itself. It's affected by people and not merely policy, procedures, forms. It can provide only reasonable - not absolute assurance to achieve the objectives in one or more separate but overlapping categories. Internal control consists of 5 interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and Communication, and (5) monitoring. Adopts the internal control-integrated framework concept, the concept that based on the Committee of Sponsoring Organization's report, this study assess the Internal Control system in Universitas Klabat, Manado – Indonesia, and to what extent is, based on reasonable assurance, achieved the control objectives of effectiveness and efficiency of operation; reliability of financial reporting and compliance with applicable laws and regulation, and how responsive it to the changes in information technology and number of students. The study concludes that Universitas Klabat implements internal control procedures and policies in aspects of control environment, risk assessment, control activities, information and communication control, and monitoring. Internal control of Universitas Klabat in its implementation has achieved the objectives of effectiveness operation, efficiency operation, reliability financial reporting, and compliance to the applicable laws and regulation based on the reasonable assurance. The system is relative highly responsiveness to the changes of information technology and number of students (volume of operation).**

Key words: internal control, internal environment, communication control

### **INTRODUCTION**

The basic premise of organization is that all planned activities will function smoothly. However, the possibility of this being false gives rise to the need for control. Simply means insuring that organizational activities are going according to plan. Its purpose is to alert management to a problem or a potential problem before it become critical. In recent years, the need for control has been heightened because of the increase in the number of incidents related to fraud and more leading to bankruptcies. For nonprofit organization like university, the vulnerability to fraud, error and similar risk is apparent. All kinds of risks bombard nonprofit organizations. Some risks are more controllable than others. Some risks are business risks and some are hazards that can impact the nonprofit's operations. Control measures are necessary because their goal is to protect the nonprofit organization's mission. Without adequate controls its success is placed in jeopardy.

Others are financial risks – the loss of assets by fraudulent conversion and inappropriate financial management policies – and accounting risk – errors in the records and reports by which accountability

for assets is maintained. Failure to safeguard assets from theft; create the risk of loss to owners and creditor. Failure to safeguard accounting record and reports create the risk of error, intentional and unintentional, in financial information that is used for decision – making purposes both inside and outside the organization. In accounting area, risk of errors can be reduced by policies and procedures for controlling information and transaction flows.

Internal control is a series of procedures designed to promote and protect management practice, both general and financial. Following internal control procedure will significantly increase the likelihood that the operation is effective and efficient, financial information is reliable, and the organization comply with the applicable laws and regulations?

Some forms of internal control activities are in a physical nature. Physical controls include fences, gates, security guards, and inspection of outgoing materials or personnel, are ordinarily the responsibility of operating department. The accounting department is usually responsible for the installation and maintenance of those internal controls that may be achieved through accounting procedures or by proper segregation of accounting duties. Coordination among departments is, of course, necessary for an efficient system.

\*corresponding author

One such organization concerned with the internal control is the Universitas Klabat (Unklab) in Indonesia. Unklab is an educational institution own and operated by the Seventh-day Adventist Church. Its mission is to give the youth balance physical, mental, moral, social, and vocational education in harmony with its denominational standards and ideals.

The effect of the monetary, economic and politic crisis faced by the Indonesia and which still continues to the present, gives the administrator of Universitas Klabat the anxiety and motivation to manage its physical resources effectively and efficiently. Conversely, Unklab faces with the rapid development in its operation. The increasing of enrollment, the accreditation of two major courses of the university (commerce and education) and the opening of new academy (secretarial science) and new course (computer science), required the needs to control the operation effectively and efficiently, and to maintain the quality of information system, especially financial information.

According to the last auditors' opinion, they were unable to satisfy themselves to the fair presentation of certain transactions of the Universitas Klabat, because of that matter the scope of their work was not sufficient to express an opinion on the results of operations for the year ended June 30, 2000.

**Statement of the Problem.** The study will assess the implementation of Internal Control system in Universitas Klabat, Manado – Indonesia, and to what extent it has, based on reasonable assurance, achieved the control objectives of effectiveness and efficiency of operation, reliability of financial reporting and compliance with applicable laws and regulations. Specifically, the study attempts to answers the following sub-problems: (1) what are the internal control policies and procedures were being implemented in Universitas Klabat in the following areas: (a) Control Environment, (b) Risk assessment in term of risk analysis and managing changes, (c) Control Activities, (d) assessment, in term of risk analysis and managing changes, (c) Control Activities, (d) Information and Communication, (e) Monitoring. (2) To what extent has the Internal Control system achieved the follwing objectives based on reasonable assurance? (a) Effectiveness and Efficiency of Operation (b) Reliability of Financial reporting (c) Compliance with applicable government laws and regulations. (3) Are there significant differences in the perceptions of the respondents in the assessment of the achievement of internal control objectives when grouped as to administrators, non-administrators, employees and students? (4) How do the respondents rate the responsiveness of Internal Control system to the changes in the following areas: (a) Information Technology (b) Number of students (5) What are the problems of the Internal Control as perceived by the respondents?

## SIGNIFICANCE OF THE STUDY

To the Universitas Klabat, this could be a basic for improving the effectiveness of their control system. Based on this study management could make a further study on the possibility of strengthening the weaknesses in their internal control system so as to provide an internal control that could better assure them on the attainment of their objectives in a more efficient manner. Likewise, the study will help the faculty and staff to be well informed about the school's internal control activities. Therefore there would be better cooperation and higher efficiency in carrying out their duties.

This study will provide a better understanding on the internal control system to the Colleges Board of Trustees of the SDA educational institutions in many ways, particularly for the East Indonesia Union Conference of SDA's Education Department. Findings will provide direction to further improve the setting and implementation of existing Internal Control system to achieve institutional goals and to face up to the current situation.

**Related Literature.** Internal control is broadly defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Safeguarding of assets is considered a subset of these objectives. The definition of internal control reflects certain fundamental concepts: Internal control is a process. It's means to end, not an end in itself. Internal control affected by people. It's not merely policy manuals and forms, but people at every level of an organization. Internal control can be expected to provide reasonable assurance, not absolute assurance, to an entity's management and board. Internal control is geared to the achievement of objectives in one or more separate but overlapping categories: (a) Control environment (b) Risk Assessment (c) Control activities (d) Information and Communication (e) Monitoring. (Committee of Sponsoring Organization (COSO) of the Treadway Commission, 1992).

Internal controls are system and procedures that are used to detect or prevent errors of commission and omission. Internal controls should safeguard an entity's assets, which include accurate financial records. Internal controls also promote operational efficiency and encourage adherence to prescribed managerial policies. Effective internal control is a cornerstone of successful management. (Parkerson, D., and Morely Barnett, 1997).

The risk in the organization could be reduced or minimizing through the implementation of internal control. It could be controlled by establishing policies to avoid or reduce the level of the risk, and the instituting procedures to ensure that the policies are

complied with. In the financial area, risk of loss from bad debts can be avoided completely by establishing an accounting area, risk of errors can be reduced by policies and procedures for controlling information and transaction flows. (Johnson, Kenneth P. and Henry R. Jaenicke, 1980).

SAS no. 31 identifies five broad categories on assertions that are embodied, explicitly or implicitly, in financial statement. Those assertions are: (1) Existence assertions address whether the transaction reported in the financial statements exist at the balance sheet date. (2) Completeness assertions address whether all of the transactions are reported in the financial statements. (3) Assertions about rights and obligations address whether the entity has the rights and obligations associated with transaction reported in the financial statements. (4) Assertions about the valuation of transactions whether the amounts reported in the financial statements were determined in conformity with GAAP. The method for determining fair value may be specified by GAAP and may vary depending on the industry in which the entity operates or the nature of the entity. (5) Assertions about presentation and disclosure address whether the classification, description, and disclosure of transaction in the entity's financial statements are in conformity with GAAP. (American Institute of Certified Public Accountants, 1980).

Internal control system is important factor both to the management and auditor. Especially to the management, whose charged the duty of directing the activities and produce the Financial Statement that are adequate and reliable? Internal control aids management in performing this function and makes possible the prevention and prompt detection of fraud, waste and error. An internal control system should be equipped with the attribute of organizational planning which proved appropriate segregation of functional and responsibility, a system of authorization and record procedure to provide reasonable control over assets, liability, revenues and expenses. (Dizon, Cecilo L. 1990).

**Research Design.** The descriptive method of research is applied in investigating the present status of the internal control of Universitas Klabat. The respondents were the administrator-academic, administrator non-academic, non-administrator academic, non-administrator non-academic, and business students of Universitas Klabat.

The researcher uses the questionnaire as the main instrument for the gathering data. The report of Committee of Sponsoring Organization (COSO) of the Treadway Commission: *"Internal Control: Integrated Framework, New York: COS, 1992"* was used to construct the instrument. Modification was made to apply in this study.

The questionnaire relates to the respondents' perception of the internal control in the terms of control environment, risk assessment, control activities, information-communication and monitoring,

policy of not engaging in credit sales and creating procedures to enforce and monitor that policy. In the effectiveness, responsiveness to the environment changes and the problems of implementation.

The data were interpreted using the following statistical tools: Percentage, Weighted Mean, Likert Scale, and t-test.

**Findings.** 1. Sixteen (16) or one hundred percent (100%) respondents of administrators perceive that Internal control policies and procedures were being implemented in Universitas Klabat to implement control internal environment, risk assessment, control activities, information and communication, and monitoring.

Seventy-two up to one-hundred percent (72 - 100%) respondents of non-administrator perceive that internal control policies and procedures were being implemented in Universitas Klabat to implement control internal environment, seventy-eight up to one-hundred percent (78 - 100%) respondents perceive for risk assessment, sixty-seven up to one-hundred percent (67 - 100%) respondents perceive for information and communicating control, and eighty-six up to one-hundred percent (86 - 100%) respondents perceive for monitoring control.

In the group of student, twenty up to one hundred percent (20 - 100%) of the respondents perceive that internal control policies and procedures were being implemented in Universitas Klabat to implement control internal environment. Thirty up to sixty percent (30 - 60%) respondents perceive for risk assessment, forty up to one hundred percent (40 - 100%) respondents perceive for control activities, forty up to ninety percent (40 - 90%) respondents perceive for information and communicating control, and forty up to sixty percent (40 - 60%) respondents perceive for monitoring control.

2. The Internal Control system of the Universitas Klabat in implementing environment control has achieved effectiveness of operation to a large extent (3.71 - 4.53 average weighted mean). The ratio of benefits to cost of implementation was ranked 2.15 - 2.75 (equal up to more than 1).

The risk assessment has achieved the objectives of effectiveness and efficiency of operation to a large extent (3.75 - 4.00 average weighted mean). The ratio of benefits to cost of implementation was ranked 2.17 - 2.58 (equal up to more than 1).

Control activities category has achieved to some extent up to a large extent up to a large extent the objectives of effectiveness and efficiency operation (3.38 - 4.47 average weighted mean), achieved to a little extent up to a large extent reliability of financial reporting objectives of compliance with applicable laws and regulation (1.58 - 4.38 average weighted mean). The ratio of benefits to cost of implementation was ranked 2.40 - 2.83 (equal up to more than 1).

The information and communication control has achieved to some extent up to a large extent the objectives of effectiveness and efficiency of operation

(3.33 – 4.33 average weighted mean), achieved to some extent up to a large extent the objective of reliability financial reporting (3.10 – 4.10 average objective of compliance to applicable laws and regulation (2.33 – 3.86 average weighted mean). The ratio of benefits to cost of implementation was ranked 2.22 – 2.67 (equal up to more than 1).

Meanwhile the monitoring procedures achieved to a large extent the objectives of effectiveness and efficiency operation (3.54 – 3.87 average weighted mean), achieved to some extent up to a large extent the financial reliability objectives (3.50 – 3.60 average weighted mean), and achieved to some extent up to large extent the objectives of compliance to applicable laws and regulation (3.38 – 3.75 average weighted mean). The ratio of benefits to cost of implementation was ranked 2.30 – 2.60 (equal up to more than 1).

2. Generally, there are no significant differences in the perception of administrator and non administrator in assessment the achievement of the internal control objectives in terms of efficiency operation, effectiveness operation, reliability of financial reporting, and compliance to the applicable laws and regulation, as internal environment control, risk assessment, activities control, information and communication control and monitoring control were being implemented in Universitas Klabat. The null-hypothesis was accepted.

When the respondents were group as employees and students, there are no significant differences in the perception of the achievement of the internal control objectives in terms of efficiency operation, effectiveness operation, reliability of financial reporting, and compliance to the applicable laws and regulation, as internal environment control, risk assessment, activities control, information and communication control and monitoring control and monitoring control were being implemented in Universitas Klabat. The null-hypothesis was accepted.

1. The respondents reate the reponsiveness of Internal Control of Universitas Klabat to the changes in information technology as highly responsive (3.56 – 3.75 average weighted mean), and highly responsive as perceived by the non-administrator and students (3.60 – 4.00 average weighted mean).

2. The problems of the Internal Control as perceived by the respondents include synchronized cooperation and solidness in the imlementation of the system. Also the problem on physical control was perceived, while the entity's attitude and understanding towards internal accounting control was raised in the area of control activity.

## CONCLUSION

Universitas Klabat implements internal control procedures and policies in aspects of control environment, risk assessment, control activities,

weighted mean), and achieved to some extent up to a large extent the

information and communication control, and monitoring.

Internal control of Universitas Klabat in its implementation has achieved the objectives of effectiveness operation, efficiency operation, reliability financial reporting, and compliance to the applicable laws and regulation based on the reasonable assurance.

There are no significant difference in perception among administrator, non-administrator and student about the objectives achievement of Universitas Klabat internal control in terms of control environment, risk assessment, control activities, information and communication control, and monitoring.

The system is relative highly responsiveness to the changes of information technology and number of students (volume of operation).

Synchoronized cooperation, solidness in the implementation of the system, physical control and the entity's attitude and understanding towards internal accounting control were the problems encountered in the implementation of this control system.

**Recommendation.** Recommendation regarding the implementation of internal control activities, policies and procedures:

a). Active involvement of the Board. Regular meeting of Board with management at least monthly, to maintain the current system and recommend the improvement if needed.

b). Communication channel with students. Open the communication channel with the eligible student regarding the improvement control environment.

c). Maintain the frequency interaction between management and staffs regarding the internal control.

d). Distribute the handbook or manual for all employees regarding the control activities according to their respective function and position in the institution.

Recommendation regarding the achievement of objectives from the implementation of control activities, policies and procedures:

a). Maintain the integrated information sharing between management and board relating the sufficiency of information for monitoring – for instance posting using sharing e-mail account rather than using post mail. Consider about the benefit and cost.

b). Continuing consider about the effectiveness and efficiency of operation, regarding the number of people – for present and the future – to carry out function present and in the future.

c). More frequent apply the performance control report in all department or units ot promote the efficiency of operation.

d). Upgrade the computer software for the record keeping that automatically reconciled the subsidiary

records and general account – to promote the efficiency in maintaining the records.

e). Consider about the efficiency of hardware, software regarding the data center (data sharing) operation. The institution must hire the permanent experts for the administration of this data center. Continuing to implement the integrated sharing data inter-correlated department (for instance registrar office, accounting office and dean office).

f). Also, by using the sharing data center, the efficiency in relating the different sets of data to one another can be improved regarding the performance indicator control.

g). More in using the informal meeting for management to open the employees' suggestions, to promote the efficiency in communication control activity.

h). More active in using the institutional publications and media production - for instance the University bulletin, periodicals, budget, etc.

The recommendation relating to the responsiveness of Internal Control of system to the changes in information technology and Number of students.

a). In using the appropriate software and hardware that can improve the efficiency of operation, and not merely to follow the advance of the technology.

b). Avoid buying the current (up-date) software or hardware if the present using still in good condition and the output or benefit being provided is the same with the upgrade version.

c). The institution's building, classrooms, laboratories, facilities, and their furnishings should be appropriate to support the effectiveness and efficiency of operation.

d). For the physical plant and facilities upgrading planning, considered about the future enrollment of student by using the external information channel (the output of high school and the capacity of competitors school).

The recommendation about the problem encountered by the institution regarding the implementation of the internal control system.

a). Synchronized cooperation and solidness in the implementation of the system can be improved by the

frequency meeting (formal or non-formal) among the individuals in the institution, especially among the interrelated units or departments.

b). The problem on physical control – using the up-date and auditable record system for the inventories data, and making routine physical check-up or reconciliation between actual and records. Hire the permanent employee in-charge for this record keeping. The accounting staff was in-charge for the weekly reconciliation.

c). Build the positive attitude and understanding towards internal accounting control – by using the formal and informal communication occasions to socialize the internal accounting control.

## REFERENCE

- American Institute of Certified Public Accountants (AICPA), 1980. Statement on Auditing Standard (SAS) 31 – Evidential Matter. New York: (AICPA).
- Arthur F. Blinci, 1999. The Importance of Effective Internal Controls Within the Nonprofit Sector. (USA: Non-profit Risk Management Center Inc.)
- Committee of Sponsoring Organization (COSO) of the Treadway Commission, 1992 Introduction to the Internal Control Model.
- Dizon, Cecilo L. 1990. Internal Auditing Principles and Practice, 1<sup>st</sup> ed. (Quezon City: Gum Enterprises).
- Johnson, Kenneth P. and Henry R. Jaenicke, 1990. Evaluating Internal Control. (New York: John Wiley & Son)
- Parkerson, D., and Morley Barnett, 1997. The Guide to Internal Controls. (Florida Atlantic University)
- Roni D. Posner, 1999. What is an Internal Control System and how can We Make Ours Effective, (Washington DC: The Alliance for Nonprofit Organization Inc.)