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Title	**The Influence of Internal Control Systems on the Implementation of Good Corporate Governance in Rural Banks in Pekanbaru**
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ABSTRACT

The purpose of this study is to examine the influence of the Internal Control System on the implementation of Good Corporate Governance in Rural Banks (BPR) in Pekanbaru. The population in this study consists of Rural Banks (BPR) in Pekanbaru City. Respondents include directors, managers/heads of internal control systems, and managers/heads of accounting in each bank, with a total of 48 respondents completing the questionnaire. This study employs a census method. The data quality tests used include validity, reliability, and normality tests. Regression analysis is utilized to test the effect of the Internal Control System on the implementation of Good Corporate Governance. The results indicate that the Internal Control System has a significant effect on the implementation of Good Corporate Governance in Rural Banks in Pekanbaru, accounting for 53.90% of the variance, while the remaining 46.10% is determined by factors outside this research model.

Kata Kunci: Sistem Pengendalian Internal, *Good Corporate Governance*

1. Intorduction

The development of the business world is closely linked to the growth of the banking sector. According to Law No. 10 of 1998 on Banking, banks are defined as business entities that collect funds from the public in the form of deposits and channel them back to the public in the form of credit or other financial instruments to improve the general standard of living. Development across various business and industrial sectors requires substantial financial support, making the role of the national banking sector crucial. The collapse of the banking industry not only impacts the banking sector itself but also has wider repercussions, leading to a halt in the real sector as funding from banks to businesses decreases. This reduction affects companies in trade, industry, agriculture, housing, finance, and other sectors, potentially leading to widespread bankruptcies.

Effective corporate management is essential for every company, whether in industry, business, or banking. Banks, as key drivers of Indonesia's economy, play a crucial role in strengthening the national banking industry. One way to enhance banking quality is by implementing Good Corporate Governance (GCG). As agents of development, banks are expected to act as engines for national economic recovery through GCG practices. A healthy business culture and strong management commitment are vital to withstand business competition. The quality of GCG implementation is closely linked to the effectiveness of internal control within companies. The Indonesian Institute of Internal Auditors, including The Institute of Internal Auditors (IIA), believes that a high-quality internal control system can significantly contribute to strengthening corporate governance, risk management, and management controls (Maulana & Rizqi, 2020). When the internal control system functions optimally, inefficiencies can be minimized, and unhealthy practices can be avoided (Maulana

& Rizqi, 2020). Currently, there are 16 Rural Banks (BPR) operating as Limited Liability Companies in Pekanbaru. The high risks in BPR activities—such as interest rate fluctuations, non-performing loans, and operational errors—demand effective internal monitoring and control. Moreover, the intense competition in the financial services sector, limited human resource quality, and insufficient use of information technology in BPR operations underscore the need to improve GCG implementation within the BPR industry.

According to a publication by Riauterkin, (2023) one of the Rural Banks (BPR) in Pekanbaru is suspected of embezzling customer funds, indicating that governance within BPRs in Pekanbaru remains insufficient. To address this issue, effective implementation of Good Corporate Governance (GCG) in BPR management is essential to ensure business continuity and enhance performance. GCG implementation is mandatory for BPRs, with core principles such as transparency, accountability, responsibility, independence, and fairness as foundational pillars. Therefore, the application of GCG in BPRs must comprehensively and consistently adhere to these principles.

Previous studies have demonstrated the importance of effective governance to ensure the sustainability of Rural Banks (BPR). Internal control is identified as a key factor influencing Good Corporate Governance (GCG), as noted by Mohamadi & Badrloo, (2022). Similarly Juhadi & Sofyan, (2020) found that effective internal control positively impacts the governance of an entity. Based on prior research and the governance issues observed within BPRs in Pekanbaru, this study is essential to undertake

2. LITERATURE RIVIEW

2.1 Agency Theory

Agency theory explains that within a company, there are two interacting parties: the owners (shareholders) and the company's management. The shareholders act as principals, while the management, granted authority by the shareholders, acts as agents responsible for running the company. Companies that separate ownership from management functions are susceptible to agency conflicts, as each party often pursues their own interests, which can sometimes be in opposition, with each aiming to maximize their own welfare (Almeida et al., 2016). The second theory addressing information asymmetry is signalling theory. Signalling theory examines how signals of management's success or failure (agent) should be conveyed to the owners (principal). It suggests that signals provided by management serve to reduce information asymmetry. Positive signals are typically well-received by external parties, as market responses heavily depend on the fundamental signals issued by the company (Kamalluarifin, 2016).

In the context of the influence of internal control systems on Good Corporate Governance (GCG), agency theory underscores the critical role of internal controls in reducing agency conflicts between the owners (principals) and management (agents). Such conflicts arise from the differing interests of principals, who aim to maximize the company's value, and agents, who may pursue personal objectives. A strong internal control system enables a company to limit opportunistic behavior by management, enhance transparency, and foster accountability. Ultimately, this supports the effective implementation of GCG principles, including transparency, accountability, and independence.

2.2 Good Corporate Governance

Since the monetary crisis in Indonesia in 1997, the implementation of good corporate governance has become a prominent issue. From that point, there was a consensus that Indonesia should adopt governance practices across government, state-owned enterprises, and private companies (Tjahjadi et al., 2021). Good Corporate Governance (GCG) comprises principles and mechanisms applied within a company to ensure management is conducted transparently, accountably, responsibly, independently, and fairly. GCG aims to balance the interests of owners, management, and other stakeholders while minimizing the risk of misconduct in decision-making. Through GCG, companies can create sustainable value, enhance their reputation, and increase trust among investors and the public (Mohamadi & Badrloo, 2022)

The internal control system plays a crucial role in supporting the implementation of Good Corporate Governance (GCG) by minimizing risks of error, fraud, and inefficiency within the company. Strong internal controls ensure effective monitoring of operational activities, accurate reporting, and compliance with policies and regulations. Consequently, internal control serves as an effective oversight mechanism for management, reinforcing transparency, accountability, and responsibility in GCG (Juhadi & Sofyan, 2020). Additionally, a well-designed internal control system fosters an environment that promotes honest reporting and communication between management and owners (principals), reducing the potential for agency conflicts and information asymmetry, which are often sources of organizational instability. With consistent and effective controls, companies can more optimally adhere to GCG principles, build stakeholder trust, and ensure sustainable growth (Widyawati, 2022).

2.3 Sistem Pengendalian Internal

An internal control system is a set of policies, procedures, and processes implemented by a company to safeguard assets, ensure the reliability of accounting information, promote operational efficiency, and ensure compliance with applicable regulations. This system aims to detect and prevent errors and irregularities in company activities, providing reasonable assurance that organizational objectives can be achieved. According to COSO, (2013) an internal control system serves as a framework that helps companies achieve effective and efficient performance, reliable reporting, and compliance with laws and regulations.

Internal control plays a crucial role in upporting the implementation of Good Corporate Governance (GCG) by providing a monitoring mechanism that ensures transparency, accountability, and compliance. Effective internal controls help identify and manage risks that could disrupt operations and threaten company sustainability. This builds trust among owners, management, and other stakeholders by ensuring that the strong internal control contributes to creating an ethical and professional environment, ultimately strengthening GCG. Internal control systems also reduce information asymmetry between owners (principals) and management (agents), thereby preventing potential agency conflicts arising from conflicting interests (Irawan, 2014). Based on expert opinions and prior research, the proposed hypothesis is as follows:

H1: Internal control systems positively influence good corporate governance in Rural Banks in Pekanbaru

Figure 1 Research Framework

3. MATERIALS AND METHODS

In this study, the independent variable is the Internal Control System (X), while the dependent variable is the implementation of Good Corporate Governance (Y). The population for this research consists of Rural Banks in Pekanbaru, with a sample of 48 selected using purposive sampling based on specific criteria, namely directors and managers/heads of the Internal Control System. Data analysis is conducted using simple linear regression through the SPSS statistical application, which includes procedures for validity, reliability, normality, and hypothesis testing, as suggested by Ghozali, (2011)

.4.1 Demography

Table 1 presents the demographic characteristics of the respondents. It can be observed that the gender distribution is dominated by females, accounting for 55.54%, while males represent 45.46%. In terms of educational level, the majority of respondents hold a Bachelor's degree (78.78%), followed by those with a Diploma (18.18%) and a Senior High School or equivalent qualification (3.04%). Regarding the respondents' length of employment, 42.43% have worked for 1-5 years, 27.27% for 6-10 years, and 30.30% have been employed for more than 10 years. In terms of age, 12.12% of respondents are under 30 years old, 63.64% are between 31-40 years old, and 24.24% are over 40 years old.

Table 1 Demography

Description	Frequency	Percentage
Gender		
Male	15	45,46%
Female	18	55,54%
Education level		
High School/Equivalent	1	3,04%
Diploma	6	18,18%
Bachelor’s Degree	26	78,78%
Years of Service		
1-5 Years	14	42,43%
6-10 Years	9	27,27%
> 10 Years	10	30,30%
Age		
< 30 Years Old	4	12,12%
31-40 Years Old	21	63,64%

> 40 Years Old	8	24,24%

Source: processed data 2024

4.2 Descriptive Statistics Analysis (DSA)

Table 2: Descriptive Statistics Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Good Corporate Governance	33	106	135	125,94	8,789
Good Corporate Governance	33	55	70	65,18	4,475
Valid N (listwise)	33				

Source: Processed results using SPSS 2024

Based on the data presented in Table 2, the internal control system for the 33 respondents shows a minimum value of 106, a maximum value of 135, with an average value of 125.94 and a standard deviation of 8.789. For good corporate governance, the 33 respondents have a minimum value of 55, a maximum value of 70, with an average of 65.18 and a standard deviation of 4.475

4.2 Validity test

Table 3: Validity test Result

Variable	Pearson Correlation	Conclusion
Good Corporate Governance	0.474** - 0.900**	Valid
Internal Control System	0.478** - 0.812**	Valid

Source: Processed results using SPSS 2024

The validity test results presented in Table 3 indicate that each item score and the total score (Pearson correlation) show a significant correlation at the 0.05 level. This confirms that all questionnaires are valid, allowing for the subsequent reliability testing, as follows:

Table 4: Reliability test result

Variable	Number of Items	Cronbach's Alpha	Conclusion
Good Corporate Governance	15	0.752	Reliable
Internal Control System	28	0.756	Reliable

Source: Processed results using SPSS 2024

The reliability test results indicate that the Cronbach's alpha values for each variable exceed 0.6, demonstrating that the variables in this study meet the reliability test criteria (hair et al, 2018)

Uji Normalitas

The normality test stage, the Asymp. Sig (2-tailed) value is > 0.05, specifically 0.884, indicating that the data in this study is normally distributed. This aligns with Ghozali, (2013) assertion that an Asymp. Sig (2-tailed) value > 0.05 signifies a normal data distribution.

Hypothesis Testing

The results of the hypothesis test on the effect of the internal control system on the implementation of Good Corporate Governance are presented in Table 6 as follows:

Table 6: Result of Hypothesis Testing

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18,087	7,836		2,308	,028
	Internal Control System	,374	,062	,734	6,025	,000

a. Dependent Variable: GCG

Source: Processed results using SPSS 2024

Hypothesis Testing (Ha):

As shown in Table 6, the significance value is 0.000. Since this value is less than α = 0.05 (0.000 < 0.05), we reject Ho and accept Ha, indicating that the internal control system has a significant effect on the implementation of Good Corporate Governance. The positive coefficient (B = 0.374) in the model indicates that the internal control system positively influences Good Corporate Governance. Specifically, for every unit increase in the internal control system, there is an estimated 0.374 increase in the Good Corporate Governance score. The high t-value of 6.025 and the significance level of 0.000 support the strength and statistical significance of this relationship.

The internal control system significantly influences the implementation of Good Corporate Governance

The test results indicate that the internal control system positively impacts GCG, supporting the view that internal control is foundational to effective corporate governance. This finding aligns with studies by Lestari et al., (2023) and Fazny & Setiyawati, (2019) which highlight internal control as a fundamental element of GCG. These studies emphasize that internal control serves not only as a core structure but also as active oversight within the organizational framework, ensuring a robust "check and balance" system. This structure, marked by strong internal controls, is essential to maintain accountability and transparency

In the context of Rural Banks (BPR), an enhanced internal control system is anticipated to improve GCG implementation by establishing clear guidelines for risk management, compliance, and operational efficiency. Strong internal controls support management in monitoring and managing business activities effectively, reducing the potential for errors, fraud, or regulatory breaches. By integrating internal control functions deeply into the organizational structure, BPRs can foster a culture of responsibility and ethical conduct, which strengthens governance standards

Moreover, a well-implemented internal control system assures stakeholders, including regulators, investors, and customers, of the institution's commitment to high governance standards. This trust is essential for BPRs operating within a competitive financial environment. Therefore, as BPRs strengthen their internal control systems, they are better equipped to meet the principles of GCG—transparency, accountability, responsibility, independence, and fairness—ultimately promoting sustainable growth and stability within the organization

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