

GOVERNANCE AND STRATEGY FACTORS INFLUENCING THE QUALITY OF INTERNAL CONTROL OVER FINANCIAL REPORTING: INTERNATIONAL EVIDENCE AND LESSONS FOR VIETNAM

QUẢN TRỊ VÀ CHIẾN LƯỢC ẢNH HƯỞNG ĐẾN CHẤT LƯỢNG KIỂM SOÁT NỘI BỘ ĐỐI VỚI BÁO CÁO TÀI CHÍNH: BẰNG CHỨNG QUỐC TẾ VÀ BÀI HỌC CHO VIỆT NAM

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DOI: <https://doi.org/10.57001/huiv5804.2026.030>

ABSTRACT

This paper conducts a systematic review of international literature to analyze the determinants of internal control over financial reporting (ICFR) quality. The research identifies two main impact mechanisms: (1) A direct mechanism from corporate governance factors (such as an independent Board of Directors (BOD) or Audit Committee (AC), a high-quality internal audit function) exerting monitoring pressure to prevent material weaknesses (MW); and (2) A more sustainable indirect mechanism whereby strategic choices (investments in information technology (IT) governance, enterprise resource planning (ERP) systems, risk management) shape and reinforce the internal control itself, particularly the control environment. The paper proposes an integrated model, emphasizing the combination of oversight and strategic investment to achieve high-quality ICFR. It also draws critical practical implications for Vietnam in the context of digital transformation and institutional improvement.

Keywords: Internal control, financial reporting, corporate governance, business strategy, material weakness.

TÓM TẮT

Bài báo thực hiện tổng quan hệ thống tài liệu quốc tế để phân tích các nhân tố quyết định chất lượng kiểm soát nội bộ đối với báo cáo tài chính. Nghiên cứu chỉ ra hai cơ chế tác động chính: (1) Cơ chế trực tiếp từ các yếu tố quản trị công ty (như Hội đồng quản trị hoặc Ủy ban kiểm toán độc lập, kiểm toán nội bộ chất lượng) tạo áp lực giám sát ngăn ngừa điểm yếu trọng yếu; (2) Cơ chế gián tiếp, bền vững hơn thông qua việc các lựa chọn chiến lược (đầu tư quản trị công nghệ thông tin, hệ thống ERP, quản trị rủi ro) định hình và củng cố chính kiểm soát nội bộ, đặc biệt là môi trường kiểm soát. Bài báo đề xuất mô hình tích hợp, nhấn mạnh sự kết hợp giữa giám sát và đầu tư chiến lược để đạt kiểm soát nội bộ đối với báo cáo tài chính chất lượng cao, đồng thời rút ra hàm ý thực tiễn quan trọng cho Việt Nam trong bối cảnh chuyển đổi số và hoàn thiện thể chế.

Từ khóa: Kiểm soát nội bộ, báo cáo tài chính, quản trị doanh nghiệp, chiến lược kinh doanh, điểm yếu trọng yếu

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Received: 15/12/2025

Revised: 24/02/2026

Accepted: 26/02/2026

1. INTRODUCTION

In the era of economic globalization, financial reporting integrity is fundamental to investor trust and systemic stability [1]. ICFR serves as the critical mechanism ensuring this integrity. Regulations like the

Sarbanes-Oxley Act of 2002 transformed ICFR into a legal mandate, generating extensive data on MW and catalyzing research into their determinants [2].

Despite advances, financial failures persist due to control deficiencies creating opportunities for fraud [3].

This indicates that ICFR quality transcends technical compliance and is shaped by the confluence of corporate governance and business strategy. Research established that strong governance, such as independent AC [4, 5] and high quality internal audit functions [6, 7], deters weaknesses. Perspectives now recognize that strategic choices are equally consequential. While innovation oriented strategies heighten control risk [8, 9], investments in IT governance and ERP systems strengthen controls through automation [10]. Weak ICFR leads to lower reporting quality [11], increased fraud risk [12], operational inefficiencies [13], and negative market reactions [14].

Significant gaps remain as studies often isolate governance or strategy and focus heavily on developed markets rather than emerging economies [15]. While previous literature reviews have primarily focused on either corporate governance mechanisms or specific technical compliance aspects of ICFR, they often overlook the strategic imperatives that drive internal control design. This paper addresses this critical gap by moving beyond a mono-dimensional focus. The novelty of this study lies in its integrated approach, synthesizing how corporate governance (as a monitoring pressure) and business strategy (as a resource-based enabler) interact to determine ICFR quality, particularly within the context of digital transformation. This paper conducts a systematic review to examine how these factors influence ICFR quality and determine actionable lessons for Vietnam. The study contributes by providing a structured knowledge map, proposing an integrated conceptual model connecting core theories with the COSO framework, and translating global evidence into practical implications for Vietnamese leaders.

2. THEORETICAL BACKGROUND AND ANALYTICAL FRAMEWORK

2.1. Foundational Theories

The relationship between corporate governance, business strategy, and ICFR quality is explained through three complementary theoretical lenses that provide a robust foundation for understanding how specific factors influence control effectiveness.

Agency Theory [16, 17] addresses conflicts of interest arising from the separation of ownership and control. Managers may act in self interest by manipulating financial information. From this perspective, robust internal control is a critical monitoring mechanism instituted by the BOD to align incentives and safeguard

reporting reliability. Consequently, effective governance structures like an independent BOD, a competent AC, and a high quality internal audit function [6] are posited to enhance ICFR quality through intensified oversight.

The Fraud Triangle [3, 18] posits that fraud occurs through the convergence of pressure, opportunity, and rationalization. Internal control is the primary tool for reducing opportunity. Strong governance mitigates pressure and rationalization by establishing an ethical tone at the top. Strategic choices regarding technology directly shape control processes. For example, investments in IT governance and automated ERP systems [10] reduce opportunity by embedding system enforced controls and minimizing human intervention.

Resource Dependence Theory [19, 20] views organizations as dependent on external resources. Governance and strategic initiatives are mechanisms to secure these resources. A diverse board provides vital expertise and best practices for risk management. Similarly, strategic investments in advanced technology, enterprise risk management programs, and a skilled workforce enhance an organization's inherent capacity to maintain effective controls.

In synthesis, Agency Theory emphasizes monitoring, the Fraud Triangle focuses on minimizing opportunity through oversight and design, and Resource Dependence Theory explains how strategy secures necessary competencies. Together, they form an integrated foundation for analyzing the determinants of ICFR quality.

2.2. Internal control and ICFR quality

Internal control is a process effected by an entity's board, management, and personnel to provide reasonable assurance regarding operational effectiveness, financial reporting reliability, and regulatory compliance [21]. The COSO framework identifies five interrelated components. First, the control environment serves as the system foundation, establishing integrity and ethical values. Second, risk assessment identifies and manages threats to objectives. Third, control activities include policies like approvals and reconciliations. Fourth, information and communication systems support data exchange. Fifth, monitoring activities evaluate if all components are functioning.

The control environment is the most critical component, establishing the tone at the top and shaping organizational control consciousness [21]. A weak

environment renders well designed activities ineffective, acting as the primary conduit through which governance and strategy influence the entire system.

ICFR quality refers to control effectiveness in ensuring reliable financial reporting. As a latent construct, empirical research utilizes observable proxies [22, 23]. MW are the most direct proxy, representing deficiencies likely to result in material misstatements [22]. Accruals quality captures estimation errors or discretion, where low quality indicates underlying control problems [11]. Financial restatements signify detected failures in previously issued statements [24]. Financial statement fraud represents the most severe intentional failure [25], with MW often serving as a causal link [12]. Audit opinions provide authoritative third party assessments [26], while market reactions to MW disclosures reflect investor risk reassessment [14].

Scholars often employ multiple measures to triangulate findings and enhance validity [27]. To systematically organize this evidence, this paper proposes an integrated analytical framework (Figure 1) to guide the literature review.

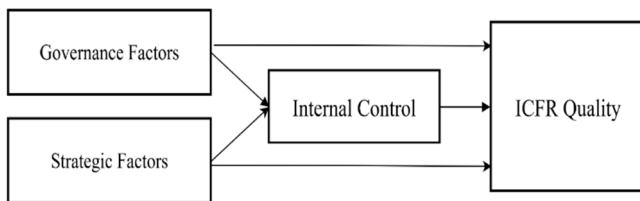


Figure 1. Integrated analytical framework

3. RESEARCH METHODOLOGY

This study employs a systematic literature review approach, following the PRISMA guidelines [28], to synthesize international empirical evidence regarding the relationship between corporate governance, business strategy, and ICFR quality.

3.1. Data collection and selection process

Step 1: Literature search

Literature was collected from reputable academic databases, including Scopus, Web of Science, EBSCOhost (Business Source Complete), and Google Scholar. Search queries were constructed using Boolean operators:

Group 1 (Internal control): "internal control" OR "internal control over financial reporting" OR "Internal control over Financial Reporting" OR "internal control weakness" OR "material weakness" OR "significant deficiency" OR "financial reporting quality" OR

"accounting information quality" OR "financial statement reliability"

Group 2 (Governance): "corporate governance" OR "board of directors" OR "board independence" OR "audit committee" OR "audit committee independence" OR "audit committee expertise" OR "internal audit" OR "internal auditing quality" OR "audit committee financial expertise" OR "board characteristics"

Group 3 (Strategy): "business strategy" OR "prospector strategy" OR "defender strategy" OR "IT governance" OR "information technology governance" OR "enterprise risk management" OR "ERM" OR "operational complexity" OR "business complexity" OR "task complexity" OR "organizational complexity" OR "risk management" OR "COBIT" OR "ERP implementation"

The search was conducted in September 2025, with no initial restriction on the publication year.

Step 2: Selection criteria

Selected documents were required to be quantitative empirical studies published in peer-reviewed journals between 2002 and 2025 (the post-SOX era), focusing on the nexus between governance factors, strategy, and internal control quality. We prioritized studies from top-tier journals (ABDC-ranked A/A or Scimago Q1/Q2). Each study was assessed based on three quality criteria: (i) methodological rigor (clear identification of causality and robustness tests); (ii) data integrity (use of validated databases like compustat or audit analytics); and (iii) theoretical grounding. Studies failing to meet these thresholds, such as those with ambiguous variable definitions or small, non-representative samples, were excluded.

Step 3: Screening

The screening process consisted of three stages: title screening, abstract screening, and full-text review combined with quality assessment. To ensure consistency across diverse ICFR indicators (e.g., MW, accruals quality, restatements...), we implemented a standardized mapping protocol. ICFR quality was operationalized as a binary construct for direct measures (presence of MW) and a continuous construct for outcome-based measures. Discrepancies in measurement such as varying definitions of "materiality" were resolved by benchmarking against SOX 404 standards, ensuring that synthesized results remain comparable across different regulatory jurisdictions. Two independent researchers performed the screening, with any discrepancies resolved through discussion.

3.2. Data analysis methods

Due to the heterogeneity of the studies this paper applies:

Narrative synthesis: Categorizing studies by factor groups (governance, strategy), evaluating consistency (support vs. contradiction), the direction of impact (positive vs. negative), and economic significance.

Vote counting method: We utilized a weighted vote-counting approach, where the significance of a study's findings was weighted by its sample size and the strength of its ICFR proxy (prioritizing direct MW disclosures over indirect accruals).

Simplified meta-analysis: To address heterogeneity, we performed subgroup analyses based on country-level legal strength and the specific type of ICFR proxy used, ensuring that aggregated findings are not biased by a single measurement type.

Moderator analysis (by country, legal jurisdiction, and time period) was also performed to clarify contextual differences.

4. LITERATURE REVIEW AND SYNTHESIS OF EMPIRICAL EVIDENCE

4.1. Overview of the research sample

Following PRISMA guidelines, this review analyzed 31 high-quality empirical studies from top-tier journals (The Accounting Review, JAE, CAR) (Table 1). Shifting from a traditional "regulatory era" focus, this sample is structured to track ICFR's evolution from technical compliance to strategic integration.

The sample exhibits a significant U.S. concentration (87.1%, n = 27), driven by the robust data mandates of SOX Sections 302 and 404. However, we critically acknowledge that this dominance rooted in a common-law system with stringent investor protections presents a challenge to global generalizability. In such environments, the "Governance" mechanism often acts as an external enforcement tool. To mitigate this bias and enhance the model's external validity, we intentionally integrate evidence from Asia (6.5%), Europe, and Africa. This allows for a comparative analysis of how institutional maturity and different legal origins (e.g., civil law vs. common law) influence the efficacy of internal controls.

Research surges in 2007 - 2009 (32.2%) and 2017 - 2019 (25.8%) reflect academic responses to global financial crises and auditing standard refinements (e.g., AS5). While 22 studies utilize MW as the primary proxy, the review also incorporates accruals quality, restatements, and fraud

incidence. This diverse measurement approach ensures a holistic understanding of the control environment, moving beyond ex-post failures to detect unintentional bias and management override.

By synthesizing these 31 studies, the review builds a sound foundation to argue that while strategy creates inherent risks, governance serves as the direct corrective mechanism. This framework provides a rigorous basis for analyzing ICFR quality across varied global institutional settings.

Table 1. Study distribution statistics

Period	n	%	Geography	n	%	ICFR Proxies	n
2004 - 2006	2	6,5	US	27	87,1	MW	22
2007 - 2009	10	32,2	Asia	2	6,5	Accruals Quality	2
2010 - 2013	5	16,1	Europe	1	3,2	Restatements	1
2014 - 2016	6	19,4	Africa	1	3,2	Audit Opinions	4
2017 - 2019	8	25,8				Fraud incidence	2

4.2. Synthesis of evidence on governance factors

Corporate governance remains the primary determinant of ICFR quality, operating mainly through the "direct influence" mechanism of supervisors and monitors. Our synthesis of 31 empirical studies reveals that Governance factors are the most heavily researched, with 71% (n = 22) of the sample providing evidence of their impact (Table 2). Analysis indicates a high degree of consensus: 86% of governance-focused evidence supports a significant positive relationship between robust governance and ICFR quality (i.e., a negative relationship with MW).

Table 2. Comparative Evidence Synthesis: Governance vs. Strategy

Factor Group	%	Primary Mechanism	Evidence Weight	Direction of Impact	Support for Quality Improvement
Governance	71%	Direct	90,90%	Primarily Positive	86% (Strong Consensus)
Strategy	29%	Direct - Indirect	50% - 50%	Mixed (Dual-edged)	36% (Emerging Evidence)

AC independence, financial expertise, and diligence receive the most consistent support. Key studies [4, 5, 26, 29] demonstrate that competent AC significantly reduce

MW and constrain aggressive earnings management. Beyond prevention, strong financial expertise is instrumental in the timely remediation of existing weaknesses [30]. Monitoring efficacy is further enhanced by specialized industry expertise [31] and boardroom gender diversity [32]. While BOD independence is beneficial [26], CEO duality can impair oversight [33].

The internal audit function serves as a critical governance mechanism. High quality internal audit, characterized by competence and independence, is consistently linked to stronger ICFR. Prawitt et al. [6] show that strong internal audit effectively constrains earnings management. Moreover, specific attributes like adequate budgeting and active committee oversight improve effectiveness across operational and compliance domains [7, 15]. This reinforces the "direct pressure" pathway where governance provides the immediate oversight necessary to curtail agency costs.

Ownership and leadership also play vital roles. Institutional ownership applies professional monitoring pressure that reduces weakness risk [34]. Conversely, high managerial ownership may lead to entrenchment [33]. Excessive CEO power increases the probability of weaknesses, whereas timely CFO turnover following a disclosure facilitates effective remediation [35, 36]. Governance factors influence ICFR predominantly by establishing a foundational control environment that elevates the entire system.

4.3. Synthesis of evidence on strategy

A key novelty of this review is the systematic synthesis of strategic factors, which have been historically secondary to governance in ICFR literature. Strategic choices and organizational characteristics act as a dual edged sword for ICFR, creating inherent risks while providing mitigation tools. Synthesis shows 30 percent of the sample identified factors increasing risk, whereas 20 percent highlighted factors reducing it.

Business strategy directly shape the control landscape. Innovative prospector strategies increase uncertainty, consistently leading to a higher likelihood of MW [8, 9]. Structural complexity from multiple segments, foreign operations, or mergers creates monitoring challenges robustly linked to greater control risk [22, 37].

Strategic investments in technology and control frameworks demonstrably improve quality. Implementing IT governance like COBIT and integrated ERP systems strengthens ICFR by automating controls and enhancing information reliability [10, 38, 39]. These

findings support our "indirect impact" mechanism, positioning strategy as a resource-based tool for system resilience rather than just a risk factor a perspective often overlooked in earlier reviews. Disruptive technologies like AI and Big Data revolutionize this landscape by shifting from periodic sampling to continuous, 100% data monitoring, enhancing the speed and accuracy of risk detection. Additionally, Blockchain provides an immutable ledger ensuring transaction integrity and real-time transparency. These technologies fundamentally redefine monitoring by embedding "preventative-by-design" controls that minimize human intervention and boost financial disclosure reliability. Failure to maintain high-quality ICFR leads to severe consequences: increased restatement and fraud risk [12], corroded operational efficiency [13], and negative market reactions to material weakness disclosures [14]. Evidence confirms that proactive strategic decisions in technology and governance effectively mitigate these inherent risks.

5. RESULTS AND DISCUSSION

5.1. Integrated explanation of impact mechanisms and proposed conceptual model

Empirical evidence suggests that governance and strategic factors influence ICFR quality through two parallel and interacting mechanisms: direct pressure and tool-based impacts, and indirect system-shaping impacts.

Direct impact mechanisms apply immediate monitoring pressure or technical tools to prevent fraud. This aligns with Agency Theory's emphasis on oversight. An independent, expert AC scrutiny directly reduces the probability of material MW by deterring opportunistic behavior [4, 5]. Similarly, advanced monitoring technologies or integrated ERP systems automate controls and enable real-time error detection [39]. While potent in addressing explicit agency conflicts and curtailing fraud opportunities, these mechanisms often require continuous intervention to avoid erosion over time.

Indirect impact mechanisms are more foundational, fundamentally shaping the organization's internal control, particularly the control environment. This aligns with Resource Dependence Theory, where strategic investments build lasting capabilities. A strong ethical "Tone at the Top" cultivates a culture of integrity, reducing employees' propensity to rationalize misconduct and enhancing control consciousness [40]. Proactive strategic choices, such as IT governance based on COBIT or enterprise risk management, systematically enhance COSO components, improving risk assessment

and information flows [10]. This mechanism addresses the root causes of failure by building a resilient system.

Evidence suggests indirect impacts are generally more powerful and durable. A robust control environment acts as a self-reinforcing foundation for all other components [21]. Strengthening internal control through strategic resource investment often yields more persistent improvements than transient pressure from periodic oversight alone [10].

The theoretical core of this study lies in the synergistic interaction between these two pathways. Rather than operating in isolation, the direct and indirect mechanisms form a self-reinforcing governance loop. Specifically, direct monitoring pressure (e.g., from an active AC) serves as a catalyst that triggers the indirect mechanism by mandating strategic resource allocation toward system improvements [35]. Conversely, a robustly designed internal control, strengthened through strategic IT investment, enhances the substantive efficacy of direct oversight by providing governance bodies with high-fidelity, real-time data [27]. This interaction creates a "governance-strategy resonance": strong oversight ensures strategic investments are not merely symbolic, while strategic resources provide the transparency required for oversight to be effective. This explains empirical findings where the influence of a single governance factor only becomes significant when anchored by a resilient, strategy-driven control environment [8, 23].

We further analyze how differing legal environments influence the generalizability of this model. In strong-protection regimes like the U.S. (Common Law), direct mechanisms (AC monitoring) are highly effective due to stringent litigation risks. Conversely, in civil-law or emerging contexts like Vietnam, where formal enforcement may be developing, the indirect mechanism focusing on the "Control Environment" and strategic system-shaping becomes even more critical. Evidence suggests that while the "direct pressure" from governance may vary depending on national legal

strength, the "indirect impact" of strategic investments in technology and culture remains a robust determinant of ICFR quality globally. Consequently, our integrated model is designed to be adaptive: the relative weight of each pathway shifts according to the institutional setting, positioning the internal control framework as a universal mediator regardless of the specific legal jurisdiction [8, 23].

The proposed integrated conceptual model (Figure 2) positions internal control as the central mediating mechanism. Governance and strategy exert direct impacts through pressure and indirect impacts by reinforcing the COSO framework. The model explicitly illustrates the two-way interaction (dashed arrows), where improved ICFR quality feeds back to reduce the marginal cost of monitoring and facilitates the execution of complex long-term strategies. This model clarifies why a strong control environment is paramount for sustainable excellence.

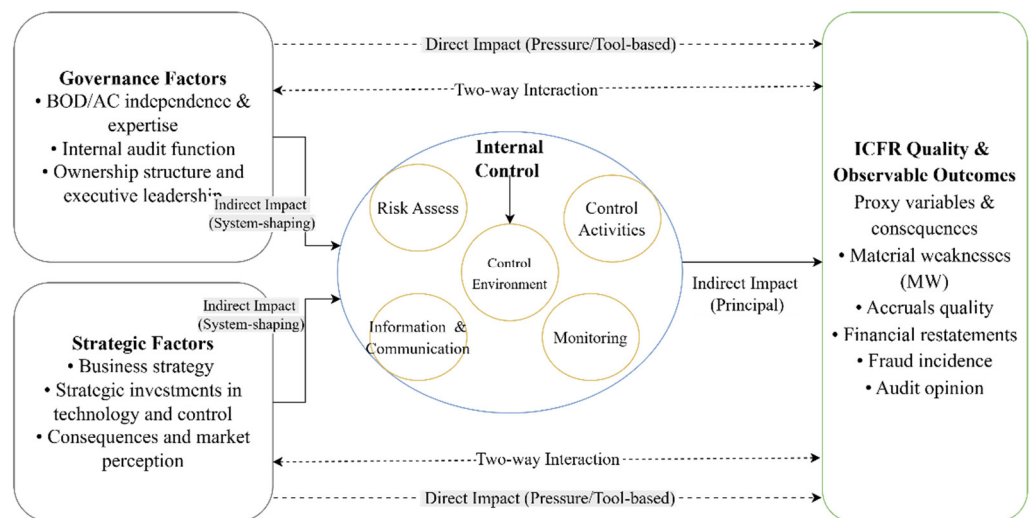


Figure 2. Integrated conceptual model

5.2. Implications for Vietnam's practice and policy

Drawing from the integrated model and global evidence, targeted implications are derived for Vietnam as it navigates digital transformation and international convergence.

First, firms must prioritize a substantive control environment over procedural formality. For all Vietnamese enterprises, especially family-owned businesses, they must transcend a compliance checkbox mentality. Cultivating an authentic "Tone at the Top" is the most critical indirect mechanism for sustainable control.

Second, enhancing the effectiveness and independence of governance bodies is essential. For

listed companies, the priority is to mandate higher levels of independence and financial expertise within the AC. Moving beyond nominal compliance requires empowering AC members to challenge management meaningfully. Conversely, for State-Owned Enterprises (SOEs), the focus must shift toward strengthening accountability and minimizing conflicts of interest arising from the state-representative ownership structure. Regulators should enforce stricter transparency rules for SOEs to ensure governance functions as a genuine monitoring pressure rather than a bureaucratic formality.

Third, firms should strategically integrate IT governance with internal control. For large-scale and high-growth firms, investments in ERP and COBIT automate controls and enhance monitoring, addressing operational complexity. Designing controls into new digital systems prevents digital loopholes and improves accounting information quality.

Fourth, regulators should develop infrastructure for ICFR transparency. Implementing a roadmap for mandated public disclosure of ICFR assessments would create market discipline. This is particularly vital for listed firms to attract foreign institutional investors who prioritize transparency.

Finally, elevating the internal audit function is critical. For large conglomerates, bolstering professional capability and ensuring a direct reporting line to the AC transforms internal audit into a governance cornerstone. In conclusion, Vietnamese enterprises require a dual approach: robust direct governance pressure combined with strategic system-focused investments to build resilient internal controls.

6. CONCLUSION

This systematic review synthesizes international empirical evidence to elucidate the determinants of ICFR quality, proposing an integrated conceptual model of impact mechanisms. The analysis confirms that robust corporate governance-characterized by independent and expert boards, AC, and high quality internal audit functions-serves as a critical direct deterrent to control deficiencies. Simultaneously, business strategy and organizational choices present a dual reality. While complexity and innovation increase inherent risk, deliberate strategic investments in IT governance, ERM, and digital infrastructure act as powerful indirect levers to strengthen the entire control system.

The core theoretical contribution is the articulation of two complementary pathways: direct monitoring pressure

and indirect system shaping. The proposed model posits that sustainable ICFR excellence is achieved when these pathways converge, with the control environment as the foundational conduit for lasting impact.

For Vietnam, advancement requires shifting from formal compliance to substantive governance. As the digital economy evolves, the integration of AI, Big Data, and Blockchain into the internal control ecosystem will be paramount. To guide future inquiry, we propose a specific empirical framework for Vietnam. ICFR quality can be measured through MW disclosures and restatement frequency. Key independent variables should include AC financial expertise (CPA/ACCA holders) for governance, and IT investment or ERP adoption for strategy. Data is increasingly feasible via the State Securities Commission and databases like FiinPro. Future research should utilize panel data to test how digital maturity moderates the impact of oversight on reporting integrity, providing a rigorous test of our integrated model in an emerging market setting.

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