

ZAKAT GOVERNANCE IN LAZISNU KEDIRI DISTRICT

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Abstract: Zakat is a means to alleviate poverty by assisting those in greater need. To facilitate the distribution of zakat to eligible recipients, the role of Zakat Management Organizations (OPZ) is required. OPZ plays a role in collecting and distributing wealth from the muzakki (those who give zakat) to those who are entitled to receive it. According to Law No. 23 of 2011 on zakat management, zakat management organizations consist of two types: the National Zakat Amil Body (BAZNAS at the provincial and district levels, as well as UPZ) established by the government, and Zakat Amil Institutions established by the community, such as LAZISMu, LAZISNU, Dompot Dhuafa, Yatim Mandiri, Rumah Zakat, and Baitul Maal Hidayatullah (BMH). The purpose of this research is to understand the zakat governance in LAZISNU Kediri district, using a case study research methodology with informants. Data collection is derived from documentation, archive records, interview results, direct observations, observations of participants, and other physical devices. Structured interviews were conducted to obtain data in line with the Zakat Core Principles (ZCP). The research findings indicate that some informants express satisfaction with the zakat governance that has been implemented in accordance with the Zakat Core Principles. This can be seen in how they oversee, manage systems, governance, and administration in the institution. All activities related to zakat governance in LAZISNU Kediri district are directly monitored and supervised by central authorities.

Keywords: Zakat, Governance, Zakat Management Organizations

1. Introduction

In the Law No. 23 of 2011, the definition of zakat is explained as a mandatory amount of wealth to be given by a Muslim or a business entity to those entitled to receive it in accordance with Shariah regulations. Zakat can be used as a social system managed by both the government and private institutions, starting from the collection of zakat from those obligated to pay it, so it can be distributed to those eligible to receive it (Qardawi, 2007). In Islam, zakat is the fourth pillar of Islam that must be fulfilled by Muslims based on the wealth of an individual, guided by the Quran and Hadith. As mentioned in Surah Al-Baqarah, verse 43 “And establish prayer, give zakat, and bow with those who bow (in worship)” This command to give zakat is given alongside the command to pray, which is obligatory for a Muslim. Zakat funds collected are distributed to eligible recipients under specific conditions. The practice of giving zakat provides a foundation for the growth and development of the socio-economic well-being of the community (Abidin, 2004). Zakat teachings encompass several dimensions, including private-public values, vertical-horizontal, and worldly-hereafter. These values form the basis for the development of a comprehensive community life. The primary purpose of giving zakat is to

alleviate poverty, maintain security, promote development, and enhance the welfare of the people. This aligns with the research (Noor, 2015) which states that zakat is a means to alleviate poverty by helping those in greater need. In other words, zakat serves as a mechanism for improving social welfare, a social and humanitarian activity aimed at boosting the economy and reducing social disparities. This is also supported by research conducted by (Hashim, 2014) which asserts that zakat is a tool for poverty alleviation, social harmony, and social justice, ultimately leading to economic development. These goals can be easily achieved when the management of zakat funds is entrusted to those authorized to manage zakat.

According to Islamic law, there are specific criteria for zakat recipients (mustahiq) who fall into eight categories: the poor, the needy, zakat administrators, new Muslims, slaves, debtors, those in the path of Allah, and travelers (Wahab N. A., 2011). To facilitate the distribution of zakat to eligible recipients, the role of Zakat Management Organizations (OPZ) is required. OPZ plays a role in collecting and distributing wealth from the muzakki (those who give zakat) to those who are entitled to receive it (Tahliani, 2018). The role of Zakat Management Organizations (OPZ) is crucial in an increasingly complex and advanced society. As the Muslim population grows economically, in knowledge, and in religious faith, it is expected that the number of muzakki (zakat payers) will increase, and zakat contributions will also rise (Ghufraanaka., 2016) (Ipansyah, 2013). In Law No. 23 of 2011 on zakat management, it is stated that zakat management organizations consist of two types: the National Zakat Amil Body (BAZNAS at the provincial and district levels, as well as UPZ) established by the government, and Zakat Amil Institutions established by the community, such as LAZISMU, LAZISNU, Dompot Dhuafa, Yatim Mandiri, Rumah Zakat, Baitul Maal Hidayatullah (BMH), and others. Official regulations from the government provide clarity on zakat management and official recognition for OPZ, which increases public trust in OPZ when it comes to distributing zakat, infaq, and sadaqah. In the Republic of Indonesia Law No. 23 of 2011 Regarding Zakat Management, zakat is managed through a process of planning, organization, implementation of accumulation activities, distribution, and efficient and effective utilization of zakat funds (Wahab N. A., 2011). Unfortunately, zakat management in Indonesia is not yet optimal due to instances of misappropriation or misuse in zakat fund distribution, resulting in untrustworthiness. When OPZ applies principles of good governance in their operations, such as fairness, transparency, accountability, responsibility, and independence, it is expected to reduce criminal activities related to zakat, infaq, and sadaqah distribution. Such issues are expected not to occur given the numerous regulations through the Minister of Religion Decree (KMA) No. 333 of 2015, which stipulates that the management of Zakat Amil Institutions must be based on professional organizational management practices that align with the concept of New Public Management (NPM) (Ahim Abdurahim, 2018).

Based on the explanations above, the performance of OPZ is not only measured by the effectiveness of zakat distribution but also by professionalism in organizational management, reflected in the establishment of good governance. Professional management is an effort to create new public management and enhance public trust in OPZ. Public trust in OPZ is crucial as it is related to trust in the professional management and distribution of zakat, ultimately increasing the potential for zakat income to improve social welfare. In the Islamic perspective, accountability is not only seen in terms of accountability to humans/social/stakeholders but also as a form of responsibility to obey Allah SWT (Triyuwono, 2000). To increase the trust of muzakki (zakat payers) and OPZ stakeholders, OPZ can implement principles of accountability and transparency in zakat management as a strategy to build trust in the organization and bridge the information gap between agents (amil) and principals (muzakki). This presents new challenges for OPZ in enhancing professionalism in zakat management (Anggara, 2018), creating value-added for the organization (Firmansyah, 2017).

Indonesia is a country with a majority Muslim population, comprising 237.56 million people or 86.7% of the total Indonesian population ((RISSC), 2022). With a significant Muslim population, Indonesia has the potential for substantial zakat contributions that can be effectively utilized to reduce poverty rates. According to BPS in 2022, the number of poor people in Indonesia as of September 2022 was 26.36 million, which decreased by 140 thousand from the previous year. According to LazisNU East Java in 2022, zakat collection achievements increased by 36% compared to two years earlier, totaling 133.7 billion, distributed into three types: zakat on wealth amounting to 12.067 billion, zakat al-fitr (fitrah) amounting to 109.05 billion or 10,832 tons of rice, and sadaqah amounting to 12.65 billion. These contributions were then immediately distributed to those who should receive them.

Table 1. Ten (10) cities/counties that collected ZIS funds in 2022

No.	Nama Nu Care-LazisNu	Total Pencapaian/2022
1	Sidoarjo	22,3 Billion
2	Jombang	18,1 Billion
3	Kab Malang	17,5 Billion
4	Banyuwangi	10,9 Billion
5	Jember	10,7 Billion
6	Kab Kediri	7,3 Billion
7	Nganjuk	6,6 Billion
8	Gresik	6,4 Billion
9	Kab Mojokerto	5,4 Billion
10	Tulungagung	3,5 Billion

Source: NU Care-LazisNu, 2022

In Indonesia, there is a guide on the management of OPZ known as the Zakat Core Principle (ZCP), which is an initiative by Bank Indonesia (BI) and the National Zakat Amil Body (BAZNAS). It encompasses six dimensions of zakat management (Mubtadi, 2018). These six dimensions include legal foundations, zakat supervision, zakat governance, intermediary functions, risk management, and Sharia compliance. The ZCP serves as the foundation for zakat management in Indonesia. Research conducted by Hamdani (2019) highlights various issues related to the implementation of ZCP. It explains that in terms of zakat management, the essence of ZCP has not been fully realized. On the other hand, there is also a lack of understanding among the public regarding ZCP, which hinders its optimal implementation. A unique characteristic of zakat management in Indonesia, distinguishing it from other countries, is the division into two types of OPZ: those managed by the government, known as the National Zakat Amil Body (BAZ), and those managed by non-governmental institutions, referred to as Zakat Amil Institutions (LAZ). With zakat being managed by these two types of OPZ, it is hoped that the potential for zakat income can be increased and subsequently distributed to eligible recipients (Mubtadi, Analysis of Governance and Efficiency on Zakat Distribution: Evidence From Indonesia, 2018) (Kurniasari, 2017).

2. Literature Review

Governance of Zakat Institutions

The governance of zakat is defined as the activities of planning, implementation, coordination, collection, distribution, and utilization of zakat funds. Another definition of zakat institutions, infaq, and shadaqah institutions, also known as Lazis or Lagzis, is that they are non-profit organizations that function to collect and manage funds from the community in the form of zakat, infaq, and/or shadaqah (Riyanti, 2011). Zakat institutions play a crucial role in the concept and system of Islamic economics, particularly in their role in redistributing wealth from the wealthy (muzakki) to the needy (dhuafa). As Islamic institutions, zakat institutions

must adhere to the ethical and moral values of Islam. Principles of trustworthiness (amanah), transparency, accountability, and Sharia compliance are among the characteristics that distinguish zakat institutions from conventional institutions (Thaliani, 2018). As legal entities under the supervision of the state, zakat management organizations have the task of collecting zakat and distributing it to various recipients in accordance with the provisions and principles of Islamic Sharia required by zakat application regulations (Shehata, 2014). OPZ (Zakat Management Organizations) are the infrastructure for Islamic finance systems within Islamic states that globally apply Allah's law. In fulfilling their roles, OPZ have two functions: the first is to function as Sharia financial institutions responsible for receiving, collecting, and distributing zakat (as *amil*) based on Sharia principles, as reflected in the management and human resource governance characterized by honesty, trustworthiness, and responsibility. The second function is as non-profit institutions that play a role in empowering communities to improve social welfare. In fulfilling this role, OPZ address social issues faced by communities. Furthermore, the broader function of OPZ contributes to macroeconomic indicators, job creation, and financing facilities (Chotib, 2018).

Zakat

Zakat is a form of worship that is closely related to wealth. According to Mursyid (2006), zakat is obligatory for those who are financially capable, meaning those who possess excess wealth beyond their own needs and the needs of those they are responsible for. According to Ahmad (2019), Zakat is one of the main pillars of Islam, ranking as the fifth principle of Islam, and it is mandated by Allah SWT for the Muslim community. In the theory and practice of Islamic economics, Zakat is a fundamental system that distinguishes itself from other economic systems in the world. This is because Zakat is a regulation from the Quran and specifies in advance who is entitled to receive zakat funds (*mustahik*). In the theory of Islamic economics, Zakat is an institution that enforces justice (Firmansyah & D., 2017). If wealthy individuals use their income for consumption, invest in capital goods (savings), fulfill their zakat obligation, and make charitable contributions, while the poor spend their income, including what they receive from zakat and charity, this theoretically increases overall consumption and reduces savings. According to Amara (2016), Zakat is considered a primary resource for meeting the needs of individuals in need within the Islamic society. It is also an essential means to achieve social solidarity through the work of zakat institutions, as there are many needy individuals whose exact numbers and recipients are not known.

3. Method

The case study approach used is a detailed, in-depth, and intensive scientific activity focused on a program or activity at the organizational or group level. The aim is to gain in-depth knowledge about the chosen event or occurrence. The selected case is an actual, ongoing event, such as the distribution of Zakat funds carried out by LazisNu in Kediri District. Deep knowledge about the chosen and current event is obtained through informants who have relevant knowledge about the research issues. Reality itself is dynamic and can take various forms. This research attempts to obtain knowledge from a multi-approach perspective, free from the quantitative or qualitative dichotomy, and is open to using both while adhering firmly to absolute truth.

Informants are individuals utilized to provide information about the research's background and situation (Moleong, 2016). Informants can be categorized as key informants and ordinary informants. Key informants are individuals who provide information about the background and situation and have a deep understanding of the research issues. On the other hand, ordinary informants are individuals whose input is used for considering the research problem. Data

collection involves documentation, archive records, interview results, direct observation, participant observation, and other physical tools. Structured interviews are conducted to gather data according to the indicators in the Zakat Core Principles (ZCP). Interviews are conducted with various positions within the management of Baznas in the four districts, intended as a data validation process by analyzing from various perspectives. Three types of data sources and evidence from different situations are used. A list of questions is prepared and used as a guide during interviews but can evolve and be adapted based on the findings obtained in the initial interview process.

Questions posed to the Deliberation Council (DP), Supervisory Board (DP), and Implementing Body (BP) are structured according to the indicators in the keywords and main criteria of Zakat Core Principles (ZCP) in Zakat governance (Ahmed, 2017) (Zulkhibri, 2016). The questions are aligned with ZCP, which consists of 18 core principles. However, only the core principles that are prioritized based on the research (Wahab, 2011) are included. ZCP is used because it is based on a well-established banking management model. The 18 core principles are divided into 5 groups: regulation, supervision, collection and distribution management, risk management, and audit and transparency. The priority ZCP is determined after analysis using the Analytic Hierarchy Process (AHP). AHP, introduced by Yasmeeen (2012), is an effective tool for handling complex decision-making and helps decision-makers set priorities and make the best decisions.

4. Result and Discussion

Governance is a system used to direct, control, and oversee the management of an organization's resources efficiently, effectively, economically, and productively, based on principles of transparency, accountability, responsibility, independence, and justice in achieving jointly established organizational goals. BAZNAS must be accountable to the government and must oversee Zakat Amil Institutions (LAZ) to prevent the formation of illegal LAZ and ensure that LAZ consistently provides periodic reports on audited financial reports, fundraising activities, distribution, and utilization of zakat funds to BAZ.

Accountability held by BAZNAS has a broad meaning, encompassing a way to ensure management or trustees' accountability to the grantors for the management of entrusted resources. Accountability is also implied in the Quranic verse Al-Baqarah 282, which relates to the obligation of recording every transaction. This recording provides information that can be accounted for in the real condition to the public, making it closely related to public organization management and transparency in organizational management. Muchlis & Sukirman (2015) explain that the understanding of accountability in the Islamic perspective is the certainty of relationships as the basis for conducting activities. The relationship referred to is the relationship between the organization's management and stakeholders to consider their interests in the form of social and moral responsibility. Additionally, Mansour, Jedidia, & Majdoub (2015) state that the concept of accountability is not limited to financial accountability but also includes the ability of managers to enhance their responsibility to the organizational environment, including the surrounding community or government, and compliance with related regulations.

Similarly, the governance of zakat funds entrusted to the Baznas of the District requires accountability in its implementation. The participation of stakeholders in supporting zakat governance is essential. In zakat governance, community involvement is expected to play an active role in providing positive contributions, which can be manifested in the form of suggestions and opinions to the zakat amil body and zakat amil institutions, as well as reporting deviations in zakat governance. Additionally, they should receive information about zakat governance conducted by the zakat amil body and zakat amil institutions (Law No.38/1999 on

Zakat Governance). This research aims to make a positive contribution to the accountability of zakat governance carried out by Baznas in the four districts as a whole. The discussion will be divided into several key priorities in the Zakat Core Principles (ZCP).

Islamic law, regulations, and supervision of Sharia-compliant zakat determine that the concept and definition of "amil" can still be applied in zakat institutions today. The amil is entitled to a portion of zakat, not exceeding 1/8 or 12.5% of the total zakat collected. If the zakat portion is not sufficient to support the zakat organization's operations, the amil can be paid from non-zakat wealth such as voluntary donations, sadaqah, or taxes at a nationally agreed-upon percentage. Based on the interviews conducted by the researcher with internal informants, it can be concluded that the existing laws, regulations, and supervision in this institution are still based on the Quran and zakat fiqh, which includes the eight asnaf, with oversight conducted by the central and existing Sharia councils. LazisNu Kediri District aims for self-sufficiency, which means not taking amil's rights for employee salaries but rather using the institution's revenue. This can be evidenced by statements from some respondents as follows:

“Every institution definitely has a Sharia Council, the Sharia Council functions as a referee in every match, so if a new program arises, all programs are communicated with the Sharia Supervisory Board (...), Alhamdulillah, so far we have been consistent, Allah has made it easy for us, we don't take a salary from zakat but from the business profit.” (Respondent A).

“The supervision is very strict, in my opinion, so every month there is an audit from the center conducted by people from the center in Surabaya (...), in terms of Sharia, I think this institution is good because 100% of the zakat funds are distributed.” (...)
(Respondent B)

“In terms of supervision, there are still Sharia Supervisory Boards (DPS) and Sharia National Councils (DNS) in every zakat institution (...) they are obliged to conduct Sharia compliance audits every month at each branch (...), Employee salaries are taken from the business profit in LazisNu.” (Respondent E)

Zakat supervisors provide guidance to zakat management organizations to create good zakat governance. Here are some views from several respondents regarding the guidance provided by zakat supervisors to ensure good governance:

“Every year, there must be an agenda where all the performance of the past year is criticized from a Sharia perspective. All directors are invited, and then the foundation's executives and the Sharia Supervisory Board gather there (...), then the Sharia Supervisory Board criticizes.” (Respondent A)

“So every month there is an audit from the center conducted by people from the center in Surabaya, every division's employees will definitely undergo an audit.”
(Respondent B)

“So there are two directions for supervision, internal and external. For internal, we have monthly audits from the central supervisory team (...), for external, there is also supervision from MUI (Indonesian Ulema Council) and BAZNAS (National Zakat Amil Body)” (...)
(Respondent C)

“For supervision, it comes directly from the center. The program team usually comes for inspections, and there are also divisions or executive directors, and representatives from ZIS (Zakat, Infaq, and Sadaqah) usually come as well.”
(Respondent D)

“And here, we have something called KPI (Key Performance Indicator), which is like standard operating procedures and responsibilities for each department, and that is reported and reviewed every month.” (Respondent E)

“If we are centralized, we report to the center, so every month we report to the center (...), for branches, they send their reports to the center, and the center is then audited directly by the government there.” (Respondent F)

The results of the interviews conducted with informants can be summarized as follows: The zakat supervisors at the central level and the Sharia Supervisory Board have provided guidance to LazisNu through the conduct of annual audits and gatherings as an evaluation for all branches of LazisNu in Kediri District to ensure good zakat governance. Zakat supervisors regularly assess policies and practices in accordance with Sharia principles, emphasizing the importance of systematic zakat management in the zakat management organization. The findings obtained by the researcher indicate that all respondents stated that zakat supervisors regularly assess policies and practices in accordance with Sharia principles and emphasize the importance of systematic zakat management in the zakat management organization. This can be evidenced by the opinions of the respondents as follows:

“If it's about meetings between the foundation's director and the Sharia Supervisory Board, it happens once a year. Programs are conditional in nature, meaning when there's a situation that requires a new program that aligns with the field conditions, it's discussed at the director's level, and they invite the Sharia Supervisory Board, so it's based on as-needed basis.” (Respondent A)

“Our Sharia Supervisory Board members are all in Surabaya, and we always follow their guidance. Everything related to Sharia matters at LazisNu has, God willing, gone through their *ijtihad* (independent reasoning).” (Respondent B)

“Yes, there are specific times for supervision.” (Respondent C)

“Yes, there's regular checking from the central level.” (Respondent D)

“In my experience, it's almost Sharia-compliant because sometimes the questions asked aren't necessarily about specific programs or what's already been done; sometimes they ask about our future plans. So, it's not a monthly routine about programs; sometimes it's just motivation.” (Respondent E)

“We are centralized in Surabaya, and it happens every month.” (Respondent F)

The results of the interviews conducted by the researcher with the informants can be summarized as follows: The zakat supervisors at the central level regularly assess the policies and practices in LazisNu Kediri District through scheduled and conditional meetings and gatherings directly from the central authorities. The zakat supervisors establish the structure of zakat management and the qualifications for zakat management candidates, such as honesty, trustworthiness, and good character. The interviews with internal informants reveal that LazisNu Kediri District is centralized with LazisNu headquarters in Surabaya, both in terms of supervision and the determination of zakat management structure, as well as the qualifications for zakat management candidates, through a selection process and consultations involving the branch heads and the central Human Resources Department (HRD). This can be confirmed by the statements of the respondents, with five out of six respondents providing the following statements:

“For the selection of employees, they are appointed directly by the branch head, but there is still a recommendation from the central HRD. In other words, we only make recommendations, while the decision is made through consultation.” (Respondent A)

“The recruitment of employees is based on the organization's needs. For example, if we need employees to seek donors, we add more. The branch head communicates with the central office; there is a specific procedure and reporting is required. It's not arbitrary; the branch head cannot recruit directly; they must report to the central office. If the central office approves, the decision is still made by the central office.” (Respondent C)

“The appointment of employees is also discussed with the central office, so the central office has the authority to make decisions.” (Respondent D)

“There is a selection test, and then there will be training at the central office. Skills are tested there, and there is a consultation between the branch head and the central office.” (Respondent E)

“But it still requires approval from the central office. The branch head will consult with the central office.” (Respondent F)

In conclusion, in the nomination and appointment of zakat officers at LazisNu Kediri District, decisions are made through consultation and approval from the central supervisory authorities. The zakat supervisors determine that the Zakat Board:

1. Approves and actively oversees the direction of zakat supervision and strategies.
2. Establishes and communicates Islamic culture and values through a code of ethics.
3. Sets fit and proper standards for selecting zakat officers with good character, integrity, and expertise in three fundamental areas (zakat collection, zakat disbursement, and financial management).
4. Establishes conflict of interest policies and a strong control environment.
5. Ensures the effectiveness of zakat management governance throughout the zakat organization.

The results of the interviews conducted by the researcher with internal informants can be summarized as follows:

“There is a regular evaluation, and we, the branch heads, have regular meetings, whether through Zoom or in-person.” (Respondent A)

“Yes, we are regularly monitored by the central office. So, the supervision here is very strict, and indirectly, this institution is routinely monitored by the central office.” (Respondent B)

“Yes, there are specific times for supervision.” (Respondent C)

“Yes, there is routine checking from the central office.” (Respondent D)

“Every month, there is an audit from the central office. We are required to report on our activities and what SOPs have been implemented, and how the disbursements have been made. It's one of the supervisions from the Zakat Supervisory Board (DPS) there.” (Respondent E)

“Yes, for every month, there is an audit directly conducted by the central office.” (Respondent F)

All respondents unanimously agree with the supervision conducted by the supervisory authorities, and this viewpoint is reinforced by the statement of Respondent A, who mentioned that routine supervision serves the purpose of evaluation. Furthermore, when it comes to communicating the culture and Islamic values of the institution, each respondent expressed positive views, indicating that the institution actively upholds its ethical code and Islamic values.

LazisNu Kediri District ensures the effectiveness of zakat management through the use of their own standards known as Key Performance Index (KPI). These KPIs are used to ensure that the performance and tasks of employees within LazisNu Kediri District are executed effectively to establish efficient zakat management. Additionally, the institution organizes sharing sessions and benchmarking with other organizations to enhance the effectiveness of zakat management in all of its activities. This aligns with the opinions expressed by the interviewed respondents. From the various opinions provided by the respondents, some of them corroborate the findings of prior research conducted by Susilowati and Setyo (2018), who stated that honesty is a fundamental requirement, alongside competence in zakat fund management, to gain trust from muzakki (those who pay zakat). Additionally, the competency of human resources within the zakat management institution is crucial in ensuring efficiency in zakat management. After

conducting interviews and observations with Branch Heads and Staff Employees, the researcher found that the zakat management practices applied align with the Zakat Core Principles, with only a few exceptions.

5. Conclusions

Based on the research findings, some informants provided positive statements regarding the zakat management that has been implemented in accordance with the Zakat Core Principles. This can be seen from the informants' involvement in supervision, system, governance, and management within the institution. All activities related to zakat management in LazisNu Kediri District are directly monitored and overseen by central supervisory authorities.

Acknowledgements

The author would like to express sincere appreciation to all parties who have provided support and contributions to this research. Thank you to the advisors and mentors who have provided guidance, input, and encouragement throughout the research process. Special thanks are extended to the respondents who participated in this study, as well as all individuals who kindly assisted in data collection and analysis. Without their hard work and contributions, this research would not have been possible. Once again, thank you for the dedication and outstanding cooperation of everyone involved in this research. Based on the research results obtained, the researcher suggests that LazisNu Kediri District should consider providing further training and learning opportunities related to the zakat management system and governance. This will enhance the knowledge and understanding of zakat management in theory and provide a deeper understanding of the Zakat Core Principles (ZCP), which have become a definitive aspect of the existing zakat system. This will enable every individual and group within the institution to implement a more organized and efficient system of management in their activities.

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