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The Role of Internal Control on Accountability of Waqf Nazir

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Abstract

Objective & object:
This study aims to analyze whether internal control affects the accountability of waqf nazir. Specifically, we examine the effects of internal control structure on the effectiveness of the internal control of the waqf nazir and the effectiveness of internal control on the accountability of waqf nazir.
Methods:
This study uses a quantitative approach to test the hypothesis and aims to generalize the results. The total population in this study is 407 cash waqf nazirs registered with the Indonesian Waqf Board (BWI) in October 2023. We used an online questionnaire to collect data and obtained 65 cash waqf nazir as a sample. This study uses second-order construct analysis to analyze the data using Warp PLS 7.0.
Results & Conclusions:
The study indicates that while the internal control structure has no significant impact on internal control effectiveness within Nazir Waqf institutions, that effectiveness itself directly influences cash waqf accountability.
Limitations:
This study only used a relatively small samples, therefore, the findings may not fully generalize beyond the study context. Future studies using larger samples are needed to validate these results.
Implications:
In waqf literature, it provides empirical evidence of the influence of the effectiveness of internal control on the accountability of the waqf nazir. By understanding the condition of nazirs, the results of this study can provide suggestions to the Indonesian Waqf Board (BWI) to encourage waqf nazirs to improve their organization.

Keywords: Internal Control, Accountability, Waqf, Nazir.

Abstrak
Tujuan & obyek:
Penelitian ini bertujuan untuk menganalisis apakah pengendalian internal memengaruhi akuntabilitas nazir wakaf. Secara spesifik, kami mengkaji pengaruh struktur pengendalian internal terhadap efektivitas pengendalian internal wakaf nazir dan efektivitas pengendalian internal terhadap akuntabilitas nazir wakaf.
Metode:
Penelitian ini menggunakan pendekatan kuantitatif untuk menguji hipotesis dan bertujuan untuk menggeneralisasi hasilnya. Total populasi dalam penelitian ini adalah 407 nazir wakaf tunai yang terdaftar di Badan Wakaf RI pada Oktober 2023. Kami menggunakan kuesioner *online* untuk mengumpulkan data dan berhasil mengumpulkan 65 nazir wakaf uang sebagai sampel. Penelitian ini menggunakan

analisis *second-order construct* untuk menganalisis data dengan aplikasi Warp PLS 7.0.
Hasil & Simpulan:
Hasil penelitian menunjukkan bahwa struktur pengendalian internal tidak memiliki pengaruh yang signifikan terhadap efektivitas pengendalian internal wakaf nazir. Tetapi efektivitas pengendalian internal memengaruhi akuntabilitas wakaf uang nazir.
Keterbatasan:
Penelitian ini menggunakan sampel yang relatif kecil, sehingga temuan ini mungkin tidak sepenuhnya dapat digeneralisasi di luar konteks penelitian. Penelitian selanjutnya menggunakan sampel yang lebih besar diperlukan untuk memvalidasi hasil ini.
Implikasi:
Dalam literatur wakaf, penelitian ini memberikan bukti empiris pengaruh efektivitas pengendalian internal pada akuntabilitas nazir wakaf. Dengan memahami kondisi nazir, hasil penelitian ini dapat memberikan saran kepada Badan Wakaf Indonesia (BWI) agar mendorong nazir wakaf untuk meningkatkan organisasinya.

Kata kunci: Pengendalian Internal, Akuntabilitas, Waqf, Nazir.

1. Introduction

Non-profit organizations (NPOs) are government partners in implementing poverty alleviation programs. This collaborative relationship represents an optimal amalgamation for fostering effective positive societal transformation within the community (Pozil & Hacker, 2017). However, this cooperation depends on the availability of funds owned by NPOs. The sustainability of NPOs is significantly influenced by the presence of trust. Transparency and accountability demands affect charitable trusts (Farwell et al., 2018).

In the framework of waqf (a form of Islamic social financing), the establishment of trust plays a pivotal role in motivating waqf entities to contribute cash waqf towards sharia-compliant microfinance initiatives (Ahmad & Rusdianto, 2020). When an institution becomes a waqf nazir, it must be ready to manage waqf funds properly. Increasing accountability is a solution for waqf management (Huda et al., 2014). The strategy to promote waqf accountability entails the systematic publication of annual financial reports, complemented by adherence to governmental audit mandates, waqf stipulations, and the assurance of customer satisfaction. (Ayedh et al., 2018).

For NPOs, the implementation of internal control measures and accountability mechanisms is of paramount significance (Ghasemi et al., 2022). NPOs need an internal control system to improve organizational learning. Internal controls can help improve the efficiency and effectiveness of the institution's operations and performance (Zhou et al., 2016). The impact of internal control effectiveness is directly correlated with the performance of the organization (Hoai & Nguyen, 2022) and financial accountability (Rafindadi & Olanrewaju, 2019; Tetteh et al., 2021).

Internal control and accountability are critical components for the effective management of cash nazir waqf. Despite the enactment of waqf regulations in Indonesia in 2004, the issue of waqf accountability has persisted in recent years, largely attributed to instances of fund misappropriation by sharia social organizations. It is imperative that each cash waqf nazir submits waqf data in a systematic manner to the Indonesian Waqf Agency (BWI), which serves as the regulatory authority for waqf governance in Indonesia. Nevertheless, there exists a significant number of cash waqf nazirs that fail to report waqf data to BWI. BWI retains some data pertaining to cash waqf. Of the estimated 170 trillion potential cash waqf (BWI, 2022), only a mere IDR 391 billion in cash waqf data has been reported by BWI up until the year 2020 (Tanjung, 2021). It is essential to enhance the internal control mechanisms of the nazir to bolster the accountability of cash waqf.

A variety of scholarly investigations have addressed the issue of waqf accountability within the Indonesian context. Although numerous studies pertaining to accountability have been undertaken, there remains a paucity of research focusing on internal control mechanisms in non-governmental organizations, particularly those related to waqf institutions. While extensive research has been conducted regarding internal control, the exploration of this subject within non-profit organizations, especially waqf institutions, is still scarce.

The study conducted by Hoai & Nguyen (2022) examines the structure of internal controls, the efficacy of these controls, and the performance metrics of companies operating in emerging markets. This research elucidates that the efficacy of internal control serves as a mediating factor in the relationship between internal control structures and organizational performance. This inquiry has been adapted from Hoai & Nguyen (2022) to fit the specific context of waqf. As short as author knows, previous research already discussed internal control and accountability, but it was conducted separately. The significance of this research lies in its potential to ascertain whether the internal control structure or mechanisms employed by cash waqf nazirs influence the accountability of cash waqf institutions.

This research aims to ascertain the extent to which the internal control framework influences the effectiveness of the internal control mechanisms employed by waqf nazir. Furthermore, this investigation seeks to elucidate the relationship between the effectiveness of internal control and the accountability pertaining to cash waqf. The importance of this research for the advancement of waqf in Indonesia lies in its potential to address existing gaps within the literature, as well as to elucidate and ascertain the impact of internal control on waqf organizations and their accountability. Given the constraints associated with the examination of internal control within endowment institutions, this study was adapted from the framework proposed by Hoai & Nguyen (2022) to align with the specific context of waqf.

From a practical standpoint, this inquiry aims to enhance the understanding of the internal control conditions and accountability measures pertaining to Indonesia's cash waqf. By gaining insights into the operational status of nazirs, the findings of this research may yield recommendations for the Indonesian Waqf Agency (BWI) to incentivize nazirs in enhancing their organizational practices. Non-governmental organizations may also benefit from fostering their organizational learning through the implementation of a robust internal control system. The establishment of effective internal controls has the potential to augment the operational efficiency and overall performance of the institution (Zhou et al., 2016). Improved performance by nazirs will result in a greater utility of the collected waqf funds for the benefit of the community.

2. Literature Review

2.1. Stewardship Theory

Stewardship theory is a management and governance perspective that views managers as stewards who are naturally motivated to act in the best interests of the organization rather than solely in their own self-interest (Chrisman, 2019). Stewardship theory is a governance and leadership framework that emphasizes the alignment of organizational and individual goals, prioritizing the long-term welfare of the organization over personal interests. It serves as an alternative to agency theory, which assumes individuals act primarily out of self-interest and require external controls to align their actions with organizational goals(Bancroft et al., 2025; Hu & Alon, 2014; Torfing & Bentzen, 2020).

This theory has several key features. Firstly, stewardship theory focuses on behaviors and attitudes that prioritize the long-term success of the organization, often at the expense of short-term personal gains(Hsu & Zhang, 2025). Second, unlike agency theory, stewardship theory advocates for trust-based management practices, which can enhance employee motivation, well-being, and organizational performance (Torfing & Bentzen, 2020; Yu, 2023).

Third, employees and leaders under stewardship theory often exhibit a sense of psychological ownership, fostering pro-organizational behaviors and ethical decision-making (Hernandez, 2012; Hsu & Zhang, 2025). Fourth, stewardship emphasizes relational accountability and prosocial motivation, which are seen as critical for sustainable governance and leadership (Kearns, 2022).

2.2. Internal Control

Internal Control (IC) is a broad concept that encompasses all the procedures, methods, and controls that an organization implements to increase its likelihood of achieving its business goals (The IIA, 2009). Internal control systems are critical for organizations to achieve operational efficacy, adhere to legal and regulatory requirements, and ensure the integrity of financial reporting. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has established a widely acknowledged framework that delineates the elements of an effective internal control system. This framework comprises five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring activities. These elements constitute the bedrock for organizations to devise and execute comprehensive internal controls that can mitigate risk and enhance performance (Li, 2020; Wu et al., 2013; Yahya et al., 2022).

The control environment establishes the foundational ethos of the organization and significantly impacts the control awareness of its personnel. It encompasses the integrity, ethical standards, and competencies of the organization's workforce. A robust control environment is imperative as it provides the essential groundwork for all other internal control elements (Yahya et al., 2022). For instance, scholarly research indicates that organizations characterized by a strong control environment are more prone to successfully attain their objectives and sustain effective operational practices (Achraf & Azegagh, 2022; Eniola & Akinselure, 2016). Furthermore, the control environment is intrinsically linked to the efficacy of internal audits, which serve a vital function in evaluating and enhancing the internal control framework (Badara, 2013).

Risk assessment entails the identification and analysis of risks that may hinder an organization's ability to achieve its objectives. This process is essential for formulating an appropriate response to such risks. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) asserts that organizations must persist in evaluating risks within a dynamic context, thereby ensuring that internal controls remain pertinent and effective (Hsiung & Wang, 2014; Yahya et al., 2022). Empirical investigations have demonstrated that proficient risk assessment methodologies can markedly amplify the advantages derived from internal control systems, particularly in contexts utilizing Enterprise Resource Planning (ERP) systems (Hsiung & Wang, 2014). This underscores the necessity of incorporating risk assessment into the internal control framework to effectively respond to evolving circumstances and emerging threats.

Control activities encompass a series of policies and procedures designed to facilitate the implementation of management directives. These activities are fundamental in alleviating risks and attaining organizational objectives. The COSO framework delineates a variety of control activities, which include, but are not limited to, approval, authorization, verification, reconciliation, and the review of business performance (Wu et al., 2013; Yahya et al., 2022) Studies have shown that effective control activities are positively correlated with financial performance, as they help prevent fraud and ensure the accuracy of financial reporting (Channar et al., 2015; Chaudhary & Chaudhary, 2022), Organizations that implement strong control activities are in a better position to manage their resources efficiently and achieve their financial goals (Eniola & Akinselure, 2016).

Finally, information and communication, along with monitoring activities, are essential for the continued effectiveness of the internal control system. Information must be communicated effectively at all levels of the organization to ensure that employees understand their roles and responsibilities regarding internal control (Achraf & Azegagh, 2022; Yahya et al., 2022). Monitoring activities involve regular assessments of the internal control system to ensure its effectiveness and to identify areas for improvement. Studies have shown that organizations that prioritize monitoring are more likely to maintain high-quality financial reporting and operational efficiency (Ayagre et al., 2014; Thinh et al., 2020). As such, the COSO framework provides a comprehensive approach to internal controls that organizations can leverage to improve their governance and risk management practices.

The COSO framework functions as a fundamental instrument for organizations aspiring to establish an effective internal control system. By concentrating on five components, organizations can devise a resilient internal control architecture that not only mitigates risk but also enhances overall performance. The integration of these components is vital for the realization of organizational objectives and the assurance of compliance with regulatory mandates.

2.3. Accountability of Waqf Institutions

Waqf assumes a pivotal function in socio-economic advancement, particularly within Muslim communities. The accountability of endowment entities is fundamental to guarantee that these organizations adeptly administer their resources and fulfill their designated objectives. Accountability within waqf governance encompasses financial transparency, compliance with Islamic tenets, and responsiveness to stakeholders, which collectively enhance the legitimacy and sustainability of waqf organizations. The contemporary scholarly discourse underscores the necessity for a robust governance framework that integrates accountability mechanisms to augment the efficacy and influence of endowment entities (Ayedh et al., 2018; Cattolica, 2021; Mujahidah, 2024).

The governance of waqf institutions has emerged as a central theme of academic inquiry, particularly concerning the application of Islamic values and principles. A comprehensive governance framework is imperative to ensure that waqf assets are administered in a responsible and transparent manner. Empirical investigations have indicated that the absence of an appropriate governance structure can precipitate inefficiencies and mismanagement within waqf institutions (Ramdani, 2024; Zulkifli et al., 2022). The lack of regular audits and transparent reporting practices may lead to a deterioration of trust among stakeholders, thereby compromising the institution's capacity to attract and retain contributions (Siswantoro et al., 2018). Consequently, the establishment of explicit governance guidelines that are congruent with Islamic teachings is vital to enhance accountability in the stewardship of waqf.

In the context of cash waqf, accountability mechanisms are essential due to the financial nature of these contributions. Research shows that government oversight and public reporting can significantly improve the accountability of cash waqf institutions (Rusydiana et al., 2022; Siswantoro et al., 2018). By requiring waqf institutions to disclose their activities and financial results, stakeholders can better assess the effectiveness of these organizations in achieving their social goals. In addition, the integration of technology in the management of waqf can facilitate more efficient reporting and increase transparency, which is important for building trust among contributors and beneficiaries (Purwaningsih, 2023; Shariff & Fadhila, 2023).

The development of standard accounting practices for waqf institutions is another important aspect to improve accountability. The current literature suggests that the implementation of the Waqf-Integrated Reporting (WAQIR) model can provide a comprehensive framework for waqf institutions to report their financial and non-financial performance (Masruki et al., 2020; Talib et al., 2020). This model emphasizes the importance of disclosing not only financial data but also governance practices and socio-economic impacts, thereby promoting a holistic view of the performance of endowments. By adopting such integrated reporting practices, waqf institutions can better demonstrate their accountability to stakeholders and improve their overall effectiveness in serving the community (Kamaruddin & Hanefah, 2021; Uula, 2023).

2.4. Hypothesis Development

Stewardship theory emphasizes trust and collaboration, contrasting with agency theory's focus on control and minimizing self-interest. This aligns with internal control structures that aim to foster accountability and transparency through mechanisms like monitoring, risk assessment, and ethical codes control environment establishes the ethical framework and organizational culture that supports trust and collaboration (Abankwah et al., 2025). It is foundational for stewardship-oriented governance. Stewardship theory suggests that a strong control environment fosters trust and reduces the need for excessive monitoring (Erikson et al., 2022).

The examination of internal control mechanisms underscores the significance of both internal and external influences, elucidating the necessity for non-governmental organizations (NGOs) to implement robust internal control systems. The adoption of sound governance practices has been shown to enhance decision-making processes and service provision within NGOs. It is imperative for NGOs to establish an internal control framework to foster organizational learning and development (Ghasemi et al., 2022).

An internal control framework, as delineated by established paradigms such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), encompasses multiple elements, including the control environment, risk evaluation, control activities, information dissemination, and monitoring processes (Fourie & Ackermann, 2013; Nashwan, 2018). These elements synergistically enhance the integrity of internal controls, which consequently can result in improved organizational efficacy and a diminished likelihood of fraudulent activities and errors. Empirical studies have demonstrated that organizations possessing robust internal control frameworks are more predisposed to realize their operational goals and adhere to regulatory stipulations, thereby augmenting their overall operational effectiveness (Türedi & Celayir, 2018)

Moreover, the interrelationship between the structure and efficacy of internal controls is increasingly influenced by variables such as the caliber and consistency of leadership. Scholarly research has indicated that leadership is instrumental in cultivating an environment that is conducive to the establishment of effective internal control systems (Hoai & Nguyen, 2022). When leadership is characterized by consistency and high quality, it exerts a favorable impact on the deployment and efficacy of internal control frameworks, thereby enhancing their overall effectiveness (Hoai & Nguyen, 2022). This relationship illustrates that the internal control structure is not solely critical; rather, the contextual factors in which it functions—shaped by the organization's leadership and cultural dynamics—also play a pivotal role in determining its effectiveness. Consequently, the hypothesis posits that a robust internal control framework, supported by exemplary leadership, will yield heightened efficacy of internal controls, ultimately contributing to improved organizational performance and risk management outcomes (Adiningrat, 2022; Hoai & Nguyen, 2022). From the above discussion, the proposed hypothesis is:

H1: Internal control structure increases the effectiveness of internal control of cash waqf nazir

Effective internal control pertains to the capability of an organization's internal control framework to fulfill its designated goals, which include the protection of assets, the assurance of precise financial reporting, and the promotion of adherence to relevant laws and regulations (Al-Thuneibat et al., 2015; He, 2023). When internal controls are functioning effectively, they yield dependable information and assurance for stakeholders, which is critical for cultivating trust and accountability within the organization (Morris, 2011). Consequently, the hypothesis posits that an effective internal control system exerts a positive influence on institutional accountability by enhancing transparency and reliability in reporting practices, thus empowering stakeholders to hold institutions responsible for their actions and decisions (Yang & Northcott, 2019).

Furthermore, the dynamics of accountability within the institution are shaped by the caliber of internal controls, which provide a structured framework for the monitoring and evaluation of performance. Robust internal controls promote the collection and dissemination of accurate information, which is essential for stakeholders to evaluate the institution's performance and adherence to its obligations (Pas et al., 2019). This relationship shows that institutions with strong internal control systems are in a better position to demonstrate accountability, as they can provide stakeholders with the necessary information to evaluate their performance and decision-making processes (Farooq & Villiers, 2018). As a result, the hypothesis confirms that there is a significant positive relationship between the effectiveness of internal control and institutional accountability, where increased internal control leads to improved accountability outcomes, which ultimately contributes to the legitimacy and sustainability of the institution in the eyes of its stakeholders (Jamal & Tilchin, 2019; Luo, 2017). From the above discussion, the proposed hypothesis is:

H2: The effectiveness of internal control increases the accountability of the cash waqf nazir

3. Research Method

This study uses a quantitative approach to test the hypothesis and aims to generalize the results. This study tests hypotheses to explain the nature of a particular relationship in a situation (J. F. Hair et al., 2019). This research will use a survey data collection method. This study uses surveys because the researcher aims to get responses from individuals (J. F. Hair et al., 2019). The total population in this study is 407 cash waqf nazirs registered with the Indonesian Waqf Agency in October 2023. Nazir is a person or group of people or institutions authorized to collect, mobilize, manage, develop, invest, manage, disburse, and account for waqf through a state or other legally binding body (WZWF, 2022). This study successfully collected responses from 65 cash waqf nazir as a sample.

The internal control structure was measured using a 25-point scale, according to COSO (2013). It consists of five dimensions: control environment (5 points), risk assessment (4 points), control activities (5 points), information and communication (5 points), and monitoring (5 points). According to COSO (2013), the effectiveness of internal controls is demonstrated through the achievement of business objectives, which include: (a) honest and reasonable financial reporting; (b) effective and efficient operation; and (c) compliance with applicable laws and regulations. The effectiveness of internal control was assessed using a 12-point scale, according to Hunziker (2017). These variables have three dimensions: financial reporting (4 factors), operations (4 factors), and compliance (4 factors).

Accountability is measured by seven indicators of Good Nazir Governance (GNG) (WZWF, 2022). The indicator is: (a) The availability of complete organizational structure, job description, and proper organizational planning, (b) The availability of sound and proper SOP and dedicated Good Nazir Governance structure or committee to ensure the efficiency and effectiveness of organizational functions, etc.

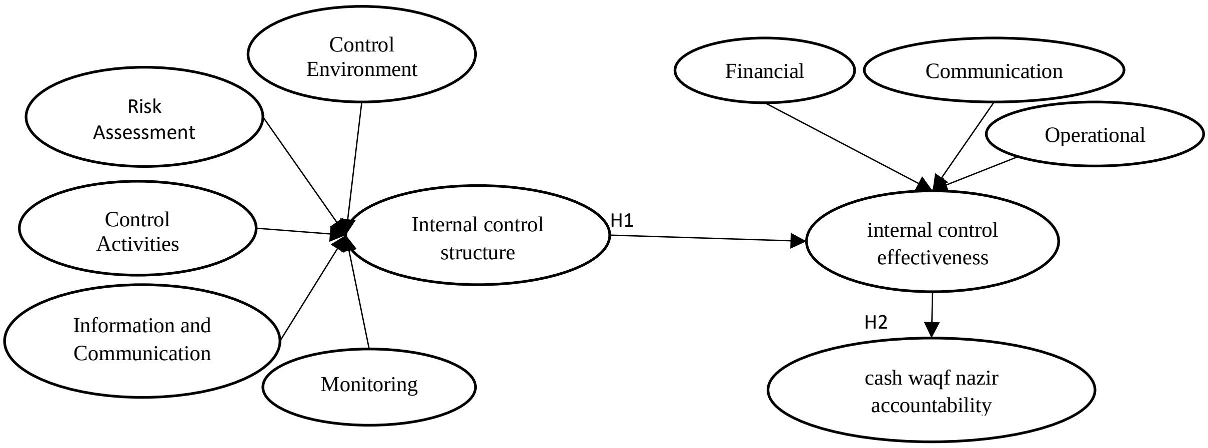

Figure 1. Structural Model

Because this study aims to develop a new research model, the researcher uses variant-based Structural Equation Modeling (SEM) for hypothesis testing. This is because of several advantages, including flexibility in determining the number of samples. SEM-PLS can detect research variables that cannot be directly observed (variables that cannot be observed*),* which can account for measurement errors*.* The data analysis in this study uses second-order construct analysis. In this case, because the internal control structure construct consists of 5 lower components. In addition, the construct of the effectiveness of internal control consists of financial, operational, and compliance reporting components. SEM consists of two main stages: measurement and structural modeling. The measurement model has the task of testing convergent validity, discriminant validity, and reliability testing.

Convergent validity explains the principle that a construct or variable measure must have a high correlation. In contrast, discriminant validity has the principle that different construction measuring tools should not correlate with height. In addition to the validity test, the reliability test is carried out by looking at the reliability values of alpha *Cronbach composites.* Furthermore, structural models are used for hypothesis testing with predictive models or model development. Furthermore, for structural model testing, it is shown that the value of the coefficient of the path or model in shows a significant level in hypothesis testing (Hartono & Abdillah, 2014).

4. Results and Discussion

4.1. Results

The data collection method in this study uses a survey by distributing questionnaires directly to respondents, namely Nazhir Waqf. After the questionnaire was distributed, the researcher verified both the data that could be used and what could not be used. After the data is collected, then tabulated and tests the outer model and inner model.

Table 1 Demographic Characteristics of Respondents

No	Characteristics	Category	Sum/ Percentage (%)	
1	Gender	Male	53	81.5
		Female	12	18.5
		Total	**65**	**100%**
2	Generation	Gen Pre-Boomer (<1945)	1	1.5
		Gen Baby Boomers (1946-1964)	2	3.1
		Gen X (Bust) (1965-1980)	38	58.5
		Gen Y (Millennial) (1981-1996)	24	36.9
		Total	**65**	**100%**
3	Education	D1-DIV	4	6.2
		Doctor (S3)	10	15.4
		Magister (S2)	22	33.8
		Bachelor (S1)	26	40
		High school or equivalent	3	4.6
		Total	**65**	**100%**
4	Institution Location	Aceh	2	3.1
		Riau	2	3.1
		West Sumatra	2	3.1
		North Sumatra	2	3.1
		Bengkulu	1	1.5
		Lampung	1	1.5
		Jakarta	7	10.8
		Banten	4	6.2
		West Java	22	33.8
		Central Java	9	13.8
		East Java	8	12.3
		West Kalimantan	1	1.5
		East Kalimantan	3	4.6
		Nusa Tenggara Barat	1	1.5
		Total	**65**	**100%**

Source: Data processed

Table 1 explains the characteristics of respondents based on gender, occupation, education, institutional address, and cash waqf nazir. The results showed that gender was dominated by men with 53 people while women with 12 people. Furthermore, 38 people are gen X and the rest are millennial genes.

Hair et al (2013) mention the existence of practical guidelines on minimum sample sizes in the SEM-PLS analysis. First, it is equal to or greater than the condition of (1) ten times the number of the largest formative indicators used to measure a construct or (2) ten times the number of the largest structural paths leading to a given construct. The number of respondents in this study is 65 so that the number of samples is sufficient for analysis.

The data analysis in this study uses second-order construct analysis. Before conducting a second-order construct analysis, the researcher conducted a *first-order* analysis first. Testing the outer model is carried out by testing convergent validity and discriminant validity. Next, a reliability test, a composite reliability test and an average variance extracted (AVE) test were carried out. Next, the researcher will make a summary of which indicators or items can be used and which cannot be used. The convergent validity test can be seen from the score of the estimated loading factor of more than 0.7, if the value is above 0.7 then it can be said to be valid. Even so, there are a number of indicators that show below 0.7, but the opinion Hair et al (2014) if it is still above 0.6, it is still considered valid. The results of the convergent validity test for *the first order* are shown in Table 2.

Table 2 First-order convergent validity measurements

Latent Variable	Loading Factor
CA 1	0.886
CA 2	0.929
CA 3	0.942
CE 1	0.889
CE 2	0.799
CE 3	0.938
CE 4	0.876
CE 5	0.914
IC 1	0.914
IC 2	0.920
IC 3	0.865
MON 1	0.971
MON 2	0.973
RA1	0.919
RA2	0.963
RA3	0.889
RA4	0.920
COM 1	0.885
COM 2	0.867
COM 3	0.919
COM 4	0.907
FIN 1	0.855
FIN 2	0.900
FIN 3	0.916
FIN 4	0.739
OP 1	0.879
OP 2	0.891
OP 3	0.951
OP 4	0.869

Source: Data processed

Table 3 is a test of discriminatory validity. Discriminant validity can be evaluated in two ways: by confirming that a construct's square root of the AVE exceeds its correlation with other latent variables (the Fornell-Larcker criterion), or by checking that indicators load higher on their intended construct than on others (cross-loadings). An instrument is said to have discriminant validity if two different instruments or indicators measure two predicted uncorrelated constructs, resulting in uncorrelated scores. The validity of the discriminant is determined by using the AVE root of each latent variable greater than the correlation of the latent variable.

Table 3 Analysis of Discriminant Validity

	CA	CE	COM	FIN	IC	MON	OP	RA
CA	**0.919**							
CE	0.652	**0.884**						
COM	0.646	0.562	**0.895**					
FIN	0.725	0.699	0.721	**0.855**				
IC	0.817	0.696	0.593	0.717	**0.901**			
MON	0.78	0.748	0.679	0.727	0.79	**0.972**		
OP	0.689	0.626	0.81	0.817	0.679	0.713	**0.898**	
RA	0.688	0.904	0.573	0.732	0.738	0.809	0.609	**0.923**

Source: Data processed

Table 3 shows that the root value of the AVE is bold and diagonal, compared to the correlation value of the latent variable below it (the same column) and next to it (the same row). This shows that all variables meet the discriminant validity based on the greater AVE root comparison value compared to the latent variable correlation.

Table 4 details the reliability test, which assesses whether the instrument yields consistent results over repeated measurements. Reliability was confirmed as constructs met the threshold of composite reliability scores over 0.70 and Cronbach's alpha values over 0.60.

Table 4 Reliability and Composite Reliability Tests

Latent Variable	**Cronbach's Alpha**	**Composite Reliability**	**Average Variance Extracted (AVE)**
Control Activities	0.908	0.942	0.845
Control Environment	0.929	0.947	0.782
Information and Communication	0.883	0.928	0.811
Monitoring	0.942	0.972	0.945
Risk Assessment	0.942	0.958	0.852
Communication	0.917	0.941	0.8
Financial	0.875	0.916	0.732
Operational	0.92	0.943	0.806

Source: Data processed

Demonstrating strong internal consistency, all constructs exceeded the standard thresholds with composite reliability values above 0.7 and Cronbach's alpha coefficients above 0.6, establishing the reliability of the study's measurement tools. Because the results show reliability, the second-order analysis can be continued. Like the first-order test, the second-order test also measures the outer model. After the outer model, it is followed by the inner model measurement. The results of the convergent validity test for the second order are shown in Table 5.

Table 5 Second Order Convergent Validity Analysis

Latent Variable	**Loading Factor**
Acc 1	0.772
Acc 2	0.846
Acc 3	0.873
Acc 4	0.844
Acc 5	0.837
Acc 6	0.858
Acc 7	0.871
CA 1	0.730
CA 2	0.780
CA 3	0.832
CE 1	0.781
CE 2	0.765
CE 3	0.859
CE 4	0.826
CE 5	0.826
IC 1	0.793
IC 2	0.847
IC 3	0.724
MON 1	0.860
MON 2	0.886
RA 1	0.840
RA 2	0.893
RA 3	0.816
RA 4	0.917
COM 1	0.824
COM 2	0.810
COM 3	0.860
COM 4	0.778
FIN 1	0.797
FIN 2	0.768
FIN 3	0.829
FIN 4	0.699
OP 1	0.790
OP 2	0.814
OP 3	0.900
OP 4	0.902

Source: Data processed

Table 5 shows that all variables meet the convergent validity for the second order.

Table 6 Analysis of the Second-Order Discriminant Validity

	Accountability	Internal Control Effectiveness	Internal Control Structure
Accountability	0.844		
Internal Control Effectiveness	0.519	0.816	
Internal Control Structure	0.548	0.785	0.824

Source: Data processed

Table 6 shows that all variables for the second order meet the discriminant validity based on the greater value of the AVE root comparison compared to the latent variable correlation.

Table 7 Reliability and Composite Reliability Test

Latent Variable	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Accountability	0.932	0.936	0.945
Internal Control Effectiveness	0.954	0.960	0.666
Internal Control Structure	0.970	0.973	0.679

Source: Data processed

Based on composite reliability scores over 0.7 and Cronbach's alpha values over 0.6 for each construct, the study's measurement scale is deemed reliable. Since the results show reliability, the hypothesis analysis can be continued.

Table 8 Hypothesis Testing

Path	Coefficient	P-Values
IC -> Internal Control Structure	0.188	0.000
CA -> Internal Control Structure	0.195	0.000
CE -> Internal Control Structure	0.304	0.000
MON -> Internal Control Structure	0.153	0.000
RA -> Internal Control Structure	0.268	0.000
OP -> Internal Control Effectiveness	0.391	0.000
COM -> Internal Control Effectiveness	0.366	0.000
FIN -> Internal Control Effectiveness	0.323	0.000
Internal Control Structure -> Internal Control Effectiveness	0.001	0.652
Internal Control Effectiveness -> Cash Waqf Accountability	0.519	0.000

Source: Data processed

Table 8 shows that the internal control structure has a coefficient value of 0.001 and p-value > 0.001. This indicates that H1 is not supported. In addition, internal control effectiveness has a coefficient value of 0.519 and p-value < 0.001. This indicates that H2 is supported.

4.2. Discussion

The results of hypothesis testing showed that H1 was not supported. The internal control structure of Nazir Waqf does not significantly influence the internal control effectiveness of Nazir Waqf because effectiveness depends more on how controls are implemented than on their formal design (Zheng et al., 2026). A well-defined structure can assign roles and responsibilities, but it will not improve control outcomes unless employees consistently follow procedures, supervision is active, and monitoring is effective. In practice, factors such as the control environment, control activities, risk assessment, information and communication, and monitoring have a more direct impact on effectiveness (Giannopoulos et al., 2025). Therefore, the internal control structure is better understood as a supporting framework that facilitates control implementation rather than a direct determinant of effectiveness (Zheng et al., 2026).

Furthermore, the effectiveness of internal controls is not solely determined by the structure but is influenced by a variety of external and internal factors, including organizational culture, management practices, and the external regulatory environment. For example, research has shown that while a strong internal control structure is essential, it is the implementation and operationalization of these controls that ultimately determine effectiveness (Malau, 2020; Yusuf & Kanji, 2020). This shows that the existence of a structured internal control system does not guarantee its effectiveness; rather, it is the context in which it operates that plays an important role.

In addition, the relationship between internal control structures and effectiveness can be obscured by other influencing factors. For example, resource constraints, operational risks, and the age of a company can significantly affect the effectiveness of internal controls, regardless of the structure itself (Asiligwa & Rennox, 2017; Malau, 2020). This suggests that organizations with similar internal control structures may experience different levels of effectiveness due to these external variables. As a result, it can be said that the effectiveness of internal controls is more a function of how well they are integrated into the organizational processes and less about the structural components themselves.

The role of internal auditors and their independence is crucial in determining the effectiveness of internal controls. Research shows that the effectiveness of internal control systems is significantly improved by the presence of competent internal auditors who can objectively assess and improve the control environment (Achraf & Azegagh, 2022; Yusuf & Kanji, 2020). It highlights that the human element, including the skills and attitudes of those who apply control, can have a more profound impact on effectiveness than the control structure itself. Thus, it can be argued that the effectiveness of internal controls depends on the quality of execution rather than the rigidity of the control structure.

In addition, the dynamic nature of the business environment complicates the relationship between internal control structures and effectiveness. Organizations must adjust their internal controls to respond to changing risks and operational challenges. For example, a study on Vietnamese credit institutions emphasized that the effectiveness of internal controls is closely related to the ability of organizations to adapt their control systems to evolving circumstances rather than adhering to strictly predetermined structures (Thinh et al., 2020). This adaptability suggests that rigid internal control structures can hinder effectiveness by failing to accommodate the unique challenges faced by an organization.

Finally, perceptions of effectiveness can vary significantly among stakeholders, further complicating the relationship with internal control structures. Different stakeholders can prioritize different aspects of the effectiveness of internal controls, such as compliance, risk management, or operational efficiency. For example, while a structured internal control system may be viewed as effective from a compliance perspective, a structured internal control system may not always translate into operational efficiency or risk mitigation (Chaudhary & Chaudhary, 2022). This difference in perception underscores the argument that the effectiveness of internal controls is not solely a function of structural components but is influenced by a wider range of factors, including stakeholder expectations and organizational goals.

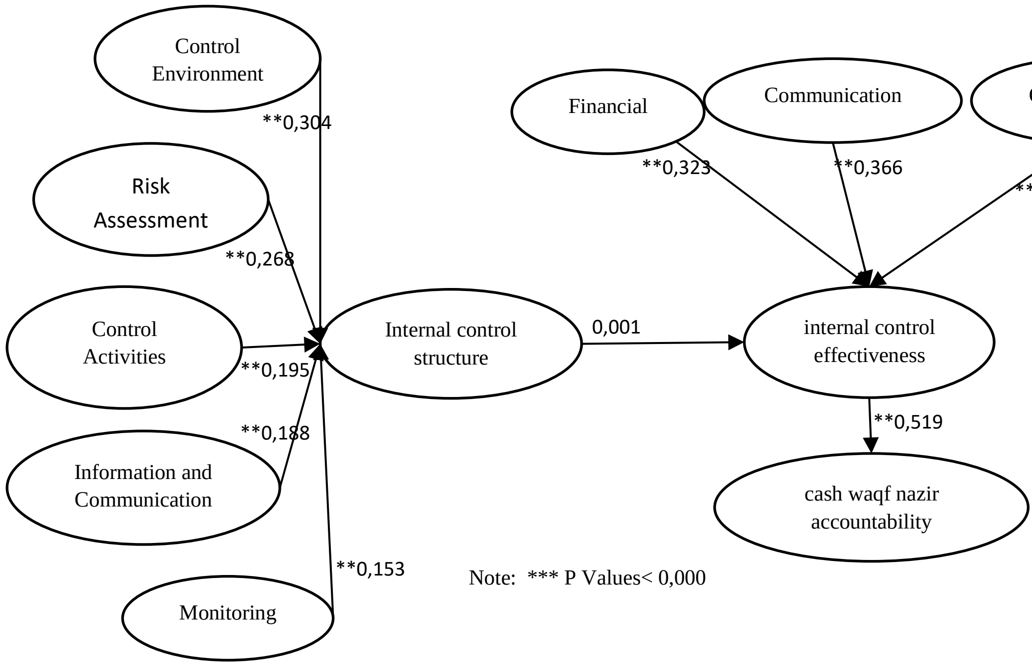

Figure 2. Structural Model Result

Although internal control structures are important, they do not singularly dictate the effectiveness of internal controls. Effectiveness is influenced by the complex interplay of contextual factors, the quality of implementation, adaptability to change, and stakeholder perceptions. Therefore, it is important to realize that the effectiveness of internal control is a multifaceted construct that goes beyond mere structural considerations.

The empirical results confirm Hypothesis 2, highlighting internal control effectiveness as a key driver of accountability for Nazir Waqf entities. Strong internal controls are positively correlated with both financial accountability and organizational performance. For example, in the private healthcare sector, internal control mechanisms directly enhance financial accountability, which in turn improves financial performance (Al Rahhaleh et al., 2023). Similarly, in municipal governments, internal controls such as risk assessment and supervision significantly improve compliance and transparency in managing public resources (Sibanda et al., 2020; Vasquez-Lozada et al., 2026).

In public sector contexts, internal controls are essential for ensuring accountability in financial management and procurement processes. Weak implementation of internal controls often leads to inefficiencies, unethical practices, and non-compliance, as seen in South African municipalities (Sibanda et al., 2020). Conversely, strong internal controls promote integrity and reduce waste. (Hariani et al., 2026; Reginato & Nonnis, 2012). Internal control effectiveness is a cornerstone of accountability, influencing financial performance, governance, and transparency across sectors. Strengthening internal controls, supported by technology and robust governance frameworks, can significantly enhance accountability and trust in both public and private organizations.

The internal control system is designed to ensure that resources are managed efficiently, risks are mitigated, and compliance with laws and regulations is maintained. Effective internal controls facilitate transparency and accountability, which is very important for Nazir Waqaf, as they manage funds intended for charitable purposes. According to Badara, an effective internal control system is essential to achieving the organization's goals and can significantly affect the effectiveness of internal audits, which is crucial to ensure that funds are used appropriately and aligned with the charity's intended objectives (Badara, 2013). This relationship underscores the importance of strong internal controls in driving accountability, as it provides a framework for monitoring and evaluating the management of waqf assets.

In addition, the accountability of Nazir Waqaf is closely linked to the quality of internal controls, which can prevent mismanagement and ensure that financial reporting is accurate and reliable. As Yusuf and Kanji highlight, the role of internal auditors is crucial in this context. They help management assess the effectiveness of internal controls and ensure that the organization adheres to its operational plan (Yusuf & Kanji, 2020). When internal controls are effective, they not only protect assets but also increase the credibility of financial statements, thereby strengthening stakeholder trust. This is especially important for Nazir Waqaf, as public trust in their accountability can lead to increased donations and support for their initiatives. Therefore, the effectiveness of internal controls directly impacts the accountability of Nazir Waqaf, ensuring that they fulfill their fiduciary responsibilities and maintain the trust of their beneficiaries and donors.

Practically, this research will help to understand the conditions of internal control and accountability of Indonesia's cash waqf. By understanding the condition of nazirs, the results of this study can provide suggestions to the Indonesian Waqf Agency (BWI) to encourage nazirs to improve their organization. NGOs can improve their organizational learning by implementing an excellent internal control system. Internal controls can help improve the efficiency and effectiveness of the institution's operations and performance (Zhou et al., 2016). With better nazir performance, the collected waqf funds will be more beneficial to the community. Strengthening internal controls in public financial management can mitigate risks, reduce corruption, and enhance accountability in resource allocation (Hariani et al., 2026; Sibanda et al., 2020).

This study is subject to several limitations that should be acknowledged. First, the minimum number of samples used has met the criteria of Hair *et al*. (2013), but that number is not enough according to Cohen. Future studies are expected to increase the number of samples used on nazhir context. Second, this study uses a dependent variable named internal control structure and a mediating variable, internal control effectiveness on accountability. Future studies are suggested to add other variables in testing accountability variables.

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