



Human Capital versus Ceremonial Structures: Nazhir Competence, Internal Control Decoupling, and Financial Reporting Quality in Waqf Institutions

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ABSTRACT

The optimization of waqf assets in developing economies continues to face major barriers due to accountability gaps and low adherence to specialized accounting frameworks like PSAK 112. Drawing upon Human Capital Theory, Stewardship Theory, and Institutional Theory, this research investigates how nazhir competence and internal control mechanisms empirically influence financial reporting quality within waqf institutions. Utilizing an explanatory quantitative design, empirical data were gathered via structured questionnaires distributed to 56 financial administrators and operational leaders across official waqf organizations in Bandung, Indonesia. The data were evaluated using Partial Least Squares Structural Equation Modeling. The results indicate that nazhir competence exerts a positive and statistically significant influence on financial reporting standards, demonstrating that technical accounting comprehension, professional proficiency, and fiduciary integrity are crucial for ensuring transparent disclosures. On the other hand, internal control frameworks demonstrate a positive yet statistically insignificant direct relationship with reporting quality. This lack of significance points toward an organizational decoupling phenomenon, where internal controls function primarily as ceremonial mechanisms for regulatory compliance and physical asset protection rather than tools to improve financial statement precision. These insights suggest that regulatory authorities and waqf boards ought to prioritize mandatory professional credentials and capability development over standard procedural controls to boost institutional accountability.

ABSTRAK

Pengembangan harta wakaf di negara-negara berkembang sering kali terkendala oleh lemahnya pertanggungjawaban serta rendahnya tingkat kepatuhan terhadap standar akuntansi khusus, yakni PSAK 112. Dengan mengintegrasikan *Human Capital Theory*, *Stewardship Theory*, dan *Institutional Theory*, studi ini menganalisis pengaruh kompetensi nazhir dan sistem pengendalian internal terhadap mutu pelaporan keuangan pada lembaga wakaf. Menggunakan metode kuantitatif eksplanatori, pengumpulan data dilakukan melalui survei terstruktur yang melibatkan 56 pengelola keuangan dan pimpinan lembaga wakaf terdaftar di Kota Bandung, Indonesia. Pengolahan data dikerjakan menggunakan teknik *Partial Least Squares Structural Equation Modeling*. Temuan empiris menunjukkan bahwa kompetensi nazhir memberikan pengaruh positif yang signifikan terhadap kualitas laporan keuangan, yang membuktikan bahwa pemahaman teknis akuntansi, keahlian khusus, serta sikap amanah merupakan fondasi utama transparansi. Sebaliknya, sistem pengendalian internal tercatat tidak berpengaruh signifikan secara langsung terhadap kualitas pelaporan. Kondisi ini mencerminkan adanya gejala *organizational decoupling*, yang pada kenyataannya prosedur

ARTICLE INFO

Article History:

Submitted/Received 21 Oct 2025

First Revised 19 Aug 2026

Accepted 2 Sep 2026

First Available online 22 Sep 2026

Publication Date 22 Sep 2026

Keyword:

Nazhir Competence, Internal Control, Quality of Financial Statements. Waqf Institutions.

Kata kunci:

Kompetensi Nazhir, Pengendalian Internal, Kualitas Laporan Keuangan, Lembaga Wakaf

pengawasan internal kerap dijalankan sebatas sebagai formalitas seremonial demi memenuhi legitimasi regulasi atau sekadar mengamankan aset fisik, bukan difungsikan untuk mendongkrak ketepatan laporan keuangan. Hasil ini menyarankan agar regulator dan badan wakaf lebih mengutamakan program sertifikasi profesi serta peningkatan kapasitas teknis ketimbang sekadar prosedur administratif demi memperkuat akuntabilitas pemangku kepentingan.

INTRODUCTION

Waqf is one of the key instruments in Islamic economics that plays a crucial role in promoting social welfare and poverty alleviation within the Muslim community (Kahf, 2008). In Indonesia, waqf governance is formally regulated under Law No. 41 of 2004 and coordinated by the Indonesian Waqf Board (Badan Wakaf Indonesia/BWI) to optimize asset productivity without diminishing the role of individual or institutional nazhirs (waqf managers). The national potential of waqf is exceptionally large, encompassing over 57,000 hectares of land across more than 440,000 locations alongside substantial cash waqf opportunities estimated in the trillions of rupiah (Badan Wakaf Indonesia, 2019). This potential is distinctly visible in strategic urban centers such as Bandung City, West Java, where the estimated annual waqf potential reaches IDR 27.2 billion. However, actual realization in Bandung remains below 1% of its total capacity, reflecting an underlying systemic challenge in asset mobilization and governance (Nurcholijah, 2022).

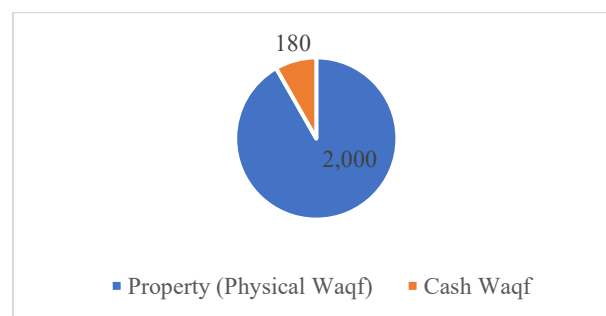


Figure 1: The Annual Potential of Waqf in Indonesia (in trillions of rupiahs)
Source: Waqf Data, Indonesian Waqf Board (BWI, 2019)

Despite this immense potential, Indonesia's waqf sector continues to grapple with severe accountability deficits and low public trust (Nuraeni & Wardiyah, 2022; Ningsih & Hidayati, 2025). A primary impediment to institutional transparency is the widespread non-compliance with PSAK 112, the mandatory financial accounting standard designed specifically for waqf entities. Prior empirical studies reveal that financial reports produced by waqf institutions frequently omit cash flow statements, fail to segregate permanent from temporary waqf assets, and exhibit limited disclosure quality (Firdaus, 2022; Putri & Santoso, 2019). This lack of standardized reporting not only obscures institutional performance but also exacerbates information asymmetry between nazhirs and key stakeholders, thereby impeding the optimization of communal religious assets.

The fundamental root cause of this persistent non-compliance lies in the profound deficit of nazhir competence and technical accounting literacy. Official records from the Indonesian Waqf Board indicate that out of 421,332 registered nazhirs nationwide, only 1,170 individuals (less than 0.3%) have attained formal certification from the Professional Certification Institute (LSP BWI) a stark contrast to

the national asset valuation exceeding IDR 600 trillion (Kementerian Agama Republik Indonesia (Kemenag RI), 2019). This severe professionalization gap leaves many administrators without the necessary technical skills to recognize, measure, and present complex waqf transactions in accordance with statutory accounting frameworks (Siswahyudianto, 2026; Siswantoro et al., 2018). Consequently, weak administrative capacity directly compromises reporting reliability and contributes to low institutional performance scores across regions.

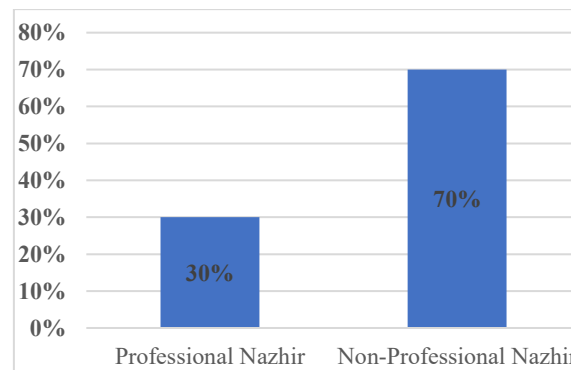


Figure 2: Comparison between Professional Nazhir and non-Professional Nazhir
Source: Waqf Data, Indonesian Waqf Board (BWI, 2019)

In tandem with human resource constraints, the execution of internal control systems within waqf institutions presents significant governance dilemmas. Although conventional management literature emphasizes that robust internal controls safeguard assets and ensure financial accuracy (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013), evidence within faith-based non-profit settings remains mixed and inconclusive (Amna & Isfandiar, 2026; Raju & Muhammad, 2022; Pranoto; et al., 2025). In practice, internal controls in religious charities are frequently operationalized merely as ceremonial administrative structures or restricted to physical asset safeguarding and basic fraud prevention (Basri et al., 2016; Doyle et al., 2007). As a result, these mechanisms often fail to directly enhance the technical quality and qualitative disclosure of published financial statements.

While normative accounting research predominantly relies on generic agency models or broad commercial frameworks, critical empirical gaps remain regarding how specialized competency and formalized control mechanisms interact within Islamic non-profit organizations. Most prior studies evaluate general competencies in public or corporate settings rather than the multidimensional human capital required for waqf governance. To address this gap, this study introduces an integrated theoretical framework synthesizing Human Capital Theory (Becker, 1964), Stewardship Theory (Davis et al., 1997), and Institutional Theory specifically the concept of organizational decoupling (Meyer & Rowan, 1977). This integrated lens provides a robust theoretical foundation to explain why formalized control structures may decouple from reporting execution, whereas intrinsic nazhir competence drives substantive reporting integrity.

To bridge these empirical and theoretical voids, this study investigates the structural determinants of financial reporting quality across registered waqf institutions in Bandung City. Specifically, this research addresses two central questions: First, to what extent does nazhir competence (encompassing ethical attitudes, Sharia-accounting knowledge, and technical skills) directly determine the quality of financial reporting under PSAK 112? Second, does the implementation of internal control



systems exert a significant direct influence on financial reporting quality, or does it exhibit organizational decoupling within the waqf governance environment?

LITERATURE REVIEW

Nazhir Competency and Financial Reporting Quality

Human Capital Theory, pioneered by Becker (1964), posits that the accumulated knowledge, skills, capabilities, and cognitive attributes embedded in individuals constitute a vital form of productive capital that fundamentally dictates organizational efficiency and output quality. In waqf governance, human capital is embodied in the multifaceted competency of the nazhir, nurtured through continuous investments in formal education, managerial experience, and specialized professional certification. Becker (1964) asserts that individuals endowed with higher human capital demonstrate superior analytical judgment and rigorous operational execution. In this context, nazhir competency is holistically conceptualized through three interrelated dimensions: attitudes, knowledge, and skills. Grounded in the Theory of Planned Behavior (Ajzen, 1991), professional attitude and perceived behavioral control shape a practitioner's intrinsic commitment and ethical responsibility toward fiduciary tasks, ensuring that reporting obligations are approached with diligence and integrity despite prevailing operational constraints.

Concurrently, cognitive knowledge and technical skills represent the operational core of human capital required to translate fiduciary intentions into rigorous accounting practices. Knowledge equips nazhirs with the theoretical comprehension necessary to align organizational activities with established reporting standards (Hamidiyah et al., 2022; Khotimah & Utami, 2025; Pontoh et al., 2025), whereas specialized skills developed through structured vocational training and practical task execution (Landa, 2018) enable practitioners to perform complex financial recordings, navigate regulatory guidelines, and mitigate transaction errors. Within performance measurement frameworks for waqf institutions, the integration of adequate input resources, skilled operational processes, and reliable financial outputs is paramount to maximizing long-term stakeholder outcomes (Siswanto et al., 2018). Consequently, competent nazhirs are strategically equipped not only with general fiduciary stewardship but also with the specialized technical expertise required to manage complex socio-economic assets and adhere to rigorous statutory accounting mandates.

Empirical literature in Islamic non-profit and public sector accounting broadly validates these theoretical tenets. Prior studies consistently emphasize that the scarcity of competent accounting personnel and inadequate waqf-specific financial literacy remain principal impediments to institutional transparency and stakeholder accountability (Ahmad, 2026; Doyle et al., 2007; Siswahyudianto, 2026). Conversely, when waqf administrators possess formal accounting backgrounds and engage in regular professional development, their adherence to standardized reporting guidelines increases substantially, thereby minimizing record-keeping deficiencies and non-compliance risks (Nurliza & Fitri, 2023; Aryana, 2021; Saputra & Bakri, 2023; Siswanto et al., 2018).

The operational application of these concepts highlights that nazhir competence is decisive for implementing contemporary waqf accounting frameworks, such as PSAK 112. Practitioners who possess well-developed human capital across ethical attitudes, regulatory knowledge, and technical skills are substantially more adept at recognizing, measuring, and presenting physical and cash waqf transactions faithfully. This technical precision reduces information asymmetry between institutions and donors, mitigates the risk of material misstatements, and elevates the qualitative characteristics of financial reports rendering them relevant, reliable, and verifiable (Nurliza & Fitri, 2023). Therefore,



grounded in Human Capital Theory and consistent with empirical evidence, the following hypothesis is proposed:

H₁: Nazhir competency has a positive and significant effect on the financial reporting quality of waqf institutions.

Internal Control Systems and Financial Reporting Quality in Islamic Non-Profit and Waqf Institutions

Internal control is fundamentally conceptualized as an integrated process designed to provide reasonable assurance regarding the achievement of operational effectiveness, asset safeguarding, and the reliability of financial reporting (COSO, 2013). In waqf institutions, the architecture of internal control encompasses five core dimensions: a conducive control environment anchored in Islamic ethics, comprehensive risk assessment regarding asset depreciation and management risks, structured control activities (such as segregation of duties and multi-tiered transaction approvals), transparent information and communication channels, and continuous monitoring mechanisms.

Unlike commercial entities that focus strictly on statutory profitability, waqf organizations are governed by dual accountability: fiduciary compliance with national accounting standards (such as PSAK 112 in Indonesia) and adherence to strict Sharia injunctions regarding asset preservation (*hifz al-mal*). Consequently, an effective internal control system is expected to minimize informational asymmetry between the *nazhir* and key stakeholders (donors, beneficiaries, and the Indonesian Waqf Board), eliminate reporting discretion, and streamline transaction recording processes.

Financial reporting quality reflects the degree to which financial statements provide faithful, relevant, verifiable, timely, and understandable information for decision-making. Normatively, accounting literature posits that a robust internal control system serves as a preventative and detective barrier against financial misstatements, unauthorized asset misappropriation, and procedural non-compliance (Ashbaugh-skaife et al., 2008). In the non-profit sector, empirical studies by Saputra & Bakri (2023) demonstrate that strong internal oversight mechanisms systematically enhance institutional accountability and reporting transparency.

Nevertheless, empirical evidence within public and non-profit settings remains mixed and contested. While normative frameworks assume a straightforward positive relationship, several empirical investigations document that formalized internal control systems do not automatically translate into improved reporting quality (Amna & Isfandiar, 2026; Raju & Muhammad, 2022; Pranoto; et al., 2025). In many non-profit and faith-based settings, internal controls tend to be oriented primarily toward operational fraud prevention rather than the technical nuances of qualitative financial disclosure (Basri et al., 2016; Ahmad, 2026). Furthermore, when executing personnel lack specialized accounting expertise, internal control procedures can become redundant bureaucratic bottlenecks that do not substantially enhance the qualitative attributes of the final financial statements. Despite these structural challenges, the prevailing theoretical expectation under both COSO frameworks and Stewardship Theory maintains that well-structured internal control mechanisms reduce systemic reporting deficiencies and enhance the reliability of financial reports. Therefore, to test this relationship within registered waqf institutions, the following hypothesis is formulated:

H₂: The internal control system has a positive and significant effect on the financial reporting quality of waqf institutions.



RESEARCH METHODOLOGY

This study employs an explanatory quantitative research design using a cross-sectional survey approach to empirically investigate the determinants of financial reporting quality within Islamic non-profit organizations. The conceptual framework examines the structural effects of two exogenous constructs (nazhir competence and internal control systems) on one endogenous construct (financial reporting quality). This design facilitates testing formalized causal hypotheses through variance-based structural equation modeling to capture perceptual data from waqf management practitioners (*nazhir*).

The target population comprises certified waqf management institutions (*nazhirs*) registered with the Indonesian Waqf Board (*Badan Wakaf Indonesia* - BWI). A purposive sampling technique was used to recruit key institutional respondents, specifically targeting financial administrators, operational managers, and institutional heads who have direct oversight and responsibility for preparing, verifying, and reporting financial statements. Primary empirical data were gathered through a structured, multi-mode survey instrument that combined self-administered paper questionnaires and secure digital forms. All latent constructs were operationalized using multi-item scales adapted from established empirical literature, measured on a standard 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Procedural remedies, including assuring respondent confidentiality and randomizing questionnaire item placements, were implemented to mitigate potential common method variance (Podsakoff et al., 2012).

The variables measured in this study comprise financial reporting quality (FRQ), nazhir competence (NC), and internal control (IC). Specifically, reporting quality was measured using five indicators adapted from Pranoto, et al. (2025), Raju & Muhammad (2022) and Amna & Isfandiar, (2026), consisting of understandability, relevance, reliability, comparability, and transparency. Meanwhile, Nazhir competence was assessed using four indicators referring to Amna & Isfandiar, (2026), Alkaf & Usman (2025) and Pangestu (2022): basic assumptions, attitude, knowledge, and skills. Furthermore, the internal control variable was evaluated through five components based on the COSO (2013) framework, comprising the control environment, risk assessment, control activities, information and communication, and monitoring.

The empirical data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) executed via the SmartPLS 4 software suite. PLS-SEM was chosen over covariance-based SEM due to its effectiveness in analyzing complex structural models without imposing restrictive distributional assumptions of multivariate normality (Hair et al., 2017). The statistical assessment followed a two-stage analytical procedure, beginning with the evaluation of the reflective measurement (outer) model. Measurement properties were verified through indicator reliability (standardized outer loadings ≥ 0.708), internal consistency reliability using Cronbach's Alpha ≥ 0.70 , Dijkstra-Henseler's rho_A ≥ 0.70 , and Composite Reliability ≥ 0.70 , as well as convergent validity via the Average Variance Extracted > 0.50 . Discriminant validity was rigorously established using the Heterotrait-Monotrait ratio of correlations (HTMT), requiring all inter-construct correlation ratios to remain strictly below the conservative threshold of 0.85 (Hair et al., 2019).

Following the establishment of construct validity and reliability, the structural (inner) model was evaluated to test the hypothesized paths. Collinearity issues were evaluated prior to hypothesis testing using the Variance Inflation Factor (VIF), with values strictly below 3.3 confirming the absence of lateral multicollinearity (Hair et al., 2017). Direct structural paths and their statistical significance were determined through a non-parametric bootstrapping procedure with 5,000 resamples (two-tailed, $\alpha = 0.05$, $t > 1.96$). The predictive and explanatory performance of the structural framework was



assessed using the coefficient of determination (R^2) categorized as substantial, moderate, or weak (Hair et al., 2017), alongside Cohen's effect size (f^2) to evaluate the relative contribution of each exogenous construct. In addition, model fit was assessed using the Standardized Root Mean Square Residual (SRMR), adopting the established diagnostic cutoff value of SRMR between 0,08 and 0.10 (Hair et al., 2017).

RESULT AND DISCUSSION

A total of 56 eligible respondents actively engaged in waqf management and financial reporting across certified waqf foundations participated in this study. Although the final sample size comprises 56 respondents, this number fulfills the methodological requirements for statistical power and sample adequacy in Partial Least Squares Structural Equation Modeling (PLS-SEM). According to the established 10-times rule proposed by (Barclay et al., 1995; Hair et al., 2019), the minimum sample size for a reflective structural model should be at least ten times the maximum number of structural paths directed toward any latent construct in the inner model. Given that the structural model in this study specifies two exogenous constructs directed toward the single endogenous construct of financial reporting quality, the foundational threshold is a minimum of 20 observations ($2 \times 10 = 20$).

Furthermore, referencing power analysis parameters for PLS-SEM (Hair et al., 2017; Cohen, 1988), detecting medium effect sizes ($f^2 = 0.15$) with a statistical power of 80% and a 5% significance level for a model with two independent predictors requires a minimum sample size of 52. Therefore, the total of 56 nazhir respondents from registered waqf institutions in Bandung City satisfies both the heuristic and statistical power thresholds, confirming that the dataset is robust for testing the hypothesized structural relationships. The demographic profile, summarized in Table 1, captures key practitioner characteristics across gender, age distribution, educational attainment, and professional accreditation.

Table 1: Demographic respondents

Demographic Profile	Classification	(n)	(%)
Gender	Male	38	67.9%
	Female	18	32.1%
Age Distribution	18-22 years old	10	17.8%
	23-29 years old	22	39.3%
	30-36 years old	13	23.2%
	37-49 years old	8	14.35%
	Over 49 years old	3	5.35%
Educational Attainment	High School / Equivalent	14	25.0%
	Bachelor's Degree (S1)	33	58.9%
	Master's Degree (S2)	9	16.1%
Professional Certification	Certified <i>Nazhir</i> (BWI)	9	16.1%
	Uncertified <i>Nazhir</i>	47	83.9%

Regarding educational attainment, the respondents demonstrate a relatively strong academic background, with 75.0% holding higher education credentials specifically 58.9% ($n = 33$) possessing a bachelor's degree (S1) and 16.1% ($n = 9$) holding a master's degree (S2), alongside 25.0% ($n = 14$) who completed high school or its equivalent. However, a profound divergence emerges between formal



education and specialized vocational capability: an overwhelming majority of 83.9% ($n = 47$) remain uncertified, with only 16.1% ($n = 9$) holding official professional certification from the Indonesian Waqf Board (LSP BWI). This pronounced disparity highlights that while the practitioners possess substantial general cognitive capability, waqf-specific competency and technical accounting literacy remain structurally constrained, thereby contextualizing the behavioral and governance challenges observed in financial reporting practices. Following the demographic characterization of the respondents, the subsequent empirical analysis evaluates the structural relationships using a two-stage Partial Least Squares Structural Equation Modeling (PLS-SEM) approach, comprising the assessment of the reflective measurement model (outer model) and the structural model (inner model) for hypothesis testing.

Table 2: Measurement Model Evaluation

Latent	Indicators	Loading	Cronbach's α	ρ_A	Com. reliability	AVE
NC	Basic assumptions	0.764	0.862	0.868	0.906	0.708
	Attitude	0.835				
	Knowledge	0.881				
	Skill	0.880				
IC	Control Environment	0.782	0.889	0.895	0.919	0.694
	Risk Assessment	0.841				
	Control Activities	0.856				
	Comm & Information	0.862				
	Monitoring	0.821				
FRQ	Understandability	0.791	0.894	0.901	0.922	0.703
	Relevance	0.852				
	Reliability	0.873				
	Comparability	0.845				
	Transparency	0.828				
NC: Nazhir Competence						
IC: Internal Control						
FRQ: Financial Reporting Quality						

The psychometric properties of the reflective measurement model were evaluated by examining indicator reliability, internal consistency reliability, and convergent validity across the three latent constructs, as summarized in Table 2. Indicator reliability is confirmed, as all standardized factor loadings range from 0.764 to 0.881, comfortably surpassing the conservative threshold of 0.708. Specifically, for Nazhir Competence (NC), factor loadings span between 0.764 (Basic assumptions) and 0.881 (Knowledge); for Internal Control (IC), loadings range from 0.782 (Control Environment) to 0.862 (Comm & Information); and for Financial Reporting Quality (FRQ), loadings range from 0.791 (Understandability) to 0.873 (Reliability).

Internal consistency reliability was established across all latent variables using three rigorous diagnostic metrics. Cronbach's α values range from 0.862 to 0.894, Dijkstra-Henseler's ρ_A metrics range between 0.868 and 0.901, and Composite Reliability (CR) scores range from 0.906 to 0.922, all well exceeding the established benchmark of 0.70. Furthermore, convergent validity is firmly supported, as the Average Variance Extracted (AVE) for Nazhir Competence (0.708), Internal Control



(0.694), and Financial Reporting Quality (0.703) exceeds the minimum requirement of 0.50, demonstrating that each latent construct accounts for more than half of the variance in its respective indicators. Having established robust construct validity and reliability at the measurement level, the analysis proceeds to the structural model (inner model) evaluation to examine the hypothesized direct relationships, path coefficients, and explanatory power (R^2).

Table 3: Structural Model Assessment and Hypothesis Testing Results

Effect	Original sample	Sample mean	std.dev	t-stat	p-values
NC -> FRQ	0.616	0.625	0.114	5.42	0.000
IC -> FRQ	0.222	0.217	0.123	1.804	0.071
R^2 : 0.626					
Adjusted R^2 : 0.612					
SRMR: 0.083					
NFI: 0.618					

The Effect of *Nazhir* Competency on Financial Reporting Quality

The empirical findings substantiate that *nazhir* competency exerts a positive and statistically significant direct effect on financial reporting quality, providing strong empirical support for the first hypothesis. Grounded in Human Capital Theory (Becker, 1964), individual cognitive assets, specialized knowledge, and task-specific skills represent vital productive endowments that determine organizational performance and output quality. In the context of waqf institutions, the preparation of high-quality financial statements requires specialized human capabilities to navigate complex accounting standards, mitigate recording deficiencies, and faithfully present socioeconomic transactions. When practitioners possess elevated human capital, their heightened analytical discernment directly translates into transparent financial reporting that minimizes information asymmetry between the institution and its external stakeholders.

Operationally, *nazhir* competency functions across the interrelated dimensions of ethical attitudes, accounting knowledge, and technical skills. In practical waqf administration, compliance with contemporary accounting frameworks such as PSAK 112 demands nuanced expertise spanning the fair valuation of fixed waqf assets, the classification of temporary versus permanent endowments, and the recognition of Sharia-compliant revenues. When institutional personnel possess formal accounting competencies and undergo continuous professional development, they are substantially better equipped to produce financial statements characterized by high relevance, faithful representation, verifiability, and timeliness (Siswahyudianto, 2026; Siswantoro et al., 2018). Conversely, deficits in technical literacy compel organizations to rely on rudimentary single-entry records, which inherently obscure institutional performance and impede transparent disclosure (Afifah et al., 2024; Saputra & Bakri, 2023).

These results also align closely with Stewardship Theory by Davis et al. (1997), which posits that competent *nazhirs* operate as intrinsically motivated custodians dedicated to institutional integrity and donor accountability rather than self-serving interests (Fikri et al., 2026). A competent steward recognizes that public trust is the lifeblood of waqf sustainability and utilizes standardized financial reporting as a fundamental accountability mechanism (Aryana, 2021). However, the pronounced empirical gap in formal *nazhir* certification across waqf organizations highlights an urgent policy



mandate. Institutional leadership and regulatory bodies, such as the Indonesian Waqf Board, must prioritize structured professional accreditation and continuous technical training to systematically build human capital, thereby institutionalizing high-quality financial reporting across the non-profit sector.

The Inefficacy of Internal Control Systems in Directly Driving Financial Reporting Quality

In contrast to normative expectations, the empirical assessment reveals that internal control systems exhibit a positive but statistically non-significant influence on the financial reporting quality of waqf institutions, resulting in the rejection of the second hypothesis. This outcome is robustly explained by Institutional Theory, particularly through the phenomenon of organizational decoupling (Dimaggio & Powell, 2012; Meyer & Rowan, 1977). Religious and charitable non-profit entities frequently establish formalized administrative structures such as Standard Operating Procedures, multi-tiered authorization protocols, and functional organizational charts primarily to attain external institutional legitimacy and satisfy normative regulatory mandates. Consequently, these formal control mechanisms often exist as ceremonial artifacts that remain decoupled from the day-to-day technical execution of financial record-keeping.

Furthermore, the fundamental orientation of internal control frameworks within faith-based institutions explains their limited direct contribution to reporting quality. Established internal control models, such as the COSO framework, are predominantly operationalized within waqf foundations to safeguard physical assets, enforce line-management authorization, and prevent operational fraud rather than to enhance technical accounting accuracy. While these preventive safeguards are essential for operational compliance, their mere administrative existence does not ensure that financial statements are prepared in strict accordance with sophisticated accounting standards. Without personnel who possess specialized accounting literacy to interpret and apply financial data, structural internal control manuals become redundant procedural routines that fail to elevate the qualitative attributes of financial statements (Basri et al., 2016; Pranoto et al., 2025).

Synthesizing both structural dimensions demonstrates that internal control mechanisms play a secondary, supportive role that cannot substitute for human capital deficiencies. Formal control frameworks provide an organizational boundary, but the actual qualitative integrity of financial reports is fundamentally determined by the cognitive capacity and technical competence of the reporting personnel (Doyle et al., 2007). Therefore, relying solely on standard operating procedures without investing in practitioner competency produces an illusion of governance without substantive reporting quality. To achieve authentic accountability, waqf institutions must integrate formalized internal control systems with targeted human capital development, ensuring that control procedures are executed by qualified practitioners capable of translating structural guidelines into transparent, compliant financial disclosures.

CONCLUSION

This study provides empirical evidence regarding the structural drivers of financial reporting quality in registered waqf institutions in Bandung City, Indonesia. The statistical assessment confirms that *nazhir* competence plays a vital and statistically significant role in elevating the quality of financial reports, demonstrating that technical proficiency in PSAK 112, accounting literacy, and fiduciary commitment directly lead to more relevant, reliable, and transparent disclosures. In contrast, the internal control system does not have a statistically significant direct impact on reporting quality. This finding highlights that formalized control procedures frequently operate as ceremonial administrative



requirements focused on physical asset safeguarding rather than technical reporting precision, thereby demonstrating organizational decoupling within the waqf governance environment.

These results offer notable theoretical contributions by demonstrating that within faith-based non-profit organizations, intrinsic human capital and stewardship attitudes are more influential in driving high-quality financial disclosure than structural control frameworks alone. From a practical and policy perspective, regulatory authorities such as the Indonesian Waqf Board must intensify professional certification programs, subsidize technical accounting workshops, and establish minimum competency standards for practitioners. Concurrently, waqf institutions must move beyond treating internal control guidelines as bureaucratic formalities by equipping personnel with the requisite skills to translate organizational controls into compliant financial statements.

Notwithstanding these contributions, this research has several methodological limitations. The empirical scope was confined to 56 respondents across waqf institutions within a single municipality, which restricts the broad generalizability of the findings. Future investigations should expand the sample cross-sectionally across multiple provinces and incorporate mixed-method approaches, such as combining self-administered surveys with qualitative interviews or direct content analyses of published financial disclosures. Furthermore, integrating potential mediating or moderating constructs, including the adoption of specialized accounting software, Sharia governance frameworks, and organizational culture, could provide deeper insights into the structural pathways that enhance financial transparency across the philanthropic sector.

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