Risk Management and Investment
Volume 3, Number 1, 2024

Enhancing Investor Confidence through Internal Audit Transformation and Enterprise Risk Management Maturity

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Abstract

Article history:
Received: January 9, 2024
Revised: February 13, 2024
Accepted: April 18, 2024
Published: June 30, 2024

Keywords:
Governance Maturity,
Internal Audit,
Investment Sustainability,
Investor Confidence,
Risk Management.

Identifier:
Zera Open
Page: 38-56
https://zeraopen.com/journal/rmi

The dynamics of the modern business environment require companies to adapt to economic uncertainty, technological disruption, and regulatory complexity, all of which significantly influence investment decisions. This study aims to analyze the relationship between the transformation of the internal audit function, the level of risk management maturity, and their impact on investor confidence and investment sustainability. Through a comprehensive literature review of recent empirical and conceptual studies, the findings demonstrate that a strategically oriented internal audit does not merely serve as a compliance mechanism but functions as a value-adding partner that enhances corporate governance effectiveness. The integration of risk management frameworks based on international standards such as ISO 31000 has been shown to increase transparency, accountability, and investor perceptions of governance credibility. These insights highlight the critical role of synergy between internal audit and risk management maturity in strengthening organizational resilience and promoting sustainable investment practices in the global market. The study contributes to the theoretical discourse by positioning governance maturity as a determinant of investment attractiveness and long-term financial stability.

1. Introduction

In the modern business landscape, marked by global economic uncertainty, accelerating digital disruption, and increasing stakeholder pressure on sustainability principles, the internal audit function is undergoing a fundamental transformation. Internal audit is no longer positioned solely as a compliance mechanism but is evolving into a strategic management partner in identifying risks, strengthening the effectiveness of corporate governance, and building investor confidence. This transformation becomes increasingly relevant with the growing complexity of regulations and market expectations for corporate transparency and accountability (Pangastuti, 2023). This paradigm shift indicates that internal audit now plays a broader role in bridging stakeholder interests with the organization's need to achieve long-term sustainability.

The concept of risk management maturity becomes an important dimension in strengthening corporate governance. Organizations with high maturity levels demonstrate the ability to anticipate potential losses and manage uncertainty systematically, thereby increasing resilience to business environment dynamics. A mature risk management system functions not only as a control tool but also as a strategic decision-making framework integrated into all business processes. Research conducted by Samimi (2020) shows that the integration between the audit committee, internal audit function, and risk management system has a direct influence on corporate performance and investor perception of reliability. This finding affirms that effective corporate governance depends not only on normative compliance with regulations but also on the organization's adaptability and acumen in managing ever-evolving risks.

Furthermore, the application of Environmental, Social, and Governance (ESG) principles expands the scope of internal audit's responsibilities, making it an integral part of the company's sustainability strategy. According to Lampropoulos, Ramadhan et al. (2023), internal audit involvement in the ESG process not only enhances compliance with sustainability policies but also strengthens the credibility of non-financial reports, which are a primary concern for institutional investors. This positively impacts the company's reputation and deepens shareholder trust in the integrity of corporate information. Thus, internal audit acts as a gatekeeper over ethics, transparency, and sustainability in organizational governance.

The link between internal audit and investor confidence has been a major focus in various empirical studies. Sudirman et al. (2021) found that the effectiveness of supervision through internal audit is capable of minimizing deviation risk, strengthening governance integrity, and reducing the potential for fraud. The results of this study indicate that companies with strong audit systems tend to have higher levels of investor confidence because they are deemed capable of providing reliable and accurate information to support investment decisions. In the context of increasingly transparent capital markets, the quality of internal audit serves as an indicator of corporate credibility in the eyes of global investors.

Additionally, the development of digital technology and automation also revolutionize internal audit practices. The use of data analytics, artificial intelligence, and integrated information systems allows internal auditors to perform risk detection in real time, increase audit efficiency, and expand the scope of assurance (Ramadhan et al., 2023). The utilization of this technology not only optimizes the audit process but also strengthens the strategic role of internal audit as a management partner in supporting data-driven governance. Digital transformation makes internal audit more adaptive, responsive, and oriented towards strategic value, thereby contributing to increased positive investor perception of the effectiveness of corporate governance.

Thus, the synergy between the internal audit function, risk management maturity, and the implementation of sustainable governance becomes a key element in building and maintaining investor confidence. In the modern investment perspective, this confidence is an intangible asset that directly influences market value and corporate competitiveness. A value-driven internal audit is capable of acting as a catalyst in creating a business ecosystem that is integrated, transparent, and sustainable. Therefore, this study aims to deeply analyze how the transformation of internal audit and the level of risk management maturity can strengthen investor confidence and encourage investment sustainability.

2. Literature Review

2.1. Transformation of Internal Audit in the Digital Era

Modern internal audit is undergoing a fundamental shift from merely a compliance function to a strategic role oriented towards creating added value within the organization. This shift is influenced not only by the dynamics of digitalization and increasing operational complexity but also by stakeholder demands for transparency, accountability, and sustainable corporate governance. In the context of the digital economy era, technology has changed the risk oversight landscape, requiring internal audit to develop a more adaptive, responsive, and data-analytics-based role. According to Chang et al. (2019), internal audit that integrates digital technology plays a central role in identifying and evaluating new risks arising from automation, information system integration, and big data processing. This condition demands that internal auditors possess competencies in data analytics, artificial intelligence, and digital-based system control to support the effectiveness of strategic decision-making, including in investment risk management.

Furthermore, the findings of Nerantzidis et al. (2022) indicate that the implementation of technology-based internal audit not only increases the efficiency of the assurance process but also expands the scope of oversight for non-financial risks such as reputation risk, environmental sustainability, and data security. This innovation strengthens the role of internal audit in ensuring reporting integrity and encouraging the creation of credible governance. In line with this, Vadasi et al. (2020) affirm that the strategic value of internal audit lies in its ability to support risk management proactively, provide assurance over the effectiveness of internal control, and strengthen investor confidence in the organization’s stability and sustainability. Thus, digital transformation makes internal audit a vital element in creating competitive advantage and maintaining corporate resilience amid increasingly complex global risk dynamics.

2.2. Risk Management Maturity and Corporate Governance

Risk management maturity reflects the level of an organization's capability in managing risk comprehensively, systematically, and integrated into all business processes. A high level of maturity indicates that the company does not only implement risk management as a mere compliance function but makes it a part of a sustainable corporate strategy. The application of international frameworks such as ISO 31000 and COSO ERM serves as an important indicator of successful risk management because both emphasize the continuity of the mitigation process, the effectiveness of internal control, and the improvement of risk-based decision-making quality. Munir et al. (2019) assert that the integration of risk management in corporate governance significantly strengthens strategic oversight mechanisms, minimizes the potential for operational failure, and increases the company's attractiveness to stakeholders, especially investors.

In the context of the capital market, a high level of risk maturity is generally associated with stable financial performance and long-term sustainability prospects. Companies with mature risk management structures are considered more adaptive to external environmental dynamics and more effective in controlling uncertainties that can affect investment value. Ahmad et al. (2020) found a positive correlation between risk management maturity and the level of investor confidence, which directly impacts the reduction of the cost of capital. This happens because investors perceive the risks faced by the company to be lower, thereby increasing investment interest and expanding access to financing sources. On a global level, integrated risk management not only functions as an internal control tool but also as a strategy to strengthen the company's reputation as an accountable, resilient, and long-term sustainability-oriented entity, thus creating competitive added value.

2.3. Internal Audit, ESG, and Investor Confidence

The integration of ESG factors is an important focus for companies aiming to attract institutional investors and enhance investment sustainability. Internal audit has a strategic role in assessing the effectiveness of ESG policies and ensuring alignment between corporate practices and stakeholder expectations. Research by Naeem et al. (2022) found that internal audit focusing on ESG increases investor confidence through improved transparency and accountability in sustainability reporting. In the post-pandemic era, this becomes a key factor for investors in evaluating companies non-financial performance. Furthermore, Pangastuti (2023) asserts that the role of internal audit in the ESG context must be expanded from mere compliance oversight to a strategic management partner oriented towards sustainability. Internal audit needs to function as an advisor in assessing reputation and operational risks related to ESG.

Meanwhile, research by Kim (2023) confirms that the integration of ESG into the risk management system increases investor confidence and reduces stock volatility. Thus, the success of a company in attracting long-term investment highly depends on the extent to which internal audit can act as a key driver of sustainable governance. The literature shows that the synergistic relationship between internal audit, risk management maturity, and ESG implementation creates a chain effect that strengthens investor confidence. Transformative internal audit enhances the effectiveness of governance; good governance strengthens risk management; and a mature risk system generates stability valued by investors. Thus, the role of internal audit is not merely to guarantee compliance but becomes a strategic element in building corporate reputation and long-term investment value.

3. Method

This study uses a systematic literature review approach to analyze the relationship between internal audit transformation, risk management maturity, corporate governance, and their impact on investor confidence and investment decisions. This method aims to identify, evaluate, and synthesize academically relevant research findings to gain a deep understanding of the topic under study. The research process began with searching for scientific articles from the Google Scholar, Research Gate and Elsevier database with a publication time frame of the last five years. The keywords used include: "internal audit transformation", "risk management maturity", "corporate governance", "investor confidence", "ESG and investment performance". The selection of this period is based on the significant development of the role of internal audit and risk management in the context of digitalization and the increasing attention to investment sustainability in the last five years.

Inclusion criteria were strictly defined to ensure scientific relevance and validity. Selected articles must meet the following requirements: (1) published in internationally indexed journals; (2) discuss the relationship between internal audit, governance, risk management, ESG, or investment; (3) use an empirical or conceptual approach with clear theoretical contribution; and (4) have relevance to investor decision-making practices. Articles that are opinion-based, non-academic reports, or publications. From the screening results, several articles were found that met the eligibility criteria. These articles were then analyzed using a thematic narrative approach. The analysis was carried out through three main stages: (1) Identification of core themes, which include the evolution of the internal audit role, the level of risk management maturity, and the role of governance in enhancing investor confidence; (2) Synthesis of empirical findings, to connect previous research results and find patterns of relationships between the main variables; (3) Evaluation of theoretical and practical contributions, to assess the extent to which literature findings support the conceptual model regarding the relationship between internal audit and investment.

This approach refers to the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) principles with adjustments to the context of risk management and internal audit. The validity of the results is strengthened through the process of literature triangulation and cross-journal comparison. Thus, this method yields a comprehensive mapping of the theoretical and empirical dynamics explaining how the synergy between internal audit, governance, and risk management can increase investor confidence and encourage sustainable investment decisions.

4. Results

The results of the comprehensive literature synthesis affirm that internal audit transformation and the increase in risk management maturity are strategic determinants in strengthening corporate governance, enhancing investor confidence, and promoting long-term investment sustainability. The integration of these three aspects not only forms a governance foundation that is adaptive to global business environment dynamics but also reflects the evolution of the modern corporate paradigm, which is increasingly responsive to risk, transparency, and accountability demands. This transformation is becoming more prominent with the increasing complexity of business models, accelerated digitalization, and investor expectations for business practices based on sustainability principles and credible governance.

Theoretically, internal audit transformation is understood as a functional shift from merely a compliance tool towards a strategic management partner in creating corporate value. Modern internal audit is actively involved in decision-making and is no longer limited to internal control evaluation alone. Hegazy and Farghaly (2022) state that the risk-based internal audit approach provides a comprehensive view of the effectiveness of the risk management system and contributes to detecting potential threats to operational sustainability. With a dual role as an oversight mechanism and a strategic change agent, internal audit has significant implications for strengthening investor confidence and improving the quality of corporate governance. This change in orientation indicates that internal audit is now an integral part of strategic planning, not just an administrative function.

The literature also identifies that the level of risk management maturity correlates closely with the stability of corporate performance and investor perception of investment security. Ahmad et al. (2020) affirm that companies with high risk maturity show lower market volatility and obtain smaller risk premiums, which reflects a higher level of market confidence. Risk maturity not only reflects the organization's ability to identify and mitigate risks but also demonstrates the company's readiness to face global uncertainties systematically. In this context, risk management is no longer viewed as an instrument for asset protection but rather as a source of long-term competitive advantage that directly influences investor preferences in capital allocation.

Furthermore, effective corporate governance holds a central role as an integrative mechanism that synergizes internal audit and risk management. Quality governance creates a transparent oversight structure, ensures that control mechanisms function accountably, and provides assurance over the integrity of both financial and non-financial information. Vadasi et al. (2020) emphasize that strong governance enhances market confidence, strengthens corporate reputation, and creates a conducive investment climate. The internal audit function in the governance context not only ensures compliance but also plays a role in building a risk-based decision-making system that is the foundation for investment sustainability.

From the perspective of investor psychology, transformative internal audit signals credibility regarding financial reports and corporate operational integrity. When internal auditors are involved in the evaluation of ESG risks, investors view the company as more capable of managing reputation risks and ensuring long-term sustainability. Naeem et al. (2022) show that the transparency resulting from ESG audits strengthens institutional investor involvement and increases confidence in the stability of corporate performance. Accurate non-financial reports are becoming an increasingly significant factor in global market investment decisions, as they reflect the company's commitment to social responsibility and sustainable governance.

Contemporary literature also emphasizes the importance of integrating ESG into the internal audit and risk management framework in response to increasing regulatory pressure and investor preference for sustainability. Kim (2023) suggests that companies involving internal audit in ESG risk assessment have a lower risk perception and broader access to global capital. ESG is not only an indicator of corporate ethics but also reflects the quality of governance and resilience to market volatility. Therefore, ESG integration strengthens corporate competitiveness and creates a reputational advantage that is important in attracting long-term investment.

Digital transformation also drives the evolution of internal audit from a traditional function towards a technology-based oversight system that is predictive and real time. The utilization of artificial intelligence, data analytics, and automated auditing allows internal auditors to detect anomalies earlier and provide data-based strategic recommendations. Nerantzidis et al. (2022) affirm that audit digitalization accelerates the assurance process, expands the scope of oversight for non-financial risks, and improves information accuracy. Companies implementing digital audit are considered more adaptive to changes in the business environment and more trusted by investors because they demonstrate anticipatory capacity against strategic risks.

The integration of internal audit and risk management also creates a reciprocal relationship that strengthens governance effectiveness. As risk management maturity increases, internal audit obtains more accurate data for oversight, thereby improving the quality of strategic recommendations. Conversely, effective internal audit encourages increased risk awareness and promotes continuous improvement of the risk management system. Munir et al. (2019) suggest that this synergy builds investor confidence in the company's ability to manage systemic risks and maintain profit stability.

From the perspective of capital structure and investment flow, companies with strong governance, a mature risk management system, and a proactive internal audit function tend to gain a higher level of confidence from the capital market. This impacts increased access to external financing with a lower cost of capital and the opportunity for institutional investment inflow. Investors view the integration of internal audit and risk management as an indicator of organizational quality capable of maintaining profit continuity and protecting shareholder value. Implicitly, modern internal audit not only plays a role in maintaining corporate integrity but also acts as a catalyst that strengthens corporate legitimacy in the eyes of investors.

The study by Nerantzidis et al. (2022) also affirms that technology- and risk-based internal audit has a positive correlation with increased operational efficiency and profitability. Strategic recommendations provided by modern internal auditors directly contribute to strengthening capital structure, optimizing resource allocation, and creating economic value. Thus, internal audit does not only function as a control mechanism but also as an instrument for creating a competitive advantage that directly impacts the company's market value.

The integration of internal audit, risk management, and corporate governance forms an institutional framework that is the foundation for investment sustainability and corporate competitiveness. Adaptive internal audit strengthens the risk management system through a technology-based strategic approach, while transparent governance ensures that oversight mechanisms operate effectively and accountably. The synergistic impact of these three elements is reflected in increased investor confidence, stable financial performance, and the company's ability to maintain relevance amid global dynamics. Thus, the effectiveness level of corporate governance in the risk- and confidence-based economy era is highly determined by the extent to which organizations can integrate internal audit and risk management as strategic instruments for creating sustainable value.

5. Discussion

The results of the literature study indicate that the relationship between internal audit transformation, the level of risk management maturity, and corporate governance has a significant impact on investor confidence and investment decisions. This finding aligns with the view that internal audit is no longer merely a compliance control tool but a strategic partner in creating long-term value for the company and shareholders. This paradigm shift strengthens the position of internal audit as a link between governance effectiveness and investment sustainability.

Digital transformation in internal audit becomes a crucial element in enhancing the effectiveness of risk oversight and corporate transparency. The utilization of technology such as data analytics, AI auditing, and continuous monitoring allows auditors to perform early detection of potential strategic risks. Nerantzidis et al. (2022) explain that data-based audit not only increases efficiency but also provides valuable strategic insight for management and investors. This strengthens investor confidence because the information presented becomes more accurate and relevant to dynamic market conditions.

The level of risk management maturity is proven to positively influence investor perception of corporate stability. Companies with mature risk management systems demonstrate adaptive capabilities towards external uncertainty, such as economic fluctuations or regulatory changes. Ahmad et al. (2020) affirm that investors are more likely to invest in companies with well-integrated and documented risk systems because they are considered capable of effectively managing potential losses. In this context, internal audit plays an important role as the party assessing the effectiveness of the risk framework and ensuring the suitability of its implementation.

The integration of ESG into the governance system and internal audit strengthens investor confidence in the company's commitment to sustainability. Naeem et al. (2022) found that ESG transparency overseen by the internal audit function enhances investor perception of corporate social responsibility and sustainability. When internal audit ensures that sustainability reports and ESG activities are accurate and verifiable, reputation risk is reduced, and institutional investor interest increases. Furthermore, the reciprocal relationship between internal audit and risk management creates a continuous improvement cycle. Strong internal audit encourages increased risk maturity, while a mature risk management system enriches the effectiveness of internal audit through the provision of more comprehensive data and controls.

According to Vadasi et al. (2020), this relationship forms a self-reinforcing governance ecosystem, where the effectiveness of one function enhances the efficiency of the other. The practical implication is that investment in strengthening internal audit and risk systems is not just a compliance obligation but a long-term investment strategy capable of increasing corporate value. Overall, the literature shows that internal audit transformation and the increase in risk management maturity not only strengthen corporate governance but also become important determinants in building investor confidence, market stability, and investment attractiveness. Therefore, modern organizations need to view the internal audit function not as a cost but as a strategic investment in creating sustainable value.

6. Conclusion

Based on the results of the literature review, it can be concluded that internal audit transformation, the increase in risk management maturity, and the implementation of effective corporate governance have a significant influence on investor confidence and investment performance. The change in the role of internal audit from merely a compliance function to a strategic partner makes internal audit an integral part of the corporate value creation process. The utilization of technology such as data analytics and artificial intelligence allows internal audit to play a more proactive role in identifying risks, increasing efficiency, and supporting evidence-based decision-making.

A high level of risk management maturity serves as an indicator of corporate success in managing uncertainty and creating long-term stability. A mature risk system strengthens investor confidence because it reflects the company's ability to maintain value and cope with complex business environment changes. On the other hand, corporate governance and ESG integration strengthen corporate legitimacy in the public eye and encourage the confidence of institutional investors who are increasingly mindful of social responsibility and sustainability. Thus, the synergy between internal audit, risk management, and governance not only strengthens the oversight structure but also creates a foundation for sustainable investment growth. Companies that consistently succeed in integrating these three elements will be better able to attract investors, maintain market value stability, and enhance long-term reputation in an economy full of uncertainty and based on trust.

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