



## THE INFLUENCE OF GOVERNANCE AND INTERNAL CONTROL ON FINANCIAL REPORTING QUALITY IN NON-PROFIT ORGANIZATIONS

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### Abstract

This study examines the influence of governance and internal control systems on the quality of financial reporting in non-profit educational organizations. Using a quantitative approach with 35 senior high schools under the Muhammadiyah Community Organization in West Java Province as samples, data were collected through questionnaires distributed to financial reporting personnel. The study employs multiple linear regression analysis using SPSS version 25. Results indicate that both governance ( $\beta=0.329$ ,  $p=0.007$ ) and internal control systems ( $\beta=0.986$ ,  $p=0.001$ ) significantly and positively influence financial reporting quality. The coefficient of determination ( $R^2$ ) shows that 48.1% of the variation in financial reporting quality can be explained by governance and internal control systems, while the remaining 51.9% is influenced by other variables not examined in this study. These findings suggest that strengthening governance principles and internal control mechanisms is crucial for enhancing financial reporting quality in non-profit educational institutions.

**Keywords:** Financial Reporting Quality; Governance; Internal Control; Non-Profit Organizations; ISAK 35

### INTRODUCTION

Education plays a strategic role in achieving national prosperity and developing human resources with intelligence and moral excellence (Leoni, 2023; Olson, 2025; Zieger et al., 2025). As non-profit organizations in the education sector, schools bear significant responsibilities in realizing the vision, mission, and objectives of national education. Non-profit organizations are entities that do not pursue profit, such as religious organizations, foundations, or educational institutions (Mardiasmo, 2018). Their management is primarily aimed at producing optimal services with available resources, where success is measured by the quantity and quality of services provided and their contribution to societal welfare (Young, 2024).

The development of quality education requires substantial funding, necessitating transparent and accountable financial reporting. As mandated by Law No. 28 of 2004 Article 52 paragraph 5, non-profit entities must prepare financial reports based on applicable accounting standards in Indonesia, specifically the Interpretation of Financial Accounting Standards (ISAK) 35 issued by the Indonesian Institute of Accountants (IAI, 2020). This standard aims to provide clear guidelines for non-profit entities in preparing financial reports that meet users' needs for economic decision-making.

However, current phenomena indicate that financial reporting quality in many non-profit organizations, particularly schools, remains suboptimal. The 2024 audit report by the Financial Supervision and Development Agency (LPPK) of Muhammadiyah West Java Province revealed several findings: incomplete financial reporting, absence of performance reports, incomplete allocation of Ta'awun Educational Development Funds (DPP), and non-compliance with tax regulations (LPPK Muhammadiyah Jawa Barat, 2024). These issues demonstrate weaknesses in organizational governance and internal control systems that ultimately affect financial reporting quality.

Several cases of financial misconduct in educational organizations further illustrate this problem. Between 2012-2019, Yayasan Pendidikan Jaya experienced embezzlement of education funds, where bank reconciliation revealed numerous suspicious transactions and fund transfers to personal accounts unrelated to the foundation's operations (Deniansyah, 2023); (Kabar6.com, 2023). Similarly, SDIT Atssurayya (2014-2022) and SD Fangiono 1 (2020-2022)



cases showed manipulation of School Operational Assistance (BOS) funds for personal use (Noviansah, 2025); (Felis, 2023). These recurring incidents indicate strong connections with weak organizational governance and internal control systems in schools and educational foundations.

In non-profit organization contexts, particularly educational institutions, the relationship between governance, internal control, and financial reporting quality becomes increasingly important. Effective governance and robust internal control systems can enhance financial reporting quality while reducing the possibility of fraud and misuse. Based on Muhammadiyah Central Leadership Regulation No. 2/PER/I.0/C/2024, Muhammadiyah financial governance encompasses all activities including planning, budgeting, implementation, administration, reporting, accountability, and financial supervision involving stakeholders. To achieve good governance, organizations are expected to implement solid financial principles, namely professionalism, efficiency, sustainability, accountability, and transparency.

The Committee of Sponsoring Organizations of the Treadway Commission, (2013) (COSO, 2013) defines internal control as the influence of the board of directors, entity management, and other personnel on every process that occurs, subsequently designed to obtain adequate assurance about achieving objectives. The framework consists of five components: control environment, risk assessment, control activities, information and communication, and monitoring activities. The application of good governance principles and effective internal control systems is not only important for minimizing conflicts of interest but also for ensuring that the resulting financial reports are high quality and trustworthy to all related parties.

Previous research provides diverse results regarding this relationship. Lu(Zoe) et al. (2024) found that internal governance, external donor governance, and external governance environment are significantly and positively related to foundation efficiency, with financial reporting quality being the main channel through which governance affects efficiency. Yuningsih et al. (2022) showed that internal control systems significantly influence BOS fund financial reporting quality in vocational high schools in DKI Jakarta Province. However, Ejoh & Ejom (2014) found no significant relationship between internal control activities and financial performance at the College of Teacher Education and Education Sciences Cross River State, Akamkpa, Nigeria.

This study aims to re-examine and assess the impact of school financial reporting governance and organizational internal control on non-profit organization financial reporting quality, particularly in the education sector. This research has several advantages. First, it combines two important variables that have rarely been studied simultaneously in the Indonesian non-profit education context. Second, it uses a quantitative method with non-profit organization samples in Indonesia's education sector that have not been widely studied. Third, it is expected to provide new contributions in understanding factors affecting non-profit organization financial reporting quality according to ISAK No. 35, and provide recommendations for non-profit organizations to improve their financial reporting quality and enhance accountability and transparency.

## **LITERATURE REVIEW**

### **Agency Theory**

Agency Theory, first introduced by Jensen & Meckling (1976), serves as the grand theory used in this study. According to this view, two or more parties have a contractual relationship where one party is called the principal and the other party is the agent. The party that employs another party is called the principal, while the party that performs certain tasks, such as delegating authority on behalf of the owner, is called the agent.



Although there are similarities between non-profit organization governance and traditional corporate arrangements, striking differences emerge upon deeper examination (Lu(Zoe) et al. (2024). Agency problems exist in non-profit organizations due to the separation of ownership and control. However, agency conflicts in non-profit organizations differ from agency conflicts in corporations (Anheiler & Baums, 2020).

In the non-profit realm, donations come without associated ownership or anticipated financial returns; therefore, there is no share ownership in foundations (Van Puyvelde et al., 2016). This lack of ownership leads to limited donor rights in monitoring foundation operations, making supervision from donors relatively weaker. Market-driven checks and balances in the profit sector are conspicuously absent in the non-profit landscape (Prakash & Gugerty, 2010). Additionally, non-profit organizations face more lenient reporting requirements, coupled with minimal regulatory oversight, compared to the strict mandates binding corporations (Berrone et al., 2016).

When management and ownership are separated, conflicts of interest risks emerge, where management may not always act according to owners' interests. Therefore, implementing good governance becomes important to minimize agency costs and ensure organizational objectives are achieved. Furthermore, internal control systems function to provide assurance that organizational operations run effectively and efficiently, and that resulting financial reports are reliable. In agency theory context, this system helps reduce the risk of power abuse by management. With strong internal control, organizations can ensure resources are used according to objectives established by owners.

### **Governance**

Governance is defined as a form or process of exercising political, economic, and administrative authority in managing problems faced by society or nations by involving all sectors, namely: public sector, private sector, and the third sector, namely civil society. This governance is an interaction system where political, economic, and administrative processes are conducted democratically, accountably, and participatory by involving all actors and stakeholders (Asaduzzaman & Virtanen, 2022).

The term of governance refers to a system where organizations are directed, monitored, and responsible for achieving predetermined objectives, results, and values. Therefore, governance principles must align with organizational integrity while balancing the interests of all parties involved (CRMS Indonesia, 2024). Muhammadiyah Central Leadership Regulation No. 2/PER/I.0/C/2024 dated August 10, 2024, defines Muhammadiyah Governance as all activities including planning, budgeting, implementation, administration, reporting, accountability, and financial supervision of Muhammadiyah involving stakeholders. Muhammadiyah financial governance is based on: (1) Professionalism, (2) Efficiency, (3) Sustainability, (4) Accountability, and (5) Transparency.

### **Internal Control**

The Internal Control Integrated Framework published by (COSO, 2013) defines internal control as the influence of the board of directors, entity management, and other personnel on every process that occurs, subsequently designed to obtain adequate assurance about achieving objectives. Internal control helps organizations achieve important objectives and maintain and improve performance. According to COSO, there are five dimensions of internal control: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring Activities.

### **Non-Profit Organizations**

According to IAI (2018) in ISAK No. 35, "Non-profit organizations obtain resources from resource providers who do not expect repayment or economic benefits commensurate with the amount of resources provided." According to Widodo & Kustiawan (2001), non-profit



organizations are defined as institutions that do not expect profit in their operations. They emphasize that these organizations function to achieve social and humanitarian goals, with resources obtained from donations and community support, not from financial profits.

### **Financial Reporting Quality**

Financial reporting quality is an assessment of accounting financial reports designed to meet the needs of users or readers of financial reports. Suwardjono (2016) explains that financial reporting quality is the end result of accounting activity processes or a summary of financial transactions in a company. According to Ikatan Akuntan Indonesia (2021), qualitative characteristics are distinctive features that make information in financial reports useful to users. For information to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information can be enhanced if it is comparable, verifiable, timely, and understandable.

### **School Governance and the Quality of Non-Profit Financial Reporting**

Agency Theory Jensen & Meckling (1976) posits a principal-agent relationship in which principals delegate authority to agents to act on their behalf. While this framework originates from the corporate domain, comparable agency issues arise in non-profit organizations due to the separation between resource providers and managerial decision-makers (Lu(Zoe) et al., 2024). Unlike investors in for-profit entities, donors do not receive ownership rights or financial returns (Van Puyvelde et al., 2016), limiting their capacity to oversee management and intensifying agency risks (Prakash & Gugerty, 2010). Weak regulatory oversight further heightens the potential for misaligned managerial actions (Berrone et al., 2016).

In this context, strong governance is essential to control agency costs, reinforce accountability, and ensure managerial alignment with organizational mission. Governance practices grounded in Good Public Governance principles—particularly accountability—enable transparent reporting and responsible resource stewardship (Soelton et al., 2020; Yuningsih et al., 2022). Financial transparency facilitates informed decision-making, while integrity underpins sound governance and trustworthy reporting (Widyaningsih, 2015). Empirical evidence demonstrates that robust governance enhances organizational efficiency and financial reporting credibility. Prior research shows that internal and external governance mechanisms contribute to more effective resource allocation and mission delivery, with financial reporting quality serving as a key channel through which governance improves performance (Lu(Zoe) et al., 2024; Aisyah & Sulistyowati, 2025).

Accordingly, this study proposes:

H1: School governance influences the quality of financial reporting in non-profit organizations.

### **Internal Control and the Quality of Non-Profit Financial reporting**

Agency Theory also underscores the importance of formal internal controls to minimize opportunistic behavior and ensure that managerial actions reflect principal interests. Internal control systems encompass procedures designed to promote operational efficiency, safeguard assets, ensure compliance, and enhance the reliability of financial reporting (Fadhurrahman, 2019).

High-quality financial reports are vital for non-profit stakeholders who rely on accurate information regarding resource generation, allocation, and utilization (Mulyani & Kee, 2021). Effective internal control mechanisms strengthen reporting accuracy, deter fraud, and reduce accounting errors, thereby improving financial statement quality and regulatory compliance (Triyani et al., 2018).

Previous studies confirm this relationship. Evidence indicates that strong internal control systems significantly enhance reporting quality, while weak controls impede fraud

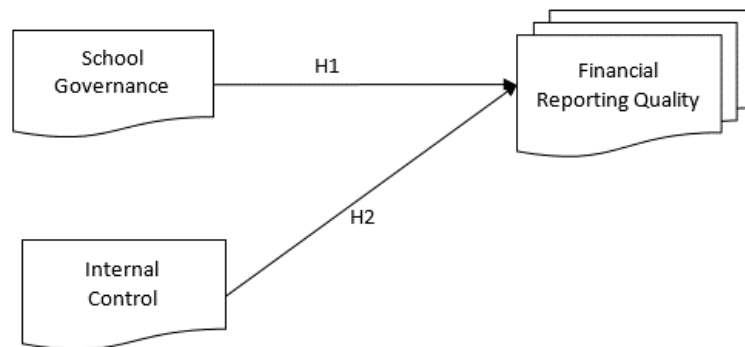


detection and reduce the credibility of accounting records (Haq & Akbar, 2022); (Adekamisti et al., 2025); (Denny Saputra Eni & Duwita Sigalingging, 2024); (Tawaqal & Suparno, 2017). Thus, we hypothesize:

H2: Internal control influences the quality of financial reporting in non-profit organizations.

**Conceptual Framework**

Drawing from Agency Theory, this study examines two governance-related antecedents of financial reporting quality in non-profit educational institutions: (1) school governance and (2) internal control. Governance provides a structural foundation for oversight and accountability, while internal control serves as an operational mechanism to ensure compliance and reporting reliability. Both are expected to independently enhance the quality of financial reporting.



**Figure 1. Conceptual Framework**

**Framework Description**

The conceptual model consists of two independent variables—School Governance and Internal Control—each hypothesized to exert a direct, positive effect on Financial Reporting Quality as the dependent variable.

**METODE**

**Research Design**

This study employs a quantitative research approach with a descriptive-verify method. Quantitative research, according to Sugiyono (2019), is a research method based on positivism philosophy used to examine certain populations or samples, where data collection uses research instruments and data analysis is statistical. The descriptive-verify method is used to answer problems regarding all research variables independently and through testing to verify descriptive research results with statistical calculations.

**Population and Sample**

The population in this study consists of Senior High Schools under the Muhammadiyah Community Organization in West Java Province, totaling 47 schools. The sampling technique used is census sampling, taking all existing populations as samples (Sugiyono, 2019). After data validation, 35 schools were determined as valid samples, excluding schools that were no longer operational (5 schools) and schools with vocational high school status (7 schools).

**Table 1. Sample Data**

| <b>Data Description</b>       | <b>Number of Schools</b> |
|-------------------------------|--------------------------|
| Data Obtained                 | 47 Schools               |
| Non-operational Schools       | 5 Schools                |
| Vocational High School Status | 7 Schools                |
| <b>Valid Sample Total</b>     | <b>35 Schools</b>        |

Source: Processed secondary data, 2025



## Research Variables

This study consists of two independent variables and one dependent variable:

### 1. Independent Variables:

- Governance ( $X_1$ ): Measured using five dimensions - professionalism, efficiency, sustainability, accountability, and transparency (Peraturan PP Muhammadiyah Nomor 2/PER/I.0/C/2024).
- Internal Control ( $X_2$ ): Measured using five COSO dimensions - control environment, risk assessment, control activities, information and communication, and monitoring activities (COSO, 2013).

### 2. Dependent Variable:

- Financial Reporting Quality (Y): Measured using six dimensions - relevance, faithful representation, comparability, verifiability, timeliness, and understandability (Ikatan Akuntan Indonesia, 2021).

All variables were measured using a Likert scale (1-5) through questionnaire instruments distributed directly to school financial reporting personnel.

## Data Collection

Data were collected through: (1) Literature study: reviewing journals, articles, books, and literature related to research topics; (2) Field research: distributing questionnaires directly to schools and conducting observations.

## Data Analysis techniques

Data analysis used multiple linear regression with SPSS Version 25 software, including: (1) Validity and Reliability tests, consist of: Validity test using factor analysis with KMO > 0.5 and loading factor > 0.4 criteria; and Reliability test using Cronbach's Alpha with criteria > 0.7; (2) Normality Test: Using Kolmogorov-Smirnov test with significance level 0.05; (3) Classical Assumption Tests: Multicollinearity test: using VIF < 10 and Tolerance > 0.1; and Heteroscedasticity test: using Glejser test with significance > 0.05; (4) Multiple Linear Regression Analysis: Using equation:  $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$  Where:

Y = Financial Reporting Quality

$X_1$  = Governance

$X_2$  = Internal Control

$\alpha$  = Constant

$\beta$  = Regression coefficients

e = Error term;

(5) Model Fitness Tests consist of: Coefficient of Determination ( $R^2$ ), F-test (simultaneous test), and t-test (partial test).

## RESULTS AND DISCUSSION

### Descriptive Statistics

#### *Governance ( $X_1$ )*

Based on questionnaire distribution regarding governance variables to 35 respondents, the overall index results show an average of 28.2, which falls between 25.8-35.0 with a "good" interpretation. This indicates that governance implementation in Muhammadiyah Senior High Schools in West Java Province is categorized as good. The highest indices were found in the dimensions of resource utilization (31.6), compliance with regulations (30.8), and openness in financial management (29.8).

#### *Internal Control ( $X_2$ )*

The overall index results for internal control variables show an average of 27.2, which falls between 25.8-35.0 with a "good" interpretation. This indicates that internal control implementation in Muhammadiyah Senior High Schools in West Java Province is categorized



as good. The highest indices were found in the dimensions of risk mitigation (31.4), effective internal communication (30.6), and information collection and processing (29.2).

### **Financial Reporting Quality (Y)**

The overall index results for financial reporting quality variables show an average of 31.0, which falls between 25.8-35.0 with a "good" interpretation. This indicates that financial reporting quality in Muhammadiyah Senior High Schools in West Java Province is categorized as good. The highest indices were found in the dimensions of understandable language (33.8), report completion time interval (33.8), and timeliness of financial report submission (32.8).

### **Instrument Testing Results**

#### **Validity Test**

The validity test results show that all indicators for governance, internal control, and financial reporting quality variables are valid, having KMO (Kaiser Meyer Olkin Measure of Sampling) values above 0.5 and loading factors above 0.4. The governance variable has KMO = 0.761, internal control has KMO = 0.611, and financial reporting quality has KMO = 0.787.

**Table 2. Reliability Test Results**

| No | Variable                           | Alpha Cronbach | Standard | Criteria |
|----|------------------------------------|----------------|----------|----------|
| 1  | Governance (X <sub>1</sub> )       | 0.905          | 0.7      | Reliable |
| 2  | Internal Control (X <sub>2</sub> ) | 0.879          | 0.7      | Reliable |
| 3  | Financial Reporting Quality (Y)    | 0.957          | 0.7      | Reliable |

Source: Processed primary data, 2025

All research variables are reliable with Alpha Cronbach values > 0.7, making them suitable for further testing.

### **Classical Assumption Tests**

#### **Normality Tests**

The Kolmogorov-Smirnov test results show a significance value of 0.146 > 0.05, indicating that the regression model is normally distributed and can proceed to the next test.

#### **Multicollinearity Test**

**Table 3. Multicollinearity Test Results**

| Model            | Tolerance | VIF   |
|------------------|-----------|-------|
| Governance       | 0.233     | 4.287 |
| Internal Control | 0.233     | 4.287 |

Source: Processed primary data, 2025

The regression model is free from multicollinearity because the regression coefficient between independent variables has Tolerance values > 0.1 and VIF < 10.

#### **Heteroscedasticity Test**

The Glejser test results show that all variables have significance values above 0.05 (Governance = 0.647, Internal Control = 0.088), indicating that heteroscedasticity does not occur, meaning the regression model is good.

### **Multiple Linear Regression Analysis**

**Table 4. Multiple Linear Regression Results**

| Model            | Unstandardized Coefficients | Standardized Coefficients | t     | Sig.  |
|------------------|-----------------------------|---------------------------|-------|-------|
|                  | B                           | Std. Error                |       |       |
| (Constant)       | 24.560                      | 10.630                    |       | 2.311 |
| Governance       | 0.447                       | 0.347                     | 0.329 | 1.288 |
| Internal Control | 1.318                       | 0.342                     | 0.986 | 3.854 |

Source: Processed primary data, 2025



The regression equation can be formulated as:

$$Y = 0.329 X_1 + 0.986 X_2 + e$$

Where:

Y = Financial Reporting Quality

X<sub>1</sub> = Governance

X<sub>2</sub> = Internal Control

e = error term

### Model Fitness Tests

#### *Coefficient of Determination*

**Table 5. Coefficient of Determination**

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | 0.715 | 0.512    | 0.481             | 8.564                      |

Source: Processed primary data, 2025

The R Square (R<sup>2</sup>) value of 0.481 indicates that governance and internal control variables can explain 48.1% of the variation in financial reporting quality, while the remaining 51.9% is influenced by other variables not examined in this study.

#### *F-Test Results (ANOVA)*

**Table 6. Table F-Test Results (ANOVA)**

| Model      | Sum of Square | df | Mean Square | F      | Sig.  |
|------------|---------------|----|-------------|--------|-------|
| Regression | 2459.284      | 2  | 1229.642    | 16.765 | 0.000 |
| Residual   | 2347.116      | 32 | 73.347      |        |       |
| Total      | 4806.400      | 34 |             |        |       |

Source: Processed primary data, 2025

The F-test results show F-calculated = 16.765 with significance level 0.000 < 0.05, indicating that governance and internal control simultaneously have a significant positive influence on financial reporting quality, meaning the regression model is fit.

#### *t-Test (Partial Test)*

**Table 7. Hypothesis Testing Results (t-test)**

| No | Variable                                       | B     | Significance | Calculation                    |
|----|--|-------|--------------|--------------------------------|
| 1  | Governance → Financial Reporting Quality       | 0.329 | 0.007        | Significant positive influence |
| 2  | Internal Control → Financial Reporting Quality | 0.986 | 0.001        | Significant positive influence |

Source: Processed primary data, 2025

#### *The Influence of Governance on Financial Reporting Quality*

The governance regression coefficient is 0.329 with significance value 0.007 < 0.05. These results indicate a significant positive influence between school governance and non-profit organization financial reporting quality. Therefore, the first hypothesis (H<sub>1</sub>) is accepted.

#### *The Influence of Internal Control on Financial Reporting Quality*

The internal control regression coefficient is 0.986 with significance value 0.001 < 0.05. These results indicate a significant positive influence between internal control and non-profit organization financial reporting quality. Therefore, the second hypothesis (H<sub>2</sub>) is accepted.

#### **The Influence of Governance on Financial Reporting Quality**

This study's results support previous research by Lu et al. (2024) and Aisyah & Sulistyowati (2025), which found that governance has a positive and significant influence on financial reporting quality. Based on research results, overall governance indicators in Muhammadiyah Schools in West Java Province are categorized as good, shown by an average index score of 28.2, falling between 25.8-35.0 with a "good" interpretation.



Governance is considered capable of producing financial reports containing profit information content, thereby improving financial report performance. Organizational financial governance is one of the most important keys for organizations to achieve their vision and mission. Leaders and organizational administrators need to understand Good Governance mechanisms so organizational performance can be conducted more effectively and efficiently (Soelton et al., 2020) Financial transparency facilitates informed decision-making, while integrity underpins sou

Good Public Governance (GPG) principles are applied in every aspect of its implementation. Accountability is one of the basic GPG principles very important for every public entity to fulfill its responsibilities. Public organization accountability is supervised by society and institutions authorized to conduct supervision (Yuningsih et al., 2022). When good governance principles are applied, financial managers are encouraged to be more transparent in conveying information they possess and more responsible in carrying out their duties and responsibilities. This information openness provides better decision choices for financial managers in collective decision-making (Kawedar et al., 2019).

### **The Influence of Internal Control on Financial Reporting Quality**

This study's results support previous research by (Haq & Akbar, 2022); (Adekamisti et al., 2025); and (Denny Saputra Eni & Duwita Sigalingging, 2024), which found that internal control systems have a positive and significant influence on financial reporting quality. Based on research results, overall internal control indicators in Muhammadiyah Schools in West Java Province are categorized as good, shown by an average index score of 27.2, falling between 25.8-35.0 with a "good" interpretation.

Internal control systems are primary control and information management activities aiming to ensure information accuracy and completeness. Previous research explains that internal control affects financial information quality. This is because internal control systems have elements of control environment, risk assessment, control activities, information and communication, and monitoring. Good internal control systems will affect financial reporting quality (Fadhlurrahman, 2019).

Organizations must have high-quality financial reports. Stakeholders can make the best decisions by analyzing sources, distribution, and utilization of financial resources with the help of high-quality financial reports. One determining factor in achieving quality financial reports is maximizing internal control effectiveness in organizations (Mulyani & Kee, 2021).

Organizational Internal Control Systems are applied to achieve organizational objectives through continuous processes of actions and activities conducted by leaders and all employees, to provide adequate assurance through efficient and effective operations, reliable financial reporting, organizational asset protection, and compliance with applicable laws and regulations. The better the Internal Control System implementation, the more it will improve Financial Reporting Quality (Triyani et al., 2018).

### **CONCLUSION**

Based on research examining the influence of governance and internal control on financial reporting quality in Senior High Schools under the Muhammadiyah Community Organization in West Java Province, the following conclusions can be drawn:

1. School Governance has a significant positive influence on non-profit organization financial reporting quality ( $\beta=0.329$ ,  $p=0.007$ ), meaning better school governance can improve school financial reporting quality.
2. School Internal Control has a significant positive influence on non-profit organization financial reporting quality ( $\beta=0.986$ ,  $p=0.001$ ), meaning better internal control in schools can improve school financial reporting quality.



3. The implementation of School Governance and Internal Control affects the Financial Reporting Quality produced by Senior High Schools under the Muhammadiyah Community Organization in West Java Province as Non-Profit Organizations.

### **Recommendations**

Based on research results, several policy recommendations are:

1. For Muhammadiyah Community Organizations:
  - Organizations need to maintain and further improve internal control variables as they have the greatest influence on financial reporting quality compared to governance, as seen from regression coefficients. If organizational leaders will improve internal control, they need to examine internal control indicators that are still low according to respondent answers, including organizational structure improvement within schools, identification of financial risks in schools, open and responsive external communication in schools, sustainable financial monitoring, and separate evaluation from school management administration.
  - Organizations need to further improve governance variables as they have the lowest influence on financial reporting quality compared to internal control, as seen from regression coefficients. If organizational leaders will improve school financial governance, they need to examine indicators that are still low according to respondent answers, including work productivity improvement, financial risk management, and availability of information that is easy to understand and access.
  - Muhammadiyah Organizations need to add to existing governance principles in Muhammadiyah Central Leadership Regulation No. 2/PER/I.O/C/2024 dated August 10, 2024, namely Social Awareness, Discipline Principles, and Independence factors. This will strengthen organizational governance that will improve organizational performance in various aspects.
2. **For Science Development:**
  - Research activities need to be multiplied, not only limited to Senior High Schools under the Muhammadiyah Community Organization in West Java Province, but also in other Muhammadiyah Business Charities, so research results regarding governance, internal control, and financial reporting quality can be generalized.
  - Many other factors can affect financial reporting quality levels besides Governance and Internal Control that are also relevant and can influence them, including human resource competence and budget planning. For future researchers who will conduct similar studies, they can develop research with a broader focus on variables not yet studied and deepen aspects not included in this research.

### **Research Limitations**

This study has several limitations that can be addressed in future research:

1. The research sample is limited to Senior High School under the Muhammadiyah Community Organization in West Java Province, so results cannot be generalized to other non-profit educational institutions or different regions.
2. The study only examines two independent variables (governance and internal control), while many other factors can affect financial reporting quality.
3. Data collection was conducted through questionnaires only, which may be subject to respondent bias. Future research could combine quantitative methods with qualitative approaches for deeper insights.
4. The research was conducted cross-sectionally, so it cannot observe changes over time. Longitudinal studies could provide better understanding of how governance and internal control affect financial reporting quality in the long term.



### Recommendation for Future Research

Future research efforts are strongly encouraged to expand the scope and sample size of similar studies to enhance the generalizability of the findings across diverse geographical locations or industries. It is also recommended that researchers employ alternative or mixed-methods methodologies, combining quantitative and qualitative data, or focusing on in-depth qualitative designs to achieve a richer, more comprehensive understanding of the contextual and underlying factors that influence the variables examined. Furthermore, scholars should dedicate attention to identifying and testing additional mediating and moderating variables, such as organizational culture or specific leadership styles, to develop more nuanced theoretical models. Finally, implementing longitudinal studies is advisable to ascertain the long-term impact, stability, and causality of the relationships investigated over extended periods.

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