

THE EVOLUTION OF INTERNAL AUDIT STANDARDS IN PUBLIC SECTOR GOVERNANCE

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Abstract

This study aims to analyze the evolution of internal audit standards in public sector governance and its implications for enhancing accountability and transparency. The method used is a literature review, examining various scientific sources, professional standards, and relevant regulations on the development of internal audit in the public sector. The study results indicate that internal audit standards have undergone a significant transformation from a traditional compliance-focused approach to a more strategic and risk-based approach. This development is influenced by global demands for good governance, the increasing complexity of public organizations, and advances in information technology. Furthermore, the role of internal auditors has evolved into a strategic partner for management in ensuring the effectiveness of internal controls and risk management. This study confirms that the evolution of internal audit standards has made a significant contribution to strengthening adaptive, transparent, and accountable public sector governance.

Keywords: Internal Audit, Public Sector, Governance, Audit Standards, Risk Management, Accountability, Transparency

INTRODUCTION

The development of public sector governance in recent decades has demonstrated increasingly complex dynamics along with increasing demands for transparency, accountability, and efficient management of state resources. In this context, internal audit has become a key instrument in ensuring that public sector organizations operate in accordance with the principles of good

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governance. Internal audit is no longer viewed merely as an administrative oversight function, but has evolved into a strategic partner for management in identifying risks, improving the effectiveness of internal controls, and providing added value to the organization. This changing role has directly driven the transformation of internal audit standards to adapt to the increasingly complex and risk-based needs of modern organizations (Nerantzidis et al., 2020).

Internal audit standards in the public sector were initially oriented more toward compliance with applicable regulations and procedures (Yanuarisa et al., 2025a). This approach tended to be reactive, with auditors focusing on detecting errors after they occurred. However, with the development of risk management concepts and increasing public expectations of government performance, internal audit standards have shifted toward a more proactive and risk-based approach. Internal auditors are now expected to identify potential risks early on, provide strategic recommendations, and contribute to improving decision-making processes. This evolution reflects a paradigm shift from mere watchdog to trusted advisor in public sector organizations.

Furthermore, globalization and developments in information technology have also significantly influenced the evolution of internal audit standards. The implementation of integrated information systems, the use of big data, and the utilization of digital-based audit technology have transformed the way auditors perform their duties. Internal audit standards need to accommodate these changes by incorporating technological aspects as an integral part of the audit process. This includes the auditor's ability to use data analysis tools, understand information technology risks, and ensure the security and integrity of the organization's information systems (Yanuarisa et al., 2025a). Without relevant standards updates, the internal audit function risks being left behind and unable to optimally contribute to public sector governance.

On the other hand, pressure from various stakeholders, including the public, legislative bodies, and external oversight bodies, is also driving improvements in the quality of internal audits in the public sector. The public now demands greater transparency in the management of state finances, as well as accountability for every government policy. This requires internal auditors to work more professionally, independently, and with integrity. Therefore, internal audit standards must be continuously updated to reflect these principles and provide clear guidance for auditors in carrying out their duties effectively and ethically.

Furthermore, the evolution of internal audit standards is also inseparable from the influence of international practices and the harmonization of global

standards. Many countries adopt or adapt internal audit standards developed by international professional organizations as a reference for improving audit quality in the public sector. This adoption process often requires adjustments to the local context, including the legal system, organizational culture, and the maturity level of government institutions (Almgrashi et al., 2023). Therefore, it is important to understand how internal audit standards evolve over time and the factors influencing these changes in the context of public sector governance.

However, despite these developments, the implementation of internal audit standards in the public sector still faces numerous challenges. Limited human resources, a lack of auditor competence, and resistance to change are some of the frequently encountered obstacles. Furthermore, a gap persists between established standards and actual practice, which can reduce the effectiveness of the internal audit function. This situation indicates that the evolution of internal audit standards requires not only regulatory changes but also enhanced organizational and human resource capacity.

Based on this description, it is clear that the evolution of internal audit standards in public sector governance is a complex and multidimensional phenomenon. These changes are influenced by various factors, ranging from developments in management concepts, demands for public accountability, technological advances, and the dynamics of globalization. Therefore, research on the evolution of internal audit standards is crucial to provide a comprehensive understanding of the direction of these standards' development and their implications for improving the quality of public sector governance. This research is expected to contribute to formulating strategies for developing internal audit standards that are more adaptive, relevant, and able to address future challenges.

RESEARCH METHOD

This research uses a qualitative approach using a literature review method to analyze the evolution of internal audit standards in public sector governance. This approach was chosen because it provides a comprehensive understanding of the development of internal audit concepts, regulations, and practices over time, based on various relevant scientific sources. Data for this study were obtained from reputable academic journals, textbooks, reports from international institutions, and official policy documents related to internal audit standards in the public sector. The data collection process was conducted systematically by identifying, selecting, and categorizing literature based on

topic relevance, source credibility, and its contribution to the discussion of the evolution of internal audit standards.

Subsequently, data analysis was conducted using content analysis techniques to identify patterns, trends, and significant changes in internal audit standards that have occurred over various periods. The researcher compared various standards frameworks developed by professional institutions and international organizations to examine the dynamics of change and the factors influencing them, such as technological developments, transparency demands, and public governance reforms. The results of the analysis were then synthesized narratively to generate an in-depth understanding of the direction of development of internal audit standards and its implications for improving accountability and effectiveness of public sector governance. Thus, this literature review method allows research to provide strong conceptual contributions without relying on primary data collection.

RESULT AND DISCUSSION

The Role of Regulation and International Institutions in Shaping Internal Audit Standards

The role of regulation and international institutions in shaping internal audit standards is crucial in ensuring consistent, transparent, and accountable audit practices across jurisdictions (Shaban & Barakat, 2023). In the context of globalization and the increasing complexity of organizational governance, internal audit standards can no longer be developed in a fragmented manner or limited to solely domestic interests. Regulations established by governments and supervisory authorities, as well as guidelines developed by international institutions, contribute significantly to creating a structured and reliable internal audit framework. This is particularly important in the public sector and multinational corporations, where demands for public accountability and financial integrity are increasingly high.

Regulations serve as the legal foundation governing the implementation of internal audits within a country. Through regulations, governments establish the obligations, responsibilities, and scope of internal audits that organizations must perform. These regulations often include requirements regarding internal auditor independence, professional competence, and audit reporting mechanisms (Gokoglan et al., 2023). In many cases, regulations also encourage the adoption of international standards as a reference, thus creating alignment between local and global practices. With strong regulations, internal audit is not

merely an administrative function but also a strategic instrument for managing risk and improving organizational performance.

On the other hand, international institutions play a crucial role in formulating universal internal audit standards. These institutions develop best-practice-based guidelines that can be adopted by various countries and organizations. The resulting standards typically undergo a lengthy process involving research, expert consultation, and evaluation of the dynamics of the global business environment. Thus, these standards possess high legitimacy and are able to address modern audit challenges, such as digitalization, the complexity of financial transactions, and the growing demand for transparency.

One of the main contributions of international institutions is the harmonization of internal audit standards (Eltweri et al., 2022). Without harmonization, differences in standards between countries can create uncertainty and risk in financial reporting, especially for organizations operating across borders. Harmonization allows internal auditors to work with a uniform reference, thereby improving audit quality and facilitating the evaluation process by external parties. Furthermore, harmonization also supports auditor professional mobility, as their competencies are recognized internationally.

The interaction between national regulations and international standards creates a complementary dynamic. National regulations provide legal force and local context, while international standards provide universal direction and general principles. In practice, many countries adopt international standards by adapting them to domestic conditions, such as legal systems, organizational culture, and levels of economic development. This adaptation process demonstrates that internal audit standards are not static but rather evolve according to the needs and challenges faced (Hegazy & Farghaly, 2022).

Furthermore, international institutions also play a role in enhancing the professional capacity of internal auditors through training, certification, and scientific publications. These efforts are crucial to ensuring that auditors possess sufficient competence to implement established standards. In this context, human resource development is an integral part of establishing internal audit standards, as sound standards will be ineffective without the support of competent and highly integrated auditors. Therefore, international institutions focus not only on standard development but also on strengthening the overall audit professional ecosystem.

Developments in information technology also influence the role of regulations and international institutions in establishing internal audit

standards. The digitalization of business processes and the use of cloud-based systems require updated standards to accommodate new risks, such as data security and information system integrity. In this regard, international institutions play a pioneering role in identifying emerging issues and integrating them into audit standards. Regulations then follow by establishing binding provisions, ensuring that organizations implement audit practices relevant to technological developments.

Furthermore, the role of regulations and international institutions is also evident in efforts to strengthen organizational governance. Internal audit is a crucial pillar of a good governance system, as it serves as an independent internal oversight mechanism. With clear standards and firm regulations, internal audit can effectively perform its function of detecting and preventing irregularities and providing constructive recommendations for improvement. This ultimately contributes to increased stakeholder trust in the organization (Levytska et al., 2022).

However, there are challenges in implementing internal audit standards established by regulations and international institutions. One major challenge is the varying levels of readiness among countries to adopt these standards. Countries with limited resources may face difficulties in meeting the established requirements, both in terms of infrastructure and auditor competency. Furthermore, resistance to change can also be a barrier, especially if new standards are perceived as complex or inconsistent with existing practices. Therefore, a flexible and inclusive approach to the implementation process is needed to ensure standards can be effectively applied without neglecting the local context.

In the context of scientific publications, discussions on the role of regulations and international institutions in shaping internal audit standards demonstrate that collaboration between various parties is essential for creating a robust and sustainable audit system. Regulations provide legitimacy and legal certainty, while international institutions provide a conceptual framework and best practices that can be widely adopted. The synergy between the two produces internal audit standards that are not only locally relevant but also globally competitive (Pangastuti, 2023).

Thus, it can be concluded that regulations and international institutions play complementary roles in establishing quality internal audit standards. Regulations ensure compliance and implementation of standards in the national context, while international institutions encourage innovation and harmonization of audit practices globally. Success in establishing effective

internal audit standards depends heavily on the ability to integrate these two aspects in a balanced manner, thereby addressing the evolving challenges of the modern organizational environment.

Changes in Internal Auditor Competence and Professionalism Along with the Evolution of Standards

Changes in internal auditor competency and professionalism are a logical consequence of the dynamic evolution of audit standards, which continue to evolve in line with the complexity of organizational environments, the demands of good governance, and technological advances. In both the public and private sectors, internal auditors no longer merely monitor compliance with procedures and regulations, but have transformed into strategic partners with management in creating added value and improving the effectiveness of internal controls. The evolution of audit standards, both international and national, has driven a redefinition of the competencies required of internal auditors to address increasingly complex and multidimensional risk challenges (Lenz & O'Regan, 2024).

Along with the development of internal audit standards, a paradigm shift has occurred from the traditional approach focused on compliance audits to a risk-based approach. This change requires internal auditors to have a deeper understanding of risk management, including the ability to identify, analyze, and evaluate the various types of risks facing an organization. Technical competencies, previously focused solely on accounting and audit procedures, must now be expanded to encompass interdisciplinary understanding, such as strategic management, information technology, and data analysis (Soimu et al., 2022). Thus, internal auditors are required to be not only examiners but also analysts capable of providing strategic insights for decision-making.

Furthermore, the professionalism of internal auditors is also strengthening with increasing demands for integrity, independence, and objectivity. Increasingly stringent audit standards emphasize the importance of a code of ethics as the primary foundation for carrying out the audit function. Internal auditors are expected to maintain independence even within the same organizational structure as the audited entity. This presents a challenge, especially in public sector organizations, which are often influenced by political pressure and vested interests (Aldemir & Uçma Uysal, 2024). Therefore, professionalism is measured not only by technical skills but also by the auditor's ability to uphold ethical principles in complex situations.

Developments in digital technology have also had a significant impact on changes in internal auditor competencies. The digital transformation of organizational business processes encourages auditors to understand information systems, cybersecurity, and the use of data analytics-based audit technology. Modern audit standards have recognized the importance of technology in improving the effectiveness and efficiency of the audit process. Internal auditors are now required to utilize analytical tools to process big data, detect anomalies, and provide more accurate, evidence-based recommendations. Thus, digital competence has become a key element in the professionalism of today's internal auditors (Lenz & Hoos, 2023).

Furthermore, the evolution of audit standards also emphasizes the importance of soft skills in supporting the success of the internal audit function. Communication, negotiation, and collaboration skills are becoming increasingly important because internal auditors must interact with various parties within the organization. In their role as internal consultants, auditors not only convey findings but also must be able to convince management to accept and implement recommendations. This requires strong interpersonal skills and an understanding of organizational dynamics. Therefore, the professionalism of internal auditors encompasses a balance between hard and soft skills.

Changes in internal auditor competencies are also reflected in the increasing need for professional certification and continuous development. Continuously updated audit standards require auditors to stay up-to-date through professional training and education. Certifications such as the Certified Internal Auditor (CIA) or other related certifications are important indicators of auditor competence and credibility. Furthermore, organizations are also required to provide ongoing competency development programs to ensure internal auditors remain relevant to evolving standards and best practices in the audit field (Zhang & Shah, 2023).

In the context of organizational governance, improving the competence and professionalism of internal auditors directly contributes to improving the quality of oversight and accountability. Competent internal auditors are able to provide more reliable assurance and more valuable recommendations for improving internal control systems. This ultimately increases stakeholder trust in the organization. The evolution of audit standards has led internal auditors to play a more proactive role in supporting the achievement of organizational goals, beyond simply detecting errors or irregularities.

However, the process of adapting to changes in audit standards is not always smooth sailing. Some organizations still face limited resources, both in

terms of the number of auditors and their level of competence. Furthermore, resistance to change is also a challenge in implementing new audit standards. Therefore, a commitment from top management is needed to support the strengthening of the internal audit function, including investments in competency development and technology.

Evaluating the Effectiveness of Internal Audit Standards in Improving Public Sector Transparency

Evaluating the effectiveness of internal audit standards in improving public sector transparency is a crucial issue in modern governance, which demands high accountability. Internal audit standards serve not only as technical guidelines for auditors but also as normative instruments that shape organizational behavior in managing public resources openly and responsibly. In the public sector context, transparency is a key indicator of successful good governance, as it directly relates to public trust in government institutions (Olatinsu & Eke, 2025). Therefore, the effectiveness of internal audit standards requires a comprehensive analysis, considering aspects of implementation, compliance, and their impact on the quality of information presented to the public.

Conceptually, internal audit standards are designed to ensure that the audit process is conducted systematically, independently, and risk-based. These standards encompass principles such as integrity, objectivity, confidentiality, and competence, which serve as the foundation for credible audits (Amalia, 2023). In practice, the implementation of these standards is expected to improve the quality of internal oversight, allowing potential irregularities to be identified and addressed early. When these standards are consistently applied, public sector organizations tend to produce more transparent financial and performance reports, as the internal audit process serves as a control mechanism that ensures the reliability of information.

However, the effectiveness of internal audit standards is determined not only by the quality of the standard's design but also by its level of implementation within the organization. Many public sector institutions face challenges in optimally adopting audit standards, primarily related to limited human resources, lack of training, and an organizational culture that does not fully support transparency. Under these conditions, internal audit standards often remain merely formal documents without substantive implementation. This results in the internal audit function not functioning optimally in promoting

transparency, as auditors lack the capacity or independence to carry out their duties.

Furthermore, leadership plays a crucial role in determining the effectiveness of internal audit standards. Leadership commitment to the principle of transparency will influence the extent to which audit standards are consistently applied. Leaders who support internal audit as a strategic tool tend to provide greater independence to auditors and encourage follow-up on audit findings. Conversely, if internal audit is viewed as an administrative formality, the standards will not have a significant impact on increasing transparency. In this case, the effectiveness of internal audit standards becomes highly dependent on the integration between formal policies and managerial practices (Kamara, 2023).

From an evaluation perspective, the effectiveness of internal audit standards can be measured through several indicators, such as improved financial report quality, reduced recurrent audit findings, and increased public information disclosure. Financial reports prepared based on quality internal audit findings tend to be more accurate, relevant, and reliable. This provides a strong basis for stakeholders to assess government performance. Furthermore, the success of internal audits is also reflected in the organization's ability to follow up on audit recommendations, ultimately leading to improvements in internal control systems and increased transparency.

Public sector transparency is also closely related to information accessibility. Effective internal audit standards encourage the presentation of information that is not only accurate but also easily accessible and understandable to the public. In the digital era, this is increasingly important because the public has high expectations for information transparency through various platforms (Yanuarisa et al., 2025b). Therefore, internal audits focus not only on compliance aspects but also on how information is presented transparently and communicatively. In this context, internal audit standards need to continuously evolve to meet increasingly complex transparency demands.

Furthermore, evaluating the effectiveness of internal audit standards must also consider the dynamics of the external environment, such as government regulations and pressure from civil society. Regulations that support transparency will strengthen the role of internal audit in overseeing public budget use. Meanwhile, public participation in overseeing government performance can be a motivating factor for organizations to implement audit standards more seriously. Therefore, the effectiveness of internal audit

standards cannot be separated from the broader governance ecosystem, which encompasses interactions between the government, the public, and oversight institutions.

While internal audit standards have significant potential to increase transparency, several obstacles need to be overcome. One is resistance to change, particularly in organizations with a strong bureaucratic culture. The application of stricter audit standards is often perceived as a threat to vested interests, creating obstacles to implementation. Furthermore, a lack of coordination between the internal audit unit and other units within the organization can also reduce audit effectiveness (Karagiorgos et al., 2025). Therefore, a holistic approach to implementing audit standards is needed, encompassing technical, cultural, and structural aspects.

To improve the effectiveness of internal audit standards, it is crucial to strengthen auditor capacity through ongoing training and professional development. Competent auditors will be better able to apply the standards appropriately and provide constructive recommendations. Furthermore, the use of information technology in the audit process can also improve efficiency and accuracy, thereby supporting greater transparency. Audit digitization enables real-time data collection and analysis, ultimately accelerating decision-making and improving the quality of oversight.

CONCLUSION

The conclusion of this study indicates that the evolution of internal audit standards in public sector governance is a dynamic process influenced by changes in the regulatory environment, technological developments, and increasing demands for transparency and accountability. Internal audit standards no longer function merely as technical audit guidelines, but have evolved into strategic instruments that support the effective and efficient achievement of public organization goals. This transformation is marked by a shift in approach from compliance-based to risk-based and value-added auditing, which positions internal auditors as partners with management in managing risk and improving organizational performance.

Furthermore, this study confirms that the successful implementation of adaptive internal audit standards is highly dependent on human resource capacity, leadership commitment, and integration with a robust internal control system. Challenges such as limited auditor competency, resistance to change, and bureaucratic complexity remain obstacles that need to be addressed continuously. Therefore, strengthening professional training, utilizing modern

audit technology, and harmonizing policies are crucial steps to ensure that internal audit standards remain relevant and able to meet the increasingly complex and transparent needs of public sector governance.

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