# The Amānah of Governance: Internal Control, Islamic Organizational Culture, and Fraud Risk Mitigation

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## Abstract

This study examines the relationships between the COSO Internal Control Framework, Islamic Organizational Culture (IOC), fraud prevention, and organizational performance in public sector institutions. Using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with a sample of 175 respondents, the findings reveal that COSO does not have a significant direct effect on either fraud prevention or organizational performance. In contrast, IOC demonstrates a strong and significant influence on both fraud prevention and performance. This result indicates that value-based cultural attributes rooted in Islamic principles—particularly amanah, sidq, and accountability—function as mechanisms that realize key maqāṣid al-Sharīʿah objectives, namely the preservation of wealth (hifẓ al-māl) through the prevention of fraud, and the preservation of faith (hifẓ al-dīn) by reinforcing ethical and religious compliance within organizational practices. The results further show that fraud prevention positively improves performance and mediates the relationship between IOC and performance, while COSO exhibits no mediating effect through fraud prevention. These findings refine Institutional Theory by demonstrating that in Islamic public-sector contexts, normative and cultural pillars (represented by IOC) possess stronger legitimizing power for shaping organizational behavior than purely regulatory or coercive structures (represented by COSO). Formal controls alone are insufficient without the support of deeply internalized ethical and religious values. Overall, the study highlights the importance of integrating Islamic ethical norms, cultural foundations, and fraud prevention mechanisms as practical embodiments of hifẓ al-māl to achieve more effective, accountable, and trustworthy governance.

**Abstrak**

Penelitian ini mengkaji hubungan antara Kerangka Pengendalian Internal COSO, Budaya Organisasi Islami (Islamic Organizational Culture/IOC), pencegahan kecurangan, dan kinerja organisasi pada institusi sektor publik. Dengan menggunakan Structural Equation Modeling–Partial Least Squares (SEM-PLS) dan melibatkan 175 responden, temuan penelitian menunjukkan bahwa COSO tidak memiliki pengaruh langsung yang signifikan terhadap pencegahan kecurangan maupun kinerja organisasi. Sebaliknya, IOC menunjukkan pengaruh yang kuat dan signifikan terhadap keduanya. Hasil ini mengindikasikan bahwa atribut budaya berbasis nilai yang berakar pada prinsip-prinsip Islam—khususnya amanah, ṣidq, dan akuntabilitas—berfungsi sebagai mekanisme yang merealisasikan tujuan utama maqāṣid al-Sharīʿah, yaitu penjagaan harta (hifẓ al-māl) melalui pencegahan kecurangan dan penjagaan agama (hifẓ al-dīn) dengan memperkuat kepatuhan etis dan religius dalam praktik organisasi. Hasil penelitian juga menunjukkan bahwa pencegahan kecurangan berpengaruh positif terhadap kinerja dan memediasi hubungan antara IOC dan kinerja, sedangkan COSO tidak menunjukkan efek mediasi melalui pencegahan kecurangan. Temuan ini memperkaya Institutional Theory dengan menunjukkan bahwa dalam konteks sektor publik Islam, pilar normatif dan kultural (yang direpresentasikan oleh IOC) memiliki kekuatan legitimasi yang lebih besar dalam membentuk perilaku organisasi dibandingkan struktur yang bersifat regulatif atau koersif (yang direpresentasikan oleh COSO). Pengendalian formal saja tidak memadai tanpa dukungan nilai-nilai etis dan religius yang terinternalisasi secara kuat. Secara keseluruhan, penelitian ini menegaskan pentingnya integrasi norma etika Islam, fondasi budaya, dan mekanisme pencegahan kecurangan sebagai perwujudan praktis dari hifẓ al-māl untuk mencapai tata kelola yang lebih efektif, akuntabel, dan terpercaya.

**Kata Kunci:** Kinerja BAZNAS; Pencegahan Fraud; Pengendalian Internal; Budaya Organisasi Islam

## Introduction

*T*he governance of zakat institutions in Indonesia, particularly BAZNAS, has become a central concern in strengthening public trust and ensuring the effective distribution of zakat funds. As a religious nonprofit entity, BAZNAS faces inherent vulnerabilities to fraud risk arising from complex fund flows and limited oversight mechanisms. Such vulnerabilities are widely recognized in nonprofit governance literature, which highlights that weak control structures often expose charitable organizations to higher fraud potential. From an Islamic perspective, the issue carries even deeper theological significance. The Qur'an condemns acts of misappropriation or ghulūl, emphasizing that the betrayal of entrusted funds is both a

moral violation and a breach of religious obligation. Therefore, fraud prevention in zakat institutions is not merely an administrative requirement but a direct realization of two primary objectives of Maqāṣid al-Sharīʿah: the preservation of wealth (ḥifẓ al-māl) and the preservation of faith (ḥifẓ al-dīn). Ensuring that zakat funds are managed with integrity protects the economic rights of mustaḥiq and reinforces the religious responsibility borne by amil as trustees of public wealth. By explicitly framing fraud prevention as an act that upholds these core maqāṣid, this study positions BAZNAS governance not only within the framework of contemporary nonprofit management but also within the broader ethical and theological mandate of Islamic law. This linkage strengthens the conceptual foundation of the research and clarifies why effective fraud prevention mechanisms are essential for sustaining BAZNAS legitimacy and performance.[1]

One of the most important mechanisms for minimizing fraud risk is the implementation of internal control systems. The COSO framework emphasizes that effective internal control consists of a strong control environment, risk assessment, control activities, information and communication, and continuous monitoring. Evidence from several zakat institutions in Indonesia shows that internal controls aligned with the COSO framework significantly reduce opportunities for fund misappropriation.[2] For instance, a study in BAZNAS Lampung demonstrates that while most control elements have been implemented, structured internal auditing remains a major challenge.[3] Similar findings in BAZNAS Tanjung Jabung Barat, Jambi, show that although the five COSO components are formally applied, the establishment of an independent audit team remains inconsistent. These governance gaps raise a crucial question regarding how BAZNAS performance should be conceptualized, especially within the broader framework of Islamic economic civilization. To avoid limiting performance merely to conventional financial efficiency, this study adopts a definition of BAZNAS performance that reflects the multidimensional mandate of zakat management in Islam. Accordingly, BAZNAS performance in this research is defined not only in terms of administrative and financial effectiveness but also through key Islamic governance outcomes such as mustahik empowerment, the promotion of social equity, and the realization of distributive justice (ʿadālah). These dimensions are central to Islamic economics, which views institutional performance as

[1] Astuti, W. A. Fraud prevention: The impact of internal controls and auditor professionalism. Trikonomika, 23(2), (2024), 55–62.

[2] Wardayati, S. M. Analysis of internal control (COSO) in the fund management of zakat, infaq, and shadaqah. Neliti, (2015).

[3] Andraeny, D., & Narulitasari, D. The analysis of internal control implementation of zakat institutions. International Conference of Zakat, (2018), 203–210.

the ability to transform zakat into tangible socioeconomic upliftment rather than solely achieving procedural or accounting compliance. By integrating these broader civilizational indicators, the study ensures that performance measurement aligns with the spiritual, social, and ethical objectives of zakat. This framing also strengthens the argument that weaknesses in internal control such as inconsistent independent auditing can hinder BAZNAS not only from meeting technical standards but also from fulfilling its deeper Islamic mission of advancing justice and welfare in society.[4,5]

Beyond structural mechanisms, Islamic organizational culture plays a critical role in shaping ethical behavior and strengthening fraud prevention efforts. Islamic values such as amānah (trustworthiness), 'adl (justice), and muḥāsabah (accountability) act as a moral compass that influences employee decisions and behavior. These values do not merely accompany structural controls; they represent the normative foundation that precedes, legitimizes, and gives meaning to any formal governance mechanism. Within the Islamic ethical paradigm, moral principles are understood to guide structure not the other way around—reflecting the theological view that character (akhlāq) must come before procedural compliance. Studies show that religiosity and organizational culture rooted in Islamic ethics reduce fraudulent tendencies in both public and nonprofit organizations. While research on Islamic culture within zakat institutions remains limited, emerging evidence indicates that Sharia-based values strengthen internal ethics, reinforce moral accountability, and enhance transparency. These findings suggest that structural frameworks such as COSO can only operate effectively when embedded within a strong value-driven ethical environment, where amānah ensures honesty in managing entrusted funds and muḥāsabah cultivates continuous self-scrutiny. Consequently, in Islamic governance, normative ethical values serve as the primary safeguard, while structural controls function as secondary mechanisms that formalize and operationalize the ethical commitments already rooted in the organization's culture, thereby reducing fraud risks.[6]

Furthermore, fraud prevention often serves as a mediating mechanism linking internal control and organizational culture to organizational

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[4] Lestari, W., & Amrizal. COSO-based internal control in Indonesian zakat institutions. Jurnal Syarikah: Jurnal Ekonomi Islam, 10(2), (2024), 168–184.

[5] Kaharuddin, I., Mas'ud, M., & Amiruddin. The influence of internal control, organizational culture and capability on the prevention of financial statement fraud through religiosity as an intervening variable. Jurnal Ilmiah Manajemen UPBATAM, 12(2), (2020).

[6] Shukur, M. The implementation of Islamic corporate governance and Islamic organizational culture in fraud prevention in zakat institutions. Master's Thesis, Hasanuddin University, (2020).

performance. Empirical findings show that internal control strengthens fraud mitigation, which then improves the performance of zakat institutions.[7] From a Sharia forensic accounting perspective, governance practices and anti-fraud measures significantly contribute to improving the effectiveness and accountability of zakat institutions.[8]

From an Islamic perspective, fraud (ghulul), deception (tadlis), and breach of trust (khiyanah) are explicitly prohibited due to their destructive impact on social justice and communal integrity. The Qur'an strongly condemns those who engage in deception and manipulation, stating:

وَيْلٌ لِّلْمُطَفِّفِيْنَ الَّذِيْنَ اِذَا اكْتَالُوْا عَلَى النَّاسِ يَسْتَوْفُوْنَۖ وَاِذَا كَالُوْهُمْ اَوْ وَّزَنُوْهُمْ يُخْسِرُوْنَ

"Woe to those who give less [than due]" (QS. Al-Muthaffifin: 1-3), highlighting the moral severity of any form of cheating or financial misrepresentation. Furthermore, the Qur'an warns against the unlawful appropriation of wealth:

وَلَا تَأْكُلُوْٓا اَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ وَتُدْلُوْا بِهَآ اِلَى الْحُكَّامِ لِتَأْكُلُوْا فَرِيْقًا مِّنْ اَمْوَالِ النَّاسِ بِالْاِثْمِ وَاَنْتُمْ تَعْلَمُوْنَ

"And do not consume one another's wealth unjustly…" (QS. Al-Baqarah: 188), directly relating to fraudulent activities such as misappropriation of zakat funds. The obligation to preserve trust is further reinforced in QS. An-Nisa: 58, which commands believers to deliver all trusts (amanah) to whom they are due. These principles establish a strong ethical and theological foundation for fraud prevention within Islamic institutions.

۞ اِنَّ اللّٰهَ يَأْمُرُكُمْ اَنْ تُؤَدُّوا الْاَمٰنٰتِ اِلٰٓى اَهْلِهَاۙ وَاِذَا حَكَمْتُمْ بَيْنَ النَّاسِ اَنْ تَحْكُمُوْا بِالْعَدْلِ ۗ اِنَّ اللّٰهَ نِعِمَّا يَعِظُكُمْ بِهٖ ۗ اِنَّ اللّٰهَ كَانَ سَمِيْعًاۢ بَصِيْرًا

The Prophet Muhammad also emphasized the gravity of fraud and dishonesty. In a well-known hadith, he warned, "Whoever cheats is not one of us" (HR. Muslim), demonstrating that fraud is not merely a legal violation but a moral deviation that excludes a person from the Prophet's community. Another hadith states, "There is no faith for the one who is not trustworthy" (HR. Bukhari), underscoring the central role of trustworthiness and ethical conduct in Islamic organizational life. These teachings position fraud prevention as both a governance imperative and a spiritual obligation within zakat institutions.

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[7] Rachmi, M. R. N., et al. Determinants of zakat institution performance: The role of fraud prevention as a mediating variable. Jurnal Penelitian Akuntansi (JIPAK), (2023).

[8] Hanif, P. Semiotika fraud di Badan Amil Zakat Nasional (BAZNAS). Al-Ilmi, UIN FAS Bengkulu, (2023).

Beyond technical controls, Islamic organizational culture plays an equally critical role in preventing fraud. An organization guided by Islamic values such as amanah, integrity, transparency, and collective accountability is more likely to foster ethical behavior and resist fraudulent practices.[9] Empirical studies show that Islamic ethical culture has a strong deterrent effect on financial misconduct and positively influences governance.[10] Additionally, ethical climate and cultural alignment are shown to significantly reduce opportunities for fraud in public and nonprofit sectors.[11]

Recent research indicates that fraud prevention acts as a strategic mediating variable linking internal control and organizational culture to institutional performance particularly in institutions managing public trust such as zakat.[12]

Therefore, this study aims to examine the influence of internal control and Islamic organizational culture on BAZNAS performance, with fraud prevention as a mediating variable, using evidence from zakat institutions in Jambi Province. Unlike general secular non-profit organizations, zakat institutions carry a unique religious mandate because zakat is an obligatory pillar of Islam (farḍ al-ʿayn) and a divinely ordained mechanism for wealth redistribution. This religious nature makes BAZNAS uniquely vulnerable to fraud risks, as any misuse of zakat funds undermines not only organizational credibility but also violates a core act of worship entrusted by the Muslim community. Consequently, BAZNAS depends more heavily on ethical and faith-based cultural attributes such as amānah, integrity, and moral accountability to sustain legitimacy, as its authority is grounded in public trust and religious compliance rather than merely legal or administrative recognition. Given this context, formal internal control systems like COSO can provide structure but are insufficient on their own. Zakat institutions require a robust Islamic organizational culture that ensures ethical intentionality, reinforces sacred accountability before God (muraqabah), and aligns organizational behavior with the moral foundations of Islamic governance. By examining

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[9] Putra, S. A., & Harun, M. Islamic ethical culture and its role in preventing financial misconduct. Al-Amwal: Jurnal Ekonomi dan Perbankan Syariah, 12(2), (2021), 115–129.

[10] Fitria, H., & Nasution, R. The influence of Islamic values and internal control on financial integrity in faith-based institutions. International Journal of Ethics and Systems, 38(3), (2022), 401–417.

[11] Santoso, B., & Yusuf, A. Organizational culture, ethical climate, and fraud deterrence in public sector institutions. Jurnal Riset Akuntansi Keuangan, 8(2), (2021), 66–80.

[12] Ismail, Z., & Karim, S. Fraud prevention mechanisms and organizational performance in zakat institutions: Evidence from Indonesia. International Journal of Zakat Studies, 3(1), (2021), 89–104.

these dynamics, this study aims to enrich theoretical discussions on governance within Islamic nonprofit organizations and provide practical insights for policymakers seeking to strengthen accountability, transparency, and performance in zakat management..

Jambi Province offers a highly relevant empirical setting not only because public expectations for transparent and accountable zakat governance are increasing across its BAZNAS branches, but also due to several contextual characteristics that make it particularly suitable for testing the mediating role of fraud prevention between COSO, Islamic organizational culture, and institutional performance. Jambi represents a unique environment where strong local Islamic cultural values deeply embedded in community norms and public service ethics coexist with growing external demands for professional governance, audit compliance, and digital transparency. This duality creates a distinct institutional tension: while the cultural foundation encourages ethical behavior and communal trust, the formal governance structures within several BAZNAS branches remain uneven, especially in internal control implementation, fraud prevention procedures, and audit independence. Such conditions provide a natural empirical laboratory to examine whether fraud prevention mechanisms function as a necessary mediating process that bridges global control frameworks (COSO) with locally grounded Islamic ethical culture (IOC), ultimately enhancing organizational performance. Thus, Jambi's combination of strong cultural identity and rising accountability pressures makes it an ideal context for analyzing how formal control systems and ethical values interact—and whether fraud prevention can transform these interactions into measurable improvements in zakat governance.

Jambi Province offers a relevant empirical context due to increasing public expectations for transparent and accountable zakat governance across its BAZNAS branches. While various improvements have been made, challenges remain in harmonizing fraud risk management practices and achieving consistent performance across districts. Integrating COSO-based internal control systems with Islamic organizational culture is therefore considered a promising approach to strengthening fraud prevention and enhancing organizational sustainability.

This study aims to examine the influence of internal control and Islamic organizational culture on BAZNAS performance, with fraud prevention as a mediating variable, using evidence from zakat institutions in Jambi Province. The findings are expected to enrich the theoretical development of governance in Islamic nonprofit organizations and offer practical recommendations for policymakers and practitioners seeking to strengthen the accountability, transparency, and performance of zakat institutions in Indonesia and

beyond.

This study seeks to fill this gap by empirically examining how internal control and Islamic organizational culture influence BAZNAS performance, with fraud prevention positioned as a mediating variable. By focusing on BA-ZNAS in Jambi Province, the research contributes to both the theoretical development of governance in Islamic nonprofit organizations and the practical improvement of fraud risk mitigation strategies. The findings are expected to offer meaningful insights for policymakers, practitioners, and scholars seeking to strengthen the sustainability and accountability of zakat institutions in Indonesia and beyond.

Methods

This study employs a quantitative research design using a causal approach to empirically examine the influence of internal control and Islamic organizational culture on BAZNAS performance, with fraud prevention functioning as a mediating variable. The causal design facilitates the analysis of both direct and indirect relationships among variables, enabling the identification of plausible causal mechanisms through which fraud prevention contributes to improvements in organizational performance. However, because the data are cross-sectional and collected at a single point in time, the study acknowledges the inherent limitation in establishing definitive causal relationships—particularly between fraud prevention and performance. While the structural model allows for testing theoretically grounded causal pathways, the findings will be interpreted as associational causal inferences rather than absolute causal proof. The final discussion will therefore emphasize that any causal claims remain theoretical and must be supported by temporal logic, prior empirical evidence, and the coherence of the proposed mechanism, with the recommendation that future studies employ longitudinal or experimental designs to strengthen causal validation.

The population of this research consists of all employees and structural officials working in BAZNAS offices across Jambi Province, including the provincial BAZNAS and all regency/city branches. A purposive sampling technique is applied to ensure the selection of respondents based on relevance and understanding of organizational governance, internal control procedures, and fraud prevention practices. In determining the minimum sample size, this study follows the guideline stating that the required number of respondents should be at least five times the number of research questions.[13]

[13] Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M., A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM), SAGE Publications, (2017).

With a total of 30 research questions included in the questionnaire, the minimum number of respondents required is therefore 175 people (35 × 5). Accordingly, the study collected 175 valid responses, which meets the adequacy criteria for model estimation using SEM–PLS.

Data were obtained using a structured questionnaire consisting of Likert-scale items adapted from validated instruments related to internal control (COSO-based items), Islamic organizational culture, fraud prevention mechanisms, and organizational performance measures. Although COSO is a Western-derived framework, the measurement items for Internal Control were carefully contextualized to reflect the operational and religious environment of BAZNAS. This included adapting terminology, emphasizing accountability for entrusted religious funds, and aligning the control environment with ethical expectations rooted in Islamic governance principles. Prior to distribution, the questionnaire underwent expert validation involving scholars of Islamic public management and practitioners from zakat institutions to ensure that the adapted COSO items were culturally appropriate and free from conceptual bias. The validation process specifically examined whether any elements of the COSO indicators conflicted with, overlooked, or inadequately represented the normative and faith-based expectations inherent in zakat management. Pilot testing was also conducted to verify clarity, reliability, and cultural suitability, ensuring that the internal control construct accurately captured the unique governance realities of BAZNAS rather than reproducing a purely Western control logic.

To analyze the complex relationships among variables, the study utilizes Structural Equation Modeling–Partial Least Squares (SEM–PLS) with the help of SmartPLS software. SEM–PLS is selected due to its suitability for predictive modeling, complex mediation analysis, and its robustness when dealing with relatively small sample sizes and non-normal data. The analysis is conducted in two main stages: the measurement model assessment, which evaluates construct validity and reliability through factor loadings, composite reliability, Cronbach's alpha, and Average Variance Extracted (AVE); and the structural model assessment, which examines the significance of hypothesized relationships using bootstrapping procedures, coefficient of determination ($R^2$), effect size ($f^2$), and predictive relevance ($Q^2$).

Ethical principles are maintained throughout the research process. All respondents participated voluntarily, anonymity was preserved, and the collected data were used solely for academic purposes. The study employed a purposive sampling technique to ensure that the data accurately represented the diversity of roles across the BAZNAS organizational hierarchy. Specific inclusion criteria were used to deliberately recruit respondents

from key functional groups—such as management, amil officers, distribution and program staff, finance personnel, and internal auditors—who possess direct knowledge of internal control implementation and fraud prevention practices. By targeting individuals responsible for planning, executing, supervising, and auditing zakat operations, the sampling strategy ensured that multiple perspectives on control environment, risk assessment, information flow, and ethical compliance were captured. This role-based representation strengthens the validity of the findings, as internal control and fraud prevention mechanisms in BAZNAS operate through interconnected responsibilities rather than a single administrative layer. By integrating rigorous sampling procedures, validated measurement instruments, and robust analytical techniques, this study provides reliable empirical evidence on how internal control and Islamic organizational culture strengthen BAZNAS performance through effective fraud prevention mechanisms.

## Result and Discussion

### Evaluation of Measurement Model

The evaluation of the measurement model aims to ensure that the constructs used in this study demonstrate adequate levels of validity and reliability before testing the structural relationships. This assessment is carried out through several key indicators, including indicator reliability, internal consistency reliability, convergent validity, and discriminant validity, following the recommended procedures for PLS-SEM analysis.

**Table 1.** Validity and Reliability Test Results

| Construct | Cronbach's alpha | rho_a | rho_c | AVE | Info. |
|---|---|---|---|---|---|
| COSO | 0.876 | 0.907 | 0.909 | 0.668 | Valid & Reliable |
| Fraud Prevention | 0.967 | 0.968 | 0.971 | 0.773 | Valid & Reliable |
| Islamic Organizational Culture | 0.979 | 0.979 | 0.981 | 0.853 | Valid & Reliable |
| Performance | 0.961 | 0.962 | 0.966 | 0.740 | Valid & Reliable |
| | | | | | |

Source: Data processed with SmartPLS 4.0.9.9, 2025

Table 1 presents the results of the reliability and validity assessment for all constructs in the measurement model. The findings show that each

construct meets the required criteria for internal consistency reliability and convergent validity, confirming that the measurement model is statistically sound and appropriate for further analysis.

The internal control (COSO) construct demonstrates strong reliability, with a Cronbach's alpha of 0.876, rho_c of 0.909, and an AVE of 0.668, indicating that the indicators consistently represent the construct and exhibit adequate convergent validity. The fraud prevention construct also shows excellent reliability, reflected in its Cronbach's alpha value of 0.967, rho_c of 0.971, and AVE of 0.773, surpassing recommended thresholds and confirming its robustness.

Similarly, the Islamic organizational culture construct displays exceptionally high reliability, with a Cronbach's alpha of 0.979, rho_c of 0.981, and an AVE of 0.853. These values not only confirm that the indicators strongly capture the underlying construct, but also suggest a high degree of perceived uniformity and internalization of core Islamic ethical values—such as amānah (trustworthiness) and muḥāsabah (self-accountability) among BAZNAS employees in Jambi Province. The strength of these reliability and validity measures indicates that respondents consistently interpret and embody these ethical principles in a similar manner across different branches. This pattern reflects the deeply rooted cultural norms present in Jambi's zakat institutions, where Islamic values are not merely organizational expectations but are integrated into daily operational behavior and professional identity. The performance construct also meets all required criteria, achieving a Cronbach's alpha of 0.961, rho_c of 0.966, and an AVE of 0.740, all of which exceed the minimum thresholds for reliability and convergent validity.

Overall, these results confirm that all constructs included in the study are valid and reliable, fulfilling the recommended standards for PLS-SEM measurement model evaluation. With strong indicator loadings, internal consistency, and convergent validity, the measurement model is deemed appropriate for advancing to the structural model analysis.

Fornell-Lacker Analysis

The Fornell–Larcker analysis was conducted to assess the discriminant validity of the constructs used in this study. Discriminant validity ensures that each construct is conceptually distinct from other constructs in the model and that the indicators of one construct do not excessively overlap with those of another. According to the Fornell–Larcker criterion, discriminant validity is established when the square root of the Average Variance Extracted (AVE) for each construct is greater than its correlations with other constructs.

**Table 2.** Fornell Larcker Criterion

| Construct | COSO | Fraud Prevention | IOC | Performance |
|---|---|---|---|---|
| COSO | 0.835 | | | |
| Fraud Prevention | 0.689 | 0.879 | | |
| Islamic Organizational Culture | 0.817 | 0.803 | 0.924 | |
| Performance | 0.769 | 0.848 | 0.860 | 0.881 |
| | | | | |

Source: Data processed with SmartPLS 4.0.9.9, 2025

The results show that all constructs satisfy the discriminant validity requirement. The COSO internal control construct has a square root AVE value of 0.835, which is higher than its correlations with fraud prevention (0.689), Islamic organizational culture (0.817), and performance (0.769). Similarly, the fraud prevention construct shows a square root AVE of 0.879, exceeding its correlations with COSO (0.689), Islamic organizational culture (0.803), and performance (0.848). The Islamic organizational culture construct also demonstrates strong discriminant validity, with its square root AVE of 0.924, which is higher than its correlations with COSO (0.817), fraud prevention (0.803), and performance (0.860). Finally, the performance construct has a square root AVE of 0.881, exceeding its correlations with COSO (0.769), fraud prevention (0.848), and Islamic organizational culture (0.860). Overall, the Fornell–Larcker results confirm that each construct is empirically distinct, and the model demonstrates adequate discriminant validity. These findings strengthen the reliability of the measurement model and support its suitability for further structural model evaluation. Importantly, the relatively high correlation between COSO and Islamic organizational culture (IOC) will be addressed conceptually in the discussion section. Although the structural results indicate that COSO and IOC exert different effects on fraud prevention and performance, their strong correlation suggests that BAZNAS is actively integrating Islamic ethical values into its formal control environment. In practice, elements of IOC such as amānah, accountability, and integrity are often embedded within COSO components like the control environment, risk assessment, and monitoring activities. This integration reflects an institutional effort to harmonize Western-derived structural controls with the normative and religious expectations inherent in zakat governance. Thus, while the two constructs remain conceptually and empirically distinct, the high correlation indicates that formal control mechanisms in BAZNAS do not operate in isolation but are influenced and reinforced by the organization's Islamic ethical culture.

Heterotrait-Monotrait Ratio (HTMT) Analysis

The Heterotrait–Monotrait Ratio (HTMT) was further employed to strengthen the assessment of discriminant validity among the latent constructs. HTMT is recognized as a more stringent and reliable approach compared to the Fornell–Larcker criterion, particularly in PLS-SEM, where construct correlations may be underestimated. According to established guidelines, discriminant validity is achieved when HTMT values fall below 0.90 for conceptually distinct constructs, or below 0.85 for constructs that are expected to be more closely related.

**Table 3.** Fornell Larcker Criterion Test Results or HTMT

| Construct | HTMT | Info. |
|---|---|---|
| Fraud Prevention <-> COSO | 0.717 | < 0.90 |
| IOC <-> COSO | 0.882 | < 0.90 |
| IOC <-> Fraud Prevention | 0.823 | < 0.90 |
| Performance <-> COSO | 0.812 | < 0.90 |
| Performance <-> Fraud Prevention | 0.876 | < 0.90 |
| Performance <-> IOC | 0.806 | < 0.90 |
|  |  |  |

Source: Data processed with SmartPLS 4.0.9.9, 2025

As shown in Table 3, all HTMT values fall below the recommended threshold, confirming adequate discriminant validity across all construct pairs. The HTMT value between fraud prevention and COSO is 0.717, indicating a moderate but acceptable relationship. Similarly, the relationship between Islamic organizational culture and COSO yields an HTMT value of 0.882, which remains within the permissible range. The HTMT ratio between Islamic organizational culture and fraud prevention is 0.823, also demonstrating that these constructs are empirically distinguishable.

Furthermore, the HTMT values for performance relative to COSO (0.812), fraud prevention (0.876), and Islamic organizational culture (0.806) all fall comfortably below the 0.90 threshold. These results collectively indicate that no pair of constructs exhibits excessive similarity, and each construct measures a unique theoretical dimension within the research framework.

Overall, the HTMT analysis provides strong evidence that the measurement model meets the discriminant validity requirements necessary for

PLS-SEM. Combined with the previous results from the Fornell–Larcker criterion, these findings confirm the robustness and conceptual distinctiveness of the constructs, allowing the analysis to proceed to the evaluation of the structural model. The statistical distinctiveness of the constructs—particularly between Fraud Prevention and Performance—will be leveraged in the final discussion to argue that fraud prevention is not merely a by-product of strong organizational performance. Instead, its clear empirical separation demonstrates that fraud prevention functions as an independent strategic process that must be intentionally designed, implemented, and monitored. The discriminant validity results reinforce the idea that fraud prevention mediates the pathways between internal control, Islamic organizational culture, and performance—not because performance automatically generates ethical behavior, but because preventing fraud is a necessary governance mechanism that directly contributes to performance outcomes. By establishing Fraud Prevention as a distinct construct, the study highlights its strategic role in safeguarding amanah-based fiduciary responsibility, strengthening public trust, and ensuring that BAZNAS achieves effective and legitimate governance. This supports the argument that fraud prevention must be managed as a standalone governance function, not merely assumed to emerge from general managerial effectiveness.

### Evaluation of Structural Model

The evaluation of the structural model aims to assess the predictive ability and explanatory power of the relationships hypothesized in this study.

### R Square

The coefficient of determination (R-square) is used to assess the extent to which the independent variables explain the variance in the dependent variables within the structural model. A higher R-square value indicates stronger predictive power and greater explanatory ability of the model. In this study, the R-square results provide an important indication of how effectively the exogenous variables account for changes in Fraud Prevention and Performance.

**Table 4.** Coefficient of Determination

| Construct | R-square | R-square adjusted | Influence Level |
|---|---|---|---|
| Fraud Prevention | 0,645 | 0,641 | Moderate |
| Performance | 0,834 | 0,831 | Substantial |
| | | | |

Source: Data processed with SmartPLS 4.0.9.9, 2025

The analysis shows that the R-square value for the Fraud Prevention construct is 0.645, meaning that 64.5% of its variance is explained by the predictors included in the model. This value reflects a moderate level of influence. Meanwhile, the Performance construct achieves a strong R-square value of 0.834, indicating that 83.4% of its variance is explained by the relevant independent variables. Importantly, given this high predictive power, the model's explanatory strength is closely linked to the way Performance was conceptualized in this study. The performance indicators were not limited to financial or operational efficiency, but were intentionally aligned with the broader objectives of Islamic governance, including measures of social impact, distributive effectiveness, mustahik empowerment, fairness ('adālah), and overall accountability in zakat management. Thus, the strong R-square value reflects not only statistical robustness but also the meaningful alignment between the predictors (internal control, Islamic organizational culture, and fraud prevention) and the Islamic governance outcomes that are central to BAZNAS legitimacy. Overall, these findings demonstrate that the structural model exhibits strong predictive capability, particularly for the Performance construct within an Islamic institutional framework.

Predictive Relevance ($Q^2$)

The Predictive Relevance ($Q^2$) assessment was conducted to evaluate the model's predictive capability for the endogenous constructs based on the indicators used in the analysis. The $Q^2$ value is calculated using the formula $Q^2 = 1 - (SSE/SSO)$, where the Standardized Sum of Observations (SSO) represents the total data variation, while the Sum of Squares of Prediction Errors (SSE) reflects the magnitude of prediction error within the model.

**Table 5.** Predictive Relevance ($Q^2$)

| Construct | SSO | SSE | $Q^2$ (=1-SSE/SSO) | Influence Level |
|---|---|---|---|---|
| Fraud Prevention | 1750,000 | 954,524 | 0,455 | Large Predictive Relevance |
| Performance | 1750,000 | 706,777 | 0,596 | Large Predictive Relevance |
| | | | | |

Source: Data processed with SmartPLS 4.0.9.9, 2025

As shown in Table 5, the construct Fraud Prevention yields a $Q^2$ value of 0.455, which falls into the category of large predictive relevance. This indicates that the model demonstrates a strong predictive capability for the

variations in Fraud Prevention. Meanwhile, the construct Performance shows an even higher $Q^2$ value of 0.596, also categorized as large predictive relevance. This confirms that the model possesses excellent predictive power in explaining changes in Performance. Overall, the high $Q^2$ values across both constructs indicate that the research model exhibits substantial predictive relevance, supporting its suitability for explaining and predicting the behavior of endogenous variables within the study.

## Effect Size $f^2$

The effect size ($f^2$) assesses the magnitude of the contribution of each predictor construct to the dependent variable in the structural model. According to Cohen (1988), an $f^2$ value of 0.02 indicates a small effect, 0.15 a medium effect, and 0.35 a large effect.

**Table 6.** Effect Size $f^2$

| Construct | Fraud Prevention | Performace |
|---|---|---|
| COSO | 0,003 | 0,013 |
| Fraud Prevention | - | 0,329 |
| Islamic Organizational Culture | 0,480 | 0,300 |
| | | |

Source: Data processed with SmartPLS 4.0.9.9, 2025

As presented in Table 6, the COSO Internal Control Framework exhibits negligible effect sizes for both dependent variables, with $f^2 = 0.003$ for Fraud Prevention and 0.013 for Performance. These extremely small values, consistent with the rejection of both direct hypotheses (H1 and H2), indicate that COSO contributes only marginally almost symbolically—to enhancing fraud prevention or improving organizational performance. In contrast, Fraud Prevention demonstrates a large and substantive effect on Performance, with an $f^2$ value of 0.329, confirming its essential role as a strategic mechanism that directly drives organizational effectiveness. Islamic Organizational Culture (IOC) shows the strongest contribution to Fraud Prevention ($f^2 = 0.480$, large effect) and a medium yet meaningful effect on Performance ($f^2 = 0.300$). These results highlight IOC as the dominant explanatory force within the structural model. The stark contrast between the negligible effect of COSO and the substantial influence of IOC provides an important theoretical refinement to Institutional Theory. The findings suggest that in Islamic governance settings—such as BAZNAS the normative/cultural pillar rooted in Islamic ethical values (amānah, muḥāsabah, ʿadālah) possesses overwhelming legiti-

mizing and functional power. This normative pillar not only guides behavior but appears to neutralize, overshadow, or even render non-functional the regulatory/coercive pillar represented by COSO, especially when the latter is not culturally integrated into the institution's ethical tradition. Thus, COSO may operate merely as a symbolic structure (decoupled from practice), while IOC functions as the true driver of organizational behavior and fraud prevention. Overall, the effect size results reinforce the argument that in religious nonprofit contexts, the strength of Islamic organizational culture is central to governance effectiveness, far exceeding the influence of externally derived structural control frameworks.

Model Fit

The assessment of the model fit was conducted to ensure that the structural model adequately represents the empirical data.

**Table 7.** Model Fit

|  | Saturated model | Estimated model |
|---|---|---|
| SRMR | 0,056 | 0,056 |
| d_ULS | 1,879 | 1,879 |
| d_G | 1,791 | 1,791 |
| Chi-square | 1498,440 | 1498,440 |
| NFI | 0,817 | 0,817 |
|  |  |  |

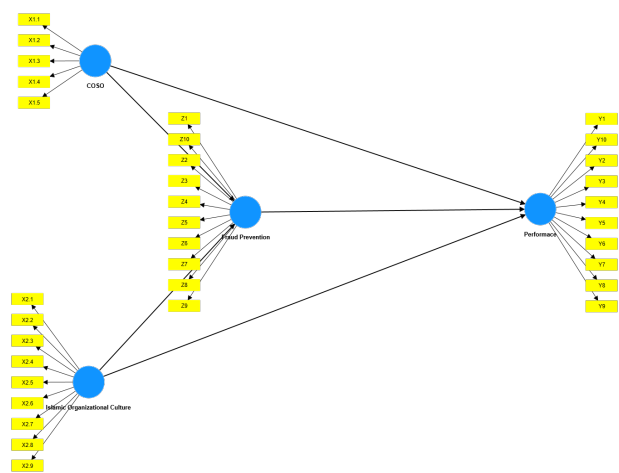Source: Data processed with SmartPLS 4.0.9.9, 2025

As shown in Table 7, the Standardized Root Mean Square Residual (SRMR) has a value of 0.056, which falls below the commonly accepted threshold of 0.08. This indicates a good model fit, suggesting that the average discrepancies between the observed and predicted correlation matrices are minimal. Furthermore, the values of d_ULS and d_G, at 1.879 and 1.791 respectively, are identical for both the saturated and estimated models. This consistency reflects the model's stability and suggests that no substantial differences exist between the empirical data and the model's predictions. The Chi-square statistic of 1498.440, which is also identical across models, indicates that the estimated model corresponds well with the observed data structure. Although Chi-square is known to be sensitive to large sample sizes, the value still provides a useful indication that the model is appropriately specified. Additionally, the Normed Fit Index (NFI) value of 0.817 surpasses the minimum acceptable threshold of 0.80, further supporting the adequacy

of the model. Collectively, these indicators confirm that the proposed structural model exhibits a satisfactory level of fit and is suitable for subsequent hypothesis testing and interpretation.

## Hypothesis Test (Bootstrapping)

Hypothesis testing was conducted using the bootstrapping procedure in SEM-PLS to examine the significance of the relationships among the constructs in the structural model. The bootstrapping results provide t-statistics and p-values, which serve as the basis for determining whether the proposed hypotheses are supported. A relationship is considered statistically significant when the t-statistic exceeds 1.96 (at $\alpha = 0.05$) and the p-value is below 0.05.

**Figure 1.** Final Path Model



Based on Figure 1 above, it is evident that the variables in this study consist of independent variables, an intervening or mediating variable, and a dependent variable.

## Direct Effect

In structural equation modeling (SEM-PLS), a direct effect refers to the immediate and unmediated influence of one latent variable on another within the structural model. A direct effect occurs when a predictor variable has a path that points straight to an outcome variable without passing through any intervening or mediating construct. The magnitude and significance of

this effect are typically evaluated using path coefficients (β), t-statistics, and
p-values derived from the bootstrapping procedure. Significant direct effects
indicate that changes in the exogenous variable lead to systematic changes in
the endogenous variable, whereas non-significant effects imply that the rela-
tionship is weak, inconclusive, or perhaps better explained through indirect
or mediating pathways.

**Table 8.** Direct Effect

| | Original sample | T statistics | P values | Info. |
|---|---|---|---|---|
| COSO -> Fraud Prevention | 0,062 | 0,561 | 0,575 | $H_1$ Rejected |
| COSO -> Performace | 0,086 | 0,944 | 0,345 | $H_2$ Rejected |
| Fraud Prevention -> Performace | 0,392 | 5,328 | 0,000* | $H_3$ Accepted |
| IOC -> Fraud Prevention | 0,751 | 6,684 | 0,000* | $H_4$ Accepted |
| IOC -> Performace | 0,494 | 4,747 | 0,000* | $H_5$ Accepted |
| | | | | |

Source: Data processed with SmartPLS 4.0.9.9, 2025

The results of the hypothesis testing using the bootstrapping proce-
dure in SEM-PLS indicate that not all causal relationships in the proposed
research model receive empirical support. First, the effect of COSO on Fraud
Prevention is statistically insignificant (β = 0.062; T = 0.561; p = 0.575), leading
to the rejection of H1. This finding suggests that the implementation of the
COSO internal control framework within the organizational context under
study is not sufficiently strong to enhance fraud prevention efforts. In oth-
er words, the existence of an internal control system does not automatically
contribute to the effectiveness of fraud prevention unless it is reinforced by
other factors such as organizational culture and ethical commitment among
personnel.

Furthermore, the effect of COSO on Performance is also found to be
insignificant (β = 0.086; T = 0.944; p = 0.345), resulting in the rejection of H2.
This result indicates that the COSO Internal Control Framework does not
exert a meaningful direct influence on organizational performance. Such an
outcome may occur because performance is often shaped more strongly by
human factors, leadership quality, organizational culture, and adopted value

systems rather than purely by structural aspects of internal control.

In contrast to these findings, Fraud Prevention exhibits a significant effect on Performance ($\beta = 0.392$; T = 5.328; p = 0.000), thereby supporting H3. This result demonstrates that the more effective the fraud prevention mechanisms implemented, the better the organizational performance. Effective fraud prevention enhances efficiency, reduces losses, strengthens accountability, and increases public trust all of which directly contribute to improved performance.

Moreover, Islamic Organizational Culture (IOC) is shown to have a highly significant influence on Fraud Prevention ($\beta = 0.751$; T = 6.684; p = 0.000), supporting H4. This finding confirms that an organizational culture grounded in Islamic values—such as honesty, trustworthiness, prudence, and commitment to the public good—plays a major role in shaping employee behavior and minimizing the potential for fraudulent actions.

Finally, IOC also significantly affects Performance ($\beta = 0.494$; T = 4.747; p = 0.000), leading to the acceptance of H5. This result illustrates that Islamic organizational culture not only reduces fraud risks but also directly strengthens organizational performance. A strong value-based culture fosters higher motivation, work ethic, discipline, and service quality, ultimately contributing positively to performance outcomes.

Overall, the hypothesis testing results underscore the critical role of Islamic organizational culture and effective fraud prevention as key determinants of organizational performance. Meanwhile, the COSO-based internal control system does not exert a significant direct influence on either fraud prevention or performance. Therefore, it can be concluded that structural control mechanisms need to be more substantially integrated with cultural and ethical values to produce optimal impacts within the organizational context.

Indirect Effect

**Table 9.** Indirect Effect

|  | Original sample | T statistics | P values | Info. |
|---|---|---|---|---|
| COSO -> Fraud Prevention -> Performace | 0,024 | 0,580 | 0,562 | $H_6$ Rejected |
| IOC -> Fraud Prevention -> Performace | 0,295 | 4,115 | 0,000 | $H_7$ Accepted |
|  |  |  |  |  |

Source: Data processed with SmartPLS 4.0.9.9, 2025

The results of the mediation analysis using the bootstrapping procedure in SEM-PLS indicate that not all indirect relationships in the model are statistically supported. First, the indirect effect of COSO on Performance through Fraud Prevention is not significant (β = 0.024; T = 0.580; p = 0.562), indicating that Fraud Prevention does not mediate the relationship between COSO and Performance. This means that the COSO Internal Control Framework does not indirectly contribute to improving organizational performance through fraud prevention mechanisms. The lack of mediation suggests that COSO-related structural controls may not translate into meaningful improvements in fraud mitigation or performance outcomes without stronger cultural or behavioral support within the organization.

In contrast, Islamic Organizational Culture (IOC) shows a significant indirect effect on Performance through Fraud Prevention (β = 0.295; T = 4.115; p = 0.000), confirming that Fraud Prevention functions as a robust mediator in this relationship. This implies that an Islamic organizational culture characterized by honesty, integrity, accountability, and ethical conduct not only reduces the likelihood of fraudulent behavior but also enhances performance by strengthening fraud prevention mechanisms. In this pathway, IOC influences employees' ethical behavior, which subsequently improves fraud prevention effectiveness and ultimately leads to better organizational performance.

Overall, the mediation results highlight that only Islamic Organizational Culture exerts a meaningful indirect influence on Performance through Fraud Prevention, reaffirming that ethical and value-based cultural elements

not structural controls constitute the primary engine driving fraud mitigation and organizational outcomes in BAZNAS. This empirical pattern leads to a clear strategic implication for BAZNAS leadership in Jambi Province: the most critical recommendation is not to abandon or replace COSO, but to intensify the ethical reinforcement and internalization of Islamic values particularly muḥāsabah (self-accountability) and amānah (trustworthiness) among personnel at all levels. The findings do not indicate that COSO is inherently unsuitable; rather, they show that COSO remains functionally weak when not culturally embedded in the institution's normative framework. Thus, instead of replacing COSO with a new Islamic governance model, the priority for policymakers should be to strengthen the normative foundation of the existing system by institutionalizing continuous ethical training, value-based leadership development, and cultural alignment initiatives. By embedding muḥāsabah as a lived practice within the operational environment, structural controls can gain legitimacy and functional relevance, thereby enhancing fraud prevention and overall organizational performance. In short, the mediation results suggest that governance improvement in BAZNAS depends primarily on reinforcing Islamic ethical culture, not on substituting the COSO framework.

Discussion

The empirical evidence indicates that the COSO Internal Control Framework does not exert a significant direct influence on either fraud prevention or organizational performance. In contrast, the strong and significant mediating role of Islamic Organizational Culture (IOC) provides an opportunity to refine and expand Institutional Theory within the context of faith-based nonprofit institutions such as BAZNAS. Within classical Institutional Theory, organizational behavior is shaped by three pillars: the regulative (structural), normative (ethical), and cultural–cognitive pillars. The findings of this study suggest that in institutions with deeply rooted ethical and religious mandates, the Normative/Cultural Pillar plays a more dominant and functional role than the global, structurally oriented COSO framework. The acceptance of H7 demonstrates that IOC not only contributes to legitimacy—as Institutional Theory traditionally proposes—but also actively mediates and channels governance processes, becoming the primary mechanism through which performance and fraud prevention are achieved. This pattern indicates that in BAZNAS, the normative and cultural foundations anchored in Islamic principles such as amānah, accountability before God (muraqabah), and ethical stewardship do more than merely support structural controls: they neutralize or overshadow the functional effect of structural

mechanisms that are not culturally integrated. In other words, COSO may operate symbolically—serving as a formal compliance structure—while the actual behavioral influence and operational effectiveness derive from IOC as the culturally embedded governance logic. Thus, the study contributes to Institutional Theory by proposing that in Islamic religious institutions, legitimacy and effectiveness arise primarily from the alignment between formal governance structures and the deeper ethical-moral mandates of the organization. The findings suggest that when structural controls are imported from external (Western) models without being culturally infused, their functional impact diminishes, leaving the normative/cultural pillar as the primary driver of organizational behavior and governance outcomes. From the standpoint of Institutional Theory, this suggests that structural mechanisms of control such as policies, formal procedures, and risk-based oversight may function primarily as symbolic compliance mechanisms rather than as drivers of substantive behavioral change. Organizations may adopt COSO-based controls to meet regulatory or legitimacy demands, but such adoption does not automatically translate into improved behavioral outcomes unless accompanied by internalized norms, shared values, and strong ethical orientation. These findings align with earlier studies indicating that internal control systems alone are insufficient to effectively deter fraudulent behavior without the support of organizational culture and ethical climate.[14,15] In many public sector institutions, structural controls often fail to address deeper normative pressures, resulting in limited impact on performance and integrity. Hence, control frameworks such as COSO may require stronger contextual integration with cultural and spiritual elements to become behaviorally influential.

In contrast, the study confirms that fraud prevention significantly enhances organizational performance. This relationship is theoretically logical. According to Institutional Theory, effective fraud deterrence strengthens organizational legitimacy by ensuring transparency, accountability, and adherence to societal expectations. When fraud risks are mitigated, organizations operate more efficiently, reduce financial leakages, and foster greater public trust all of which contribute to improved performance outcomes. This finding is consistent with previous research demonstrating that robust fraud prevention systems improve resource allocation efficiency, reduce operational disruptions, and enhance public sector accountability (e.g., Albrecht et al.,

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[14] Oyewobi, L. O., Windapo, A. O., & James, O. The Effects of Organizational Control Systems on Fraudulent Behaviour in Construction Organizations. International Journal of Construction Management, 20(4), 347–360, (2020).

[15] Dorminey, J., Fleming, A. S., Kranacher, M.-J., & Riley, R. The Evolution of Fraud Theory. Issues in Accounting Education, 27(2), 555–579, (2012).

2018; Murphy & Free, 2016).[16,17] Effective prevention mechanisms also reinforce ethical behavior, leading to improved organizational effectiveness.

The results show a very strong effect of Islamic Organizational Culture on both fraud prevention and performance. This finding underscores the central role of normative and value-driven systems in shaping organizational behavior. Islamic values such as amanah (trustworthiness), sidq (honesty), ihsan (excellence), and maslahah (public interest) serve as internalized moral compasses that guide employees toward ethical conduct and responsible decision-making. Such values reduce the likelihood of fraudulent behavior and simultaneously strengthen motivation, discipline, and service quality. From the perspective of Institutional Theory, Islamic culture represents a powerful normative and cultural-cognitive institution a set of deeply embedded beliefs and values that shape behavior more effectively than formal controls. Whereas structural controls (like COSO) function at the external-policy level, Islamic cultural values operate at the internal-belief level, thereby influencing conduct more profoundly and consistently. These findings are well aligned with prior studies showing that Islamic ethical values strengthen integrity, reduce unethical behavior, and enhance organizational performance (e.g., Beekun & Badawi, 2005; Ali & Al-Owaihan, 2008).[18,19] Similarly, research on organizational culture confirms that when ethical norms are embedded in daily practices, employees are more likely to adopt behaviors that support fraud prevention and high performance.[20]

The analysis also confirms a significant indirect effect of Islamic Organizational Culture on performance through fraud prevention. This mediating relationship indicates that Islamic values not only influence performance directly but also indirectly by fostering behaviors that reduce fraud risk. In other words, the presence of a strong Islamic culture strengthens fraud prevention efforts, which in turn enhances organizational effectiveness. This pattern is consistent with the Islamic view that ethical conduct is foundational to

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[16] Murphy, P., & Free, C. Broadening the Fraud Triangle: Instrumental Climate and Fraud. Behavioral Research in Accounting, 28(1), 41–56, (2016).

[17] Albrecht, W. S., Albrecht, C. C., Albrecht, C. O., & Zimbelman, M. F. Fraud Examination (6th ed.). Cengage Learning, (2018).

[18] Beekun, R. I., & Badawi, J. A. Balancing Ethical Responsibility Among Multiple Organizational Stakeholders: The Islamic Perspective. Journal of Business Ethics, 60(2), 131–145, (2005).

[19] Ali, A. J., & Al-Owaihan, A. Islamic Work Ethic: A Critical Review. Cross Cultural Management: An International Journal, 15(1), 5–19, (2008).

[20] Schein, E. H. Organizational Culture and Leadership (4th ed.). John Wiley & Sons, (2010).

collective success. The Qur'an emphasizes honesty, justice, and accountability as prerequisites for societal prosperity. When applied in organizational contexts, these principles help cultivate environments that are resistant to unethical behavior and supportive of superior performance.

Taken together, the findings highlight that structural controls alone (such as COSO) are insufficient, whereas value-driven mechanisms—particularly Islamic ethical norms play a far stronger role in promoting organizational integrity and performance. The results reinforce the idea that institutions grounded in ethical and spiritual values are more effective in shaping authentic compliance and behavior than those relying solely on procedural controls. Across all pathways examined, Islamic Organizational Culture consistently emerges as the dominant factor in reducing fraud and improving organizational outcomes, underscoring the critical need for public sector entities operating in Islamic contexts to strengthen their cultural and ethical foundations. Given that the empirical evidence shows COSO functioning largely as a symbolic, check-the-box framework in BAZNAS, the single most crucial and actionable recommendation for leaders is not to replace COSO, but to transform each of its components by explicitly integrating Islamic governance principles into them. COSO becomes functional not merely symbolic—only when its structural elements are redefined through Islamic epistemology and ethical foundations.

Conclusion

This study examined the direct and indirect relationships among COSO Internal Control, Islamic Organizational Culture (IOC), Fraud Prevention, and Organizational Performance using the SEM-PLS approach. The findings reveal several important insights that contribute both theoretically and empirically. First, the COSO Internal Control Framework is found to have no significant direct effect on either Fraud Prevention or Organizational Performance. This outcome suggests that structural control mechanisms alone are insufficient to reduce fraud risk or enhance performance if they are not supported by a strong ethical climate and value-driven culture. Internal controls must be embedded within a broader organizational environment that encourages integrity, accountability, and responsible behavior. Second, Fraud Prevention demonstrates a significant positive influence on Organizational Performance. Effective fraud-prevention mechanisms enhance efficiency, reduce financial and reputational losses, strengthen accountability, and build public trust all of which contribute to improved performance outcomes. This supports the view that fraud control is not merely a compliance

requirement but a strategic component of organizational excellence. Third, Islamic Organizational Culture (IOC) demonstrates the strongest direct effect on Fraud Prevention and also significantly enhances Organizational Performance. Core values such as honesty (ṣidq), trustworthiness (amānah), fairness ('adl), and collective benefit (maṣlaḥah) function as the primary ethical forces shaping employee behavior and minimizing opportunities for fraudulent acts. The mediation results further strengthen this conclusion: IOC exerts a meaningful indirect effect on Performance through Fraud Prevention, while the structural control system (COSO) shows neither direct nor indirect influence. Given the complexity of these mediation pathways particularly the combination of accepted and rejected hypotheses the study recommends presenting a final integrative diagram that displays all validated Beta coefficients and visually marks the rejected causal paths. Such a diagram will clarify the structural relationships tested and make the dominance of IOC unmistakably clear for readers, demonstrating that ethical-cultural foundations, rather than procedural control systems, serve as the central mechanism driving effective governance within BAZNAS. These values also promote motivation, discipline, work quality, and service orientation, which are key drivers of performance. The indirect effect analysis further confirms that IOC improves performance partly through its ability to strengthen fraud prevention. From a theoretical standpoint, the findings reinforce the propositions of Institutional Theory, which argues that organizational behavior is shaped not only by formal structures but also by normative and cultural-cognitive elements. The strong role of IOC emphasizes that culturally grounded values function as institutional mechanisms that guide behavior, establish legitimacy, and ensure accountability. Overall, the study concludes that organizational culture and fraud-prevention effectiveness are the primary determinants of performance, whereas internal control structures such as COSO require deeper cultural integration to exert meaningful impact. Strengthening Islamic organizational values and enhancing fraud-prevention systems emerge as strategic priorities for improving governance and performance in public sector organizations.

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