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Corporate governance, internal controls and fraud prevention: a literature review

Corporate governance, internal controls, and fraud prevention: a literature review
Corporate governance, internal controls and fraud prevention: a bibliographic review

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SUMMARY

Corporate governance and internal controls play an essential role in promoting transparency, legal compliance, and the sustainability of organizations.
In this context, internal auditing stands out as an important tool for...
Identification, prevention, and mitigation of errors, fraud, and corporate risks, contributing to the strengthening of organizational integrity and stakeholder trust. This study aims to analyze the contribution of corporate governance, internal controls, and internal audit to fraud prevention in organizations, highlighting the importance of risk management, corporate ethics, and legal accountability mechanisms. This is a bibliographic research, developed from the analysis of books, scientific articles, and legislation relevant to the topic. The results show that the integration between internal audit, internal controls, corporate governance, and integrity programs strengthens decision-making processes, reduces vulnerabilities, increases the reliability of financial statements, and promotes compliance with legal and regulatory standards.

It is concluded that the adoption of preventive practices based on control mechanisms, risk management, and an ethical culture constitutes a strategic factor for fraud prevention and for building more transparent organizations.
Keywords: Corporate governance; Internal controls; Internal audit; Fraud; Risk management.

ABSTRACT

Corporate governance and internal controls play a fundamental role in promoting transparency, legal compliance, and organizational sustainability. In this context, internal auditing has become an important mechanism for identifying, preventing, and mitigating errors, fraud, and corporate risks, thereby strengthening organizational integrity and stakeholder confidence. This study aims to analyze the contribution of corporate governance, internal controls, and internal auditing to fraud prevention in organizations, highlighting the importance of risk management, corporate ethics, and legal accountability mechanisms. This is a bibliographic study based on the analysis of books, scientific articles, and relevant legislation. The findings indicate that integrating internal auditing, internal controls, corporate governance, and compliance programs strengthens decision-making, reduces organizational vulnerabilities, enhances the reliability of financial reporting, and promotes compliance with legal and regulatory requirements. It is concluded that the adoption of preventive practices, supported by effective control mechanisms, risk management, and an ethical organizational culture, is a strategic factor in fraud prevention and in the development of more transparent organizations.

Keywords: Corporate governance; Internal controls; Internal auditing; Fraud; Risk management.

1 INTRODUCTION

The increasing complexity of the business environment, driven by globalization, by

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Digital transformation and the expansion of corporate operations have increased the need.
mechanisms capable of ensuring the reliability of accounting information,
Legal compliance and the integrity of organizational processes. In this context, auditing
Internal governance has become an important tool for corporate governance.
contributing to the strengthening of internal controls, risk management and to
Prevention of errors and fraud that could compromise the sustainability of organizations.
Corporate fraud represents one of the main risk factors for public companies.
and private entities, generating financial, operational, legal, and reputational impacts. In addition to
Direct economic losses and fraudulent practices compromise the credibility of...
Financial statements reduce the confidence of investors, clients, and other stakeholders.
and may result in administrative, civil, and criminal liabilities. Errors arising from
Human errors, inadequate interpretations of accounting standards, or deficiencies in controls.
Internal problems can also cause significant damage, highlighting the need for
permanent monitoring and surveillance systems.
In this context, internal controls assume a strategic role in establishing
procedures designed to protect assets and ensure the reliability of information.
financial aspects, compliance with legal obligations, and mitigation of organizational risks.
Integrated action between administration, internal audit, and corporate governance enables
Identify vulnerabilities, improve processes, and strengthen institutional transparency.
creating conditions for more efficient management aligned with good compliance practices and
accountability.
In addition to the technical aspects of auditing, it is observed that fraud prevention involves a
a multidimensional approach, encompassing ethical principles, corporate responsibility,
risk management and legal mechanisms aimed at holding individuals accountable for unlawful acts, such as
as stipulated in the Anti-Corruption Law. In this sense, the effectiveness of internal controls depends not on...
not only the existence of formal procedures, but also the commitment of high-level professionals.
management with an organizational culture based on integrity, transparency and
Continuous improvement.

Given this scenario, the present study aims to analyze the importance of auditing.
internal auditing as a tool for preventing fraud and accounting errors, highlighting the role of...
internal controls, risk management, and corporate governance in promoting
Transparency, legal compliance, and organizational sustainability. To that end,
A bibliographical research project is being developed, based on specialized literature.

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and in recent studies on auditing, corporate ethics, fraud prevention, controls
internal affairs and legal accountability, with the aim of demonstrating how the integration of these...
Mechanisms strengthen organizational security and contribute to building a
a more ethical business environment.

2. THEORETICAL FRAMEWORK

2.1 Internal Audit, Organizational Control and Accountability for Fraud Corporate

The increasing competitiveness of the market and the intensification of competition have led to...
organizations investing in technology, modernizing processes, and improving
Internal controls. These measures aim to reduce operating costs and increase efficiency.
administrative and strengthen the competitive position of companies, making auditing a
A strategic tool for organizational management.
In this context, auditing constitutes an important tool for control and governance, with
The main objective is to confirm the reliability of accounting records and financial statements.
financial, ensuring that the information presented reflects the company's actual financial situation.
organization. In addition to providing greater reliability to accounting information, the audit
It contributes to transparency, legal compliance, and risk mitigation.
Within the context of internal auditing, its execution is carried out by professionals linked to the company itself.
organization, with the purpose of meeting the administration's needs regarding
implementation, monitoring, and improvement of internal controls.
In this process, it is the auditor's responsibility to evaluate operational, accounting, financial, and tax procedures.
identify opportunities for improvement and verify the occurrence of errors, irregularities and
Preventing potential fraud, thus strengthening the company's administrative control system.
The importance of auditing is also evident in the prevention and combating of illegal practices.
The timely identification of irregularities can support administrative accountability.
and legal aspects of organizations involved in acts that harm public assets. In this sense, the
Law No. 12.846/2013 (Anti-Corruption Law) provides for the strict liability of individuals.
legal actions for acts committed against the public administration, including in proceedings of
direct contracting. As highlighted by Alcântara (2025), article 5, item IV, subparagraph "d", of
The aforementioned legislation allows for liability for fraud in direct contracting, expanding the

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The scope of the rule extends to situations that go beyond those foreseen by the legislator.
Another important legal mechanism related to the prevention of economic crimes is the
The concept of *disgorgement,* also known as restitution of illicit profits. Originating from
Regarding regulatory practices in the financial market, this institute aims to prevent offenders.
retain the economic benefits obtained through illegal conduct. According to
According to Sanchez et al. (2025), its application has been expanded to different areas.
including holding administrators accountable, repairing environmental damage, and resolving issues.
of conflicts in international contracts.

In determining the restitution of profits obtained improperly, *disgorgement* exercises...
compensatory and preventive functions, discouraging fraudulent practices, restoring the
Balancing economic relations and protecting collective and individual interests.
In financial markets, this mechanism strengthens the integrity of the system and preserves trust.
from investors. In environmental disasters, it makes it possible to direct the recovered resources to
Repairing damages and preventing future events. In international contractual relations,
It contributes to economic justice by preventing unfair advantages arising from practices.
abusive.

Thus, it can be observed that internal auditing, associated with legal instruments of
Accountability, such as the Anti-Corruption Law and the *disgorgement mechanism,* plays a role.
A key role in promoting transparency, ethics, and good corporate governance.
Integration between preventive control mechanisms and accountability measures strengthens
It ensures the security of economic relations and reduces the incidence of fraud.

2.2 Fraud, Accounting Errors, Risk Management and Ethics in Corporate Governance

The occurrence of fraud and accounting errors constitutes one of the main challenges for management.
organizational, compromising the reliability of financial information and placing it at risk.
Risk to the sustainability of companies. In this context, auditing and control mechanisms
Internal affairs play a key role in identifying irregularities and in prevention.
reducing losses and strengthening corporate governance.
Fraud detection requires a thorough analysis of accounting records relating to assets.
The organization's liabilities and results are the areas where irregularities are concentrated.
Among the most common fraudulent practices are the misappropriation of assets, and
withdrawal of financial resources from the cash register without proper accounting records and the omission of

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Operations or transactions without supporting documentation. In this way, fraud is characterized-
if it is a deliberate action aimed at obtaining an unfair advantage to the detriment of
organization or third parties.

Fraud is perpetrated through the manipulation of financial statements, with the
The purpose is to convey an unrealistic perception of the company's economic situation. In these cases,
Assets are overvalued and liabilities are undervalued, resulting in solid balance sheets that
They can attract investors, suppliers, financial institutions, and new business partners.

As La Rocque (1999, p. 51) points out, fraud constitutes a "pernicious practice."
"Detrimental to the company" due to the financial and institutional damage it causes.

The consequences of fraud go beyond immediate economic losses. Beyond the damages...
Financially, these practices compromise the organization's credibility and deteriorate the work environment.
Organizational factors, by generating insecurity and distrust between managers and employees, weaken the company.
Investor confidence can be undermined and can cause significant damage to institutional reputation.
in relation to customers, suppliers and society.

In this scenario, financial ethics and corporate governance assume a strategic role in
prevention of irregularities. As highlighted by Machado (2023), the integration between ethics,
Corporate governance and social innovation have ceased to be merely a competitive advantage.
to become an essential element of contemporary business management. The adoption of principles
Ethical considerations, combined with materiality criteria and social responsibility practices, favor
building a value creation model, reducing corporate risks and strengthening the
Trust between organizations, investors, and other stakeholders.

According to the author, this process is based on four interdependent pillars: a
integrity of financial decisions, identification of material risks, social innovation
aligned with the organizational strategy and the expansion of accountability in relationships with
investors and society. From this perspective, financial ethics ceases to be merely a
regulatory requirement to become a mechanism for institutional strengthening, for mitigation
risk management and the promotion of corporate transparency.

Although related, error and fraud are distinct phenomena. Unlike fraud,
The error does not stem from a deliberate intention to cause harm, but from human failings, from
Lack of technical knowledge or inadequate interpretations of accounting standards. The errors
Errors can occur during accounting entries, due to the incorrect application of principles and standards.
or through the misinterpretation of asset variations, producing detrimental effects on
The organization's economic and financial situation.

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In this context, Assi (2012, p. 20) defines risk as the "possibility of there being a
an internal, fortuitous (or accidental, independent of the company's will) and damaging event."
highlighting that its materialization presupposes the occurrence of losses. Therefore, it is up to...
managers implement effective control and monitoring mechanisms capable of reducing the
The probability of errors and minimizing their impact on organizational performance.
The losses resulting from errors can also be significant. As La observes
Rocque (1999, p. 51) states that conscious or unconscious errors can lead a company to difficulties.
financial penalties, tax sanctions, and various asset losses become unjustifiable when
They persist even after audit processes conducted by qualified professionals.
The distinction between error and fraud has relevant legal and administrative implications. While
Fraud presupposes a deliberate intention to deceive, conceal information, or obtain an advantage.
unlawful actions, which may give rise to civil, administrative and criminal liability, the error stems from actions
involuntary, even if it produces significant economic consequences. In this sense, Serpa
(2002, p. 57) clarifies that "error is an involuntary action, without the intention of causing harm", although
Both can apply to the same accounting documents and statements.
Thus, it is clear that preventing errors and fraud depends on the integrated action of
Auditing, internal controls, risk management, corporate governance, and organizational ethics.
The consolidation of these mechanisms strengthens transparency and increases the reliability of...
financial information and contributes to building more committed organizations.
with the integrity of its decision-making processes.

2.3 Fraud Prevention, Internal Controls and Audit Responsibility

Preventing errors and fraud is one of the main purposes of auditing, achieved
through the implementation and strengthening of internal controls. In an environment
The business world is becoming increasingly complex, marked by globalization and the digitalization of...
Due to the processes and growth of commercial transactions, it becomes indispensable to
ongoing monitoring of accounting records, documents and statements, ensuring
improving the reliability of financial information and reducing organizations' exposure to risks.
operational.
In this context, preventing financial fraud takes on strategic importance not only for
organizations, but also the economy and society. As highlighted by Alves (2025),
Fraud prevention is one of the pillars of economic integrity, contributing to...

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efficiency of financial operations, strengthening social trust, attracting
investments, increased business competitiveness, and optimized tax collection.
Promoting sustainable development. Therefore, effective preventative mechanisms.
They promote the creation of a safer, more transparent, and more resilient economic environment.
The effectiveness of prevention depends on the integrated action of the company's management, of
an audit team and an efficient system of internal controls. These mechanisms allow
To track the organization's true economic and financial situation, and monitor transactions.
carried out, ensure the reliability of financial statements and reduce opportunities for...
occurrence of irregularities.

The literature highlights the importance of these controls. According to Assi (2012), research carried out
A study by KPMG Forensics in 2009 revealed that 68% of participating companies had already been
victims of some type of fraud, while only 20% stated they had never suffered this type of fraud.
of the occurrences, and 12% stated they did not know if they had been victims of fraud.

Results show that a large proportion of organizations remain vulnerable to the actions of
Fraudsters, especially when their internal control mechanisms are weak.
or deficiencies.

The same study shows that internal controls are among the most important instruments.
effective for identifying irregularities. According to Assi (2012), approximately
25% of the fraud detected by companies was identified by their own mechanisms.
internal control, reinforcing the importance of these mechanisms as preventive tools.
and corrective measures in the corporate governance process.

In addition to fraud prevention, internal controls play an essential role in...
tax compliance and mitigation of fiscal risks. As demonstrated by Soares (2026), the
The increasing complexity of tax legislation and government oversight requires that...
Companies should adopt procedures capable of ensuring the integrity of accounting information.
and compliance with tax obligations. The author notes that weaknesses, such as the absence of
Standardization of tax records, improper issuance of tax documents, and integration.
Insufficient collaboration between sectors can encourage tax evasion practices and compromise the...
economic sustainability of organizations. In this sense, strengthening controls
internal processes, combined with corporate governance practices and the use of management technologies,
It contributes to transparency, legal compliance, and the reduction of operational risks.

Despite the importance of these mechanisms, fraud detection remains a challenging activity.
complex. In many cases, those responsible for the irregularities have extensive [powers/power].

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They gain knowledge of the organization's internal processes and adopt strategies to conceal them.
evidence, which makes identifying these irregularities difficult. Errors, in turn,
They are usually detected, since they result from operational failures and inconsistencies.
documentary errors or mistakes in the execution of accounting procedures.
When, during the execution of the audit work, evidence of error is identified.
or fraud capable of producing relevant effects on the financial statements, it is up to
The auditor should communicate their findings to the organization's management and issue recommendations.
consistent with the seriousness of the situation. If there is evidence of employee involvement,
Communication should be directed to a hierarchical level higher than that of those involved.
However, when there are suspicions regarding the involvement of senior management, the auditor
The professional must assess the circumstances of the case, observing ethical principles and the duty of confidentiality.
professional.
Confidentiality is one of the cornerstones of auditing activity, which is why information...
Information obtained during the course of the work cannot be disclosed to third parties without legal authorization. However,
when there is an obligation stipulated by law or a determination from the competent authorities, the
The auditor may promote the communication of the facts, observing legal procedures.
applicable measures. If the company's management fails to take corrective action.
Even if recommended to remedy relevant irregularities, the auditor may conclude that it is necessary...
to interrupt their professional activity, preserving their independence and responsibility.
The technical aspects and credibility of the audit process.
Thus, it is clear that preventing errors and fraud depends on integration between
Auditing, internal controls, corporate governance, and risk management. The adoption of these
Mechanisms strengthen organizational transparency, reduce vulnerabilities, and ensure...
reliability of financial statements.

FINAL CONSIDERATIONS

This literature review has shown that corporate governance and internal controls...
Internal auditing and other related processes are elements that contribute to strengthening organizational integrity.
of the transparency and security of accounting and financial information. In an environment
a business environment marked by constant regulatory changes, technological advancements, and by
Given the increasing complexity of economic relations, it becomes essential that organizations...
adopt mechanisms capable of preventing irregularities, minimizing risks and ensuring the

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compliance with legal and ethical standards.

Analysis of the literature demonstrated that internal auditing plays a strategic role in...
Identify vulnerabilities, improve processes, and evaluate the effectiveness of controls.
internal processes contribute to the prevention of errors and fraud. It was also found that the management of risks, combined with corporate governance practices and an organizational culture
Based on ethics and accountability, it fosters the creation of positive business environments.
safer.

It was also observed that legal accountability mechanisms, combined with implementation
Effective internal controls and integrity programs enhance the capacity of
organizations to prevent illegal conduct, protect their assets, and strengthen trust in
investors, clients, and other stakeholders. In this sense, prevention proves to be more effective.
and less costly than adopting corrective measures after fraud has occurred.

It is concluded that the integration between corporate governance, internal audit, internal controls,
Risk management and organizational ethics constitute one of the main pillars for the
Developing resilient organizations committed to transparency.

It is recommended that future research further analyze the application of new technologies.
such as artificial intelligence, predictive data analytics, and continuous auditing, as tools
to strengthen fraud control and prevention systems in the context of
contemporary corporate governance.

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