



INTERNAL AUDIT AS A CATALYST FOR EFFECTIVE ENTERPRISE RISK MANAGEMENT AND ORGANIZATIONAL SUSTAINABILITY

Authors: Irdi Agustin Kustiwi¹, Tri Ratnawati², Hwihanus³

¹irdakustiwi@untag-sby.ac.id

²triratnawati@untag-sby.ac.id

³hwihanus@untag-sby.ac.id

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ABSTRACT

Industries often face risks that can threaten operational continuity, and failures in the implementation of risk management are often the leading cause of large losses up to bankruptcy. One of the strategic approaches to managing risk effectively is to implement Enterprise Risk Management (ERM). This research aims to explore the contribution of internal auditors in optimizing the implementation of ERM, especially through assurance, consulting, and collaboration functions with the company's risk management unit. This study uses a literature study method, where data is obtained from a variety of relevant and accredited scientific literature. The results of the study show that internal auditors have an important role in improving the effectiveness of ERM through risk identification, evaluation of internal control systems, and providing strategic recommendations. In addition, the success of the implementation of ERM is also greatly influenced by the organizational culture and good corporate governance. Internal auditors must understand organizational values to create synergies that support sustainable risk management. Close collaboration between internal auditors, management, and governance is key to reducing significant risks in the industry. This research provides theoretical and practical contributions for companies that want to improve the implementation of ERM effectively and sustainably

Keywords: Internal Audit, Enterprise Risk Management, Risk Management, Governance Company, Organizational Culture

INTRODUCTION



Background

In an era of globalization and increasingly fierce business competition, companies face various types of risks that can affect the achievement of strategic, operational, financial, and regulatory compliance goals. Risks that are not managed properly can cause significant losses for the company, ranging from loss of assets, decreased company value, to loss of trust among stakeholders. Some of the banks that have failed include Rabobank International Indonesia. PT Rabobank Internasional Indonesia, which has been operating in Indonesia for 29 years, began to cease operations in April 2019. Due to years of losses, Rabobank decided to leave Indonesia. As of March 2019, the company reported a loss of Rp 9.78 billion, according to the company's monthly report. In addition, in 2008 Century Bank experienced a liquidity failure in 2008 due to poor management, imprudent credit management, and alleged embezzlement of funds by its owners.

Bank Name	Operational Period	Year of Issue	Main Causes of Failure	Reported Loss	Notes
PT Rabobank Internasional Indonesia	29 years	2019	Prolonged financial losses	Rp 9.78 billion (Mar 2019)	Ceased operations starting April 2019
Century Bank	N/A	2008	Poor management, imprudent credit management, alleged embezzlement by owners	Not specified	Experienced liquidity failure

Picture 1. Risk Management
Source. Sahara, G., Sari, W., & Huda, B. (2021)

Therefore, risk management or risk management is an important aspect in an effort to maintain the company's sustainability and competitiveness. Ineffective risk control has caused many industries to fail. One of them is in the banking industry, banks conduct financial transactions with high risk. This underlies the importance of improving governance effectiveness and implementing risk management so that companies can identify and make decisions faster. Enterprise Risk Management (ERM) is a systematic and integrated approach used by organizations to identify, assess, manage, and monitor various risks that may interfere with the achievement of strategic objectives. ERM encompasses all types of risks that are holistically managed to fit the organization's vision and mission, including financial, operational, strategic, reputational, and legal compliance risks.

In the process, ERM involves strong oversight from top management and the board of directors, the integration of risk management into strategic planning,



and risk assessment to determine impacts and likelihood of occurring. Organizations establish appropriate responses to mitigate, avoid, send, or receive risks after discovering them. To guarantee its performance, the process is regularly monitored and reported to the relevant parties. Organizations can increase company value, optimize opportunities, and reduce losses by implementing ERM.

The existence of this internal audit has a strategic role in the implementation of enterprise risk management (ERM). As an independent function responsible for providing objective assessments, internal audits help ensure that key risks have been identified, assessed, and effectively managed. In addition, internal audits also play a role in evaluating the effectiveness of internal control systems and corporate governance processes that support risk management. Various studies have shown that the existence of a strong internal audit can improve the quality of risk management implementation in companies. Internal audits not only focus on oversight, but also provide relevant recommendations to improve risk control. This is becoming increasingly relevant amid the demands of strict regulations and higher expectations from stakeholders for corporate transparency and accountability.

However, in practice, the role of internal audit in supporting the implementation of risk management often faces various challenges. Some of them are a lack of understanding of the risk management framework, limited resources, and resistance from the management or operational units. Therefore, this study aims to explore the contribution of internal audit in enterprise risk management, identify the factors that affect its effectiveness, and provide recommendations for strengthening the internal audit function in this context. This research is expected to make a theoretical and practical contribution. Theoretically, this study will enrich the literature on the relationship between internal audit and risk management. Practically, this research can be a guide for companies in optimizing the role of internal audit to deal with existing risks and ensure the sustainability of the company's operations.

METHODOLOGY

A literature study is used in this study by presenting the results of relevant previous research related to the contribution of internal audit in optimizing the implementation of Enterprise Risk Management. This approach is considered appropriate because it allows researchers to gain a thorough understanding of the theories and practices that have been developed in the context of risk management and corporate governance. According to Amelia, Magdarina, and Kustiwi (2024), internal audit plays a significant role in identifying risks, strengthening internal control systems, and ensuring the effective implementation of Good Corporate Governance principles. In addition, research by Kartika, Aprilia, and Siregar



(2024) emphasizes the importance of collaboration between internal audit and risk management functions in reducing potential systemic risks in the financial sector.

This research aims to better understand how internal audits contribute to effective risk management, especially in the context of increasingly complex and dynamic organizations. The literature review used comes from nationally accredited journals (SINTA) and international journals that have been indexed by Scopus to ensure the validity, relevance, and quality of the data. An international study by Arena, Arnaboldi, and Azzone (2010) in the International Journal of Auditing shows that the strategic role of internal audit in ERM depends on factors such as independence, auditor competence, and support from top management. By referring to the various quality literature, this research is expected to make a theoretical and practical contribution to strengthening the corporate risk management system in Indonesia.

RESULTS AND DISCUSSION

Internal Audit

Internal Audit is an assessment activity carried out in the organization by examining various things such as accounting, finance, and various services for management in the implementation of these responsibilities (Mulyadi, 2014). Internal Audit is also known as internal audit carried out to carry out an assessment function with the principle of independence within the company to test and evaluate the company's operational activities (Tugiman, 2011). In general, internal audit is described as an activity of the company aimed at evaluating and reviewing all activities that have been carried out by the company in order to minimize various risks that may arise in the company's operations. The existence of an internal audit will also ensure that the management control system runs properly and meets the operational standards that have been set, as well as provide recommendations for evaluation in an effort to improve the company's performance. In addition to carrying out the internal control function, the existence of internal audits will play a role in various efforts related to fraud, this can be circumvented by conducting operational audits of data analysis funds to detect suspicious patterns in operational activities or financial statements.

Internal Auditors are a management tool in supervising the running of the company's business processes in an effort to achieve the company's goals, especially since there have been a number of cases of company losses and fraud from several large companies (Ritonga, 2023). The role of the internal auditor is to conduct periodic risk assessments of the situation and scope in the company that is prone to fraud crimes. By understanding potential risks, an auditor can provide recommendations to improve management control and fraud prevention.



Internal Audit runs by ensuring that the good corporate governance system runs properly. The existence of a corporate governance system is supported by the role of internal audit for the application of the principles of the corporate governance system by ensuring internal control functions, minimizing business risks, detecting various frauds that occur, assessing accounting cycles and financial flows that often cause fraud and as evaluation material that must be carried out by the company to improve company performance. A good internal audit will help ensure that the risks that arise have been managed effectively and in line with the company's strategy (Sudasono, 2021). With the complexity of the business world, audit's internal existence is urgently needed as a management evaluation tool so that the company's success and goals can be achieved according to the vision and mission that has been set by running.

Enterprise Risk Management

Risk management is a step taken by a company to know, analyze, and control various risks in every company activity with the aim of obtaining effectiveness and efficiency in every aspect of the company's operations (Darmawi, 2022). Enterprise Risk Management (ERM) is designed and implemented by management to provide adequate confidence that all risks that have the potential to negatively impact the company's value have been managed in such a way that the level of risk that the company is willing to take (Hery, 2015). Enterprise Risk Management can be interpreted as a methodology used to strategically manage risk from the perspective of the entire organization or company (Ritonga, 2023).

The approach in Enterprise Risk Management (ERM) is used by organizations in identifying, assessing, and managing risks that affect business achievements and goals. Enterprise Risk Management not only focuses on risk prevention in the activities of entities, but also includes comprehensive risk management with the aim of creating value in the organization and protecting the assets owned. Enterprise Risk Management will assist an entity in identifying and addressing various potentials and threats that are interrelated in every aspect of the business and affect the company's objectives.

The existence of Enterprise Risk Management will help the managerial ranks in decision-making, this is related to a better understanding of the potential risks that may occur, so that better decisions are made in an effort to design a more effective strategy and achieve long-term goals. The implementation of Enterprise Risk Management allows companies to allocate resources to areas that are the company's priorities, this will determine the scale of the company's priorities more effectively and efficiently. With a risk management concept that is designed in detail, it means that the company has built directions and mechanisms in a sustainable manner (Fahmi, 2014).



Contribution of Internal Audit in Enterprise Risk Management

Internal auditors have two important roles in the company, namely assurance (providing an objective opinion or assessment of the results of its audit) and consulting (providing advice or training to a company) to ensure that auditors can perform their duties well and provide their services to ensure that each unit of the company has the same vision as the company. To illustrate, internal auditors do not have many responsibilities in risk management in Jordanian banking. The most common risk faced by internal auditors is compliance with internal and external laws and regulations as well as financial reporting standards.

Internal auditors handle more risk than most others, especially with regard to financial reporting regulations and standards and bank performance and information technology performance issues. While Jordan's banking culture and economy are the least risky that internal auditors handle. Perhaps because internal auditors are unaware or lack a understanding of other important types of risk and what roles are suitable for risk management, most internal auditors have performed inappropriate tasks in terms of risk handling. Therefore, it is very important to raise awareness of this issue. In addition, in their research, they described hazards that are important for internal auditors to be aware of, such as macro-level hazards. Sometimes auditors do not have much freedom in carrying out their duties within their own company. Internal auditors can work closely with audit committees and external auditors to control the implementation of risk-based audits and mitigate the risks that companies have to make the results more effective and efficient. However, their limited role allows internal auditors to conduct risk management.

The Role of Internal Audit on Risk Management Effectiveness and Management

Internal auditors in the industry must have the ability to help companies achieve their goals by using Good Company Governance. If the internal auditor works objectively so that the shortcomings in the company can be minimized, and the control system in the company will be better when evaluated by the internal auditor.

Internal audits are very useful for reducing risk, namely by understanding risks and implementing internal controls, such as performing control functions. Includes planning, execution, and supervision of the bank with Operational: consulting and assurance services, as well as frequent meetings for employees. Internal auditors and internal audits are responsible for the compliance stage. The compliance stage assesses how well employees comply with national laws and regulations, such as policies, procedures, regulations, practices, and other business rules.

In addition to complying with standard operating procedures (SOPs), employees must also understand the risks they face. To improve internal controls and minimize risk, they should hold weekly exchange meetings. During the verification step, too, the Auditor improves the reliability of the bank's financial data by examining documents, accounting records, and financial statements. After this phase, the auditor corrects any inappropriate performance or inefficiencies.

Discussion

Determinants of Enterprise Risk Management Success

The success of Enterprise Risk Management (ERM) relies heavily on several key factors that can affect the effectiveness of its implementation. Here are the factors that determine the success of ERM that have been identified in various studies.



Picture 2. Enterprise Risk Management Success

Source: Data Processed

1. Top Management Commitment

The commitment of the Board of Directors (BOD) and senior management is essential for the successful implementation of ERM. Without strong support from the highest levels of management, risk management initiatives are less likely to get the attention they need.

2. Risk Culture

An organizational culture that supports risk awareness plays an important role in the implementation of ERM. Organizations must have a strong sense of concern for the risks they face, as well as clear control policies and processes.

3. Organizational Structure

Organizational structures that support risk management, including the presence of a permanent risk management division, can improve the effectiveness of ERM implementation. This includes clear accountability and responsibility in risk management.



4. Risk Literacy

The level of risk understanding and literacy across the organization is also an important factor. Employees need to be trained to understand risks and how to manage them effectively.

5. Risk Management Process

A systematic process of identifying, analyzing, and responding to risks is essential. This includes the use of appropriate methodologies such as COSO-2017 to ensure that all aspects of risk are taken into account.

6. Communication and Continuous Learning

Effective communication and continuous learning regarding risk management can help organizations adapt to change and improve response to new risks.

7. External Factors

External factors such as regulations also affect the effectiveness of ERM. Regulatory compliance can encourage organizations to implement better risk management practices.

8. Risk Management Maturity Measurement

The level of maturity of risk management within the organization is an indicator of the success of ERM implementation. Organizations with high maturity typically show more effective risk management implementations

The success of Enterprise Risk Management is influenced by a combination of internal and external factors, including top management commitments, risk culture, organizational structure, risk understanding, and systematic risk management processes. By paying attention to these factors, organizations can improve the effectiveness of ERM implementation and reduce potential losses in the future.

Audit Evaluation Process in Risk Management

The audit evaluation process in risk management is an important step to ensure that the risk management system implemented is effective and in accordance with the organization's objectives. The following is a discussion of the process.



Picture 3. Audit Evaluation Process in Risk Management

Source: Data Processed

1. Audit Preparation

Before conducting an audit, auditors need to gather basic information about the organization, including existing risk management policies, procedures, and structures. This helps the auditor understand the context and operational environment to be audited.

2. Identify Risks

Auditors start by identifying the risks that the organization may face. It involves collecting data on potential risks from a variety of sources, including an analysis of the business environment and the history of risks that have occurred.

3. Risk Evaluation

After identification, the auditor evaluates the impact and likelihood of each risk occurring. The results of these evaluations are important for determining priorities in handling risks and for formulating an appropriate audit plan.

4. Audit Planning

The audit plan should include the objectives, scope, methods, and schedule of the audit implementation. This ensures that audits are conducted systematically and focused on the most at-risk areas.

5. Audit Implementation

At this stage, the auditor conducts testing and reviewing the ongoing risk management process. They look for loopholes or weaknesses in internal controls and the effectiveness of risk management implementation.

6. Reporting of Findings

The audit results are summarized in a report that includes findings, recommendations for improvement, and necessary follow-ups. This report



should be submitted to management to ensure that remedial steps can be taken immediately.

7. Follow-Up

Follow-up is a crucial step to ensure that the recommendations of the audit are properly implemented. The auditor works closely with management to monitor the implementation of corrective actions and evaluate their effectiveness.

8. Monitoring and Review

The evaluation process does not stop after the audit is completed; Monitoring and review are carried out regularly to ensure that the risk management system remains relevant and effective as business conditions change.

The audit evaluation process in risk management includes a series of steps from preparation to follow-up after the audit is carried out. With this systematic approach, organizations can improve the effectiveness of their risk management, identify areas of improvement, and ensure that risk mitigation strategies are consistently implemented to achieve organizational goals.

Research Contribution

This research contributes both theoretically and practically to the field of enterprise risk management by emphasizing the strategic role of internal audit in enhancing risk governance and organizational sustainability. Theoretically, it enriches existing literature by integrating internal audit functions—assurance and consulting—into the broader framework of ERM, highlighting their influence on internal control effectiveness and risk mitigation. Practically, the study offers valuable insights for organizations aiming to strengthen their risk management systems through improved collaboration between internal auditors, management, and governance bodies. It also provides guidance for decision-makers to optimize audit functions in aligning risk strategies with corporate objectives, particularly in environments facing regulatory and operational uncertainties.

Future Research Directions

Future research could explore the empirical validation of the internal audit's impact on Enterprise Risk Management (ERM) effectiveness across different organizational contexts and industries. While this study utilized a literature review approach, subsequent research can adopt quantitative or mixed-method methodologies to measure the strength of the relationship between internal audit practices and ERM outcomes. Examining variables such as audit independence, auditor competence, and management support as mediating or moderating factors could offer a more nuanced understanding of how internal audit contributes to risk governance performance. Furthermore, industry-specific studies—particularly in high-risk sectors such as banking, manufacturing, or fintech—may reveal unique



challenges and best practices in ERM implementation that are not yet sufficiently captured in the literature.

Additionally, future studies may investigate the influence of digital transformation and technological advancements—such as data analytics, artificial intelligence, and blockchain—on the evolving role of internal audit in ERM. As business environments become increasingly complex and data-driven, internal auditors are expected to adopt innovative tools that enhance their ability to identify and mitigate emerging risks. Understanding how technology integration can improve audit quality and risk insight would be a valuable contribution to both academic discourse and professional practice. Cross-country comparative studies can also shed light on how cultural, regulatory, and governance differences affect the internal audit-ERM relationship, especially in the context of global financial integration and compliance requirements.

Conclusion

The existence of Internal Audit in the company will support the implementation of Enterprise Risk Management by ensuring risk assessments that will minimize potential threats that will interfere with the achievement of the company's goals, in addition to the contribution of internal audit (Amelia, Magdarina, & Kustiwi, 2024) will increase the effectiveness and efficiency of the internal control system so that management can evaluate and improve performance in implementation business activities. Thus, the existence of internal audit will provide support for the implementation of risk management or Enterprise Risk Management. It is important for companies to overcome various risks that occur, the role of internal audit will support the function of risk management, namely risk assessment and improvement of the internal control system. Although there may be challenges in its implementation, the management can evaluate the activities that have been carried out to ensure that the company's performance runs well and can achieve the goals that have been determined.

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