

The Role of Internal Audit in Improving Transparent Financial Management at Muhammadiyah 1 Waru Elementary School, Sidoarjo

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ABSTRACT

Objective: This study aims to explore the implementation of internal audits at SD Muhammadiyah 1 Waru Sidoarjo and analyze their impact on the transparency and accountability of financial reporting. **Method:** A qualitative approach was employed, with data collected through observation, interviews, and documentation. **Results:** The findings indicate that internal audits significantly contribute to improving the transparency of financial reports. However, challenges such as limitations in documentation and financial management systems remain, requiring further improvements. **Novelty:** This research provides valuable insights into the role of internal audits in educational institutions, particularly in enhancing financial transparency and accountability, which has been underexplored in the context of Indonesian schools.

INTRODUCTION

In managing an organization, particularly an educational institution, transparent and accountable financial management is crucial. Finance is a vital element in running school operations, covering costs for learning activities, facilities and infrastructure, and the development of other educational programs [1]. Without proper financial management, the achievement of educational goals and visions and missions can be hampered and can even lead to the potential for misuse of funds, which is detrimental to all parties involved: students, parents, teachers, and the community [2].

Schools, as educational institutions, have a significant responsibility in managing funds received from various sources, including government funds, parent contributions, and donations from the community. Therefore, it is crucial for schools to ensure that all funds received and disbursed are clearly recorded and accounted for. This also relates to efforts to maintain public trust in the school [3].

In Indonesia, many schools, both government-run and private, still face challenges in managing finances transparently and accountably. Despite having various funding sources, poorly structured financial management often leads to inconsistencies in recording, unclear expenditures, and misuse of funds for their intended purpose. One way to improve transparency and accountability in financial management is to implement regular and ongoing internal audits [4].

Internal audits are a crucial oversight tool to ensure that every financial transaction conducted by an organization, in this case a school, complies with applicable

accounting principles and regulations established by relevant parties. Through internal audits, weaknesses in the financial management system can be detected early, and recommendations for improvement can be made to increase the efficiency and effectiveness of school fund use. This, in turn, improves the quality of financial reports and minimizes the potential for errors and misuse of funds [5].

Muhammadiyah 1 Elementary School, Waru, Sidoarjo, as a private school, faces similar challenges in financial management. Despite having an established administrative system, the school still feels the need to improve financial management and oversight to ensure greater transparency and accountability. Therefore, the school has implemented internal audits to ensure that its financial reports are accountable and comply with established guidelines.

This study aims to examine the implementation of internal audits at Muhammadiyah 1 Elementary School, Waru, Sidoarjo, evaluate its impact on the quality of financial reports, and identify challenges encountered during the implementation process. Thus, the results of this study are expected to provide a clearer picture of the importance of internal audits in increasing transparency and accountability of financial reports in schools, as well as being a reference for other schools in their efforts to improve their financial management systems.

RESEARCH METHOD

The research method used in this study is descriptive qualitative, aiming to provide an in-depth overview of the implementation of internal audits and their contribution to the quality of financial reports at Muhammadiyah 1 Waru Elementary School, Sidoarjo. This approach was chosen to enable researchers to gain a more comprehensive understanding of the phenomena occurring in the field, as well as to understand the perspectives and direct experiences of the actors involved in internal audits and school financial management. With a qualitative approach, this research can explore contextual information and produce more in-depth findings regarding internal audit practices and financial management within the school environment.

The data collection technique in this study was carried out through several stages, namely:

1. Observation

Observations were conducted to directly observe the financial recording activities and administrative processes carried out by the school. These observations included recording financial transactions, cash management, and the management of funds received and disbursed by the school. Researchers also observed how the school recorded and reported financial data, as well as the extent of internal audit implementation.

2. Semi-Structured Interviews

Interviews were conducted with key informants consisting of the principal, treasurer, and foundation representatives. These semi-structured interviews aimed to gain in-depth information regarding the internal audit practices implemented, the challenges encountered in their implementation, and the informants' perceptions of the

transparency and accountability of school financial reports. These interviews provided an understanding of the internal audit process, which extends beyond technical aspects to include the subjective perspectives and experiences of those directly involved in school financial management (Isma & Yusuf, 2025).

3. Internal Audit Implementation

The internal audit at SD Muhammadiyah 1 Waru involved an in-depth analysis of several financial documents used in school operations. Researchers analyzed financial reports prepared by the treasurer, the general ledger used to record all financial transactions, and cash transaction documents documenting the receipt and disbursement of school funds. Additionally, other documents related to the school's financial activities, such as the Budget Plan (RAB) and the use of School Operational Assistance (BOS) funds, were analyzed to determine the extent to which the school's financial management complied with existing regulations and procedures.

4. Monitoring and Evaluation

After the internal audit was conducted, the next stage was monitoring and evaluation. At this stage, the researcher presented the initial audit findings to school management, particularly regarding errors or discrepancies in financial recording and reporting. Monitoring was conducted to ensure that these findings were addressed by preparing more accurate financial reports in accordance with applicable accounting principles. The researcher also provided further recommendations to school management regarding ways to improve financial management and ensure greater transparency and accountability in the future.

Using a qualitative descriptive method, this study aims to clearly illustrate the implementation of internal audits at Muhammadiyah 1 Waru Elementary School and its contribution to increasing transparency and accountability in financial reporting. It is also expected to provide practical recommendations that can be implemented by other schools to improve their financial management systems.

RESULT AND DISCUSSION

Results

Based on observations and interviews, it was discovered that Muhammadiyah 1 Waru Elementary School, Sidoarjo, had begun an internal audit conducted by a team formed by the foundation. This audit focused on the management of school cash and assets, as well as salary payments and book purchases. Several key findings obtained during the audit include:

Preliminary Audit Findings and Follow-Up

Preliminary Findings:

The audit conducted at Muhammadiyah 1 Waru Elementary School, Sidoarjo, for the 2021–2025 period revealed several significant findings related to the school's financial management. Although program implementation and budget utilization were generally in accordance with the School Activity and Budget Plan (RKAS), and financial reports utilized the SIAS Madina Pay system, several weaknesses existed in the internal control

system and documentation. One key finding was the absence of a dedicated cash book for School Operational Assistance (BOS) funds, resulting in the recording of BOS funds being mixed with the school's financial reports. Furthermore, salary payment procedures were poorly structured, and the flow of book purchases lacked adequate documentation, indicating a lack of transparency in financial management.

Follow-up:

To improve financial management and increase transparency, it is recommended that schools immediately create a Special Cash Book for BOS funds and establish clearer procedures for salary payments and student savings management. Furthermore, it is important to establish written rules regarding the use of student savings funds and maintain detailed transaction records. Schools also need to improve documentation of book purchases by retaining copies of contracts and clarifying profit sharing procedures. Implementing asset depreciation records and regular asset inventory are also important steps to ensure transparency and accountability in school asset management.

Impact of Internal Audits on Transparency and Accountability

The internal audit at Muhammadiyah 1 Waru Elementary School, Sidoarjo, had a significant impact on increasing transparency and accountability in school financial management. Through an in-depth examination of the internal control system, the audit identified gaps that could potentially lead to errors or misuse of funds, such as unclear procedures for managing student savings, salary disbursements, and book purchases. These findings provide the school with an opportunity to improve these processes, which in turn will promote more transparent financial management.

Furthermore, internal audits serve as an effective control tool to ensure that every financial transaction is recorded correctly and in accordance with applicable regulations. The implementation of a more structured accounting system and the existence of clear written procedures for the use of funds will strengthen the accountability of school financial management. Thus, internal audits not only serve to evaluate the reliability of financial reports but also to increase public trust, including parents and other stakeholders, in existing financial management.

Challenges in Internal Audit Implementation

Although internal audits have a positive impact on transparency and accountability, their implementation at Muhammadiyah 1 Waru Elementary School, Sidoarjo, faces several challenges. One of the main challenges is the lack of understanding and commitment from all relevant parties, particularly regarding financial management and the implementation of standard procedures. Several procedures were found to be poorly documented or inconsistently followed, such as in the management of BOS funds and student savings. This indicates the need for further training and understanding for all staff and school financial managers regarding the importance of internal audits and proper financial procedures.

Furthermore, another challenge is the limited human resources and facilities to conduct internal audits on an ongoing basis. While internal audits offer numerous benefits, they require time, effort, and specialized expertise that may not be fully

available within the school. Existing systems, such as the Madina Pay SIAS, need to be optimized and all staff must be properly trained to operate them to ensure accurate and accountable financial information is recorded.

Finally, another challenge lies in coordination between school departments. Several audit findings indicate that coordination between the finance department, the cooperative, and other relevant parties is inadequate, which can delay the implementation of necessary changes. Therefore, it is crucial to strengthen communication and coordination between all parties to ensure the audit recommendations can be effectively implemented.

Performance Achievements

The implementation of internal audits at Muhammadiyah 1 Waru Elementary School, Sidoarjo, during the audit period has yielded a number of positive results that support improved financial management and enhance transparency and accountability. One key achievement is the identification of several areas requiring improvement, such as the management of BOS funds, student savings management, and clearer salary payment procedures. These findings have opened the door for the school to improve its financial system, including strengthening documentation and implementing more transparent procedures.

Another achievement was increased awareness and understanding among school staff about the importance of sound financial management. Although challenges in implementing internal audits remain, the audit has demonstrated significant results, with recommendations well-received and serving as a basis for improving and enhancing the school's financial processes.

The Internal Audit Team successfully achieved its planned performance by resolving agency issues based on joint observations. The following is documentation of the Internal Audit activities at Muhammadiyah 1 Waru Elementary School:





Figure 1. Collection of pictures from the implementation of activities

Discussion

The internal audit at SD Muhammadiyah 1 Waru Sidoarjo has shown a considerable impact on enhancing the transparency and accountability of the school's financial management. As highlighted the primary function of internal audits is to provide an independent assessment of the financial operations within an organization, ensuring that resources are utilized effectively and within legal and ethical boundaries [6]. In the case of SD Muhammadiyah 1, the audit team's work contributed significantly to the organization's ability to ensure that funds, particularly those from the School Operational Assistance (BOS), were allocated and spent transparently [7]. The recommendations provided helped the school restructure its financial reporting processes, ensuring that every transaction was well-documented and aligned with accounting principles.

However, the challenges identified during the audit process emphasize the importance of a well-structured audit system. The underscores that challenges such as inconsistent documentation and unstructured procedures can undermine the effectiveness of financial controls, a concern that also surfaced at SD Muhammadiyah 1. The lack of a dedicated cash book for BOS funds and unclear salary payment procedures revealed weaknesses in the internal control system. These findings corroborate the work,

who noted that internal audits often uncover gaps in organizational systems, which, when addressed, improve the overall management process. The absence of standardized procedures further complicates the auditing process and calls for urgent standardization to improve consistency and compliance [8], [9], [10], [11].

The role of professional development is crucial in overcoming these challenges. Research by Davis, suggests that continuous training and development of audit personnel are essential in maintaining the effectiveness of an audit process, especially in educational institutions where resources are often limited [12]. While SD Muhammadiyah 1's internal audit team contributed significantly to improving transparency, the lack of specialized training in financial management for staff remained a significant barrier. Implementing regular training programs for staff could enhance their understanding and commitment to financial policies, ensuring long-term improvements in the management of school funds.

In terms of public trust, the internal audit has proved instrumental in improving stakeholder confidence [13]. Parents, donors, and the wider community place significant trust in the school's ability to manage financial resources. By improving financial accountability through audit recommendations, SD Muhammadiyah 1 Waru Sidoarjo has not only aligned itself with best practices in financial management but has also cultivated stronger relationships with its stakeholders. Transparent financial practices foster community engagement and create a culture of collaborative governance, where all parties are accountable for their roles in the organization [14].

Lastly, the sustainability of these improvements is contingent upon continuous monitoring and a commitment to addressing the issues raised during the audit. Long-term financial sustainability in schools can only be achieved when audit findings are systematically followed up with corrective actions and continuous process improvements [15], [16]. SD Muhammadiyah 1's efforts to refine its internal audit procedures are commendable, but further steps must be taken to develop an ongoing system of financial oversight that can adapt to emerging challenges. With sustained effort and commitment from all stakeholders, the school can ensure its financial processes are robust, transparent, and accountable for years to come.

CONCLUSION

Fundamental Finding : The implementation of internal audits at SD Muhammadiyah 1 Waru Sidoarjo has played a significant role in strengthening the school's financial control mechanisms, improving financial transparency, and ensuring the completeness of transaction documentation. **Implication :** These audits not only enhance the accountability of financial reporting but also foster constructive interactions between auditors and school management, promoting continuous improvement in financial management practices. **Limitation :** However, challenges such as the lack of professional accountants and standardized audit guidelines remain, which could hinder the full effectiveness of the internal audit process. **Future Research :** Future studies could focus on the development and standardization of audit guidelines tailored for

educational institutions and explore the long-term impact of continuous training for staff and the integration of a more comprehensive auditing system.

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