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Original Article

The Role of Internal Control Systems and Good Corporate Governance in Fraud Prevention Efforts: A Literature Review

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Abstract: The act of fraud is an unethical act, it has a negative impact not only on individuals, organization and environment. This study analyses the role of internal control systems and good corporate governance in fraud prevention efforts. There are three main factors called the fraud triangle that motivate someone to commit fraud. Internal audit functions to assist management in detecting and preventing fraud that occurs in an organization in implementing good corporate governance. This is due to the absence of a good corporate governance mechanism. The role of internal auditors in detection and prevention efforts has a fairly strong role. And the role of internal auditors also has a very important role in good corporate governance. Literature studies from previous research and other related sources such as books, articles, and news are the methods used in this research. The method used in this research is literature review. The research conducted shows the results that a planned and structured internal control system can detect fraud. In addition, good corporate governance that is implemented by instilling good values will form a healthy company and avoid fraud. The internal control system has an important role in fraud prevention because with a system that is measurable and in accordance with the needs of the company, it will be easy to detect and prevent fraud. Easily detect and prevent fraud. GCG implementation can prevent fraud by implementing the GCG principles. An evaluation of the internal control system and GCG that is implemented needs to be done to increase the reliability of the system. This research is limited to the concepts of internal control system, good corporate governance, fraud, and articles on this topic.

Keywords: Internal Control System, Good Corporate Governance and Fraud.

1. Introduction

Fraud can have a negative impact, including losses for organizations or companies in the public and private sectors. Every company seeks to minimize the risk of fraud by making various efforts to prevent the possibility of fraud within the company. Fraud can be in the form of corruption (in the form of bribes, kickbacks, illegal gifts, financial extortion, or conflicts of interest), misuse of assets (asset misappropriation), or manipulation of reports (fraudulent representations) (Rahmawati & Islamiyati, 2024). According to professional literature, fraud can be divided into two types, namely misstatement or error and fraud. An error or misstatement is an unintentional disclosure of losses in the financial statements, while fraud is an error in review or omission of disclosures in the financial statements. Rah man said, fraud can basically be committed by anyone, be it someone inside the company or an outsider. Fraud can be divided into two types, namely internal fraud (people inside the company) and external fraud (people outside the company).

Fraud, in all its forms and modes, has brought adverse impacts and losses to business organizations and public sector organizations. Every organization regardless of type, shape, scale of operations and activities all have the risk of fraud. The practice of embezzlement, misuse of assets, procurement fraud, financial reporting fraud including corruption, from simple to very sophisticated and complex, has recently occurred a lot. During the epidemic, cases of financial fraud increased day by day and became the main feature of many financial scandals last year, resulting in restrictions on all activities. Various policies have been pursued by the government, one of which is the implementation of PSBB to suppress the increase in Covid-19 cases. Most of the activities done at home increase the chances of fraud as all the work is done using technology (Richet, 2022) Surveys conducted by the Public Accounting Firm (KAP) and consultant RSM Indonesia show that the number of asset theft cases also increases when large-scale social restrictions (PSBB) are implemented. (Wahyuni & Hayati, 2022) noted that their organizations experienced a 35% increase in asset misuse during the pandemic. 36% of respondents recognized that fraud resulted in financial losses; while 35% of respondents highlighted the disruption that reputational risk and fraud can cause to companies, only 25% believed this. Four percent of respondents said fraud can be easily committed by middle managers.

RSM conducted a survey involving several respondents working in risk management across 18 industry sectors including government, banking, business and professional services. Investigations were conducted to uncover fraud intentions amid Indonesia's economic crisis. The findings showed a significant increase in fraud during the pandemic. In addition, a survey in 2021 conducted by Murdock & Murdock, (2018) showed that during the COVID-19 epidemic, 71% of respondents said that fraud was getting worse. According to research by Adetiloye et al., (2016) Fraud may be caused by poor corporate governance. This is evidenced by the fact that there are still many banks in Indonesia that have not implemented good management standards Research by Desiana et al., (2021) shows that GCG has no effect on financial statement fraud.

Effective GCG has been around for some time, but it has not been a factor in preventing fraud, which has led to the collapse of world-class companies such as WorldCom. Company and Enron The company was established in the United States in the early 2000s, which according to previous research was caused by the failure of good corporate governance (GCG) mechanisms (Anugerah, 2014) The 2005 PricewaterhouseCoopers Global Economic Crime Survey found that in Indonesia, 51% of fraud perpetrators were employees in middle and upper management positions. The survey results show that internal corporate governance mechanisms (commissioners with nomination/remuneration committees) need to carry out supervision and improve the recruitment selection process more carefully. No less important is to increase the effectiveness of the oversight function carried out by the board of commissioners as part of the GCG mechanism itself.

Currently, the role and responsibility of an auditor in overcoming fraud in the process of preparing financial statements using an audit system is needed. Based on the definition of SOX and SAS no. 99 emphasizes that for now the ability of the auditor can be trusted, provided that, the auditor must disclose the results of the examination openly, clearly, and transparently, by indicating that the auditor has considered fraud and must show the inspection procedures that have been carried out specifically and supported in SAS No. 16 which explains some of the conditions required for auditors to conduct quality audits, namely by having an examination plan to look for errors (errors or irregularities), and materiality with maximum care and ability of an auditor. The responsibility of the auditor to detect an untruth or fraud can be realized in the implementation of obtaining reasonable assurance about whether the financial statements are free from fraud or error. An auditor must assess the risk of fraud in the audit planning process. Auditors who will find misstatements depend on the quality of their understanding (competence) while the act of reporting misstatements depends on their independence. An auditor must also be prepared to act as an internal controller where fraud that occurs within a company, organization or agency in recording financial statements can be controlled and overcome using an audit system that is supported by the abilities and expertise possessed by an auditor.

In this case, an auditor who acts as an internal controller must be able to achieve the goals of a company with good performance governance or what we commonly call (Good Corporate Governance / GCG). The responsibility of an internal auditor is not trivial, the success and achievement of an organization or company can be realized with the expertise and ability of internal auditors to detect fraud. Conversely, the slow development of an organization or company can occur due to the lack of professionalism of an auditor in detecting fraud that occurs until it leads to the bankruptcy of a company. In accordance with the implementation of the Internal Audit Professional Standards (PAI) - standard 120.2 of 2004 (Goodwin, 2004) concerning knowledge of fraud, it states that the internal auditor is tasked with being someone who can test, examine and recognize acts of fraud, this can be realized if an auditor has adequate knowledge. The abilities possessed by an internal auditor are not solely owned, but with various training, learning, and qualified flight hours, the expertise and abilities of a qualified auditor are formed.

As an internal auditor, he must be able to maintain his professionalism and independence in detecting all forms of fraud. In improving the professionalism of an auditor, it should be supported by the behavior of an ethical agency, organization or company. Ethical behavior itself has a very important role in the process of fraud, meaning that ethical behavior is an assessment of the professionalism of internal auditors in preventing fraud. To ascertain whether an auditor is working professionally or not, a job evaluation can be carried out on an auditor and all employees. Prevention and detection of fraud is the main responsibility of two parties, namely those who have responsibility for the management and management of the company. The obligation of management is to emphasize fraud prevention to reduce opportunities for fraud and prevention, accompanied by supervision from those responsible for governance. High commitment is needed to form a culture of honesty and ethical behavior under the active supervision of those who have responsibility for the management of the company (Rahmina & Agoes, 2014). One of the organization's efforts to prevent fraud is through the creation of a structured and clear internal control system.

Based on Ulina et al., (2018) in Arifudin et al., (2020)The Internal Control System (SPI) consists of an arrangement of organizations, steps, and means that are mutually coordinated to protect the continuity of the organization. (Pujiono et al., 2016) in (Arifudin et al., 2020) explains that the purpose of internal control is to achieve company goals, minimize potential unplanned events, increase efficiency, prevent asset losses, increase the reliability of financial reporting data, and encourage compliance with established laws and regulations. (Nelaz et al., 2018) explain that SPI can ensure the implementation of effective and efficient company operations and compliance with internal company regulations related to external regulations so that accountability can be created. When matters related to the organization are regulated in the internal control system, the organization's activities will take place according to predetermined standards and avoid errors.

In addition, Good Corporate Governance (GCG) also has an important role in efforts to tackle fraud. (Patricia & Wibowo, 2019) in (Adiko et al., 2019) argues that there is good company management to prevent fraud, including building a culture of honesty and good morals, management obligations in assessing fraud prevention, and monitoring from the audit committee. (Adiko et al., 2019) explain that GCG is a process and structure that is useful for increasing business achievement and corporate accountability in carrying out or adding long-term company value by protecting the needs of stakeholders in accordance with laws and regulations, morality, and ethics. The principles of GCG include transparency, independence, accountability, responsibility, and fairness. (Ratmono & Darsono, 2022) related to the alarming number of fraud incidents in Indonesia. Research was conducted to provide an explanation of the role of the internal control system and Good Corporate Governance as an effort to prevent fraud. By understanding the objectives, functions, and components of SPI and GCG and their relationship with fraud, it is hoped that all companies will be able to apply internal control and good company management to prevent and minimize fraud in order to create a healthy company. The purpose of this study was to determine the role of the Internal Control System and GCG in detecting and preventing fraud, and to determine various kinds of fraud against financial statements. This research is considered important to find out how audit as an internal control in detecting fraud against a financial report.

2. Literature Review

2.1. Fraud

In general, fraud is translated as fraud. However, the definition of fraud has been further developed so that its scope becomes broader. According to Black's Law Dictionary, fraud includes all kinds that humans can think of, and which a person seeks to benefit from others by false advice or coercion, and includes all unexpected, tactful, cunning, hidden and any dishonest ways that cause others to be deceived (Supriadi et al., 2019). Meanwhile, the International Standards on Auditing (ISA) section 240 (Council, 2016) which discusses the auditor's responsibility to consider fraud, defines fraud as; "... deliberate actions by members of company management, parties who play a role in governance, employees or third parties who lie or deceive to obtain unfair or illegal benefits." According to Simmons, (1997); Ariani & Minarni, (2023); Moro et al., (2014),to be said as fraud, 4 (four) criteria must be met, namely;

1. The action is done intentionally,
2. The existence of victims who consider (because they do not know the actual circumstances) that the action is reasonable and correct, the perpetrators and victims can be individuals, groups or organizations,
3. The victim believes and acts because of the perpetrator's actions,
4. The victim suffers loss because of the perpetrator's actions.

2.2. Fraud tree

The Fraud tree initiated by ACFE provides benefits because it has mapped fraud in the scope of work. This map makes it easier for someone to know and determine the type of fraud that occurs (Ulum & Suryatimur, 2022). The use of fraud tree needs to be adjusted from the conditions of each country. Not everything written in the fraud tree is found in Indonesia, corrupt actions and the existing business and government climate also affect the fraud found. The Association of Certified Fraud Examiners (ACFE) in Ulum & Suryatimur, (2022) illustrates the fraud scheme with a fraud tree. The branches of fraud along with their twigs and branches in working relationships are depicted on this tree. The three main branches of the fraud tree are corruption, asset misappropriation, and fraudulent statements.

1. Corruption - Corruption this time means similar but not the same as the term corruption in Indonesian law. Corruption includes abuse of power/conflict of interest, bribery, unauthorized or illegal acceptance of gifts and gratuities in connection with work or position, as well as extortion or illegal fees.
2. Asset misappropriation - Asset misappropriation is the act of taking wealth by illegal means, including activities of using improperly, embezzling, and stealing company assets or assets carried out by parties inside or outside the company.
3. Fraudulent statements - There are two types of fraud committed on financial statements. First, related to misstatement of financial statements. Second misleading financial statements, such as better than the original situation and often in the form of falsifying or distorting the situation.

Misappropriation (misuse of assets) and fraudulent statements (manipulated reports) are forms of fraud that occur in many private companies / organizations. Good corporate governance is corporate governance that can be relied upon to reduce the prevention of these two types of fraud.

2.3 Fraud triangle

Fitriyah & Sidharta, (2013) explains that "A trusted person becomes a breach of trust when he sees himself as a person who has financial problems that cannot be told to others, he is aware that this problem can be overcome by abusing his authority as a holder of trust in finance, and his daily activities show himself as someone who can be trusted in using entrusted funds or wealth." (Fitriyah & Sidharta, 2013) categorizes it in the fraud triangle. There are three aspects that influence a person to commit fraud, among others:

1. Pressure - The perpetrator commits fraud based on the pressure he is experiencing. The pressure in question is the pressure that surrounds his life (money needed), and he cannot share his problems with other parties.
2. Perceived opportunity - Fitriyah & Sidharta, (2013)argues that there are two elements from the point of view related to opportunities First general information or understanding that a position of trust can be violated without having to bear consequences. Second, technical skill or the ability needed to take that action.
3. Rationalization - Rationalization or trying to get justification for his actions before committing the crime committed, not after. A person rationalizes his actions to maintain his identity as someone who can be trusted (Tuanakotta, 2010).

Red flags are circumstances/conditions that are unusual or odd or different from normal Red flags are symptoms that indicate something unusual has happened and requires further investigation. However, red plans do not necessarily indicate whether someone is guilty or not but are signs that warn fraud may have occurred. To detect fraud, managers, auditors, employees and examiners must study the indicators/signs or symptoms (red flags) and pursue them (follow up on them) until all the evidence is collected. Examiners must discover whether the signs are the result of an act of fraud or something else. The existence of fraud signs should be recognized and then become an indicator that can be followed up to find and prove fraud. Signs of fraud can be grouped into six (6) groups (Albrecht et al., 2006), namely:

1. Accounting anomalies. For example, the use of photocopied documents, excessive payment or credit cancellations, excessive overdue accounts, increased reconciliation items
2. Internal control weaknesses. Includes weaknesses in the control environment, accounting system, control activities and procedures. For example, there is no clear separation of functions and responsibilities, lack of physical security of assets, lack of independent checks, lack of authorization, lack of adequate document recording and inadequate accounting systems.
3. Analytical anomalies are procedures or relationships, events that are unusual and make sense includes transactions or events that occur at unusual times and places involving people who are usually involved in the transaction or event For example unusual procedures, policies or practices cash shortages/excesses, unreasonable volume or price changes.
4. Extravagant lifestyle is a luxurious lifestyle. Changes in the lifestyle of a person (employee or leader) who was previously mediocre, then had a luxurious lifestyle with a new car, going abroad and so on, is a sign / indicator that needs to be followed up on the possibility of fraud.
5. Unusual behavior is unusual behavior. Psychological research shows that when someone commits fraud (especially for the first time) the perpetrator will be overwhelmed with guilt and fear, and will become stressed. Subsequently the perpetrator will behave differently than usual, to cover up these feelings or stress.
6. Tips and complaints, including information and complaints about the possibility of fraud.

2.4. Internal Control System (ICC)

The American Institute of Certified Public Accountant (AICPA) (Janvrin et al., 2009) describes that internal control has an important role in protecting an entity from the weaknesses of its personnel that are made so that they are not in accordance with applicable regulations. SPI is a supervisory model that is needed because of the need to delegate authority and obligation in an organization (Arifudin et al., 2020). According to Ghina Kemala Dewi & Ashar Basyir, (2023); Sri Damayanti, (2016) SPI aims to reduce deviant management actions. The Committee of Sponsoring Organization of The Tread way Commission (COSO) in 2013 in (Ery Herliana & Cris Kuntadi, 2023) provides a definition that internal control is the impact of the board of directors, management entities, and other parts of the company on events that occur to ensure that company goals are achieved, these objectives include (a) Operation/performance objectives - There are effective and efficient activities in achieving the mission and fundamental activities of the organization, such as performance standards and observation of resources. (b) Informational/financial reporting objectives - Providing free, reliable, complete and timely information related to finance and administration, including the preparation of reliable financial reports and the prevention of misuse of public information. (c) Compliance objectives - Applicable laws and regulations will be properly complied with. These are designed to ensure that the company's activities comply with laws, government regulations, regulatory advice, and internal policies and procedures.

2.5. SPI Elements

(Fajar & Rusmana, 2018); Ery Herliana & Cris Kuntadi, (2023) states that the elements of internal control consist of five components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring activities.

1. Control environment - Able to create control conditions in an organization and influence organizational actors regarding control. The control environment has a broad influence on the internal control system.
2. Risk assessment - The management of the organization must consider all risks, both internal and external, or the possibility that the objectives will not be achieved. In addition, the risk that the financial statements may be materially misstated must also be considered. For this reason, management is expected to be able to estimate the significance of risks, ascertain the likelihood of risks occurring and ascertain the consequences or consequences of identified risks on the organization (Fourie & Ackermann, 2013).
3. Control activities - All policies and stages of activities must be written guidelines, and the stages for each activity in the organization must be carried out in accordance with the guidelines. These prescribed policies and stages of activities need to be reviewed and updated continuously. Supervisors must review the control function with reference to the relevant procedures. Any deviation from the identified procedures should be brought to the attention of the appropriate parties and corrected in a timely manner.
4. Information and communication - A process is required to identify information relating to external sources relevant to the organization. Procedures should be established to ensure that reporting deadlines are met, and that relevant information is submitted in a timely manner at the appropriate level and in a format that is easy to analyze. The need for new information should be identified and addressed.
5. Monitoring activities - Monitoring includes activities to assess the quality of internal control performance on an ongoing basis, and ensure that all company activities are carried out in accordance with organizational objectives and adjust activities as circumstances change. Saputra & Novita (2023) and Fajar & Rusmana (2018) explain that the components of monitoring activities consist of evaluating ongoing activities, separate evaluations, or a combination of the two.

2.6. Good Corporate Governance (GCG)

The National Committee for Corporate Governance Policy (KNKCG) explains that GCG is a series of actions and arrangements used by part of the company to obtain value added to the company in a sustainable and long-term manner for shareholders while still paying attention to the needs of other stakeholders based on established laws and regulations (Daniri, 2008; Khairunnisa et al., 2023). Decree of the Minister of SOEs Number KEP- 117 / MBU / 2002 (Yudisthira & Barthos, 2022) concerning the Implementation of GCG Practices in SOEs states that GCG is a series of actions and arrangements used by SOE organs in improving business achievement and corporate responsibility based on legal and ethical values to realize long-term principal goals while still paying attention to the needs of other stakeholders.

Ur Rahman et al. (2018) define governance as “the system by which companies is directed and controlled”. Meanwhile Organization for Economic Cooperation and Development (Jesover & Kirkpatrick, 2005) provides a broader view and defines Corporate Governance as the following principles (Ur Rahman et al., 2018): “Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such an the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, the means of attaining those objectives and monitoring performance". From this definition, it can be said that the OECD focuses on 5 (five) topics, namely: 1) shareholder rights, 2) equality of treatment of shareholders, 3) the role of stakeholders in corporate governance, 4) disclosure and transparency and 5) the responsibilities of the board of directors and the board of commissioners.

2.7. GCG Principles

GCG principles listed in the Regulation of the Minister of State-Owned Enterprises (BUMN) No. PER-01/MBU/2011 include: 1: PER-01/MBU/2011 include:

1. Transparency, meaning openness in making decisions and openness in disclosing material information relating to the company.
2. Accountability, meaning that there are clear functions, implementation, and accountability in order to carry out activities effectively in the company process.
3. Responsibility, meaning the conformity of corporate governance with the law and the principles of healthy business entities.
4. Independency, meaning a situation where there is professional management of the company without conflicting interests and the control environment is a foundation of all internal control elements that build order and structure. The control environment is the influence / pressure from others that is contrary to the law and the principles of a healthy business entity.
5. Fairness, justice and equality in the fulfillment of the rights of stakeholders that arise because of agreements and rules.

The principles of GCG can be applied and are expected to be able to optimize company value and be able to achieve company goals with effective and efficient management, professionalism, and carry out functions and increase company independence. GCG functions are important elements in the GCG structure; these functions consist of (Anugerah, 2014; Rezaee et al., 2010).

1. Oversight function, which is the role performed by the board of directors in the form of supervision of managerial functions to ensure the continuity of the company in line with its goals.
2. Managerial function, namely management has a role to manage the company and manage resources, operations, and delivery related to all information, both financial and non-financial.
3. Compliance function, which is subject to laws, regulations, standards, and practices that have been determined to carry out the framework and achieve company goals.
4. Internal audit function, namely services in the form of providing assurance and advice to the company in order to achieve operating efficiency, internal control, management risk, financial reporting, and company management.
5. Legal and financial advisory function, which is the presence of advisors related to law and ensures the implementation of company management that complies with laws and other legal duties. In addition, there are also financial advisors who will provide direction for the company regarding its finances and planning.
6. External audit function, namely the external auditor carries out the function to provide an opinion on the company's financial statements which reveals that the financial statements presented are in accordance with generally accepted accounting principles and are also presented fairly (GAAP).
7. Monitoring function, which is a function performed by shareholders to monitor the implementation of corporate governance.

2.8. Implementation of Good Corporate Governance Mechanisms and Fraud Prevention

The need for Good Corporate Governance is in line with what agency theory says; Agency relationship is a contract under which one or more persons (principal(s)) engage another person (agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (Rezaee et al., 2010). Based on this theory, there is a separation between the owner (principal) and the manager of the company (agent), giving rise to agency problems. Furthermore, the separation of owners and managers also creates "information asymmetry", which is a situation where the agent has access to information that is not owned by the principle. Information asymmetry arises when the agent knows more about internal information and prospects, compared to the knowledge of information known by the principal and other stakeholders. To overcome this, it is necessary to implement good corporate governance and its principles and mechanisms to ensure that the rights and relationships between all stakeholders are guaranteed.

2.9. Internal Governance Mechanism: The Audit Committee's Role in Preventing Financial Statement Fraud

2.9.1. Financial Statement Fraud

The purpose of establishing a company is to earn profits and create sustainable value for shareholders. For this reason, company management will try with all its might to maximize revenue or minimize costs to provide and report good performance to shareholders. Good management performance will result in good rewards, such as increased annual bonuses or possible salary increases each year. However, the results of the management's hard work may not be as expected and this will lead to a conflict of interest, because management may want to always show their good performance to shareholders. In such a situation, the opportunity for financial statement fraud may occur. Fraud in financial statements is committed through intentional misstatements or omissions in amounts, or items in the company's financial statements, with the aim of misleading users of financial statements. Financial statement fraud, like other types of fraud, involves deception and attempts to conceal information. Financial statement fraud can be hidden through falsification of documents or records, as well as through collusion between management, employees or third parties. However, fraud symptoms or indicators, (red flags) can be observed, for example, documents may be missing and ledgers may be out of balance but these conditions may be the result of other events that are not fraud or due to unintentional errors or indeed fraud has occurred (Albrecht et al., 2006).

2.9.2. The Role of the Audit Committee

The audit committee is one of the important components that form the company's internal governance mechanism together with the board of directors, board of commissioners, management and internal control function. The audit committee is formed by the board of commissioners to assist the board of commissioners in carrying out Corporate Governance Functions (see 7 corporate governance functions) through the supervision and monitoring function (oversight function) of the implementation of the board of directors' function to manage the company (Kep-315/BEJ/062000 item A). The implementation of an effective supervisory and monitoring function by the audit committee will assist the company / organization in preventing fraud if the audit committee can carry out its responsibilities properly. According to the Forum Corporate Governance Indonesia (FCGI) the audit committee has responsibilities in three areas (Sari et al., 2012), namely: a) Corporate Governance, b) Financial Reporting, and c) Corporate Control.

Field of Corporate Governance

To ensure the implementation of good corporate governance, the audit committee as an extension of the commissioners is responsible for ensuring that the company has been run in accordance with applicable laws and regulations, conducting its business ethically, carrying out its supervision effectively against conflicts of interest and fraud committed by company employees. The scope of the corporate governance field includes:

1. Assessing the company's policies related to compliance with laws and regulations, ethics, conflicts of interest and investigating actions that harm the company and fraud, and
2. Conducting examinations of various important cases related to conflicts of interest, actions that harm the company and fraud.

Financial Reporting; Fraud Prevention The implementation of good corporate

Governance requires the audit committee to carry out its responsibilities related to financial reporting and fraud prevention. In preventing financial statement fraud in companies / organizations, the audit committee can play an active role because according to FCGI, in matters relating to financial statements, the company's audit committee is responsible for ensuring that the company's financial statements prepared by management provide a true picture of matters relating to; 1) financial condition, 2) business results, 3) long-term plans and commitments. FCGI therefore adds the scope of the audit committee's duties, in relation to the financial statements is:

1. Provide recommendations for external auditors that can be used by the company to audit financial statements.
2. Conduct examinations related to external auditors such as:
   a. Letter of appointment of the external auditor.
   b. Estimated audit fees.
   c. Auditors visit schedule.
   d. Coordination with internal audit.
   e. Supervision of audit results.
   f. Assessing the implementation of the auditor's work.

3. Assessing accounting policies and policy-related decisions.
   a. Interim financial report
   b. Annual financial statements
4. Auditor's opinion and Management Letters. (Sari et al., 2012)

Corporate Control and Internal Control

Committee of Sponsoring Organization (COSO) in Sawyer (2006) says the internal control system is a process influenced by the company's board of directors, management, and other employees, to provide reasonable assurance regarding the achievement of objectives: 1) effectiveness and efficiency of operations, 2) reliability of financial statements, and 3) compliance with applicable laws and regulations. The implementation of an internal control system serves to;

a. Preventive, control to prevent errors in the form of errors or irregularities.
b. Detective, detecting errors, mistakes and irregularities that occur.
c. Corrective, correcting errors, weaknesses and deviations that are detected.
d. Direct, directing that the implementation of activities is carried out precisely and correctly.
e. Compensative, neutralizing weaknesses in other control aspects.

According to Koesmana et al. (2007), ineffective internal control can create opportunities for fraud. A weak organizational internal control system can identify inefficient company operations and so on will become an opportunity for fraud. Basically, management is the party responsible for whether the company's internal control system is effective or not, because management is the party that compiles and implements these internal controls. Meanwhile, the audit committee as an extension of the commissioner is an element of Good Corporate Governance that can prevent fraud by performing oversight functions on the running of the company's internal control system. According to FCGI, in carrying out its supervisory responsibilities the audit committee must understand the internal control system and various problems and matters that have the potential to contain risks. With this knowledge, the audit committee will monitor the effectiveness of the internal control system (Sawyer, 2006). A thorough understanding of the adequacy and effectiveness of the company's internal control by the audit committee will assist in carrying out the task of preventing fraud.

3. Materials and Methods

This study was conducted using the literature review method. This study will examine more deeply the role of the Internal Control System and Good Corporate Governance in fraud prevention. Qualitative method with literature study or literature review is the method applied in this research. Literature study or a series of efforts related to the process of collecting library data, reading and recording, and processing the material to be studied. The data source for this research comes from secondary data. Chandrarin (2017) defines secondary data as data that has been used or published by previous parties or institutions. There is no need to re-research by testing the validity and reliability of the data because the data can already be confirmed and published. Previous research, books, news, and other related references are the data sources in this study. Research conducted by Khairunnisa et al., (2023) is the main reference in this study. Khairunnisa et al. (2023) examine the effect of internal systems and GCG implementation on banking fraud. The secondary reference in this study is research conducted by Dwi Urip Wardoyo et al., (2021) examining the effect of the internal control system and GCG implementation on accounting fraud. Both studies show the results that fraud can be prevented through the internal control system and the implementation of GCG. (Chandrawati & Dyah Ratnawati, 2021) research on fraud triangle theory is used as an additional reference to reveal the things that cause fraud.

4. Results and Discussion

Tuanakotta, (2010) provides a specific definition related to the internal control system to prevent fraud. The internal control system is a system of processes and rules that are prepared and implemented with the main, if not the only, purpose of preventing and overcoming fraud. The internal control system must be well designed, to emphasize the presentation of fair and accountable financial statements. Effective and efficient use of company resources needs to be made to obtain financial and non-financial information to make decisions and a form of compliance with the law. The COSO framework explains that adequate assurance for the achievement of organizational objectives can be obtained from the implementation of internal control through the implementation of effective and efficient activities, credible financial reports, monitoring of assets, and compliance with applicable laws and regulations (Pane, 2018). One way that can be done to prevent or overcome the possibility of fraud is to implement an internal control system. Through structured planning and implementation of internal control components, internal control can be implemented properly and achieve its objectives.

The existence of risk assessment, control, and supervision activities is able to maintain the stability of the control environment and establish communication and distribution of company information. The internal control system closes the gap for fraud because every activity in the company that is carried out has formed a monitoring environment that can be controlled properly (Pane, 2018). Thus, fraud will be easily detected and difficult to commit. The concept of GCG arises due to conflicting interests between stakeholders. This conflict encourages companies to try to present information that does not actually occur to users of financial statements, especially if the information is related to measuring company performance. Irregularities in the presentation of information will have an impact on the truth of the information needed by users. Therefore, performance improvement is implemented in the form of GCG as a form of accountability (Nugroho & Afifi, 2022). GCG is a code of ethics applied by the organization to avoid crimes that violate the law. The transparency and accountability of financial statements will increase with the application of GCG principles. With transparency and accountability, it can narrow the opportunities for fraud to occur.

Previous research shows the effect of Good Corporate Governance on fraud prevention (Dewinta & Setiawan, 2016; Halbouni et al., 2016; Ismiyanti & Prastichia, 2015; Jannah, 2016; Khairunnisa et al., 2023; Khorismawati et al., 2014; Kurniawan & Izzaty, 2019; Maisaroh & Nurhidayati, 2021; Nahari & Kusuma, 2023; Ramadhany et al., 2017; Rustiarini et al., 2021; S. P. Sari & Nugroho, 2020; Sofia et al., 2016; Soleman, 2013; Wicaksono & Chariri, 2015; Widodo & Syafruddin, 2017; Yulian Maulida & Indah Bayunitri, 2021). With the implementation of Good Corporate Governance, it is hoped that company management will be more focused and clearer in the division of tasks, responsibilities and supervision of work. The literature review is carried out by examining existing publications that discuss the relationship between Good Corporate Governance and fraud prevention. Using the inclusion criteria, 15 studies were obtained that were available in full text and could be reviewed further (Table 1).

Table 1. Summary of Literature Review Findings

No	Author	Sample	Outcome Research	Results
1.	Ramadhany et al., (2017)	52 Employees of Pekanbaru City Hospital	Accounting fraud	The implementation of Good Corporate Governance affects the tendency of accounting fraud. The implementation of Good Corporate Governance has a positive effect on the management of the company to be more focused and more systematic in the division of tasks and roles of employees, responsibilities and how they are supervised.
2.	Widodo & Syafruddin, (2017)	242 Manufacturing Companies in Indonesia	Financial reporting fraud	Corporate governance has a positive influence on preventing financial reporting fraud. This governance is approached by the variables of board members with international experience, the effectiveness of the existence of an audit committee, the effectiveness of the implementation of internal audit and the existence of a Big-4 Public Accounting Firm (KAP). In this study, corporate governance is able to perform a control function for shareholders so as to prevent fraud in financial reporting prepared by company management.
3.	Soleman, (2013)	144 Government Apparatus in North Maluku Province	fraud prevention	Good Corporate Governance has a positive effect on fraud prevention within the North Maluku Provincial Government. This is done by suppressing factors that encourage fraud by applying the principles of Good Corporate Governance, namely transparency, fairness, accountability, integrity and participation. Good Corporate Governance efforts can be carried out by evaluating

				internal control factors and restructuring bureaucracy and corporations to prevent corruption and other fraudulent acts.
4.	Ismiyanti & Prastichia, (2015)	77 Banking Companies listed on the Indonesia Stock Exchange in 2007-2010	Financial Statement Fraud	Corporate governance as measured by the variable number of board of commissioners has a positive effect on financial statement fraud, while the managerial ownership variable has a negative effect on financial statement fraud.
5.	Rowa & Arthana, (2019)	33 Respondents (top level and middle level management at five Rural Bank Companies in Kupang City)	Fraud preven-tion	The implementation of Good Corporate Governance has a positive effect on fraud prevention at Rural Banks in Kupang City through the application of the principles of Good Corporate Governance, namely transparency, accountability, responsibility, independence, and fairness.
6.	Wicaksono & Chariri, (2015)	19 Non-financial companies listed on the Indonesia Stock Exchange (IDX)	Fraud in finan-cial reporting	Good Corporate Governance affects the possibility of fraud in financial statements through the mechanism of the existence of an audit committee and the effectiveness of internal audit. The more frequent audit committee meetings and the disclosure of findings from internal audit have an effect on preventing fraud in the financial state-ments.
7.	Putu et al., (2015)	115 employees in the Regional Work Unit (SKPD) in Ta-banan Regency	Tendency to Fraud	Fraud The application of the principles of Good Corporate Governance can improve government performance to be more transparent and accountable in government financial management so as to reduce the potential for fraud that may occur.
8.	Setiawan et al., (2016)	49 employees of BUMN Compa-nies in Pek-anbaru City	Fraud	Good Corporate Governance affects fraud. The implementation of Good Corporate Governance is able to improve the quality of financial reports that are far from fraudulent practices.
9.	Khorismawati et al., (2014)	Employees at PT United Trac-tors, Tbk	Fraud	The implementation of high-quality Good Corporate Governance will reduce fraud in the company. The implementation of Good Corporate Governance is carried out to realize goals in the effectiveness and effi-ciency of operational control.
10.	Saftarini et al., (2015)	64 Service Em-ployees at the Bangli Regency Regional Work Unit	The tendency of accounting fraud	Implementation of Good Corporate Gov-ernance can reduce accounting fraud that occurs in SKPD in Bangli Regency. With the implementation of Good Corporate Gov-ernance, organizations are more focused on the division of tasks, responsibilities and supervision.
11.	Anggraini et al., (2021)	186 Employees at Rural Banks in Surabaya	Fraud preven-tion	The application of good Good Corporate Governance principles can prevent fraud in the company. The principles of Good Cor-porate Governance in question are trans-parency, accountability, responsibility in-

				dependence, fairness.
12.	Rustandy et al., (2020)	216 PT Pos Indonesia offic-es	Fraud preven-tion	The better the implementation of Good Corporate Governance will have an impact on increasing fraud prevention. The im-plementation of the principles of Good Corporate Governance is a counter effort in preventing fraud at PT Pos Indonesia.
13.	Sanusi et al., (2020)	35 company employees	Fraud preven-tion	The application of the principles of Good Corporate Governance in the company influences fraud prevention.
14.	Maisaroh & Nurhidayati, (2021)	56 unit of analy-sis on Islamic Commercial Banks	Fraud	The implementation of good corporate governance in Islamic Commercial Banks will have an impact on reducing the proba-bility of fraud.
15	I. Saputra et al., (2023)	banking industry	fraud	The conducted research related to the effect of internal systems and GCG on fraud in banking and obtained the results that the implementation of an internal control sys-tem and good corporate management had a significant negative effect on fraud, mean-ing that a structured internal control system and the implementation of GCG in the banking industry are important in achieving the company's vision and mission.
16.	(Kurniawan & Izzaty, 2019)	Agency	Fraud preven-tion	Shows the results that the implementation of GCG is able to prevent fraud and will provide a greater possibility of fraud if the principles of GCG are not implemented. Internal control applied to agencies is also able to prevent fraud effectively and is able to minimize the opportunity for individuals to be able to act fraudulently.
17.	Napitupulu & Ramadhita, (2022)	Company	Fraud Preven-tion	The conducted tests on companies man-aging financial services. The study found that internal control and GCG simultane-ously influence fraud prevention. In this study, internal control has been imple-mented properly and the company has excellent corporate governance.
18.	(Farochi & Nugroho, 2022)	Agencies	Fraud Preven-tion	Internal control and GCG have a positive and significant effect on fraud prevention. adequate assurance is obtained with the implementation of the company's internal control, namely the agency's goals will be achieved including fraud prevention. every principle in GCG is always related to the nature of openness, clear responsibility, non-discrimination, and has control so that fraud can be prevented by the company.

In contrast to the studies described earlier, (Adiko et al., 2019)tested internal control and GCG. The results show that these two things have no effect on fraud prevention. The ineffectiveness of internal control is caused by several things, namely the company's inability to detect future risks, lack of employee awareness of the importance of complying with applicable regulations, and employee indifference to work that is not their responsibility. This study also states that there is no effect of GCG on fraud prevention because the actors in the company do not apply the value system and culture applied by the company and there is non-objective decision making resulting in the emergence of personal interests and opening up opportunities for someone to commit fraud. The results of research conducted by Samanto et al. (2022) show the results that internal control does not have a significant effect on fraud prevention; this is because the company is unable to detect future risks that will occur which results in internal control in the company not running properly. Meanwhile, GCG has a significant influence on fraud prevention variables. This is supported by several things such as business actors who implement the ethical and cultural systems set by the company.

Consistent results have not been obtained from several studies described above. Further research related to the role of the internal control system and GCG with various alternative methods is needed to obtain accurate and consistent results, so that there are research results that can be a reference for interested parties. Good Corporate Governance is a guide or rule that must be guided by all employees and company leaders so that decisions are made to support the interests of the organization including shareholders (Ramadhany et al., 2017). Good Corporate Governance is a system designed and implemented in an organization to realize organizational goals with strategic steps that do not harm stakeholders in the organization, including being free from conflicts of interest between parties involved in the organization (Soleman, 2013). The implementation of Good Corporate Governance prioritizes the principle of accountability oriented towards responsibility in the implementation of performance and transparency in the financial management of companies in both the public and private sectors. Good Corporate Governance is an effort that can bridge the conflict between company owners and managers (Lin & Layaman, 2023). The implementation of Good Corporate Governance is oriented towards processes, systems, procedures and regulations that enable entities to act with a framework or guide to achieve goals and increase effectiveness and efficiency in creating economic sustainability and social goals (Sari & Nugroho, 2020).

Previous research shows the positive effect of the implementation of Good Corporate Governance on fraud prevention through the implementation of the principles of Good Corporate Governance (Halbouni et al., 2016; Jannah, 2016; Kurniawan & Izzaty, 2019; Maisaroh & Nurhidayati, 2021; Rustandy et al., 2020; Sanusi et al., 2020; S. P. Sari & Nugroho, 2020). Good implementation of Good Corporate Governance will make company management more focused and clearer in the division of tasks, responsibilities and supervision of work (Ramadhany et al., 2017; Saftarini et al., 2015; Sari & Nugroho, 2020). However, research also shows that Good Corporate Governance has no significant effect on fraud prevention (Herawaty & Hernando, 2021). For example, the city of Jambi, which received an unqualified financial opinion, has still not been able to reduce fraud that occurs within the Jambi Provincial government, as seen from the increasing number of corruption cases that have dragged government officials (Herawaty & Hernando, 2021).

The implementation of Good Corporate Governance in a company is expected to become an organizational work culture so that it can prevent fraud (Ramadhany et al., 2017). The implementation of Good Corporate Governance can encourage the creation of healthy competition conditions and the realization of a supportive and conducive business climate so as to increase economic growth and stability in Indonesia (Setiawan et al., 2016). Good implementation of the principles of Good Corporate Governance (transparency, accountability, responsibility, independency, fairness) will encourage professional management of the company so as to improve the company's performance and performance for the better (Ramadhany et al., 2017). The principles of Good Corporate Governance enable those responsible for corporate governance to demonstrate good performance and prioritize the interests of all stakeholders to achieve company goals (Lin & Layaman, 2023).

The implementation of the seven functions of corporate governance as a whole and in balance will have an impact on the credibility of responsibility in corporate governance, valid and reliable company financial reporting and account table audit results (Anugerah, 2014). Good corporate governance that can be manifested in organizational culture and values will be able to encourage employees to work more effectively in realizing company goals. In this case, corporate governance and the people involved in it will be an added value in implementing the seven functions of corporate governance. Good Corporate Governance acts as a company control tool in fraud prevention, especially in financial reporting, which involves parties involved in company management to act in accordance with established regulations (Maisaroh & Nurhidayati, 2021; Widodo & Syafruddin, 2017). The implementation of Good Corporate Governance can be a control in controlling company performance in achieving targets and preventing stakeholder losses (Maisaroh & Nurhidayati, 2021).

Good Corporate Governance is able to prevent fraud, one of which is through the mechanism of an independent and professional audit committee as an extension of the Board of Commissioners in carrying out supervisory and monitoring functions on corporate governance (Anugerah, 2014; Soleman, 2013; Wicaksono & Chariri, 2015). The Audit Committee is responsible for: (1) ensuring that corporate governance is carried out in accordance with established regulations, effective and free from conflicts of interest, (2) ensuring and providing information related to the preparation of financial reports that are in accordance with the actual conditions related to the company's financial condition, performance or results of the company's work, planning and commitment in the long term, (3) supervising and controlling the company's internal control (Anugerah, 2014). The corporate governance structure which can be measured through board members with international experience, the effectiveness of the audit committee, the effectiveness of internal audit and the presence of KAP Big-4 can prevent fraud on financial statements (Widodo & Syafruddin, 2017). Board members with international experience can help promote and implement more proactive fraud prevention measures in companies or organizations. The existence of internal audit is also able to carry out the control function and identify possible "red flags" if there is an opportunity for fraud in the financial statements.

The audit committee is able to suppress fraud in financial reports by continuing to increase control and supervision efforts on financial performance including the utilization of company resources by management (Wicaksono & Chariri, 2015). The implementation of Good Corporate Governance has a positive impact on increasing transparency and accountability in local government financial management and identifying potential disruptions or obstacles in achieving company goals, thereby reducing fraud (Soleman, 2013). The Board of Commissioners has the responsibility of supervising corporate governance and providing advice to the board of directors. The number of Boards of Commissioners can affect the effectiveness of corporate governance supervision, namely the small number of boards of commissioners will be able to produce superior financial performance so as to reduce corporate fraud (Ismiyanti & Prastichia, 2015). Consistent implementation of Good Corporate Governance can improve employee performance effectively and efficiently and generate sustainable economic value and have a positive impact on shareholders and society (Soleman, 2013).

5. Conclusions

This study concludes that fraud is an act of intentional fraud and causes losses to many parties. The internal control system has an important role in fraud prevention because with a system that is measurable and in accordance with the needs of the company, it will be easy to detect and prevent fraud. Easily detect and prevent fraud. GCG implementation can prevent fraud by implementing the GCG principles. An evaluation of the internal control system and GCG that is implemented needs to be done to increase the reliability of the system.

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