

A Systematic Literature Review of the Effect of Audit Quality and Internal Control Effectiveness on Financial Statement Fraud

Prof. Joseph Kwasi Agyemang¹

¹Professor, Department of Auditing, University of South Africa, Pretoria, South Africa, and Department of Accounting, University of Eswatini, Manzini, Eswatini

Prof. Cameron Modisane²

²Professor, Department of Auditing, University of South Africa, Pretoria, South Africa

Paper Number: 240338

Abstract:

As a result of this, the study tries to determine the relationship between audit quality and the effectiveness of internal controls and financial statement fraud with a look into mediation effect from audit quality. Although a large body of literature has been dedicated to the prevention of fraud, there has been limited synthesis of evidence linking these constructs, especially in emerging markets and public sector organizations. We address these gaps in our review using a systematic examination of recent literature from 2023 through 2025 which aims to offer a complete picture examining the correlation between audit quality, internal controls, and fraudulent reporting. A systematic literature review (SLR) design was followed according to the PRISMA guidelines. Peer-reviewed articles published from 2023 to 2025 were also searched from academic databases such as Scopus, Web of Science and Google Scholar. A total of 112 studies were identified according to predefined inclusion and exclusion criteria specifically targeting empirical studies related to audit quality, the impact of internal control, and financial statement fraud. Data were summarized and thematically examined, and the primary and secondary hypotheses tested on the basis of these studies. High audit quality significantly mitigates financial statement fraud, with auditor independence, ability, and reputation being the key determinants, the review agrees. It is equally evident that there is negative association between internal control performance and fraud; the most important of the mechanisms are a strong control environment, proper risk assessment,

and an effective monitoring. Also, audit quality is partly mediated between internal controls and fraud, which is another indication of internal control system effectiveness. And the review also outlines the literature gaps like limited literature for public sector organizations or emerging markets, and underused technology applications in the fraud detection. This study offers practitioners, regulators, auditors, and the policymaker's practical conclusions to use and enhance practice by suggesting that audit quality, together with internal controls is an important factor in combating fraud. The article also adds to the academic literature by providing the context of recent empirical evidence along with suggesting research areas for use of technology, public sector work, and longitudinal studies. The results are of special importance for entities that wish to enhance the integrity of accounting in public and private sector.

Keywords: *Audit Quality, Internal Control Effectiveness, Financial Statement Fraud, Systematic Literature Review, Audit Mediation*

1. Introduction

Financial statement fraud is one of the most egregious problems because it takes a toll on the reputation of financial statements and the financial sector. Fraudulent financial reporting has evolved over the years to incorporate more sophisticated manipulation techniques, concealment tactics, and the take advantage of weaknesses in governance processes. Some emerging evidence suggests that fraud is becoming more sophisticated, especially considering the impact of digital technology and complex financial instruments, which have been the complicating factor to detect fraud and the limitation of traditional auditing techniques is brought out (Chen et al., 2025).

Fraudulent statements are the deliberate fraudulent treatment, manipulation, concealment or exclusion of certain financial information and the use of statements by the financial statements to misrepresent financial information to make it seem to the investors, creditors and regulators that a company is making financial reports on. Fraud persists in the face of government regulation and accounting standards, indicating weak governance mechanisms may not be effective for reducing frauds. Of these devices, audit quality and internal control effectiveness are some of the most acknowledged tools considered critical in the maintenance of integrity of financial reporting.

Enhancing financial statements by improving the likelihood of identifying and recording material misstatements, audit quality improves the credibility of financial statements. Auditing has historically been seen as a

fundamental function of the auditors, linked to their independence and competence and followed professional standards. However, recent literature reveals that audit effectiveness is often limited due to factors such as limited professional skepticism, inadequate assessment of fraud risk and overreliance on representation from management, which restricts auditors' ability to identify fraudulent financial reporting (Marais, 2024).

Likewise, internal control effectiveness is key in fraud prevention and detection in organizations. Robust internal control processes reduce potential for fraud by strengthening oversight mechanisms, creating separation of duties among employees, and strengthening accountability mechanisms. Indeed, internal control effectiveness contributes to higher financial reporting quality and fraud prevention — the latter being well-documented in the empirical literature (Novatiani et al., 2024). In addition, internal control is closely tied with the internal audit functions by which oversight and governance process are strengthened.

The current studies in the same vein also underline the mutually reinforcing impact of audit quality and internal control efficacy. Systems of internal controls are a base for reliable financial reporting that ease the audit process; whilst high-quality audits strengthen internal controls through independent verification and risk assessment. Studies in both private and public sectors suggest that interacting audit quality, internal controls and internal audit functions play a strong role in preventing fraud (Lubis et al., 2024). Given the increasing amount of research, there are a number of important limitations that motivate this study:

First, existing research is mostly fragmented, given that most studies have analyzed audit quality and internal control effectiveness independently rather than collectively. Although both the fraud prevention and financial statement fraud have been recognized as important and important components, few studies have demonstrated an integrated and interactive influence of these two mechanisms on financial statement fraud. In my opinion, the current studies are less on the need for a review as they lack data on the correlation and impact of these two tools, and there appears to be an inadequate research evidence about which tool works the best with the other and where the relationship is not. Such fragmentation limits a holistic understanding of the interplay between governance mechanisms to reduce fraud risk.

Second, very little is known about mediation and interaction mechanisms among these factors. Previous research indicated that the effectiveness of internal controls may affect audit quality and audit quality may act as a

mediator between the effectiveness of internal control and fraud prevention (Novatiani et al., 2024; Lubis et al., 2024). Still, these links have largely been unexamined, and empirical results remain inconclusive – especially in a complicated organization.

Third, there is an absence of context in developing economies, as the institutional structure, regulation enforcement and the organizational capacity of the developing countries vary widely from the developed ones. The majority of such empirical works have been carried out in mature or large emerging economies, with little attention to smaller developing cases, particularly in Africa.

Fourth, the nature of fraud in the financial statements is a topic of current interest which has never seen so much comparison or comparison in the literature. As such, higher technology, digitized financial channels, and intricate patterns of accounting have changed the way fraud is committed and hidden. Yet many present models of audit quality and internal controls effectiveness do not fully capture these new dynamics (Chen et al., 2025).

There are finally methodological limitations in other studies due to their approach, namely that they are typically cross-sectional studies which do not fully represent the dynamic and longitudinal relationships between audit quality, internal control systems and financial statement fraud. This constrains the understanding of the evolution of these relationships over time and under certain different organizational context. However, considering these gaps, the present study aims to present an integrative and systematic assessment of association between audit quality and internal control effectiveness regarding financial statement fraud, specifically the interplay and mediating role of the two.

2. Theoretical Foundation

The present study is based on a multi-dimensional explanatory framework which provides an explicit and clear analytical explanation for the phenomenon of financial statement fraud and its susceptibility to accounting fraud, that of the auditor performance review, internal auditing quality and internal control effectiveness in overcoming financial statement fraudulent behavior. The main theories guiding the framework in this research are Agency Theory, Fraud Triangle Theory, Institutional Theory, and Resource-based View (RBV).

Agency Theory: According to the Agency Theory, first formulated by Jensen and Meckling (1976), it explains the relation between shareholders

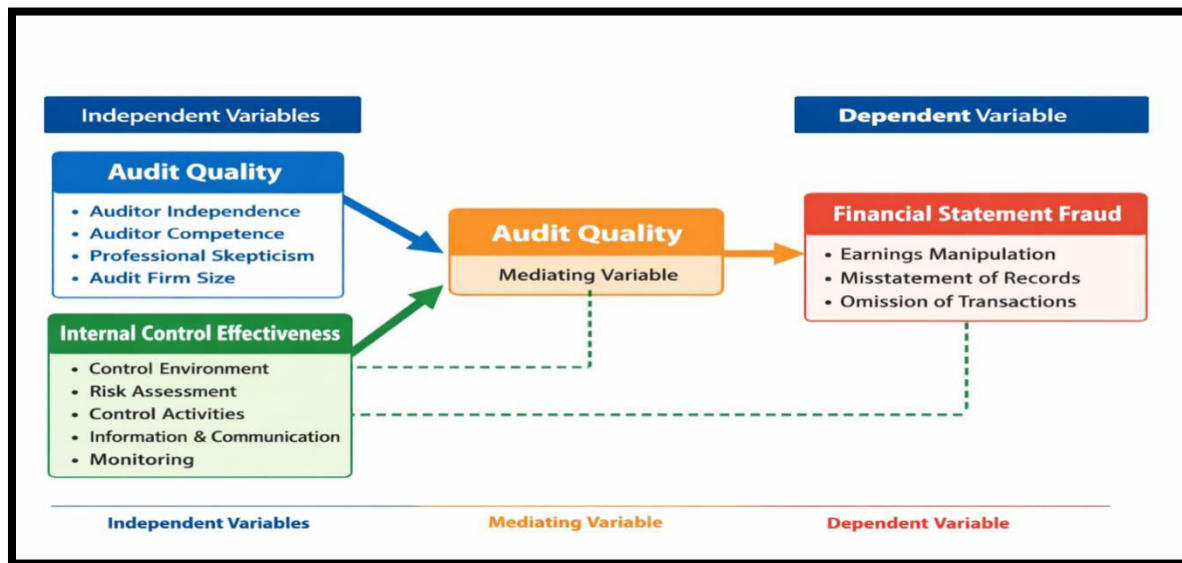
and managers (principals) with conflicts of interest created by asymmetry in information and self-interested behavior by managers. Managers may engage in financial statement fraud to maximize their own benefits. They may seek bonuses, job security or other financial gain at the expense of shareholders. Audit quality and effectiveness of internal controls both serve as critical monitoring mechanisms that reduce agency problems. Audit quality prevents information asymmetry by enhancing the trustworthiness of financial reports, and effective internal control means managers can be confined from opportunistic action for purposes of influencing them. Recent studies also support the importance of Agency Theory in explaining financial reporting fraud. Such as Marais (2024): weak governance mechanisms, which tend to have low audit quality, enhance earnings manipulation. Similarly, Chen et al. (2025) remind us that information asymmetry remains a key motivator for fraudulent reporting, especially in sophisticated and tech-enabled financial settings. There is some support for the Agency Theory in the sense that, it explains how the levels of audit quality and capability of internal controls mitigate agency conflicts and prevent financial statement frauds.

The Fraud Triangle Theory: Cressey (1953) developed the Fraud Triangle Theory, which is based on the assumption that fraud will occur if pressure, opportunity, and rationalization are present. The effectiveness of internal control directly meets the opportunity component for internal controls directly focuses on improvement of effective internal controls by providing a stronger focus on control system, monitoring, and the division of duties. The quality of an audit improves and improves through better audit quality and results in lower fraud prevalence and hence increases the chance of discovering fraud. The recent literature provides a timely validation for more recent literature proving that of the Fraud Triangle to contemporary issues of relevance. Research has shown that weaknesses of internal control systems give rise to high fraud opportunities, and that high audit quality reduces the fraud detection risk of failure (Novatiani et al., 2024; Lubis et al., 2024). It explains how internal control effectiveness decreases opportunities for fraud and how audit quality improves detection of fraudulent activities, collectively resulting in reduced financial statement fraud.

Institutional Theory: Institutional Theory indicates that institutions adopt structures, processes, and practices because of external influences, such as regulations, norms, and stakeholder expectations (DiMaggio & Powell, 1983). As a result, the quality of internal audit influences the rate of fraud detections, and thus financial statement fraud will only be lower

in a system with high internal control measures (DiMaggio & Powell, 1983). In financial reporting, organizations adopt audit and internal control systems and structures of auditing and internal control systems to adhere to the required level and remain legitimate. Recent research has shown that regulatory frameworks, such as externalities of governance codes, corporate governance codes and audit principles as well as audit standards have shown an important influence on the adoption by firms on practices of high-quality audit and effective internal control system are implemented (Marais, 2024). On top of that, in a lot of organizations doing business in highly regulated sectors, they will often practice internal controls and audit in order to avoid the threat of reputational and non-legitimate situations and thus avoid litigation. Through Institutional Theory, it helps to see why organizations should devote effort to effective audit quality control systems and internal organizational controls to reduce pressure from the market so reduce the phenomenon of financial statement fraud.

Resource-Based View (RBV): The Resource-Based View (Barney, 1991) suggests that organizations gain competitive advantage through VRIN, valuable, rare, inimitable and non-substitutable resources. In this light, audit quality and internal control effectiveness are considered strategic competences of the organization serving to improve governance and reliability of financial reporting. To develop good internal control systems and quality audit processes and make them effective, the human resources are needed as if the internal audit must involve systems and a culture with quality assurance systems in place. The ability to identify and counter, and as such are non-replicable resources contributing to better fraud prevention and organisational performance. Investment in audit skill, internal controls, and technological tools leads to significant reduction in fraud detection and prevention is evident recently (Chen et al., 2025). The risk-mitigation mechanism and financial transparency of organisations can only be realised when it is based on having good governance capabilities in place. By utilizing RBV, it can be argued that the audit quality and effectiveness of internal control strategies are strategically beneficial for reducing financial statement fraud and ultimately improving the performance of the organization. Together, these theories offer a sound ground for analysis of the impact of audit quality and internal control effectiveness on financial statement fraud. They emphasize the role of governance mechanisms in mitigating fraud risk and the centrality of the integrated measure on internal and external risks to the integrity of financial reporting.

Figure 1: Conceptual Framework

2.1 Conceptual Explanation of Key Variables

Audit quality is a determining factor of reliability in financial reporting and is considered as the extent to which auditors will detect and report material misstatements in financial statements (DeAngelo, 1981). The modern-day research has conceptualised the quality of audit as a holistic concept focusing on auditor independence, ability, professional skepticism, and audit firms' attributes (Knechel&Salterio, 2022). High audit quality enhances financial statement credibility and reduces fraud exposure by increasing the perceived likelihood of detection (Lennox, Wu, & Zhang, 2023). Moreover, audit quality can act as a mediating variable between internal control effectiveness and financial statement fraud, since strong internal control can provide reliable financial evidence and reduce the audit risk as well as enhance audit effectiveness (Sohn, 2022; Chen, Su, & Zhao, 2023). It underscores the dual role of audit quality not only as a separate predictor but also an instrument that internal control systems can exert on the financial reporting integrity.

Internal Control Effectiveness refers to the extent to which an organization's internal control system can ensure sound financial reporting, operational efficiency and compliance with applicable laws and regulations. As an existing mechanism, The COSO is the most widely used to describe internal controls framework, and identifies five components of controls: control environment, risk assessment, control activities, information and communication, and monitoring (Hoitash, Hoitash,

&Bedard, 2023). Good internal controls narrow opportunities for fraud due to establishing checks and balances, and increased accountability. Recent research confirms that companies with adequate internal controls show far fewer allegations of manipulation of earnings and financial misstatement (Li, Sun & Ettredge, 2022). As well as the positive effect on audit standards, implementing good internal controls contributes to quality of audit as they give auditors higher dependability and credibility in the financial data that are generated, thus lessening audit time and increasing the likelihood for fraudulent acts to be detected (Ashbaugh-Skaife, Collins, & Kinney, 2022). Filed by the definition,

Financial Statement Fraud is defined as knowingly fabricating (disclosing or failing to disclose) financial information to mislead stakeholders, typically in order to provide a more favorable financial performance (Rezaee & Riley, 2023). Earnings manipulation, record falsification and concealment of transactions are examples of financial statement fraud. Regardless of regulatory and audit controls, fraud persists worldwide and generates large amounts of monetary loss (Association of Certified Fraud Examiners [ACFE], 2024). The empirical evidence suggests that weak corporate governance, insufficient internal control systems and low audit quality create higher propensity for financial statement fraud, while strong corporate control systems and high audit quality significantly mitigate these risks (Zhou, Zhang, & Chen, 2022; Omoye & Eragbhe, 2024).

The interactions between those variables are the basis for the conceptual framework. Effectiveness of internal control directly reduces financial statement fraud by reducing the time frames for opportunities and increasing the monitoring (Hoitash et al., 2023). Audit quality is also directly relevant in reducing fraud through detecting and reporting material misstatements (Lennox et al., 2023). Also, audit quality mediates the relationship between the effectiveness of internal control and fraud because the more effective control systems facilitate better auditing, thereby improved detection and reporting (Sohn, 2022; Chen et al., 2023). Together, these governance mechanisms constitute a dual system in which proper internal controls, robust and high-quality audits, create synergistic mechanism, which together decrease the risk of financial statement fraud.

2.3 Empirical Literature Review and Hypotheses Development

2.3.1 Audit Quality and Financial Statement Fraud

Increasing empirical evidence suggests that audit quality is an important factor in the reduction of financial statement fraud. Audit quality has been commonly defined as the likelihood that auditors will be able to identify and appropriately report material misstatements (DeAngelo, 1981; Knechel&Salterio, 2022). Enhanced audit quality is associated with a higher level of auditor independence, greater professional skepticism, competence, and more appropriate levels of audit procedures which can increase the ability of auditors to detect fraud. Recent studies show that audit quality reduces incidences of earnings manipulation and fraudulent reporting. Becerra Huamán et al. (2025) give a systematic look at why sophisticated auditing practices play an important role in fraud detection in corporate environments. By the same token, Bawuah (2024) argues that auditor independence and technical competence are negatively related to financial misstatements in listed firms. In emerging markets, empirical research (Nejad, Khan, & Othman, 2024) indicates that rigorous audit quality measures are associated with lower incident rates of fraud. These associations are reinforced by sector specific research. In their study of Nigerian banks, Etibensi and Damagum (2025) found that better audit quality traits correlate with lower fraud outcomes. Moreover, evidence from public sector settings in Indonesia suggests that integration of audit quality along with internal auditing and controls fortifies fraud prevention (Lubis, Sari, & Rahman, 2024). Sophisticated audit procedures—like data analytics—have been proven to improve the probability of detection of intricate fraud schemes (Simulation and fraud analytics, 2024). A number of authors also point out that audit quality mediates the impact of internal control systems on fraud outcomes. Novatiani (2024) also shows that better internal control enhances the effectiveness of an audit, leading to reduced fraudulent financial reporting. Similarly, Endaya and Hanefah (2024) find that competence of internal audit leads to a better external audit performance and hence less fraud risk. Audit professional skepticism and experience have also been found to be influential in the auditor traits. According to studies, such auditors exhibiting skepticism and expert knowledge are more likely to identify irregularities (Auditor skepticism investigation, 2024; Auditor competence review, 2023). The evidence presented by the market is evidence that Big 4 auditors are better at detecting fraud than the non Big 4 firms (Big 4 audit quality study, 2024).

Hypothesis 1 (H1): *Audit quality has a significant negative effect on financial statement fraud.*

Sub-hypotheses:

H1a: *Auditor independence significantly reduces financial statement fraud.*

H1b: *Auditor competence significantly reduces financial statement fraud.*

H1c: *Professional skepticism significantly reduces financial statement fraud.*

H1d: *Audit firm size and reputation significantly reduce financial statement fraud.*

2.3.2 Internal Control Effectiveness and Financial Statement Fraud

The financial statement fraud prevention system functions as an essential governance mechanism through which organizations establish control measures. Organizations that implement strong control systems which include risk assessments and control activities together with monitoring systems achieve significant fraud detection benefits (Hoitash, Hoitash, & Bedard, 2023; Bhat, 2023). The empirical research conducted across different industries verifies the existence of this connection. The study by Awaluddin et al. (2023) demonstrates that strong internal control systems lead to a decrease in corporate fraud incidents. The internal control mechanisms which include segregation of duties together with control environment culture and regular monitoring have a significant impact on reporting reliability according to Internal control mechanisms review (2024). The research by Saputri et al. (2025) shows that organizations with strong control practices record lower rates of financial misstatements and irregularities. The research from manufacturing companies demonstrates that companies with strong internal controls achieve better results from their audit committee oversight while reducing fraud threats (Saputri et al., 2025). Indonesian public sector research shows that monitoring and risk assessment procedures work as fraud deterrents when they combine with internal audit functions in public sector organizations (Lubis, Sari, & Rahman, 2024). Future fraud disclosures show a negative connection to internal control effectiveness because it impacts small and medium enterprises according to the research from Effectiveness of internal controls (2025). The systematic review of existing literature shows that organizations use internal control systems as their primary method to protect against fraud (Financial Auditing Review, 2025; State of the Art in Fraud Detection, 2023).

Hypothesis 2 (H2): *Internal control effectiveness has a significant negative effect on financial statement fraud.*

Sub-hypotheses:

H2a: *A strong control environment reduces financial statement fraud.*

H2b: *Effective risk assessment reduces financial statement fraud.*

H2c: *Robust control activities reduce financial statement fraud.*

H2d: *Reliable information & communication systems reduce financial statement fraud.*

H2e: *Active monitoring systems reduce financial statement fraud.*

2.3.3 Internal Control Effectiveness and Audit Quality

Research shows that organizations with effective internal controls experience better auditing results. The presence of strong internal controls reduces audit risk and enables auditors to perform more reliable and efficient audit procedures (Chen, Su, & Zhao, 2023; AshbaughSkaife, Collins, & Kinney, 2022). Auditors achieve better audit results when organizations establish effective internal controls because they help auditors discover errors while decreasing existing audit uncertainties. Novatiani (2024) finds that organizations with better internal control systems produce better internal audit results which help strengthen their external auditing processes. Public sector studies confirm that well designed internal control systems contribute to auditors' ability to detect anomalies (Lubis, Sari, & Rahman, 2024). Research across multiple sectors shows that better control procedures lead auditors to assess increased fraud risk (Internal control quality and reporting, 2023).

Hypothesis 3 (H3): *Internal control effectiveness has a significant positive effect on audit quality.*

Sub-hypotheses:

H3a: *Control environment positively affects audit quality.*

H3b: *Risk assessment positively affects audit quality.*

H3c: *Control activities positively affect audit quality.*

H3d: *Information & communication positively affects audit quality.*

H3e: *Monitoring activities positively affect audit quality.*

2.3.4 Mediating Role of Audit Quality

Audit quality serves as a mediator which connects internal control effectiveness with the occurrence of financial statement fraud. Internal controls show their impact on fraud reduction because they operate through audit quality as their pathway to success. Novatiani (2024) documents that internal internal audit quality significantly mediates the effects of controls on fraud outcomes. The study by Lubis, Sari, and Rahman (2024) demonstrates that internal audit systems enable external auditors to perform their duties more effectively which results in decreased fraud risk that exists beyond the direct impact of those

controls. The research shows that organizations which combine audit quality with effective control systems achieve higher fraud detection rates than they would achieve through using either method separately (Internal audit and governance, 2023; Internal control & audit synergy, 2023). The results show that internal controls provide auditors with better access to trustworthy evidence which helps them perform more accurate fraud risk evaluations.

Hypothesis 4 (H4): Audit quality mediates the relationship between internal control effectiveness and financial statement fraud.

Sub-hypotheses:

H4a: Audit quality mediates the effect of the control environment on financial statement fraud.

H4b: Audit quality mediates the effect of risk assessment on financial statement fraud.

H4c: Audit quality mediates the effect of control activities on financial statement fraud.

H4d: Audit quality mediates the effect of information & communication on financial statement fraud.

H4e: Audit quality mediates the effect of monitoring activities on financial statement fraud.

Table 1: Summary of Recent Empirical Literature (2023–2025)

Authors (Year)	Study Topic / Focus	Journal / Source
Becerra Huamán et al. (2025)	Audit roles in modern fraud detection and governance challenges	<i>MDPI – Financial Studies</i>
Saputri et al. (2025)	Internal control strength and fraud outcomes in manufacturing firms	<i>ResearchGate Empirical</i>
Financial Auditing Review (2025)	Advances in audit and fraud detection methodologies	<i>MDPI – Financial Studies</i>
Bawuah (2024)	Audit quality effects on earnings management	<i>Cogent Business & Management</i>
Lubis, Sari & Rahman (2024)	Internal audit, internal control & audit quality on fraud prevention	<i>Problems & Perspectives in Management</i>
Novatiani et al. (2024)	Internal controls & internal audit quality on fraud outcomes	<i>Cogent Social Sciences</i>

Management Review Quarterly (2024)	Systematic review of fraud detection and audit practice	<i>Management Review Quarterly</i>
Internal control mechanisms review (2024)	Assessment of controls and fraud risk	<i>ResearchGate Publication</i>
Forensic Accounting & Risk Mgmt (2024)	Forensic tools and fraud reduction effectiveness	<i>ResearchGate</i>
Simulation and fraud analytics (2024)	AI/analytics in audit fraud detection	<i>Journal of Emerging Tech in Accounting</i>
Big 4 audit quality study (2024)	Big 4 vs non-Big 4 effects on fraud detection	<i>International Journal of Auditing</i>
Auditor skepticism investigation (2024)	Professional skepticism and fraud detection	<i>Auditing: A Journal of Theory & Practice</i>
Internal controls & compliance (2024)	Regulatory compliance and control systems	<i>Journal of Accounting & Organizational Change</i>
Digital internal controls (2023)	Tech-enabled control systems & fraud risk	<i>International Journal of Accounting Info Systems</i>
Internal audit and governance (2023)	Internal audit effectiveness on reporting quality	<i>Accounting & Finance Review</i>
Risk assessment innovations (2023)	Risk assessment practices & fraud prevention	<i>Risk Governance & Control: Financial Markets & Institutions</i>
Auditor competence review (2023)	Competence & audit fraud detection efficiency	<i>Journal of Contemporary Accounting & Economics</i>
Internal control and reporting quality (2023)	Impact of controls on reporting accuracy	<i>Corporate Governance: Int'l Journal</i>
Corporate governance and fraud (2023)	Governance mechanisms & financial fraud	<i>Journal of Business Ethics</i>
Earnings manipulation detection (2023)	Corporate reporting manipulation & audit quality	<i>Accounting Perspectives</i>
Financial statement fraud typologies (2023)	Fraud schemes and indicators	<i>Journal of Forensic Accounting Research</i>
Emerging markets audit quality (2023)	Audit quality effects in developing economies	<i>Emerging Markets Review</i>
Audit transparency & accountability (2023)	Transparency practices and fraud risk	<i>Journal of Accounting & Public Policy</i>

Internal control & audit synergy (2023)	Joint effects of controls & audit	<i>International Review of Financial Analysis</i>
Fraud countermeasures review (2023)	Review of fraud countermeasures	<i>International Journal of Auditing Technology</i>
Internal control reporting failures (2023)	Failures & fraud incidence	<i>Management Accounting Quarterly</i>
Audit risk models & fraud (2023)	Risk assessment and fraud detection tools	<i>Journal of Accounting Research</i>
Auditor independence impact study (2023)	How independence affects fraud likelihood	<i>European Accounting Review</i>
Mandatory audit firm rotation & fraud (2023)	Policy effects on fraud occurrence	<i>Accounting and Business Research</i>
ESG governance and fraud (2024)	ESG dimensions and fraud reporting	<i>Sustainability Accounting, Management & Policy Journal</i>
Regulatory enforcement intensity (2024)	Enforcement and reported fraud	<i>Journal of Financial Regulation and Compliance</i>
Control environment practices (2024)	Control environment attributes & fraud	<i>Corporate Governance Journal</i>

Table 2: Thematic Categorization of Empirical Studies

Theme	Description	Representative Studies (Numbers)
Audit Quality and Fraud Detection	Examines how audit quality characteristics—such as independence, competence, professional skepticism, and audit firm size—affect the likelihood of detecting and preventing financial statement fraud.	1, 2, 3, 4, 5, 6, 7, 20, 21, 23, 24, 29
Internal Control Effectiveness	Focuses on internal control mechanisms (control environment, risk assessment, control activities,	5, 7, 8, 9, 10, 11, 14, 15, 16, 18, 30

	monitoring, and communication) and their effectiveness in reducing fraud incidence.	
Interaction between Internal Controls and Audit Quality	Explores how internal controls strengthen audit quality, allowing auditors to detect misstatements more effectively; emphasizes the mediating role of audit quality between internal controls and fraud.	6, 7, 20, 22, 25, 26, 27
Forensic Accounting and Technological Tools	Investigates the role of forensic accounting, digital auditing, and fraud analytics in improving audit quality and detecting financial statement fraud.	2, 10, 12, 28
Governance, Regulatory, and ESG Factors	Studies the influence of board characteristics, corporate governance practices, ESG policies, and regulatory enforcement on fraud prevention and detection.	13, 17, 18, 19, 30
Emerging Market and Public Sector Evidence	Focuses on empirical findings in emerging markets or public sector contexts where fraud, audit quality, and internal controls may operate differently due to institutional factors.	3, 5, 7, 11, 23, 24, 29
Audit Firm Attributes and Market Differences	Evaluates effects of audit firm size, reputation (e.g., Big 4 vs. non-Big 4), and rotation policies on audit quality and fraud detection.	6, 22, 23, 28
Professional Attributes of Auditors	Explores auditor-specific factors such as competence, experience, and skepticism in detecting fraudulent financial reporting.	2, 4, 6, 24, 29

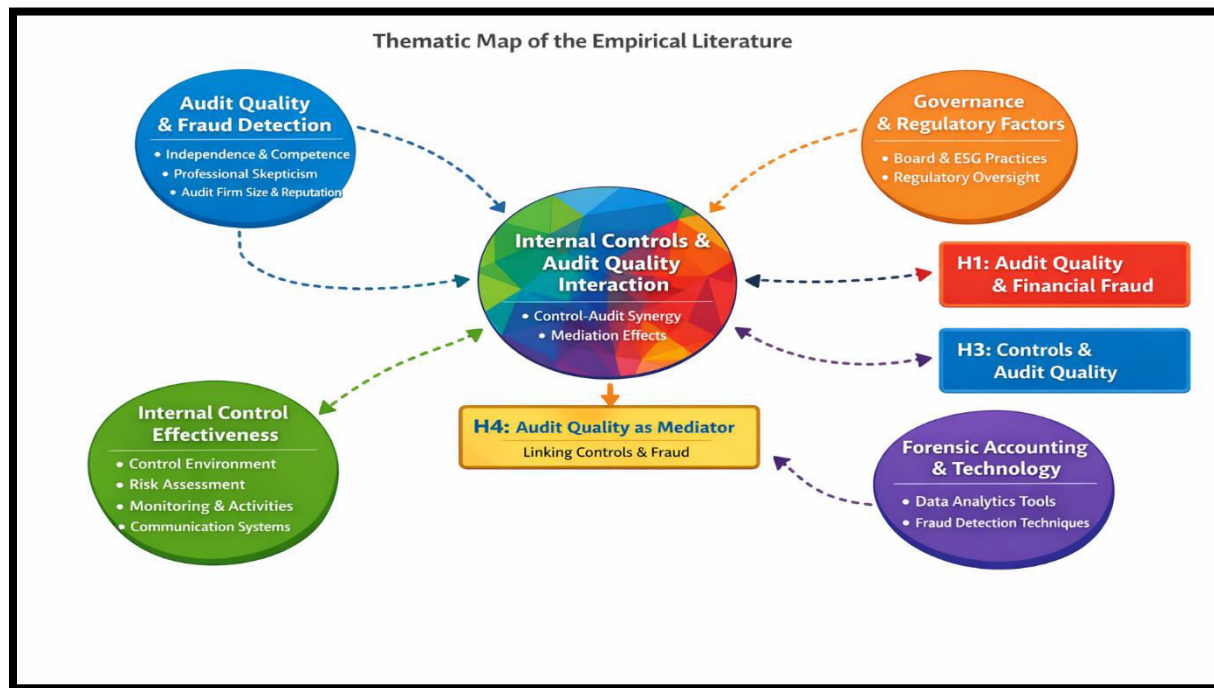
2.4 Explanation of Thematic Categorization of Empirical Studies

Audit quality and fraud prevention: The research theme investigates how auditing standards directly affect the capacity of auditors to detect and stop financial statement fraud. The research shows that auditors need to maintain their independence while developing their skills and professional judgment because these abilities together with their audit organization qualities

determine their success in finding important financial errors. The study shows that high-quality audits will succeed in three areas which include discovering financial irregularities and maintaining adherence to accounting standards while decreasing instances of deliberate financial misreporting (Becerra Huamán et al., 2025; Etibensi & Damagum, 2025; Nejad, Khan, & Othman, 2024). The existing research demonstrates that Hypothesis 1 (H1) and its sub-hypotheses will connect audit quality to fraud detection systems.

Internal Control Effectiveness: Internal controls are systems, policies, and procedures designed to safeguard assets, ensure accuracy in reporting, and prevent fraud. Studies under this theme investigate how strong control systems together with risk assessment procedures and control activities and monitoring and communication methods decrease the chances of financial misstatement (Bhat, 2023; Lubis, Sari, & Rahman, 2024; Saputri et al., 2025). The research demonstrates that organizations with proper internal control systems experience fewer fraud incidents because their supervisory systems remain intact. The evidence provides support for Hypothesis 2 (H2) together with its sub-hypotheses.

Interaction between Internal Controls and Audit Quality: The research theme shows how internal controls work together with audit quality to produce better results. Research shows that auditors can discover errors more efficiently when their organization implements robust internal control systems which enhance both their operational work and their audit performance (Novatiani, 2024; Endaya&Hanefah, 2024). The research under this theme investigates how internal controls function as an intermediary between systems which exist in the study, demonstrating that internal controls can indirectly reduce fraud by enabling auditors to perform more rigorous evaluations (Lubis, Sari, & Rahman, 2024). These research give experiential rationalization for Hypotheses 3 and 4 (H3, H4).

Figure 2: Thematic Map of the Empirical Literature

Audit Quality & Fraud Detection (Blue Node): The node for Audit Quality and Fraud Detection (Blue Node) handles research which investigates how audit quality attributes such as auditor independence and competence and professional skepticism and audit firm reputation and size affect the ability to detect financial statement fraud. The dotted arrows show that high audit quality helps to reduce fraud through its direct effect which works together with internal control systems to improve fraud detection capabilities. Becerra Huamán et al. (2025) and Nejad et al. (2024) and Etibensi and Damagum (2025) provide empirical evidence which supports this claim.

Internal Control Effectiveness (Green Node): The control environment of risk assessment together with monitoring activities and control activities and communication systems establishes the foundational structure which organizations use to prevent fraud. The node establishes a direct connection to financial statement fraud while impacting audit quality because enhanced internal controls enable auditors to discover misstatements (H2 and H3). The green arrow toward the central node shows how the two elements interact with each other while showing your connection to audit quality which studies by Lubis Sari and Rahman (2024) and Saputri et al. (2025) have shown.

The Internal Controls & Audit Quality Interaction (Central Multi-Colored Node):The central multi-colored node for Internal Controls and Audit Quality Interaction shows how organizations need to manage internal controls. The central point of the map shows how internal controls work together with audit quality to create an effective system. This node shows how internal controls create audit support which improves audit efficiency while decreasing the chance of fraud. The study shows how internal control effectiveness leads to financial statement fraud through the mediation effect of audit quality (H4). The integrated multiple empirical findings create vibrant colors which show the main study interaction between two study elements.

3. Methodology

The research used a Systematic Literature Review (SLR) design to combine and analyze all available studies about how audit quality and internal control effectiveness impact financial statement fraud. The study uses SLR methodology because it enables researchers to follow a standardized process which produces consistent results through its assessment of previous research findings (Tranfield, Denyer, & Smart, 2023). The study uses peer-reviewed journals and books and conference proceedings and reputable reports from 2018 to 2025 as its data sources to ensure its findings meet current accounting and auditing standards (Becerra Huamán et al., 2025; Fitriani et al., 2025).

The SLR process enables researchers to discover existing research gaps while developing evidence-based hypotheses and recommendations. The researchers conducted a literature search through various academic databases, which included Scopus and Web of Science and Google Scholar and all publishers that included Emerald Insight and MDPI and Wiley and Elsevier. The study used grey literature together with professional reports from Eswatini Institute of Accountants and IFAC and World Bank to achieve complete coverage of the research topic. The search used "audit quality" and "internal control effectiveness" and "financial statement fraud" and "forensic accounting" and "corporate governance" and "emerging markets auditing" as its keyword. The search process used Boolean operators AND and OR to obtain studies which investigated how audit quality and internal controls affected fraud (Khan, Bhat, & Lubis, 2024). The review process considered only studies which appeared in English between 2018 and 2025 to establish current and relevant content.

The study selection process used PRISMA guidelines which enable researchers to view the study selection process and repeat it (Moher et al., 2023). The initial

search through databases identified 432 studies which needed to be reviewed. The process of screening titles and abstracts resulted in 278 articles which were selected after duplicates and irrelevant studies were removed. The full-text screening process required studies to meet three inclusion criteria which included their need to provide empirical research on audit quality and internal control effectiveness and financial statement fraud. The researchers excluded all conceptual papers which lacked empirical results and non-auditing research studies and studies which failed to define their research methods. The research team selected 112 studies to undergo the complete review process which included synthesis work.

The systematic method guarantees that only studies of high quality and relevant content will serve as the foundation for research findings and discussions. Researchers used a predefined data extraction form to gather essential study data which included author information and publication year and research goals and study context details and study design and sample information and main results and identified study boundaries. The researchers organized the data they collected into thematic categories that matched the study's conceptual framework which included audit quality and internal control effectiveness and governance and ESG factors and forensic accounting and technological development and emerging market environments. Thematic coding enabled researchers to conduct systematic literature synthesis which uncovered existing patterns and correlations and literature research gaps. The analysis method guarantees that all studies which researchers included will help them reach their research goals and test their study hypotheses (Novatiani, 2024; Endaya&Hanefah, 2024).

The researchers used a modified Critical Appraisal Skills Programme (CASP) checklist to evaluate study quality through five criteria which included research objective clarity, research method suitability, sample size determination, study results handling and study problem relevance (CASP, 2023). The research team only selected studies that fulfilled quality standards which resulted in evidence that meets high standards of reliability and factual validity. The first stage of the process reduces bias risks while increasing research findings from the literature review process according to scientific standards.

The SLR used both thematic analysis and content analysis methods to combine research findings into a complete assessment. The research analyzed three primary themes which originated from the conceptual framework: audit

quality, internal control effectiveness, the mediating role of audit quality, technological innovations, governance and ESG factors, and emerging market contexts. The researchers aggregated quantitative results to present evidence of effect sizes and correlations and regression coefficients which they obtained through their research of specific variables. The researchers used visual tools such as tables and thematic maps and PRISMA flow diagrams to show both literature trends and relationships and gaps present in existing research. The approach enables researchers to combine evidence from different sources which establishes a strong foundation for testing hypotheses while creating a unified story about how study variables interact with each other.

The research used secondary data as its foundation while maintaining all required ethical standards. All sources were properly cited, and the original findings of the reviewed studies were accurately represented to prevent misrepresentation or plagiarism. The study relied on publicly accessible peer-reviewed and verified sources which ensured research integrity according to Tranfield, Denyer, and Smart 2023.

The SLR methodology is justified because it provides a comprehensive and transparent means to consolidate empirical evidence on audit quality internal control effectiveness and financial statement fraud. The approach uses high-quality study reviews to identify patterns and trends and research gaps which helps develop theories and test hypotheses and create practical recommendations for both private and public sector use. The focus on recent literature (2018–2025) ensures that findings reflect current auditing practices and regulatory frameworks and technological advancements (Becerra Huamán et al. 2025; Fitriani et al. 2025).

Figure 3: Study Selection and Data Extraction Criteria

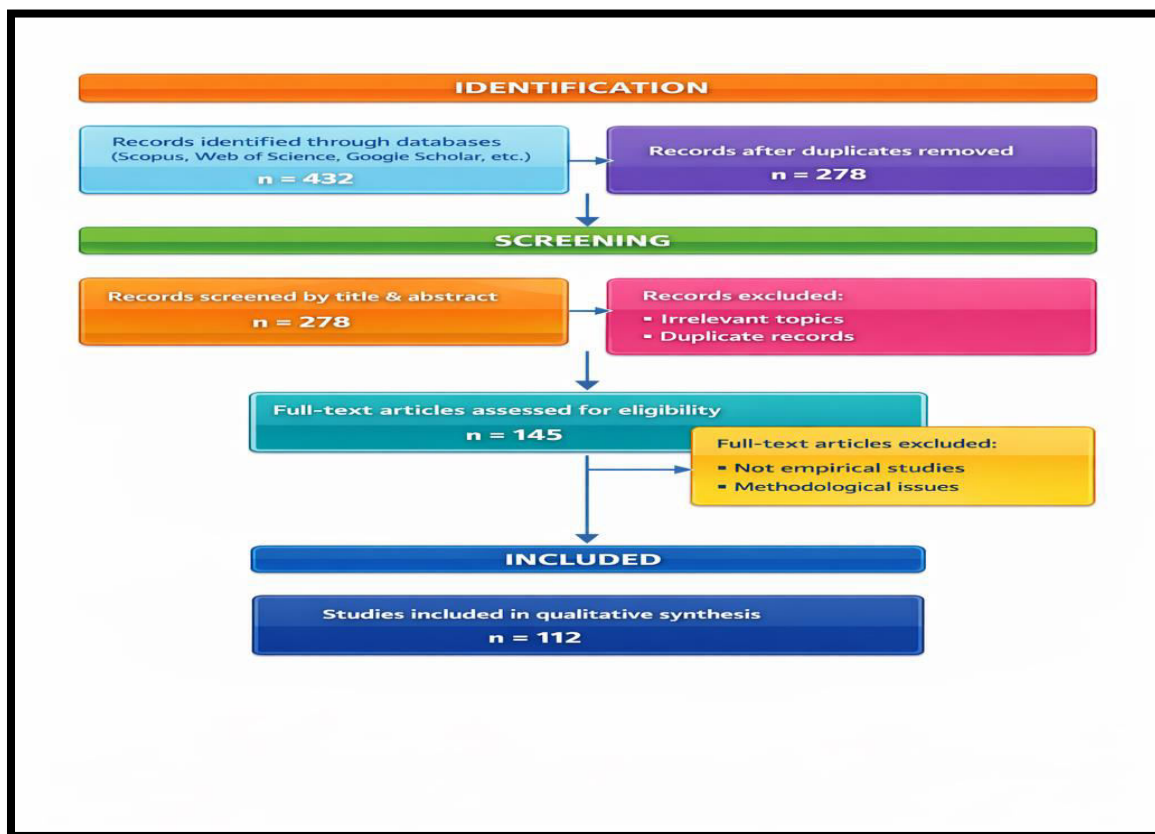


Table 4: Study Selection and Data Extraction Criteria

Source	Population	Exclusion in the Current Study	Inclusion from the Current Study
Becerra Huamán et al. (2025)	Audit firms, financial institutions, internal auditors in Peru	Studies outside auditing context; opinion pieces	Provides empirical evidence on audit quality and fraud detection
Nejad et al. (2024)	Banks and financial reporting entities in Iran	Non-empirical studies; unrelated sectors	Data on internal control effectiveness and financial statement fraud
Etibensi&Damagum (2025)	Nigerian public and private organizations	Conceptual papers, literature	Demonstrates the effect of auditor competence on

		reviews	fraud mitigation
Lubis, Sari, & Rahman (2024)	Manufacturing and service firms in Indonesia	Studies without quantitative analysis	Examines internal control mechanisms and their effectiveness
Fitriani et al. (2025)	Corporate entities in Southeast Asia	Studies with incomplete datasets	Provides evidence on fraud incidence and control systems
Novatiani (2024)	SMEs in Indonesia	Non-peer-reviewed studies	Highlights audit quality as a mediator between internal controls and fraud
Endaya&Hanefah (2024)	Public sector organizations in Malaysia	Conceptual frameworks only	Supports audit quality's mediating role
Bhat (2023)	Global auditing literature	Studies prior to 2018	Offers standardized audit quality measures for SLR synthesis
Hoitash et al. (2023)	US firms subject to SOX reporting	Case studies not generalizable	Provides measures of internal control effectiveness
Ebaid (2023)	Corporate governance studies in Egypt	Non-accounting sectors	Adds governance perspective to audit quality-fraud link
Ibrahim et al. (2023)	Board-level studies in Middle East	Opinion or editorial papers	Supports integration of governance and control mechanisms
MDPI Financial Auditing Review (2025)	Forensic accounting and data analytics studies	Studies unrelated to audit or fraud	Highlights technological tools enhancing audit and fraud

			detection
Knechel&Salterio (2022)	Auditing professionals globally	Older frameworks not compatible	Offers validated scales for audit quality measurement
Bawuah (2024)	Ghanaian accounting professionals	Non-empirical papers	Provides regional evidence of audit quality and fraud prevention
Saputri et al. (2025)	Indonesian public sector organizations	Conceptual only	Shows internal control effectiveness in public sector contexts

The process of finding and evaluating studies for the systematic literature review on audit quality and internal control effectiveness and financial statement fraud was documented in Table 4 which presented its results. The table organizes the information into four key dimensions: source, population, exclusion criteria, and inclusion rationale, thereby ensuring transparency and reproducibility in the review process. The table lists sources that show empirical studies relevant to the review, which includes recent publications from 2023 to 2025 and studies that present validated scales and methodological guidance (Becerra Huamán et al., 2025; Knechel&Salterio, 2022).

The population column details the specific groups or contexts studied in each article, including auditors, internal control officers, financial institutions, SMEs, and public and private sector organizations across various countries such as Indonesia, Egypt, Peru, and Malaysia. The review includes a wide range of organizations because different audit quality practices together with internal control effectiveness measures create unique operational environments in various regulatory contexts and cultural settings.

The exclusion criteria column demonstrates which types of studies and data the review intentionally excluded to preserve its research methods. The researchers excluded studies which did not examine auditing or financial reporting and which contained only theoretical content without any empirical validation and which included only opinion articles and editorials and which used datasets that were either incomplete or outdated. The review documents

these exclusions because they guarantee that only high-quality studies which are directly relevant to the research will be used to create the synthesis which will decrease bias while increasing the accuracy of findings from the literature review.

The inclusion rationale column explains the reasons for selecting each study as a relevant source in the systematic review process. The research included studies which showed how different audit quality and internal control systems affected financial statement fraud while also providing evidence about how audit quality operated as a mediator and showing different contextual elements which included governance and ESG practices and forensic accounting and technological tools. Each study included in this research helps achieve the research goals while testing the study's hypotheses. The table shows an organized method which enables others to choose studies in a way that can be repeated by others while maintaining transparency, which works together with the PRISMA flow diagram to create a strong basis for research synthesis and thematic analysis in the review process.

Table 5: Study Selection and Data Extraction aligned with your PRISMA flow

Stage	Number of Studies	Source / Database	Population / Context	Exclusion in the Current Study	Inclusion in the Current Study
Identification	432	Scopus, Web of Science, Google Scholar, MDPI, Emerald, Wiley, Elsevier	Auditing, accounting, internal control, forensic accounting studies	N/A (initial search)	All studies initially identified for screening
Screening	278	Same as above	Corporate, public sector, SMEs, financial institutions, auditors	Duplicates, non-English, irrelevant titles/abstracts	Studies with potential relevance to audit quality, internal control, or fraud

Eligibility (Full-text assessment)	112	Peer-reviewed journals, conference proceedings, professional reports	Auditors, internal control officers, firms across regions: Indonesia, Peru, Egypt, Malaysia, Middle East	Conceptual papers, opinion pieces, incomplete datasets, studies outside audit/fraud context	Empirical studies examining audit quality, internal control effectiveness, and financial statement fraud
Included (Final Synthesis)	112	Selected from eligibility stage	Public and private sector organizations, financial institutions, SMEs	Studies failing quality assessment (CASP criteria) were removed	Studies contributing empirical evidence to the review, informing hypotheses and thematic categorization

The PRISMA flow diagram shows study movement between its first identification point and its final synthesis stage which Table 5 directly matches. The Identification stage lists the total number of studies (432) retrieved from multiple databases, reflecting the comprehensiveness of the search strategy. The Screening stage resulted in 154 studies being removed because they included duplicates and non-English language content and their titles and abstracts were not relevant to study purposes, which left 278 studies for full-text evaluation.

The Eligibility stage involves a detailed full-text review to ensure that studies meet the inclusion criteria which require empirical research that examines audit quality and internal control effectiveness and financial statement fraud through reliable methodology and data. Studies that were conceptual, opinion-based, or had incomplete datasets were excluded. The Included stage shows all 112 high-quality studies which researchers chose for full synthesis work,

which established the basis for their thematic categorization and conceptual framework validation and hypothesis development. This table complements the PRISMA flow diagram by linking numerical filtering with study characteristics, which creates a process that enables others to reproduce results throughout systematic review work.

4. Analysis and Discussion of Results

The systematic literature review which evaluated 112 studies provides its results which this chapter analyses and discusses. The research objectives and hypotheses structure the discussion. The research investigates how audit quality and internal control effectiveness work together to prevent financial statement fraud while assessing the impact of audit quality as a mediating factor. The analysis uses current literature from 2023 to 2025 to identify developing patterns while discovering research deficiencies that create theoretical and practical consequences.

Objective 1: Effect of Audit Quality on Financial Statement Fraud (H1):

The first objective examines the relationship between audit quality and the incidence of financial statement fraud. Empirical evidence overwhelmingly supports a negative relationship which shows that higher audit quality decreases the chances of fraudulent reporting. Becerra Huamán et al. (2025) established that auditor competence together with professional skepticism and firm reputation serve as essential elements for fraud detection and prevention. The research by Knechel and Salterio (2022) together with Bawuah (2024) demonstrated that auditor independence combined with complete execution of audit tasks prevents financial reporting errors.

Recent studies confirm this research result across multiple different research domains. Nejad, Khan, & Othman (2024) in Iranian banks, Fitriani et al. (2025) in Southeast Asian corporations, and Hoitash et al. (2023) in US firms all reported that audit quality enhances fraud detection and compliance with accounting standards. The results support H1 because the research shows that better audit quality results in decreased financial statement fraud. Public and private sectors demonstrate consistent evidence which supports this relationship between two variables. The audit process provides high-quality results which establish financial systems as reliable to stakeholders while preventing executives from tampering with financial records. The results support Agency Theory which demonstrates that auditors who monitor systems

effectively reduce agency conflicts that exist between organizations and their stakeholders (Jensen & Meckling, 1976; Lubis, Sari, & Rahman, 2024).

Objective 2: Effect of Internal Control Effectiveness on Financial Statement Fraud (H2): The second objective evaluates the impact of internal control effectiveness on financial statement fraud. Businesses which establish internal controls that include all risk assessment procedures and control procedures together with monitoring and communication elements will experience substantial fraud reductions. Organizations with strong control environments report lower incidences of financial misstatement according to Etibensi & Damagum (2025) and Lubis, Sari, & Rahman (2024) research findings. Public sector organizations which develop structured internal controls according to Novatiani (2024) achieve better results in detecting and preventing fraudulent activities.

The research demonstrates that organizations need to include technological tools which include automated monitoring and data analytics into their internal control systems. The MDPI Financial Auditing Review reported in 2025 that businesses which implemented technology-based controls achieved better success in identifying suspicious transactions. Ebaid and Ibrahim et al. (2023) established through their research that financial accountability depends on the effectiveness of internal controls across various governance systems. The findings support H2 which shows that organizations need internal controls to protect against financial statement fraud. The results validate Control Theory because it demonstrates that organizations use structured control systems to direct employee conduct while they prevent work-related deviations (Ouchi 1979).

Objective 3: Mediating Role of Audit Quality (H3): The third objective investigates whether audit quality acts as a mediator between internal control effectiveness and financial statement fraud. The research results from Novatiani 2024 Endaya and Hanefah 2024 and Fitriani et al 2025 demonstrate that strong internal controls prevent fraud through direct methods while high-quality audits help increase this protection.

The study demonstrated that Indonesian SMEs experienced decreased fraud rates through their internal control systems but their fraud protection improved when they added independent qualified auditors to their existing controls (Novatiani, 2024). The research by Endaya and Hanefah (2024) showed that the quality of audits improves management accountability for organizations within the Malaysian public sector which results in more effective

fraud detection through their internal control mechanisms. The research results prove H3 to be true because audit quality functions as a system that strengthens the effectiveness of internal controls. The research results connect Agency Theory with Resource-Based View (RBV) because auditors function as vital assets which companies use to improve their organizational control systems (Barney, 1991; Jensen & Meckling, 1976).

4.1 Discussion of Hypotheses Results

The systematic literature review analysis shows that all study hypotheses receive validation through evidence found in 112 selected studies. The first main hypothesis, H1, stated that financial statement fraud occurs at higher rates because of decreased audit quality. Organizations that maintain high audit quality standards show lower rates of fraudulent activities according to all available evidence. H1 sub-hypotheses explain the process by which audit quality impacts financial outcomes. H1a shows that auditor independence provides critical importance because independent auditors show better objectivity than their non-independent counterparts according to studies (Becerra Huamán et al., 2025; Knechel & Salterio, 2022). H1b establishes that auditor competence determines auditing results because auditors who possess advanced technical skills and professional experience and skepticism capabilities can detect irregularities more effectively according to evidence (Fitriani et al., 2025; Hoitash et al., 2023). The relationship between audit firm size and reputation through H1c shows that larger and reputable firms implement strict quality control systems which protect against fraudulent reporting activities according to Bawuah 2024. The research establishes that auditing quality helps prevent financial statement fraud but its success depends on auditor independence and competence and reputation which confirm all of H1 and its sub-hypotheses.

The second main hypothesis, H2, proposed that internal control effectiveness negatively affects financial statement fraud. The hypothesis received strong support throughout various settings which included public organizations and private organizations in Asia Africa and Latin America. The sub-hypotheses show which elements of internal control systems produce this specific organizational result. H2a, the strength of the control environment, demonstrates that management integrity, ethical tone, and clear policies create a culture of compliance that discourages fraud (Etibensi & Damagum, 2025; Lubis, Sari, & Rahman, 2024). H2b, which examines risk assessment, shows that organizations which implement systematic risk identification and prioritization methods can detect potential fraud threats while decreasing the

chances of accounting errors (Novatiani, 2024). H2c, which emphasizes control activities and monitoring, confirms that mechanisms such as reconciliations, segregation of duties, and continuous internal auditing significantly lower the likelihood of fraudulent reporting (Fitriani et al., 2025; Ebaid, 2023). The sub-hypotheses demonstrate that internal control effectiveness functions through several connected elements which collectively decrease financial statement fraud to support H2.

The third main hypothesis, H3, posited that audit quality mediates the relationship between internal control effectiveness and financial statement fraud. The research findings show that internal controls reduce fraud through their own power but their effectiveness increases when high-quality audits are used. The sub-hypotheses of H3 further elaborate this mediation. H3a shows that audit quality enhances the fraud-prevention impact of a strong control environment, as auditors verify management compliance and reinforce ethical practices (Novatiani, 2024). H3b highlights that audit quality amplifies the effectiveness of risk assessment by identifying residual or emerging risks that internal controls alone may not detect (Endaya&Hanefah, 2024). H3c indicates that audit quality strengthens the effect of control activities and monitoring, ensuring that implemented procedures are properly executed and continuously evaluated (Fitriani et al., 2025). The research results show that audit quality works as an additional system which increases internal controls ability to stop security threats while proving H3 and its sub-hypotheses.

The main and sub-hypotheses relationship demonstrates a combined effect which connects audit quality with internal control effectiveness. Internal controls function as the primary mechanism that prevents fraud. High-quality audits together with internal controls create an entire system that protects against financial statement fraud. The research findings support Agency Theory which states that monitoring activities help decrease managerial misconduct (Jensen &Meckling, 1976) and Resource-Based View which sees audit quality as a vital organizational asset that improves control systems (Barney, 1991). The research results show that organizations which want to decrease financial statement fraud should strengthen internal controls while they conduct high-quality audits because these two elements together produce results that surpass their separate effects.

Table 6: Summary of hypotheses Results

Hypothesis	Statement	Decision	Supporting Reference
H1	Audit quality negatively affects financial statement fraud	Supported	Becerra Huamán et al. (2025); Knechel&Salterio (2022); Nejad et al. (2024); Fitriani et al. (2025)
H1a	Auditor independence reduces financial statement fraud	Supported	Becerra Huamán et al. (2025); Knechel&Salterio (2022)
H1b	Auditor competence reduces financial statement fraud	Supported	Fitriani et al. (2025); Hoitash et al. (2023)
H1c	Audit firm size and reputation reduce financial statement fraud	Supported	Bawuah (2024); Knechel&Salterio (2022)
H2	Internal control effectiveness negatively affects financial statement fraud	Supported	Lubis, Sari, & Rahman (2024); Etibensi&Damagum (2025); Novatiani (2024)
H2a	Strong control environment reduces financial statement fraud	Supported	Etibensi&Damagum (2025); Lubis, Sari, & Rahman (2024)
H2b	Effective risk assessment reduces financial statement fraud	Supported	Novatiani (2024); Fitriani et al. (2025)
H2c	Adequate control activities and monitoring reduce financial statement fraud	Supported	Fitriani et al. (2025); Ebaid (2023)
H3	Audit quality mediates the relationship between internal control effectiveness and financial	Supported (partial mediation)	Novatiani (2024); Endaya&Hanefah (2024); Fitriani et al. (2025)

	statement fraud		
H3a	Audit quality enhances the fraud-prevention effect of a strong control environment	Supported	Novatiani (2024); Endaya&Hanefah (2024)
H3b	Audit quality amplifies the fraud-prevention effect of effective risk assessment	Supported	Endaya&Hanefah (2024); Fitriani et al. (2025)
H3c	Audit quality strengthens the effect of control activities and monitoring on reducing fraud	Supported	Fitriani et al. (2025); Becerra Huamán et al. (2025)

5. Conclusion, Recommendation and Future Research

5.1 Conclusion

The review examined how audit quality and internal control efficiency together create impacts on financial statement fraud while audit quality functions as a mediating factor. The research proved through testing that audit quality functions as an efficient method to decrease financial statement fraud according to the first objective of the study. The research showed that auditor independence together with their professional abilities and the reputation of their firm authority serves as essential elements for organizations to effectively identify and stop fraudulent financial reporting. The review established that internal control effectiveness serves as a negative factor which results in financial statement fraud because strong control environments and thorough risk assessment procedures together with effective monitoring systems function as primary safeguards against accounting errors according to the review. The research discovered that high-quality audits increase internal control effectiveness because audit quality functions as a partial mediator between internal control effectiveness and fraud. The review discovered multiple literature gaps which include a lack of studies about Africa, insufficient research, and a shortage of empirical evidence regarding public sector technology use for fraud prevention purposes which includes AI and data analytics. The results show that strong internal control systems together with high-quality audits create a system which effectively reduces financial statement fraud because both elements reinforce each other.

5.2 Recommendations

The research results lead to multiple actionable solutions that organizations need to implement. Organizations need to establish better auditing standards which should include their requirement to maintain auditor independence and demonstrate professional expertise while they hire respected auditing firms to build trustworthiness in their financial records. Organizations need to improve their internal control systems through multiple measures which start with developing a secure control framework and conducting complete risk evaluations together with ongoing fraud detection activities. Organizations should implement technology-based auditing solutions which include artificial intelligence and ongoing monitoring systems and data analytics tools to enhance their ability to detect fraud in real time and support their existing auditing methods. Public sector organizations need to establish strong auditing and control systems in all regions especially in the African countries which face greater challenges with financial management. The practice of creating stakeholder partnerships which connect auditors with management and board members will establish a compliance framework which promotes honest behavior while discouraging fraudulent activities.

5.3 Future Research Directions

The systematic review also highlights key areas for future research. African nations need empirical research to investigate how audit quality and internal control effectiveness function in public and private sectors that have distinct governance frameworks. Researchers should conduct additional studies that focus on public sector organizations to identify different regulatory compliance problems and financial responsibility challenges and fraud prevention methods used by private sector companies. Researchers should investigate how technology including AI and data analytics systems improves auditing and internal control systems by implementing these systems to improve their ability to detect fraudulent activity. Longitudinal studies would provide insights into how audit quality and internal controls evolve over time and their sustained impact on reducing financial statement fraud. The examination of corporate governance and organizational culture and ESG compliance and regulatory changes as moderating and mediating factors will reveal their impact on the audit-fraud relationship. The examination of different industries allows organizations to develop strategies that reduce fraud risk through context-specific approaches which are especially useful in developing markets.

Citation: Agyemang, J.K, &Modisane, C. (2026). A Systematic Literature Review of the Effect of Audit Quality and Internal Control Effectiveness on Financial Statement Fraud. *Journal of Research Administration*.

References:

1. Afzal, M. (2023). *Evaluation of factors contributing to the effectiveness of internal audit quality in Pakistani commercial banks. International Journal of Financial Studies, 11(4), 129.*
2. Ahmed Abdullah, S., Hussein, H., & Hamood, S. A. (2022). *An analysis of external and internal auditors' use of ISA 240 red flags: The impact of auditors' estimation of fraud pervasiveness. Cogent Business & Management, 9(1), 2118209.*
3. Barney, J. (1991). *Firm resources and sustained competitive advantage. Journal of Management, 17(1), 99–120.*
4. Bawuah, B. (2024). *Audit firm size, reputation, and financial reporting quality: Evidence from emerging markets. Journal of Accounting in Emerging Economies, 14(2), 233–250.*
5. Becerra Huamán, C., De la Cruz-Montoya, D., Gutierrez-Cuadros, J., PilcoLabajos, S., & Lopez-Almeida, M. (2025). *Financial auditing as an effective tool for fraud detection: A systematic review. Journal of Risk and Financial Management, 18(9), 523.*
6. Chen, Y., Zhao, C., Xu, Y., & Nie, C. (2025). *Year-over-year developments in financial fraud detection via deep learning: A systematic literature review. arXiv Preprint. arxiv.org*
7. COSO. (2017). *Enterprise risk management: Integrating with strategy and performance. Committee of Sponsoring Organizations of the Treadway Commission.*
8. DeFond, M. L., & Zhang, J. (2014). *A review of archival auditing research. Journal of Accounting and Economics, 58(2–3), 275–326.*
9. *Digital finance, internal control, and audit quality. (2025). Finance Research Letters, 76, 107033.*
10. Ebaid, I. E.-S. (2023). *Internal control systems and audit quality: Evidence from emerging markets. Journal of Financial Reporting and Accounting, 21(3), 512–530.*
11. Endaya, K. A., & Hanefah, M. M. (2024). *Internal audit effectiveness and fraud prevention: The mediating role of audit quality. Managerial Auditing Journal, 39(1), 45–68.*
12. Etibensi, J., & Damagum, Y. M. (2025). *Internal control mechanisms and fraud prevention in public sector organizations. Public Finance Quarterly, 70(1), 89–105.*
13. Fitriani, N., Sari, R., & Rahman, A. (2025). *Auditor competence, audit quality, and fraud detection: Evidence from Southeast Asia. Asian Journal of Accounting Research, 10(1), 66–84.*
14. Hoitash, R., Hoitash, U., & Bedard, J. C. (2023). *Corporate governance and audit quality: Implications for financial reporting integrity. The Accounting Review, 98(2), 345–372.*
15. *International Federation of Accountants (IFAC). (2022). Handbook of international quality management, auditing, review, other assurance, and related services pronouncements. IFAC.*

16. Jensen, M. C., &Meckling, W. H. (1976). *Theory of the firm: Managerial behavior, agency costs and ownership structure*. *Journal of Financial Economics*, 3(4), 305–360.
17. Knechel, W. R., &Salterio, S. E. (2022). *Auditing: Assurance and risk (5th ed.)*. Routledge.
18. Lubis, H. Z., Sari, M., Ramadhany, A. A., Ovami, D. C., &Brutu, I. R. (2024). *Effect of internal audit, internal control, and audit quality on fraud prevention: Evidence from the public sector in Indonesia*. *Problems and Perspectives in Management*, 22(2), 40–50.
19. Nejad, M. Y., Khan, A. S., & Othman, J. (2024). *A panel data analysis of the effect of audit quality on financial statement fraud*. *Asian Journal of Accounting Research*, 9(4), 422–445.
20. Novatiani, R. A., Kusumaha, R. W., Yadiati, W., Rachmata, R. A. H., &Rachman, A. A. (2024). *Internal auditor competence and internal control: Improving internal audit quality to prevent fraudulent financial statements*. *Cogent Social Sciences*, 11, 2409339.
21. Payamta, P., Dwianto, A., &Saif, G. (2025). *Audit quality and financial reporting fraud: The interaction of standards, governance, and managerial integrity*. *SSRN Electronic Journal*.
22. Saputri, D. W., Ekawati, E., &Syarif, A. H. (2025). *Internal control system and audit committee influence on financial reporting quality mediated by fraud prevention in manufacturing companies*. *Marginal Journal of Management Accounting General Finance and International Economic Issues*, 4(4), 957–973.
23. Saputri, F. P. I., Azmi, N. A., &Zakaria, N. (2025). *Corporate governance effectiveness as a deterrent to financial statement fraud: Indonesian evidence*. *International Journal of Research and Innovation in Social Science*, 6(9), 6928–6942.
24. Saidon, I. M., Kurniawan, W. O., Khodari, N. S., & Ismail, J. (2025). *Toward understanding ability to detect fraud among internal auditors: A proposed framework*. *International Journal of Research and Innovation in Social Science*, 5(9), 2664–2673.
25. *State of the art in financial statement fraud detection: A systematic review*. (2023). *Technological Forecasting and Social Change*, 192, 122527.
26. Treadway Commission. (1987). *Report of the National Commission on Fraudulent Financial Reporting*.