CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter emphasized internal control practices. It comprised five sections. Section one explained the perceptions of internal control practices while section two emphasised the perception of accountability and its effects on non-profit organisation (Waqf). The following section provided an overview of Al-Rahma International. Section four reviewed several empirical studies. The last section covered the theories and hypotheses development of the study.

2.1 Internal control practices in Profit and Non-Profit Organisations

The internal control practices are one of the main elements to ensure good management practices essential for organisations to operate based on good practices. The internal control has been defined by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) as a process affected by the entity's board of directors, managing and other personnel-designed in order to give reasonable assurance about the entity's achievement of objectives with regard to: (1) reliability of financial reporting; (2) effectiveness and efficiency of operations; and (3) compliance with applicable laws and regulations. These three main objectives are applicable to all types of organisations including non-profit organisations. IFAC (2012) stated that internal control must be used to support the organisation in achieving its objectives by the risks of management, while fulfilling

organisational policies, rules, and regulations by dealing with the internal control as part of risk management and joining them in its overall governance system. According to COSO (1992), the internal control components are divided into five components: (1) control environment;(2) risk assessment; (3) control activities; (4) information and communication; and (5) monitoring activities. Spillan and Ziemnowicz (2011) stated that it is important that these five components be reviewed quarterly of its implementation to ensure good practices.

Despite these five components of internal control, the most basic and important component relates to daily management of cash flow control activities. In the edition of COSO (2012), control activities can be divided into: (1) segregation of duties; (2) authorisation and approval; (3) verification and reconciliation; (4) physical control; and (5) supervisory check. Petrovits et al. (2011) stated that when the internal control practices in a non-profit organisation are sound, it can prevent insufficiencies reflected through improper practice of internal controls that may affect public support, particularly by donors.

2.1.1 The Concept of Internal control practices

Internal controls (IC) are part of the internal control practices within an organisation. As these internal control practices shape the procedures to ensure effective organisational operations and protect from fraudulent or opportunistic behaviour. Internal controls (IC) optimise financial processes to enhance the reliability and credibility of financial reporting (Kewo and Afiah, 2017; Krishnan, 2005). Internal controls embrace the policies and procedures implemented by the company to ensure its business is conducted efficiently, including regulatory compliance which prevents and detects fraud and errors thereby covering the controls for reliable reporting of financial statements.

2.1.2 Five Elements of Internal Control

A sound internal control practices consists of detailed procedures and records adopted by management and is primarily concerned with the reliability of financial records and reports and with safeguarding assets. The internal controls are stated in five components: (1) control environment; (2) risk assessments; (3) control activities; (4) information and communication; and (5) monitoring activities (Kamaruddin and Ramli, 2015). These five components are crucial, and the implementation of the internal controls must be reviewed quarterly to ensure appropriate practices and their applicability.

2.1.2.1 Control Environment:

The control environment is a set of ethics, structures, and procedures that provide the basis of functioning internal controls within the organisation. Important factors include ethical values, integrity, capability of the employees and the philosophy of management within the organisation. The control environment provides the required basis for other components to shape the systems of the internal controls (COSO, 2013).

2.1.2. 2 Risk Assessment:

Risk assessment is typically used to identify expected dangers within the system. In order to make sure that the risk assessment is operative and effective, preventative measures need to be in place. The risk assessment identifies and analyses possible risks, internally or externally. It manages risk by developing accurate procedures to accomplish consistent objectives within the organisation. Risk assessment always refers to the objectives set forth by Enterprise Risk Management (Integrated Framework, 2004).

2.1.2.3 Control Activities:

Control activities are performed across the company or organisation. They are developed continuously in order to support monitoring, which include policies, procedures and practices to increase risk management strategies. Specific control activities comprise the separation of duties, verification, reconciliation and physical security of assets. These policies are designed to ensure that management directives are fulfilled (COSO, 2017).

2.1.2.4 Information and communication

Information must be identified, captured and communicated timely and efficiently, and are achieved through this internal control component. It is designed to give employees the ability to implement their responsibilities in the best possible manner. Information is communicated externally to all parties involved in the organisation. The communication of information allows control activities and employee responsibilities to be performed more effectively (COSO, 2017).

2.1.2.5 Monitoring activities

The monitoring component is considered the most important internal control component due to the major role it plays evaluating the performance of the internal control components and certifying that they are operating efficiently. It provides managers clear guidelines of their responsibilities so that they can achieve their duties effectively. It also comprises the evaluations performance through auditors and other external parties, making sure that the organisation is conducting its operations properly (COSO, 2013).

2.1.3 The Features of Internal control practices in Non-Profit Organisation (Waqf)

The internal control practices in non-profit (waqf) organisations are playing important roles managing Waqf institutions. The majority of non-profit (waqf) organisations depend on donations (sadaqat) collected from individual donors, who gain confidence from strong

internal controls implemented by non-profit organisations. Donations from the primary financial source of non-profit organisations. Sulaiman et al. (2008) stated that proper internal controls may result in increased donations due to their optimal use. The control activities need to be satisfactory. It provides assurances to the public regarding funds management. Its presence in funds management indirectly enhance the effectiveness and efficiency of the financial accountability of non-profit organisations.

2.2 Accountability in Non-Profit Organisations (Waqf)

2.2.1 Accountability

Accountability in general include accountability to the parties that have an interest in the institution. Accountability can be defined as "the duty of providing a financial account or reckoning for the held responsible actions" (Ihsan and Adnan, 2009). Ibrahim (2000) elaborated the definition of accountability as "the duty of an entity to use (and prevent the misuse of) the resources entrusted in an effective, efficient, and economical manner, within the boundaries of moral and legal framework of society, and to provide an account of its actions to the account holders whom are not only the persons who provide it with financial resources but also to the groups within the society and to society at large". The definitions above indicates that Waqf institutions have an obligation to carry out certain actions in managing the resources which donners entrust to them and to fulfil its obligation towards society (Ihsan and Adnan, 2009; Arshad and Zain, 2017).

Accountability practices could be measured in three aspects. First is measuring the financial or the quantitative activities. Second is evaluating the qualitative side of the performance which mean it concern the quality of the activities and the value added to the society, which is typically non-financial information. Third is disclosing and reporting

financial and non-financial information (Ihsan et al. 2017). The current study adapts the same aspects as proxy for accountability practices.

2.2.2 The Practice of Accountability in Non-Profit Organisations (Waqf)

There are complex relationships between accountability in non-profit organisations in meeting the responsibilities to donors, consumers, community, associates, and volunteers. These responsibilities to multiple stakeholders exert significant pressure on non-profit organisations that tend to prioritise accountability to donors, foundations and governments over accountability to clients and the populations served by the organisation. Nevertheless, considering the voices of the people they serve should enhance the performance of non-profit institutions. Advanced efforts to prioritise accountability downward in the focus of different stakeholders (donors) requires indicating the importance of downward accountability as a critical issue facing the non-profit sector.

Most non-profit organisations address downward accountability through feedback mechanisms such as interviews, surveys, or focus groups to collect people's perceptions. They seek to increase the client's ability to encounter decisions about choosing the accurate mechanisms and implement tools and procedures advantageous to the local operational environment. Nevertheless, whereas countless non-profit organisations employ mechanisms to enhance accountability, the types of mechanisms used varies widely across non-profit organisations.

Regardless of the challenges related to addressing descending accountability, the non-profit managements seek to enhance accountability to the society they assist. They clarify how the mechanisms line up with the values and mission of the organisation. Leaders of non-profit organisations set up procedures that allow clients to express complaints. Identifying even negative perspectives could be relevant to organisational improvement (Mercelis et al.,

2016). Developing the mechanisms for downward accountability offers the people served by non-profits both choice and voice in the services they receive. By increasing downward accountability, leaders of non-profits can enhance the organisations and make sure they achieve their key responsibilities.

The aspects of the downward accountability mechanisms that link the non-profit organization is applicable to the waqf institutions. In the waqf context, the waqf institutions has accountability to the waqif (doners), beneficiaries, and society in general, which is representing the downward accountability mechanisms (Ihsan et al., 2017; Kamarubahrin and Ayedh, 2018; Johari et al., 2016; Ayedh et al., 2019).

2.3 Review of Related Empirical Studies

2.3.1 Studies Explore the Internal Controls Practices on Non-Profit Organisation

Kamaruddin and Ramli (2015) explored the present internal control practices in a specific Islamic Waqf (non-profit) organisation inside Malaysia to identify its implementation of internal controls. This study used a case study method. They found that the main control activities of internal controls for the selected Islamic non-profit organisation including the duties segregation, transactions authorisation, documentations and physical control over assets, independent checks and records are practised appropriately. Although the results of this study are positive, some weaknesses were found. The control activities focus on increasing the Sadaqah funds. Since the study is based on one specific Islamic non-profit organisation in Malaysia, it is unsuitable to give a picture of the internal control practices of other Islamic non-profit organisations. Moreover, this study focused on Islamic non-profit organisations limited by guarantee (CLBG). This study found that the internal control can be broad in scope to other types of non-profit and for-profit organisations.

Abraham (2006) identified organisational strengths and weaknesses by detecting financial irregularities and focusing attention on issues of organisational importance. This study analyses financial performance by concentrating on ratio analysis in order to identify anomalies and focus attention on matters of significant concern to non-profit organisations (NPOs). It discussed mission centrality in the use of financial ratio analysis and extends previous financial performance models to develop one that can be applied to individual NPOs thus ensuring that financial performance analysis is not carried out in isolation of an organisation's mission. The result of this study indicated that the measurement of financial performance by ratio analysis helps identify organisational strengths and weaknesses by detecting financial anomalies and focusing attention on issues of organisational importance. Given that the mission of an NPO is the reason for its existence, it is appropriate to focus on financial resources in their relationship to the mission.

Similarly, Abdulkadir and Hassan (2014) found that it is very challenging in the coast region in Kenya for faith-based organisations (FBOs) to implement systems of internal control. The organisation's governance system is very important to the internal control, and the capability of risk management was demonstrated. The difficulties of applying the internal controls were observed through three major perceptions: the control limitations, the functionality scope of corporate governance controls, and the compliance and ethical practicability controls. The results show that in the coast region, the FBOs generally depend on the informal and traditional control structure to achieve the welfare agendas. In the FBOs, the control system has not been incorporated as the formal internal control practised in the corporate world. Though, management controls that integrate the traditional welfare goals along with internal controls are considered a valuable starting point in the way to more competitive management of the non-government organisation sector and there is no exception for FBOs.

Duncan et al. (1999) observed the effects of church size and denomination on the internal control practices. The sample size of this study was 1200 churches in the US. The evaluation scores of internal controls were found to be meaningfully different based on church size. Three major denominations with different types of church polity, church organisation and differing hierarchical structures were included in the study. The internal control evaluation scores were significantly diverse based on denomination. This suggests that the polity and hierarchical structure of a denomination affect the quality of a local church's system of internal control.

Effah (2011) evaluated the internal financial controls in public hospitals in the regional and municipal hospitals in Sunyani and District Hospital in Bechem. This study used questionnaires and structured interviews over six (6) months to gather data regarding internal controls in the three public hospitals. The results show that the hospitals obtained a systematic comprehensive method to internal control that is constantly documented and understood at the management level and communicated to personnel. However, there were irregularities concerning the way internal controls were applied and enforced and the accountabilities of that were not obviously distinct. The results also revealed strong compliance with the internal controls which may reduce the volume of work of the auditor. It was also found that, in smaller hospitals, it would be much easier to enhance proper internal controls because of less personnel, more personal contacts and less administrative bureaucracy.

Hermanson et al. (2012) provided a perceived image of the organisation's strength of internal controls in the control environment, risk assessment, and monitoring components of the committee of sponsoring organisation's internal control integrated framework. The findings show that in terms of the nature of the internal audit purpose, the majority of the Chief Audit Executives (CAEs) reported to the audit committee (44 percent) more than the

management (37 percent). Almost half of the organisations have internal auditors (51 percent), as opposed to having short tours of duty in internal audit. Most of the organisations have either no internal audit outsourcing (41 percent) or very low levels of outsourcing. The average annual internal audit budget is $1.8 million (median of $719,000), and most (69 percent) of the internal audit functions spend less than half of their time on financial audits. Finally, 40 percent of the organisations have a formally designated Chief Risk Officer (CRO) or senior management equivalent.

Wooten et al. (2003) assessed the current state of financial control for religious non-profit organisations and provided suggestions for enhancement. The results indicated that 74 percent of the respondents did not have a procedures manual, 50 percent did not have a computerised accounting system, and 70 percent have not conducted any audit of their accounting records. One of the basic principles of internal controls is assigning responsibility for a task to one person.

Kamaruddin and Ramli (2017) found that the Islamic non-profit organisations in Malaysia are following the practices of present internal control. They used a comparative case study with interviews to collect the data. The study used three Islamic non-profit organisations as samples with the same characteristics. The findings displayed several similarities in the internal control practices features like the duty's segregation, transactions authorisation and records of documentation in the organisations. Various practices were recognised such as the assets physical control and independent checks and records on performance features. It was discovered that insufficient physical control over assets and the recordings, like setting up CCTV camera and the alarm installation, appointment of a security-guard over the buildings and a barrier to the financial documentations and room. Out of the three Islamic non-profit organisations, two did not conduct internal audit

processes for independent checks on performance. According to the findings, some recommendations were highlighted for development. This study also recognised challenges in the practices of the internal control like the lack of qualified financial employees, limited physical control equipment, not appointing an internal auditor for regular assessment of transactions and financial restrictions.

Johari et al. (2012) explored the internal controls of Waqf management and administration in Waqf institutions globally to emphasise which part of management and administration of Waqf institutions are lacking and need to be improved. This study applied a systematic literature review (SLR). The findings indicated that internal controls establish a process of how an organisation receives and reports money along with administrative and management tasks. Effective internal controls involve the control environment, risk assessment, control activities, information and communication and monitoring activities. Religious-based organisations are managed the same as Non-Profit Organisation (NPOs). Accounting guidelines on reporting, code of practice and governance enhance the transparency and accountability of Waqf institutions. For better management and administration of Waqf institutions, internal auditing is crucial besides the external auditing to ensure better governance and better segregation of duties in performing their tasks.

Kamaruddin and Ramli (2015) reported positive findings even though several issues were found. Nevertheless, the control activities connected to the Sadaqah funds were practiced efficiently. Johari et al. (2016) indicated that internal controls establish a process on how an organisation handle receiving and reporting fund and administrative and management tasks. Abdulkadir and Hassan (2014) showed that in Kenya, the FBOs depend on the informal and traditional control structure to achieve welfare agendas.

From the above review of the empirical studies related to the internal controls systems practice in non-profit organisation, most of the studies (Abraham, 2006; Abdulkadir and Hassan 2014; Duncan et al., 1999; Mahadeen et al., 2016; Effah, 2011; Johari et al. 2016; Hermanson et al., 2012; and Wooten et al., 2003) used the survey questionnaire approach to conduct their research, while others (Kamaruddin and Ramli, 2015; Kamaruddin, and Ramli, 2017) applied the quantitative approach using a case study method. For the current study, the quantitative approach and survey questionnaire method were applied to collect data to address the research objectives. Second, it is worth mentioning that there is a dearth of empirical studies on the internal controls systems practiced in non-profit organisation, especially in Muslim Waqf institutions. Third, all of the results were positive and indicated that the internal controls have become an area of research interests due to the impact of the IFCs on different accounting issues. The current study explored the internal controls practices in a non-profit organisation in Kuwait, which is considered one of the well-organised and outstanding performing countries based on Kamarubahrin and Ayedh (2018).

2.3.2 Studies Related to the Relationship Between Internal Controls Practices and Performance of Non-Profit Organisation

Sanusi et al. (2015) examined the impact of financial performance on the programme quality in mosques. The study conducts a cross-sectional data analysis to examine factors contributing to mosques' financial performance. Regression analysis results revealed that good internal control and active participation of mosque committees in fund raising activities improved the mosques' financial performance. This study also discovered that strong financial performance facilitates the mosques to conduct more quality programmes.

Meanwhile, Henri (2006) examined the connections between the use of management control systems and organisational capabilities. The results recommend that communicating

the benefits of the performance management system (PMS) encourages the four capabilities by focusing an organisation's strategic urgencies and motivating dialogue. Likewise, by forming constraints to comply with orders, the diagnostic use of performance management system employs negative pressure on these capabilities. Additionally, other evidences recommend the influence of dynamic tension resulting from the balanced use of PMS in an analytic and interactive fashion on capabilities and performance.

Petrovits et al. (2011) examined the internal controls' causes and consequences of deficiencies in the non-profit sector. This study used a sample of 6,572 public charities in the USA from 1999 to 2003. The results found that weak internal controls over financial reporting have a significant negative impact on the quantity of subsequent public support received after controlling for the present level of public support and other factors influencing donations. These results could be useful to several constituencies such as donors, the IRS, and other regulators reformulating laws in an attempt to raise public confidence in the integrity of organisations. The results suggest that donors are a significant source of capital for non-profit organisations and react indirectly or directly to internal control information.

Mahadeen et al. (2016) investigated the impact of the internal control practices on organisational efficiency in Jordan. The data collection process of this study used a self-administrated survey for 151 staff of various managerial levels working in Jordan. The results showed that the test of multiple regression presented a high positive influence of the variables on organisational efficiency of this study. The findings of the research suggested that relevant suggestions improve awareness of the significance of internal control mechanisms and components to advance internal processes and procedures for developing the organisations' efficiency using various methods. Generally, there is an important awareness of the necessity of internal control practices in organisations in Jordan. The organisational efficiency is highly affected by the internal control practices. This implies

that organisational policies must include enforcing the components of internal controls to achieve efficiency and gain competitive advantage recommends that the decision makers and managers in Jordan recommend special motivations to encourage their employees and increase their loyalty of the institutional values.

Michino (2011) investigated the internal control influence on the operational effectiveness of the non-government organisations located in Nairobi. The data collection was via questionnaires containing open- and closed-ended questions. The analysis indicated that the organisational structure mostly determined the internal controls in the NGOs in Nairobi. The management of cash was categorised as the second factor of the internal control impacting NGOs' operational effectiveness. The NGOs with good cash management attracted more funding for their activities. The findings indicate that organisational structure, payroll management, procurement, cash management and asset management affect operational efficiency at 82.5%, as depicted by the correlation and coefficient of determination. The other factors not investigated in this study constitute the remainder 17.5%. From these findings, the internal controls clearly impact operational efficiency.

Jamaliah et al. (2013) observed the efficiency of the internal control system, financial management and the practices of accountability in Malaysian mosques. Questionnaires were administered to a sample of 250 mosques in Malaysia in Sabah and Sarawak. This study recommended accurate recording of the financial transactions, developing the chairman accountability for the productivity and improving performance. The summary of these variables provides important implications for increasing their understanding of the financial management practices in non-profit (Waqf) institutions and creating new opportunities for researchers. The summary details how mosques in Malaysia can improve the performance of their internal control practices and accomplish the mosque mission and goals.

Sanusi et al. (2015) showed that regression analysis revealed that good internal control and active involvement of mosque committees in fundraising activities enhanced mosques' financial performance, whereas Mahadeen et al. (2016) suggested improving awareness regarding the significance of internal control mechanisms and components to advance internal processes and procedures for developing the organisations' efficiency. Petrovits et al. (2009) indicated that weak internal controls over financial reporting has a significant negative effect on the amount of subsequent public support received after controlling for the current level of public support and other factors influencing donations. Michino (2011) indicated that organisational structure, payroll management, procurement, cash management and asset management affect operational efficiency by 82.5%, as depicted by the correlation and coefficient of determination.

From the above review of the empirical studies related to the relationship between internal controls systems practice and performance of non-profit organisation, most studies (Michino, 2011; Sanusi et al. 2015; Petrovits et al. 2009; Jamaliah et al. 2013) used a qualitative research method approach except Mahadeen et al. (2016) who applied a quantitative approach using questionnaires to explore the relationship between internal controls systems practice and performance of non-profit organisation. For the current study, the quantitative approach and survey questionnaire method were applied to collect data to address the research objectives. There is also a dearth of empirical studies on the relationship between internal controls systems practice and performance of non-profit organisation organisations especially, in Muslim Waqf institutions.

2.3.3 Studies Related to the Accountability Practice of Waqf Organisations

Ihsan et al. (2017) addressed the accountability practice in a Waqf institution to provide insights into how accountability is perceived and discharged by the mutawallī (Waqf

trustee) in managing a Waqf. The findings disclose that the belief in dual accountability to Allah and human beings has strengthened the mutawallī's awareness of the accountability importance. Furthermore, the mutawallī uses various mechanisms to display its accountability in managing a Waqf to stakeholders. In addition, the mutawallī is liable for discerning accountability to himself/herself. Dompet Dhuafa[1] management realised the importance of performance assessment and evaluation because of its essentiality to ensure that waqf assets will give perpetual benefit to the society. This study concludes that the holistic accountability practised by Dompet Dhuafa is an integrative process which does not only encompass fulfilling upward and downward accountability, but also involves a commitment to preserve organisational values.

Ayedh et al. (2019) explored case studies to understand the practices of Waqf accountability in Malaysia. In the past, the philanthropic body and Waqf in Malaysia were not as developed as they are today. This study carries out positivist comparative case studies using an exploratory case study methodology based on multiple cases. The data were collected based on related manual guideline, official websites, financial reports and statements of the SIRCs in order to understand current accountability practices for Waqf institutions in Malaysia. The study's findings emphasise improvements in accountability management. The State Islamic Religious Council (SIRCs) in Malaysia is responsible for handling Waqf assets. This article was conceptual and theoretical and tried to explore the history, laws, and accountability practices.

Kamarubahrin and Ayedh (2018) evaluated the Waqf organisations' practices in the Middle East, Asia, and non-Muslim countries. The critical assessment demonstrates that Singapore Waqf experience was impressive in terms of transparency, quality services, public

[1] Dompet Dhuafa Is An Islamic Charitable Institution That Focuses On Empowering Society Through Managing Various Islamic Charitable Funds (*Waqf, Zakāh*(3), *Infāq*, And *Ṣadaqah*(4)) And Other Donations.

confidence in Waqf management and Waqf investment. The experience of Kuwait records outstanding performance because of minimal interruption by the government, sound governance, internal control and accountability tools. Furthermore, in Muslim minority communities, Waqf practices respond to the community's needs more than in majority Muslim countries.

Ayedh et al. (2018) investigated the way mutawallī (awqaf managers) in Yemen perceive their responsibility and how they implement their duties. This study used a comprehensive survey to collect the data. The findings found that the Mutawallīs are responsible to the government awqaf institutions, after their responsibility to the waqif (donor). These perceptions were influenced by the organisational rules and values governing the Waqf. Lastly, the most important mechanism used in discharging Waqf accountability is the regular issuance of annual financial reports which comes after the completion of government auditing requirements, waqif requirements, as well as customer satisfaction. Furthermore, according to the results, the Mutawallī is usually held accountable to the waqif (donor), but the accountability to the government awqaf institutions is more perceptible.

Ihsan and Adnan (2009) explored the main themes which shape the foundation of the discussion on accountability in Waqf organisations. The study used interviews, documentation review and direct observations to collect the data. The study found different achievements and character of *Waqf* management and the accounting in Dompet Dhuafa (DD) and Badan Wakaf Universitas Islam Indonesia. Two Waqf institutions were given as evidence in terms of transparency and public accountability. Ihsan believed that dissimilarity in accounting practices is due to the nonexistence of accounting standards for Waqf in Indonesia. Thus, the authors suggested introducing accounting standards and code of governance corporation for Waqf as it could improve the mutawallī accountability in

managing Waqf. The discussion above gives understanding that Waqf accounting is significant for the enhancement of the Waqf management.

Ihsan et al. (2017) notified that the findings of the Dompet Dhuafa[2] (DD)'s experience in this study can be a lesson for other Waqf organisations to practice accountability, but they should not be generalised to other Waqf institutions as it is based on the local Indonesian scenario. Kamarubahrin and Ayedh (2018) indicated that Singapore and Kuwait Waqf institutions are remarkable in terms of transparency, quality services, public confidence, establishment of sound governance, internal control and accountability methods. Ayedh et al. (2018) found that the Mutawallī (awqaf managers) in Waqf institutions in Yemen are responsible to the awqaf institutions of the government, after the responsibility to the waqif (donors).

From the above review of the empirical studies related to accountability in Waqf organisations, most of the studies (Ihsan et al., 2017; Kamarubahrin and Ayedh, 2018; Johari et al., 2016; Ayedh et al., 2019) use the qualitative research method approach except Ayedh et al. (2018) who applied the quantitative approach using questionnaires to explore the accountability practice in Yemen. For the current study, the quantitative approach and survey questionnaire method are used to collect data to address the research objectives. Second, it is worth mentioning that there is a dearth of empirical studies on the accountabilities in non-profit organisations, especially in Waqf institutions.

[2] Dompet Dhuafa (DD) Is An Islamic Charitable Institution That Focuses On Empowering Society Through Managing Various Islamic Charitable Funds (Waqf, Zakāh, Infāq, And Ṣadaqah) And Other Donations (Ihsan Et Al., 2017).

Table 2.1: Literature Review

Author Name	Title	Goal	Methodology
Michino P. W (2011)	A survey of the impact of internal controls on operational efficiency among non-governmental-organizations in Nairobi	To investigate the impact of internal control on the operational efficiency of NGOs based in Nairobi.	Qualitative, questionnaire
Kamaruddin and Ramli, (2015)	Internal Control Practices in Islamic Non-Profit Organisation in Malaysia	To explore current internal control practices by an Islamic non-profit organisation.	Quantitative - case study method
Sanusi et al. (2015)	The Effects of Internal Control System, Financial Management and Accountability of NPOs: The Perspective of Mosques in Malaysia	To examined the effectiveness of internal control system, financial management and accountability practices of mosques in Malaysia.	Questionnaires Survey
H Ihsan et al. (2017)	A Study of Accountability Practice in Dompet Dhuafa Waqf of Indonesia	To address the accountability practice in a Waqf Institution to provide insights into how accountability is perceived and discharged by the mutawallī (waqf trustee) in managing a waqf.	interviews, observations Qualitative
Jamaliah et al. (2013)	Financial Management Practices in Religious Organisations: An Empirical Evidence of Mosque in Malaysia	To explore Financial Management Practices in Religious Organisations.	Qualitative, questionnaire

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Abdulkadir and Hassan (2014)	Challenges of implementing internal control practices in Non-Governmental Organisations (NGO) in Kenya: A case of Faith-Based Organisations (FBO) in Coast Region	To find out the challenges of implementing internal control practices in Faith-Based Organisations in Coast region.	Qualitative
John B. Duncan et al. (1999)	Internal control practices in US churches: An examination of the effects of church size and denomination on systems of internal control	To examine the effects of church size and denomination on systems of internal control.	Qualitative, questionnaire
Mahadeen et al. (2016)	Examining the Effect of the Organisation's Internal control practices on Organisational Effectiveness	To investigate the impact of the internal control practices on organisational effectiveness in Jordan.	Quantitative questionnaires,
Effah (2011)	An Evaluation of Internal Financial Controls in Public Hospitals	To evaluate internal financial controls in public Hospitals in the Regional and Municipal Hospitals in Sunyani and District Hospital in Bechem.	Questionnaires Survey
C Petrovits et al. (2009)	The Causes and Consequences of Internal Control Problems in Non-profit Organisations	To examine the causes and consequences of internal control deficiencies in the non-profit sector using a sample of 6,572 public charities from 1999 to 2003	Empirical Models
DR Hermanson and JL Smith (2012)	How Effective are Organisations' Internal Controls? Insights into Specific Internal Control Elements	provides an insider's view of the perceived strength of organisations' internal controls (i.e., internal control over financial reporting) in the Control Environment, Risk Assessment, and Monitoring components of the Committee of Sponsoring Organisations' (COSO 1992a) Internal Control—Integrated Framework.	Questionnaires Survey

TC Wooten and JW Coker (2003)	Financial Control in Religious Organisations	To assess the current state of financial control for one segment of religious NPOs, churches, and give some suggestions for improvement.	Questionnaires Survey
MIH Kamaruddin and NM Ramli (2017)	A Case Study of Internal Control Practices in Islamic Non-Profit Organisations in Malaysia	Aims to explore the current internal control practices by Islamic non-profit organisations.	case study
Johari et al. (2012)	Internal Control Issues in Waqf Management: Insights from The Literature		
Ihsan and Adnan (2013)	Waqf Accounting and The Construction of Accountability	exploring the major themes that constitute the basis of the discussion on accountability in awqaf institutions.	
Ayedh et al. (2019)	Accountability Practices of Waqf Institution in Malaysia: A Critical Analysis	to provide a comprehensive understanding of the waqf accountability practices in Malaysia.	positivist comparative case studies
Johari et al. (2012)	Internal Control Issues in Waqf Management: Insights from The Literature	intends to emphasise which part of management and administration of waqf institutions that are lacking internal control thus need a serious attention for improvement.	Systematic Literature Review
Kamarubahrin and Ayedh (2018)	Critical Review on Waqf Experiences: Lessons from Muslim and Non-Muslim Countries	to assess current practices in Waqf Institution based on Middle East, Asia and some selected non-Muslim countries experience.	Qualitative library research
Ayedh et al. (2018)	Waqf Accountability in The Republic of Yemen: An Empirical Analysis	To investigate how the Yemeni mutawallīs (awqaf managers) perceive their accountability and how they discharge it.	

2.4 Theoretical Framework:

The theoretical framework defines the key concepts in the research, relations between them, and discusses relevant theories and models based on the reviewed literature.

The theoretical framework is important because it allows the reader to conceptualise the study in a broader context. Thus, the theoretical framework for a study should incorporate all of the necessary knowledge components which prop up the purpose of the research.

A strong theoretical framework gives the research a sound scientific basis, demonstrates understanding of existing knowledge on the topic, and allows the reader to evaluate the guiding assumptions. It provided the research with direction, allowing the researcher to convincingly interpret, explain and generalise from findings.

2.4.1 Accountability Theory

Accountability theory explains how the observant is required to justify his or her behaviours and deeds to others and to be accountable for all behaviours, deeds, decisions, and judgements which affect others (Vance Lowry and Eggett, 2015). It drives the decision-making process. Accountability theory has been used widely in organisational research Lerner and Tetlock (1999). They claimed that the accountability has influence on a wide range of social judgements and choices of the decision makers. In other words, the accountability for truthfulness causes a decision maker to be more alert information processors and better belief updaters (Lerner and Tetlock, 1999).

Accountability is differentiated between its two most central uses: (1) as a virtue and (2) as a mechanism. This idea was clarified by Vance et al. (2015). As a virtue, accountability is known the individual's willingness of accepting the responsibility, which is a required character in all sectors (government, private, non-profit organisation). As a mechanism, accountability is the process of explaining and justifying individual deeds and behaviour due to the potential commitment to another party who has the right to judge the action as well as question the individual's deeds.

Accountability could be defined as the acknowledgement of responsibility by an individual in all behaviours, actions, deeds, products, decisions, and policies including the management, governance, and operation within the scope of the position and the commitment to disclose and report, answer and be answerable for resulting consequences. Accountability theory has been addressed in several studies such as Ihsan and Adnan (2009), Ihsan et al. (2017), and Ayedh et al. (2019).

Accountability theory could be applied in the Waqf (non-profit) organisations as the mutawallī (management) of this charitable organisation is responsible and obligated to inform and explain their actions (performance) to the stakeholders. In the current study, the management of Al-Rahma International as a Waqf organisation are responsible to inform and explain its actions to stakeholders.

Based on accountability theory, Al-Rahma International's accountability practice could be explored based on the two forms of accountability (virtue, mechanism). Virtue accountability is related to the belief that the non-profit organisations are accountable to the donors, beneficiaries, and government authorities, whereas mechanisms accountability are reflected in the internal procedures such as the internal controls. This study explored the internal controls in Al-Rahma International.

2.5 Conclusion

This study explored 21 studies which related to internal controls systems on profit and non-profit organization and accountability on non-profit organization (waqf). The literature review was organized into three main subsections: 1) Internal Controls Practice on Non-profit organization, 2) The relationship between internal controls practice and performance of Non-profit organization, and 3) The accountability on Non-profit organization (Waqf). Based on the positive results of the empirical studies the internal controls practices have

become an area of research interests due to the influence of the internal financial controls on the accounting system. Based on the literature review there is a lack of empirical studies on the accountability practices on Waqf organisations.

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