



Literature Review: The Effect of Internal Control System and the Role of Internal Audit on Good Corporate Governance

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Abstract: Internal Audit has the function of helping companies achieve their business goals by evaluating and improving the effectiveness of internal control systems, risk management, and business processes in the company. Internal audit is also responsible for making recommendations for changes and ensuring that the organization follows all applicable laws and regulations. Through the implementation of GCG principles, companies can ensure that the internal control system is implemented effectively and efficiently, and ensure that all stakeholders are valued and treated fairly. The relationship of this research is the importance of the company to develop and strengthen the internal control system, improve the effectiveness of internal audits, and ensure management's commitment to implement good GCG practices in the company. This literature shows that the internal control system, the role of internal audit, and management commitment significantly affect the practice of Good Corporate Governance. Several studies have shown that the application of GCG principles helps companies improve transparency, accountability, and compliance with organizational regulations.

Kata Kunci: Audit Internal, Sistem Pengendalian Internal, *Good Corporate Governance*

INTRODUCTION

Good Corporate Governance (GCG) is a very important concept in the business and corporate world. GCG principles emphasize the importance of transparency, accountability, fairness, and protection of shareholders' interests in managing the company. Good GCG implementation can help improve company performance, minimize risk, and build trust from various stakeholders. In the context of GCG implementation, the internal control system, the role of internal audit, and management commitment have a very important role. The internal control system is a framework used by the company to ensure that all activities and operations of the company are carried out effectively, efficiently, and in accordance with applicable laws and regulations. Mulyadi (2002: 180), the purpose of internal control is to provide adequate assurance about the achievement of management objectives in the following categories: (1)

reliability of financial statements, (2) efficiency and effectiveness of operations, (3) compliance with laws and regulations. Good Corporate Governance is a concept proposed to improve company performance through supervision or monitoring of management performance and ensuring management accountability to stakeholders based on the regulatory framework (Manossoh, 2016).

IICG (Indonesian Institute of Corporate Governance, 2013) defines Corporate Governance as a structure, system, and process used by company organs as an effort to provide added value to the company in a sustainable manner in the long term, while still paying attention to the interests of other stakeholders, based on morals, ethics, culture and other applicable rules. For this reason, the implementation of Good Corporate Governance requires commitment from all levels of the organization by starting with the establishment of basic policies and rules that must be adopted by top management and the implementation of a code of ethics that must be obeyed by all parties in it. In an effort to realize Good Corporate Governance, companies need an internal audit role in charge of researching, evaluating an accounting system, and assessing management policies implemented. Good Corporate Governance (GCG) refers to the principles, practices, and procedures that ensure that the company is managed in a responsible and transparent manner, and takes into account the interests of all stakeholders such as shareholders, employees, consumers, society, and the environment. In implementing GCG, companies must have a clear and open organizational structure, and have adequate internal and external supervision systems. In addition, the company must also pay attention to business ethics and integrity in every aspect of its operations. In the context of globalization and increasingly fierce business competition, the implementation of GCG is becoming increasingly important as a differentiating factor between successful and failed companies. Therefore, companies must pay attention to GCG as an important part of their business strategy. The internal control system is a framework used by an organization to achieve its operational goals, maintain accountability, and prevent fraud. Which is run by the board of commissioners, management, and other personnel in an entity designed to provide adequate assurance about the achievement of objectives. Romney (2014: 226) defines internal control as the process undertaken to provide adequate assurance that these control objectives have been achieved. Internal control is also a process because it spreads throughout the company's operating activities and is an integral part of management activities. In addition, internal control has inherent limitations, such as weaknesses against simple errors and errors, wrong judgment and decision-making, management exclusion, and collusion.

According to the AICPA (American Institute Of Certified Public Accountants), internal control consists of organizational plans and overall methods or means and measures coordinated with the aim of securing assets, examining the accuracy and reliability of accounting data, improving operating efficiency, and encouraging compliance with established management policies. (Cris Kuntadi, 2015) The internal control system aims to ensure that the organization's activities run effectively, efficiently, and in accordance with applicable regulations. Internal control system and GCG (Governance, Risk, and Compliance) have a close relationship. A good internal control system is an important component of effective GCG practices in an organization. A strong internal control system helps maintain good governance, manage risks appropriately, and ensure compliance with applicable regulations and policies. The better the implementation of internal control, the better the managerial performance. The success of internal control itself cannot be separated from five elements, namely control which includes the control environment, risk assessment, control procedures, monitoring and information and communication need to be improved and evaluated whether it is running well. The implementation of Good Corporate Governance in the company improves internal control and management has been able to do this well, thus improving managerial performance. In this case, the role of internal audit is expected to be able to evaluate the effectiveness of the internal

control system, identify weaknesses or nonconformities, and provide recommendations for improvement. Internal audit can also ensure that GCG principles are well implemented and meet established standards. The principles of Good Corporate Governance, among others: disclosure, transparency, independence, accountability, accountability, justice (Apriyana, 2008: 9). Internal audit is an evaluation activity carried out by an organization to evaluate the effectiveness and efficiency of the internal control system in the organization. Internal audit aims to provide assurance that the organization's operations are running well, risks are identified and regulated appropriately, and established policies and procedures are well executed.

Internal audit according to (Agoes Sukrisno, 2014) is an examination carried out by the company's internal audit department, both on the company's financial statements and accounting records, as well as compliance with predetermined top management policies and compliance with government regulations and the provisions of applicable professional ties. These provisions are from professional ties, for example, financial accounting standards. Internal audit is designed to provide added value and improve organizational performance in helping the organization achieve its goals, by applying a systematic and scheduled approach to evaluate and improve the effectiveness of risk management processes, adequacy of control and management of the organization. In realizing Good Corporate Governance, internal auditors must be able to ensure that management has developed sufficient ethical values in the organization, effectiveness and accountability in managing organizational performance have been achieved, good communication about risk and control to the right units in the organization and the implementation of effective coordination of activities and communication flows. According to (Pratiwi, 2013) management commitment is a belief shown by employees towards their organization, these employees.

Table 1: Relevant Previous Research

No	Author (Year)	Previous Research Results Press	Similarities with this Article	Conclusion
1	Rizky Cahya Romadhona (2023)	The Influence of Management Audit, Internal Control, and Organizational Culture on Managerial Performance through Good Corporate Governance	The research involves Internal Control variables as independent variables and Good Corporate Governance as dependent variables	<ol style="list-style-type: none"> 1. Management audit has a significant effect on managerial performance 2. Internal control has no effect on managerial performance 3. Organizational culture has a significant effect on managerial performance
2	Indah Nurul Wulan, Kartika Djati, and Endraria (2023)	The Influence of Internal Control System, Organizational Commitment and Organizational Culture on Good Corporate Governance	The research involves Internal Control System variables as independent variables, and Good Corporate Governance as dependent variables.	<ol style="list-style-type: none"> 1. The internal control system has a positive and significant effect. 2. The organization's commitment to company performance has positive and significant influence.
3	Friday, Friday, July 2020	The Effect of Internal Control System and Internal Audit on the Implementation of Good Corporate Governance	The research involves Internal Control System & Internal Audit variables as independent variables, and Good Corporate Governance as dependent variables.	<ol style="list-style-type: none"> 1. Internal control system & internal audit affect the implementation of Good Governance in BUMN & BUMD 2. Internal control system affects 61.4% and internal audit by 11.3% on the implementation of Good Governance in SOEs & BUMDs

4	Istiqomah Shinta Philadelphia, Sri Suryaningrum, Sriyono (2020)	The Effect of Human Resource Competence, Government Accounting Standards, Good Governance, and Internal Control System on the Quality of Local Government Financial Statements	The study involved Internal Control System variables as independent variables	<ol style="list-style-type: none"> 1. HR competence does not affect the quality of local government financial statements 2. Government accounting standards affect the quality of local government financial statements 3. Good Governance affects the quality of local government financial statements 4. The internal control system does not affect the quality of local government financial statements
5	Siti Kurnia Rahayu and Wahidi (2019)	The Effect of Internal Audit and the Implementation of Internal Control on the Implementation of Good Corporate Governance	The research involves Internal Control & Internal Audit as independent variables, and Good Corporate Governance as dependent variables.	The results of the study show that either partially or simultaneously internal audit and internal control have a positive and significant effect on the implementation of Good Corporate Governance

METHODE

This theoretical review will be conducted through literature review from various relevant sources, such as academic journals, books, and research reports related to GCG, internal control systems, internal audits, and management commitment. The data obtained will be analyzed descriptively and synthetically to identify relationships and influences between the variables studied.

The population used in this study uses data listed in scientific literature contained in previous research on internal control systems, the role of internal audit, management's commitment to Good Corporate Governance This study uses qualitative research methods, where literature review is used consistently with methodological assumptions. By collecting some relevant literature, it can be said that this research is exploratory.

RESULT AND CONCLUSION

Based on relevant theoretical studies and previous research, the discussion of *this literature review* article is:

The Effect of Internal Control System on Good Corporate Governance

Internal control system as a type of supervision, is needed because of the necessity to delegate authority and responsibility in an organization. According to (Mulyadi, 2014) Internal control is an internal control system including organizational structure, methods and measures that are coordinated for organizational wealth. From this understanding emphasizes the basic objectives in every business, including performance, profitability and securing resources that concern the reliability of organizational reports. So this is related to compliance with laws and regulations where the company is located. The goal is that according to (Pujiono, 2016) Internal control is applied to achieve goals and minimize things that may occur outside the plan, internal control also increases efficiency, prevents losses to assets, increases the level of data reliability in financial statements and encourages compliance with established laws and regulations. Then based on its function according to (Mohamad Solihudin, 2015) internal audit serves as an independent assessment formed by the company to examine and evaluate all company activities. The results of the internal audit are expected to increase the reliability of information

about the situation in the units it supervises. Internal audit that *good governance* can be realized through one of the controls. Control as a mechanism carried out by the executive (government) to ensure the implementation of management systems and policies so that organizational goals are achieved (Hidayati and Amin, 2020).

Based on the description above, it can be concluded that the internal control system is a supervisory system and regulates all operational activities of the company in accordance with applicable laws and regulations. With a good internal control system, it will support good corporate governance.

This is supported by the results of research conducted by Opan, Juhadi and Yayan (2020) which states that the internal control system affects the implementation of Good Corporate Governance. This means that with the improvement of the implementation of the Internal Control System, it is expected that the implementation of Good Corporate Governance will also increase.

H1: Internal control system affects *Good Corporate Governance*

The Effect of Internal Audit Role on *Good Corporate Governance*

Internal audit is an independent assessment function in an organization to test and evaluate the activities of the organization carried out (Tugiman, 2006). More specifically, organizations rely on the internal audit function to help ensure that the risk management process, the overall scope of control and the effectiveness of the performance of the business processes are consistent with management expectations. The purpose of internal audit according to (Fitriani, 2015), stated the function of internal audit, is to assist organizations in maintaining effective internal control by evaluating the adequacy, efficiency, and effectiveness of these controls as well as encouraging improved control and encouraging continuous improvement of internal control. In other words, the purpose of internal audit is to provide services to the organization to help all members of the organization. The assistance provided as the ultimate goal is for all members of the organization to be able to perform the responsibilities assigned and imposed on them effectively. The internal audit function is now not only required to find problems but also be part of the solution and provide suggestions for improvement. Internal audit is involved and plays an active role in monitoring the activities of business units and providing a consultative role in the implementation of the company's operational processes. Thus, the role of internal audit is not only limited to being a "detector" but can be more of a deterrent that is expected to be able to support and encourage the process of realizing good governance (Saptapradipta, 2020).

Based on the description above, it can be concluded that internal audit is very supportive of achieving the company's goals, namely efficiency and effectiveness which are part of internal audit. The objective achieved from internal audit is the achievement of *Good Corporate Governance*. In order to achieve a good supervisory system, company leaders must establish an independent and responsible field of supervision, and internal audit is an independent assessment activity, contained in the organization which is carried out by examining financial accounting, employee performance and other activities to provide services to management. So the higher the internal audit, the higher the implementation of *Good Corporate Governance*.

This is supported by research (Rizky Cahya, 2023) which concludes that the role of Internal Audit has a positive and significant effect on *Good Corporate Governance*.

H2: Internal audit affects *Good Corporate Governance*

Based on the formulation of the problem, theoretical studies, relevant previous research and discussion of the influence between variables, the framework of thinking in this article is as below.

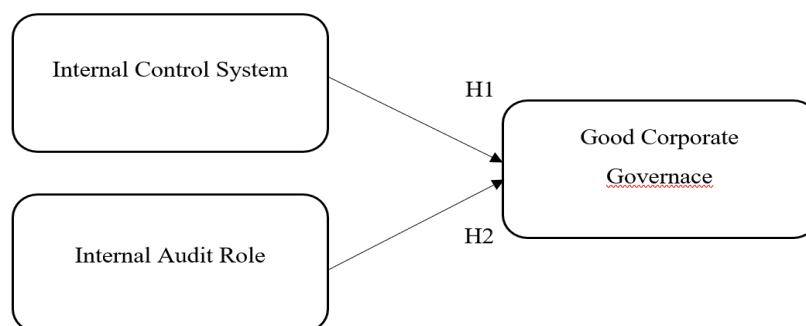


Figure 1 Framework Research Model

Based on the conceptual framework above, then: Internal Control System and the Role of Internal Audit on *Good Corporate Governance*.

RECOMMENDATION

Based on the theory and discussion of this *literature review* article, it can be concluded that:

1. Internal Control System affects *Good Corporate Governance*
2. The role of Internal Audit affects *Good Corporate Governance*

Overall, a strong internal control system and the role of effective internal audit are important factors that are interconnected and influential on the implementation of good GCG in an organization. Good integration between these three factors can help companies achieve GCG goals, improve performance, and gain trust from shareholders and other stakeholders.

Based on the review literature, it can be concluded that a strong internal control system, the role of effective internal audit affect the implementation of *Good Corporate Governance* (GCG). These factors are interconnected and mutually reinforce each other in creating a business environment with integrity, efficiency, and accountability. Good GCG implementation can help companies improve performance, reduce risk, and build trust from stakeholders.

Suggestions for future research that can develop an understanding of the relationship between the internal control system and the role of internal audit on *Good Corporate Governance* (GCG), including by conducting case studies on companies that have successfully implemented a strong internal control system and effective internal audit of GCG. This kind of research can provide deep insights into best practices and key factors that contribute to successful GCG implementation. and Conduct surveys of companies in various industries to collect data on internal control systems, the role of internal audit and GCG implementation. Analysis of this data can help identify patterns, relationships, and stronger influences between these factors.

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