The effects of good governance and fraud prevention on performance of the zakat institutions in Indonesia: a Sharīʿah forensic accounting perspective

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Abstract

Purpose – This study aims to investigate the direct and indirect effects of good governance and fraud prevention on the performance of Zakat institutions.

Design/methodology/approach – A theoretical model was developed based on stakeholder theory, and data were collected from Indonesian Zakat institutions through convenience sampling design. In total, 142 data sets were analysed using partial least squares-structural equation modelling statistical software.

Findings – The results showed that good governance and fraud prevention significantly impact the performance of Zakat institutions. Yet, there was no significant influence of the fairness principle of good governance on Zakat performance in either direct or indirect relationships with fraud prevention.

Practical implications – The results indicated that Zakat institutions as trusted agencies should pay more attention to fairness implementations to avoid fraud. Furthermore, fairness is an early signal that accountants can use to detect either fraudulent or mismanaged Zakat distribution.

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Originality/value – This paper provides the empirical justification for a theoretical model of Zakat performance that was conceptualized using good governance principles and Sharīʿah forensic accounting principles.

1. Introduction
As a trusted body in the management and administration of Zakat (giving charity to the poor), Zakat institutions receive a great deal of attention from the public. Generally, the society assumes that Islamic institutions are properly managed. They provide stability and enhance Islamic socio-economic systems (Ahmad *et al.*, 2015). However, mismanaged governance and a lack of accountability have often been assumed to be characteristics of public services organizations. Previous scholars have discussed several issues related to the governance of Zakat institutions. Lack of trust and low level of confidence are two commons issues, leading to low performance of Zakat institutions (Basir *et al.*, 2017; Ahmad, 2019). It has also been argued that Zakat institutions are considered weak in the governance due to the absence of Zakat accounting standards, lack of knowledge and experiences in administration, management and low compliance behaviours (Saad and Farouk, 2019).

Governance is a process through which the society or organizations make critical decisions (Institute on Governance [IOG], 2003) on the operations of organizations. The management of Zakat organizations is no exception. With respect to these organizations, good governance can guide and restrain the decision-making process of Zakat managers. However, like any other organization, Zakat institutions have also experienced financial scandals although these scandals have not received much public exposure. The Zakat payers need to be sincere and tend to ignore how Zakat institutions manage funds without proper reports. It has been argued that those who misuse Zakat funds will be responsible for those funds for Allah (SWT) in the hereafter. Minimizing the potential for fraud has created a high demand for new accounting regulations and setting new standards and their applications for Zakat institutions (Akyel, 2012).

In the literature, though studies on good governance have been carried out in general, specific studies on good governance practices for fraud prevention in Zakat institutions are still limited. Shahar *et al.* (2020) found no difference in government disclose indicators between Islamic and non-Islamic financial institutions. Yet, to date, there has been no evidence on how Zakat institutions consider the elements of fraud prevention for enhancing the performance of Zakat institutions. Thus, it is necessary to conduct further studies on how good governance can prevent fraud to improve Zakat performance. In fact, the evaluation of good governance practice will improve society's confidence, prevent fraud, increase institutional performance and make the accounting function more effective. Fraud prevention is among the emerging topics discussed in forensic accounting literature and highlights an essential need to prevent and detect fraudulent activities. This has created a great demand for professional accounting skills globally to examine the existence of fraud in all institutions, including Zakat institutions. However, to what extent are the conventional forensic accountants aware of the Sharīʿah law and compliance? Can they really handle the fraudulent issues in Islamic institutions? To the best of our knowledge, the Sharīʿah-compliance forensic accounting is not well-developed, and there is no single consensus on how it should be conceptualized. It is Muslim scholars' responsibility to start the initiative and fill the existing gaps. Therefore, it is important to study the impacts of governance and fraud prevention on the performance of Zakat institutions from the Sharīʿah accounting perspectives.

Many Zakat institutions were established in Indonesia, including those from the government, non-governmental organization (NGO), Islamic co-operative, corporate bodies and mosques. Because of their wide reach, Zakat institutions have a great potential to address Indonesia's poverty issue by distributing charitable funds to poor and needy people. This can include the Zakat collection in Indonesia, which has the potential to make a huge contribution to national well-being and reduce the poverty rate. According to Rahmat and Nurzaman (2019), Zakat fund distribution can give priority to economic and health education programmes for society's well-being. Unfortunately, a number of Zakat institutions have not properly adopted good governance practices (Wahyuni-TD, 2017) and many institutions suffer from service inconsistency and poor management (Wahyuni-TD and Fernando, 2016). Media often report these issues; for example, Zakat institution put its Zakat collection in the local bank/institution instead of dispensing funds to the needy (BAZNAS, 2020), and the embezzlement of the Zakat fund still occurs (Tribunnews, 2017).

Zakat collection and distribution has several problems. The first problem is that the members of the society are often unaware of officially authorized Zakat institutions and are accustomed to seeing Zakat directly distribute funds to the needy or through clerics and mosques, which usually occurs informally without proper reports (Sitorus, 2015). This system is vulnerable to irregularities. The second problem is that according to Syaadi (2018), Zakat institutions rarely have professionals with Sharīʿah accounting backgrounds. This situation is related to the transparency and accountability that managers should practice in handling Zakat funds as the potential for fraud is increasing with mishandled procedures and dishonest governance practices. Zakat managers could handle these issues properly if they adopted good governance standards and practices. In line with this, inappropriate practices in handling Zakat funds can create a potential for financial scandal. One solution is to adopt good principles of corporate governance. Therefore, to resolve all the aforementioned potential issues, Zakat institutions should adopt governance principles to ensure accountability and good performance.

Transparency, accountability and integrity are critical domains in Zakat management. Similar to corporations, forensic accountants are needed to investigate fraudulent activities of Zakat organizations (PwC, 2014; KPMG, 2013). Because of the potential of the discovery of fraud, it is necessary for adopting forensic accounting practices in Zakat institutions. The use of such professionals in Zakat institutions will help leverage the society of trust in Zakat institutions. Hence, this study aims to examine the current practices of good governance and fraud prevention initiatives in Zakat institutions in Indonesia. To achieve this objective, this study examines the relationship of good governance practices and fraud prevention with the performance of Zakat institutions. This paper begins with a brief presentation of a review of the relevant literature on the main domains in the study, followed by a method of data collection. After that, the results are deeply discussed and clearly explained. This paper ends with critical discussions and a brief presentation of implications.

2. Literature review
In this section, a review of relevant previous studies is presented to gain deep insights into the main concepts and development of Zakat institutions in Indonesia.

2.1 Zakat institutions in Indonesia
Zakat is one of the five fundamental pillars of Islam (Abdul Rahman *et al.*, 2012). During the time of Prophet Muhammad (PBUH) in the second year of Hijrah in the month of Shawwal (18 months after the arrival of the PBUH in Medina), the performance of Zakat, including a specific amount to be paid with specific conditions was ordained. For a Muslim, Zakat is widely understood as an obligatory act of worshipping SWT, in which the rich should help

the poor and needy, leading to the reduction of a gap between the rich and the poor and people must clean the sin, their heart and soul from greed and dirt, as well as receive a reward from SWT in the hereafter. Basically, there are two basic categories of Zakat. The first one is Zakat for wealth (*Al-Maal*), whereas the second one is Zakat for the individual (*Al-Fitr*). Zakat for wealth is paid yearly on anything that is obtained for the purpose of getting profit or *Urud At-Tijarah*. In case money is paid, the rate of Zakat on business wealth accounts for 2.5%; however, 85 grams of gold is limited to be paid (*Nisab*) (Abdul Rahman, 2007).

The development of Zakat institutions in Indonesia has changed since the introduction of the law of Zakat Management No. 38/1999. This law was enacted on 13 October 1999 to protect, regulate and service *Mustahiq* and Amil Zakat (Mujiyati and Sholahuddin, 2010). The enactment had several effects. Zakat institutions were established through National Zakat Institution or Badan Amil Zakat (BAZ) and Lembaga Amil Zakat (LAZ). BAZ was managed by the government. Meanwhile, LAZ was managed by private entities, NGOs and corporations under the regulations of the government. Zakat can collect wealth from the individual (e.g. *Al-Maal and Al-Fitr*) for public welfare. The Zakat can be used as the venture capital to empower the *mustahiq* (Zakat recipients) economy (Ryandono and Nanda, 2020). The government was also authorized to penalize Zakat institutions (governmental institutions and non-governmental ones) if their duties were not performed properly. Despite these protections, the public trust towards Zakat institutions has not changed. Most Muslims in Indonesia still tend to pay Zakat directly to mosques and individuals instead of these organizations (Lessy, 2009). As mentioned earlier, Zakat institutions were established by the government and non-government institutions such as LAZ, and corporate Islamic co-operatives. Thus, institutions need to practise a good principle of governance.

In Indonesia, good governance was initiated and implemented since the advent of the reformation era in 1998. At that time, it was believed that the government of Indonesia should adopt the principle of good governance. Since then, good governance has become a vital mechanism required for the prevention of misconduct and the development of mutual trust. There are six main indicators of good governance practices in Indonesia, namely, voice accountability, absence of violence, control of corruption, political stability and rule of law, government effectiveness and regulatory quality (Ardiansyah, 2014). To date, the movement of clean government, corporations and society has become an important part in eradicating corruption. In Islam, good governance is an *ijtihâdiyyah* (human rationality) movement to control and monitor abuse of power (Solikhudin, 2017).

Even though Indonesia is a country that is predominantly Muslim, where accounting subject is in great demand, Forensic Accounting subjects are not included in the accounting courses offered by higher institutions. According to Sugianto and Jiantari (2014), forensic accounting subjects should be included in a list of accounting courses provided for accounting students. In fact, forensic accounting subject is sufficient as the introduction to financial accounting course, so as to enhance students' understanding of the prevention and detection of fraudulent acts. In the next section, the theory is discussed as the basis of theoretical model development.

3. Theoretical framework

The stakeholder theory has been used to explain the complex interaction among the stakeholders in Zakat institutions. This theory emphasizes performance and business efficiencies in managing morals, ethics and values. Moral motivation and rational self-interest are two classical domains highlighted in this theory (Valentinov and Hajdu, 2019). Stakeholder theory addresses the necessity of respecting the interests of stakeholders (Oruc and Sarikaya, 2011). Thus, corporate management is required to be sensitive and accountable

for the needs and the expectations of stakeholders. This is because organizations essentially comprise many different individuals and groups with different expectations. In line with this purpose, the Institute on Governance (IOG) (2003), derived from United Nations Development Program (UNDP) (1997) good governance principles, also emphasizes the importance of the effectiveness of organizations to protect the interests of stakeholders. The central idea for considering these factors is based on the relationship between the protection of stakeholder's interests and the adoption of good governance. The success of an organization in protecting the interests of stakeholders will depend on how well the organization manages relationships with all key affected parties including employees.

4. Research model and hypotheses development

This paper adapted several variables of governance from Institute on Governance (IOG) (2003) and United Nations Development Program (UNDP) (1997) to the Islamic perspective of good governance principles. The paper delineated four main constructs in governance (i.e. accountability, direction, fairness and legitimacy and voice). That will affect the fraud prevention and the performance of institutions. This model uses accountability, direction, fairness and legitimacy and voice to predict the performance of Zakat institution. At the same time, this paper greatly contributes to the theoretical framework of governance principles of Islamic institutions and the performance of Zakat institutions by introducing fraud prevention as a mediator in the model. This research model is shown in Figure 1.

4.1 Good governance indicators to prevent fraud

Rezaee (2005) and Hogan et al. (2008) argued that ineffective corporate governance was associated with the integrity and ethical conduct of the members of the organization structure such as top executives. Witherell (2004) claimed that poor governance has a negative impact on potential company performance such as leading to financial difficulties and fraud. Additionally, Fich and Shivdasani (2007) linked the quality of corporate governance and corporate financial scandals as poor corporate governance that has pave the way to financial difficulties. In the case of Zakat institutions, the more they adopt the principles of good governance, the more financial scandals will be reduced. Ensuring the adoption of good governance has a positive impact on the prevention of fraud in Zakat institutions as the core objectives of good governance are to control and guide the performance of an organization (Graham et al., 2003). The risk of fraud usually occurs
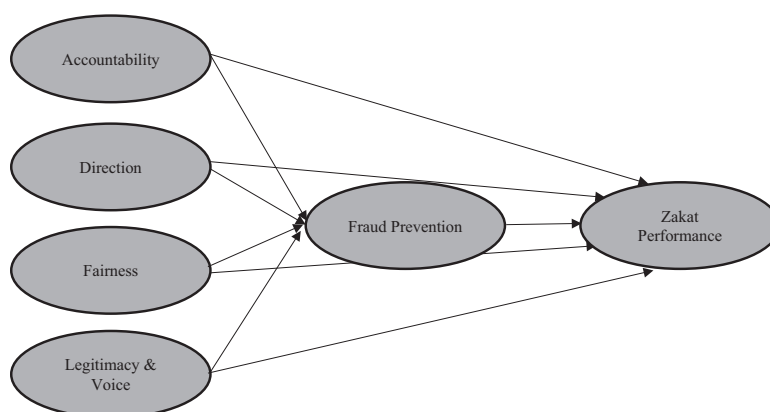

Figure 1.
Theoretical model

because of the incapable internal control and its mechanism (Yusuf *et al.*, 2020). To avoid this fraud, Zakat institutions need to pay more attention to the internal control mechanism through the deployment of good governance. Good governance can build the trust of Zakat institutions and improve its performance. According to Boonyamanond and Chaiwat (2020), trust can encourage the contribution of Zakat payment.

Governance refers to strategic processes and a set of practices that enable an organization to realize its goals (Institute on Governance [IOG], 2003). The United Nations Development Program (UNDP) (1997) defined governance as the exercise of authority of an organization, country or institution in managing their affairs at different levels of mechanisms, processes and institutions through which groups, employees, citizens and others who articulate their interests, exercise their legal rights, meet their obligations and mediate their differences in achieving its own goals. The concept of governance itself serves as a focal point, involving a set of dynamic processes in an organization to determine the organization's structures and functions, giving the directions and setting the strategies among other functions (Shipley and Kovacs, 2008).

The concept of good governance principles from the Islamic perspective focuses on the existence of distinct features in decision-making premised on Oneness with SWT (Choudhury and Hoque, 2006). This aligns with Islamic views in which the end goal is to attain *Falah* (success in this world and hereafter). The fundamental basis of governance in the Islamic faith is the concept of *Tawhid* (the Oneness of God) (Al-Faruqi, 1986). In Islam, human beings are created as the vicegerents of SWT and everything belongs to SWT. With regard to Zakat institutions, good governance would require Zakat managers to be more accountable to men and to SWT. There are major areas of Zakat core principles such as legal foundations, Zakat supervision, Zakat governance, intermediary function, risk management and Sharī'ah governance (Beik *et al.*, 2015). Zakat managers should be aware of Zakat principles and surveillance of SWT at every moment and in every condition. An individual would account for all his/her actions in the hereafter. This study refers to conceptualizing good governance based on the Institute on Governance (Institute on Governance [IOG], 2003). In brief, there are four domains of good governance conceptualized in this paper. The first domain is accountability, referring to responsible and accountable activities. The second domain is the direction that guides the implementation based on the best practice. Fairness as the third domain, indicating the independency without discrimination and the last domain refers to legitimacy and voice. Legitimacy is the act that refers to law, regulation and standard, whereas voice refers to professional opinions to evaluate and suggest for improvements. In addition, the effective good governance will have a positive impact on fraud prevention initiative. As such, the following hypotheses are posited:

Hypothesis:

There is a positive relationship between the adoption of accountability (*H1*); direction (*H2*); fairness (*H3*); legitimacy and voice of good governance (*H4*) and fraud prevention initiatives.

4.2 Fraud prevention and forensic accounting

The accounting profession has experienced serious problems affecting many parties including organizations, employees, customers, vendors and government. For example, the pressure to compete and show better company performance has led to several corporate frauds (Tiwari and Debnath, 2017). The need to discover such frauds has led to the development of a specialized field of accounting known as forensic accounting. Forensic accounting began to evolve in the US in the late 1980s because corporate frauds, and white-collar crimes were increasing at this time, resulting in increased litigation charges (Carnes and Gierlasinski, 2001).

Over time, forensic accounting has evolved into a more comprehensive avocation in response to large-scale corporate scandals and the resulting call for antifraud experts to

resolve these problems. Albrecht *et al.* (2011) pointed out that forensic accounting has become associated with an investigative accountant with an inquisitive mind and a detective style. Thus, forensic accounting was widened from a narrow in-courtroom focus on an investigate tool (McMullen and Sanchez, 2010). As Rezaee *et al.* (2004) noted, forensic accounting has seen the development of a more comprehensive approach in terms of applicable outcomes. Today, the field involves the areas of litigation support, consultation, expert witnessing and fraud examination through rigorous data collection and analysis. Additionally, Akkeren and Tarr (2014) postulated that forensic accounting inevitably involved litigation services for businesses and advising for dispute resolution. In situations that involve individuals, businesses, governmental and non-governmental bodies, all parties are affected and can suffer both monetary and non-monetary losses (Okoye and Akamobi, 2009). Certainly, when these situations occur, a forensic accountant assumes the role of advisor in the litigation process by providing professional assistance for attorneys (Reinstein and Lander, 2004).

According to ACCA (2019), the elements of forensic accounting procedure consist of alleged fraudulent activity, evidence, a review process and a report. Tuanakotta (2007) postulates that there are nine techniques that can be used to reveal fraud, namely, the financial statement, taxation techniques, tracking financial flows, applied legal-analysis techniques, audit investigation technique, computer forensic, interrogation technique, undercover operations and whistle-blowing.

Another factor that encourages the growth in forensic and fraud research is a lack of confidence among investors about the reliability of information disclosed in the financial reports of large and complex organizations. Research in forensic accounting needs to be explored intensely to avoid the misconduct, fraudulent, abuse of authority and power. According to Ozili (2020), fraud research is in demand because the investors and public were not confident with the reliability of disclosed information in the financial reports. The Muslim society has often assumed that it is inappropriate to question Zakat managed by Islamic institutions. It can reduce merits from doing good things for not being sincere. Yet, it remains debatable to assume that the Islamic organization has managed the Zakat in accordance to good governance principles. Ideally, the Islamic-based institutions should manage professionally and adopt good governance, Sharīʿah values and compliance.

From Islamic perspectives of good governance and forensic accounting, Solikhudin (2017) has argued that the concept of *mashlahahmursalah* (no textual evidence for its approval or disapproval) can be the basis of good governance practices. The concept of *mashlahahmursalah* is able to accommodate the good governance principle of human welfare. However, there is little evidence on how the Sharīʿah-based forensic accounting has been conceptualized. Till date, there is still limited literature on the Sharīʿah-based forensic accounting or Islamic forensic accounting. In this study, the procedure of Islamic forensic accounting is proposed so as to initiate the development in this research area. Figure 2 shows the Islamic forensic accounting procedure. Firstly, apart from the Sharīʿah auditing knowledge, skills and experience, the forensic auditors should have sufficient knowledge of Islamic law and Sharīʿah's principles. The auditors must swear in Islam in carrying out their duties. After that, the forensic auditors can allege fraudulent activities. The forensic auditors can assess the management practices, honesty and fulfilment of business contracts based on verbal communication and written documents. The forensic auditors need to collect evidence through various techniques of investigation. Once evidence is collected, the Sharīʿah-compliance forensic auditors will review the process of transactions and documents based on the collected evidence. The last procedure is to prepare a report based on the findings of the investigation.
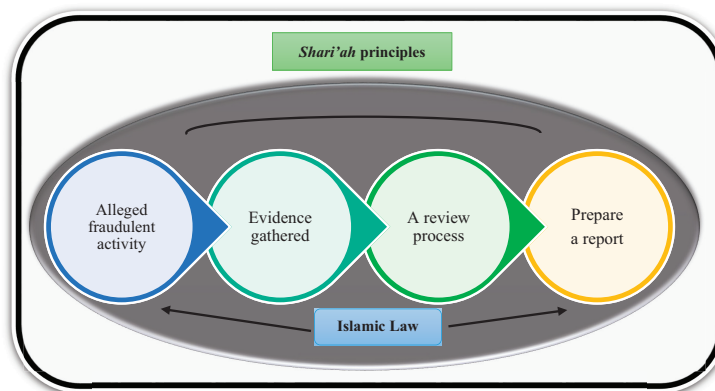
In contrast with the Islamic view, a traditional auditor is concerned only with certifying whether the presentation of financial statements of the clients presents a true and fair view. An independent auditor must be appointed in compliance with the relevant statutory obligation to examine and express his/her opinions of the financial statements that entities have produced. However, a "perception gap" has emerged between the public view and the view of the auditing profession as to what exactly is the duty of an auditor. The public view is that auditors are responsible for detecting frauds and errors over the financial statements. In contrast, auditors believe that fraud detection is beyond the scope of the typical duties of an independent auditor and requires a specialist (Karim and Noor, 2017). Public sector organizations must recruit more forensic accountants to look for signs of suspicious and fraudulent financial activity such as corruption practices. In brief, the most effective way to detect or prevent fraudulent financial scandals is to hire a forensic accounting professional (Koh *et al.*, 2009). Thus, the following hypothesis is posited:

H5. There is a positive relationship between fraud prevention initiatives and the performance of Zakat institutions.

4.3 Good governance and performance

There has been an extensive body of literature on the relationship between governance and organizational performance (Ghosh, 2018). The expectations of stakeholders with respect to good governance practises can affect the future strength of an organization. Good performance can increase public confidence when this performance leads to fulfilling organizational goals and activities that achieve efficient outputs (Mohd Noor *et al.*, 2012). Measuring performance poses a problem for finding common objective metrics. This is because all the criteria are multi-dimensional in nature and are context-dependent (Kaczmarczyk and Murtough, 2002).

In the context of Islamic-based institutions, the issues related to the measurement of Islamic institutions are more complex because the way in which performance is measured for these institutions is different from the conventional counterparts. The Sharīʿah governance has been shown to affect companies' performance positively (Buallay, 2019). Nonetheless, the accurate measurement of performance in Zakat institutions is important to maintaining the trust of Muslims in the society. In Zakat institutions, as in other institutions, the measurement of performance is part of the process of determining how well an

institution works. In this process, governance can affect the outcomes of Zakat institutions in optimizing their performance.

Several different metrics can be used as indicators to measure the performance outcomes of Zakat institutions. For example, these could include the total number of Zakat recipients and the total amount of Zakat distributions. This study measures performance based on Zakat distributions. This is computed using the efficiency ratio (Zakat distribution divided Zakat collection) and the total number of Zakat recipients, while Zakat collection is used as an indicator for measuring the size of Zakat institutions. From the above, the inference is that the adoption of good governance in Zakat institutions would be the performance of Zakat institutions. Hence, the following hypotheses are posited:

Hypothesis:

There is a positive relationship between the adoption of *accountability (H6)*; *direction (H7); fairness (H8); legitimacy and voice (H9)* of good governance and performance of Zakat institutions.

Fraud prevention initiative mediates the relationship between *accountability (H10); direction (H11); fairness (H12); legitimacy and voice (H13)* of good governance and the performance of Zakat institutions.

5. Method
The population of this study includes Zakat institutions that are currently operating in Indonesia registered under The National Board of Zakat (BAZNAS) and the local government-recognized agencies (LAZ). Only official Zakat institutions (registered *amils*) were included in this survey. There were two types of Zakat institutions, namely, government-owned Zakat institutions and non-governmental Zakat institutions (e.g. NGO, corporate entities, Islamic co-operatives and mosques). In total, there are 1,136 Zakat institutions in Indonesia (549-BAZNAS and 587-LAZ) (KPMK, 2020). The unit of analysis was Zakat institutions in Indonesia. The respondents were Muslim accounting/finance unit heads or managers. They were working in Zakat institutions and had management knowledge of his institution. According to Wahyuni-TD *et al.* (2018), Muslim accountants are appropriate key informants who can use Islamic ethics as a reference to ensure the quality audit work and to comply with Sharīʿah requirements. The respondents include people who are directly involved in Zakat management and reporting (e.g. Zakat distribution, Zakat collection, etc.). The data were collected through an online survey with a convenience sampling technique. The governance and performance measurement items were adapted from the Institute on Governance (Institute on Governance [IOG], 2003). Fraud prevention constructs items were adapted from Golden *et al.* (2011).

A five-point Likert-type scale was used to reduce the complexity of options available to indicate the level of agreement (Fernando *et al.*, 2018). There are three reasons that this study used a five-point Likert scale compared to other measurement scales (7, 9, 10 scales). Firstly, this type of research is a correlational study that deals with respondents' perceptions and attitudes. Psychometric scale was adopted by previous studies to measure items. As this study used the same psychometric scale by adapting various sources of measurement adopted by previous studies, it was appropriate to use the same type of Likert scale. Secondly, previous scholars recommended a five-point Likert scale to measure respondents' attitudes and perceptions. According to Sachdev and Verma (2004), using a five-point Likert scale can improve response rate and quality. The third reason is that a five-point Likert scale allows respondents to freely choose from various options. Obviously, using a five-point Likert scale is the most suitable measurement scale for survey research in the area of behavioural accounting, business and management. Fernando *et al.* (2019) suggested using

two statistical software for survey-based research. IBM Statistical Product and Service Solutions 25 was used to analyse the characteristics of respondents. After that, a goodness of measurement model and hypothesis testing were conducted using partial least squares-structural equation modelling 3.2.9.

6. Results

To achieve an adequate response rate, a total of 500 questionnaires were delivered to the official (national-certified) and registered Zakat institutions in Indonesia. In total, 142 questionnaires were collected, reaching a response rate (28.4%). In total, 142 national-certified Zakat institutions participated in a survey. Table 1 shows a profile of respondents. Most respondents came from Islamic co-operatives (49.0%), followed by mosques (39.9%). The remainder was NGOs (5.6%), government (3.5%) and corporate (2.1%). As for Zakat management, the majority of Zakat institutions managed Zakat for less than 5 years (49%), while 32 Zakat institutions managed Zakat affairs from 21 to 25 years (22.4%). This was followed by 11.2% in the range of 16 to 20 years, then 10.5% in the range of 5 to 10 years and 4.2% of above 26 years. Only four institutions managed Zakat from 11 to 15 years (2.8%).

More than half of the managers of Zakat institutions were men (74.8%) and the remaining were women (25.2%). The majority of the respondents ranged from 31 to 40 years old (52.4%), followed by 41 to 50 years old (31.5%). The other remainder ranged from 20 to

	Overall	
Categories	Frequency	(%)
Type		
Government	5	3.5
NGO	8	5.6
Cooperatives	70	49.0
Corporate	3	2.1
Mosque	57	39.9
Zakat		
<5 years	70	49.0
5–10 years	15	10.5
11–15 years	4	2.8
16–20 years	16	11.2
21–25 years	32	22.4
>26 years	6	4.2
Gender		
Male	107	74.8
Female	36	25.2
Age		
20–30 years old	19	13.3
31–40 years old	75	52.4
41–50 years old	45	31.5
>50 years old	4	2.8
Education		
Certified professional	26	18.2
Diploma	16	11.2
Bachelor	80	55.9
Master	21	14.7

Table 1.
Profile of respondents

30 years old (13.3%) and the respondents (only 2.8%) were more than 50 years old. The respondents in staff in Zakat institutions (55.9%) got bachelor degrees. Meanwhile, respondents got accounting professional and master degrees accounting for 18.2% and 14.7%, respectively. Diploma holders made up 11.2%. After understanding the profile of respondents, the next subsection will discuss the goodness of measures.

6.1 Goodness of measures

Goodness of measures is the primary step to examine the validity and reliability of the model. Factor loadings, composite reliability (CR) and average variance extracted (AVE) are critical criteria to examine the convergence validity (Hair *et al.*, 2017). CR value should be greater than 0.7 cut off value, whereas AVE should be above 0.5 for all constructs. This study contains a total of 19 items, and all items factor loading are greater than 0.7. There is sufficient evidence to conclude that the data met the convergence validity requirements (Table 2 and Figure 3).

This study used R-square (R^2) to identify the coefficient of determination. The R^2 assists an investigator in signifying the quality of the proposed structural equation model (Fernando and Hor, 2017). Four domains of governance practices and one domain of fraud prevention explained 0.622 ($R^2 = 62.2\%$) of Zakat performance variance. The variance of fraud prevention as a single domain explained 0.330 ($R^2 = 33\%$) of Zakat performance. The effect size (f^2) ranged from 0.005 to 0.796, respectively. In this study, an effect size that is lower than 0.02 (small) leads to the rejection of the hypothesis. Most of the accepted paths link the independent and dependent variables, ranging from 0.046 (small) to 0.796 (large).

Code	Loadings	Composite reliability	Average variance extracted (AVE)
ACC1	0.874	0.900	0.693
ACC2	0.793		
ACC3	0.884		
ACC4	0.773		
DIR1	0.877	0.889	0.727
DIR2	0.831		
DIR3	0.850		
FAIR1	0.876	0.891	0.673
FAIR2	0.870		
FAIR3	0.775		
FAIR4	0.754		
FOR1	0.821	0.914	0.726
FOR2	0.810		
FOR3	0.864		
FOR4	0.909		
LGV1	0.816	0.874	0.634
LGV2	0.737		
LGV3	0.786		
LGV4	0.842		
ZP1	0.909	0.926	0.715
ZP2	0.804		
ZP3	0.793		
ZP4	0.811		
ZP5	0.902		

Notes: ACC = Accountability; DIR = Direction; FAIR = Fairness; FOR = Fraud Prevention; LGV = Legitimacy and Voice; ZP = Zakat Performance
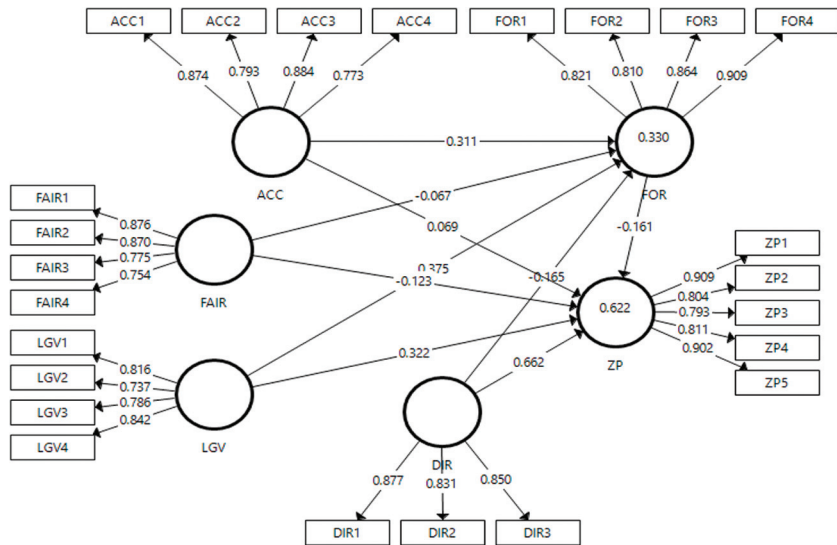
Table 2.
Convergent validity

Figure 3.
Results of convergent
validity

The results of f^2 were aligned with Cohen's (1988) guidelines. Table 4 shows the results of the blindfolding test. The results indicated that predictive relevance ($Q^2 = 0.214$; $Q^2 = 0.397$) had adequate evidence in the structural model ($Q^2 > 0$; Hair *et al.*, 2017). The structured equation model indicated the fitness of a model measure (Standardized root mean square residual $= 0.82$ and normed fit index $= 0.97$) (Hair *et al.*, 2017; Henseler *et al.*, 2014). The Heterotrait-Monotrait criterion was used to examine discriminant validity. Henseler *et al.* (2014) suggested using the less than 0.85 criteria. Table 3 shows the results of discriminant validity indicating two reflective constructs established in the structured model.

6.2 Hypothesis testing
As the model shows validity and reliability, the hypothesis testing is examined. The results of hypothesis testing are presented in Table 4 and Figure 4. This current study used a single direction hypothesis with a two-tailed *t*-test. This is because the indirect effect in the hypotheses did not specify a single specific direction (either positive or negative). *H1* postulated that accountability has a positive and a significant direct relationship with fraud prevention. The path analysis shows a positive and significant direct relationship between accountability and fraud prevention with a *t*-values of more than 1.96 (*β*-path coefficient =

Construct	[1]	[2]	[3]	[4]	[5]	[6]
Accountability [1]						
Direction [2]	0.335					
Fairness [3]	0.298	0.552				
Fraud prevention [3]	0.574	0.095	0.116			
Legitimacy and voice [4]	0.808	0.478	0.475	0.577		
Zakat performance [5]	0.404	0.840	0.359	0.092	0.576	

Note: Heterotrait-Monotrait ratio < 0.85 (Henseler *et al.* (2014)'s criteria)

Table 3.
Discriminant
validity: Heterotrait-
Monotrait ratio

Good
governance
and Fraud
prevention

Hypothesis	Path	Std.β	S.E	T-value	P-value	Effect size f^2	R^2	Q^2	Confidence interval 2.5%	97.5%	Decision
H1	ACC → FOR	0.311	0.114	2.727	0.018	0.180	0.330	0.214	0.042	0.541	Supported
H2	DIR → FOR	0.165	0.063	2.624	0.009	0.291		0.397	0.095	0.221	Supported
H3	FAIR → FOR	0.067	0.073	0.925	0.395	0.005		0.012	0.288	0.044	Not supported
H4	LGV → FOR	0.375	0.122	3.071	0.004	0.101		0.285	0.514	0.795	Supported
H5	FOR → ZP	0.161	0.053	3.045	0.003	0.306	0.622	0.127	0.198	0.088	Supported
H6	ACC → ZP	0.069	0.078	0.891	0.393	0.029		0.205	0.25	0.024	Not supported
H7	DIR → ZP	0.662	0.071	9.321	$p < 0.001$	0.796		0.331	0.274	0.06	Supported
H8	FAIR → ZP	0.123	0.061	2.004	0.044	0.122		0.169	0.099	0.637	Supported
H9	LGV → ZP	0.322	0.105	3.071	0.004	0.160		0.362	0.093	0.541	Supported
H10	ACC → FOR → ZP	0.025	0.012	2.105	0.046	0.124		0.023	0.113	0.01	Supported
H11	DIR → FOR → ZP	0.027	0.013	1.979	0.048	0.046		0.032	0.005	0.066	Supported
H12	FAIR → FOR → ZP	0.011	0.012	0.877	0.444	0.025		0.010	0.01	0.054	Not supported
H13	LGV → FOR → ZP	0.026	0.012	2.118	0.047	0.171		0.027	0.139	0.014	Supported

Table 4.
Summary of
hypotheses testing of
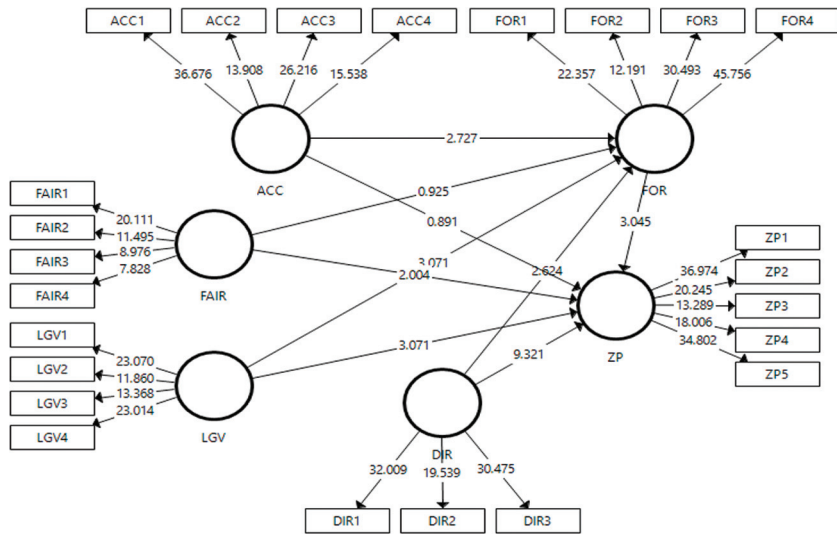initial PLS path
model

Figure 4.
Hypothesized with
PLS-SEM path model

0.311; t-values = 2.727). Thus, *H1* is accepted. The direction has been regressed to fraud prevention, and the results showed statistical evidence of a positive and significant relationship (β-path coefficient = 0.165; t-values = 2.624). Thus, *H2* is accepted. *H3* is rejected because fairness lacks sufficient statistical evidence with respect to fraud prevention (β-path coefficient = 0.067; t-values = 0.925).

H4 predicts that legitimacy and voice would have a positive and significant effect on fraud prevention. The results of *H4* explained that the path was significant at > 1.96 (β-path coefficient = 0.375; t-values = 3.071). Thus, *H4* is accepted. Fraud was postulated to have a positive and significant effect on Zakat performance. The result shows a positive and significant link between fraud prevention with Zakat performance with a t-values more than 1.96 (β-path coefficient = 0.161; t-values = 3.045). Thus, *H5* is accepted. *H6* predicted that accountability would have a significant and positive relationship with Zakat performance. However, the result was statistically insignificant, at $p > 0.05$ (β-path coefficient = 0.069; t-values = 0.891); therefore, *H6* is rejected.

H7 proposed that direction would have a positive and significant relationship with Zakat performance. The result showed that *H7* is statistically significant, at $p < 0.05$, and is positively-related (β-path coefficient = 0.662; t-values = 9.321). Thus, *H7* is accepted. Furthermore, *H8* predicted that fairness would have a positive and significant relationship with Zakat performance. The result revealed that sufficient evidence existed to accept *H8* at $p < 0.05$ (β-path coefficient = 0.123; t-values = 2.004). The path analysis showed a positive and significant direct relationship between legitimacy and voice with Zakat performance with a t-values of more than 1.96 (β-path coefficient = 0.322; t-values = 3.071). Therefore, *H9* is accepted.

The indirect effect was examined to determine the mediating impact of fraud prevention on the relationship between exogenous variables (governance and fraud prevention) and endogenous variables (Zakat performance). *H10* predicted that fraud prevention would mediate the relationship between accountability and Zakat performance. The results had sufficient evidence to accept *H10* with a t-values of more than 1.96 (β-path coefficient = 0.025; t-values = 2.105). Fraud as an intervening variable had sufficient statistical evidence to accept the mediating effect on the relationship between direction and Zakat performance

(*ß*-path coefficient = 0.027; *t*-values = 1.979). Thus, *H11* is accepted. In contrast, *H12* was rejected. Fraud prevention had no mediating effect on the relationship between fairness and Zakat performance (*ß*-path coefficient = 0.011; *t*-values = 0.877). Finally, sufficient evidence was found to accept *H11*. A significant mediating effect of fraud prevention was found on the relationship between legitimacy and voice with the Zakat performance (*ß*-path coefficient = 0.026; *t*-values = 2.118).

7. Discussions

This study examined the role of the adoption of good governance in Zakat institutions to prevent fraud and to leverage the performance of Zakat institutions. A stakeholder theory is confirmed as an underlying theory to explain the linkage among variables in the proposed theoretical model. The results demonstrated that the adoption of good governance was effective in supporting fraud prevention in Zakat institutions for all principles of good governance except for fairness. A possible reason behind this was a lack of awareness and knowledge of good governance principles and concepts of fairness. In addition, the adoption of good governance was associated with the enhancement of the performance of Zakat institutions. Nevertheless, not all good governance principles had a positive and significant association with the performance of Zakat institutions in Indonesia. For example, the accountability principle remains low in Zakat institutions, and thus, this constraint upon performance needs to be fully addressed. This is because there is a lack of transparency between Zakat managers and stakeholders (e.g. Zakat recipients, public, government and others) in managing Zakat funds.

Moreover, the results showed that all of the governance principles were significantly related with fraud prevention and the performance of Zakat institutions except for the fairness principle. This implies that the issue of fairness remains as a major concern of Zakat institutions in Indonesia. The function of fairness in Zakat institutions is related to being impartial in the enforcement of Zakat rules, including the transparency of the rules and the absence of corruption. Fairness is also associated with the appropriate balance to protect the members of Muslim society such as practicing the law of Zakat and being fair in the distribution of the Zakat funds. The need for fairness means that Zakat managers equitably distribute Zakat funds to the rightful recipients. No issue of discrimination should exist regarding the collection and distribution of Zakat because in Islam, all human beings are the same and are vicegerents of SWT.

The understanding of stakeholder theory can assist the management of Zakat institution for the best practice of governance, which can avoid the dishonesty and strengthen the internal control mechanism. The four domains of stakeholder theory (accountability, direction, fairness and legitimacy and voice) were able to explain the fraud prevention initiative and Zakat performance. In line with the stakeholder theory, Zakat institutions are expected to be committed on the best practice of Sharīʿah-related governance. The involvement and responsibility of all parties (society, employees and management of Zakat institutions) play a critical role to monitor fraud prevention and the success of the implementation of forensic accounting. It is also argued that the absence of fraudulence can improve the performance of Zakat institutions. We argued that the Zakat institutions should establish the Sharīʿah supervisory board (SSB) in accordance to the adoption of stakeholder theory. According to Mohammed and Muhammed (2017), the SSB can represent the stakeholders to advise and supervise the implementation of good governance in the Zakat institutions and complies with the Sharīʿah codes of conduct. The SSB needs to ensure a diversity in the director and management board of Zakat for better governance (Hasan *et al.*, 2019).

Despite a large number of Zakat institutions in Indonesia, most of these institutions have not adopted good principles of governance. This conclusion is based on the findings of the current study that highlight urgency for the relevant authorities such as BAZNAS and local and national governments to initiate governance improvements in Zakat institutions to ensure the achievement of socio-economic justice. The findings of this study make several contributions to theory, practice and society. Although the findings should be considered to be an initial attempt to conceptualize good governance and forensic accounting initiatives in Zakat institutions, the findings provide a basis for a preliminary understanding of the need to adopt good governance practices and fraud prevention in Zakat institutions in Indonesia. Theoretically, they extend the body of knowledge in the empirical literature on the adoption of good governance and fraud detection in religious institutions. This is because the study of governance and forensic accounting in Zakat institutions is currently limited. Although several previous studies (Fadilah, 2013) have been conducted, the determinants of adoption of good governance in Zakat institutions have not been examined to thoroughly explain a linkage to forensic accounting practices especially if the fraudulent happens.

7.1 Managerial implications

The findings provide new insights for future improvements in good governance in Zakat institutions, particularly in leveraging the adoption of fairness and accountability, which is important to enhancing the efficiency of Zakat institutions to achieve their primary objectives and goals. Steps that might be taken include publishing annual reports on the performance of Zakat institutions so that the public can easily access. Additionally, Zakat managers could conduct a seminar on good governance and invite the relevant authorities and experts to contribute because sharing knowledge and experience is invaluable. The evaluation and improvement of Zakat management practices by accountants are critical. This means critically examining how Zakat managers promote fairness and justice and are accountable for Zakat fund administration, as well as establish clear institutional regulations and record the amount of Zakat collections and distributions on a regular basis. Even though Zakat institutions are considered as religious institutions, this does not guarantee freedom from fraud. Thus, regular auditing is critical for Zakat institutions in Indonesia to detect, deter and prevent financial fraud. By following the recommendations in this study, Zakat institutions will promote a better understanding of their institutions in Indonesia.

The study shows the importance of adopting good governance to achieve accountability, transparency and enhance the effectiveness of performance. If Zakat institutions were more transparent, Muslims in Indonesia would have a better understanding of how their institutions are governed. This will encourage Muslims to pay Zakat to the involved institutions instead of paying directly to beneficiaries. This will lead to improved socio and economic justice for the needy Muslims in Indonesia. Besides the important adoption of good governance in Zakat institutions, this paper suggests that Zakat institutions should train their accounting staff to have adequate Islamic knowledge and skills of forensic accounting. The Sharīʿah-compliance forensic accounting practices at least should cover three major areas such as fraud examiner litigation consultant and expert witness. The ability to conduct the best practice in Sharīʿah forensics accounting will gain better public trust, corporate image, improve the integrity, fairness and Zakat performance. The Zakat institution can publish their annual report to the public like the other conventional business and willing to answer the public queries of suspicious fraudulence. The trust on the professionalism of the Zakat institution will reinforce the sincerity of society in paying the obligation in Zakat that can benefit those in need.

Moreover, the study presents several important policy implications with respect to the observation of best practices of good governance in Zakat institutions involving the issue of fairness. The finding suggests that when Zakat managers can perform fairness in conducting Zakat funds, the quality of Zakat management will increase and the possibility of frauds is greatly reduced. Furthermore, this research highlighted the importance of having an internal auditor for Zakat institutions or regular auditing conducting by either an external auditor or forensic accountants. This is critical for evaluating and reviewing institutions and making them better.

8. Limitations and suggestions for future research

This study has some limitations. Firstly, this paper only studied Zakat institutions in Indonesia, which may not be a representative of the governance practices of Islamic institutions in general. Additional research should examine Islamic institutions and activities such as donations to Islamic Boarding Schools (*pesantren*), orphanages and crowdfunding. Secondly, some of Zakat institutions were established at the time when this study was conducted. Their good governance schemes were still in their early stages, and most Zakat managers were unaware of those principles. Thirdly, many respondents seem to fear the negative consequences of revealing information in their annual reports. Thus, the possibility might be that respondents could have answered the questions untruthfully. One way to sidestep this issue should assure respondents that they will have complete anonymity. Finally, the integration of quantitative and qualitative methods could provide further insights into the issue of governance in Zakat institutions. Future study should investigate the level of adoption and competencies of government and non-government organization accounting personnel in handling fraud prevention and detection. From Indonesian perspectives, urgent studies should be conducted to examine the determinants of forensic accounting practices and determine fraud prevention and detection competencies among the accounting personnel. The adoption of forensic accounting is critical to improve the conventional accounting curriculum and further courses, and training should be available to improve accountants' competencies.

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Further reading

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