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An Analysis of the Role of Internal Audit in the Prevention and Management of Capital Market Cases: A Study of Securities Firms

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Abstract

This study aims to analyze the role of internal audit in the prevention and handling of cases in the capital market, particularly within securities companies. The background of this research lies in the increasing complexity of capital market activities, which demands a stronger internal audit function as the frontline in maintaining integrity, transparency, and compliance with the regulations of the Financial Services Authority (OJK). The research adopts a qualitative descriptive approach using a single case study method, allowing an in-depth exploration of the practices, strategies, and challenges of internal audit within a selected securities company. Data were collected through in-depth interviews, document analysis, and non-participant observation. Data analysis was conducted using the Miles and Huberman (1994) model, which consists of three stages: data reduction, data display, and conclusion drawing/verification. The results indicate that the role of internal audit in case prevention involves strengthening internal controls, implementing risk-based auditing, and promoting a culture of compliance across organizational levels. Meanwhile, the role in case handling includes conducting audit investigations, coordinating with the compliance unit and top management, and communicating audit findings to regulators when serious violations are detected. This study highlights that the effectiveness of internal audit depends not only on formal procedures but also on auditor independence, top management support (tone at the top), and the proper implementation of the three lines of defense model. The findings suggest

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that securities companies should strengthen the capacity of their internal audit human resources and develop more transparent reporting systems to enhance governance and compliance effectiveness.

Keywords: internal audit, capital market, securities company, case prevention, case handling, regulatory compliance

INTRODUCTION

The Indonesian capital market has experienced significant growth over the past decade. Data from the Indonesia Stock Exchange (IDX, 2024) indicate that the number of retail investors has increased by more than 600% since 2015, alongside broader financial literacy and the digitalization of investment services. The expansion of securities trading activities represents a positive indicator of national economic growth, as the capital market serves both as a source of corporate financing and as an alternative investment channel for the public (OJK, 2023; World Bank, 2022).

However, this development has also been accompanied by emerging challenges, including heightened risks of regulatory violations, fraud, and non-compliance with supervisory requirements (OJK, 2023). Kurniawan and Adhariani (2021) argue that the complexity of transactions in modern capital markets requires stronger and more adaptive oversight mechanisms, as even relatively minor irregularities may have systemic consequences for investor confidence.

Various capital market violations, including stock price manipulation, front-running practices, breaches of disclosure requirements, and the misuse of client funds, demonstrate that weaknesses remain within the internal control systems of securities firms (Tempo, 2023; OJK, 2024). The OJK Annual Report (2024) identified that many of these cases originated from ineffective supervisory functions and the limited ability of internal audit units to detect operational and compliance risks at an early stage.

This situation highlights the importance of the internal audit function as an integral component of effective Good Corporate Governance (GCG). According to The Institute of Internal Auditors (IIA, 2017), internal audit provides independent and objective assurance and consulting services intended to enhance organizational value and strengthen governance systems. Arens et al. (2019) further emphasize that an effective internal audit function can detect and prevent financial irregularities while strengthening stakeholder confidence in corporate financial reporting.

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Within the Three Lines of Defense framework, internal audit functions as the third line, providing assurance regarding the effectiveness of the first and second lines, namely operational management and the compliance and risk management functions (IIA, 2020). In securities firms, the role of internal audit is particularly strategic because it is directly related to the integrity of financial systems, the reporting of Adjusted Net Working Capital (Modal Kerja Bersih Disesuaikan—MKBD), and the security of client transaction activities (Arum and Tanjung, 2022).

In practice, however, internal audit functions frequently encounter various structural and operational constraints, including limited independence, managerial pressure, insufficient numbers of competent personnel, and the continuously evolving regulatory environment of the capital market (Lubis and Rahman, 2022; Novita, 2021; Wibowo, 2021). According to Sari (2023), the effectiveness of internal audit depends substantially on senior management support, reflected through the tone at the top, and on the strength of the organization's compliance culture.

Therefore, this study is important because it provides an in-depth examination of how internal audit contributes to the prevention and handling of capital market misconduct, as well as the strategies applied to maintain effective supervision within securities firms. The study is expected to offer practical contributions to improving the governance of securities companies and academic contributions by enriching the literature on the role of internal audit in the Indonesian capital market sector. Based on the issues outlined above, this study focuses on three main concerns. First, it examines how the internal audit function contributes to supervisory mechanisms, corporate governance, and regulatory compliance within securities firms. Second, it explores the contribution of internal audit to the prevention, detection, investigation, and handling of potential misconduct and regulatory violations in the capital market. Third, it investigates the structural and operational challenges faced by internal auditors, as well as the strategies adopted to maintain the effectiveness of assurance, oversight, and evaluation activities in a highly regulated and rapidly changing business environment.

Accordingly, this study aims to analyze the role of internal audit in strengthening governance, internal control, and compliance within securities firms. It also seeks to identify how internal audit supports the prevention and handling of capital market violations through risk-based auditing, investigative procedures, coordination with compliance and risk management functions, and the monitoring of corrective actions. In addition, the study aims to explain the challenges encountered by internal auditors, including limitations in independence, human resource capacity, access to information,

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management support, and adaptation to regulatory developments, as well as the strategies used to address these challenges.

This study is expected to provide academic, practical, and policy-related contributions. Academically, it enriches the empirical literature on internal auditing, risk management, regulatory compliance, and internal control in the capital market industry, particularly within the context of Indonesian securities firms. Practically, the findings may provide useful insights for internal auditors, compliance officers, risk management units, and senior management in improving audit planning, risk identification, investigative procedures, coordination among control functions, and follow-up mechanisms for audit findings. From a policy perspective, the study may offer relevant input for the Financial Services Authority of Indonesia, the Indonesia Stock Exchange, and professional associations in developing supervisory policies, internal audit guidelines, competency standards, and compliance mechanisms that are more responsive to the increasing complexity of capital market activities.

LITERATUR REVIEW

The Concept of Internal Audit

According to The Institute of Internal Auditors (IIA, 2017), internal audit is an independent and objective assurance and consulting activity designed to add value and improve an organization's operations. Internal audit assists organizations in achieving their objectives by evaluating the effectiveness of risk management, internal control, and corporate governance processes.

Arens et al. (2019) emphasize that internal auditing is not limited to identifying errors or irregularities. It also ensures that the organization's control systems, policies, and operational procedures function effectively and efficiently. In addition, Boynton and Johnson (2018) describe internal audit as the "third eye" of management because it connects business processes with strategic oversight mechanisms and provides management with an independent perspective on organizational performance and risk exposure.

Within the capital market context, internal audit has additional responsibilities for ensuring compliance with the requirements of the Financial Services Authority of Indonesia, the Indonesia Stock Exchange, and the internal policies of securities firms. Arum and Tanjung (2022) argue that the internal audit function is particularly important in the securities industry because of the complexity of financial transactions and the high risk of irregularities. Internal audit therefore serves as a preventive mechanism against

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securities transaction errors, inaccurate financial reporting, misuse of client assets, and violations of capital market regulations and professional codes of ethics.

Internal Audit and *Good Corporate Governance* (GCG)

Internal audit is an integral component of the implementation of Good Corporate Governance (GCG), which is underpinned by five core principles: transparency, accountability, responsibility, independence, and fairness (OECD, 2015). Effendi (2016) argues that the effective implementation of GCG requires a strong and independent internal audit function to ensure regulatory compliance and assess the effectiveness of operational policies.

The Three Lines of Defense framework developed by the Institute of Internal Auditors (IIA, 2020) positions internal audit as the organization's third line of defense. The first line consists of operational management, which is directly responsible for managing risks. The second line comprises the compliance and risk management functions, while the third line, internal audit, provides independent assurance regarding the effectiveness of the first and second lines.

Nugroho and Susanto (2021) found that the implementation of the Three Lines of Defense model in financial institutions contributes to reducing compliance risk and improving reporting transparency. In the context of securities firms, the effectiveness of internal audit in supporting the implementation of GCG principles largely depends on the degree of senior management support and the presence of an organizational culture that is receptive to audit activities (Sari, 2023). Furthermore, Hanifa and Zulaikha (2020) demonstrate that a value-oriented internal audit approach, commonly referred to as value-based auditing, can enhance shareholder confidence by strengthening the transparency, reliability, and integrity of financial reporting.

Capital Market Misconduct and Its Relationship with Internal Audit

Cases of misconduct in Indonesia's capital market industry highlight the importance of an effective internal oversight function. The Financial Services Authority of Indonesia (OJK, 2023) reported several significant violations, including breaches of the Adjusted Net Working Capital (*Modal Kerja Bersih Disesuaikan*—MKBD) requirement, churning, front-running practices, and the misuse of clients' transaction data. Many of these violations were associated with weaknesses in internal control systems and failures to comply with applicable regulations. Fadilah and Hidayat (2022) argue that numerous violations occur because the internal audit function is either overlooked or lacks sufficient

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authority to issue and enforce meaningful recommendations. Ideally, internal audit should be capable of detecting transaction irregularities at an early stage, conducting compliance audits in accordance with OJK and Indonesia Stock Exchange regulations, and recommending improvements to internal control and corporate governance systems.

Rizky and Puspitasari (2023) further found that an internal audit function integrated with compliance and risk management functions reduced the potential for regulatory violations by 35% among the securities firms included in their study. In contrast, Wibowo (2021) emphasizes that a weak *tone at the top* is often a major factor contributing to the ineffectiveness of internal audit in preventing financial fraud within financial services institutions.

RESEARCH METHODOLOGY

Research Design

This study employed a qualitative descriptive approach using a single-case study design. The qualitative approach was selected to obtain an in-depth understanding of the roles, practices, challenges, and strategies of the internal audit function within a securities firm from the perspective and direct experience of the individuals involved. Qualitative research enables researchers to understand complex phenomena holistically within their natural settings and emphasizes meaning and interpretation rather than statistical generalization (Creswell & Poth, 2018; Moleong, 2019). A descriptive design was appropriate because the study did not seek to test hypotheses but rather to systematically describe and interpret how the internal audit function is implemented, the challenges encountered, and the strategies adopted in response to regulatory and operational pressures in the securities industry (Sugiyono, 2022).

A single-case study design was adopted because the research focused on one securities firm considered relevant for illustrating the dynamics of internal auditing in the Indonesian capital market. Yin (2018) explains that a single-case study is appropriate for investigating a contemporary phenomenon within its real-life context, particularly when the boundaries between the phenomenon and its context are not clearly defined. The design allowed the researcher to examine the structure, responsibilities, and processes of internal audit, including auditor independence, senior management support, and compliance with the requirements of the Financial Services Authority of Indonesia and the Indonesia Stock Exchange. Case study research is particularly useful for understanding organizational practices involving complex interactions among actors, policies, regulatory requirements, and internal control mechanisms that cannot be

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adequately explained through numerical evidence alone (Stake, 1995). Moreover, a single case may be selected when the unit of analysis possesses strategic value or distinctive characteristics relevant to the research objectives (Rahardjo, 2017).

Research Setting, Informant, and Data Sources

The study was conducted at the head office of a securities firm registered with the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan—OJK) and the Indonesia Stock Exchange (IDX). To protect organizational confidentiality, the identity of the firm is not disclosed. The key informant was the Head of Internal Audit, who possessed the authority, professional experience, and direct involvement necessary to provide comprehensive information regarding the implementation of the internal audit function. Primary data were obtained through an in-depth interview with the key informant. Secondary data were derived from relevant corporate documents, including internal audit standard operating procedures, internal audit reports, compliance manuals, Good Corporate Governance guidelines, and the organizational structure. Publicly available information from the OJK and IDX concerning capital market violations and regulatory issues was also used to contextualize and support the interview findings.

Data Collection

Data were collected through a semi-structured in-depth interview and document review. The interview was conducted either face-to-face or online and lasted approximately 60–90 minutes. The semi-structured format enabled the researcher to follow predetermined themes while allowing the informant to elaborate on experiences related to internal audit responsibilities, independence, regulatory compliance, preventive and corrective activities, management support, and organizational challenges. Document review was conducted to complement and verify the interview evidence and to provide a broader understanding of the firm's internal audit structure, procedures, and governance arrangements.

Data Analysis

The data were analyzed using the interactive qualitative analysis model developed by Miles and Huberman (1994), consisting of data reduction, data display, and conclusion drawing and verification. During data reduction, the interview and documentary evidence were selected, simplified, categorized, and organized according to major themes, including the strategic role of internal audit, preventive and corrective measures,

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regulatory compliance, independence, management support, and audit-related challenges. The reduced data were then presented through thematic narratives, tables, and matrices to facilitate comparison between the interview findings and supporting documents. Finally, conclusions were drawn by identifying recurring patterns and relationships among the categories. Preliminary interpretations were continuously verified against the interview evidence and relevant documents to ensure consistency and credibility. This interactive process supported a systematic and evidence-based explanation of how internal audit contributes to preventing and addressing regulatory and operational issues within the securities industry.

RESULTS AND DISCUSSION

Based on the interview with Informant A, the organizational structure of the securities firm places the Internal Audit (IA) function directly under the Board of Directors, with its reports also submitted to the Board of Commissioners. This reporting structure is consistent with the provisions of POJK No. 13 of 2025, which require the internal audit function to submit periodic reports at least once a year, as well as ad hoc reports when specific circumstances require immediate attention.

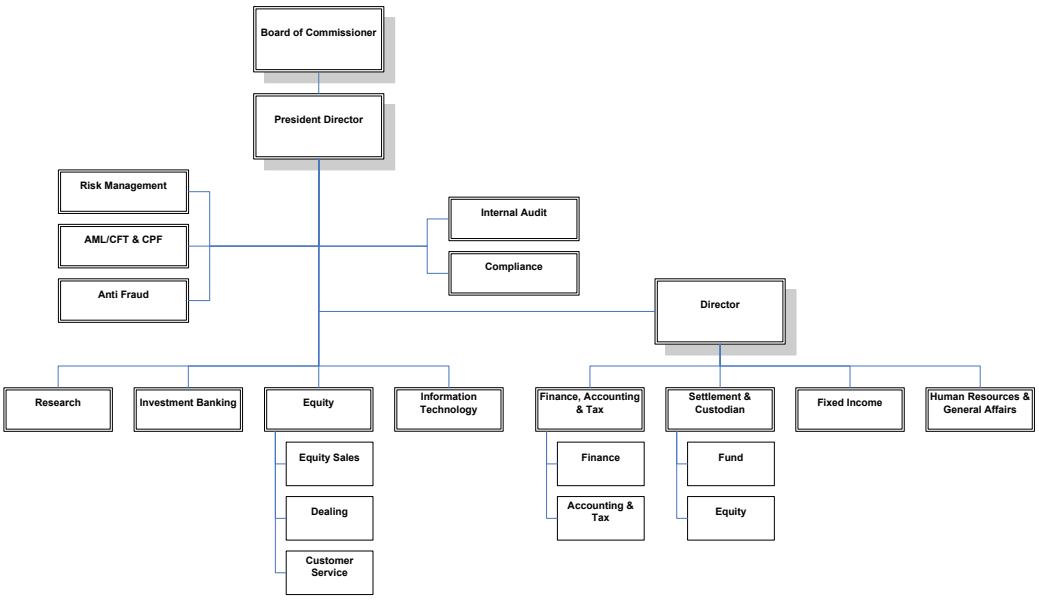
Informant A explained that the company has two members of the Board of Directors and two members of the Board of Commissioners. The IA function is granted full access to data and information across all organizational functions, including underwriting, marketing and trading, customer services, risk management, accounting, compliance, information technology, human resources, and custodial services. Such broad access enables the internal audit function to conduct comprehensive evaluations of operational activities, internal controls, risk exposure, and regulatory compliance throughout the organization.

"The Internal Audit function does not perform or assume any other organizational responsibilities, thereby preserving its independence. We are also granted full access to data and information from other functions within the compan."

This finding indicates that the company has made deliberate efforts to preserve the independence of its internal audit function, although overlapping responsibilities between internal audit and compliance are relatively common in the securities industry. Under POJK No. 13 of 2025, the concurrent performance of these functions may still be permitted under certain circumstances; however, such arrangements must be implemented cautiously to ensure that they do not compromise the objectivity and independence of the internal audit function.

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Internal Audit's Working Relationship with Management and Oversight Bodies

The working relationship among Internal Audit, the Board of Directors, and the Board of Commissioners was described as constructive and communicative. Informant A stated that monthly meetings are held to discuss industry developments, newly issued regulations, audit findings, and current operational issues. These regular meetings facilitate timely communication and support coordinated responses to emerging risks and compliance concerns..

"We hold regular monthly meetings with the Board of Directors and the Board of Commissioners. Communication within the company is highly effective and supports the organization's internal development."

These meetings are consistent with POJK No. 57 of 2017, which requires the Board of Directors to convene at least once every two months and the Board of Commissioners at least once every three months. The Board of Commissioners is also responsible for ensuring that appropriate follow-up actions are taken in response to internal audit findings and supervisory recommendations issued by the Financial Services Authority of Indonesia.

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Strategic Functions and Roles of Internal Audit

According to Informant A, Internal Audit serves as the organization's "third line of defense" within the internal control structure. The first line consists of business and operational functions, while the second line comprises the compliance and risk management functions. As the third line, Internal Audit provides independent assurance regarding the effectiveness of the controls and risk management activities performed by the first and second lines.

"Internal Audit serves as the third line of defense, evaluating the implementation of both internal policies and applicable regulations."

The strategic role of Internal Audit extends beyond a detective function and is more prominently reflected in its preventive and advisory responsibilities. Informant A emphasized that Internal Audit seeks to prevent regulatory violations by providing recommendations and collaborating closely with the compliance and risk management functions. Within the context of Good Corporate Governance (GCG), Internal Audit also plays an important role in ensuring that the internal control system operates effectively and in accordance with the principles of transparency and accountability. POJK No. 57 of 2017 stipulates that the implementation of GCG must encompass internal control mechanisms, business ethics, whistleblowing systems, and appropriate organizational governance arrangements.

Internal Audit Mechanisms and Processes

The internal audit process within the company is conducted systematically, beginning with the determination of the audit scope, followed by planning, audit execution, report preparation, and follow-up monitoring. Informant A explained the process as follows:

"Our audit scope covers internal controls, margin transactions, anti-money laundering and counter-terrorism financing (AML/CTF), anti-fraud measures, and compliance with capital market regulations. We then obtain approval from the Board of Directors, issue the audit assignment letter, and proceed with the audit."

Internal audits are conducted once a year, in accordance with the minimum requirement stipulated in POJK No. 13 of 2025. However, ad hoc audits may be initiated

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when significant changes affect the company's business activities, such as suspected fraud or potential regulatory violations.

The company has not yet adopted a dedicated digital system to support its internal audit activities; consequently, the entire audit process remains manual and paper-based. According to Informant A, this limitation represents one of the main obstacles to improving the efficiency and effectiveness of the audit process. Regarding follow-up actions on audit findings, Informant A explained that the completion period varies depending on the complexity and significance of each finding:

"Administrative findings are generally resolved within one week. However, findings related to information technology may require a longer completion period because they involve coordination with external vendors."

The Role of Internal Audit in Preventing and Addressing Capital Market Misconduct

Informant A acknowledged that several potential violations may arise within the securities industry, including transactions that are inconsistent with clients' risk profiles, insider trading, unauthorized repurchase agreement (REPO) transactions, and securities sales conducted without client authorization. To address these risks, Internal Audit applies transaction-monitoring parameters and refers to the *Brokerage Office System* guidelines issued by the Indonesia Stock Exchange under Decree No. Kep-00022/BEI/04-2022.

"We refer to six key monitoring parameters, including wash sales, front running, abnormal supply-and-demand patterns, and unusual transactions."

Coordination among Internal Audit, the compliance function, and risk management is conducted intensively. The compliance function is responsible for ensuring that the company adheres to applicable laws and capital market regulations, while risk management focuses on identifying, assessing, and mitigating potential risks. This coordination enables Internal Audit to obtain a more comprehensive understanding of the company's risk exposure and the effectiveness of its control mechanisms.

"The compliance function ensures that the company adheres to applicable regulations, while Risk Management identifies and mitigates potential risks."

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Informant A further emphasized that the effectiveness of misconduct prevention depends heavily on the commitment of the Board of Commissioners and the Board of Directors to follow up on internal audit recommendations and maintain a strong culture of compliance throughout the organization.

Challenges and Opportunities for Strengthening the Internal Audit Function

According to Informant A, one of the most significant challenges faced by Internal Audit is resistance from the audited units.

"Every unit scheduled for an audit tends to fear that it will be blamed for any weaknesses or irregularities identified."

In addition, limited human resources and budgetary constraints remain significant obstacles, particularly because the internal audit function is still combined with the compliance function. This dual responsibility increases the workload and limits the extent to which monitoring activities can be conducted comprehensively and effectively.

To strengthen the function, Informant A emphasized that the relationship between Internal Audit and the Audit Committee should be formally established in the Internal Audit Charter. In the future, the internal audit function should be reinforced through clearer segregation of duties, professional training and certification—such as the Securities Company Representative (*Wakil Perusahaan Efek*—WPE) license and internal auditor certification—and enhanced digital capabilities.

"Greater organizational commitment, together with continuous training and professional certification, is needed to enable Internal Audit to perform a more strategic role.."

Reflection and Comparison of Professional Experience

Informant A had previously worked in five securities firms and financial institutions. Based on this experience, the organizational structure and responsibilities of the internal audit function were relatively similar across the institutions, as they were generally governed by uniform Financial Services Authority of Indonesia requirements applicable throughout the industry.Informant A further identified the risk-based audit (RBA) approach and the implementation of the ISO 9001 Quality Management System (QMS) as professional best practices that could be adopted. These practices can strengthen the

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consistency, structure, and reliability of the internal audit process while ensuring that audit priorities remain aligned with the company's most significant risks.

"The most effective practices are risk-based auditing and the implementation of ISO 9001. Their underlying principles are consistent with the internal control requirements established by the Financial Services Authority of Indonesia under POJK No. 50 and POJK No. 13."

In Informant A's view, the role of Internal Audit within the securities industry has not changed substantially. Nevertheless, the function is facing increasingly complex challenges, particularly those associated with cybersecurity risks and the growing need to digitalize audit processes.

Overall, Informant A regarded Internal Audit as a highly strategic function in safeguarding the integrity of Indonesia's capital market, particularly because it can coordinate directly with and report relevant matters to the Financial Services Authority of Indonesia (OJK).

"Internal Audit occupies a highly strategic position because it can communicate and report directly to the Financial Services Authority of Indonesia (OJK)."

As recommendations, Informant A emphasized two main priorities:

a. The Financial Services Authority of Indonesia (OJK) should strengthen policies requiring a clear separation among the internal audit, compliance, and risk management functions to prevent overlapping responsibilities.

b. The Indonesia Stock Exchange (IDX) should provide more extensive training and regulatory outreach on internal audit practices that are aligned with industry standards.

Theoretical Analysis and Discussion

Internal Audit from the Perspective of the Three Lines of Defense Model

The Three Lines of Defense (TLoD) concept serves as one of the principal frameworks for risk governance and internal control in modern organizations. The model separates control responsibilities into three layers. The first line consists of operational business units that are directly responsible for conducting and controlling day-to-day activities. The second line comprises the compliance and risk management functions, which monitor and support the implementation of controls. The third line is the Internal

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Audit function, which independently evaluates the effectiveness of the controls performed by the first and second lines.

The interview findings from Informant A demonstrate a strong alignment between the company's practices and the TLoD framework. Informant A explicitly stated:

"Internal Audit serves as the third line of defense, evaluating the implementation of both internal policies and applicable regulations."

This statement indicates that Internal Audit is conceptually understood as the final layer of assurance rather than merely an administrative inspection function. Its role reinforces the strategic position of Internal Audit in providing independent assurance to the Board of Directors and the Board of Commissioners regarding the effectiveness of the securities firm's internal controls.

Nevertheless, the interview findings also revealed a structural challenge, as the Internal Audit function continues to be combined with the compliance function in certain areas. This arrangement may weaken the principle of independence that underpins the third line of defense. Therefore, in accordance with the theoretical framework and POJK No. 57 of 2017, a clear separation between Internal Audit and the compliance function is essential to strengthen independence, accountability, and the overall effectiveness of internal audit oversight.

Internal Audit as a Pillar of Good Corporate Governance (GCG)

Within the Good Corporate Governance (GCG) framework, Internal Audit serves as an essential control mechanism that supports the implementation of transparency, accountability, responsibility, independence, and fairness. The interview findings indicate that the company has sought to apply these principles through periodic reporting, regular communication forums involving the Board of Directors and the Board of Commissioners, and the implementation of annual audit activities. Informant A explained:

"We hold regular monthly meetings with the Board of Directors and the Board of Commissioners. Communication within the company is very effective and supports its internal development."

This statement suggests that the company has established a participative and open governance environment. Nevertheless, several limitations remain, particularly in relation to constrained human resources and the continued reliance on paper-based audit

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processes, which may reduce the efficiency and responsiveness of the internal audit function.

When examined through the GCG frameworks proposed by the OECD (2004) and the National Committee on Governance Policy (KNKG, 2006), Internal Audit performs two strategic functions. First, its assurance function provides management and regulators with confidence that the company's activities are conducted in accordance with applicable regulations, internal policies, and governance standards. Second, its advisory function provides recommendations for improving organizational processes, strengthening internal controls, and mitigating risks.

Both functions are evident in the company's internal audit practices. Internal Audit performs not only a detective role in identifying errors or control weaknesses, but also preventive and consultative roles by anticipating potential violations, advising management, and recommending improvements to the company's internal control system. These responsibilities reinforce the position of Internal Audit as an important pillar of effective corporate governance in securities firms.

Risk-Based Internal Auditing (RBIA) Approach

The concept of Risk-Based Internal Auditing (RBIA) emphasizes that audit activities should be concentrated on areas presenting the greatest risks to the achievement of organizational objectives. Rather than allocating audit resources evenly across all operational areas, RBIA prioritizes activities, processes, and transactions according to their level of risk exposure and potential impact on the organization.

Informant A emphasized that, based on previous professional experience, the most effective practices involved the application of risk-based auditing and the ISO 9001 Quality Management System, both of which promote process consistency and continuous improvement. Informant A stated:

"The most effective practices are risk-based auditing and the implementation of ISO 9001. Their underlying principles are consistent with the internal control requirements established by the Financial Services Authority of Indonesia under POJK No. 50 and POJK No. 13."

From the perspective of RBIA theory (IIA, 2014), this approach positions Internal Audit not merely as a compliance-monitoring function, but as a strategic partner in organizational risk management. Internal Audit is therefore involved in risk assessment

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from the audit-planning stage rather than intervening only during the final examination of completed activities. This enables audit priorities to be aligned with the organization's most significant financial, operational, regulatory, technological, and reputational risks.

Nevertheless, the interview findings indicate that limited human resources and the absence of an adequate digital audit system continue to constrain the effective implementation of RBIA within the company. The continued reliance on manual and paper-based audit procedures slows the collection, processing, and analysis of audit evidence. As a result, certain emerging risks, particularly those associated with cybersecurity and electronic securities transactions, may not be identified promptly or comprehensively.

These findings are consistent with Arena and Azzone (2009) and Mihret and Grant (2017), who emphasized that the successful implementation of RBIA is strongly influenced by the availability of audit technology and the competence of internal auditors. Strengthening auditor capabilities through professional development and certifications, such as the Securities Company Representative (*Wakil Perusahaan Efek*—WPE) license and the Certified Internal Auditor (CIA) designation, therefore represents an important strategic measure for improving the quality, responsiveness, and effectiveness of risk-based internal auditing.

Collaboration among Internal Audit, Compliance, and Risk Management

Securities firms operate within a highly regulated environment; therefore, effective collaboration among Internal Audit (IA), Compliance, and Risk Management (RM) is a fundamental requirement for sound corporate governance. Informant A described the relationship among these functions as follows:

"The compliance function ensures that the company adheres to applicable regulations, while Risk Management identifies and mitigates potential risks."

This statement indicates a relatively clear division of responsibilities and effective communication among the three functions, consistent with the Three Lines Model developed by The Institute of Internal Auditors (IIA, 2020). Within securities firms, Compliance monitors adherence to regulatory requirements, while Risk Management identifies, assesses, and mitigates relevant risks. Internal Audit independently evaluates the adequacy and effectiveness of both functions and provides assurance regarding the overall quality of the company's governance, risk management, and internal control

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processes. Audit findings may subsequently serve as important input for improving the company's risk management system.

Nevertheless, the empirical findings also reveal potential overlaps among these functions, particularly when Internal Audit and Compliance responsibilities are assigned to the same personnel or organizational unit. Such an arrangement may weaken role clarity and compromise the independence of Internal Audit. This issue should be addressed through a clearer segregation of duties and the formal establishment of an Internal Audit Charter.

The Internal Audit Charter serves as an official document defining the authority, mandate, responsibilities, scope of work, organizational position, and reporting relationships of the Internal Audit function. In accordance with the IIA Standards (2017), the Charter is essential for clarifying Internal Audit's relationship with management, Compliance, Risk Management, the Audit Committee, and the Board of Commissioners. Its formal implementation would reduce functional overlap, strengthen auditor independence, and support more coordinated and effective oversight within securities firms.

Challenges and Future Directions for Strengthening the Internal Audit Function

The analysis identifies three principal challenges confronting the Internal Audit function in the securities industry. First, psychological resistance among auditees remains a significant concern, as audited units may perceive the audit process as an exercise in fault-finding or judgment rather than as a mechanism for organizational improvement. Such perceptions can restrict access to information, reduce cooperation, and weaken the effectiveness of audit procedures. Second, limitations in human resources and technological capabilities constrain the implementation of risk-based auditing, particularly in an industry characterized by high transaction volumes and increasingly complex digital operations. Third, the growing exposure to cybersecurity threats and risks affecting the integrity of trading systems requires internal auditors to develop stronger competencies in evaluating information-system security, as reflected in POJK No. 13 of 2025.

Addressing these challenges requires capacity-building initiatives that prioritize technical training, professional certification, and the digitalization of audit processes. The adoption of audit technology and data analytics would enable Internal Audit to examine larger volumes of transaction data, identify unusual patterns more efficiently, and respond more effectively to emerging cyber and operational risks. Professional development through relevant certifications would also strengthen auditors' technical competence,

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professional judgment, and credibility within the organization.In addition to technical improvement, stronger commitment from the Board of Directors and the Board of Commissioners is essential. Informant A emphasized:

"The commitment of the Board of Commissioners and the Board of Directors is the most decisive factor in determining the success of Internal Audit."

This statement confirms that the effectiveness of Internal Audit depends not only on auditors' technical capabilities, but also on organizational culture and ethical leadership at the senior-management level. A strong tone at the top can enhance auditor independence, encourage cooperation from audited units, ensure the timely implementation of audit recommendations, and position Internal Audit as a strategic partner in strengthening governance, risk management, and regulatory compliance.

Synthesis: The Strategic Position of Internal Audit in Safeguarding Capital Market Integrity

The overall findings indicate that Internal Audit occupies a highly strategic position in safeguarding the integrity of and public confidence in Indonesia's capital market. As the final assurance function within the organizational control structure, Internal Audit helps ensure that the activities of securities firms are conducted in accordance with the requirements of the Financial Services Authority of Indonesia (OJK), the Indonesia Stock Exchange (IDX), internal policies, and the principles of Good Corporate Governance. Informant A emphasized this strategic position as follows:

"Internal Audit occupies a highly strategic position because it can communicate directly with OJK. In this company, however, the function is combined with Compliance. POJK No. 13 stipulates that the party performing the compliance function must immediately and confidentially report to the Board of Commissioners and the Financial Services Authority if there is an indication that a securities company and/or its client has violated applicable laws and regulations."

This statement illustrates that the strategic significance of the function extends beyond internal compliance and organizational control. Through its close relationship with the compliance function and its ability to escalate indications of misconduct to the Board of Commissioners and OJK, Internal Audit contributes to the protection of investors, the

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credibility of securities firms, and the broader stability of the financial system. Nevertheless, the combination of Internal Audit and Compliance responsibilities also highlights the need for clear role separation to preserve the independence of the third line of defense.

As a final synthesis, the findings reinforce previous empirical studies, including Koutoupis and Tsamis (2009) and Sarens and De Beelde (2010), which suggest that stronger internal audit independence and capability are associated with more effective corporate governance and risk management in financial institutions. Accordingly, strengthening the authority, competence, technological capacity, and structural independence of Internal Audit is essential not only for improving organizational oversight but also for maintaining the integrity and sustainability of Indonesia's capital market.

CONCLUSIONS AND IMPLEMENTATIONS

CONCLUSIONS

Based on the findings and analysis, this study concludes that Internal Audit serves as the third line of defense by providing preventive oversight of potential capital market misconduct, including the misuse of client funds, churning, and transaction manipulation. Through compliance audits and evaluations of internal control systems, Internal Audit ensures that the activities of securities firms comply with the requirements of the Financial Services Authority of Indonesia (OJK), the Indonesia Stock Exchange (IDX), and internal company policies, while also providing advisory support to management to strengthen the compliance culture and mitigate operational risks at an early stage. Internal Audit makes a significant contribution to both the prevention and handling of capital market misconduct through supervisory, evaluation, investigative, and advisory activities integrated with the company's internal control system. Preventive measures include periodic compliance audits of securities transactions, Adjusted Net Working Capital (*Modal Kerja Bersih Disesuaikan*—MKBD) reporting, and the management of client funds. By applying a risk-based audit approach, auditors can identify potential irregularities at an early stage and recommend corrective measures to minimize regulatory and operational risks. When misconduct occurs, Internal Audit investigates the findings, assesses their financial and reputational implications, and formulates corrective actions for the relevant units. It also coordinates with the Board of Directors, the compliance function, and the Audit Committee to ensure that audit recommendations are implemented promptly and in accordance with established procedures. Furthermore, Internal Audit acts as a bridge

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between securities firms and regulators, particularly OJK and the IDX, by communicating audit findings and providing clarification concerning suspected violations. Nevertheless, the effectiveness of Internal Audit remains constrained by limited structural independence, resistance from audited units, and the insufficient use of digital technology.

Strengthening strategies should therefore include the implementation of risk-based auditing, the development of auditor competencies through professional certifications such as CIA, QIA, and WPE, and the digitalization of audit activities through data analytics. Strong support from senior management, reflected in an appropriate tone at the top, together with a robust culture of compliance, is essential to ensuring the effectiveness of Internal Audit. Accordingly, the role of Internal Audit in securities firms is not merely technical but also strategic and ethical, as it contributes to transparent and accountable governance and helps maintain public confidence in the integrity of Indonesia's capital market.

Implementations

Theoretical Implications. This study extends the literature on internal auditing and capital market governance by demonstrating that the role of Internal Audit in securities firms goes beyond conventional assurance activities. Internal Audit operates simultaneously as a preventive control mechanism, an investigative function, an advisory partner to management, and a link between securities firms and capital market regulators. The findings reinforce the relevance of the Three Lines Model and risk-based auditing by showing that audit effectiveness depends not only on formal structures, but also on auditor independence, organizational commitment, access to information, coordination with compliance and risk management, and the timely implementation of audit recommendations. The study also highlights the need to incorporate cybersecurity risk, digital trading manipulation, and audit digitalization into contemporary internal audit frameworks. Future research may extend these findings by comparing different types of securities institutions, including securities underwriters, broker-dealers, and investment managers, and by applying mixed-method designs to examine more broadly the relationship between audit digitalization, fraud prevention, regulatory compliance, and organizational governance.

Practical Implications. The findings provide several practical implications for regulators, securities firms, Audit Committees, and Internal Audit units. The Financial Services Authority of Indonesia (OJK), the Indonesia Stock Exchange (IDX), the

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Indonesian Clearing and Guarantee Corporation (KPEI), and the Indonesian Central Securities Depository (KSEI) should strengthen minimum standards for internal audit functions, encourage periodic reporting of audit results, promote risk-based auditing integrated with regulatory supervision, and provide specialized training on emerging risks such as cyber fraud and digital trading manipulation. Regulators should also develop clearer whistleblowing and investigative coordination mechanisms involving Internal Audit and facilitate industry forums for sharing best practices. At the organizational level, securities firms should strengthen controls over Adjusted Net Working Capital, client funds, and securities transactions; provide Internal Audit with unrestricted access to relevant data; protect auditor independence; and treat the function as a strategic partner rather than a formal compliance requirement. Audit findings should be followed by measurable corrective action plans, while the Audit Committee and Board of Commissioners should monitor implementation through regular progress reports. Investment in digital audit tools, data analytics, professional certifications such as CIA, QIA, and WPE, and adaptive audit frameworks is also essential to ensure that Internal Audit remains responsive to regulatory developments and the increasing complexity of capital market transactions.

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