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Analysis of the Role of Internal Audit in the Implementation of Corporate Governance at Pt Bank Mandiri

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ABSTRACT

The need for complex control systems is increasing due to the growing complexity, size, and operations of companies. To support economic recovery and ensure stable growth in the future, issues of corporate leadership have become one of the most important topics of discussion in Indonesia. It is anticipated that the principles of corporate governance can enhance the quality of financial statements, thereby fostering the trust of financial statement users, including investors. With the ongoing development of corporate governance, the Board of Directors is compelled to strengthen governance practices within their respective companies. Consequently, the Board often requires additional support to effectively fulfill its oversight responsibilities. Internal audit serves as a critical mechanism in this regard, with its role evolving in response to the needs of the company's stakeholders. Ongoing business developments have led to increased risk exposure, necessitating more robust governance measures. This research aims to assess the effectiveness of internal audit in supporting corporate governance, and to identify a roadmap and Internal Audit Strategic Plan through actionable suggestions and recommendations for governance enhancement. Data and information were collected through questionnaires, direct interviews with the internal audit department, and validation of relevant documents.

KEYWORDS *Corporate Governance, Internal Audit*

INTRODUCTION

The increasing complexity and size of companies or organizations, along with the expansion of business operations, have led to the need for sophisticated control systems for both financial and operational oversight (Bakeer et al., 2022; Jarrar & Balouki, 2018; Reinking & Resch, 2023; SHAN, 2018; Youssef et al., 2023). This need has intensified following various *mega scandals* that resulted in the collapse of leading global corporations, such as Enron Corporation and WorldCom, as well as the monetary crisis that affected Asian countries. To support economic recovery and ensure stable growth in the future, corporate leadership issues have become a central topic of discussion in Indonesia. It is hoped that the principles of corporate governance will enhance the quality of financial statements, ultimately fostering trust among users of these statements, including investors. The term *gubernasi* originates from the Latin word *gubernare*, meaning to direct and supervise. In business management, *corporate governance* refers to the mechanisms and processes by which organizations, including companies, are directed and controlled (Effendi, 2016; Kusmayadi et al., 2015; Lima & Galleli, 2021; Susanto & Ardini, 2016).

Company management, boards, shareholders, and other stakeholders are all involved in the governance structure (Marthalia, 2022; Meiste & Jakstiene, 2015; Pradana, 2014; Rahmasari et al., 2024; Themba & Dirgantara, 2021). The *Board of Directors* is responsible for the administration of the company, while the appointment of directors and auditors, as well as ensuring the presence of appropriate governance structures, fall under the responsibilities of shareholders. The Board is tasked with shaping the company's strategic objectives, leading the organization towards achieving these goals, and reporting to shareholders. The actions of the Board are governed by laws, regulations, and the *General Meeting of Shareholders*.

With the ongoing development of corporate governance, the Board of Directors is increasingly required to enhance governance practices. Consequently, the Board often requires support to fulfill its obligations effectively (Boediono & Lusmeida, 2022; Saebah et al., 2023; Solomon, 2020; Syofyan, 2021). The accounting profession has received greater attention due to the growing demand for good governance, particularly regarding the role accountants play in facilitating sound governance within companies. Achieving corporate objectives through effective corporate governance necessitates adequate resources, with internal audit serving as a critical supporting function.

The role of internal audit is evolving to address the needs of business stakeholders. As businesses expand, new risks emerge that must be managed. Companies must ensure that their operations are effective and efficient in line with organizational objectives to remain competitive in a dynamic environment. Recommendations should be provided to improve company systems so they align with corporate goals. To implement these recommendations, management must be equipped to manage the risks facing the organization. This evolution has transformed internal audit from being solely a compliance provider to a more strategic partner. Initially, internal audit focused on compliance—verifying that company actions adhered to applicable regulations and supported organizational objectives.

However, the scope of internal audit has broadened. The *Institute of Internal Auditors* (IIA, 2013) states that internal auditors must now provide assurance, consulting, and act as catalysts for improvement. Prima (2013) also highlights this shift, noting that internal audit now serves as an independent and objective provider of assurance, consulting, and catalyst services to enhance value and improve organizational operations, thereby supporting the achievement of corporate objectives.

According to the IIA, internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. Today, companies employ diverse teams of professionals—including internal auditors, risk management specialists, compliance officers, internal control specialists, quality inspectors, fraud investigators, and other risk and control experts—who collaborate to help organizations address emerging risks (IIA, 2013). For this support to be effective, the scope of work for each division must be clearly defined (Jessica, 2015). The purpose of role differentiation is to ensure each function is prepared to address risks and to coordinate activities effectively, avoiding overlap. This division of roles is known as the *Three Lines of Defense*. In this model, the first line of defense comprises management controls and internal control measures; the second line includes risk control and compliance functions established by management, such as financial control, security, risk management, quality assurance, inspection, and compliance; and the third line is the independent assurance provider—internal audit.

According to Sawyer (2003), internal audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Internal audit assists organizations in achieving objectives by providing a systematic approach to evaluating and improving the effectiveness of risk management, control, and governance processes.

Ernst & Young (2014) note that the business environment is evolving rapidly, presenting companies with unprecedented risks. Accordingly, both companies and internal audit functions must adapt to meet stakeholder expectations. Internal auditors are responsible for ensuring that business processes adhere to established procedures, standards, and policies, and for analyzing and assessing business data and processes to identify and mitigate current and emerging risks. The role of internal audit has thus evolved from compliance to assurance.

The *Internal Audit Capability Model* (IA-CM) for the Public Sector was initially developed for public sector organizations. The IA-CM aims to help organizations at national, regional, and local levels recognize the importance of internal audit in enhancing efficiency and effectiveness across the public sector. According to IIARF (2009), the IA-CM can be used by both public and private organizations as a self-assessment tool. The IA-CM provides a framework outlining the essential elements for effective internal audit and describes stages of maturity for internal audit functions, ranging from basic to advanced levels.

Fundamentally, *Good Corporate Governance* (GCG) is rooted in the longstanding concept of fiduciary duty, whereby those in control of a company are obligated to act in the interests of all shareholders and stakeholders. This concept is based on agency theory, which posits that the separation of management and ownership creates agency problems. In this context, the *Board of Commissioners* and the *Board of Directors*, as agents, may have interests that diverge from those of shareholders. The *Corporate Governance Index* is used by companies to assess the quality of their governance practices. Examples of such indices in Indonesia include the CGPI, MSCI ESG Indonesia, PROPER Index, and SRI-KEHATI Index. Fraud surveys can be utilized by companies across all sectors, including SOEs, public companies, and private enterprises, to review and evaluate the quality of their governance. These surveys typically assess five areas: shareholder rights, GCG policies and practices, disclosure policies and practices, and audit processes.

RESEARCH METHODS

The writing of this final work used a qualitative method by utilizing a questionnaire to collect data from respondents and also used supporting documents from the Company or secondary data. The implementation of the questionnaire involved distributing it to respondents with the aim of identifying the actual situation that occurred in the Company, focusing on analyzing and assessing the influence of the role of internal audit on the implementation of corporate governance in the relevant work units within the Company.

RESULTS AND DISCUSSION

Based on the results of the research and discussion of the role of internal auditors in the implementation of Good Corporate Governance principles at PT Bank Mandiri, the researcher found the following results:

1. The role of the internal auditor is sufficient, this can be seen from:
   a. Professional Code of Ethics, in carrying out their duties, auditors have adhered to the code of ethics. Internal auditors value ownership over the information they receive and do not disseminate without permission unless there is a professional obligation. Internal auditors at PT Bank Mandiri also apply knowledge, expertise and experience in carrying out audit work. Internal auditors also try to work uninfluenced by personal interests or other parties in decision-making.
   b. Professional Standards Internal Auditors, in carrying out their work, internal auditors have worked in accordance with their professional abilities, they have worked in accordance with professional standards and are able to develop good relationships and communicate effectively with the auditee. However, there are some opinions that Internal Auditors lack knowledge of functional specialties such as IT, risk assessment, and finance. And some opinions on certain cases that the Auditee felt had not been resolved
   c. The existence of an internal audit charter or other related formal documents has defined the objectives, authorities, and responsibilities of the Internal

Audit activities. There is one important activity that has not been carried out consistently, namely the periodic review and updating of the internal audit charter by the internal audit unit. Based on the information of the Head of Internal Audit, the Last Audit Charter was updated in 2022. Meanwhile, according to Attribute Standard 1000 – Objectives, Authority, and Responsibility (IIA, 2012), the Head of Internal Audit must periodically review the Internal Audit Charter and submit it to Senior Management and the Board for approval.

d. There is a policy related to the authority of Internal Audit to gain access to all information, assets, and people needed to carry out audit activities, but Internal Audit also does not have a formal procedure to be followed when management chooses not to disclose the required documents during audit engagement.
e. Internal audits regularly conduct meetings with senior managers to increase management's awareness of governance, risk assessment, internal auditing, and the value of a strong control environment.

2. The implementation of good corporate governance at PT Bank Mandiri is quite good. The implementation of the principle of transparency is quite good because respondents consider that the management has provided information to them, for the principles of accountability, independence, accountability and fairness are good, the company has a division of tasks in accordance with its functions and responsibilities, the company has also provided opportunities for employees to have careers by providing promotions for employees who have good performance.

CONCLUSION

Based on the research findings, internal auditors at PT Bank Mandiri have generally performed their roles effectively in supporting the implementation of Good Corporate Governance (GCG) principles. They comply with the Professional Code of Conduct, adhere to professional standards, and operate under a clear audit charter, though more consistent periodic updates are recommended. While internal auditors have sufficient access to information, the establishment of formal procedures is needed to address document disclosure challenges. The implementation of GCG at PT Bank Mandiri is also commendable, reflecting the principles of transparency, accountability, independence, responsibility, and fairness, along with a demonstrated commitment to social responsibility and employee career development. Although certain areas require further improvement, both the internal audit function and GCG practices at PT Bank Mandiri are generally adequate. For future research, it is suggested to explore the impact of digital transformation on the effectiveness of internal audit and GCG implementation to further enhance governance quality.

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