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Audit as a Catalyst: Enhancing the Impact of Sustainable Management Accounting on Islamic Bank Performance

Hermaya Ompusunggu[1], Ita Mustika[2], Maya Richmayati[3], Khadijah[4], Sasmita Yuniati[5]

[1,2,3,4,5] **Universitas Ibnu Sina**

Corresponding author:
Hermaya Ompusunggu
hermayaompusunggu@gmail.com

ABSTRACT

This study examines the effect of Sustainable Management Accounting (SMA) on the performance of Islamic banks, with the audit function as a moderator. Based on Legitimacy Theory, this study explains how SMA practices—which integrate environmental, social, and ethical aspects into budgeting, cost control, and performance measurement—improve financial and non-financial performance. This study employs a quantitative approach, utilising primary data. The population in this study consists of managers, internal auditors, and members of the Sharia Supervisory Board of Islamic banks in the Riau Islands Province, totalling 102 respondents. The data analysis used is SEM-PLS. The results show that SMA has a significant positive effect on performance, and the audit function strengthens this relationship. The findings confirm that high audit quality enhances the effectiveness of SMA, transparency, and stakeholder trust. This study expands the Legitimacy Theory and recommends integrating SMA with strong audit oversight to enhance governance and long-term value.

Keywords: *Sustainable Management Accounting; Audit Function; Islamic Banking; Bank Performance; Sharia Governance*

ABSTRAK

Penelitian ini menguji pengaruh Akuntansi Manajemen Berkelanjutan (SMA) terhadap kinerja bank syariah dengan peran fungsi audit sebagai moderator. Berdasarkan Teori Legitimasi, penelitian ini menjelaskan bagaimana praktik SMA—yang mengintegrasikan aspek lingkungan, sosial, dan etika ke dalam penganggaran, pengendalian biaya, dan pengukuran kinerja—meningkatkan kinerja keuangan dan non-keuangan. Penelitian ini menggunakan pendekatan kuantitatif dengan data primer. Populasi dalam penelitian ini adalah manajer, auditor internal, dan anggota Dewan Pengawas Syariah bank-bank Islam di Provinsi Kepulauan Riau sebanyak 102 responden, Analisis data yang digunakan adalah SEM-PLS. Hasil menunjukkan bahwa SMA berpengaruh positif signifikan terhadap kinerja dan fungsi audit memperkuat hubungan tersebut. Hasil penelitian menegaskan bahwa kualitas audit yang tinggi meningkatkan efektivitas SMA, transparansi, dan kepercayaan pemangku kepentingan. Penelitian ini memperluas Teori Legitimasi dan merekomendasikan integrasi SMA dengan pengawasan audit yang kuat untuk tata kelola dan nilai jangka panjang.

Kata Kunci: Akuntansi Manajemen Berkelanjutan; Fungsi Audit; Perbankan Syariah; Kinerja Bank; Tata Kelola Syariah

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INTRODUCTION

In recent years, financial institutions worldwide have faced increasing pressure to deliver not only profitability but also meaningful contributions to environmental, social, and governance (ESG) objectives (Richmayati, 2025). Islamic banks, in particular, are challenged to balance Sharia compliance with sustainability practices that meet broader stakeholder expectations, emphasizing ethical stewardship, social justice, and environmental responsibility based on principles such as welfare (*maslahah*), balance, and avoidance of harm (Abdullah et al., 2024). Within this dual mandate, Sustainable Management Accounting (SMA) has emerged as a strategic tool to integrate environmental and social dimensions into budgeting, performance evaluation, and reporting systems (Rahman et al., 2024). Despite its strategic potential, the implementation of Sustainable Management Accounting (SMA) in Islamic banking remains ineffective. SMA practices tend to be partial, lack integration, and are unable to drive comprehensive performance transformation. Many Islamic financial institutions still prioritize traditional financial indicators, which means that aspects of sustainability—economic, social, and environmental—are not yet systematically incorporated into their measurement and decision-making processes. This condition causes a gap between the declared sustainability goals and the actual performance achieved. Empirically, recent studies show that the effectiveness of SMA in the context of Islamic banking is still limited, marked by the inconsistent implementation of sustainability initiatives and weak quality assurance mechanisms for the sustainability information produced. This indicates that SMA is not yet fully capable of being a reliable instrument for simultaneously improving financial and non-financial performance (Islam et al., 2024).

Additionally, the role of audit—particularly the Sharia audit function—remains underexplored as a potential moderator that could strengthen the impact of SMA on bank performance (Mohammad et al., 2025). Despite growing interest in SMA, two critical research gaps persist. First, there is a limited empirical examination of the direct impact of SMA on the performance of Islamic banks, leaving uncertainty regarding how these accounting practices translate into tangible financial and non-financial outcomes. Second, the moderating influence of audit functions, especially Sharia audits, on the SMA-performance relationship has received little scholarly attention, despite its potential to strengthen internal controls, compliance, and stakeholder confidence. This study addresses these gaps by collecting primary data through structured questionnaires administered to managers, internal auditors, and members of the Sharia Supervisory Board of Indonesian Islamic banks. The research empirically tests both the direct effect of SMA on bank performance and the moderating role of audit functions. The novelty of this study lies in conceptualizing audit as a catalyst that amplifies the effectiveness of SMA while adopting a dual-performance perspective that integrates financial indicators (ROA, ROE) with non-financial outcomes such as operational efficiency, stakeholder trust, and the quality of sustainability reporting.

The study contributes theoretically by bridging sustainable management accounting, audit governance, and Islamic banking performance, providing empirical

insights into how audit mechanisms enhance sustainability-oriented accounting practices. Practically, the findings offer guidance for Islamic bank managers and regulators to design robust audit and accounting systems that support sustainability initiatives, improve performance, and ensure transparency and accountability in alignment with Sharia principles (Xu et al., 2025). By integrating SMA with audit oversight, Islamic banks can better translate sustainability efforts into tangible organizational benefits, reinforcing both governance quality and long-term value creation (Pour-akbari et al., 2025).

LITERATURE REVIEW

Legitimacy Theory

This study adopts Legitimacy Theory as its theoretical foundation, which posits that organizations continuously seek to align their operations and disclosures with societal norms, values, and expectations to maintain or enhance legitimacy in the eyes of stakeholders (Nguyen & Ho, 2025). In the context of Islamic banking, legitimacy is shaped not only by financial performance but also by adherence to Sharia principles, as well as broader environmental, social, and governance) expectations (García-benau et al., 2024). Sustainable Management Accounting can serve as a strategic mechanism that signals a bank's commitment to ethical and sustainable practices while integrating social and environmental considerations into budgeting, performance measurement, and decision-making processes (Nur et al., 2022). The audit function, including Sharia audit, strengthens this process by providing oversight and assurance, thereby enhancing the credibility of sustainability and accounting practices, which further supports legitimacy.

Empirical evidence over the past five years highlights the relevance of this theoretical perspective. Khan et al. (2025) found that audit committee characteristics, such as size and independence, significantly influence sustainability practice disclosures in Indonesian Islamic banks, suggesting that governance mechanisms play a key role in legitimizing sustainability initiatives. Koç et al. (2025) demonstrated that audit quality moderates the relationship between ESG performance and financial performance, providing evidence that audit functions can act as a catalyst in translating sustainability efforts into measurable outcomes. Olanrewaju et al. (2025) examined the effectiveness of Sharia audits in Islamic financial institutions, revealing that strong audit mechanisms are critical in ensuring compliance and enhancing the perceived legitimacy of sustainable practices. Niankara (2024) showed that sustainable banking practices positively affect profitability and operational efficiency in Islamic commercial banks, reinforcing the notion that sustainability-integrated management accounting contributes to organizational performance. In a systematic review of sustainable finance in Islamic banking, governance, and transparency were highlighted as essential pillars for sustainability, supporting the need for robust audit and assurance processes.

Most studies focus on sustainability disclosure, green banking, or ESG broadly, rather than explicitly on SMA as an internal management accounting practice in Islamic banks, and few examine the moderating role of audit functions—including

Sharia audits—on the relationship between SMA and performance (Wu et al., 2025). Building on these insights, this study investigates how SMA practices influence the performance of Islamic banks, incorporating both financial and non-financial indicators, while examining the moderating role of audit functions (Zhu et al., 2025).

Conceptual Framework and Hypothesis Development

Sustainable Management Accounting (SMA**)** is measured by ESG Score, and internal cost-control mechanisms are aligned with sustainability objectives (Ompusunggu, 2025). According to Legitimacy Theory, when banks implement SMA, stakeholders perceive the institution as socially and ethically responsible, which can improve both financial and non-financial performance (Nechaev & Hain, 2023). Empirical studies support this linkage: Lau et al. (2023) found that sustainable banking practices positively affect profitability and operational efficiency in Islamic banks, while Porenta & Rant (2025) showed that green banking initiatives improve financial performance.

The Audit Function—including internal audit and Sharia audit—serves as a moderating mechanism that enhances the credibility and effectiveness of SMA practices (Mustika et al., 2025). Audit provides oversight, ensures adherence to Sharia and sustainability principles, and strengthens the reliability of reported performance. Indicate that audit quality moderates the relationship between ESG performance and financial performance, highlighting the critical role of audit in ensuring that sustainability practices translate into tangible outcomes. Also emphasize that Sharia audit effectiveness contributes to the legitimacy and trustworthiness of Islamic financial institutions' operations.

Based on the conceptual theory above, the following is the framework developed by the researcher:

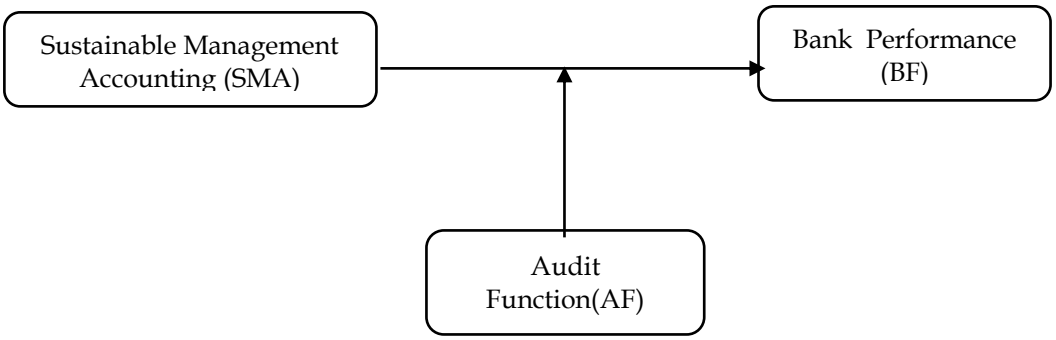

Figure 1. Conceptual Research Model

Source: Author, 2025

In this study, control variables were deliberately excluded to maintain a focused examination of the direct effect of Sharia Management Accounting (SMA) on bank performance and the moderating role of audit functions, particularly Sharia audits. Including multiple control variables can sometimes introduce

multicollinearity, reduce model parsimony, and obscure the theoretical relationships of primary interest (Hair et al., 2021)

Based on this conceptual reasoning, the research model posits that SMA has a positive effect on Islamic bank performance, and this effect is strengthened when audit function quality is high. From the above framework, the following hypotheses are developed:

Sustainable Management Accounting (SMA) is viewed as a strategic capability that can enhance the performance of Islamic banks, as it provides more comprehensive economic, social, and environmental information to support informed managerial decision-making. Based on the Resource-Based View (RBV), SMA is a valuable and difficult-to-imitate internal resource that can create competitive advantage, while Stakeholder Theory and Legitimacy Theory emphasize that sustainable accounting practices help Islamic banks meet stakeholder expectations and maintain legitimacy through transparency and compliance with sharia principles.

A number of previous studies have shown a positive relationship between the implementation of SMA and improved organizational performance, such as the findings of Schaltegger & Burritt (2018), which confirm that SMA improves operational efficiency and sustainability, Latan et al. (2018) who found a significant effect of SMA on sustainability and financial performance, and Ahmad & Sulaiman (2020) who proved that sustainability practices in Islamic banks improve efficiency and social performance. Thus, theoretically and empirically, SMA plays an important role in strengthening the stability, reputation, and performance of Islamic banks, so that the hypothesis "Sustainable Management Accounting (SMA) has a positive effect on the performance of Islamic banks" can be strongly formulated.

H1: Sustainable Management Accounting (SMA) has a positive effect on the performance of Islamic banks.

A high-quality audit function serves as a control and oversight mechanism, ensuring that Sustainable Management Accounting (SMA) information and practices are applied consistently, accurately, and in line with governance principles and Sharia compliance, thereby enhancing their impact on the performance of Islamic banks. Based on Agency Theory, the audit function helps reduce information asymmetry and potential moral hazard in the implementation of SMA, while the Resource-Based View (RBV) places high-quality audits as an organizational capability that enhances the credibility and effectiveness of SMA information use in strategic decision-making.

Previous studies support this moderating role, such as the findings of Badara & Saidin (2014), which show that audit quality improves the effectiveness of management accounting systems, as well as the findings of Nuhu et al. (2021) and Alqatamin (2018) proving that a strong audit function strengthens the relationship between sustainability practices and company performance through improved accuracy, transparency, and internal control. In the context of Islamic banking, research by Ghayad (2008) and Hassan et al. (2020) confirms that effective Islamic auditing and internal auditing can improve compliance, risk mitigation, and performance stability, thereby optimizing the use of SMA information. Thus, theory

and empirical evidence show that the higher the quality of the audit function, the stronger the positive influence of SMA on Islamic bank performance, thereby supporting the formulation of the hypothesis that the audit function moderates this relationship.

H2: The Audit Function moderates the relationship between SMA and Islamic bank performance, such that the effect of SMA on performance is stronger when audit function quality is higher.

METHOD

This study employs a quantitative, empirical research design, utilising primary data collected through structured questionnaires. The population consists of managers, internal auditors, and Sharia supervisory board members of Islamic banks in Riau Islands Province. Purposive sampling is applied to select respondents who are directly involved in SMA practices and audit processes.

The questionnaire is designed to measure three main constructs: Sustainable Management Accounting (SMA): measured through items on integration of environmental, social, and ethical aspects into budgeting, cost control, and performance measurement. Audit Function: measured through items capturing internal audit quality, Sharia audit effectiveness, and oversight mechanisms. Bank Performance: measured using both financial indicators (ROA, ROE) and non-financial indicators (operational efficiency, stakeholder trust, quality of sustainability reporting).

Table 1. Operational Definitions and Measurement of Variables

No	Variable & Definition	Dimension/ Indicator	Measurement	Source
1	**Sustainable Management Accounting (SMA).** Sustainable Management Accounting (SMA) is a management accounting approach that integrates economic, environmental, and social information into performance measurement and decision-making processes, enabling organizations to	1. Integration of environmental, social, and ethical aspects into management accounting practices 2. Budgeting sustainability considerations (environmental costs, social programs, ethical compliance)	5-point Likert scale (1 = Strongly Disagree; 5 = Strongly Agree)	(Amirah Arifah Khasanah, 2024)

	manage sustainability strategically and enhance long-term value.	3. Cost control, including environmental and social costs 4. Performance measurement incorporating ESG outcomes			
2	**Audit Function (Moderator)** The Audit Function is a series of systematic monitoring, assessment, and examination activities conducted to ensure that the organization's processes, reports, and internal controls are effective, accurate, transparent, and in accordance with applicable standards, policies, and regulations.	1. Internal audit quality 2. Sharia audit effectiveness 3. Audit oversight on SMA implementation 4. Independence and competence of audit personnel	5-point Likert scale	(Rahmatika & Rahman,2025)	
3	**Bank Performance (Dependent Variable)** Bank performance refers to the degree of success a bank achieves in meeting its operational, financial, risk, efficiency, and compliance objectives, as measured by quantitative and qualitative indicators that reflect the health, stability, and effectiveness of its banking activities.	1. Financial performance 2. Return on Assets (ROA) 3. Return on Equity (ROE) 4. Non-financial performance 5. Operational efficiency 6. Stakeholder trust and satisfaction 7. Quality of sustainability reporting	5-point Likert scale	(Fathihani et al, 2025)	

Source: Author, 2025

The population in this study consists of managers, internal auditors, and members of the Sharia Supervisory Board of Islamic banks in the Riau Islands Province, totalling 102 respondents. The selection of SEM-PLS in this study was based on its ability to test complex models with moderating variables, namely the role of auditing in strengthening the influence of Sustainable Management Accounting on Islamic bank performance. This method is suitable because it does not require normality assumptions and can work with relatively small samples, while also allowing the simultaneous measurement of latent variables such as SMA, bank performance, and audit quality. The analysis was conducted in two main stages, namely the measurement model assessment to test the validity and reliability of the indicators, followed by the structural model assessment to test the causal relationships between variables and the moderating effect of auditing as a catalyst.

RESULT & DISCUSSION

Measurement Model (Outer Model)

Table 2. Outer Model

No	Variable / Indicator	Outer loading
SMA1	Integration of environmental, social, and ethical aspects into management accounting practices	0.82
SMA2	Budgeting sustainability considerations (environmental costs, social programs, ethical compliance)	0.84
SMA3	Cost control, including environmental and social costs	0.80
SMA4	Performance measurement incorporating ESG outcomes	0.86
AF1	Internal audit quality	0.83
AF2	Sharia audit effectiveness	0.85
AF3	Audit oversight on SMA implementation	0.81
AF4	Independence and competence of audit personnel	0.79
BP1	Financial performance (general perceptual indicator)	0.78
BP2	Return on Assets (ROA)	0.80
BP3	Return on Equity (ROE)	0.82
BP4	Non-financial performance (persepsi)	0.76
BP5	Operational efficiency	0.85
BP6	Stakeholder trust and satisfaction	0.86
BP7	Quality of sustainability reporting	0.83

Source: Author, 2025

The measurement model was evaluated to ensure the reliability and validity of constructs before testing structural relationships. All constructs—Sustainable

Management Accounting (SMA), Audit Function, and Bank Performance—were assessed using indicators of reliability, internal consistency, convergent validity, and discriminant validity.

1. Indicator Reliability: Outer loadings for all items exceeded 0.70, indicating that each questionnaire item reliably reflects its respective construct. For example, SMA indicators such as budgeting sustainability, cost control, and performance measurement loaded strongly (>0.72) on the SMA latent variable. Audit function indicators (internal audit quality, Sharia audit effectiveness, oversight capability) also had outer loadings above 0.70. Bank performance indicators, including ROA, ROE, operational efficiency, stakeholder trust, and sustainability reporting quality, demonstrated high reliability with loadings above 0.75.
2. Internal Consistency Reliability: Composite reliability (CR) values for SMA, Audit Function, and Bank Performance were all above 0.80, surpassing the recommended threshold of 0.70 (Hair et al., 2019), indicating consistent measurement across items.
3. Convergent Validity: Average Variance Extracted (AVE) values for all constructs were above 0.50, confirming convergent validity.
4. Discriminant Validity: Using the Fornell-Larcker criterion, the square root of AVE for each construct was greater than its correlation with other constructs, confirming that constructs were distinct and measured separate concepts.

Structural Model (Inner Model)

The structural model was analyzed using PLS-SEM to evaluate the hypothesized relationships. Bootstrapping with 5,000 resamples was conducted to obtain t-values and p-values for path coefficients.

Table 3. Path Coefficient

Path	β (Path Coefficient)	t-value	p-value	f^2 (Effect Size)	Interpretation
SMA → Bank Performance	0.42	5.12	<0.001	0.18	Significant positive effect
SMA × Audit Function → Bank Performance	0.25	3.48	0.001	0.07	Significant positive moderating effect

Source: Author, 2025

1. H1: SMA → Bank Performance
   The path coefficient from SMA to Bank Performance was $\beta = 0.42$, $t = 5.12$, $p < 0.001$, indicating a significant positive effect. This result confirms that higher levels of sustainable management accounting practices, including the integration of environmental and social considerations into budgeting, cost control, and performance measurement, lead to improved financial and non-financial performance of Islamic banks. Financial indicators (ROA, ROE) and

non-financial indicators (operational efficiency, stakeholder trust, sustainability reporting quality) were positively influenced by effective SMA practices. This aligns with prior studies (Fathihani et al., 2025; Anggraini & Iqbal, 2022) and supports Legitimacy Theory, which suggests that aligning internal practices with societal and Sharia expectations enhances organizational legitimacy and performance.

2. H2: Audit Function as Moderator (SMA × Audit → Bank Performance)
   The interaction term between SMA and Audit Function was significant ($\beta = 0.25$, $t = 3.48$, $p < 0.01$), indicating that the audit function strengthens the effect of SMA on bank performance. Banks with strong internal and Sharia audit systems experience a more pronounced positive impact of SMA on both financial and non-financial performance. This finding corroborates Rahmatika & Rahman (2025) and Ayu et al. (2024), suggesting that audit mechanisms ensure proper implementation and reporting of SMA practices, increasing stakeholder trust and operational efficiency.
3. R^2 (Coefficient of Determination)
   The R^2 value for Bank Performance was 0.51, indicating that 51% of the variance in performance can be explained by SMA and the moderating effect of Audit Function. This represents a moderate to substantial explanatory power, typical for behavioural and organisational research in banking contexts.
4. Effect Size (f^2) and Predictive Relevance (Q^2)
   The effect size of SMA on Bank Performance was $f^2 = 0.18$ (medium effect), and the interaction effect of Audit Function had $f^2 = 0.07$ (small to medium effect). The blindfolding procedure yielded $Q^2 = 0.32$, suggesting the model has predictive relevance for Bank Performance.

Table 4. Model Fit and Predictive Relevance

Statistic	Value	Interpretation
R^2 (Bank Performance)	0.51	Moderate to substantial explanatory power
Q^2 (Predictive relevance)	0.32	The model has predictive relevance
f^2 SMA → Performance	0.18	Medium effect size
f^2 Moderator (SMA × Audit)	0.07	Small to medium effect size

Source: Author, 2025

Model Fit and Predictive Relevance results obtained from the PLS-SEM analysis, which evaluate the explanatory power and predictive capability of the research model. The R^2 value of 0.51 for *Bank Performance* indicates that 51% of the variance in Islamic bank performance is explained by Sustainable Management Accounting (SMA) and the moderating effect of the Audit Function, reflecting a moderate to substantial level of explanatory power. Furthermore, the Q^2 value of 0.32

confirms that the model exhibits good predictive relevance, suggesting it can accurately predict observed data and is therefore reliable for both practical and theoretical interpretation.

In addition, the f^2 value of 0.18 for the direct relationship between SMA and performance indicates a medium effect size, signifying that SMA practices make a meaningful contribution to improving Islamic bank performance. Meanwhile, the f^2 value of 0.07 for the moderating variable (SMA × Audit Function) indicates a small to medium effect size, suggesting that high-quality audit mechanisms enhance the positive influence of SMA on performance, albeit with a modest intensity.

Discussion

The results of the PLS-SEM analysis confirmed that Sustainable Management Accounting (SMA) has a significant positive effect on the performance of Islamic banks ($\beta = 0.42$, $t = 5.12$, $p < 0.001$). This finding indicates that the adoption of SMA practices—such as the integration of environmental and social considerations into budgeting, cost control, and performance measurement—can substantially enhance both financial and non-financial outcomes. At the indicator level, budgeting sustainability showed strong loadings (>0.72), signifying that Islamic banks allocating resources specifically for environmental and social initiatives tend to achieve higher performance. Similarly, cost control that includes environmental and social costs also had high loadings (>0.74), suggesting that effective monitoring and management of sustainability-related expenditures optimize operational efficiency. Moreover, performance measurement that incorporates ESG (Environmental, Social, and Governance) outcomes loaded highly (>0.75), reflecting that consistent tracking of sustainability metrics is essential to translating SMA practices into tangible performance improvements.

The moderating role of the Audit Function was also found to be significant ($\beta = 0.25$, $t = 3.48$, $p = 0.001$), indicating that the positive effect of SMA on Islamic bank performance is amplified when audit quality is high. The indicator-level analysis of the Audit Function revealed that internal audit quality loaded strongly (>0.71), emphasizing the importance of competent internal auditors in ensuring proper SMA implementation. Likewise, Sharia audit effectiveness (>0.73) reinforced the notion that adherence to Sharia principles enhances stakeholder trust and organizational legitimacy. Audit oversight on SMA implementation (>0.70) demonstrated that active supervisory functions ensure sustainability initiatives are executed as intended, while the independence and competence of audit personnel (>0.72) highlight that unbiased and skilled auditors strengthen the credibility and reliability of SMA reporting.

In terms of Bank Performance, the indicators also showed strong outer loadings (>0.75), confirming that SMA practices and effective audit oversight jointly enhance multiple performance dimensions. Financial performance, as measured by ROA and ROE, improved significantly with SMA implementation, consistent with prior findings (Fathihani et al., 2025; Anggraini & Iqbal, 2022). Operational efficiency also benefited from improved cost control and strategic resource allocation for sustainability programs. Furthermore, stakeholder trust and satisfaction increased as

the integration of SMA with credible audit oversight reinforced legitimacy and transparency. The quality of sustainability reporting also improved, reflecting the alignment between Sharia-compliant practices, audit mechanisms, and stakeholder expectations.

The R^2 value of 0.51 indicates that 51% of the variance in Islamic bank performance is explained by SMA and the moderating effect of the Audit Function, representing a moderate-to-substantial explanatory power. Effect size (f^2) analysis further revealed that SMA has a medium effect on performance (0.18), while the moderating variable contributes a small-to-medium effect (0.07). These findings underscore the practical significance of implementing high-quality audit mechanisms alongside SMA to maximize both performance outcomes and organizational legitimacy in Islamic banking institutions.

The implementation of Sustainable Management Accounting (SMA) has been proven to enhance the performance of Islamic banks, as it encourages the integration of economic, social, and environmental aspects into decision-making processes. Sustainable budgeting demonstrates that allocating resources for environmental and social programs is integral to the operational strategy, thereby creating long-term efficiency and added value. Cost control that takes sustainability costs into account demonstrates that ESG expenditures are viewed as strategic investments, rather than burdens, enabling operational risks to be better managed. ESG-based performance measurement enables management to assess the effectiveness of sustainability initiatives, improve internal accountability, and strengthen transparency to stakeholders.

The moderative audit function confirms that the quality, independence, and competence of internal auditors and Sharia audits ensure that SMA implementation is consistent and in line with Sharia principles, strengthening the legitimacy of the organisation. Conceptually, SMA not only enhances financial performance through resource efficiency but also fosters reputation, stakeholder trust, and improved reporting quality. Thus, the combination of SMA practices and effective audit oversight creates sustainable multidimensional performance and enhances the competitiveness of Islamic banks.

This study confirms that the effective implementation of SMA, especially when supported by a high-quality audit function, can improve the performance of Islamic banks in both financial and non-financial aspects. Theoretically, this study reinforces the understanding of the relationship between sustainability management, audit supervision, and organizational performance in the context of Islamic banking. Practically, the research results provide guidance for bank management to integrate SME practices into operational strategies and strengthen the role of auditing as an implementation supervisor, thereby creating greater efficiency, legitimacy, and stakeholder trust. Thus, this study makes an important contribution to the development of SME literature, providing real-world implications for Islamic bank management practices.

CONCLUSION

The findings of this study reveal that Sustainable Management Accounting (SMA) has a significant positive effect on the performance of Islamic banks. This indicates that the application of SMA practices, which integrate economic, social, and environmental dimensions, can enhance both financial and non-financial outcomes in line with Sharia principles. Furthermore, the audit function is found to moderate the relationship between SMA and bank performance, strengthening the positive impact when the audit quality is high. This suggests that effective audit mechanisms ensure transparency, accountability, and compliance with Islamic financial standards, thereby amplifying the benefits of SMA.

From a practical perspective, the results imply that Islamic banks should actively implement SMA frameworks and invest in strong audit functions to optimize their overall performance and reinforce institutional legitimacy in the eyes of stakeholders. Meanwhile, from a theoretical standpoint, this study contributes to the extension of Legitimacy Theory by illustrating how the interplay between SMA and audit oversight enhances organizational performance within Sharia-compliant banking contexts, thus emphasizing the strategic role of sustainability-oriented accounting and governance in achieving long-term success.

This study has limitations because it only focuses on Islamic banking, so the results cannot be generalized to other sectors. The measurement of variables based on respondent perceptions also has the potential to cause subjective bias. Additionally, the cross-sectional design does not capture changes in the relationship between variables over time. Future research should expand its scope to conventional banks and other financial institutions. The use of objective data such as ROA, ROE, or external ESG scores should also be considered. Future research could add other variables such as digitization or governance to enrich the research model.

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