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Systematic Literature Review of The Relationship between Internal Control and Good Corporate Governance

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ABSTRACT

This study examines more deeply about internal control and good corporate governance. The method used in this research is descriptive qualitative using systematic literature review (SLR), which is one of the methods used in research that aims to identify, evaluate, and present information related to the subject under study in order to answer existing research questions. Through the literature review, this research aims to further explore the relationship between internal control and corporate governance. This research uses data collection techniques from the Scopus database. Data collection is done through literature review by researching and monitoring documents related to internal control and GCG. The result of this study is that most of the theoretical basis used in the articles studied directly uses the core theory of their respective variables, while a small part uses agency theory, Coso internal control framework, farud triangel theory. Furthermore, based on the results of the article review, it was found that internal control has a relationship with good corporate governance. with the implementation of good internal control, it is expected that good corporate governance will be reflected.

Keywords: Good Corporate Governance, Internal Control, Literature Review

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INTRODUCTION

Indonesia is a country that adress to a market based economic system, in which the government has the most important role. The economic system in Indonesia is based on a series of interrelated rules, aspects and mechanisms. Resource allocation is owned by the state and the government strives to ensure a fair and equitable allocation to the entire society. However, due to various problems including the economic crisis in Indonesia, the goal is still not achieved. This is due to the emergence of elements related to corruption, collusion, nepotism, difficulties in maintaining the rule of law, as well as the dominance of monopolies in economic activities by low-quality civil servants (Jaya et al., 2016). The phenomenon related to the effectiveness of fraud prevention in the banking world is reflected in cases of fraud that occur in Rural Banks. This fraud is closely related to the lack of effectiveness of the role of internal control of Rural Banks in monitoring, evaluating, and reporting on all processes and stages of activities. Examples of cases include losses incurred by BPR BKK Pringsurat Temanggung, such as improper placement of funds to Intidana Cooperative, bad credit, fictitious credit, creation of personal accounts to accommodate funds, and provision of interest that is not in accordance with OJK regulations. The effectiveness of fraud prevention cannot be separated from the implementation of good corporate governance. In addition, the more effective fraud prevention can be implemented by organizations when internal controls are improved. Effective internal control helps protect assets, ensure the reliability of financial and managerial reporting, improve compliance with applicable regulations, and reduce the risk of losses, irregularities, and violations (Farochi & Nugroho, 2022).

Therefore, when internal control is maximized, the company is expected to reflect good corporate governance. Internal control is a procedure performed by the board of directors, management, and other personnel in an entity designed to provide reasonable assurance regarding the reliability of financial reporting, compliance with applicable laws and regulations, operational effectiveness and efficiency, and to protect company assets. Through internal control, an entity can control the risks that may arise in various aspects of its activities, including financial management, regulatory compliance, and protection of its assets. With internal control, the entity's board of directors, management and personnel can ensure that operational processes are carried out in accordance with established standards, thus providing confidence to stakeholders regarding the reliability and quality of financial reporting. In addition, internal control also helps the entity to comply with applicable regulations, thereby reducing the risk related to legal sanctions or fines that may be imposed due to violations. In addition, internal control also plays a role in improving the efficiency and effectiveness of the entity's operations by identifying areas that need to be improved or optimized. the entity can allocate resources more efficiently and improve processes that are less effective, thereby improving the performance and competitiveness of the company in a competitive market. Thus, through the implementation of effective internal control, entities can better achieve their strategic objectives (Meiryani et al., 2019).

Then the thing that will be discussed in this study is related to Good corporate governance. GCG is defined as all efforts to find the best way to run a company. The procedures in question must contain policies and regulations that can be used to control management (Meiryani et al., 2019). GCG provides vital and critical measures for market confidence and encourages sustainable investment. It is the provision of the necessary framework for companies to conduct their operations with integrity and transparency, which in turn strengthens investor confidence and creates an environment conducive to sustainable economic growth (Rehman & Hashim, 2020).

Research Questions

Based on the background described above, the research questions are as follows:

1.What theory underlies Internal Control and Good Corporate Governance?

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2. How is the relationship between Internal Control and Good Corporate Governance?

LITERATURE REVIEW, FRAMEWORK AND HYPOTHESIS

Internal Control

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), internal control is a process designed, implemented, and maintained by management and the board of directors to achieve organizational objectives which include Reliability of financial reporting, Efficiency and effectiveness of operations, Compliance with laws and regulations, Safeguarding assets. A system involving policies, procedures, and practices that have been established by the management and board of directors of an organization. This system is designed to ensure that organizational objectives can be achieved effectively and efficiently. One important aspect of internal control is the reliability of financial reporting. It includes processes that ensure that the financial information presented by the organization is accurate, timely and in accordance with applicable accounting standards (COSO, 2023).

The role of internal control in a company is vital in encouraging the achievement of business development strategies. With effective internal control, the company can ensure that all its operational activities are carried out in accordance with the plans and objectives that have been set. For example, in the context of a diversification strategy internal control can help ensure that the company allocates resources appropriately to develop and launch new products or services, as well as manage the risks associated with business expansion into different market segments (Daoguang, 2023).

Internal control is a procedure performed by the board of directors, management, and other personnel in an entity designed to provide reasonable assurance regarding the reliability of financial reporting, compliance with applicable laws and regulations, operational effectiveness and efficiency, and to protect company assets. Through internal control, an entity can control the risks that may arise in various aspects of its activities, including financial management, regulatory compliance, and protection of its assets. With internal control, the entity's board of directors, management and personnel can ensure that operational processes are carried out in accordance with established standards, thus providing confidence to stakeholders regarding the reliability and quality of financial reporting. In addition, internal control also helps the entity to comply with applicable regulations, thereby reducing the risk related to legal sanctions or fines that may be imposed due to violations. In addition, internal control also plays a role in improving the efficiency and effectiveness of the entity's operations by identifying areas that need to be improved or optimized (Meiryani et al., 2019).

Good Corporate Governance

Good Corporate Governance is a system and process used to manage a company in a healthy and sustainable manner, taking into account the interests of stakeholders and complying with applicable laws and regulations. Good GCG practices will include transparency, accountability, fairness, and corporate social responsibility (KNKG, 2021). Corporate governance is an important framework in ensuring the transparency of a company's operations as well as the accountability of managers. Transparency of a company's operations plays a key role in building trust with stakeholders, including investors, employees and the general public. By following good governance practices, a company can ensure that information relevant to its performance and operations is openly available and accessible to relevant parties. In addition, corporate governance also aims to protect the interests of stakeholders by ensuring that managerial decisions are taken with consideration of their impact on all parties involved, including shareholders, employees, and the wider community. As such, corporate governance plays an important role in maintaining a balance between the interests of diverse stakeholders in the context of a company's operations (Syofyan, 2021).

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GCG is defined as any effort to find the best way to run a company. The procedures in question must contain policies and regulations that can be used to control management (Meiryani et al., 2019). The principles of good corporate governance include transparency, accountability, fairness and social responsibility. In practice, good corporate governance ensures that the interests of all parties are protected and fairly recognized. Shareholders have the right to obtain clear information about the company's performance and have equal access to strategic decisions. The board of commissioners is responsible for ensuring that the company is run in accordance with ethical standards and established policies, while the board of directors is responsible for the day-to-day operations and short-term strategy of the company. By applying the principles of good corporate governance, companies can build trust with shareholders and other parties, improve operational efficiency, and create a fair and transparent work environment. This enables the company to achieve sustainable growth and maintain a good reputation in the eyes of society and the market (Jaya et al., 2016)

METHODS

The method used in this research is descriptive qualitative using systematic literature review (SLR), which is one of the methods used in research that aims to identify, evaluate, and present information related to the subject under study in order to answer existing research questions. Through the literature review, this research aims to further explore the relationship between internal control and corporate governance. This research uses data collection techniques from the Scopus database. Data collection is done through literature review by researching and monitoring documents related to internal control and GCG.

The information used in this study was obtained from journals indexed in the Scopus database and google scholar. The search for this scientific article is by entering keywords on Publish or Perish in the database as below: KEYWORDS ("Internal Control" "Good Corporate Governance") AND YEARS (0 - 0) AND MAXIMUM NUMBER OF RESULTS (38) AND INCLUDE (CITATION RECORDS, PATENTS). These keywords are used to manually select the number of articles that are netted, but those that appear in the Scopus database are quite limited with an unspecified research period. The results of selecting articles then obtained 12 articles from the Scopus database and 5 articles from Google Scholar that are relevant to this research.

RESULTS AND DISCUSSION

The following is the process of selecting articles through the prisma flow diagram below:

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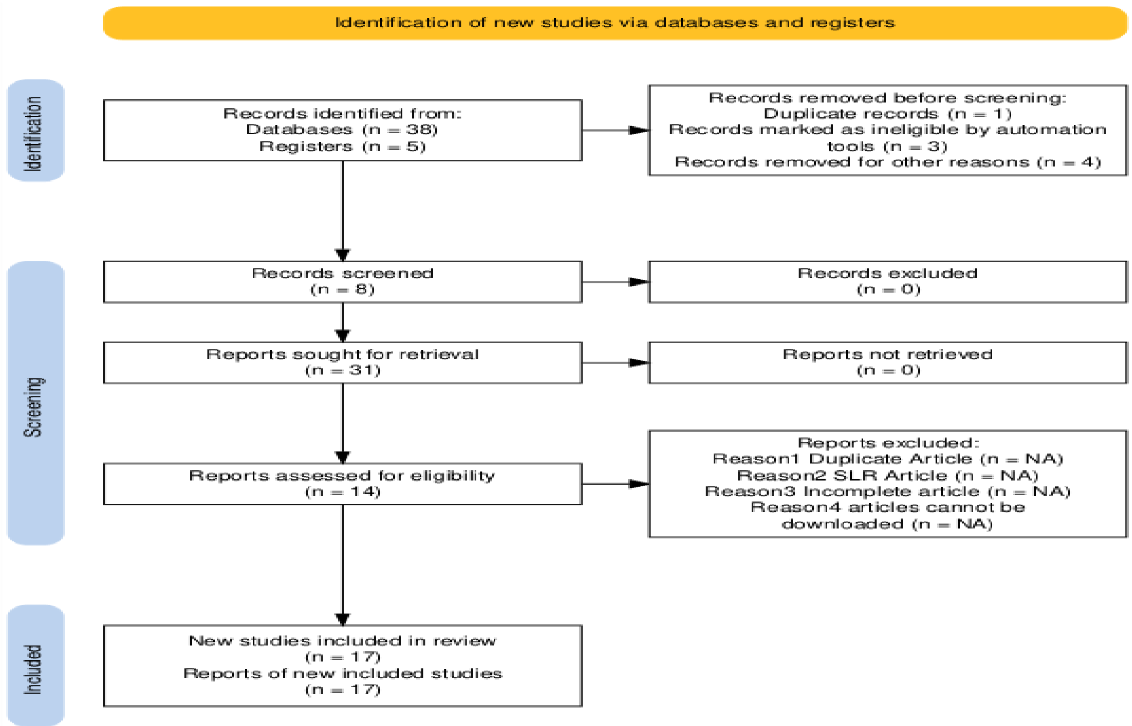

Sumber : https://estech.shinyapps.io/prisma_flowdiagram/

Figure 1. PRISMA Flow Diagram

Article selection is done through several criteria, namely duplicate articles, SLR articles, incomplete articles and articles that cannot be downloaded into a deduction in the database used. So that the articles reviewed in this study were 17 articles, namely 12 from the Scopus database and 5 articles from Google Scholar.

Furthermore, what will be discussed in this study is what theories are widely used as the basis for the theory of internal control and good corporate governance.

Table 1. Theories used in the research reviewed

Number	Article Tittle	Theory
1	Corporate Governance An International Perspective	Directly using the core theory of the variable
2	Enterprise Governance Driving Enterprise Performance Through Strategic Alignment	Directly using the core theory of the variable
3	Corporate Governance, Cash Flow, Small Business, Economy, Financial Management, South Africa	Directly using the core theory of the variable
4	charity, non-profit organisation (NPO), corporate governance	Directly using the core theory of the variable
5	Accounting information system, bookkeeping, financial reporting, accounting standards, corporate governance, management accounting, Turkey.	Directly using the core theory of the variable

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6	public sector; Committee of Sponsoring Organizations of the Treadway Commission (COSO–Enterprise Risk Management); risks assessment; control environment	internal control framework
7	Internal control, regulatory requirements, corporate ethics and self-governance, sustainability	Directly using the core theory of the variable
8	Information Technology, Good Corporate Governance, Internal Control, Fraud.	Directly using the core theory of the variable
9	Internal control Corporate governance Board characteristics Disclosure quality	Agency Theory
10	mixed-ownership reform of state-owned enterprises; governance of non-state shareholders; corporate social responsibility performance; internal control quality	Directly using the core theory of the variable
11	corporate governance; intellectual capital; value added	Directly using the core theory of the variable
12	Internal Controls, Corporate Governance, Board of Directors, Islamic Shariah	Directly using the core theory of the variable
13	Internal Control, Good Corporate Governance, and Fraud Prevention.	Directly using the core theory of the variable
14	Internal Control, Good Corporate Governance, Fraud Prevention	Agency Theory
15	GCG; kinerja; pengendalian internal	Directly using the core theory of the variable
16	good corporate governance, Pengendalian Internal, pencegahan fraud	Fraud Triangel Theory
17	Pengendalian Intern, Etika Auditor, Good Corporate Governance, Pencegahan Fraud	Fraud Triangel Theory

Data processed by the researcher, 2025

Relationship between Internal Control and Good Corporate Governance

Research on internal control and Good Corporate Governance has undergone significant development in recent decades. Currently, recent research trends are starting to integrate technology in GCG management and internal control. Topics such as the use of blockchain technology to improve the transparency and accuracy of financial records, as well as the implementation of artificial intelligence (AI) in detecting fraud, are starting to gain attention. In addition, there is also an increasing focus on sustainability and corporate social responsibility as part of GCG implementation. Not only does it focus on regulatory compliance, but also on how good GCG practices can contribute to sustainable development goals. Overall, research related to GCG and internal control continues to evolve in line with changing global business dynamics and technological advancements.

Internal control is a mechanism implemented by an organization to ensure operating efficiency, reliability of financial statements, and compliance with regulations. However, there are several weaknesses that can affect the effectiveness of internal control in supporting Good Corporate Governance (GCG). First, one of the main weaknesses is the risk of fraud by management or employees. Internal controls can be undermined by collusion between individuals who have access or authority. For example, managers or senior executives may have the ability to bypass or ignore control procedures for personal

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purposes, which could result in inaccurate financial statements or the use of company assets for personal gain (Sulaiman, 2021).

Internal control can also be affected by resource and competency limitations. Implementing and maintaining an effective internal control system requires a significant investment in time, funds and expertise. Many companies, especially smaller ones, may not have sufficient resources to implement adequate internal controls. In addition, a lack of training or knowledge of human resources on internal control procedures may lead to inadvertent errors or non-compliance, ultimately undermining efforts to ensure GCG (Wibowo, 2019).

The company's internal control and risk management must be able to maintain transparency and comply with high standards of legal accountability to investors. This shows that the internal control process must be clearly understood by the public and must comply with applicable legal regulations, thus ensuring that the company carries out its business activities with high integrity (Robson, 2022). The company presents complete internal control information according to the needs of stakeholders. Through the implementation of the role of internal supervision, a more conducive work environment can be maximally improved, so that the transparency of information to the public will increase (Weli et al., 2020).

Fraud Risk Assessment is the foundation of good corporate governance and a vital control to eliminate fraud in the organization. FRA comes in the form of policies and procedures that can be used. With a well-developed and implemented FRA, fraud can be identified before it occurs. When the organization is free from fraud, one of which is by improving the quality of internal control, GCG can be reflected properly (Rehman & Hashim, 2020). Landasan yang kokoh bagi tata kelola perusahaan terdiri dari perencanaan strategis, struktur organisasi, tingkat transparansi dan tingkat akuntabilitas yang tinggi. Penelitian selanjutnya, yaitu tingkat korupsi yang tinggi menjadi tanda dari kelemahan implementasi tata kelola perusahaan yang baik. Sementara itu, kendala-kendala yang menghambat pertumbuhan ekonomi juga berujung pada meningkatnya tingkat pengangguran dan kemiskinan. Melaui sistem internal kontrol yang efektif dapat mencegah hal-hal tersebut (Jaya et al., 2016).

CONCLUSION

The conclusion obtained from the results of this study is that most of the basic theories used in the articles studied are directly using the core theory of their respective variables, while a small part is used, namely agency theory, Coso internal control framework, farud triangel theory. Furthermore, based on the results of reviewing articles, it is found that internal control has a relationship with good corporate governance. with the implementation of good internal control, it is expected that good corporate governance will be reflected.

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