
THE QUALITY OF INTERNAL AUDIT'S ROLE, GOOD CORPORATE GOVERNANCE, AND HIGH-QUALITY CORPORATE VALUE: A LITERATURE REVIEW

Aisyah Nur Fauziyah, Sulis Rochayatun

Faculty of Economics, Universitas Islam Negeri Maulana Malik Ibrahim Malang
Jl.Gajayana No.50, Dinoyo, Malang City, East Java, 65144, Indonesia
200502110070@student.uin-malang.ac.id

ABSTRACT

In this study, the aim is to find out what the role of internal audit is in creating and managing corporate governance to increase quality company value through a review of the results of previous studies. Which method is called a qualitative research method with an approach through literature review or collection and mapping of results from previous researchers? The journals for this research were obtained through Google Scholar and SINTA. Then for the research results obtained, internal audit has a very important role in creating and managing corporate governance. Internal audit will deploy all methods that can improve the quality of corporate governance to increase corporate value. This aims to attract back the interest of creditors and investors and to prevent fraud or cheating.

Keywords: Internal Audit, Corporate Governance, Fraud, Corporate Values

INTRODUCTION

Every organization or company naturally desires all aspects of the company to be of high quality and capable of enhancing the value of the company. Therefore, the role of an internal auditor is highly needed in this context. By having the role of internal audit, they can assist management and the board of directors in carrying out their tasks and responsibilities in managing a company. To achieve the company's objectives, the internal auditor must establish good corporate governance that can be measured through Return on Assets (ROA) or the company's sales growth (Putri et al., 2022). If a company has quality corporate governance, it will have an impact on the company's value. The value of the company itself is the most.

An important factor for investors to determine which company is suitable for investment (Yohendra et al., 2022). Therefore, by implementing quality corporate governance, the company's objectives to achieve performance can be realized. This includes factors that support the increase in the company's value, the characteristics of the company, the financial performance of the company, the dividend policy applied, and the debt policy implemented by the company.

The method for good corporate governance starts with the role of the internal auditor. An independent internal auditor plays a supervisory role in overseeing the company's operations by implementing best practices and safeguards against various internal risks that could impact its operational activities. In implementing an internal audit, auditors can utilize four main components: the audit committee, external audit, and risk management (Merawati & Hatta, 2015). In this regard, internal auditors can assist the company by monitoring the potential risks and detecting areas with the potential for improving risk management processes.

The framework for risk management involves how internal audits can address issues when implementing controls. It explains how risk management technology can assist regulated economic activities by assuring an organization or company's processes, systems, and activities (Zunaedi et al., 2022). The greatest risk that a company will face is fraud. Based on the fraud tree developed by ACFE, fraud can be divided into three categories: asset misappropriation, fraudulent financial reporting, and corruption (Putri et al., 2022). One example of fraud in financial reporting is earnings management, where individuals often

manipulate the profits or losses of the company. Technically, earnings management aims to make the profits for each period appear unchanged, so it is reported that the company continues to experience losses. Therefore, according to Sarens et al. (2012), an internal audit is crucial to the company, realizing a quality governance process and enhancing its value (Putri et al., 2022). This statement is further supported by the opinion of Vadasi et al. (2020), which demonstrates that the professionalism of an internal auditor significantly affects the effectiveness of the corporate governance process. This statement also indicates that the contribution of internal audit to the creation of corporate governance, to enhance the value of the company, can be shaped by several specific characteristics of the company, such as the quality of its governance (Dewi & Zatira Novridayani, 2020).

This study aims to reexamine previous research findings on the role of internal audit in creating governance and enhancing the value of a company. It also investigates measures to prevent fraud in financial reporting, specifically in the form of earnings management. Several studies have yielded different results. Based on the literature review, corporate governance is greatly influenced by the function of internal audit, which plays a significant role in achieving high-quality corporate governance. Internal audit is a reliable mechanism to prevent, detect, and reduce fraud in any form, including earnings management (Lestari & Oktaviana, 2020).

LITERATURE REVIEW

The research aims to reexamine the findings of previous studies regarding the role of internal audits in creating governance and enhancing the value of a company. It also investigates measures to prevent fraud in financial reporting, specifically in the form of earnings management. Several studies have yielded different results. Based on the literature review in Appendix 1, corporate governance is greatly influenced by the function of internal audit, which plays a significant role in achieving high-quality corporate governance:

INTERNAL AUDIT

The government has issued internal control regulations regarding the Internal Control System, specifically in Decision No. 60 of 2008. Internal auditors apply these regulations to oversee a company's performance. An internal audit is a process of evaluation and examination conducted by an independent internal audit team within a company. The purpose of an internal audit is to evaluate the effectiveness, efficiency, and reliability of the internal control system within the company. The internal audit team is responsible for examining and evaluating various aspects of the organization, including operational processes, compliance with policies and regulations, risk management, resource utilization, and the organization's fulfillment.

Objectives. Internal audits can also identify weaknesses or potential issues in the internal control system and provide recommendations for improvement (Segah, 2018).

Typically, internal audits are conducted regularly according to a predetermined schedule, but they can also be conducted ad hoc if necessary. To provide objective assessments, the internal audit team must be independent and not directly involved in the audited area or function. The results of internal audits are generally communicated to the organization's management and the board of directors as a form of accountability. Management can then use the audit findings to improve operational efficiency, identify weaknesses in the control system, and take necessary corrective actions.

GOOD CORPORATE GOVERNANCE

Good corporate governance usually refers to a set of practices and procedures implemented in a company to achieve transparency, accountability, integrity, and sustainability in decision-making and company operations (Salampessy, 2016). Therefore, corporate governance encompasses several important principles that companies should adhere to, including:

Transparency: This principle requires companies to maintain a high level of transparency by disclosing relevant information to shareholders, employees, and other stakeholders. The information should be clear, accurate, and easily understood by readers.

Effective Leadership: This principle obliges company leaders to be responsible for ensuring good corporate governance practices. They should demonstrate ethical behavior, have a clear vision for the company, and encourage innovation and sustainable growth.

Independent Board of Directors: This principle mandates that companies have a board of directors with independence, high integrity, and relevant industry experience. The board should carry out its duties independently and effectively oversee management decisions.

Sound Risk Management: This principle requires companies to identify, manage, and mitigate risks they may face. This involves identifying potential risks, determining risk management strategies, and continuously monitoring existing risks.

Legal and Regulatory Compliance: This principle necessitates companies to comply with applicable laws, regulations, and standards in the industry and region where the company operates. Companies should also adopt best practices in business ethics, including preventing corruption and other violations.

Shareholder Engagement: Companies should engage shareholders and protect their interests. This involves effective communication with shareholders, transparent voting processes, and protection of minority shareholder rights.

Social and Environmental Accountability: Under this principle, companies should be aware of their operations' social and environmental impacts. Companies should commit to social responsibility and manage environmental impacts by adopting sustainable business practices.

Evaluation and Performance Monitoring: Companies should regularly monitor their performance in achieving long-term goals. This involves performance measurement, internal auditing, and continuous monitoring of corporate governance practices.

Therefore, the abovementioned principles highlight the importance of companies' good corporate governance, benefiting the company and creating trust and confidence among shareholders, employees, customers, the general public, and the surrounding environment (Putri et al., 2022).

FRAUD

Fraud is an act of dishonesty or deception carried out to gain benefits or cause harm to others. Typically, fraud involves forgery, embezzlement, or manipulation of information to deceive others or specific organizations. Fraudulent activities usually occur within an organization or company and are intentionally carried out to deviate from accounting procedures. The fraud triangle theory developed by Cressey (1953) states that three factors cause fraud. The first is pressure, the second is an opportunity, and the last is rationalization.

Furthermore, research studies have identified various typologies of fraud. One includes fraud characterized by embezzlement, management or accounting fraud, vendor fraud, and deceitful manipulation. In committing fraud, perpetrators employ clever and deceitful methods to deceive their victims, such as sending phishing emails, creating fake websites, or manipulating documents and financial records.

Fraud is a serious crime as it can cause significant financial losses to individuals, businesses, or victimized organizations. Moreover, fraud can damage trust in social and business relationships and have long-term implications for the reputation of individuals or involved companies. Therefore, to prevent and address fraud, individuals, and companies need to increase awareness of tactics and techniques used by fraudsters. Additionally, they should implement various policies and procedures to mitigate the risk of fraud, such as strict monitoring, advanced security systems, and education on fraud prevention.

COMPANY VALUE

Company value refers to measuring or estimating a company's economic or financial worth. It can be calculated using various methods and approaches involving assets, revenue,

profit, growth, risk, and other market factors. A high and quality company value implements good and proper corporate governance. Therefore, several methods can be used to calculate the value of a company, including:

Market Capitalisation: This method calculates the value of a company based on the stock price in the capital market multiplied by the number of shares outstanding.

Enterprise Value: This method calculates the value of a company by considering all claims or recognitions of the company's value, including debt and equity. Enterprise value reflects the amount paid if the company was acquired.

Income Approach: This method calculates the value of a company based on its ability to generate future income or profit. It involves projecting future cash flows and calculating the present value of those cash flows.

Asset Approach: This method calculates the value of a company based on the size of its assets and liabilities. In this approach, the value of the company's assets is subtracted from the value of its liabilities to obtain the net value or equity of the company.

Market Approach: This method uses comparisons with similar companies that are listed in the stock market. The company's value is determined based on comparing prices or market ratios with similar companies.

Company value encompasses not only financial aspects but also non-financial aspects such as brand, reputation, quality of products or services offered, the expertise of employees, and other factors that can influence the company's long-term value.

RESEARCH METHOD

In this research, the researcher used a qualitative approach, specifically the literature review method. This method utilizes previous studies as references to discuss the role of internal auditing in corporate governance, company value, and fraud prevention mechanisms. Literature review research is a type of study that involves collecting, evaluating, and synthesizing information from various relevant literature sources related to the chosen research topic. This type of research aims to comprehensively understand previous research conducted in the field and identify gaps in knowledge that still need to be explored.

This research aims to determine the role of internal auditing in creating quality corporate governance to enhance company value. Additionally, the research aims to examine the role of internal auditing in preventing fraud in any form. Keywords used when searching for reputable journal articles include Internal Audit, Fraud, Corporate Governance, Company Value, and Corporate Governance. Journal articles were obtained from official platforms such as Google Scholar, Sinta, and others. Based on the findings from these articles, the researcher conducted data mapping and analysis to present a coherent narrative that elucidates the arguments of the research objectives.

DISCUSSION

The Role of Internal Audit in Corporate Governance

Previous studies have stated that corporate governance is an important element that can enhance the performance of companies in the Indonesian economy. This is demonstrated by the mechanisms that need to be established within companies to achieve the company's objectives. The mechanisms for corporate governance are crucial to ensure that all businesses gain trust from creditors, investors, and other stakeholders in the company's business activities. In implementing good corporate governance, internal audit plays a vital role in supporting the organization's entire management. In this regard, an internal audit aims to fulfill responsibilities by rigorously overseeing organizational controls. The traditional auditing role includes assurance, financial audits, and compliance procedures. However, the latest internal audit function involves monitoring systems and enhancing the company's risk management processes and corporate governance (Wahyuni & Wafiroh, 2023).

Internal audit has its function, which is strengthened by the fact that internal audit is a definite resource for creating and managing other governance aspects. This is evidenced by the contribution of internal audit to achieving the objectives and effective company performance. Companies usually assess auditors conducted by key company stakeholders to ensure that auditors can create corporate governance. This greatly affects the reputation and quality of auditors and the company (Handayati et al., 2022).

In conclusion, internal audit plays a crucial role in creating and managing corporate governance by evaluating the effectiveness of internal control systems, operational processes, compliance with regulations, and providing recommendations for improvement when necessary.

The Role of Internal Audit in Fraud Prevention

Internal audit plays a crucial role in fraud prevention within an organization or company. There are several actions that internal audits can take to prevent fraud. Firstly, an internal audit evaluates the internal control system, including procedures and policies used to protect the organization's assets and prevent misuse of funds. Through this evaluation, internal audits can identify weaknesses or gaps in the internal control system that fraud perpetrators can exploit.

Furthermore, an internal audit identifies the risks of fraud within the organization. By understanding the existing fraud risks, internal audits can focus preventive efforts on areas susceptible to risks. Internal audit also contributes to developing and implementing anti-fraud policies and procedures. This can be ensured by holding individuals accountable to ensure the effectiveness of these policies and procedures throughout the company.

In the event of fraud, an internal audit has the authority to conduct internal investigations. Internal investigations involve thorough inquiries to gather evidence, analyze findings, and determine necessary steps to address fraud, recover losses, and take disciplinary actions. Companies should provide training to enhance employee awareness to support these internal audit roles. Companies can conduct training sessions, develop educational materials, and coordinate awareness campaigns to help employees understand fraud risks, warning signs, and the actions they should take if they encounter or suspect fraud (Rinjani, 2022).

Therefore, companies must provide adequate support and resources to internal audits to enable them to perform their roles effectively and with quality. Additionally, companies should regularly assess the quality of auditors to enhance their independence. Conducting evaluations helps improve the company auditors' quality (Ardhani et al., 2019).

The Impact of Corporate Governance on Firm Value

Corporate governance is the system and practices used to manage and control a company to achieve its objectives. The impact of corporate governance on firm value is significant. A well-governed company gains investor trust, improves its performance, has broad access to sufficient resources and capital, prevents power abuse, and, most importantly, enhances its image and reputation. In essence, corporate governance can create additional value by fostering good performance, generating added value, and benefiting shareholders or owners of the company (Yuliana & Sartika, 2020).

CONCLUSION

Based on the conducted research, the researcher has examined and mapped previous studies to conclude that the role of internal audit in a company has an impact on effective governance, which can reduce risks that may threaten the company. Good corporate governance increases the company's value, attracting investors and creditors.

However, it is important to acknowledge this research's data analysis and mapping limitations. The diverse opinions obtained from previous research studies present a

challenge. This study specifically focused on exploring the role of internal audit in creating and evaluating effective corporate governance, which impacts the company's value. Therefore, the research only examines a small portion of the overall positive effects of internal audits on a company, as there are still many other impacts resulting from the implementation of internal audit roles.

REFERENCES

- Ardhani, L., Subroto, B., & Hariadi, B. (2019). Does Auditor Independence Mediate The Relationship Between Auditor Rotation And Audit Quality? *Jabe (Journal Of Accounting And Business Education)*, 4(1), 1. <https://doi.org/10.26675/Jabe.V4i1.8145>
- Dewi, M., & Zaira Novridayani. (2020). Analisis Pengaruh Tata Kelola Perusahaan Yang Baik, Kinerja Keuangan Dan Ukuran Perusahaan Terhadap Kesulitan Keuangan Di Perusahaan Manufaktur Yang Terdaftar Di Bei Tahun 2015-2017. *Jurnal Manajemen Dan Keuangan*, 8(3), 281–299. <https://doi.org/10.33059/Jmk.V8i3.2397>
- Handayati, P., Tham, Y. H., Yuningsih, Y., Rochayatun, S., & Meldona. (2022). Audit Quality, Corporate Governance, Firm Characteristics, And Csr Disclosures— Evidence From Indonesia. *Journal Of Corporate Accounting And Finance*, 33(3), 65–78. <https://doi.org/10.1002/Jcaf.22548>
- Kustina, K. T. (2017). Peran Audit Internal Dan Komitmen Manajemen Dalam Penerapan Good Corporate Governance. *Jurnal Ilmiah Akuntansi Dan Bisnis*, 2(1), 43–72. <https://doi.org/10.1155/2016/7343965>
- Lestari, I. F., & Oktaviana, U. K. (2020). Peranan Komite Audit Dan Dewan Pengawas Syariah Terhadap Kualitas Laporan Keuangan (Studi Kasus Pada Bprs Di Jawa Timur). *El Dinar*, 8(1), 29. <https://doi.org/10.18860/Ed.V8i1.7611>
- Merawati, E. E., & Hatta, I. H. (2015). Komite Audit, Audit Internal, Dan Audit Eksternal Sebagai Pengawas Solvabilitas Perusahaan Asuransi. *Jurnal Akuntansi Multiparadigma*, 2002. <https://doi.org/10.18202/Jamal.2015.04.6002>
- Padang, N. N. (2023). Peran Audit Internal Dalam Meningkatkan Tata Kelola Perusahaan. *Peran Audit Internal Dalam Meningkatkan Tata Kelola Perusahaan*, 4(1), 88–100.
- Putri, Fiona Vista Ngelo, A. A. (2022). Studi Kepustakaan: Peranan Fungsi Audit Internal Dalam Menciptakan Tata Kelola Yang Baik. *Jurnal Akuntansi*, 11, 130–141.
- Putri, G. A., Akuntansi, P. S., Ekonomi, F., Islam, U., & Surakarta, B. (2022). Pengaruh Tata Kelola Perusahaan Dan Audit Internal Terhadap Kinerja Perusahaan Jasa Kontruksi. *Jurnal Akuntansi Dan Keuangan*, 11(2), 145–155.
- Rinjani. (2022). Peran Auditor Internal Dan Auditor Eksternal Dalam Upaya Pemberantasan Korupsi. *E-Jurnal Akuntansi Tsm*, 2(2), 1083–1098.
- Rizkyana, D., Gunawan, H., & Purnamasari, P. (2015). Pengaruh Audit Internal Dan Audit Eksternal Terhadap Pencegahan Fraud (Survey Pada Bumh Di Kota Bandung, Jawa Barat). In *Prosiding Akuntansi* (Vol. 1, Issue 1, Pp. 287–293).
- Salampessy, A. P. (2016). Analisis Pengaruh Penerapan Audit Internal Dan Audit Eksternal Terhadap Kualitas Good Governance. *Jurnal Ekonomi, Volume 18 Nomor 3, Oktober 2016*, 18, 10–27.
- Segah, B. (2018). Dua Sisi Auditing: Audit Eksternal Dan Internal Pemerintah. *Anterior Jurnal*, 18(1), 30–39. <https://doi.org/10.33084/Anterior.V18i1.433>
- Wahyuni, N., & Wafiroh, N. L. (2023). Good Corporate Governance Disclosures And Financial Performance: Islamic Social Reporting And Zakah Disclosures As Mediating. *El Dinar : Jurnal Keuangan Dan Perbankan Syariah*, 11(1), 18–34.
- Yohendra, Cynthia L. S., M. (2022). Analisis Tata Kelola Perusahaan, Dan Nilai Perusahaan. *Jurnal Manajemen*, 6(2), 73–82. <https://doi.org/10.54964/Manajemen.V6i2.205>
- Yuliana, I., & Sartika, F. (2020). Mediating Effect Of Islamic Social Reporting On The Relationship Between Good Corporate Governance And Company Value: The Case Of The State-Owned Enterprises. *Global Review Of Islamic Economics And Business*, 8(1), 1–11.

Zunaedi, B. N. F., Annisa, H. R., & Dewi, M. (2022). Fungsi Internal Audit Dan Manajemen Risiko Perusahaan: Sebuah Tinjauan Literatur. *Jurnal Bisnis Dan Akuntansi*, 24(1), 59–70. <https://doi.org/10.34208/Jba.V24i1.1159>

Appendix 1

Table 1. Literature Review

NO	Name, Year, Research Title	Method or Data Analysis	Research Result
1.	Fiona Vista Putri dan Agnes Aurora Ngelo, 2022, Studi Kepustakaan: Peranan Fungsi Audit Internal Dalam Menciptakan Tata Kelola Yang Baik	The method used by the researcher is a qualitative approach using the library research method, which is guided by previous studies.	Based on the findings discovered by the researcher, many studies have shown that if a company has a well-functioning internal audit function, it can establish good corporate governance and reduce the risk of fraud in any form.
2.	Cynthia Lavenia Yohendra dan Meinie Susanty, 2019, Tata Kelola Perusahaan dan Nilai Perusahaan	The researcher utilized a quantitative approach with a purposive sampling method, focusing on non-financial companies listed on the Indonesia Stock Exchange (BEI) as the research object.	Based on the conducted research, the researcher concludes that investors consider how a company can improve return on investment. This is closely related to effective corporate governance to create company value and attract investors. However, the findings of this study indicate that the examined companies have not been successful in minimizing the risks that can occur in their operational activities.
3.	Dina Rizkyana, Hendra Gunawan dan Pupung Purnamasari, 2015, Pengaruh Audit Internal dan Audit Eksternal Terhadap Pencegahan Fraud (Survey pada BUMN di Kota Bandung, Jawa Barat)	The researcher employed a quantitative approach in this study, utilizing a probability sampling technique known as Simple Random Sampling. The population for this research consisted of 24 predetermined respondents, determined and calculated using Slovin's formula.	The researcher found that internal audit, external audit, and the collaboration between both audits significantly and positively influence the prevention of fraud or misconduct within a company

Fauziah & Rochayatun: The Quality of Internal...

4.	Novi Natalia Padang, 2023, Peran Audit Internal Dalam Meningkatkan Tata Kelola Perusahaan.	The method used by the researcher is a qualitative approach.	In this study, the researcher found that if internal auditing improves its quality, it will focus more on enhancing a company's corporate governance
5.	Ketut Tanti Kustina dan Devy Leviyanthie Zulianto, 2017, Peran Audit Internal dan Komitmen Manajemen dalam Penerapan Good Corporate Governance	The researcher utilized a qualitative approach in this study and collected primary data through open and unstructured interviews. The sample for the study consisted of all banking companies that received a good rating in terms of Good Corporate Governance based on the assessment conducted by the Financial Services Authority (Otoritas, et al)	This study found that management commitment and internal audit play distinct roles in implementing Good Corporate Governance. One of the roles of management commitment is prioritizing qualified human resources and promoting responsibility within the company, aligning with the company's code of ethics, and facilitating the implementation of corporate governance practices. On the other hand, internal audit also contributes to enhancing the corporate governance process by ensuring that management develops ethical values within the company.

Source: Processed Data, 2023

*Accounting,
Auditing, and
Taxation*