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# PUSKAS WORKING PAPERS

Designing Internal Audit  
Standard for Zakat  
Management Organization:  
Indonesia Experience

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# Designing Internal Audit Standard for Zakat Management Organization: Indonesia Experience

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## ABSTRACT

*As an institution that is trusted by the public to manage zakat funds, zakat institutions have full responsibility in managing zakat funds in a transparent and accountable manner. However, in several cases, the management of zakat has not been managed professionally which subsequently this condition will lead to the shrinking of public trust towards zakat management organizations (ZMO). The Zakat Core Principles (ZCP) as the guidance of good zakat governance encourages ZMO to construct and conduct the internal audit in order to preserve transparency and accountability principles in managing zakat fund. However, the internal audit standard for ZMO has not been constructed yet which resulting to an imbalance circumstance between large zakat institutions that already have comprehensive internal audit standards and small zakat institutions that do not have internal audit. Hence, in the absence of the national internal audit standard for ZMO, this research would like to propose the designing of internal audit standard which can be adopted by ZMO nationally. By using the Delphi method, the study has successfully constructed 3 main standards and 20 sub-standards of internal audit for ZMO.*

Key words : Internal Audit, Zakat, Zakat Core Principles, Zakat Management Organization

JEL : L31, M42

KAUJIE : E14, E15

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## **1. Introduction**

Transparency and accountability are the main issue in managing public fund particularly zakat fund. Zakat has a great position in Islam so it is no wonder the issue regarding zakat is including as the third pillar of Islam. Moreover, the commanding of zakat also is juxtaposed with the commanding of salat 28 times in the Holly Quran. Furthermore, the object of zakat distribution aslo is restricted only for eight groups that stated in the Holly Quran. Hence, due to the pivotal role of zakat, great transparancy and accountability are also inherent in managing zakat fund.

Currently, many of zakat management organizations are not managed professionally, so that thing will have an impact to the accountability and transparency problems which will lead to the declining of public trust towards zakat management organization. In the context of Indonesia, zakat management organizations in Indonesia are regulated under the Act of Zakat Number 23 year 2011. In dealing with transparency and accountability issues, the Act of Zakat stated that zakat management organization shall be audited regularly.

However, at the national scale, the standard of internal audit for zakat management of organization has not been constructed yet. Therefore, the implementation of regular audit in zakat management organization will encounter the problems due to the absence of the standard. To overcome this circumtance, Bank Indonesia, BAZNAS and 8 members of OIC were collaborated in launching Zakat Core Principles (ZCP) in 2017. The ZCP is a the document which purposed for an effective zakat supervising system. It consists of 18 general standards. The 15<sup>th</sup> standard of ZCP recommends Zakat Management Organization to establish the internal audit function in the organization. Therefore, by referring to the ZCP document, the study would like to explore and design the possibilities of the establishing the internal audit standard for zakat management organization. Hence, the zakat management organization could preserve the transparency and accountability manner in managing zakat funds.

## **2. Literature Review**

### **2.1. The Concept of Internal Audit**

According to ZCP (2017), the existence of internal audit in zakat management organizations has a very important role as part of efforts to maintain governance in zakat management organizations. Therefore this section will discuss the concepts and theories about Internal audit. The literature review on Internal audit in zakat management organizations is still very limited, so in this study the literature review of Internal audit will refer to Internal audit theories in non-zakat institutions such as in public companies and Islamic financial institutions which will then be linked to ZMO.

Internal audit functions can be defined as an independent appraiser within an organization that aims to test and evaluate all activities within the organization. The purpose of the Internal audit process itself is to help members or stakeholders to know the condition of the organization by providing the results of analysis, assessment, recommendations, consultation and information related to the results of the internal audit process that has been

carried out. Another goal of the Internal audit process is to promote effective control at a rational cost. (Trenerry, 1999). Then Pickett (2011) added that according to the Institute of Internal Auditors' (IIA) the Internal audit process is an independent and objective assessment process designed to provide added value to an institution that will ultimately improve the performance of the institution in evaluating and enhancing capabilities in managing risks, internal control systems and effective governance processes.

Moreover, AAOIFI in the Governance and Auditing Standards (2012) also defines Internal audit with the same definition as the meaning of the Internal audit in a western perspective, but there are some additions such as the scope of duties of Internal auditors who not only evaluate the structure and process in accordance with international governance standards but also must comply with sharia law. Simon and Karim (2009) added that in Islamic financial institutions, the task of Internal Auditors is not only to examine good governance in the structure and business processes, but they also should be ensured that the business process of islamic financial institution are comply with syariah law. Hence, they are also required to at least understand the principles of sharia law so they can conduct an audit process to the entire structure and sequence of processes of the businesses are conform to sharia principles. The differences in concepts and practices in sharia financial institutions make this institution have to get special treatment in terms of the audit process, so it is not surprising that the IFSB-3 and IFSB-10 set the standard for sharia audit mechanisms for sharia financial institutions as a complement to conventional audit processes.

All the existing internal audit theories and standards are limited only to commercial financial institutions not for social financial institutions such as zakat institutions. In the context of Indonesia, the Indonesian zakat Act. number 23 year 2011 also only states that zakat institutions are required to be audited periodically because zakat funds are public funds that has specific purposes only for certain groups that have been determined in the Qur'an so that in collecting, managing and distributing zakat requires great sensitivity and transparency (Yasmin & Haniffa, 2017). However, the curent zakat regulation does not explain the process of the Internal audit mechanism at the zakat institution. So that it is not surprising because of the absence of internal audit standards and good governance for zakat institutions, several studies have shown that social institutions such as zakat institutions have several weaknesses in terms of accountability and transparency that cause a lack of public trust in zakat institutions (Huda & Sawarjuwono, 2013; Saad et al, 2014; Nikmatuniayah, 2014; Yasmin & Haniffa, 2017).

Thus, in the perspective of social financial institutions such as zakat institutions the role of Internal Audit becomes very important, considering that zakat institutions have the same role as financial institutions as intermediaries starting from collecting, managing and distributing public funds, so that an internal audit process is formed by zakat institutions is quiet necessary in order to maintain the values of accountability and transparency in the management of public funds in zakat institutions. Therefore, the 15<sup>th</sup> ZCP recommends zakat institutions to have a good internal audit process as part of efforts to maintain the transparency and accountability principles in managing zakat fund.

## 2.2. Previous Studies

The studies which relates to the internal audit at ZMO are still limited, therefore the author would like to review a number of previous studies which relates with the research topics such as studies that have been conducted by Naz'aina (2015), Huda and Sawarjuwono (2013), Nikmatuniayah (2014), Saad et al (2014), Yahya and Mahzan (2013), Cao and Zhang (2013).

Naz'aina (2015) examined the effect of the internal supervision system and amil competence on the performance of financial statements. This study found that the internal supervision system and amil competency had a positive influence on the quality of financial statements. Furthermore, Huda and Sawarjuwono (2013) who has conducted research on accountability issues in zakat management organizations (ZMO), they found that there was overlapping empowerment programs between ZMOs and inaccuracies in mustahik and muzaki data due to the low level of accountability of ZMO. The same thing was also conveyed by Nikmatuniayah (2014) in his research which compared the internal control system of managing the amil zakat institution in the city of Semarang. The study found that amil zakat institutions have simple procedures, but there are still some weaknesses such as low levels of compliance with Internal control.

Furthermore, some of the following researchers also conducted research related to accountability, governance and openness to zakat institutions, as was done by Saad *et al* (2014) which provides a conceptual framework on the basis of accountability in zakat management organizations. The study stated that the relationship of accountability in the ZMO involved several parties such as ZMO itself, Muzaki and Mustahik and what became unique in this relationship is that the three parties are responsibility directly to Allah, so that this was different from the western view, in Islamic relations of accountability among the three parties are stable for over time.

Yahya and Mahzan (2013) discussing the role of Internal Audit, especially sharia audits on governance in Islamic banking in Malaysia. By using the regression method and interviewing the head of internal audit department in five Islamic banks, the study found that the implementation of sharia audit activities in Islamic financial institutions was still at an early stage and needed further improvement. For example, in order to improve the understanding of sharia auditing, internal auditors must be provided with knowledge of sharia law, the basis of sharia audit standards and general guidance on how sharia audits are conducted.

Cao and Zhang (2013) conducted a study that discussed the role of auditing in making a positive impact on philanthropic institutions in China. The study aims to see the effect of auditor selection on increased donations in philanthropic institutions. They found that the election of Big100 Auditors had a positive impact on Chinese public trust, which lead to the increasing of the donations amount in other philanthropic institutions.

## 2.3. Theoretical Framework

This chapter will discuss the conceptual framework of the research as described by figure 2.1. The concept in making the conceptual framework of the research refers to the established internal audit standards such as the internal audit standard for the bank which is launched by

the central bank of Indonesia and it complemented by the Indonesian Financial Service Authority (OJK). In addition, the conceptual standard of internal audit for ZMO also refers to the government internal audit standards. Hence, based on those standards, the study designs the conceptual framework of internal audit standard for ZMO. The standar contains three main standards namely the internal governance system, the internal control and internal audit unit. Furthermore, the three standars are divided into 20 sub-standards which become the part of the comprehensive standard of internal audit for ZMO

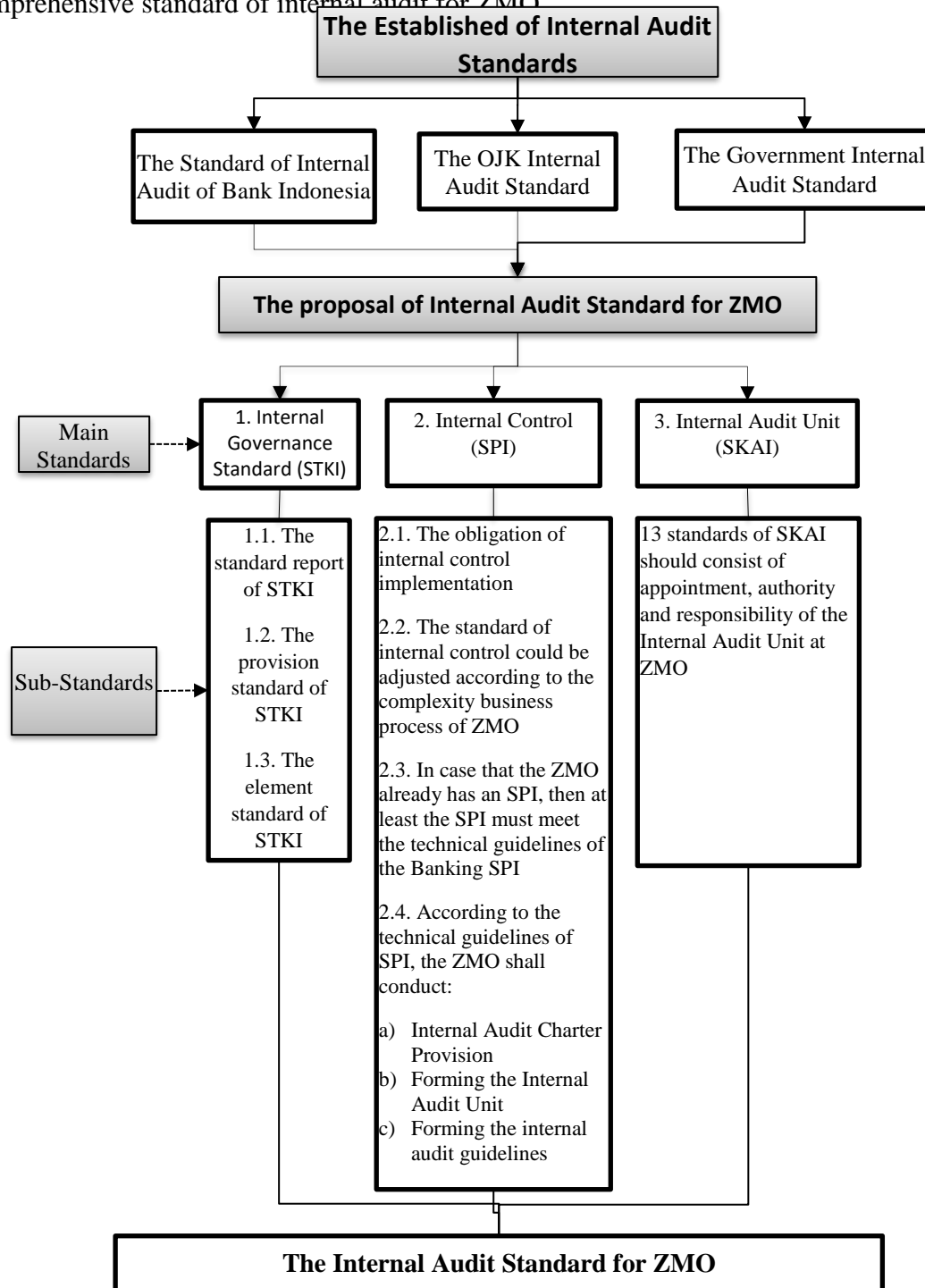


Figure 2.1 The Conceptual Framework of Internal Audit Standard for ZMO

### **3. Data and Methodology**

#### **3.1. Data**

Primary data is used in this study by involving several respondents from practitioners and experts. The practitioner respondents were chosen from ZMO who had legally obtained operating licenses at the national level. The chosen practitioners were respondents who have a minimum position as chairman of division up to the level of president director. The selected experts come from various universities and government institutions.

To gather the information related to the design of the Internal Audit Standard for ZMO, the study conducted content analysis of several Internal Audit related documents issued by the Central Bank of Indonesia, Financial Service Authority (OJK) and Government Standard of Internal Audit. The results of content analysis are discussed in a Focus Group Discussion (FGD) or In-depth Interview with the experts and practitioners to obtain the ideal Internal Audit Standard for ZMO. In the next stage, the experts and practitioners were asked to fill out a Linkert Scale questionnaire and rater agreement for the Delphi method.

#### **3.2. Methodology**

This study employs two methods namely the Content Analysis method (qualitative) and the Delphi method (quantitative).

##### *3.2.1. Content Analysis Method*

Content Analysis is a qualitative research method that carries out the interpretation techniques of the related documents or media or other sources which relates to the context of the research (Krippendorff, 2018). The practice of using Content Analysis has a long history. Since 4000 years ago, Content Analysis techniques have been used by the ancient Romans in translating symbols. Moreover, Aristotle also used the Content Analysis technique in his rhetorical conception (Neuendorf, 2017). The use of Content Analysis techniques as a scientific method was carried out in 1948 by Harold D. Lasswell, a professor of communication science from Yale University, in his article entitled Structure and Function of Communication in Society He involved Content Analysis research method using symbol coding techniques by interpreting symbols or messages systematically (Laswell, 2007) (Aminoto, 2011)

##### *3.2.2. Delphi Method*

In the 1960s, the Delphi research method was first used and developed by Norman Dalkey and Olaf Helmer at a research institute in Santa Monica, the Rand Corporation located in California, United States (Dalkey & Helmer, 1963). This method is a survey based method in two or more stages to find out expert opinions on a problem using a decision making approach. The Delphi methodology is technically designed as a communication group consisting of experts and practitioners with the aim of reaching an agreement on certain issues.

This method can also be used in various studies such as program planning, assessment, policy determination, exploration of certain assumptions and determination of correlations on certain issues in different fields (Hsu and Sanford, 2007). In general, the stages in the Delphi process include: (i) Determination of expert panels (expert panels); (ii) Preparation of a questionnaire; (iii) Submission of questionnaires and feedback; and (iv) analysis of results.

Furthermore, in order to see the consensus level of experts on the given questionnaires, it can also be seen from the rater agreement calculation using Kendall's Coefficient of Concordance. Geometric mean calculation is employed in determining the statistical consensus of several expert's opinions regarding certain issues as follows:

$$(\prod_{i=1}^n a_i)^{1/n} = \sqrt[n]{a_1 a_2 \dots a_n} \quad (3.1)$$

Whilst, to assess the agreement level among the experts, the rater agreement is used. The rater agreement is a non-parametric statistic measurement which measures the level of consensus among respondents (R1-Rn) as raters of certain issue on certain cluster. It also known as Kendall's Coefficient of Concordance (W:  $0 < W \leq 1$ ), whereby  $W = 1$  shows complete agreement among respondents, meanwhile  $W=0$  indicates no agreement among them. Before calculate Kendall's Coefficient of Concordance (W), firstly we should rank every given answer and sum them up.

$$R_i = \sum_{j=1}^m r_{i,j} \quad (3.2)$$

The total rank average value is:

$$\bar{R} = \frac{1}{n} \sum_{i=1}^n R_i \quad (3.3)$$

The total sum of squares of deviation (S), can be determined as follows:

$$S = \sum_{i=1}^n (R_i - \bar{R})^2 \quad (3.3)$$

Hence, the Kendall's Coefficient of Concordance (W) valuation can be determined as follows:

$$W = \frac{12S}{m^2(n^3 - n)} \quad (3.4)$$

Eventually, to see the significant level of W, the Chi-Squared test is used and it can be determined as follows:

$$x^2 = \left[ \frac{\sum (f_o - f_e)^2}{f_e} \right] \quad (3.5)$$

## 4. Findings and Discussion

### 4.1 The Level of Agreement of Internal Audit Standard

This chapter would like to discuss the results of the research. The study conducted a survey to practitioners and experts from the private ZMO, public ZMO, Zakat regulator and academicians from various Universities totaling 13 respondents. 1-5 Likert scales were also used in this study, scale of 1 to 2 shows disagreement, scale 3 shows neutral, and a scale of 4 to 5 shows agreement. In addition, the ranking method is used in this study to calculate the



rater agreement or known as the Kendall’s Concordance (W) test. In this section, there are 6 main standard criteria for SGS ZMO as follows<sup>6</sup>:

**Table 4.1 The Survey Results of Internal Governance System for ZMO**

1.	Internal Governnace System for ZMO	Agree	Neutral	Disagree	Rank (Delphi)
1.1	Zakat Management Organizations are required to have an Internal Governance System and be submitted to the Zakat Authority no later than 30 (thirty) days from the stipulation of improved guidelines.	11	1	1	3
1.2	In preparing the Internal Governance System, Zakat Management Organizations must consider the total assets, operational funds, collection, products and services offered, including new products and services, operational complexity, office networks, risk profiles of each zakat management activity, the method used to processing and risk measurement data, and related provisions that applied.	12	1	0	1
1.3	The Internal Governance System for Zakat Management Organizations includes at least 5 (five) main elements, namely: a. control environment; b. risk assessment; c. control activities; d. information and communication; and e. Internal control monitoring	13	0	0	2

The 1.1 ZMO standard is required to have its own internal governance system and the ZMO is also required to report the internal governance system to the Zakat Authority both the Ministry of Religion and BAZNAS within a maximum period of 30 since the system is determined. The survey get an agreement 11, neutral 1 and disagree 1. This shows that the majority of respondents agree that ZMO is required to have its own internal governance system as an effort o preserve and increase the level of governance in ZMO both from the upstream to downstream procedures, because it is in accordance with the research conducted ( Naz'aina, 2015) that a good internal governance system at ZMO has a positive influence on ZMO's financial performance.

Moreover, in point 1.2 regarding the preparation of the internal governance system at ZMO, 12 respondents stated their agreement and 1 respondent stated neutral towards the statement. Furthermore, for point 1.3, which is related to the main elements that must be present in the internal ZMO governance system, such as the control environment, risk assessment, control activities and information and communication, all respondents expressed their agreement on the design of the internal governance standard.

<sup>6</sup> Please refer to the appendix to see the whole results of SGS sub-standards survey

As for the results of the Delphi ranking on the standard internal management system of the ZMO, the average respondent gives a rating of 1 in point 1.2. This indicates that total assets, operational funds, collection, products and services, operational complexity, office network, risk profile of each ZMO activity and so on are the top priorities for ZMO's internal governance system standards

**Table 4.2 The Survey Result of Internal Control System for ZMO**

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

Figure 4.2 depicts the results of a survey of the ZMO internal control system. The majority of respondents (12 versus 1 neutral) stated their agreement that the ZMO must fulfill the technical guidelines of the internal control system (2.2), the ZMO that does not yet have internal control standards, they must refer to the internal control system set by the highest zakat authority (2.4) and based on technical guidance on the internal control system of the Zakat Management Organization, the Zakat Management Organization is obliged to prepare an internal audit charter, form an internal audit work unit and internal audit guidelines (2.5).

In the event that the ZMO is required to adopt the bank's internal control system (2.1), as many as 9 respondents stated their agreement to the statement and 3 respondents stated neutral. But there was 1 respondent who stated that he did not agree if the ZMO had to adopt the bank's internal control system, this was because the respondents argued that ZMO with banks were two institutions that had different orientations, if the bank had a commercial orientation then ZMO had a social orientation. Thus, the bank's internal control

system will be far different from the ZMO internal control system. Likewise with point 2.3 related to internal audit standards, 7 respondents agreed that ZMO internal audit standards must at least meet the bank's internal audit standards, 5 respondents stated neutral and one respondent expressed his disapproval of the statement for the same reason as the statement in point 2.1.

Furthermore, from the results of the Delphi rating test obtained, on average the respondents agreed to rank 1 in point 2.2. This indicates that the ZMO is obliged to follow the technical guidelines of the internal control system as a reference for internal governance of the ZMO which must be prioritized in the internal control standards of the ZMO.

**Table 4.3 The Survey Result of Internal Audit Work Unit (SKAI) Standard**

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

3.10	Zakat Management Organization is obliged to submit a report to the Zakat Authority regarding the implementation of the Internal audit function, namely the report on the appointment or dismissal of the SKAI head accompanied by consideration and reasons for appointment or dismissal.	7	4	2	11
3.11	Zakat Management Organizations are required to submit a report to the Zakat Authority regarding the implementation of the Internal audit function, namely the implementation report and the main points of the results of the Internal audit including confidential audit results.	8	3	2	12
3.12	Zakat Management Organization is obliged to submit a report to the Zakat Authority regarding the implementation of the Internal audit function, namely a special report on each Internal audit finding that is expected to disrupt the continuity of operations of the Zakat Management Organization.	10	2	1	10
3.13	The Zakat Management Organization is obliged to submit a report to the Zakat Authority regarding the implementation of the Internal audit function, namely the report of the external party's review which contains an opinion on the work of the Internal Audit Unit and its compliance with the Internal Management Organization and possible improvements.	9	2	2	13

The table 4.3 discusses the survey results from the standard design of the ZMO internal audit unit. All respondents agreed that SKAI was in charge and responsible for assisting the board of supervisors and directors in carrying out supervision at ZMO (3.1), making analysis and assessment in the fields of finance, accounting, operations and other activities (3.2). Furthermore, all respondents also agreed that the Internal Audit Unit was tasked with and responsible for providing recommendations for improvement and objective information about the activities examined at all management levels (3.4) and the Internal Audit Unit at ZMO was also required to have audits and express views in accordance with the provisions applied.

Majority (12 versus 1 neutral) the respondents show their agreement that SKAI is responsible for identifying all possibilities to improve the efficient of resources and funds utilization in the ZMO (3.3) and the statement that the board of directors must ensure that the ZMO Internal Audit Unit can work independently (3.8). Then, 1 respondent refused if the Internal Audit Unit had to answer directly to the managing director of ZMO (3.5), this was because respondents believed that in order to maintain the independence and objectivity of the Internal Audit Unit, the Internal Audit Unit was only directly responsible to the audit committee.

Furthermore, respondents generally agreed (10 versus 2 neutral and 1 refused) that ZMO was required to submit a report to the Zakat Authority regarding the implementation of the Internal audit function, namely a special report on each Internal audit finding that was expected to disrupt ZMO's operational continuity, 1 respondent stated disagreement because the respondent believes that the ZMO audit findings are sensitive things that can only be consumed by internal parties not for public consumption including by the zakat authority (3.12). In addition, for the same reason 1 respondent stated his disapproval that the Internal

Audit Unit was required to submit a report to the Zakat Authority (3.6) and 2 respondents expressing their disapproval if the ZMO was obliged to report the result of internal audit assessment to the zakat authority (3.13), report confidential audit results (3.11) and report on the appointment or dismissal of the head of the Internal Audit Unit (3.10). Furthermore, the 3 respondents also gave a disagreement of the statement that the approval and dismissal of the SKAI head must be based on the agreement of the zakat authority (3.7).

On the other hand, related to the results of the Delphi rating test, on average respondents agreed to give rank 1 in point 3.1 which shows that respondents agreed that what should be the top priority in the standard unit of internal audit of ZMO was clarity about the job description of the internal audit work unit in ZMO.

#### 4.2. The Delphi Test Result for Internal Audit Standard

This section will discuss the results of the Kendall's coefficient of concordance (W) test or the rater agreement of the respondents on the draft Internal Audit standard at OPZ. This test is needed to see the level of uniformity of ranking ratings given by respondents in prioritizing Internal Audit standards at OPZ. The results of these tests can be seen in table 4.4 as follows:

**Tabel 4.4 The Result of Delphi Test of Internal Audit Standard for ZMO**

No	CLUSTER	Rater Agreement (W) of Delphi Result	
		Expert	p-value
1	Internal Governance System	0,396	0.00577***
2	Internal Control System	0.283	0.00526***
3	Internal Audit Work Unit	0.580	0.00000***

\*\*\*significant at level 0.01; \*\*significant at level 0.05; \*significant at level 0.1

As can be seen in Table 4.4 regarding the results of the Delphi rater agreement test in the draft of Internal Audit standard for ZMO, all standards, namely the internal governance system standard, internal control system and internal audit work unit ZMO obtained a significant p-value which is smaller than 0.05. This shows that there is uniformity/agreement of the respondents' assessment in determining which sub-standards are priorities to be applied at the ZMO as the Internal Audit standards.

## 5. Conclusion and Recommendation

### 5.1. Conclusion

As an institution that is trusted by the public to manage zakat funds, zakat institutions have full responsibility in managing zakat funds in a transparent and accountable manner. However, in several cases, the management of zakat has not been managed professionally which subsequently this condition will lead to the shrinking of public trust towards zakat management organizations (ZMO). The Zakat Core Principles (ZCP) as the guidance of good

zakat governance encourages ZMO to construct and conduct the internal audit in order to preserve transparency and accountability principles in managing zakat fund. However, the internal audit standard for ZMO has not been constructed yet which resulting to an imbalance circumstance between large zakat institutions that already have comprehensive internal audit standards and small zakat institutions that do not have internal audit standard.

The 15<sup>th</sup> standard of ZCP is recommended ZMO to implement internal audit function in order to preserve the accountability and transparency business processes. Hence, by referring to the document the study attempts to explore and design the internal audit standard for Zakat Management Organization. The study also used Content Analysis technique, Survey Method and Delphi Method as methodological approach. By involving 13 experts as our respondents, the study successfully designed 3 main standards and 20 sub-standards of Internal Audit for Zakat Management Organization. The study also reveals that the majority of respondents of this research expressed their agreement on the designed Internal Audit for ZMO. Furthermore, The Delphi test shows that the p-value of rater agreement achieved less than 0.5 means that the consensus among the respondents regarding the Internal Audit Standard for ZMO is significantly robust.

## 5.2. Recommendation

Internal Audit Standards are very important for ZMOs to have a better level of good governance particularly in transparency and accountability aspects so that the public trust will increase. Therefore, in the absence of Internal Audit Standards for ZMO, this research recommends all of relevant stakeholders, especially Zakat Authority and ZMOs itself to make the results of this study as an initial reference in developing further of Internal Audit standards more comprehensively to be adopted at national scale.

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