

FRAUD PATTERNS ON NGO FUNDS ACCOUNTABILITY REPORTS

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ABSTRACT

The purpose of this study is to identify and analyze the fraud patterns on NGO funds accountability reports. The methodological approach used in this study is case study by conducting interview, observation and document review. The findings of this study show that the fraud patterns on the accountability report includes 1) documentation of fictitious activities, 2) fictitious term of reference, 3) fictitious narration, 4) fictitious attendance list, 5) fictitious receipts, 6) lack of controlling, and 7) auditor is not independent.

INTRODUCTION

Non-governmental organizations (NGOs) are non-profit organizations that do not seek profit in the community system. So far NGOs can move independently because they are institutionally free from interference from other parties. Financially, NGOs are relatively not tied to donor institutions even though in general they are dependent on them. In the new regulation, this independence will be reduced, because it is expressly stated that the management of an NGO must be registered and validated by the government (Rahardjo, 1995: 135).

NGOs are considered having a significant role in democracy. This type of organization is believed to have the function of channeling activities in accordance with the interests of members or organizational goals, fostering and developing members to realize organizational goals, channeling community aspirations, and empowering community to fulfill social services. The goal of NGOs is to increase community participation and empowerment, to provide services to the community, to develop social solidarity, mutual cooperation and tolerance in community

life, and to realize the goals of the country. But the current reality shows that there are many NGOs that do not carry out their duties and functions properly and are not in accordance with the existing laws. Some NGOs are even misusing the duties and functions for their own or group's interests. Research conducted by Ageng, (2009) shows that many people set up NGOs just for seeking profit.

NGOs have often been flooded with funding assistance from either domestic in the form of social assistance funds in which the process must go through NGOs or overseas through project proposals submitted. The sources of these funds are certainly vulnerable to fraud and can allow fraud to occur in NGOs. The existence of fraud in an NGO is closely related to the low level of transparency of NGO accountability reports in Indonesia (Kovach et al. 2003). Brown and Moore (2001) stated that various cases involving NGOs were caused by the NGO's goal of overcoming problems in the name of the public interest, but in practice the NGO accountability mechanism was still weak. Some weaknesses of NGO accountability are: most reports are only directed to donors, lack of presentation of information on organizational activities to the community (Kovach et al., 2003), and lack of oversight of the distribution of funds (Dixon et al., 2006) resulting in many cheating practices in NGOs.

Several other cases resulted from weak NGO accountability are the involvement of a number of NGOs in embezzling social safety net (JPS) and Farming credit (KUT) funds (1999-2000), alleged irregularities in flood funds in Jakarta (2002), the involvement of a prominent NGO figure in bribery cases in the KPU and accusations of theft during an emergency in Aceh post-Tsunami, the involvement of Bandung NGO coordinator in the corruption of grant funds which resulted in a state financial loss of IDR 3 billion (Tempo.co.Jakarta 3 February 2015), the involvement of NGO leaders in the misappropriation of

social funds, and the involvement of NGOs in using government assistance funds improperly (tempo interaktif, Sidoarjo July 29, 2009).

The next case was found by the Audit Board of the Republic of Indonesia (Indonesian: Badan Pemeriksa Keuangan / **BPK**) related to the misappropriation of social assistance funds channeled to fictitious NGOs and the NGOs that were lost due to not making accountability reports of the results of their activities. The case of alleged corruption of social assistance funds in the West Java Provincial Government with the loss value of IDR 165.4 billion which was channeled to NGOs. The case of alleged corruption of social assistance funds also occurred in the Lampung Provincial Government in 2009 totaling IDR 1.23 billion which had dragged five suspects. The mode of alleged corruption of social assistance funds in Lampung was by channeling funds to 36 NGOs. Then the alleged misuse of social assistance funds in East Nusa Tenggara Province totaling IDR 15.511 billion, with the mode that the social assistance funds were used to deal with humanitarian cases in their area (Hukumonline.com Wednesday, March 28, 2012). The large number of cases carried out by unscrupulous NGOs indicates that NGOs are still vulnerable to fraud practices.

Based on the illustrations of the cases above, it shows that NGOs have not been transparent and accountable in managing their programs. The occurrence of the cases may be caused by the NGO itself so that it is easily misused by irresponsible parties, such as an interest from the internal NGO itself so that the NGO accountability report is sometimes just presented in a formality to the donor. In addition, there are still many NGOs that are unable to make good and correct reports based on the Statement of Financial Accounting Standards (PSAK) No. 45. This is what causes many fraud actions to occur in each NGO program management (Paskual and Ansar 2012).

In connection with the cases above, several studies on NGO accountability and cases of misuse of funds in NGO have been carried out. Gibelman and Gelman (2001) examined scandals that occurred in NGOs. Based on the results of the research conducted by Gibelman and Gelman (2001), most of the problems faced by NGOs come from internal organizations (directors, managers, financial advisers, secretaries) involving some cases, such as abuse, bribery, conflicts of interest, inequality in distribution of funds, and cheating of funds from donors, so that NGOs do not want to report their accountability.

Goddard and Assad (2006) examined the legitimacy of NGOs in Tanzania. The study found the weakness of the accounting function in NGOs which is referred to as the phenomenon of the regulator mechanism, in which accounting as a reporting mechanism is only used as NGO legitimacy to donors. Reporting accountability mechanisms are limited to donors only, not to the public, and the financial statements made do not reflect the organization's activities as a whole and are not used in internal organizational decisions making.

Ageng Nata Praja (2009) examined the role of NGOs in Civic Society perspectives in Grobogan Regency. The results show that the distortion of the role of NGOs in Grobogan District occurred due to several factors, such as the motive of making a profit, lack of funding and low professionalism, diverse activist background, unclear ideological concepts, and too loose regulations.

Kovach et al. (2003) examined accountability in three forms of organizations, namely IGOs, TNCs, and NGOs. The results of his study show that based on the measurement of information access, the IGO organization is more transparent than the other two organizations. For TNC organization, the presentation of organizational policy and operational information is very low, except for

information on the products produced. NGOs provide the least amount of information between the other two organizations. Information about NGOs' activities is very low. On-line information provided by NGOs on policy and decision making is mostly not transparent and not all NGOs publish annual reports.

Fikri et al. (2010) examined the NGO accountability phenomenology at the WWF (World Wide for Nature) organization's field office located in Mataram, West Nusa Tenggara province. From the results show that the organization has two forms of reporting accountability, namely program accountability and financial accountability, which are presented separately. The organization reports the results of its activities only, while the financial accountability is not published.

Nian Riawati (2015) examined corruption case on socio-economic programs. The results of the study show that there are still many corruption practices that include political bribery, corruption mode, and the existence of fictitious activities in the process of running the program.

From the results of the studies on the cases of fraud in NGOs, particularly in the program accountability report, the researchers are interested in uncovering and investigating frauds related to NGO accountability reports because in the accountability reports usually there are a lot of manipulation in order to get good program results reports. This research was carried out in an NGO that runs the program funded by Bilateral Global Fund assistance in collaboration with the Government of Indonesia and local NGOs as drivers. The researchers gave a pseudonym to this NGO under the name **"Gray" Foundation**.

Based on this case, the researchers would like to reveal fraud in managing funds at the *Gray Foundation*, especially in the management of accountability reports. Some previous research only focused on the explanation of transparency and accountability

of NGOs, while this study reveals fraud in NGOs which is still considered a taboo.

METHOD

Qualitative research is used in this study. According to Moleong (2010), qualitative research is the research that intends to understand the phenomenon of what is experienced by research subjects such as behavior, perception, motivation, actions, etc., holistically, and by means of descriptions in the form of words and languages, in a special natural context and by utilizing various natural methods.

The researchers use a case study approach with a descriptive type, because in this study the researchers try to describe what happen in real life and human actions specifically at a particular location. In this study, the researchers try to disclose in depth about the fraud patterns on NGO funds accountability reports.

The research site is the “Gray” foundation which is a Non-Governmental Organization located in “Prosperity” Regency. This NGO is fairly larger than other NGOs in the “Prosperity” Regency and this NGO often get a lot of grant projects from various programs, both grants from foreign and domestic donors. In addition, the reason for the researchers to choose this NGO is the ease of access to obtain data and information according to the purpose of this study. The availability of access and proximity to informants are very important in research, especially the research using a qualitative approach (Creswell, 2014). Access to the site of this research and the closeness to the informants have long been intertwined because the researchers have a close relationship with the informants so that the researchers can explore a lot of available data and information for the interest of fulfilling the research objectives.

The informants in this study are employees who serve in the “Gray”

Foundation. These employees are the Program Manager, Treasurer, Field Officer and Director as the highest leader in the foundation. Data collection technique carried out in this study is interview. This interview was conducted with the informant when he was not busy working so that he could have a long discussion referring to the topic of this research without being burdened with work. The interview place in this study was conducted at the “Gray” Foundation office and even sometimes the researchers came to the informant’s house by making an appointment first. In addition to interviews, the researchers also conducted observations and documentation. Observations were made by coming directly to the field, namely the “Gray” Foundation office by looking directly at the program accountability report at the end of the month. The documentation obtained from this study was in the form of accountability reports and the management structure of the “Gray” Foundation.

Data analysis technique carried out in the study is interactive model of analysis by Miles and Huberman which includes data collection, data reduction, data presentation, and conclusion drawing.

The discussion method used to analyze data is an inductive mindset. The researchers got facts or events and then analyzed the form of fraud in the accountability report of the “Gray” Foundation.

Overall data analysis in this study was carried out with the following steps:

1. Identifying the existence of fraud in accountability reporting carried out in the “Gray” Foundation.
2. Analyzing the existence of fraud in accountability reporting carried out in the “Gray” Foundation.

Fraud analysis was carried out by determining the form of fraud that had been identified in order to get the output in the form of fraud in the management of program

funds based on the results of fraud analysis and providing information about the anti-fraud strategy.

RESULTS AND DISCUSSION

The accountability report was often manipulated in such a way that the results were in line with the expectations of Donors. The results were in the form of program achievements and program fund absorption. If the achievements were not in accordance with budget absorption or the budget absorption was very low, the donors would question this. Accountability report is very important as a form of excellent institutional performance assessment.

Seeing the importance of the accountability report as an assessment of program performance, most of the treasurers finally committed a lot of fraud to get good results. Here the researchers will discuss about fraud in accountability report committed by individuals. Fund accountability reports in this foundation were conducted monthly, quarterly and per semester then submitted to the SR. This type of fraud will be discussed in the following sub-chapters.

Documentation of activities is an important form of accountability. Documentation can prove that the officer has actually carried out the activities. Unfortunately, the documentation in this "Gray" Foundation just contained photographs of gathering in restaurant or gathering in entertainment places and then they made them as evidence of the results of activities. Following is the statement of field officer in making documentation:

"well, usually when there are events, such as catching fish in the sea, village activities, puppet shows, etc, I will document the events, and give the results to the treasurer"

Based on the statement above, the field officer admitted that he had carried out fraudulent activities by making documentation of community events rather than program activities. However, the officer did not feel guilty for carrying out the forbidden act because he thought that there were still many other officers who also did the same thing. The following is his statement:

"I think it's still okay, because I do it together with others. Mr. High (pseudonym) usually takes money from the treasurer with the reasons for activities. But in fact, the activities have never been proven."

Fictitious Term of Reference (TOR)

The fraud in making TOR was committed due to fictitious activities. This TOR was usually made before making an activity and then submitted to the program treasurer, because if there was no TOR, the treasurer would not give funds. After the activity was completed, the officer had to submit the document / accountability report to the treasurer in accordance with the TOR. The following is the statement from one of the field officers in making a fake TOR:

"Usually before the event, we make the TOR first. Since the activities have no TOR, I make it by copying and editing from other activities."

Likewise, the treasurer of the program also made fictitious documents. Here is the statement:

"Sometimes there are incomplete reports due to missing or others. But because the report is already in deadline and I try to contact the Coordinator but there is no

*response, so I have to make it.
There is often no TOR “.*

Based on the results of the interview with the treasurer, it is found that the treasurer made accountability report documents from the results of the field officer's activities that were not complete, such as TOR. Researchers had also ever been asked to help the treasurer find examples of TOR and documentation of activities because some data were in the computer in the researcher's room, whether the activity was really done by the officer or just a rationalization of the treasurer to create documents from fictitious activities. This fraud was committed because there was a pressure to make a good, proper, and timely accountability report. In addition, there was also a pressure to carry out these activities without being suspected, because the program coordinator and the Director of the foundation had already given full confidence in the treasurer in making accountability report or in managing program funds.

Narration is just a Fictional Essay

Narration is a fictional essay that tells the results of the activities that have been carried out, it is almost similar to the minutes of the event. This narration is usually also used as a form of accountability report as if the officers had carried out the activities. However, if the activity is fictitious as described in the previous chapter, narration is just an essay. Usually in making narration, the officer just copied or edited from the previous activity. Following is the disclosure by field officer in making narratives.

“Documentation has been collected from gatherings. For the narrative, the program coordinator tells us to make it. So I make the narrative even though there is no activity at all.”

Based on the disclosure expressed by the officer, it is obvious that he committed fraud without feeling guilty because he had already obtained approval and even instructed by program coordinator who had responsibility in the program.

Fictitious Attendance List

Attendance list is as important as some other documents. With the attendance list, it can be seen that the activities are going well including the number of participants who attend in the activities. Attendance list is also the accountability report document to the treasurer which would also be reported to the SR. The attendance list was usually an easy target for fraud perpetrators to get funds. This was usually done when the number of participants was only a few so that they could add fictitious participants. In addition, it would reduce the consumption budget, which eventually entered the pockets. And if there was a transport fund, the fund would also enter the pocket. This attendance list was sometimes made by the officer himself if the activity was fictitious. The following is the officer's disclosure in making a fictitious attendance list.

“I myself signed the attendance list. Sometimes I went around the village to ask for help from villagers to sign the attendance list. And then KM told me to make TOR and Narration “.

From the disclosure expressed by informant, the attendance list of the fictitious activities was obtained from neighbors. He admitted that he did this because there was instruction from KM, so this was considered normal. Then KM also instructed to make TOR along with Narration.

Making Fake Notes

The fraud that is usually committed by the treasurer in making accountability reports is by making false notes from the results of the activities. Making this fake note is closely related to the implementation of activities. If there is a fictitious activity, the fake note will definitely be made for the accountability report. Making fake notes is often done by all officers and even by the treasurer. As stated by a field officer as follows:

“I sometimes ask cash from the treasurer. For example, the cost of photocopying a file is actually only IDR 10,000 but I ask for IDR 15,000, by asking for a blank note from a photocopy shop and then writing the nominal myself. The important thing is there is a note and stamp from the photocopy shop. And then I give it to the treasurer and I get money. It's OK to buy gasoline.”

The results of interviews with the field officer show that he often changed the notes with a higher amount. This was done because there was opportunity, lack of monitoring, and weak control. So, this was often done by the officer. The researcher himself had ever done the same thing, which was usually called as cash receipt, because of the invitation of colleagues. The treasurer then paid according to the nominal note that had been changed without suspicion. The researcher was also often asked to help write notes based on instructions from the treasurer such as purchasing office stationery, consumption purchase note for activities, etc.

The Director of the Foundation has been very unconcerned about the financial reporting process. He is always optimistic to the treasurer who has worked long enough and has even become treasurer in the previous Director's term. As he stated during the

interview: *“Financial affairs are not my business but the treasurer, I just sign, enough”*. The accountability report submitted to SR was indeed signed by the Director of the Foundation but he just signed it without checking the contents of the accountability report because he trusted the treasurer.

Entrusting the supervision of funds and activities to others

Accountability report is very important in an organization. The success or failure of a program run by the organization can be seen from the accountability report. Therefore, accountability is very important. In NGO “Melati”, in addition to Program Coordinator, the Director of the Institution and the Chair of the Foundation also have a great responsibility for the NGO they own.

Based on observations in the field, the researchers see that the performance of the Director and Chair of the Foundation is less effective in monitoring because the Director is often busy with other programs and the responsibility is fully entrusted to the Program Coordinator and the financial management is fully entrusted to the Treasurer. The Director is often busy with programs and attending other social events. This is also revealed by an employee of NGO “Melati”.

“The director rarely controls activities in the field. If he is not appointed to be the Speaker, he will not go to the field. The director is not too concerned with finances, he has entrusted fully to the treasurer, and even the director does not know how much money comes out and come in the institution. If there is a problem, for example the funds are not liquidated from the Donors, the Director will provide directives without checking program funds

The statement conveyed by the “Melati” employee is almost the same as the statement conveyed by the Director himself. In this case, as an Informant, he admitted that he did not know any about financial matters because everything had been handled by the treasurer.

The Auditor is not Independent

Information on the existence of an audit, monitoring and evaluation conducted by PR and SR was usually received by all NGO employees one week or one month earlier. The auditors often even helped regulate the conditions of the field to make it look good in many ways. For accountability reports for example, they made incorrect reports or falsify reports. In this case the supervisor or auditor was often controlled by an audit.

CONCLUSION

Fraud at the reporting and accountability stages includes (1) Documentation of fictitious activities, this is because the documentation is obtained from fictitious activities and false reports; (2) Fictitious Term of Reference (TOR), this is because there are fictitious activities; (3) Narration is only a fictional essay, this is because all activities are fictitious so the narrative is then composed; (4) False attendance list, this is because there is no monitoring of the activities and attendance; (5) Making fake notes, this is intended to increase the absorption of funds budgeted by the SR; (6) Entrusting the supervision of funds and activities to others, this occurs because the Director is always busy with many programs undertaken by the institution. For the funds, the Director has indeed entrusted fully to the Treasurer without any suspicion; (7) The auditor is not independent, this is done because there is an opportunity given by the supervisor before carrying out supervision to improve the report.

Based on the findings of fraud in the management of program funds mentioned

above, it can be seen that there are still weak controls and no monitoring systems in the flow of program funds owned by NGO “Melati”. Therefore, to prevent fraud, an anti-fraud strategy is needed by strengthening the internal control system of the organization with the COSO approach and implementing the GCG system.

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