

# The Internal Auditors in Catalyst for Sustainability Performance through Environmental Audit

Siti Nur Balqis Kassim., Nur Anis Syuhadah Mohamad Radzi., Nur Kamilia Zuraini., Sofia Adlina Roslan., \*Muthyaah Mohd Jamil

Faculty of Accountancy, Universiti Teknologi MARA, Cawangan Selangor, Kampus Puncak Alam, Selangor, Malaysia

\*Corresponding Author

DOI: <https://dx.doi.org/10.47772/IJRISS.2024.807094>

Received: 13 June 2024; Revised: 28 June 2024; Accepted: 02 July 2024; Published: 06 August 2024

## ABSTRACT

Environmental issues like deforestation have been a global concern for the past ten years. Despite various strategies implemented by management, the issues persist. This paper aims to underscore the crucial role of internal auditors in environmental audits. The paper reviewed 30 journals published from various sources. Two themes have been established: the role of internal auditors and the benefits of the environmental audit. The sub-analysis focuses on three specific criteria: governance, risk management and control. This paper outlines the responsibilities of internal auditors to provide assurance and consulting services, conduct risk screenings, ensure compliance with environmental laws and standards, and identify areas for improvement. The paper also re-emphasizes the benefits of these practices, which include significant cost savings through resource optimisation, continuous improvement by identifying areas for enhancement, and enhanced compliance with environmental regulations. The significant cost savings through resource optimisation should be a source of optimism for businesses, as it demonstrates the financial benefits of environmental compliance. Moreover, the expertise of internal auditors in risk assessment and control systems is instrumental in mitigating potential legal and reputational risks for organisations. It proves that having an internal audit involved in environmental audits significantly contributes to an organisation's compliance with environmental regulations and programs.

**Keywords:** Environmental Audit, Role of Internal Auditors, Benefits of Environmental Audit

## INTRODUCTION

The urgency and global significance of environmental issues have been underscored in recent news (Fesenfeld & Rinscheid, 2021). Reports from esteemed scientific organisations, such as the Intergovernmental Panel on Climate Change (IPCC), continue to draw attention to the imminent perils of unbridled environmental degradation. A similar case in Malaysia, where the government is focused on resolving environmental and social issues to avoid penalties from the Roundtable on Sustainable Palm Oil (Bernama, 2024). The potential penalty, which could impact RM 102 billion worth of exported crude oil, is a stark reminder of the significant economic implications of environmental non-compliance. These developments highlight the environmental challenges and underscore the pressing need for businesses worldwide to proactively address these issues, curtail their environmental footprint, and embrace sustainable business practices (Whelan & Fink, 2016).

The above issues have raised the issue of the need for internal auditors to ensure compliance with environmental rules and regulations (Yun, 2024). Environmental audits can be an effective tool for monitoring environmental rules (Jiang & Tan, 2021). A mandatory environmental audit is crucial for encouraging businesses to address environmental issues and prevent irresponsible environmental behaviour (Zeng et al., 2020). The internal auditor's departments are deemed the most appropriate to perform these skills (Soh & Martinov, 2015; Jamil et al., 2022).

Internal auditors are equipped with skills and knowledge, especially in audit tools, systems and procedures

(Wanyonyi, 2020). Internal auditors can play their role in environmental audits in many aspects (Pusztiová & Dubcová, 2022). Therefore, this paper explores the role and importance of involving internal auditors in environmental audits and the benefits of having them for organisations.

Through this paper, the discussion may perhaps acknowledge the contribution of internal auditors in environmental audits. This discussion can be evidence of the widening scope of involvement of internal auditors in environmental management within the organisation. At the same time, this paper can help the Institute of Internal Auditors promote the environmental agenda under sustainability programs.

## METHODS

There are 25 downloaded from various sources This paper employed the articles search from Science Direct, Emerald and Google Scholars using “environmental auditing” from 2020 until 2024. Most of the papers were written in English. The papers further screen into two main areas: the roles of internal auditors in environmental audit and its benefits. The discussion continues to discuss three main dimensions based on the definition of internal audit which are governance, risk management and controls as pictured in the diagram below:

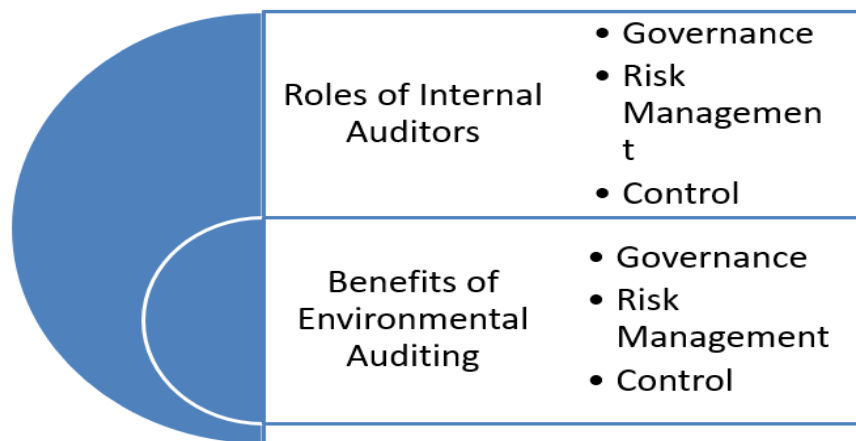


Figure 1: Thematic Analysis of the paper.

### Roles of Internal Auditors in Environmental Audit

The discussion focuses on three dimensions: governance, risk management, and control. In terms of governance, the primary role of internal auditors is to provide assurance and consulting services to an organisation's Environmental, Social and Governance (ESG) activities. They assess the efficiency of environmental management systems, procedures, and controls while guaranteeing adherence to applicable laws and professional standards. The involvement of internal auditors in ESG substantially correlates with the assurance of ESG reports (Bonrath et al., 2022; Dionisijev & Lazarevska, 2024). Internal auditors' assurance and consultation efforts are heavily focused on governance issues, both social and environmental, and these issues become the most important issues over the next five years (Soh & Martinov Bennie, 2015; Kolsi & Al-Hiyari, 2024; Jamil et al., 2022).

Focusing more on environmental issues, this paper emphasises that internal auditors can act as the checkers for reliable and accurate information in the ESG report by performing audits of the organisation's environmental management system. Besides the ESG reporting, the internal auditors can react by providing consultancy services to ensure the achievement of sustainability initiatives (Bonrath et al., 2022). In the Malaysian context, environmental initiatives became a common goal for publicly listed companies.

In ensuring the achievement of these publicly listed companies for long-term resilience, using the internal auditors as the checker is the lowest cost in the evaluation process (Raja, 2023). However, the organisation is required to provide them with relevant skills and knowledge. The skills and knowledge help the internal auditors to successfully evaluate the organisation's environmental management systems and identify potential areas that

call for risk mitigation measures.

In terms of the risk management approach, the role of the internal auditors is to help with an environmental audit by conducting a preliminary environmental risk assessment (Hong et al., 2022; Bebbington & Larrinaga, 2024; Ahmed & Hussain, 2024). These evaluations entail assessing the organisation's operations and procedures to identify environmental risks and weigh their importance. By completing risk screen evaluations, auditors can better prioritise their audit operations and concentrate on the areas with the greatest environmental threats (Alajeli & Wahhab, 2022; Ani et al., 2024).

During the risk evaluation, auditors analyse various factors such as the organisation's operational operations, waste management practices, energy consumption patterns, and the potential environmental impact of these activities. The auditors examine the organisation's compliance with relevant environmental laws and standards (Bonrath et al., 2022). For instance, a preliminary risk screen assessment was utilised in Queensland, Australia, to examine wildfire risk from social, infrastructure, and environmental aspects (Shafapourtehrany, 2023). Therefore, this preliminary evaluation enables internal auditors to identify possible risks, allocate resources wisely and formulate strategies to minimise the impact of operations on the environmental system.

In terms of control, the role is extended to ensure the organisation complies with environmental laws and rules and ensures the company abides by them (Alajeli & Wahhab, 2022; Kolsi & Al-Hiyari, 2024; Grossi et al., 2023). The internal auditors work closely with the organisation's stakeholders to ensure environmental compliance is ingrained in routine business practices. They aid in creating policies and practices that align with environmental best practices by offering advice on interpreting and putting regulatory requirements into practice (Soh & Martinov-Bennie, 2015; Ahmed & Hussain, 2024).

Through their knowledge, auditors support the company's efforts at continuous improvement and promote environmental stewardship. In order to prevent potential legal and financial consequences of failing to comply with environmental standards, the internal auditors' role in assuring compliance with regulations is important (Bonrath et al., 2022; Kolsi & Al-Hiyari, 2024). In Malaysia, environmental auditors must ensure that the auditees comply with the Environmental Quality Act 2022. Organisations that do not comply with the law and regulations can be punished under the act. It also indicates that the internal audit function in the organisation is ignorant and does not play its role effectively (Bonrath et al., 2022).

These studies addressed the role of internal auditors, which is still lacking (Bonrath, 2022; Soh & Martinov-Bennie, 2015; Kolsi & Al-Hiyari, 2024), where the organisation is ignorant of its capabilities to solve its internal issues. Therefore, this paper concurs with these views. Due to that, this paper will highlight the benefits of an internal auditor in environmental audit in the next chapter. The summary of the roles of internal auditors in environmental audits is depicted in the figure:

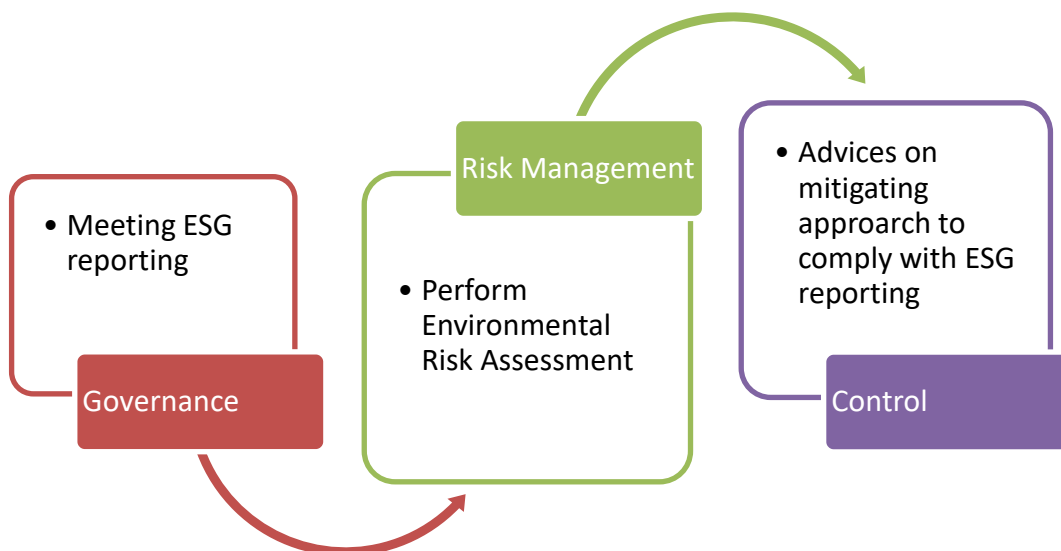


Figure 2: Role of Internal Auditors in Environmental Auditing

---

## Benefits of Involving Internal Auditors in Environmental Audit

Environmental audits help organisations keep updated on the latest sustainability trends and best practices (Rehman, 2021; Soh & Martinov Bennie, 2015). Internal auditors help organisations find solutions to environmental risks and recommend best practices. The recommendation can assist organisations in remaining competitive and positioning themselves as leaders in sustainable practices (Rehman, 2021). For example, if new environmental legislation is implemented, internal auditors may assist organisations in understanding its effects and developing a plan to comply with it. They assist organisations in building new solutions to manage rising environmental hazards by providing insights into the latest sustainability trends and best practices.

The other benefit of regular environmental audits is that they help organisations promptly identify compliance gaps. The environmental audits determine the conformity status of organisations and provide the board of directors with confidence concerning the issues of safety, health, and the environment (Brunelli et al., 2022; Jarboui & Moalla, 2022). Auditors assess whether the organisation's practices align with regulatory requirements, industry standards, and internal policies. Identifying compliance gaps allows organisations to take prompt corrective actions and address the issues before they escalate into major violations or regulatory penalties.

Environmental risk assessment can be performed through an environmental audit to understand and evaluate the potential risks associated with environmental compliance (Yi et al., 2023; Bonrath et al., 2022; Shamsadini et al., 2022). The assessment evaluates the effects on the environment, compliance with laws and regulations, resource use, waste management, and other sustainability considerations (Yi et al., 2023). Auditors create the groundwork for ongoing improvement initiatives by identifying these potential risks. Environmental auditors work with management and stakeholders to establish sustainability goals for the organisations based on risk screen assessment. These goals align with stakeholder expectations, environmental rules, and industry best practices. The organisations can concentrate on ongoing improvement and track progress by setting defined targets.

There is no doubt that internal auditors can help organisations identify areas for improvement and implement changes to enhance their sustainability and environmental performance (Shamsadini et al., 2022). This can support the organisation's long-term success and resilience towards environmental disasters (Ortiz-de-Mandojana & Bansal, 2015). Thus, Hermundsdottir and Aspelund (2021) have stated that corporations are forced to adjust their strategies and operations to be more environmentally friendly. They conclude that the internal auditors' function needs to evolve to help improve the sustainability of the corporations.

Thus, environmental auditing helps the organisation reduce sustainability and environmental performance costs. According to Snezana, Luka, and Dejan (2017), introducing environmental audits changes how businesses see the environment, allowing management to spot potential problems and prevent related costs before they arise. Internal auditors have a significant influence on how well organisations address ESG factors. They can assist organisations in increasing stakeholder trust, boosting customer loyalty, and enhancing brand reputation by discovering opportunities to improve ESG performance (Kolsi & Al-Hiyari, 2024). These benefits can result in long-term cost savings and improved financial performance, making ESG management an important factor in an organisation's success.

A study by Brunelli et al. (2022) mentioned that internally installing an environmental management system (EMS) can help companies manage their environmental responsibilities cost-effectively (Ahmed & Hussain, 2024). By implementing EMS, internal auditors can identify areas where the company can reduce environmental impacts and save costs. As an illustration, companies can save money on utility bills and waste disposal costs by reducing energy consumption or waste generation.

Companies must comply with ISO14001, which is the requirement for EMS to avoid fines and penalties for noncompliance with environmental regulations, which can also save money from future liabilities (Brunelli et al., 2022; Johnstone, 2022; Ahmed & Hussain, 2024). Internal auditors have the knowledge and abilities to evaluate resource utilisation, energy usage, and waste management practices and identify areas of inefficiency and waste by analysing data and performing on-site inspections. Conducting an environmental audit helps organisations save money on utility expenses and reduce their environmental impact by optimising energy and resource

---

usage (Asalos, 2019). In the long run, the organisation can save environmental-related costs through environmental audits.

## CONCLUSION

Internal auditors' involvement in environmental audits provides organisations with significant benefits that lead to compliance with the environmental agenda in an environmentally sensitive society. In Malaysia, environmental audits are still in the early stages, lacking exposure and recognition. Environmental audits can initially seem daunting, but internal auditors can use their expertise and organisational position to contribute to sustainable practices. Internal auditors act as a catalyst to sustainability, enabling organisations to embrace environmental responsibility and benefit the overall business operation. These benefits include cost reduction related to sustainability and environmental performance, identifying areas for improvement and ensuring better compliance with environmental legislation and standards.

In Malaysia, environmental non-compliance issues become recurring every year. This paper outlines that continuous monitoring through the environmental audit can reduce the environmental impact of such an audit on a country. Undoubtedly, the environmental audit's benefit is greater than its cost. Empowering the internal audit profession is a call for rigorous implementation of environmental audits. The process should involve the commitment of the public organisation as the policy maker and the Institute of Internal Auditors (IIA) as the professional training providers.

## ACKNOWLEDGEMENTS

I acknowledge that the essay is written as part of the requirement for the students to complete the assessment under the subject AUD 679, Internal Audit.

## REFERENCES

1. Ahmed, A., & Hussain, A. (2024). Auditor's response to firm's environmental violations and engagement in supplemental environmental projects. *Journal of Financial Reporting & Accounting*. <https://doi.org/10.1108/jfra-12-2023-0739>
2. Alajeli, E. H., & Wahhab, A. M. (2022). The Role of Internal Audit in Evaluating Sustainable Performance and its Impact on the Quality of Financial Reports. *Technium Social Sciences Journal*, 36, 1–17. <https://doi.org/10.47577/tssj.v36i1.7492>
3. Ani, M. K. A., ALshubiri, F., & Al-Shaer, H. (2024). Sustainable products and audit fees: empirical evidence from western European countries. *Sustainability Accounting, Management and Policy Journal*, 15(3), 654–675. <https://doi.org/10.1108/sampj-03-2023-0131>
4. Asalos, N. (2019). Environmental Auditing – An Organization Management Tool. *Eco forum Journal*, 8(1). <http://ecoforumjournal.ro/index.php/eco/article/view/950/576>
5. Bebbington, J., & Larrinaga, C. (2022). The influence of Power's audit society in environmental and sustainability accounting. *Qualitative Research in Accounting & Management*, 21(1), 21–28. <https://doi.org/10.1108/qram-01-2022-0007>
6. Bernama (27 April 2024). Govt serious about resolving palm oil industry issues, says Johari Ghani. *The Edge Malaysia*. <https://theedgemaalaysia.com/node/709610>
7. Bonrath, A., Eulerich, M., & Lopez-Kasper, V. (2022). Internal Auditor's Role in ESG Disclosure and Assurance: An Analysis of Practical Insights. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.4070755>
8. Brunelli, S., Murzakhmetova, A., & Falivena, C. (2022). Environmental Auditing in Rural Areas: Current Patterns and Future Challenges in Central Asia. *Sustainability*, 14(22), 15163. <https://doi.org/10.3390/su142215163>
9. Dionisijev, I., & Lazarevska, Z. B. (2024). Enhancing sustainable progress: an analysis of supreme audit institutions' performance audits and information disclosure practices. *Journal of Public Budgeting, Accounting & Financial Management*. <https://doi.org/10.1108/jpbafm-06-2023-0092>
10. Fesenfeld, L. P., & Rinscheid, A. (2021). Emphasizing Urgency of Climate Change Is Insufficient to

- Increase Policy Support. *One Earth*, 4(3), 411–424. <https://doi.org/10.1016/j.oneear.2021.02.010>
11. Grossi, G., Hay, D. C., Kuruppu, C., & Neely, D. (2023). Changing the boundaries of public sector auditing. *Journal of Public Budgeting, Accounting & Financial Management*, 35(4), 417–430. <https://doi.org/10.1108/jpbafm-05-2023-0079>
  12. Hermundsdottir, F., & Aspelund, A. (2021). Sustainability Innovations and Firm Competitiveness: A Review. *Journal of Cleaner Production*, 280, 124715. <https://doi.org/10.1016/j.jclepro.2020.124715>
  13. Hong, Y., Lee, M., Rim, H., Do, Y., Kim, S.-C., Bang, J. H., & Song, U. (2022). Development of A Preliminary Environmental Risk Assessment System by Using Text Mining for Introducing Alien Crops. *Journal of Environmental Management*, 311, 114794. <https://doi.org/10.1016/j.jenvman.2022.114794>
  14. Jarboui, A., & Moalla, M. (2022). Does media exposure and media legitimacy moderate the relationship between environmental audit committee and environmental disclosure quality? *Journal of Financial Reporting & Accounting*. <https://doi.org/10.1108/jfra-11-2021-0403>
  15. Jamil, M. M., Abidin, N. H. Z., & Alwi, N. M. (2022). The Governance Structure on The Role of Internal Auditors in Environmental Auditing Practices: Cases of Malaysian Local Organizations. *Environmental Challenges*, 9. <https://doi.org/10.1016/j.envc.2022.100632>
  16. Jiang, Q. and Tan, Q. (2021), “National Environmental Audit and Improvement of Regional Energy Efficiency from the Perspective of Institution and Development Differences”, *Energy*, Vol. 217, p. 119337
  17. Johnstone, L. (2022). The means to substantive performance improvements – environmental management control systems in ISO 14001– certified SMEs. *Sustainability Accounting, Management and Policy Journal*, 13(5), 1082–1108. <https://doi.org/10.1108/sampj-11-2021-0456>
  18. Kolsi, M. C., & Al-Hiyari, A. (2024). Does internal audit function outsourcing policy matter for environmental, social and governance performance score? Evidence from Bursa Malaysia. *Sustainability Accounting, Management and Policy Journal*. <https://doi.org/10.1108/sampj-01-2024-0013>
  19. Ortiz-de-Mandojana, N., & Bansal, P. (2015). The Long-Term Benefits of Organizational Resilience Through Sustainable Business Practices. *Strategic Management Journal*, 37(8), 1615–1631. <https://doi.org/10.1002/smj.2410>
  20. Pusztiová, L., & Dubcová, G. (2022). Evaluation of The Company’s Environmental Behavior Through Environmental Management Indicators as Part of Environmental Reporting. *EDAMBA 2021: COVID-19 Recovery: The Need for Speed: Conference Proceedings*. <https://doi.org/10.53465/edamba.2021.9788022549301.413-419>
  21. Raja, A. H. (2023). Internal Audit as Enablers of ESG Compliance. LinkedIn. <https://www.linkedin.com/pulse/internal-audit-enablers-esg-compliance-ahsan-hayat-raja/>
  22. Rehman, A. (2021). Can Sustainable Corporate Governance Enhance Internal Audit Function? Evidence from Omani Public Listed Companies. *Journal of Risk and Financial Management*, 14(11), 537. <https://doi.org/10.3390/jrfm14110537>
  24. Shafapourtehrany, M. (2023). Geospatial Wildfire Risk Assessment from Social, Infrastructural and Environmental Perspectives: A case study in Queensland Australia. *Fire*, 6(1), 22. <https://doi.org/10.3390/fire6010022>
  25. Shamsadini, K., Shahamabad, M. A., & Shahamabad, F. A. (2022). Analysis of factors affecting environmental audit (EA) implementation with DEMATEL method. *Social Responsibility Journal*, 19(5), 777–796. <https://doi.org/10.1108/srj-03-2021-0097>
  26. Snežana, Luka, & Dejan. (2017). Environmental Audit for Environmental Improvement and Protection. *Economic Themes*, 55(4), 521–538. <https://doi.org/10.1515/ethemes-2017-0029>
  27. Soh, D. S. B., & Martinov-Bennie, N. (2015). Internal Auditors’ Perceptions of Their Role in Environmental, Social and Governance Assurance and consulting. *Managerial Auditing Journal*, 30(1), 80–111. <http://dx.doi.org/10.1108/MAJ-08-2014-1075>
  28. Teilen. (2022). Environmental Quality (amendment) Bill 2022 UPS penalties. AHK Malaysia. <https://www.malaysia.ahk.de/infothek/news/detail/environmental-quality-amendment-bill-2022-ups-penalties>
  29. Wanyonyi, A. (2020). An Insight into The Emerging Issues, Challenges and Future Prospects in Environmental Audit. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3628412>
  30. Whelan, T., & Fink, C. (2016). The Comprehensive Business Case for Sustainability. *Harvard Business*

Review. <https://hbr.org/2016/10/the-comprehensive-business-case-for-sustainability>

31. Yun, T. Z. (2024, April 17). Cover Story: How credible is sustainability reporting? The Edge Malaysia. <https://theedgemalaysia.com/node/707757>
32. Zeng, Y., Maxwell, S., Runting, R. K., Venter, O., Watson, J. E., & Carrasco, L. R. (2020). Environmental Destruction Not Avoided with The Sustainable Development Goals. *Nature Sustainability*, 3(10), 795–798. <https://doi.org/10.1038/s41893-020-0555-0>