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FINANCIAL ACCOUNTABILITY PRACTICE OF FAITH-BASED ORGANIZATIONS – CASE STUDY THIRD SECTOR ORGANIZATIONS IN THE SPECIAL REGION OF YOGYAKARTA

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ABSTRAK

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Penelitian ini bertujuan untuk mendeskripsikan praktik akuntabilitas keuangan di dua organisasi sektor ketiga, baik organisasi di bawah lembaga keagamaan atau yang belakangan disebut sebagai Faith-Based Organization (FBO). Pengumpulan data dilakukan dengan wawancara dan dokumentasi serta dianalisis dengan pendekatan kualitatif interpretatif. Hasil penelitian menunjukkan bahwa secara umum kedua organisasi menerapkan pola akuntabilitas keuangan yang berbeda, mulai dari kegiatan perencanaan berupa anggaran partisipatif dan berjenjang, kegiatan pelaksana, dan kegiatan pelaporan yang bervariasi sesuai dengan jenis organisasinya. Praktik akuntabilitas keuangan yang terjadi mencerminkan keunikan pemangku kepentingan, jenis donor, dan skala masing-masing FBO.

Kata Kunci : Akuntabilitas keuangan, organisasi sektor ketiga, organisasi berbasis agama

ABSTRACT

This study aims to describe the practice of financial accountability in two third-sector organizations, both of them are organization under religious institutions or recently named as Faith-Based Organizations (FBO). The data was gathered using interview and documentation and was analyzed using qualitative interpretive approach. The results show that in general, the two organizations apply different patterns of financial accountability, starting from planning activities in the form of participatory and tiered budgets, implementing activities, and reporting activities that vary according to the type of organization. Financial accountability practices that occur reflect the uniqueness of stakeholders, types of donors, and the scale of each FBO.

Keywords: *Financial accountability, third sector organization, faith-based organization*

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INTRODUCTION

The huge and rapid changes that societies have undergone economically, socially, politically and also culturally have affected individuals and organizations. In this context, third sector organizations play an increasingly relevant role (Paiva & Carvalho, 2018). The third sector is often referred to as the civil society, social economy, or the voluntary, nonprofit, and charitable sectors (Salamon et al., 2017 cited by Perai, 2021). According to Paiva & Carvalho (2018), the third sector (or social economy also called no-profit organizations) includes cooperatives, mutual societies, non-profit associations, foundations, and social enterprises. Following Lindsay, et al., (2013) this study uses a broad definition of "third sector organization", which also includes "non-profit" organizations, specially religious organizations resources to carry out their operational activities from other donations and of course not expect a reward (Sulkowski & Ignatowski, 2020). The study uses a faith-based organization as a religious organization. Following to Jacobs & Polito (2012), a faith-based organization is defined as any nonprofit organization that claims to be faith-based including groups of people from all religions and systems of beliefs. Fundamentally, there seems to be no generally accepted definition of the concept of faith-

based organizations (Hanachor & Echezue, 2021).

Although socially oriented, this third sector organization is also required to be responsible for its activities. Accountability for third sector organization also needs to be carried out in preparing plans, programs, and budgeting (Kristy, 2017). Accountability of non-profit organizations is defined as the obligation of the trust holder to provide accountability to the trustee (donor) who has the right to hold accountable for the use of these funds. In practice, the amount of donations received is quite large, so the use of these donations must be accounted for (Sari, 2018). According to Messner (2009) in an organization, there are three categories of accountability, namely: (1) financial accountability; (2) accountability for justice; and (3) performance accountability. The study focuses on financial accountability.

In terms of financial accountability, non-profit organizations report financial conditions in financial reporting that are useful and assess the organization's ability to manage finances. Studies on the financial accountability of third sector organizations often use stewardship theory which has roots in psychology and sociology. Stewardship theory assumes that humans can be trusted or trusted.

The theory is used to describe the accountability practices carried out by managers as stewards in acting according to the owner's interest and the common interest. The steward function can also be carried out by the board or treasurer and the finance department of a third sector organization (which charge of managing resources). The principals are donors as resource owners (Sukmawati et al., 2016).

The agreement formed between the manager or treasurer (steward) and the donor (principal) is based on the belief that the manager or treasurer, as well as the finance department of a non-profit organization, will work according to the goals of the organization. The relationship between the two parties is often unique because it is not like the relationship between stewards and principals in business organizations. Ebrahim (2003a, 2000b) states that the pattern of relationships related to organizational accountability can be seen from internal and external aspects. Based on the relationship pattern, there are three parties, namely 'who' is responsible (internal party), 'to whom' the responsibility is directed (generally to external parties), and the nature of the relationship between internal parties and external parties.

Religious organizations and social organizations under faith-

based organizations (FBO) included in the "third sector organization" receive funding from voluntary donors. Therefore, the organization must also be accountable for the use of its funds, so that the organization can also be analyzed using stewardship theory. Religious organizations that involve certain religious belief systems and practices must have very interesting dynamics to study. In the Indonesian context, the organization has a very important role in Indonesian social life and society.

Referring to the brief description above, the study aims to describe the practice of financial accountability in social institutions under religious organizations in the Special Region of Yogyakarta. The research question posed in the study is: "How the financial accountability is being practiced by the two organizations under study? "

REVIEW OF LITERATURE

Dhanani and Connolly (2012) revealed that the topic of accountability has been increasingly discussed in recent years, especially accountability in non-profit organizations. However, until now there is no specific concept to define accountability. Dhanani and Connolly (2012) state that non-profit organizations have a great responsibility to their constituents in terms of actions taken

(organizational activities) and accountability made. Dhanani and Connolly (2012) use a qualitative method by analyzing documents in the form of annual organizational reports and annual reviews of several large charities in the UK based on stakeholder theory. The study also finds that the annual report of the organization is still the main and dominant medium to show accountability for the performance of an organization.

The third sector organizational accountability is discussed by Sumarwan et al, (2019) comprehensively using a structuration theory approach. According to Sumarwan et al. (2019), the third sector organizational accountability focuses on accountability practices (processes), which are related to the question "who is responsible, to whom is responsible, how, and why should be responsible". Third sector organizational accountability focuses less on the factors that affect accountability (inputs) or the effects of accountability (outputs). Regarding accountability related to 'when accountability is carried out, most research focuses on the reporting and evaluation stage (accountability after the process) and pays less attention to accountability before and during the activity or program implementation.

Research on the accountability of third sector organizations in Indonesia, especially with the study location in Java, has begun (Sukmawati et al., 2016). Accountability can be differentiated into vertical and horizontal accountability (Sukmawati et al., 2016). Especially for church religious organizations, stewardship theory has begun to be used to understand the phenomenon of accountability and compared with a biblical perspective (Sukmawati et al., 2016). Sukmawati et al, (2016) concluded that financial accountability is an attempt to avoid the theft of church money. The accountability study in a church in Surabaya, East Java also analyzes administrative accountability, legal accountability, political accountability, professional accountability, and moral accountability compared to accountability in the Bible (Sugiarti, 2014).

Financial accountability in religious organizations can be interpreted as the obligation of the holder of the trust to give accountability to the party giving the trust (donor) who has the right to ask for accountability for the use of these funds (Ga et al., 2021). Financial accountability is about creating and tracking complete records of an organization's transactions. Financial accountability focuses primarily on managing funds (Meutia & Daud,

2021). Financial accountability is defined as accountability for the management of resources and the implementation of policies entrusted to the reporting entity in achieving the goals that have been set periodically, which is submitted through a medium in the form of an accountability report (Mahsun, et al 2007). Mashaw (2006) proposes six relevant questions to be asked in answering or discussing the financial accountability of third sector organizations, namely:

- 1) Who is responsible (who)?
- 2) To whom are they responsible (to whom)?
- 3) For what they are responsible (for what)?
- 4) How / using what standards of responsible behavior is assessed (how)?
- 5) What are the potential impacts if these standards are not met (what)?
- 6) When is accountability implemented (when)?

The specificity of the third sector accountability lies in the question related to "what is accountability for?" In general, third sector organizations focus more on intention as a subject of accountability, namely giving responsibility by showing that the organization's intentions are pure (Goodin, 2003 in Sumarwan et al, 2019). Another peculiarity of third sector accountability is related to accountability mechanisms

(accountability how), depending on the cooperative relationship between parties (eg monitoring and sanctions that have the same norms and values (Goodin, 2003, in Sumarwan, et al., 2019).

The third sector accountability framework that has been developed by Sumarwan et al, (2019) uses Gidden's structuration theory. The framework uses a sequential approach by connecting input, process, and output. Inputs are factors that affect accountability and the process is the practice of implementing accountability. The output is the impact of the accountability practice. The relationship between these three factors is illustrated in the following chart:

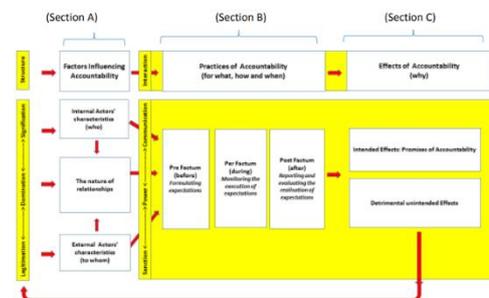


Figure 1. The structuration theory framework for testing third sector accountability

Source: Sumarwan et al, (2019)

Part A is the factors that affect accountability, while part B is the practice of accountability. Part C is the impact of accountability practices. The linkages between accountability systems and

structures are shown in the yellow shaded sections and are linked by arrows.

RESEARCH METHOD

The study adopts a qualitative methodology to reach findings. The data analysis technique in this study is to use the Miles and Humberman model (in Sugiyono, 2020) which includes 1) data collection; 2) data reduction; 3) data presentation; 4) drawing conclusions and giving suggestions.

The study used primary and secondary data. The primary data was obtained by conducting structured interviews with the Glorious Companion Foundation (GCF) who were the Chairperson of the Foundation, the Treasurer and the Board of Trustees, while the research subjects for the Kids Spirit Ambassador (KSA) were the Chairperson, Secretary, and Treasurer. The secondary data were in the form of documents related to the research topic. For the reason of confidentiality, the name of our informants is hidden. The study uses the pseudo-name for the organization and keep real for the rest.

Data analysis in the study was carried out using a qualitative descriptive technique which aims to provide a systematic description of scientific information originating

from the subject or object of research with the following stages:

1. Describe the factors that influence the financial accountability of the third sector (input) in GCF and KSA.
2. Describe the factors that influence the practice of third sector financial accountability (process) in the GCF and KSA.
3. Describe the factors that influence the impact of the third sector financial accountability practice (output) at the GCF and KSA.
4. Draw conclusions by explaining the relationship between input, process and output regarding the practice of financial accountability at the GCF and KSA.

RESULT AND DISCUSSION

Glorious Companion Foundation (GCF)

The Glorious Companion Foundation (GCF) is an organization under Protestant Church located in Yogyakarta Province, Indonesia. It was founded in 1982 as a response to a growing concern on Christian Faith among the Christians (mostly university student) in the city. Its main activity is to provide and distribute devotional books to all service relationships throughout Indonesia. GCF also conducts spiritual training to correctional institutions, holds meetings between

devotional writers and daily devotional readers (Interview with the Trustee). Then there is a "mission trip" activity which is held once a year to remote areas and islands, cooperating with local churches and Christian ministry institutions in the area.

Budget Preparation Process – GCF

GCF's budget is prepared at the end of the year (for the following year's activities) by involving the management and existing divisions. The budget preparation process begins with each unit preparing its activity plans for next year. Then a meeting was held where each unit presented the proposed program. The chairman of the foundation then looked at the activities and their budgets. The evaluation includes the availability of funds and conformity with the Foundation's vision and mission. After that, the budget is consulted with the Trustees. Once approved, the activity will be carried out in the following year. If it is not approved, the management makes improvements and is consulted again with the supervisor. The consultations were conducted by telephone because some of the Board of Trustees' members were living in different country.

Financial Accountability and Mechanism – GCF

Discussion of financial accountability of the Glorious Companion Foundation was carried out using the study of Mashaw (2006) pattern. The report prepared by the treasurer and the evidence of the transaction is then submitted to the supervisor to be checked for conformity with the planning and the validity of the evidence of the transaction. Then the supervisor approves and signs the report. These reports include financial reports and activity reports. After being approved by the supervisor, a report is submitted to the supervisor. The results of this report are then used as material for meetings to be finalized (Supervisors).

Based on this report GCF makes a report to be submitted to the government regarding tax reporting and to be submitted to the Foundation Trustees. GCF does not report its liability directly to donors as described below.

"The Foundation does not provide financial reports to external parties (donors) in writing to prevent parties from using financial information for bad things or things that are out of control. In addition, in general, donors who make donations do not fully identify themselves so that the foundation cannot contact the donors. If the donor wants to know the use of the funds, the donor can come directly to the foundation's office. There, donors can be invited

to a meeting to view financial reports and the use of funds.” (Interview with the Trustee)

Supervision Mechanism – GCF

In general, funds received by donors are managed by the board. The use of funds by the board is principally “supervised” by the supervisory board. At the end of the period, the executive board prepares a financial report which is then examined and checked for conformity with the available evidence by the supervisory board. After the supervisory board states that the financial statements are good, the financial statements will be submitted to the supervisor. The supervisor ensures that the foundation has carried out activities in accordance with the foundation's vision and mission, and has used the funds received from donors properly.

The management reports the financial report by holding a meeting with the supervisor, in this case, the Chairman of the Foundation with the approval of the supervisor. The monitoring system is known as an “embedded control”.

“... the foundation uses an inherent supervision system where the supervisor does not check after the funds are used, but before the funds are used the supervisor has checked and approved or did not approve. (So) the management uses the

money in accordance with a plan that has been approved, controlled by the supervisory board, and the results of its implementation which have been controlled by the supervisory board are given to the supervisory board.” (Interview with the Trustee)

Standard and Impact – GCF

The benefits of the financial report can be summarized into internal benefits in the form of supervision and implementation and external benefits in the form of maintaining the integrity of the management and maintaining the trust of donors. According to the treasurer, financial reports are submitted to related parties as evidence of moral responsibility. Another benefit is that with the report, the supervisor can ensure that everything will go as it should. The integrity can be seen from the statement:

“There should be no misappropriation of funds, or there should be no inappropriate activities. Everything has to be in sync” (Interview with the Treasurer).

For the management, financial accountability is needed to show integrity and honesty, especially regarding the use of funds that have been given by donors and in accordance with our vision and mission. (Interview with the Treasurer). Furthermore, the

treasurer said that financial accountability was necessary to prevent irregularities, and did not want anything to be wrong, because the management had gained the trust to perform services and to demonstrate responsibility. The benefit of financial accountability is so that the executive board of the foundation is ensured that they have carried out their duties properly or not.

The benefit of financial accountability is that the foundation can evaluate the activities that have been carried out, especially in relation to the suitability of the foundation's vision and mission. The trustees stated that the financial report was necessary to check whether the executive management of this foundation had carried out their duties properly or not and to see if there were any irregularities in-service duties and whether the services performed were carried out in accordance with the foundation's mission.

Regarding external parties, financial reports are also useful for providing confidence that the foundation and its activities are real (not fictitious) and the funds provided have been used properly and responsibly, and on target, so that donors are expected to not hesitate to contribute funds (Interview with the Chairman).

In the preparation of financial statements, there are no specific standards, but there is a kind of general guideline, namely the amount of revenue equals the amount of expenditure, or the treasurer says using "a common bookkeeping standard". This is confirmed by the trustees of the foundation as the ultimate holder of the financial statements:

"The foundation prepares financial reports that can be accounted for, using general logic and using formats commonly used in general. So far, the report is considered sufficient so that it is not a problem." (Interview with the Trustees)

The process carried out is for the foundation to receive funds from donors, and provide receipts and thanks. Then the funds will be allocated according to the intentions of the donors, for example for missions, for distributing books to regions, and so on.

"Because there are many donors, reports are given or submitted globally, for example, funds from the donation you give, are used for this kind of purpose." (Interview with the Chairman)

Since no specific standards are followed, no potential impact will occur if these standards are not followed. However, the absence of financial reports will result in

declining trust from the public (or donors) to the foundation.

Kids Spirit Ambassador (KSA)

The Kids Spirit Ambassador (KSA) is an orphanage located in Yogyakarta Province and was founded in 1934 by a Catholic Missionary. The management of the orphanage is conducted by the Sisters of Certain Order in Yogyakarta. Activities in this orphanage are all about taking care of the children in their service. Activities in this orphanage can be categorized as routine daily and non-routine. The daily activities for children are tightly scheduled from morning to night. The accompanying Sister told that the children's routine activities (before the Covid-19 outbreak) starting with getting up early at 04.15 followed by bathing, and at 05.15 leaving (walking) to the church for morning mass. After mass at 06.00, the children go home for breakfast and there is a division of tasks such as: preparing food at the table, cleaning the table, washing dishes. After breakfast, the children go to school and do extracurricular activities. For those who do not participate in extracurricular activities, go straight home, and have lunch. After eating the children do domestic chores. At 16.00 the children do domestic work. At 16.30 there is a snack, continued studying in the afternoon until 18.00 for the prayer, followed by having dinner

and studying, ending with a night prayer before going to bed. In addition to routine activities on Tuesdays, there are music lessons, Monday to Wednesday there are English lessons (Interview with the Sister)

Incidental activities such as pilgrimages are held with the school in May and October, but it seems that the orphanage also holds this activity every month. During the Covid-19 outbreak, worship was only carried out in the chapel, and major activities such as the commemoration of National Education Day were held in the hall with the internal scope of the children. For Kartini Day, a Fashion Show activity was held at the orphanage during the Covid-19 outbreak. Learning activities (schools) are carried out online. Regarding these activities, the management uploaded photos of the activities on Facebook for publication to the public and provided brochures for guests who came to the orphanage. There is an annual TEPAK (Meeting for Strengthening Children and Families) which is a program from the Ministry of Social Affairs carried out between October and December (depending on the financial assistance granted from the Ministry of Social Affairs).

Budgeting Process –KSA

The KSA budget is prepared annually with a period starting from July to June of the following year. The budget is prepared by the manager, namely the chairperson, secretary, and treasurer, which begins with a management meeting inviting coordinators in their respective fields. The meeting aims to discuss the needs of each section, the obstacles faced both in the facilities and infrastructure section, coaching, the business section, and the household section (Interview with the Chairman).

The budget is then sent to the Foundation for funding of education, operations, children's consumption, and others. The budget is also sent to the government (The Ministry of Social Affairs) for special purpose. Every year KSA also makes a proposal containing an activity plan, number of children, and implementation plan to the government. The government has implemented a standard for making proposals. If the proposals are approved, the funds will be transferred to KSA's bank account. The financial assistance from the government is non-routine, while financial assistance from the foundation is routine.

Financial Accountability and its Mechanism – KSA

For financial accountability reports, the personnel who prepare

are the treasurer and chairperson. The secretary is in charge of reporting to the Government. For receiving funds from donors, the responsible parties are the chairperson and the secretary, since the two are always on standby at the office therefore they can meet donors during working hours. The party responsible for managing the funds is the treasurer.

The KSA's financial accountability process begins with the treasurer making a report to be submitted to the Foundation every month. Reports to the government are carried out at the end of each year by December 15. Attached to the report are pieces of evidence such as notes, receipts, and photos of activities. Accountability report is submitted to the foundation and to the relevant government office because these parties have provided financial assistance to KSA.

According to the secretary, a financial accountability report needs to be made as a form of accountability to external parties for what has been given. In addition, the report is also useful for KSA's internal parties, namely to find out the flow of money: how much and where to get it and what it was spent on. Financial reports are authentic pieces of evidence of activities and financial conditions. If it is not made, the administrators will be in trouble considering that there are quite a lot

of orphans, so the report helps to check, for example, who has paid their tuition to school. This can be used as evidence to prevent, for example, the tuition is double-billed by the school. In addition, the report also provides certainty regarding the amount of income and expenses each month. Another perceived benefit is being able to maintain the trust that has been given to KSA (Interview with the Secretary).

Supervision Mechanism – KSA

KSA is an organization engaged in the social sector under the auspices of the Sister of Certain Order. Therefore, KSA carries out its financial accountability to the Sisters' Foundation, which is audited every month. However, auditing for the KSA is carried out by the foundation's internal audit every time there is a visit from the foundation. This is in accordance with the statement of the informant who explained:

“...in addition, there is an audit that is carried out every time there is a visit by the foundation. Usually, it only matches the existing notes, then whether the budget submission in the form of goods has been realized or not. Until now we have never made a fatal mistake, usually, if we make a mistake we are only reprimanded first” (Interview with the Treasurer)

Standard and Impact – KSA

Guidelines for financial reports for the government office already exist in the form of reference standards, therefore the KSA prepares according to the requested format. According to the secretary, having a technical guideline is good, guiding KSA to compile reports. The main perceived usefulness that reports are uniform is making reports and preparing reports simpler or more practical. The technical guidelines are felt to be practical because the items are in accordance with real needs (the children/ the orphanages), for example, there is a post for nutritional supplementation, for buying clothes, and others (Interview with the Secretary).

The procedure for compiling the report is as follows. After the activity is completed, the KSA immediately makes a report because usually, the time period between the implementation of the activity and the reporting date is tight. After being signed by the top management, the report is sent to the relevant parties. There are special difficulties related to the activities and reports as conveyed by the secretary:

“...sometimes the aid is given at the end of the year, usually the government or Ministry of Social funds are approved in October to December. At the beginning of December, the funds just came out,

while the SPJ (the accountability report) had to be finished at the end of the year as well. Note that at the end of the year, we have already had many activities for children such as Christmas, or invitations to attend events outside the orphanage. So that makes it difficult. If the funds from the government are disbursed earlier, we can do it step by step, be more regular in spending them, but because the time is short and the balance has to be zero, we administrators have to race against time even though there are a lot of activities.” (Interview with the Secretary)

There is an impact or risk if the external report is not made in accordance with the existing format, namely the report will be returned for correction. The impact that occurs if the activity is not carried out or does not go according to plan is a warning from the government office. If the warning has been delivered many times, the government will not provide with the fund again. The financial accountability report is sent before 31 December and the KSA usually does it between the 15th and 20th to the Provincial Social Affair Office or District Social Affair Office.

CONCLUSION

In third sector organizations, the agreement formed between the steward (in this case the manager or

treasurer) and the principal (in this case the donor or owner) is often unique and is based on the belief that the management or treasurer or the financial department of the organization will work according to organizational goals. The relationship is unlike the relationship between stewards and principals in business organizations (Ebrahim 2003a, 2000b; Njobvu et al., 2020; Sukmawati et al., 2016). The pattern of relationships based on trust is very visible in the GCF and KSA. In fact, both of them do not provide accountability reports directly to their donors. The practice is very different from business organization, especially public companies submitted openly their financial reports.

Both organizations, GCF and KSA have great responsibilities to their constituents regarding the programs/activities carried out. This is in accordance with what Dhanani and Connolly (2012) stated regarding the great responsibility of non-profit organizations. Goodin (2003), in Sumarwan et al., (2019) states that the peculiarity of the accountability of third sector organizations lies in the question "what is accountability for (for what)?" and third sector organizations focus more on intentions as a subject of accountability, to show that organizational intentions are pure. This is evident from interviewing

with the treasurer of GCF who states that reports need to be made with integrity. KSA, on the other hand, also shows a strong intention to provide credible financial reports.

Sumarwan et al (2019) stated that the type or types of third sector organizations related to the goals, values, and identity of the organization affect the practice of accountability and the impact of these practices. GCF, which is an international organization, applies tiered supervision and is linked to the vision and mission of the foundation. On the other hand, KSA internal audit, namely from the KSA owner for supervision.

Based on the level of power and dependency relationships, donors, government, and regulators are stakeholders of the third sector organization in the upward category (strong stakeholders) (Keay, 2017; Sumarwan et al, 2019; Zyl & Claeys, 2018). KSA that applies for funds to government agencies has a high level of dependence regarding the impact that is quite large if reporting formats or standards are not followed. This does not appear in GCF where the stakeholders are voluntary donors (Hj. Masdar, 2015).

Based on “when” accountability is implemented, both organizations apply post factum accountability, namely reporting accountability at the end of the program (Basri & Siti-Nabiha, 2010; Setiawan & Yulianti,

2014; Sumarwan et al, 2019). However, there are indications of the practice of supervision per factum (at the time of implementation) for example in KSA, they print out the tasks that must be done and hold a checklist of the achievements of the activity. For GCF, the per factum supervision occurs when the treasurer’s staff is going to spend cash (Sumarwan et al, 2019). The staff must get approval from the top management before making a purchase transaction. The GCF calls the practice per factum “sticky oversight” or “embedded control”

There is no accountability report for internal purposes in a certain format. Both GCF and KSA use standard financial report formats. For KSA applies for financial assistance to government agencies, both the proposal and the accountability report follow the format determined by the government agency. The format serves as a technical guideline that provides the benefits of practicality and uniformity of reports.

In general, the two organizations apply different patterns of financial accountability, starting from planning activities in the form of a budget, implementing activities and reporting activities. The process of preparing financial accountability reports reflects the uniqueness of each.

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