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Advancing Public Finance Governance through Audit Committees Internal Audit and Risk Management

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Abstract

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This study aims to analyze the role of audit committees, internal audits, and risk management in strengthening the implementation of Good Corporate Governance in Indonesia's public financial sector. Within the context of accountable governance, internal audits and audit committees function as independent oversight mechanisms that ensure transparency and integrity in public financial reporting. This research employs a descriptive-qualitative approach by reviewing scientific literature from Google Scholar-indexed journals published within the last five years. The findings indicate that the presence of an effective audit committee and internal audit system significantly enhances transparency, accountability, and the mitigation of irregularities in public financial management. The implementation of risk management further strengthens internal control mechanisms and ensures compliance with statutory regulations. Therefore, the effective application of Good Corporate Governance serves as a crucial factor in establishing professional, transparent, and integrity-driven public financial governance in Indonesia now or in the future.

1. Introduction

Public financial governance in Indonesia demands an effective, transparent, and accountable supervisory system to ensure that budget utilization adheres to the principles of Good Corporate Governance (GCG). In this context, the role of the audit committee and internal audit becomes critically important as instruments of oversight that ensure compliance with regulations, the effectiveness of internal control, and the transparency of public financial reporting. According to Dzomira (2020), the effectiveness of the internal audit function and the audit committee is directly related to governance performance in the public sector, especially in fostering public trust in the integrity of government institutions.

The government audit committee is tasked with providing an independent review of the financial reporting process, assessing the effectiveness of internal control, and ensuring that follow-up on audit recommendations is carried out properly. On the other hand, internal audit has a dual role as an oversight and consultation function to ensure that financial management risks can be systematically identified and minimized (Friyani et al., 2022). Through the synergy between the two, the public financial governance system can operate more transparently and be oriented towards results-based accountability.

In practice, the main challenge of public oversight lies in the low consistency of risk management implementation. Research by Rosdini et al. (2019) shows that there is still a disparity between policy and the implementation of risk management in regional governments. Many agencies have not fully integrated risk-based audit into the budgeting and evaluation cycle, meaning the potential for abuse of authority or budgetary inefficiency still frequently occurs. Strengthening the risk management framework not only serves as protection for public assets but also as a basis for evidence-based decision making.

Furthermore, Harymawan et al. (2021) assert that the relationship between the risk management committee, audit committee, and external auditors such as the BPK plays a vital role in maintaining the balance of independent oversight. This collaboration strengthens the internal control system and reduces audit costs because potential errors can be identified earlier. Thus, an integrated oversight structure helps realize efficiency and accountability in public sector financial reporting.

According to Dewi Anggadini et al. (2021), the successful implementation of GCG in public institutions does not only depend on the existence of regulations but also on organizational culture and the ethical commitment of leadership. Effective audit committee performance requires independence, competence, and strong coordination with the internal audit unit. Meanwhile, the application of the principles of transparency and accountability demands public information disclosure and a financial reporting system that is widely accessible to stakeholders.

Previous research also underlines that the integration between internal audit and risk management is the basis for increasing public value. Iskandar et al. (2018) explain that internal audit functions as a link between organizational strategy and risk mitigation, thereby encouraging effectiveness in managerial decision-making. Meanwhile, Larasati et al. (2019) found that the existence of an independent audit committee contributes to improving audit quality and suppressing information asymmetry between management and external supervisory parties.

With increasing public demands for transparency and efficiency in the use of state funds, the implementation of good governance is an imperative for every government entity. Integrated internal audit, audit committee, and risk management systems not only function as control mechanisms but also as strategic instruments for improving bureaucratic performance and public trust. Therefore, this research is important to comprehensively examine the synergistic role of the audit committee, internal audit, and risk management in strengthening the implementation of Good Corporate Governance in the Indonesian public sector, as a foundation for professional and integrity-based state financial management.

2. Literature Review

2.1. The Role of the Audit Committee in the Public Sector

The audit committee in public institutions has the primary function of ensuring accountability, transparency, and integrity in financial reporting. As part of the oversight system, the audit committee provides an independent view on the effectiveness of internal control and compliance with state financial policies. Dzomira (2020) emphasizes that in developing countries, the role of the audit committee is increasingly crucial because there is often a disparity between regulation and implementation. The audit committee functions to bridge this gap by providing independent oversight to institutional leadership.

According to Friyani et al. (2022), the effectiveness of the audit committee is determined by its competence, independence, and the frequency of meetings held. A committee that actively evaluates public financial reports is able to identify potential violations earlier and propose appropriate corrective actions. This strengthens internal supervision and prevents the risk of fraud or misuse of the budget.

In the context of Indonesian government institutions, the audit committee also plays a role in maintaining coordination between the Internal Oversight Unit (*Survei Penilaian Integritas*/SPI) and external auditors such as the Supreme Audit Institution (*Badan Pemeriksa Keuangan*/BPK), as stipulated in Government Regulation No. 60 of 2008 concerning the Government Internal Control System (*Sistem Pengendalian Intern Pemerintah*/SPIP). Furthermore, Larasati et al. (2019) show that the existence of an independent audit committee strengthens public trust in financial reports, especially in institutions that manage large funds such as State-Owned Enterprises (*Badan Usaha Milik Negara*/BUMN). Their research found that active audit committees contribute to suppressing audit costs and improving the relationship between risk management and external auditors.

2.2. Synergy between Internal Audit and Public Financial Governance

Internal audit functions not only as an oversight mechanism but also as an agent of change that plays a role in strengthening public financial governance. Iskandar et al. (2018) explain that internal audit integrated with a risk management system is capable of providing added value in the decision-making process. With a risk-based audit approach, internal auditors can identify high-risk areas and recommend appropriate mitigation strategies. The research by Dewi Anggadini et al. (2021) emphasizes the importance of synergy between internal audit and the audit committee in building an organizational culture of integrity. Effective internal audit increases transparency, while the audit committee ensures that audit results are followed up consistently by management. This collaboration becomes a key indicator of the successful implementation of GCG in public institutions.

Furthermore, Rosdini et al. (2019) found that the success of internal audit in regional governments depends on human resource capacity and top management support. Many internal auditors at the regional level face constraints in limited training and understanding of risk-based audit standards. Therefore, increasing the competence of internal auditors is a prerequisite for strengthening fiscal accountability and ensuring government financial reports are free from material misstatement. In the global context, strong internal audit practices are associated with increased efficiency in public organizations. Research by Harymawan et al. (2021) indicates that organizations that have a coordinating relationship between the audit committee and internal auditors tend to be more efficient in managing audit costs and more proactive in identifying potential risks.

2.3. Risk Management as an Instrument of Good Corporate Governance

Risk management is a strategic component in supporting the implementation of GCG in the public sector. Good risk management enables the government to predict potential deviations and establish corrective policies before losses occur. Dewi & Bramasto (2021) explain that the integration of risk management with the internal control system strengthens the organization's capacity to manage fiscal uncertainty. The implementation of risk management in public finance also supports the principles of transparency and accountability. Lois et al. (2021) assert that public organizations that consistently adopt a risk management framework show higher levels of regulatory compliance and more stable financial performance. This implementation not only increases stakeholder trust but also minimizes the potential for misuse of public funds.

In addition, research by Friyani et al. (2022) shows that risk management integrated into the internal audit process helps strengthen the internal control system and supports the principle of auditor independence. Thus, organizational risks can be identified more quickly, and mitigating actions can be taken immediately to maintain the continuity of public financial governance. The effective implementation of GCG in this context does not only mean formal compliance with regulations but also reflects the transformation of bureaucratic culture toward professionalism and integrity. The collaboration between internal audit, the audit committee, and the risk management unit is the main pillar supporting clean, results-oriented (performance-based governance) state financial governance.

3. Methods

This literature review outlines the theoretical framework underlying the relationship between the audit committee, internal audit, risk management, and the implementation of Good Corporate Governance (GCG) in public financial management in Indonesia. The main theory underlying this research is agency theory, which explains that the separation between the managing party (agent) and the owner (principal) creates potential conflicts of interest. In the context of the public sector, the public acts as the principal while the government acts as the agent managing state resources. According to Dzomira (2020), mechanisms such as the audit committee and internal audit are needed to reduce information asymmetry and ensure that public financial policies run according to state objectives.

Furthermore, stewardship theory is also a conceptual foundation, emphasizing the importance of the moral and professional responsibility of state officials in maintaining the integrity of financial management. Dewi Anggadini et al. (2021) assert that the audit committee not only functions as an overseer but also as a guardian of ethical values and public accountability. Within this framework, internal audit has a consultative role to assist management in continuous improvement of the internal control system and risk management.

According to Iskandar et al. (2018), the application of a risk-based audit is an important approach to strengthening the effectiveness of internal audit in detecting potential risks. By assessing risks at every stage of financial activity, auditors can allocate resources more efficiently and focus on areas that have a significant impact on public financial performance. Meanwhile, the GCG framework, which refers to the principles of Transparency, Accountability, Responsibility, Independence, And Fairness (TARIF), is the main guideline in realizing clean government governance. Friyani et al. (2022) show that the implementation of GCG in public institutions contributes to increased public trust and the effectiveness of financial reporting. Thus, the integration between the internal audit function, the audit committee, and risk management is an important foundation for strengthening public financial governance. The collaboration of these three components not only suppresses the opportunity for corruption or deviation but also ensures that every use of public funds can be ethically and professionally accounted for in accordance with GCG principles.

4. Results

The results of the literature analysis show that the relationship between the audit committee, internal audit, and risk management has a significant role in strengthening the implementation of Good Corporate Governance (GCG) in the Indonesian public sector. The studies reviewed consistently confirm that the effectiveness of public financial governance depends not only on the availability of a formal oversight system but also on the functional interaction between these three main elements. Conceptually, the collaboration between internal audit, the audit committee, and risk management creates a mutually reinforcing oversight ecosystem. When these functions are carried out synergistically, public institutions can minimize the risk of budget misuse, enhance fiscal accountability, and strengthen public trust in the integrity of government institutions.

The findings of Nuha et al. (2021) emphasize that the effectiveness of the audit committee is greatly influenced by the ability of its members to understand organizational risks and the public financial reporting process. A competent audit committee is able to provide strategic input to the institution's leadership regarding potential financial and operational risks, as well as assess the quality of financial reports prepared by internal units. In the public sector, the audit committee acts as a link between internal auditors and top leadership to ensure transparency and consistency in fiscal decision-making. In Indonesia, this function has high urgency because the complexity of state budget management requires multi-layered and objective oversight mechanisms.

In the research by Adil (2022), it was found that the performance of the audit committee and internal audit has a direct influence on the level of compliance with GCG principles. The research shows that the success of GCG implementation in public organizations highly depends on two-way communication between the audit committee and internal auditors. When the audit committee routinely evaluates internal audit findings, management tends to be more responsive in fixing system weaknesses. This has a positive impact on increasing financial efficiency and reducing the potential for policy deviations.

In addition, the study by Rosdini et al. (2019) reveals that the role of internal audit in regional governments is still not optimal due to limitations in technical competence and human resources. Internal auditors in some regions tend to focus on administrative examinations rather than risk-based oversight. Consequently, audit findings are often reactive and have not been able to identify strategic financial risks. However, the study also shows that institutions that implement a continuous training system for internal auditors have a higher level of compliance with public accountability standards.

Furthermore, the findings of Harymawan et al. (2021) indicate that the integration between the risk management committee and the audit committee significantly contributes to reducing audit costs and improving the quality of internal control. This research emphasizes the importance of cross-functional collaboration in the management of public financial risk, where the audit committee provides a strategic view and risk management is tasked with implementing measurable mitigation steps. This synergy ensures that auditing activities are not only corrective but also preventive, so public institutions can respond to potential risks more quickly and effectively.

In the context of Indonesian public institutions, Dewi Anggadini et al. (2021) highlight the need for the internalization of GCG values in every line of the organization. They found that the effective execution of internal audit and the audit committee must be balanced with an organizational culture that supports transparency and responsibility. Without ethical commitment from the institution's leadership, the oversight system will not function optimally. Therefore, increasing the moral capacity and professionalism of auditors is a key factor no less important than structural institutional reform.

Meanwhile, Larasati et al. (2019) found that the existence of an independent audit committee has a strong moderating effect on the relationship between audit costs and the effectiveness of risk management. Institutions with independent and experienced audit committees show higher efficiency because they are able to facilitate constructive communication between internal and external auditors. Thus, the audit committee acts as a guardian of integrity and a catalyst in strengthening public financial governance mechanisms.

The research by Iskandar et al. (2018) supports these findings by emphasizing the importance of implementing an enterprise risk management (ERM) approach in the public sector. According to them, internal audit involved in ERM implementation is more capable of identifying systemic risks that can threaten fiscal stability. ERM not only helps institutions manage financial risk but also increases the accountability of reporting to the public and strengthens the institution's position in meeting government accounting standards.

The research by Lois et al. (2018) expands this perspective by underlining that the effectiveness of risk management depends on clear policies and supporting operational procedures. They found that institutions with structured risk management guidelines that are routinely overseen by the audit committee show better compliance with public accountability principles. The integration of risk policies with internal audit helps encourage efficiency in budget allocation and suppresses potential losses due to mismanagement.

The study by Eriandani et al. (2022) also shows that the active involvement of the audit committee in the internal audit evaluation process increases the reliability of public financial reports. When internal audit results are linked to organizational risk analysis, the resulting recommendations become more strategic and can be effectively implemented by management. This research reinforces the view that the audit committee functions not only as a passive overseer but also plays an active role in strengthening decision-making mechanisms based on data and risk analysis.

Overall, the synthesis of research from last five years shows that the implementation of GCG in the Indonesian public sector is experiencing positive development, although it still faces various structural constraints. The main challenges include the limitations of internal auditor human resource capacity, lack of audit committee independence, and suboptimal coordination with external auditors. However, institutions that successfully integrate internal audit with risk management show significant increases in financial efficiency and the quality of public reporting.

Thus, it can be concluded that the effectiveness of GCG in the public sector highly depends on the synergy between three main pillars: the audit committee, internal audit, and risk management. The collaboration between these elements forms a multi-layered oversight system that supports transparency, accountability, and efficiency in the use of public funds. In addition, the role of organizational ethics and professional work culture becomes a non-technical aspect that determines the success of clean and sustainable financial governance implementation. The implementation of integrated GCG principles not only strengthens the institution's legitimacy in the public eye but also builds social trust in the government as a responsible manager of state resources.

5. Discussion

The results of the literature analysis confirm that the audit committee, internal audit, and risk management play a vital role in improving the quality of public financial governance. This finding strengthens the view that the effectiveness of Good Corporate Governance (GCG) in the public sector cannot be achieved without independent, transparent, and risk-based oversight. These three components interact with each other to create a solid and adaptive internal control system to the dynamics of the government's fiscal environment.

Nuha et al. (2021) research shows that the audit committee in the public sector functions as a connecting entity between the institution's leadership and internal auditors in ensuring the effectiveness of financial policy. Its existence provides added value in the form of increased credibility of public financial reports and lowers the risk of misstatement. In Indonesia, the structure of the audit committee in public institutions still faces challenges in terms of independence and technical capacity, which need to be strengthened through continuous development and competency-based recruitment standards.

Meanwhile, the research by Adil (2022) found that communication between the audit committee and internal audit has a positive influence on GCG implementation. Audit results that are followed up quickly result in more effective risk management and encourage compliance with fiscal regulations. This is in line with Mahama et al. (2022) who assert that the integration of internal audit with Enterprise Risk Management (ERM) strengthens the effectiveness of oversight and strategic decision-making in public institutions.

The findings of Samimi (2020) extend this perspective by showing that coordination between the risk management committee and the audit committee reduces external audit costs and improves the reliability of the internal control system. With this collaboration, public audit can shift from a reactive to a preventive approach. This approach is aligned with the risk-based audit framework recommended by Rosdini et al. (2019), where oversight is directed at high-risk areas that have the potential to cause state losses.

Furthermore, Kabir et al. (2022) emphasize the importance of an organizational culture that supports transparency and integrity in the execution of internal audit. Without ethical commitment from the institution's leadership, structural reforms will not be effective. This result is reinforced by Lois et al. (2021), who found that the simultaneous implementation of risk management and internal audit increases public trust and strengthens the legitimacy of state financial management institutions.

In addition, Eriandani et al. (2022) show that the active role of the audit committee in reviewing internal audit results significantly influences the quality of public financial reports. The audit committee not only assesses formal compliance but also provides risk-based recommendations that can improve fiscal policy. Thus, public audit becomes a means of improving governance quality, not just a mechanism for administrative compliance.

The synthesis of these various studies indicates that the implementation of GCG principles in the public sector must place internal oversight as the main foundation. System effectiveness depends on strategic collaboration between oversight units, clear risk management policies, and the courage of institutional leadership to follow up on audit recommendations consistently. Therefore, strengthening institutional capacity, auditor professionalism, and adaptive regulatory support are key prerequisites in realizing public financial governance that is clean, efficient, and integrated.

6. Conclusion

This research concludes that the audit committee, internal audit, and risk management have mutually complementing roles in strengthening the implementation of Good Corporate Governance (GCG) in the public financial sector in Indonesia. The synergy of the three creates a multi-layered oversight system capable of increasing transparency, accountability, and integrity in state financial management. The audit committee functions as an independent overseer that provides an evaluation of the effectiveness of the internal control system, while internal audit is tasked with ensuring that financial policies and procedures are carried out efficiently and in accordance with regulations.

Risk management, on the other hand, provides a systematic framework for identifying, assessing, and mitigating potential threats to fiscal stability. When these three components collaborate effectively, the risk of abuse of authority, reporting errors, and budgetary inefficiency can be minimized. Public institutions that implement a risk-based approach and consistently follow up on audit findings have better financial performance and reputation. Thus, increasing human resource capacity, strengthening audit committee independence, and implementing adaptive risk management policies are the main keys to realizing clean and sustainable public financial governance. The implementation of GCG is not just an administrative obligation but an ethical commitment to guarantee public trust in the management of state finances.

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