World Journal of Engineering Research and Technology
WJERT
www.wjert.org
SJIF Impact Factor: 7.029

THE IMPACT OF INTERNAL AUDITING ON IMPROVING RISK MANAGEMENT UNDER CORPORATE GOVERNANCE

Mohammed Alduaig[1] and Niveen Farid[2]*

[1]Statistical Quality Control and Quality Assurance, KSA.

[2]*National Institute of Standards, Giza, Egypt.

Article Received on 28/07/2025 **Article Revised on 18/08/2025** **Article Accepted on 07/09/2025**

***Corresponding Author**
Niveen Farid
National Institute of Standards, Giza, Egypt.
https://doi.org/10.5281/zenodo.17225642

ABSTRACT

This study investigates the theoretical and conceptual connections between internal auditing, risk management, and corporate governance with particular regard to strengthening proactive organizational resilience. Based on established frameworks (e.g., COSO, ISO 31000), this study investigates how internal auditing can support governance risk processes to improve strategic oversight and decision-making. The analytical discussion demonstrates theoretically how internal auditing contributes to the improvement of risk management, accompanied by a critical literature review to A) provide evidence and support for the discussion as well as B) challenge the relationship in particular directions. During this process of analysis, the discussion identifies conceptual gaps, providing direction for further empirical research to validate and clarify existing theoretical propositions. In this article we demonstrate the continued importance of situating internal audits in governance structures to allow for more proactive risk identification, informed decision-making, and sustained confidence from stakeholders. The implications for practice and policy highlight the responsibilities of board members, audit committees, and policymakers, to attempt to reinforce audit into risk governance, based on structured frameworks and ongoing assessments for improvement. Finally, the study ends with a reiteration of the argument that internal audits contribute to proactive risk management and ultimately longer-term organizational sustainability if they are integrated into existing governance frameworks.

KEYWORDS: Internal Auditing, Risk Management, Corporate Governance, Internal Control, Organizational Oversight.

1. INTRODUCTION

The focus of internal auditing has changed from a narrow examination of compliance with financial regulations and laws to a broader value-added activity that helps organizations meet their governance objectives and manage their risks. Internal auditing is an independent, objective assurance and consulting activity that is designed to evaluate and improve the effectiveness of risk management, control, and governance processes as part of the corporate governance framework (Alqudah et al., 2023). Corporate governance emphasizes accountability and transparency as means of protecting stakeholder interests, and utilizes systems and processes to ensure risks are identified, assessed and mitigated (Arslan & Alqatan, 2020).

Risk management is an essential part of the governance process because it enables organizations to detect, control and mitigate the adverse effects of internal and external uncertainty. Risk management within governance processes requires information that is reliable and timely, strong internal controls, and continuous monitoring. Internal auditing assesses the adequacy of organizations' risk management systems, ensure compliance with laws, regulations, and policies, and provides assurance and recommendations to make organizations more resilient (Caraiman, & Mates, 2020).

The importance of internal auditing in this instance is that it can provide a mechanism for connecting risk exposure with the governance effectiveness. By independently assessing risk management activities, internal auditing can enhance management accountability, mitigate information asymmetry between the board and stakeholders and provide better information to support decision making. In addition, internal auditing can help with an organizations sustainability by creating an environment of continuous improvement and risk-based consciousness. In fact, the increased complexity of business today combined with heightened scrutiny from regulators is increasing the need for effective internal audit functions to increase the effectiveness of risk management and corporate governance (Al-Matari & Mgammal, 2019).

The role of internal auditing as a pillar of corporate governance and a facilitator of effective risk management is known, however, there is still little understanding of its theoretical role in

improving risk management processes with the context of governance. Many studies of internal auditing focus on its operational or compliance components (Bonrath & Eulerich, 2024; Abidin, 2017; Almgrashi and Mujalli, 224), while only a few studies knowingly discuss its theoretical role in alignment with risk management theory and principles of corporate governance (Mashal, 2012; Pangastuti, 2023). With regard to already existing frameworks like COSO and ISO 31000 (Drogalas et al., 2016; Adusupalli, 2024), while they describe how internal controls and risk management fit into the context of governance, there is no comprehensive theoretical model that explains how internal auditing systematically contributes to the identification, assessment, and mitigating organizational risks under the context of governance frameworks.

This gap presents challenges for both researchers and practitioners, since the underdevelopment of theory limits the degree to which internal auditing can be generalized beyond requirements-based compliance, to an understanding of its strategic role in supporting governance and promoting resilience in organizations. As a result, there is an argument for a theoretical investigation to clarify the way in which internal auditing can enhance risk management in the context of corporate governance, it will thereby allow for more rigorously designed empirical studies in the future, and contribute to enhanced governance practices.

This study's objective, therefore, is to examine, synthesize and conceptualize the relationship between internal audit and risk management in corporate governance, and to do so theoretically. This study as a theoretical investigation attempts to provide an integrated perspective on the way internal audit activity can augment risk management processes, and improve governance. In particular, it will examine the theory that informs internal auditing, risk management, and corporate governance and their interrelationships. It will also provide an analysis of the conceptual role of internal auditing in the identification, evaluation, mitigation and reporting of risks to its governance framework, and it will synthesize the existing literature for a comprehensive conceptual understanding of internal auditing as a strategic form of risk management within corporate governance framework. Finally it introduces a theoretical perspective that highlights the contribution of internal auditing to organizational resilience and governance effectiveness through improving risk management practices.

2. Scope and Justification of Adopting a Theoretical Approach

This paper is limited to a theoretical analysis of the role of internal audit in promoting risk management in corporate governance contexts. The modelling is limited to an assessment of the conceptions of internal audit, risk management and corporate governance, where there would be no empirical data collection or case-based analysis. Through this approach the research will assess components from the existing theoretical literature, international auditing standards, governance models, and risk management frameworks such as COSO and ISO 31000 for a like-minded articulation of a conceptual framework that illuminates the phenomenon of interest (Kumar, 2022; Efe, 2023).

The rationale for adopting a theoretical lens is to address conceptual gaps in the literature concerning the role of internal audit in enhanced and effective risk management within a governance context. Many of the empirical research studies report internally auditing practice and compliance regards the internal audit activity; however, there is little structured theoretical modelling about the strategic and integrative nature of internal auditing in risk governance of the organization. From a theoretical standpoint, it offers an opportunity to link fragmented bodies of knowledge on internal auditing, governance and risk management to a single area of literature, which will offer a more complete understanding of how the three domains are interrelated. It also provides an opportunity to explore the conceptual linkages that may be lost in practice-oriented or case-specific studies, and offer managerial insight into the dynamics through which internal audit contributes to governance-driven risk management.

3. Conceptual Framework

3.1 Internal Auditing

Internal auditing is vital to contemporary organizational governance to provide independent and objective assurance on the adequacy and overall effectiveness of processes related to risk management, control, and governance. According to the Institute of Internal Auditors (IIA), internal auditing is defined as:

"An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2017).

This definition highlights the dual function of internal auditing; an assurance provider and a consulting function which adds value to an organizational context beyond compliance. Internal auditing provides assurance as it provides an independent evaluation of the adequacy of internal controls and risk management systems and transparency to governance as it supports boards, audit committees, and management in its governance role in fulfiling its oversight responsibility and offered a level of accountability. Internal audit positively contributes to risk management as it brings to light areas of deficiencies and assesses organizational risk to bring about recommendations on corrective actions, however, it adds value through its contribution to operational efficiency and effectiveness with recommendations around process improvements.

The scope of internal auditing, as outlined by the Institute of Internal Auditors (IIA) standards, is broad and extends across all organizational activities, reflecting its strategic role in supporting governance, risk management, and operational effectiveness. Internal auditing is not limited to financial oversight but encompasses evaluation of risk management, internal controls, governance processes, and consulting activities, all of which contribute to strengthening organizational resilience and stakeholder confidence (Pangastuti, 2023).

An essential element of the internal audit scope is the evaluation of risk management, which refers to understanding how the organization identifies, assesses, and responds to risks that could have an impact on achievement of objectives. Through a structured review of risk management processes, internal auditors evaluate risk management frameworks to ensure they are effective, proactive, and aligned with organization objectives. This aspect of internal auditing provides organizations with a means of identifying and addressing risks and threats before they become significant operational issues or larger financial problems (Abu Saleem & Zraqat, 2019).

Another main component of the internal audit scope is the internal controls review. Internal auditors are responsible for assessing whether the organization is effectively using control processes, including financial controls, operational controls, and compliance controls. Internal Auditors provide not only protection against loss or fraud but also help achieve organizational effectiveness by determining weaknesses, or redundancies, in the processes involved in the control frameworks. Through this evaluation, auditors can assure management and the board that organizational processes are operating well when controls are working adequately and effectively (Younas & Veerasamy, 2024).

The review of governance processes also falls under the mandate of the internal auditors. Internal auditors assess whether the governance structures allow decision-makers to adhere to requirements of ethics, policy, regulation, and codes, and if decision-makers are acting on behalf of the organization for the public good (Mökander et al., 2021). This assures that governance mechanisms are not only established formally but are practically capable of supporting the organization in conducting itself with responsibility and sustainability.

Apart from assurance activities, internal audit can perform consulting activities to improve processes and reduce risks while ensuring auditors that they maintain independence. They may recommend actions to mitigate risk, find better ways to complete processes, and they may help support compliance outcomes (Alqudah et al., 2023). Internal audit is an avenue to add value in consulting activities through process improvement and support management efforts to enhance organizational performance while also doing so in a manner that respects governance outcomes.

3.2 The Role of Internal Audits in Ensuring Transparency and Compliance

Internal audits are best practice for effective corporate governance, because they foster transparency and compliance with both internal policies and external regulations (Vadasi et al., 2020; Khan & Liu, 2023). Transparency in organizational context means that the financial and operational reports and disclosures of an organization are clear, accurate, and reliable information for stakeholders to use in their decision making (Darmawan, 2024). Compliance is the adherence to relevant and governing laws, regulations and standards, and internal policies (Haladu et al., 2024).

Internal audits support transparency by performing independent assessments or evaluations of the financial and operational processes of an organization to confirm what is presented to management, boards, and others external stakeholders is free of material misstatement, accurate and complete (Kabir et al., 2022). Internal auditors systematically review processes in order to identify weaknesses, anomalies, or inconsistencies that may undermine the credibility and integrity of financial and operational reporting (Darmawan, 2024). Internal audits, in this dimension, help to mitigate information asymmetry between management and external stakeholders, solidifying trust in organizational disclosures and governance practices (IIA, 2018).

In compliance dimensions, internal audits act as an independent monitoring function, confirming the organization is complying with the statutory or legally required rules, regulations, and ethical standards, or contractual obligations (Haladu et al., 2024). Internal auditors will assess the design and effectiveness of organizations internal controls, in order to identify compliance exposures and make recommendations for improvement (Vadasi et al., 2020). They act preventatively - for example, they help organizations mitigate legal risks associated with fines for non-compliance or operational disruptions, and reputational risks, as organizations are expected to undertake a culture of accountability (Khan & Liu, 2023).

In addition, internal audit functions have a proactive role in not only monitoring emerging regulatory changes, but also to advise on changes needed to management's policies and procedures to comply with the new regulatory changes (Kabir et al., 2022). Focusing on transparency and compliance has the impact of improving corporate governance as boards and audit committees rely on internal audit reports to be informed when providing oversight to ensure stakeholder interests are protected (IIA, 2018).

3.3 Risk Management under Corporate Governance

Risk management is an important part of corporate governance that provides organizations with the ability to identify, evaluate, and manage potential threats that could affect achievement of strategic goals (OECD, 2014). Risk management in corporate governance extends beyond finance to consider operational, strategic, compliance, environmental, and reputational risks that could influence organizational sustainability (Diligent, 2023).

Corporate governance provides a mechanism for oversight and accountability, making certain organizations envisage to manage risks in an orderly and transparent value chain. As a function of governance, the board of directors and the audit committee will be tasked to create risk governance policies, monitor management for risk disposition, and align with stakeholder values. By integrating risk management into governance will provide organizations with a structured and proactive systems based approach that considers uncertainty in their environments rather than reacting to crises (Diligent, 2023, The Governance. 2023).

Risk management in the context of corporate governance is based on multiple fundamental tenets that ensure organizations are taking steps to anticipate, assess, and respond to threats while capitalizing on opportunities. First, principle of including risk considerations in

strategic decisions, requires organizations to integrate risk awareness in their long-term planning and operational strategies.

By including risk in planning, organizations will fully pursue objectives with full understanding of the potential threats and opportunities that will influence organizational performance, sustainability, and resilience.

Establishing internal controls to fend off, detect and correct risk events is another vital principle. Governance provides guidance by ensuring that effective internal controls will protect assets, ensure operational continuity and prevent financial loss or reputational damage. Controls act as a proactive line of defense that can help organizations intervene in a timely and effective manner when risks arise (The Governance Institute, 2023).

Governance focuses heavily on defining roles and responsibilities for risk management, defining risk ownership from operational management to the board of directors. Governance arrangements provide corporate accountability for who is accountable to monitor, assess and mitigate risk on an ongoing basis which helps to minimize the potential for failure of oversight. Causal to this process is the principle of compliance and ethical oversight to be inclusive of all acceptable laws, regulatory standards and ethical expectations in the conduct of risk management. Structuring and controlling risk management practices and decisions according to these acceptable principles will minimize exposure to legal penalties, operations impact, and reputational risks while emphasizing the organization's dedication towards responsible governance (IRGC, 2023; Governancepedia, 2025).

Transparency and stakeholder assurance play a significant role in risk management as it relates to governance structures. A well designed risk management process that is clearly communicated to shareholders, regulators and other stakeholders shows the company is systematically monitoring, assessing, and controlling the risks it faces. This transparency builds trust and confidence in the governance practices and decision-making of the organization (ERMA, 2025; Governancepedia, 2025).

3.4 Mechanisms for Identifying, Assessing, and Mitigating Risks

To ensure the attainment of organizational objectives, efficient risk management in corporate governance frameworks requires a formalized process of recognizing, assessing, and reducing risks. The first step is that of risk identification, the process of determining what potentially

undesirable events or conditions could threaten operations or strategic objectives. Organizations frequently use a variety of approaches, such as internal audits and reviews of internal controls, which systematically examine processes to uncover weaknesses and identify risks like data integrity issues (eCampusOntario, 2024). Other approaches, such as risk registers or checklists, assist organizations in documenting risks by category across departments (OECD, 2014). Workshops and brainstorming sessions involving employees and management are also effective in identifying operational, financial, strategic, and compliance risks. Additionally, trend analysis and historical data reviews help forecast sector-specific risk events.

Once risks have been identified, they must be assessed for likelihood and impact. This enables governance bodies to prioritize the most critical risks. Organizations often use qualitative and quantitative assessments, such as risk scoring and heat maps, to evaluate severity and probability (SafetyCulture, 2025). Techniques like scenario analysis and stress testing further enhance understanding of hypothetical risk events and their downstream effects on performance. The use of Key Risk Indicators (KRIs) provides early warning signals and supports proactive monitoring.

Risk mitigation is the final component of the risk management process and involves reducing the likelihood or impact of identified risks. This includes implementing internal controls, diversifying resources to reduce concentration risks, and developing contingency plans to ensure operational continuity (eCampusOntario, 2024). Organizations may also transfer risks to third parties through insurance or outsourcing arrangements. Mitigation is not a one-off task—it requires ongoing monitoring of root causes and adaptive responses.

In a corporate governance environment, risk management processes are overseen by boards of directors with support from internal audit functions, ensuring transparency, accountability, and alignment with stakeholder expectations (Institute of Internal Auditors, 2018). A structured approach to risk management reinforces organizational resilience, enhances regulatory compliance, and promotes sustainability in a dynamic business landscape (OECD, 2014).

3.5 Governance Policies and Regulatory Requirements Influencing Risk Management

Organizations do not manage risk in isolation. Rather, they continuously operate within a governance system and in compliance with regulatory obligations that dictate how

accountable, transparent, and ethical they can be. Governance policies provide the internal foundation on which organizations address risk oversight and regulatory obligations provide the external premises to ensure accountability as organizations operate in compliance with, or in consideration of, national and international law, industry standards, and stakeholders' standards. Together governance policies and regulatory obligations provide the foundation for good risk governance processes to inform organizational risk identification, assessment and mitigation processes (Bhuller et al., 2025).

Governance policies are most frequently established by boards of directors and senior managers to set the risk appetite, tolerance levels and risk management framework of the organization. Relative to risk operands, governance policies identify roles and responsibilities by establishing clear obligations and accountabilities for risk owners managers and internal audit. This ensures risk responsibilities are addressed across all levels of the organization and accordingly managers can review any risks that may impact their area of responsibility. In addition, governance policies help define internal controls, reporting processes, and monitoring processes that strengthen transparency and accountability. Finally, with risk oversight widely established under good governance policies, those policies facilitate consistent decision-making and demonstrate the organization's risk management activities are aligned with its own defined goals and objectives (Favour & Gracias, 2024).

Regulatory requirements help to reinforce risk management as organizations have legal and compliance obligations to fulfill in order to operate sustainably and ethically. Compliance requirements from Government regulations can include financial reporting regulations, specific industry regulatory frameworks, occupational health and safety, environmental stand point, anti-fraud and/or anti-money laundering, etc. The OECD Principles of Corporate Governance, Sarbanes–Oxley Act (SOX), and Basel Accords provide frameworks for financial institutions to establish structured risk governance and ongoing monitoring/oversight etc. Regulatory requirements can help reduce legal and financial risk but perhaps even more importantly illustrate to stakeholders that the organization has or is managing its risks what is considered best practice in its jurisdiction (Bolanle et al., 2024).

Combining the overlapping nature of governance policies and regulatory requirements produces two approaches to risk management, where both internal strategies and external obligations provide the need for risks to be managed. Internal audit functions are responsible for evaluating the extent to which the organization complies with governance policies/codes

as well as regulatory requirements. The internal audit function is essential because they act in a consultative fashion to identify weaknesses and suggest improvements. If best practices in governance and regulatory compliance are being fulfilled, organizations and management satisfy the framework necessary for a full-fledged risk governance that informs sustainability, accountability and creating long-term value (Netshifhefhe et al., 2024).

4. Internal Auditing, Risk Management, and Corporate Governance

4.1 Internal Auditing for Risk Identification, Monitoring, and Mitigation Enhancement

Internal auditing plays a significant role in corporate governance by providing independent and objective assurance that an organization is identifying and managing risks appropriately, and that there is accountability in actions taken. The relationship between internal auditing, risk management and governance can be described from a theoretical lens by examining Agency Theory, Stewardship Theory, and Institutional Theory. Each of these academic perspectives offers an explanation of how internal auditing is related to risk processes and promoting effective governance (Pangastuti, 2023).

Using agency theory, internal auditing fulfills an important monitoring role that can alleviate some of the agency problems derived from the information asymmetry between managers (the agents) and stakeholders or the board (the principals). In some instances, management has opportunities and incentives to conceal or underestimate some risks as part of a desire to enhance short-term performance or protect their own interests, risking the sustainability of the organization. Internal auditors can provide an independent perspective on the organization's risk management processes, in turn, verifying that risks are identified and disclosed to the decision-makers in an appropriate manner. More specifically, internal auditors enhance the board's ability to oversee management actions, align them with stakeholder interests, and enhance accountability in how management's response to organizational risks (Giang et al., 2023).

Stewardship Theory offers another perspective on the roles of internal auditing in respect of risk management. Agency Theory centers largely on the monitoring role of internal auditing, while Stewardship Theory's focus is largely on supportive or facilitative roles of internal auditing. By focusing on these roles internal auditing will have a positive effect on the improvement and efficiency of the risk identification and mitigation, engaging with management to improve internal controls and the operational processes of the organization. Further, internal auditing assists management with the development of risk treatment

measures through the provision of insight and awareness within the process, which demonstrates and promotes continuous improvement and recovery plans while preserving the independence of internal auditing. This supportive role is an ideal opportunity to link risk management with effective and efficient sustainable performance and responsible governance (Keay, 2016).

The Institutional Theory also explains how internal auditing will positively improve risk management by restricting organizations from the serious consequences of failing to meet regulatory outcomes and compliance requirements, as well as industry standards, professional practices and accountable governance. Organizations tend to commit themselves to responsible internal auditing committee practices to satisfy external pressures imposed by regulatory bodies, investors / shareholders and other professional agencies. Internal audit functions also undertake some level of ongoing monitoring of processes and mitigation of risks, therefore both internally governed and an external regulatory framework. This dual purpose reinforces the legitimacy and credibility of the organization before its stakeholders (Alqudah et al., 2023).

In practice, internal auditing facilitates risk identification by routinely examining processes, operations, and external factors to identify potential threats and vulnerabilities. It aids risk monitoring through ongoing evaluations, testing of controls, and review and reporting that allows the board and management to catch emerging risks and the effectiveness of responses to risk. Finally, internal auditing helps with risk responses in that it can recommend corrective actions, enhance control environments, ensure compliance with governance and ethical expectations (Udoh, 2024).

4.2 Audits Support Decision-Making and Accountability

Audits, especially internal audits, are important for enhancing decision-making and accountability in an organization's corporate governance and risk management. On a theoretical level, the primary purpose of audits is to provide independent and objective assessments of organizational processes, controls, and risk management systems. This process produces independent and objective assessments and assurance that will lead to useful information that the decision-maker can use to design better strategies, deploy resources better and solve operational and strategic challenges with more success (Mashal, 2012).

In relation to decision-making, internal audits support the overall quality of decisions made by managers and boards by providing one more link in the chain of organizational processes whereby the quality of information they base decisions upon is relevant, credible, timely, and full. Audits provide decision-makers with information about the weaknesses in the internal controls, rising organizational risks, and the extent to which operational processes are effective and efficient, thereby reducing the likelihood that decisions are made based on inaccurate, incomplete, or misleading information and ensuring that day-to-day actions remain commensurate with an organization's strategic objectives. For example, suppose the board received an audit report that identified weaknesses in the organization's risk controls. In that case, the board member may suggest putting some resources into mitigating this risk, improving the organization's overall resilience (Gatewongsa et al., 2014).

Audits enhance accountability, one of the fundamental principles of corporate governance. Audits examine and report evidence of compliance with policy, laws, and ethics; therefore, audit results hold managers and employees accountable for their actions. Accountability also exists for boards of directors, as the findings of the audit will demonstrate to stakeholders that guardians of corporate governance are fulfilling their duties to monitor and hold management accountable for its decisions. Audits are a useful tool for preventing or detecting improprieties involving noncompliance with the law or regulations, inappropriate use of company property and resources, and unnecessary operational inefficiencies, and for taking corrective action intended to strengthen the governance structure (Arslan & Alqatan, 2020).

In addition, audits support a feedback mechanism for governance, risk management, and decision-making. Audit recommendations lead to greater process, internal control, and risk responses which lead to better decisions. Audits also build stakeholder trust through transparency and credible reporting of organizational decision-making and performance. Stakeholders can invest, regulate, and support the organization with some assurance that it is conducting its affairs ethically and in compliance, and is accountable for its decisions (Udoh, 2024).

4.3 Integration of Audit Recommendations into Governance Processes for Continuous Improvement

Integrating audit recommendations into governance structures is fundamental to demonstrating the value of auditing as an agent for continuous improvement in an organization, and is a key component to enhancing corporate governance, and risk

management. Internal audits identify deficiencies in controls, inefficiencies in operations, and emerging risks but also provide a range of suggestions and recommendations for overcoming deficiencies. The true value of any audit is the joint effort of the organization to evaluate and implement the audit recommendations into a governance structure to improve organizational performance, governance, and accountability (Ogunsola et al., 2025).

Within governance structures, audit recommendations are usually directed to the board of directors, the audit committee, and senior management, who are all responsible for taking the recommendations and actions to correct any deficiencies and/or take corrective measures. This is where audit recommendations must be put into the governance structure; that is, to ensure internal audit outcomes drive policy changes, process improvements, and responses to risk, including the determination of risk appetite and tolerance (Wadesango et al., 2017).

For example, an internal audit identifies deficiencies in the organization's overall cybersecurity capabilities; therefore as a governance body you may consider deploying additional resources to the identified gaps and deficiencies, amend existing policies, and implement new risk-controlled measures that support the organization's determination of risk appetite and tolerance. In a similar context, audit recommendations keep decision making at the governance-level active and regular in formulating action to mitigate risks from the compliance and operational context.

The continuous improvement cycle is achieved when audit recommendations are not treated as yet another discrete corrective action, but rather systematically flowed into the organizational learning and governing processes. This requires setting up the explicit mechanisms that track the flow of audit recommendations through implementation, continuous monitoring of audit recommendation impact, and reviewing controls to assure improvements remain in place. Eventually, ebbing in audit recommendations will strengthen the internal control environment and improve the organizations' ability to anticipate and respond to new risks by decreasing past deficiencies from reoccurring (Jamtvedt et al., 2019).

In addition to those benefits of embedding audit recommendations, another benefit would be the fulfilment of accountability and transparency, culture. Employees and managers become aware of governance expectations and risk responsibilities, and Boards and stakeholders build confidence that the organization is committed to operating ethically, compliantly, and efficiently. Ultimately, embedding improvements stimulated by audit recommendations into

the governance process leads an organization to a dynamic governance system that builds on current risk scenarios and sets the foundations for future risk scenarios (Zhu et al., 2025).

5. Theoretical Foundation

5.1 Agency Theory *"Auditor's Role in Reducing Information Asymmetry and Monitoring Management on Behalf of Stakeholders"*

Agency Theory gives an underpinning for understanding internal auditing as part of corporate governance and corporate risk management through the principal-agent relationship where shareholders or stakeholders (the principals) delegate decision-making to managers (the agents) which creates the potential for conflict with agents putting their own interests and short-term goals ahead of the long-term interests of the organization and its stakeholders. The delegation of authority between principals and agents creates an information asymmetry dilemma where agents have better access to operational and financial information compared to the stakeholders they represent. The information asymmetry may create opportunities for agents to act opportunistically which may include misreporting operational or financial information; concealing risks; or violating their corporate governance obligations (He et.al, 2016).

Internal auditing can reduce information asymmetry and enhance stakeholder oversight by acting as a monitoring function with independence and as a source of assurance. As an independent assurance function, internal auditors test the effectiveness and adequacy of internal controls, the risk management process, and whether corporate governance policies are being complied with. Internal auditors prepare objective and reliable reports for boards of directors and audit committees, that provide stakeholders with confidence that they have accurate insight into the operational and financial health of organizations and limit the risks of managerial misbehavior. Consequently, as an independent assurance function, the internal audit function helps to safeguard the interests of all stakeholders in their decision-making process (Alqudah et al., 2023).

Moreover, internal auditing supports management accountability through comprehensive oversight of risk exposures and control activities. Where audit findings reveal gaps in performance against organizational objectives and governance expectations, management may be expected to take remedial action based on that reporting, as well as an opportunity to reinforce responsible behavior. These processes link management's decision-making to

stakeholders' interests while also supporting the sustainability of the organization (e.g., over the long term) (Pangastuti, 2023).

Agency Theory also illustrates the value of internal auditing within the context of a risk management process. Like other stakeholders, management may have an incentive to minimize or defer reporting certain and/or aggregate risk exposures to improve their own performance evaluations and avoid troubles with governance, assuming management ignores or defers reporting risk exposures altogether they will nonetheless potentially create a first-mover advantage and demonstrate no negative value added to the organization. Internal auditors can "counter" management and other stakeholders' natural tendency to minimize risk exposures by independently identifying and reporting risks to the board (and stakeholders) so they will not be blindsided and are able to adequately mitigate their risks (Alqudah et al., 2023).

5.2 Stewardship Theory "*Internal Auditing as a Supportive Mechanism for Management to Protect Organizational Resources*"

Stewardship Theory provides a counterpoint to Agency Theory by focusing on managers as stewards of the organization, who are motivated to act in the interest of stakeholder objectives, rather than functioning purely as opportunistic actors seeking their own outcomes. This theory posits that managerial actions tend to align with organizational success as effective organizational performance and sustainable growth align with the success of organizational leaders. In this context, internal auditing serves not necessarily as a compliance mechanism, but as a means to support management in stewarding its responsibilities of using organizational resources well (Kolawole et al., 2025).

Internal auditing through the lens of Stewardship Theory operates as a co-productive mechanism to allow for operational efficiency, risk awareness, and resource framework. Internal auditing is not primarily focused on monitoring compliance or detecting anomalies, but instead, provide consultative input to management to help it enhancing processes, improving internal controls, and using resources efficiently. This role does connect to the stewardship concept of creating trust-based and value creation organizations, because auditors create collaborations with management to make the resources of the organizations more reliable and responsive towards threats and opportunities (el Bahi & Bourjila, 2025).

Additionally, internal auditing provides stewardship within the organization by supporting the early identification of vulnerabilities and recommending enhancements to prevent losses, inefficiencies, or damage to reputation. By delivering ongoing reviews and risk assessments, internal auditors will work with management to identify opportunities to implement system-level capitalism to help the organization be more sustainable in the future. Again, making recommendations regarding process improvements and emerging risk exposures, internal auditing supports the ability of organizations to respond to changing business circumstances without meddling in management's exercise of autonomy (Udoh, 2024).

Stewardship Theory also helps to warrant the position of internal auditing as a continual improvement engine in the organization while also enhancing the organization's commitment to ethics, performance excellence, and stakeholder confidence. Supporting management to enhance governance and risk management processes provides internal audit with an opportunity to develop a culture of accountability and resilience based on a willingness to improve and a commitment to the organization writ large (Udoh, 2024).

5.3 Institutional Theory "*Adoption of Internal Auditing as a Response to Governance Pressures and Regulatory Environments*"

Institutional Theory provides a convincing lens through which we can analyze why organizations integrate and strengthen internal auditing firstly as part of their corporate governance practices, then as part of their risk management frameworks as well. Specifically, Institutional Theory identifies how organizations do not only seek efficiency or performance in their operations, but such organizations must also respond to external pressures from regulation, standardization, and societal expectations. In this case, internal auditing serves as a legitimacy mechanism that allows organizations to conform to governance norms, address regulatory control mechanisms, and may provide a platform for organizational accountability to stakeholders (Arslan & Alqatan, 2020).

From this perspective, organizations move towards having internal audit because of coercive pressures that they must enact in the form of laws and regulations, and/or laws and regulations which include mandatory compliance. In effect, some frameworks identified in regulatory and governance frameworks, like the Sarbanes–Oxley Act (SOX), the OECD Principles of Corporate Governance, or specific industry regulatory guidelines all cite the notion of having some form of effective internal control and independent audit function. Organizations answer such pressures through institutionalizing their internal audit function to

avoid any legal recourse, or simply to comply with their obligations, or just demonstrate legitimacy as a form of operating practice consistently in their regulatory environment (Sobowale et al., 2020).

Normative pressures affect the adoption of internal auditing practices, in addition to the coercive pressures previously mentioned. Normative pressures result from professional expectations, best practices, and influence generated by membership bodies, like the Institute of Internal Auditors (IIA). Organizations often implement good internal auditing practices not just to comply with regulations, but to adhere to best practices, and norms associated with professions and ethical standards. This compliance aligns the organization with standards and reinforces organizational legitimacy and stakeholder confidence (Mihret et al., 2010).

Likewise, mimetic influences, another part of Institutional Theory, could shape a willingness to adopt internal auditing practices. Organizations sometimes adopt governance practices based on firms they perceive as being successful or of leading industry position, a range of reasons could dictate the way in which organizations govern themselves to maintain competitiveness or legitimate governance expectations. As demonstrated through our research, if larger organizations adopt a comprehensive system of internal audit as part of their governance and risk management strategies or model, other organizations could follow with or without regulatory enforcement at this time (Glover et al., 2014).

5.4 COSO and ISO 31000 Frameworks "*Conceptual Application of Widely Recognized Frameworks to Align Auditing with Risk Management Practices*"

Conceptually, internal auditing could be incorporated into risk management and corporate governance more easily and consistently with the use of widely adopted frameworks such as the COSO Enterprise Risk Management (ERM) framework and the ISO 31000 Risk Management standard. These frameworks provide structured approaches to connecting the expected outcomes of audit processes with systematic risk management processes, while also facilitating comprehensive and strategic risk oversight (Udoh, 2024).

The COSO ERM framework conceptualizes risk management as a structured, iterative process involving organizational objectives (strategic, operational, reporting, and compliance. It outlines several components (e.g., risk assessment, control activities, monitoring, information and communication) that are central to the internal audit process, which facilitates that internal auditing can align its responsibilities with COSO by evaluating the

effectiveness of internal controls, evaluating the acceptability of risk identification and risk transferring/mitigating processes, and ensuring governance processes fit within the organization's risk appetite. As a conceptualizing tool COSO allows auditors to understand where their assurance and advisory functions relate to the organizational strategic risk profile - improving the integration and harmonization between governance and risk monitoring processes (Song, 2023).

In the same vein, the ISO 31000 Risk Management framework outlines a principle-based approach to risk management that can be applied universally. ISO 31000 includes principles related to risk identification, risk analysis, and risk evaluation and risk treatment, and provides for a continual monitoring and review. The framework provides a conceptual basis from an internal audit perspective for auditing risk processes, since the internal auditor can evaluate whether the organization's risk management framework is consistent with international best practice, and whether risk treatment was implemented appropriately. Effectively, the use of ISO 31000 principles creates the facilitation of internal audit from a compliance function to a strategic and value-adding internal audit at the level of organization, where risk awareness can be part of decision making at all levels of governance structures (Olechowski et al., 2016).

The ability to apply COSO and ISO 31000 frameworks conceptually emphasizes that the role of internal audit is to not only identify weaknesses but also to facilitate the organizational integration of risk management with governance structures (Hamir & Sum, 2021). The result of alignment with frameworks that are internationally recognized ensures risk oversight is achieved that is consistent, systematic, transparent and in alignment with globally recognized best practices. This results in the capacity for organizations to facilitate continuous improvement, resilience of the organization, and increased confidence from stakeholders, witin which internal audit establishes, maintains, and promotes it's role in risk governance in contemporary organizations.

6. Literature Review

6.1 Internal Audit's Strategic Role in Enterprise Risk Management and Corporate Governance

In recent times, the changing nature of internal audit and enterprise risk management has attracted more academic scrutiny — especially with regard to independence, organization, governance, and subsequently strategic priorities. A recent article by Ali & Akter (2023)

confirms that internal audit functions must be independent and appropriately resourced. The article suggests that audit efficiency is primarily driven by organizational characteristics and intra-organizational relationships, as well as requiring auditors to have technical, governance, and personal competences. Although the outsourcing of internal audit can provide access to specialist expertise, Ali & Akter (2023) warn that this may come with potential pitfalls, such as lack of control and redundant communication.

Adding on to these findings, Iskandar et al. (2018) explained how internal audit independence and work prioritization are critical to supporting ERM implementation, and that audit committee support facilitates internal audit functions. Their research argues that independence, and prioritizing work, is essential at all levels of ERM, while audit committee support is critical for strategic internal audit roles, such as contributing to development of policies and procedures (Iskandar et al, 2018). These findings are in alignment with Nkrumah and his colleague (2020) who wrote about the internal audit activity at a public university in Ghana. The financial risk was deemed the top threat in their case study and noted the internal audit function's role in accomplishing pre-audit work, ensuring adherence to policies, and more formally recommending the origin of risk management policies.

To extend the theoretical construct of internal audit's function in ERM, Jassem (2019) develops a conceptual model that links core and legitimate audit activity to specific elements of the ERM practice. The model draws on standards from the Institute of Internal Auditors (IIA) and the Committee of Sponsoring Organizations (COSO) as it provides propositions for future research that underscores the purposeful strategic development of the integration of auditing into risk-management frameworks.

Similarly, Thompson (2013) raised excitement in articulating her research with inquires about potential conflicts with an internal auditor's role of being in positions of supervising decisions for ERM. In Thompson's study, the position is stated that independence and objectivity are not threatened when the internal auditor in fact leads ERM; is, a consultant; and reports to independently, separate risk committees, serves ones purposes and exercises a level of discretion against the risk controls. Also, in a more up-to-date, and possibly sectoral response, Schuett (2023) note the case for internal audit functions in frontier AI development firms, the intent for establishing an internal audit function includes addressing governance issues, address unproductive risk processes, and provide a channel for whistle-blowers. The study has advocated for the adoption of the best practices that already exist in risk

governance to provide a responsible opportunity to develop AI. Meanwhile, Yuwono and his co-author (2024) examine internal audit and the assessment of risk governance at the operational division of PT Agro applying triangulations and ISO 31000. They confirmed that internal audit can be used to assess risk identification, risk evaluation, and make improvements to risk controls. Similarly, Zunaedi et al. (2022) provide an insightful literature review that showcases the journey of internal audit moving to a more risk-based approach. They indicate that risk management is critical to the success of an organization and internal auditors are key in achieving strategic objectives through enhancing governance and control processes. Altogether, these studies demonstrate that the work of internal audit is multi-dimensional when considering ERM activity, and they emphasize the strategic, operational, and conceptual character of that activity across many types of organizations.

The role of internal audit functions in supporting and enhancing the process of governing the organization, has been extensively studied in several organizational and institutional contexts. Tušek et al. (2016) argue that internal audit functions are a fundamental foundation of effective governance and provides confidence to an organization on its governance processes, risk management, and controls. Furthermore, Tušek et al. (2016) emphasizes that internal audit activities not only inform management regarding governance processes, but it influences others who also play a role in governance, which improves governance quality. As a result of this assessment and advising role, internal audit functions represent an important part of the organization's corporate governance.

Eulerich et al. (2015) extend Tušek et al.'s (2016) argument with an empirical study examining the relationship between the internal auditor and the audit committee of the organization under a one-tier governance structure. The evidence provided demonstrates that internal auditors see themselves as part of the governance structure of the organization and improve the corporate governance process due to their contact and relationship with the audit committee, which achieves greater efficiencies regarding internal controls and risk management. This evidence suggests that recognizing institutional support for the internal audit function can help facilitate change.

Badea et al. (2014) examine the changing function of the internal audit in post-transition economies and their impact on internal control mechanisms, value creation, and risk management. With organizations transitioning from a planned to a market economy, the internal audit serves as a vital element of corporate governance by providing risk

assessments, analytical review, and strategic recommendations. Similarly, the internal audit advances, with its consultative function, the wider corporate culture of organizations.

Vadasi et al. (2019) employ a conceptual perspective of institutional theory to demonstrate how the professionalization of internal audit through standards and certification of auditors improves monitoring aspects of governance. Their findings indicate that unique company characteristics, such as CEO duality, audit committee quality, etc. significantly impact the effectiveness of internal audit which recognizes that not only the structural characteristics but also the cultural aspects contribute significantly to the audit function and its contribution to governance.

Saputra and co-authors (2019) highlight the relationship of internal audit and external audit by illustrating that a strong internal audit function more broadly contributes to financial statement assessment, compliance, efficiency, organizational and operational efficiency. In addition, the quality of internal audit, as well as the quality of the coordination of internal audit work, have consequences for external audit as well, like audit fees. This demonstrates the relevance of internal audit in optimizing audit processes and resources of the organization.

Banerjee (2022) studies the relationship between internal audit and corporate governance, noting that internal audit can consider ways to evaluate and improve governance systems. The research supports the argument that internal audit is not just a compliance tool but a positive influencer for good governance. The research calls for audit functions to be a more significant element of the governance conversation.

Gina et al. (2014) explore internal control as a foundational tool for corporate governance. Internal audit contributes to corporate governance by verifying operational efficacy and efficiency. Their study confirms that internal control systems contribute to governance outcomes through safeguarding organizational integrity and performance when supported by adequate internal audit functions.

The role of internal audit in promoting better corporate governance has been widely studied at every conceivable organization or institution. Tušek et al. (2016) argue that internal audit is an essential component to governance systems, providing assurance concerning the management, control and governance processes. The study argues that the internal audit

function in fulfilling advisory and evaluative roles affects other governance actors, thus improving governance quality. The advisory and evaluative roles are essential for effectively operationalizing and implementing corporate governance systems by recruiting assurance of existing ones, as all of these roles are integrated into corporate governance systems.

Eulerich et al. (2015) take the analysis of the relationship between internal audit and audit committee in a one-tier governance context further by undertaking empirical research into the topic. Their findings demonstrate that internal auditors see themselves as pivotal within governance structures and that their interaction with audit committees greatly enhances the efficiency of internal controls and risk mitigation. This interplay reinforces the functionality of internal audits operating with institutional support.

Following, Badea et al. (2014) continue the theme of the evolving role of internal audit in organizations operating in post-transition economies, demonstrating the significance of internal auditors relying on their own capability for internal control and risk management. As organizations move from planned to market economies, internal audit becomes a significant contributor to corporate governance, providing risk assessments, analyses and strategic insights. The article described the framework whereby the internal audit could foster a stronger corporate culture through its consultative role.

Vadasi et al. (2019) apply an institutional theory framework focused on how the internal audit professionalizes by conforming to auditing standards and internal auditor certifications can improve its governance contributions. The company specific factors of CEO duality and the quality of the audit committee have a strong influence on the internal audit's effectiveness as described in the literature review. This evidence would suggest that when evaluating the structural and cultural characteristics of organizations, it may provide a framework for better understanding the impact of the internal audit function to governance.

Saputra and co-author (2019) evidence the junction of internal and external auditing, stating a stronger internal audit enhances compliance, operational performance, and reporting of financial statements. The quality and co-ordination of internal audit activities impacts the external audit results and audit costs. This means does internal audit has a strategic role to improve audit processes and allocate resources.

Banerjee (2022) analyses the relationship between internal audit and corporate governance, emphasising that internal audit can assess and enhance governance systems. The study supports the idea that internal audit is an enabler and not only a compliance tool, and can advocate for good governance practices. It argues for an enhanced relationship among audit functions with governance in a strategic context.

Gina et al., (2014) studies that considered internal control as a key class of corporate governance, where internal audit is a key player in maintaining operational effectiveness and efficiency. The study declares that internal control systems, supported by strong audit functions, have an important impact on governance outcomes through acting as a safeguard to the integrity of the organisation in performance.

6.2 Structural Barriers and Institutional Influences on Internal Audit Effectiveness

The effectiveness of internal audit functions (IAF) in transition and developing economies has been the subject of intense study and determined to exhibit a widespread trend of institutional, operational, and managerial weaknesses. Abuazza (2012) investigates the perceived effectiveness of internal auditing in Libyan public enterprises with reference to institutional and Marxist theories. The study identifies four significant threats to auditor independence, including limited scope, low organizational status, and non-cooperation from the management. It concludes that Libyan internal auditing is not perceived as bringing value due to poor competence, career development that does not exist, and low awareness of its added value. The findings are consistent with broader reservations about the structural limitations of IAF in public sector environments.

Poor planning, documentation, and follow-up routines, high staff turnover, and technically competent staff in the presence of these, weaken audit outcomes. With this as a foundation, Mihret et al. (2010) proposes a conceptual framework linking internal audit efficiency with organizational performance. Drawing on institutional theory and Marxist perspectives, the paper recommends that compliance with professional standards and antecedent determination are critical to determining audit influence.

Comparable difficulties are seen in the provincial governance frameworks of South Africa, where Geqeza et al. (2024) highlight independence concerns, resource limitations, and insufficient recognition as significant obstacles to audit effectiveness. The research emphasizes the lack of managerial support and the low standing of IAF within the

organization, underscoring the necessity for institutional reforms and skill enhancement. In Ghana, Quampah et al. (2021) analyze the effectiveness of internal audits in local government entities, discovering that although auditors have the required educational and professional credentials, their influence is weakened by insufficient IT training and a lack of execution of audit recommendations. The absence of enforcement authority and managerial support restricts their capacity to initiate substantial change.

In the private sector, Richard (2019) investigates how internal audit relates to profitability in Kenyan banks. The research reveals that internal auditors play a role in identifying fraud and enhancing internal controls, yet their efficacy is limited by a lack of independence and inadequately skilled personnel. Additionally, external elements like elevated tax burdens and reduced productivity further obstruct profitability. The study indicates a positive relationship between audit quality and financial performance, implying that enhancing internal audit capabilities can provide concrete economic advantages.

6.3 Enhancing Audit Quality through Structural and Behavioral Mechanisms

Collaboration between audit committees and audit committee chairs plays a significant role in shaping corporate governance outcomes and improving audit quality. Benichou (2024) emphasizes that effective collaboration between these two governance bodies leads to stronger internal controls, more advanced decision-making, and better risk management. However, divergent perspectives and interactions can weaken this collaboration, making communication and coordination essential for management effectiveness. Nehme (2013) adds a behavioral measure to this study, revealing that inappropriate auditor behavior can undermine audit quality. His study concludes that larger and more free audit committees, as well as frequent audit committee meetings, are significantly associated with higher audit quality, suggesting that governance structure and levels of engagement directly impact audit outcomes. Wijaya et al. (2025) present a rigorous analytical study that reinforces the importance of effective audit committees and assessor freedom in enhancing oversight and reducing financial misstatements. Their findings highlight the challenges posed by concentrated ownership and weak managerial powers, which can undermine the benefits of management. Bisland et al. (2012) focus on internal audit quality measured using Big Four inspectors and internal audit comprehensiveness, which are closely related to elements of management. Their research promotes an integrative view, suggesting that management and audit quality reinforce each other rather than substitute for each other.

Boshnak (2021) examines the characteristics of audit committees in Saudi companies in the Middle East, concluding that educational infrastructure in accounting and finance, as well as firm ownership, are associated with Big Four audit firm participation. Firms with higher stakes, which have more experts on their audit committees and a higher participation rate, tend to prefer non-Big Four auditors, perhaps to reduce audit costs. The study also suggests that committee size, meeting frequency, and freedom do not necessarily affect audit quality, suggesting that skill structure and ownership may be more persuasive. Amalia (2024) emphasizes the importance of auditor independence, competence, and diligence, along with management oversight, in enhancing management's judgment and audit effectiveness. Her study highlights that comprehensive review models are essential for maintaining objectivity and adherence to standards. Ernstberger et al. (2024) examine the individual motivations and risk perceptions of audit committee chairs (ACCs), indicating that these variables influence their audit orientations and activities. ACCs tend to focus on management accounting judgments and interact effectively with management rather than relying on external evaluators. This behavioral knowledge adds nuance to understanding the mechanism of audit committee work and its impact on audit quality. Al-Hajaya (2019) analyzes the effectiveness of audit committees in the Middle East, reiterating that larger committees with a high number of independent executives are likely to result in higher audit costs and constrain Big Four auditors, indicating higher audit quality. On the other hand, more established committees may wish to use firms other than the Big Four, which would modify considerations related to oversight needs.

7. DISCUSSION

Internal auditing as a governance mechanism that improves the effectiveness, accountability, and transparency of risk-related processes is the theoretical foundation for internal audit's contribution to risk management. Internal auditing is an independent assurance and consulting activity that not only identifies deficiencies but also influences and improves the design and implementation of risk controls, according to systems theory and agency theory. By systematically examining operational procedures and assessing their vulnerability to potential risks, internal auditing helps identify and prioritize risks. By linking existing and emerging risks to the organization's objectives through audit planning and risk-based audit methodologies, auditors can help management better understand the likelihood and impact of various threats.

Furthermore, internal auditing is essential for assessing the effectiveness of internal controls designed to mitigate risk. Auditors discover gaps and deficiencies that might otherwise go undetected by assessing the adequacy, effectiveness, and reliability of these controls. Control theory provides the theoretical basis for this, with audit recommendations used to correct or recalibrate systems that deviate from risk limits or target performance standards. These assessments provide insights that support continuous improvement, and they are both retrospective.

Internal auditors make conceptual contributions to organizational learning and risk governance. They improve the organization's risk culture by offering unbiased insights into how risk information is conveyed and applied during decision-making processes. The strategic integration of risk management into all organizational levels is strengthened when auditors assess whether risk ownership, roles, and responsibilities are well-defined and operationalized. This is consistent with the ideas of organizational learning theory, which holds that audit feedback loops result in better procedures and more adaptable resilience.

Internal auditing also helps to match business goals with risk appetite. The relationship between strategy, performance, and risk is emphasized by theoretical models like the COSO ERM framework. The assurance function of internal audit makes sure that management is held responsible for operating within the organization's specified appetite and tolerance for risk. This role enhances strategic coherence and reduces the likelihood of value-eroding risk behaviors.

In addition, internal auditing improves corporate governance and cultivates stakeholder trust, both of which are critical for long-term risk management. Internal auditors contribute to ensuring that risk management is a deeply ingrained and verifiable process rather than a symbolic or surface-level endeavor by providing independent, evidence-based assessments. This accountability reduces information asymmetries and improves managerial discipline, as theorized in agency theory.

Both arguments in favor of and against the proposed connection between internal auditing and governance-driven risk management techniques can be found in the literature. Numerous academics stress that internal auditing is a crucial governance tool that improves accountability, transparency, and risk management efficacy. In order to identify and assess enterprise risks and strengthen the control environment, for example, organizationally

independent and well-resourced internal audit functions are essential (Ali & Akter, 2023; Schuett, 2023; Zunaedi et al., 2022; Jassem, 2019; Iskandar et al., 2018).

Similarly, Tušek et al. (2016), Eulerich et al. (2015), Badea et al. (2014), Vadasi et al. (2019), Banerjee (2022), and Gina et al. (2014) emphasize the role that internal audit plays in corporate governance by ensuring the integrity of financial and operational processes and the efficacy of risk controls. Some studies, however, cast doubt on this idealized role by highlighting operational and institutional limitations that reduce internal auditing's efficacy. Organizational politics or a lack of senior management support can weaken the impact of internal audit, according to Geqeza et al. (2024), Quampah et al. (2021), Richard (2019), Abuazza (2012), and Mihret et al. (2010).

Furthermore, research has started to examine the intricate connection between risk governance results, audit committee efficacy, and audit quality. Wijaya et al. (2025), Benichou (2024), Amalia (2024), Ernstberger et al. (2024), Boshnak (2021), Al-Hajaya (2019), Beisland et al. (2012), and Nehme (2013), for instance, discovered that executive leadership, audit committees, and internal auditors must work together in concert for risk management to be effective. The theoretical claim that auditing enhances risk governance may be undermined if this coordination is lacking since it may lessen the practical impact of internal audit recommendations.

Even though the literature relating internal auditing to governance-driven risk management is expanding, there are still a number of conceptual gaps that need to be filled empirically. First, risk governance frameworks like COSO and ISO 31000, as well as theoretical models like stewardship theory and institutional theory, are not well integrated. Few studies empirically validate how these theories interact or complement one another in practice, especially in different organizational or regulatory contexts, even though each framework emphasizes the significance of internal auditing.

Longitudinal studies that evaluate the long-term effects of internal audit functions on the efficacy of risk management are also lacking. The majority of current research uses cross-sectional designs, which only record a moment in time of audit activities and their results. This makes it more difficult to comprehend how audit functions change over time and support ongoing advancements in risk governance. Although a lot of research highlights the significance of auditor independence and audit committee efficacy, little is known about the

ways in which internal cultural, political, or leadership factors influence these relationships. This offers a chance to test empirically how organizational behavior factors, like top-level tone, risk appetite, and ethical climate, affect how well internal audit recommendations shape risk management procedures.

There is also a disparity in geographic and sectoral diversity. Public sector organizations, SMEs, and entities in emerging markets are understudied because a large portion of the empirical evidence is focused in developed economies and large corporate environments. Future research could look at how various economic, cultural, and regulatory contexts affect the relationship between auditing, governance, and risk. Furthermore, the impact of digital transformation and technological integration in audit processes—such as the use of artificial intelligence (AI), big data, and continuous auditing tools on risk management is conceptually recognized but empirically underdeveloped.

8. CONCLUSION

The important function of internal auditing as a governance tool that fortifies risk management procedures is highlighted by the theoretical and empirical data examined in this study. Internal auditing, which has its roots in agency, systems, and control theories, is a diagnostic and advisory function that helps organizations recognize, evaluate, and address risks in accordance with their risk appetite and strategic goals. Internal auditing improves stakeholder confidence and corporate governance by assessing the efficacy and sufficiency of internal controls, promoting open communication of risk information, and strengthening accountability.

As a proactive approach to risk management, this study emphasizes how crucial it is to incorporate internal audits into governance frameworks. Internal auditing, when integrated into the larger governance framework, helps to create a robust organizational environment that can adjust to new challenges in addition to identifying and addressing risks early on.

Although the idea that internal audit functions enhance governance-driven risk management is widely supported by the literature, the role's actual implementation is still dependent on a number of variables, including organizational support, resource availability, and auditor independence. According to empirical research, audit effectiveness can be compromised by institutional restraints, political dynamics, and a lack of cooperation among internal auditors,

audit committees, and executive leadership. This limits the audit's capacity to produce long-term risk governance results.

There are still significant gaps in the integration of various theoretical stances, including institutional theory, stewardship theory, and well-known risk frameworks like COSO and ISO 31000, into a logical, empirically supported model of the governance function of internal auditing. Longitudinal and cross-sectoral studies that document the changing influence of internal auditing in various organizational, legal, and cultural contexts are also desperately needed. Another aspect of risk governance effectiveness that is still poorly understood is the impact that ethical climate, organizational culture, and leadership conduct have on the execution of audit recommendations. Also, there are both opportunities and challenges associated with the quick digitization of audit procedures. Enhancing risk monitoring and predictive capabilities may be possible through the integration of cutting-edge technologies like artificial intelligence (AI), big data analytics, and continuous auditing tools.

Empirical validation of these innovations in practice is still limited. Addressing these gaps will not only advance scholarly understanding but also provide actionable insights for policymakers, regulators, and practitioners seeking to optimize the strategic value of internal auditing in risk management.

9. Implications for Practice and Policy

Theoretical understanding of the interrelationships among corporate governance, risk management, and internal auditing has important practical and policy ramifications. Board members can exercise more strategic oversight if they have a better grasp of internal auditing's function in risk identification, monitoring, and mitigation. By using these insights, boards can create more explicit guidelines for internal auditing activities, making sure they go beyond simple compliance checks and actively participate in strategic risk assessment. Theoretical viewpoints emphasize the need for audit committees to preserve audit independence while cultivating a cooperative atmosphere with management. In the end, this balance can improve transparency and stakeholder confidence by assisting in the conversion of audit findings into implementable governance measures.

These insights provide policymakers with a conceptual framework for creating regulations that establish guidelines for internal audit functions' integration into governance procedures in addition to requiring them. Policies could encourage the use of well-established

frameworks like COSO and ISO 31000 to align audit practices with enterprise risk management systems, and they could concentrate on improving the reporting lines between internal audit departments and boards or audit committees. Theoretically, strengthening the function of internal audits in risk governance might entail adopting technology-driven auditing tools, creating sector-specific guidelines that promote ongoing improvement, and regularly training auditors in strategic risk areas. When taken as a whole, these steps would help guarantee that internal auditing continues to be a proactive, valuable part of corporate governance that can foresee risks and protect organizational goals.

10. Recommendations for Future Research

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