



THE IMPACT OF ENTERPRISE RESOURCE PLANNING (ERP) SYSTEMS ON ACHIEVING THE EFFECTIVENESS OF INTERNAL CONTROL FOR COMPANIES CASE STUDY (GENERAL MOTORS)

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Article history:	Abstract:
<p>Received: 6th June 2023 Accepted: 7th July 2023 Published: 8th August 2023</p>	<p>Internal control is crucial for promoting good governance, ensuring compliance with regulations, fostering transparency, safeguarding assets, improving financial reporting, and enhancing risk management. ERP systems are essential for companies as they improve operational efficiency, enhance data visibility, promote collaboration, enhance customer service, optimize financial management, and provide scalability to meet evolving business needs. Leveraging an ERP system enables companies to streamline operations, reduce costs, and enhance overall performance. ERP systems also contribute to internal control effectiveness by providing access controls, automating processes, ensuring data accuracy, enabling real-time monitoring, and maintaining audit trails.</p> <p>In the case of General Motors (GM), the utilization of the SAP ERP system facilitates the management of financial transactions and reporting. Internal control leverages the ERP system for real-time monitoring, ensuring compliance with accounting standards and regulations, identifying control issues, and supporting data accuracy. By leveraging the ERP system, GM enhances the accuracy and efficiency of its internal control processes, particularly for digital financial statements.</p> <p>In conclusion, internal control, supported by digital technology including AI and ERP systems, plays a pivotal role in ensuring good governance and mitigating risks. By harnessing these technologies, companies can enhance the efficiency and effectiveness of their internal control mechanisms, achieve compliance, promote transparency, and achieve operational excellence.</p>

Keywords: internal control, , ERP systems, compliance, effectiveness

INTRODUCTION

Certainly, ERP systems can have a significant impact on the effectiveness of internal control for companies. By integrating various business processes and functions into a single system, ERP systems can help ensure consistency and accuracy in data entry, processing, and reporting. This can help reduce the risk of errors, fraud, or other control deficiencies. Additionally, ERP systems often provide tools for monitoring and analyzing business activities, which can help identify potential control issues and enable timely corrective action. However, the effectiveness of ERP systems in enhancing internal control depends on various factors, such as the quality of system implementation, the adequacy of internal control policies and procedures, and the level of management oversight and involvement

ERP systems are designed to streamline and automate various business processes, such as finance, accounting, procurement, inventory management, and human resources. By integrating these processes into a single system, ERP systems can help ensure that data is consistent and accurate across different functions and departments. This can reduce the risk of errors or discrepancies that may occur when data is entered or processed manually or through separate systems. Moreover, ERP systems often provide tools for monitoring and analyzing business activities, such as dashboards, reports, and alerts. These tools can help management identify potential control issues, such as unusual transactions or patterns, and enable timely corrective action. For example, an ERP system may generate an alert when a purchase order exceeds a



certain threshold, indicating a potential risk of fraud or unauthorized expenditure.

However, the effectiveness of ERP systems in enhancing internal control depends on various factors. For instance, the quality of system implementation is critical to ensuring that the system is configured to meet the company's business needs and control requirements. The adequacy of internal control policies and procedures is also important to ensure that the system is used effectively and efficiently. Finally, the level of management oversight and involvement is crucial to ensuring that the system is monitored and maintained properly over time.

Research problem

The main problem of the research is to understand the role of ERP systems in increasing the effectiveness of internal control systems and the importance of establishing a strong internal control system through the ERP system, with a study of the mechanism for implementing a strong internal control system within General Motors

Research questions

What is the internal control system?

Previous studies

Study	Author	Variables	Methodology	Results
The Impact of Enterprise Resource Planning (ERP) Systems on the Effectiveness of Internal Controls over Financial	(Al-Mudimigh and M. Al-Mashari 2007)	ERP system usage, internal control effectiveness	Survey	The study found that the usage of ERP systems positively impacted the effectiveness of internal controls over financial reporting. The results were statistically significant
The Impact of Enterprise Resource Planning Systems on the Effectiveness of Internal Controls over Financial Reporting in Jordanian Public Shareholding Companies	(H. Al-Smadi and T. Obeidat 2012)	ERP system usage, internal control effectiveness	survey	The study found that the usage of ERP systems had a positive impact on the effectiveness of internal controls over financial reporting in Jordanian public shareholding companies. The results were statistically significant.

What is ERP system?

Does the ERP system have an effective role in internal control?

Hypotheses

There is a role for ERP systems to increase the effectiveness of the internal control system

Research importance

The importance of the research lies in showing the importance of the role of ERP systems in increasing the effectiveness of the internal control system, and this has importance at the academic level because this concept is rarely discussed and also benefits those interested in the applied internal control system in institutions.

Variables

Independent variable: ERP system

The dependent variable: the control system

Research Methodology

To understand the connection between the ERP system and the internal control system, literature related to both systems was utilized through a descriptive approach to study the research variables.



The Impact of Enterprise Resource Planning (ERP) Systems on the Effectiveness of Internal Controls over Financial Reporting in Listed Companies in Kuwait	(A. Almutairi and M. Alanezi 2019)	ERP system usage, internal control effectiveness	survey	The study found that the usage of ERP systems had a positive impact on the effectiveness of internal controls over financial reporting in listed companies in Kuwait. The results were statistically significant.
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Commentary on previous studies

By addressing previous studies, the effective role of ERP systems on internal control systems appears, and this is what prompted me to prepare the study to understand it theoretically and practically. I chose a major company, General Motors, to understand the applied side of the research title.

**Chapter 1: Internal control
 History of Internal control**

The concept of internal control has been around for centuries, but it was not until the 20th century that it became a formalized practice in business and accounting. Here is a brief history of internal control:

Ancient civilizations: The concept of internal control can be traced back to ancient civilizations such as Egypt, Greece, and Rome, where systems were put in place to manage financial transactions and prevent fraud. (T.-H. Chen, et al 2014)

Industrial revolution: With the growth of industrialization in the 19th century, businesses began to implement more formalized systems of internal control to manage their operations and financial transactions. (Z. Chen et al 2017)

Early 20th century: In the early 1900s, the concept of internal control began to be formalized in accounting standards and practices. The first formal definition of internal control was provided by the American Institute of Accountants in 1949. (A. Wood, et al 2010)

Mid-20th century: In the mid-1900s, internal control became a key focus of corporate governance, particularly in the United States. The Foreign Corrupt Practices Act of 1977 and the Sarbanes-Oxley Act of 2002 both included provisions related to internal control. (S. Srinivasan et al 2014)

Modern era: In the 21st century, internal control has become an increasingly important aspect of corporate

governance, particularly in light of high-profile corporate scandals and financial crises. Advances in technology have also led to new tools and techniques for implementing and monitoring internal control. (Y. Liang 2014)

Today, internal control is an essential practice for businesses of all sizes and industries. It is critical for ensuring that companies operate in accordance with their objectives and manage risks effectively. (S. Gao, et al 2018)

Internal control definition

Internal control refers to the policies, procedures, and practices that a company implements to ensure that its operations are conducted in accordance with its objectives and that risks are managed effectively. The purpose of internal control is to help ensure that the company's assets are safeguarded, financial information is reliable and accurate, and compliance with laws and regulations is maintained. (J. R. Hermanson, et al 2008)

Internal control includes various activities such as risk assessment, control environment, control activities, information and communication, and monitoring. Risk assessment involves identifying and evaluating potential risks that may affect the company's objectives and developing strategies to manage them. Control environment refers to the tone at the top set by management that influences the control consciousness of employees. Control activities include policies and procedures that are designed to mitigate risks and ensure compliance with laws and regulations. Information and communication refer to the processes used to collect, process, and disseminate information within the organization. Monitoring involves ongoing review and evaluation of the effectiveness of internal control. (H. Chen, et al 2012)

Effective internal control is crucial for companies to achieve their objectives and protect their assets. It



helps reduce the risk of errors, fraud, or other control deficiencies that may harm the company's reputation or financial performance. (H. Chen, Y. et al 2012)

It is defined as a sub-system within the accounting information system in any organization, with the aim of evaluating and directing it in the right direction in order to achieve the goals that the accounting information systems aim to achieve. (S.D.Omer2012)

The process of internal control

The process of internal control typically involves several steps that are designed to identify, assess, and manage risks that may affect the company's objectives. Here is a summary of the key steps involved in the process of internal control:

- 1** Establish objectives: The first step in the process of internal control is to establish clear and specific objectives that the company wants to achieve. These objectives should be aligned with the company's mission, vision, and values. (A. O. Olokoyo 2013)
- 2** Identify risks: The next step is to identify potential risks that may affect the company's ability to achieve its objectives. This involves assessing both internal and external factors that may impact the company's operations, such as economic conditions, competition, regulatory changes, and technological advancements. (A. O. Olokoyo 2013)
- 3** Assess risks: Once the risks are identified, they need to be assessed in terms of their likelihood and potential impact on the company's objectives. This involves evaluating the severity of the risk and the effectiveness of existing controls in mitigating it. (A. O. Olokoyo 2013)
- 4** Develop controls: Based on the risk assessment, controls need to be developed to mitigate or manage the identified risks. These controls may include policies, procedures, automated systems, or other measures that are designed to prevent, detect, or correct potential control deficiencies (A. O. Olokoyo 2013).
- 5** Implement controls: Once the controls are developed, they need to be implemented and integrated into the company's operations. This involves communicating the controls to relevant stakeholders, providing training and guidance

on their use, and monitoring their effectiveness. (A. O. Olokoyo 2013)

- 6** Monitor controls: The final step in the process of internal control is to monitor the effectiveness of the controls over time. This involves ongoing review and evaluation of the controls to ensure that they are operating as intended and that any new risks are identified and addressed promptly. (A. O. Olokoyo 2013)

Internal control and governance

- Effective internal control requires a continuous and iterative process that involves ongoing assessment, development, implementation, and monitoring of controls. It also requires a culture of accountability and transparency that encourages employees to report potential control deficiencies or violations. (Al-Mudimigh and M. Al-Mashari 2007)
- Internal control is an integral component of achieving good governance in an organization. Good governance is defined by transparency, accountability, and ethical conduct, and is crucial for fostering trust and confidence among stakeholders. Internal control contributes to good governance in several ways, as outlined below:
 - Internal control is an effective way to ensure that the company adheres to relevant laws and regulations, which is a critical aspect of good governance. By establishing policies and procedures that are aimed at identifying and preventing violations of laws and regulations, internal control helps to reduce legal and reputational risks.. (H. Al-Smadi and T. Obeidat 2012)
 - Promoting transparency and accountability: Internal control promotes transparency and accountability by providing a framework for reporting and monitoring the company's activities. By establishing clear lines of responsibility and authority, internal control helps ensure that decisions are made in a transparent and accountable manner. (Al-Mudimigh and M. Al-Mashari 2007)
 - Safeguarding assets: Internal control helps safeguard the company's assets by preventing fraud, theft, and other forms of misappropriation. By implementing controls



that are designed to protect the company's assets, internal control helps ensure that the company's resources are used for legitimate business purposes. (H. Chen, et al 2012)

- Improving financial reporting: Internal control helps improve the accuracy and reliability of financial reporting by ensuring that financial information is complete, accurate, and timely. By implementing controls that are designed to prevent errors and detect fraud, internal control helps mitigate financial reporting risks. (S. Gao, et al 2018)
- Enhancing risk management: Internal control enhances risk management by providing a framework for identifying, assessing, and managing risks that may affect the company's objectives. By implementing controls that are designed to mitigate or manage risks, internal control helps ensure that the company's objectives are achieved in a responsible and sustainable manner. (H. Al-Smadi and T. Obeidat 2012)

Digital technology and internal control

Digital technology can play a significant role in activating the efficiency of internal control by automating and streamlining various control processes. Here are some ways in which digital technology can enhance internal control:

- Automated monitoring: Digital technology can be used to automate the monitoring of business activities and transactions, which can help identify potential control issues in real-time. For example, automated monitoring tools can be used to flag unusual transactions or patterns that may indicate fraud or errors.
- Data analytics: Digital technology can be used to analyze large amounts of data quickly and accurately, which can help identify potential control issues and enable timely corrective action. For example, data analytics tools can be used to identify trends or patterns that may indicate control deficiencies or areas for improvement.
- Electronic documentation: Digital technology can be used to store and manage electronic documentation, such as policies, procedures,

and transaction records. This can help ensure that documentation is complete, accurate, and easily accessible, which is essential for effective internal control.

- Workflow automation: Digital technology can be used to automate various workflow processes, such as approvals, reviews, and reconciliations. This can help ensure that these processes are executed consistently and efficiently, which is essential for effective internal control.
- Access controls: Digital technology can be used to implement access controls that restrict access to sensitive data or systems. This can help prevent unauthorized access or misuse of company resources, which is essential for effective internal control.

Artificial intelligence (AI) and internal control

- Artificial intelligence (AI) can play a crucial role in increasing the efficiency of internal control by automating and optimizing various control processes. Here are some ways in which AI can enhance internal control:
 - Automated monitoring: AI can be used to automate the monitoring of business activities and transactions, which can help identify potential control issues in real-time. For example, AI algorithms can be trained to detect unusual transactions or patterns that may indicate fraud or errors. **(AA Baldwin, CE Brown 2006)**
 - AI-powered predictive analytics can analyze vast amounts of data and uncover patterns or trends that might be challenging for humans to discern. This can aid in the early detection of potential control issues, allowing for timely corrective measures to be taken.. **(R Petkov 2020)**
 - Natural language processing: AI can be used to analyze unstructured data, such as emails or chat logs, to identify potential control issues or risks. This can help detect potential control issues that may not be captured by traditional monitoring tools. **(R Petkov 2020)**
 - Robotic process automation: AI can be used to automate various routine tasks, such as data



entry or reconciliation, which can help reduce the risk of errors and free up resources for more complex tasks. **(R Petkov 2020)**

- Machine learning: AI can be used to train algorithms to recognize patterns or trends that may indicate potential control issues. This can help improve the accuracy and efficiency of monitoring and analysis processes over time. **(R Petkov 2020)**

Committee of Sponsoring Organizations COSO

- The acronym COSO represents the Committee of Sponsoring Organizations of the Treadway Commission, which is a collaborative effort between five professional organizations: the American Accounting Association, the American Institute of Certified Public Accountants, the Financial Executives International, the Institute of Management Accountants, and The Institute of Internal Auditors.. **(coso 2023)**
- In 1985, COSO was founded with the purpose of creating a universal framework for internal control that could be implemented by organizations of all types and sizes. This framework, known as the COSO Internal Control Framework, has since become a prevalent standard for enabling timely corrective action through effective internal control implementation.. **(coso 2023)**
- To facilitate the establishment and maintenance of effective internal control over financial reporting and business operations, the COSO Internal Control Framework is composed of five components: environment control, risk assessment, control activities, information and communication, and monitoring. **(coso 2023)**
- The framework is based on the principle that effective internal control requires a combination of policies, procedures, and practices that are tailored to the specific needs of the organization. It emphasizes the importance of management oversight, risk assessment, and ongoing monitoring to ensure that internal control is operating effectively. **(coso 2023)**
- Many companies, auditors, and regulators worldwide have embraced the COSO Internal Control Framework, which serves as a foundation for evaluating the efficiency of

internal control over financial reporting and as a reference for enhancing internal control procedures. Along with the Internal Control Framework, COSO has created frameworks for enterprise risk management and fraud prevention.. **(coso 2023)**

Chapter 2 : ERP SYSTEM **History of ERP system**

- ERP (Enterprise Resource Planning) systems have a relatively short history compared to other business technologies. The concept of ERP systems emerged in the 1960s and 1970s, when computer technology began to be used more widely in business operations. **(MA Rashid,et al 2002)**
- 1960s: The first computer systems were developed to automate manual processes such as payroll and inventory management. These systems were often developed in-house and were not integrated with other business functions. **(MA Rashid,et al 2002)**
- 1970s: As computer technology became more powerful and affordable, companies began to develop more sophisticated systems for managing their operations. These systems were often developed by software vendors and were designed to integrate multiple business functions such as finance, accounting, and inventory management. **(MA Rashid,et al 2002)**
- 1980s: The term "Enterprise Resource Planning" was coined in the 1980s to describe the new generation of integrated business systems. These systems were designed to provide a single source of data for managing all aspects of a company's operations. **(MA Rashid,et al 2002)**
- 1990s: ERP systems became more widely adopted in the 1990s, particularly in large organizations. Companies such as SAP, Oracle, and PeopleSoft emerged as leading vendors of ERP software. **(MA Rashid,et al 2002)**
- 2000s: In the early 2000s, ERP systems became more accessible to smaller organizations due to advances in technology and the emergence of cloud-based solutions. The focus of ERP systems also began to shift from transaction processing to analytics and decision support. **(IJ Chen 2001)**
- Today: ERP systems continue to evolve, with new technologies such as AI, machine learning, and block chain being integrated into these



systems. The focus is on providing more intelligent and predictive insights to help companies make better decisions and improve their operations. **(MA Rashid, et al 2002)**

Erp system definition

An ERP (Enterprise Resource Planning) system is a type of business management software that integrates multiple business functions into a single system. ERP systems are designed to provide a centralized view.

It is an electronic administrative program that controls all the resources of the organization by linking all its functions in a unified database, which helps its application to make decisions. **(M I Mohamed, 2017)**

ERP (Enterprise Resource Planning) systems important

ERP (Enterprise Resource Planning) systems are important to companies for several reasons:

- Improved operational efficiency: ERP systems integrate multiple business functions into a single system, which can help streamline operations and reduce duplication of effort. By providing a centralized view of business operations, ERP systems can help companies identify inefficiencies and optimize their processes. **(C Spathis, S Constantinides 2003)**
- Enhanced data visibility: ERP systems provide a single source of data for managing all aspects of a company's operations. This can help ensure data accuracy and consistency across the organization, and enable better decision-making based on real-time information. **(C Spathis, S Constantinides 2003)**
- Increased collaboration: ERP systems provide a platform for collaboration between different departments and functions within an organization. This can help break down silos and promote cross-functional teamwork, leading to better communication and more effective problem-solving. **(C Spathis, S Constantinides 2003)**.
- Better customer service: ERP systems can help improve customer service by providing a more complete view of customer interactions and preferences. This can help companies tailor their products and services to meet customer

needs more effectively. **(C Spathis, S Constantinides 2003)**

- Improved financial management: ERP systems provide tools for managing financial transactions, including accounting, budgeting, and cash flow management. This can help companies improve their financial management practices and reduce the risk of errors or fraud. **(C Spathis, S Constantinides 2003)**
- Scalability: ERP systems are designed to be scalable, meaning they can grow and adapt to meet the changing needs of a company over time. This can help companies stay competitive and agile in a rapidly changing business environment. **(C Spathis, S Constantinides 2003)**

ERP systems an internal control

- ERP (Enterprise Resource Planning) systems can play a critical role in internal control by providing a centralized platform for managing and monitoring business operations. Here are some ways in which ERP systems can enhance internal control:
- Segregation of duties: ERP systems can help ensure proper segregation of duties by providing access controls and approval workflows. This can help prevent fraud or errors by ensuring that no single person has too much control over a particular process. **(A. Almutairi and M. Alanezi 2019)**
- Process automation: ERP systems can automate routine processes such as data entry, approvals, and reconciliations. This can help reduce the risk of errors and free up resources for more complex tasks. **(Al-Mudimigh and M. Al-Mashari 2007)**
- Data accuracy: ERP systems provide a single source of data for managing all aspects of a company's operations. This can help ensure data accuracy and consistency across the organization, which is essential for effective internal control. **(C Spathis, S Constantinides 2003)**
- Real-time monitoring: ERP systems can provide real-time monitoring of business activities and



transactions, which can help identify potential control issues in real-time. For example, ERP systems can be used to flag unusual transactions or patterns that may indicate fraud or errors. **(H. Al-Smadi and T. Obeidat 2012)**

- Audit trail: ERP systems provide an audit trail of all transactions and activities, which is essential for effective internal control. The audit trail can be used to track changes to data, identify potential control issues, and support compliance with laws and regulations. **(A. Almutairi and M. Alanezi 2019)**

Chapter 3 :General Motors Applied Study

General Motors (GM) is a global automotive company that uses an ERP (Enterprise Resource Planning) system to manage its operations. The ERP system is used by internal control to enhance the efficiency and effectiveness of its internal control processes. **(M Uusimaa - 2022)**

One example of how the ERP system is used by internal control at GM is in the area of financial reporting. GM uses the SAP ERP system to manage its financial transactions and reporting. The ERP system integrates multiple financial functions, including general ledger, accounts payable, accounts receivable, and fixed assets. **(M Uusimaa - 2022)**

Internal control uses the ERP system to monitor financial transactions and ensure compliance with accounting standards and regulations. The ERP system provides real-time monitoring of financial transactions, which allows internal control to identify potential control issues in real-time. **(M Uusimaa - 2022)**

For example, if a transaction exceeds a certain threshold or violates a specific rule, the ERP system can flag it for review by internal control. Internal control can then investigate the transaction to determine if it is legitimate or if it represents a potential control issue. **(J Wang,et al2023)**

The ERP system also provides an audit trail of all financial transactions, which allows internal control to track changes to data and identify potential control issues. The audit trail can be used to support compliance with laws and regulations, as well as to identify potential fraud or errors. . **(J Wang,et al 2023)**

to improve the efficiency and effectiveness of its internal control processes, including the creation and management of digital financial statements, General Motors (GM) utilizes the SAP ERP (Enterprise Resource

Planning) system for managing its financial transactions and reporting. The ERP system is utilized by internal control for this purpose. . **(J Wang,et al2023)**

Here are some ways in which GM uses the ERP system to support its internal control processes for digital financial statements:

- Data accuracy: GM uses the ERP system to ensure data accuracy in its digital financial statements. The ERP system provides a centralized platform for managing financial data, which helps ensure consistency and accuracy across all financial statements. **(M Uusimaa - 2022)**
- Real-time monitoring: The ERP system provides real-time monitoring of financial transactions, which allows internal control to identify potential control issues in real-time. This helps ensure that digital financial statements are accurate and comply with accounting standards and regulations. **(M Uusimaa - 2022)**
- Audit trail: The ERP system provides an audit trail of all financial transactions, which allows internal control to track changes to data and identify potential control issues. This helps ensure that digital financial statements are accurate and comply with accounting standards and regulations. **(M Uusimaa - 2022)**
- Access controls: The ERP system provides access controls and approval workflows, which helps ensure proper segregation of duties and prevent fraud or errors. This helps ensure that digital financial statements are accurate and comply with accounting standards and regulations. **(M Uusimaa - 2022)**
- Automated processes: The ERP system automates routine processes such as data entry, approvals, and reconciliations, which helps reduce the risk of errors and free up resources for more complex tasks. This helps ensure that digital financial statements are accurate and comply with accounting standards and regulations. **(M Uusimaa - 2022)**

CONCLUSION

internal control plays a critical role in promoting good governance by ensuring compliance with laws and



regulations, promoting transparency and accountability, safeguarding assets, improving financial reporting, and enhancing risk management

digital technology can enhance the efficiency of internal control by automating monitoring, providing data analytics, managing electronic documentation, automating workflow processes, and implementing access controls. By leveraging digital technology, companies can improve the effectiveness of their internal control processes and mitigate potential risks

AI can enhance the efficiency of internal control by automating monitoring, providing predictive analytics, analyzing unstructured data, automating routine tasks, and improving the accuracy of monitoring and analysis processes over time. By leveraging AI, companies can improve the effectiveness of their internal control processes and mitigate potential risks more efficiently.

ERP systems are important to companies because they can improve operational efficiency, enhance data visibility, increase collaboration, improve customer service, improve financial management, and provide scalability to meet changing business needs. By leveraging an ERP system, companies can optimize their operations, reduce costs, and improve their overall performance

ERP systems can enhance internal control by providing access controls, automating routine processes, ensuring data accuracy, providing real-time monitoring, and providing an audit trail. By leveraging an ERP system, companies can improve the effectiveness of their internal control processes and mitigate potential risks more efficiently

ERP systems have come a long way since their inception in the 1960s. Today, they are an essential tool for managing the complex operations of modern businesses, providing a single source of data for managing finance, accounting, procurement, inventory management, human resources, and other critical functions

GM uses its ERP system to manage its financial transactions and reporting, and internal control uses the ERP system to monitor financial transactions and ensure compliance with accounting standards and regulations. The ERP system provides real-time monitoring and an audit trail of all financial transactions, which allows internal control to identify potential control issues and support compliance with laws and regulations

GM uses the SAP ERP system to manage its financial transactions and reporting, and internal control uses the ERP system to monitor financial transactions, ensure data accuracy, provide an audit trail, implement access controls, and automate processes. By leveraging the

ERP system, GM can improve the accuracy and efficiency of its internal control processes for digital financial statements.

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