

## **A Relationship between Transformational Leadership, Internal Audit and Risk Management Implementation in the Indonesian Public Sector**

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**Abstract :** Public sector organizations work in a complex and risky environment. Since the beginning of 2000s, the public sector has paid attention to the need for an effective risk management. The Indonesian public sector has also concerned about this issue and in 2008 it enacted the Government Regulation that gives mandate for the implementation of risk management in government organizations. This paper investigates risk management implementation in the Indonesian public sector organizations and the role of transformational leadership and internal audit activities. Data was collected via survey. A total of 202 effective responses (30% response rate) from employees in 34 government ministries were statistically analyzed by using Partial least square structural equation modelling (PLS-SEM) and the software was SmartPLS 3.0. All the constructs were lower order, except for the risk management implementation construct, which was treated as a second-order construct. A two-stage approach was employed in the analysis of the higher order component. The findings revealed that transformational leadership positively influence risk management implementation. The findings also found that the core and legitimate roles of internal audit in risk management positively affect the implementation of risk management. The final finding showed that internal auditing mediates a relationship between transformational leadership and risk management implementation. These results suggest that the implementation of risk management in the Indonesian public sector was significantly supported by internal auditors and leadership. The findings confirm the importance of transformational leadership and internal audit in the public sector risk management strategies.

**Keywords :** Indonesian public sector, internal audit, risk management, transformational leadership

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