

Časopis za poslovnu teoriju i praksu  
The paper submitted: 05/05/2025  
The paper accepted: 10/07/2025

UDK 005.915(497/15):[657.6:336.77/.78  
DOI 10.7251/POS2534111S  
COBISS.RS-ID 142875905  
Review

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## SYSTEMATIC LITERATURE REVIEW: THE ROLE OF INTERNAL AUDIT IN FACING THE CHALLENGES OF ESG RISK MANAGEMENT IN THE WESTERN BALKAN COUNTRIES

**Summary:** *This review paper examines the role of internal audit in addressing Environmental, Social, and Governance (ESG) risk management challenges in Western Balkan countries. Through a systematic literature review, the paper analyzes the current state of ESG risk management in the region, explores internal audit practices, and identifies challenges and opportunities for enhancing internal audit's contribution to effective ESG risk management. The findings reveal that ESG risk management in Western Balkan countries is still in its emergent stages, with internal audit functions playing a limited role in addressing ESG risks due to capacity and expertise gaps, organizational priorities, methodological limitations, and broader governance challenges. Despite these challenges, opportunities exist for strengthening internal audit's role through leveraging EU accession processes, building on the three lines of defense model, investing in capacity building, and adopting collaborative approaches. The paper contributes to the theoretical understanding of internal audit's role in ESG risk management in transitional economies and provides practical recommendations for internal audit functions, organizations, and policymakers in Western Balkan countries.*

**Key words:** *ESG risks, risk management, internal audit, Western Balkan, EU accession*

**JEL classification:** *M42, G32, Q56*

### INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) considerations have moved from the periphery to the center of organizational risk management. As stakeholders increasingly demand accountability for sustainability practices, organizations worldwide are struggling with how to effectively identify, assess, and manage ESG risks. Internal audit functions, as key components of organizational governance and risk management, are uniquely positioned to contribute to these efforts. However, the extent to which internal audit addresses ESG risks varies significantly across regions and organizations, with particular challenges in emerging and transitional economies.

The Western Balkan region, comprising Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, presents a distinctive context for examining the intersection of internal audit and ESG risk management. These countries share several common characteristics, including their post-socialist transition, aspirations for European Union membership, ongoing governance reforms, and similar environmental and social challenges. At the same time, they demonstrate varying levels of economic development, institutional capacity, and progress in implementing internal audit and risk management practices.

Despite the growing importance of ESG risk management globally and the potential role of internal audit in this area, limited research has examined this intersection in the specific context of Western Balkan countries. This gap is particularly significant given the unique challenges and opportunities that organizations in the region face in addressing ESG risks and the potential contribution of internal audit to effective risk management.

This review paper aims to address this gap by examining the role of internal audit in facing ESG risk management challenges. Through a systematic review of academic papers from open access sources, the paper explores the current state of ESG risk management in the region, analyzes internal audit practices, identifies challenges and opportunities, and proposes recommendations for enhancing internal audit's contribution to effective ESG risk management.

By examining the intersection of internal audit and ESG risk management in Western Balkan countries, this paper contributes to both the theoretical understanding of internal audit's evolving role and the practical knowledge needed to enhance its effectiveness in addressing ESG risks in transitional economies. The findings and recommendations are relevant not only for internal audit professionals and for organizations in the region but also for policymakers, regulators, and researchers interested in promoting sustainable development and good governance in Western Balkan countries.

## **1. MATERIALS AND METHODS**

This review paper employs a systematic literature review methodology to examine the role of internal audit in facing ESG risk management challenges in Western Balkan countries. A systematic literature review was selected as the most appropriate methodology for this study because it is particularly valuable when exploring emerging fields with limited research, such as the intersection of internal audit and ESG risk management in the Western Balkan context.

The literature search was conducted using multiple academic databases and search engines to ensure comprehensive coverage of relevant research. The primary databases and search platforms utilized included: Google Scholar, ScienceDirect, Academia.edu, ResearchGate and open access institutional repositories. The search focused on literature published primarily in the last ten years (2015-2025) to ensure relevance to current practices and regulatory environments. However, relevant works published before this period were also considered if they provided foundational concepts or frameworks relevant to the research questions.

The systematic review follows a structured process that includes defining the research questions, establishing inclusion and exclusion criteria, conducting a comprehensive literature search, assessing the quality of included studies, extracting and analyzing data, and synthesizing findings. This methodological rigor helps to minimize bias and ensure that the review captures the full breadth of relevant literature while maintaining focus on the specific research questions.

## **2. LITERATURE REVIEW**

### **2.1 Global Context and Theoretical Frameworks**

ESG risk refers to the potential risks associated with environmental, social, and governance factors in organizational decision-making processes. According to Egorova and Petrov-Nerling (2023, 1112), systemic ESG risk can be defined as the potential disruption in the operation of an industry or market (or multiple industries or markets) due to environmental, social, or governance factors. Such disruptions could have severe negative repercussions for companies, industries, and even the global economy or markets. Some of research findings suggest that investing in high ESG performance promises financial return for the firm in terms of both value and profitability (Aydogmus and Gulay, and Ergun 2022, 119).

The pressure for better ESG performance comes not only from traditional financial actors but also from a wider range of stakeholders. Researchers identified several sources of pressure indicating the complexity of ESG requirements and the need for a comprehensive oversight mechanism that can address a wide range of stakeholder concerns. These pressure sources include:

1. *Investors* increasingly seek transparent ESG reporting to assess the long-term sustainability and ethical nature of businesses (Duque-Grisales and Aguilera-Caracuel 2021; Cort 2023; Li et al. 2024; Markova-Karpuzova and Marinov, and Kotzev 2024);
2. *Regulators* are introducing stricter environmental standards (Egorova and Petrov-Nerling 2023);
3. *Consumers* expect ethical business practices (Kim and Li 2021; Yuan and Xiong 2021; Bukreevaa and Grishunin 2023; Gorzeń-Mitka 2023; Markova-Karpuzova and Marinov, and Kotzev 2024);
4. *Employees* prefer socially responsible employers, and *local communities* demand meaningful cooperation and support (Bâtcă-Dumitru and Șendroi, and Cuc 2022; Egorova and Grishunin, and Karminsky 2022; Landi and Iandolo and Renzi, and Rey 2022).

The literature highlights several frameworks for managing ESG risks. Gorzen-Mitka (2023, 4) emphasizes that an Enterprise Risk Management (ERM) framework that integrates risk management with strategy and performance is recommended for effective ESG risk management. This aligns with the 2017 COSO framework which highlights the increasing need to incorporate ESG considerations into firms' internal control and risk management practices. Research by Sharma (2023, 912-919) provides empirical evidence that ESG risk management contributes to better overall risk management and financial stability. The study, which investigated the performance of ESG indexes in India, found that even in turbulent markets, ESG index performance is comparatively stable (Sharma 2023, 919). This suggests that including sustainable activities into business practices not only attracts more profit but also makes financial markets and economies more stable.

Several factors influence the effectiveness of ESG risk management. Feng and Saleh (2024) found that firms led by more capable managers have lower overall ESG risk exposure, including reduced environmental, social, and governance risks. Their study also revealed that higher internal control quality strengthens the association between managerial ability and ESG risks. Specifically, the mechanisms through which internal control quality influences this relationship involve enhancing control environments, risk assessment, control activities, and information and communication channels (Feng and Saleh 2024, 20).

The literature also identifies several challenges in ESG risk management including: (1) lack of consensus on the benefits of incorporating ESG factors into a risk management framework; and (2) difficulties in quantifying ESG risks, which often relate to unpredictable events (Gorzen-Mitka 2023, 4). Despite these challenges, some authors (Bâtcă-Dumitru and Șendroi, and Cuc 2022; Gorzen-Mitka 2023; Churylin and Vitkin 2024; Ma 2024) suggest several opportunities for organizations, including: building competitive advantage using ESG risk management for long-term value creation, reducing idiosyncratic risk, and improving supply chain efficiency.

## 2.2 ESG Risk Management in the Western Balkan Context

Some authors (Đalić and Barjaktarović, and Cogoljević 2023; Statovci et al. 2023; Delova-Jolevska et al. 2024; Ljutić and Veledar and Gadžo, and Knežević 2024; Peredy and Laki 2024) indicate that the impact of ESG risks on the global economy is constantly growing, and their crucial role is increasingly recognized in the Western Balkan region as well. In the Western Balkans, these ESG elements manifest in specific ways. In an environmental sense, the region faces challenges such as air and water pollution, often caused by outdated energy systems that heavily rely on coal (Jevtic and Matković 2022; Ljutić and Veledar and Gadžo, and Knežević 2024). The impacts of climate change, biodiversity loss, and inadequate waste management are

also significant concerns (Stefanović and Trajanović and Dujić, and Ferk 2007). On the social front, the Western Balkans experiences socio-economic vulnerabilities, including labor market issues and the need for a just transition towards a green economy. Governance challenges include weak governance structures, political instability, corruption, and deficiencies in the rule of law (Delova-Jolevska et al. 2024; Ljutić and Veledar and Gadžo, and Knežević 2024).

Some authors (Đurić and Lalatović 2023; Ignjatović and Filipović, and Radovanović 2024; Delova-Jolevska et al. 2024; Ljutić and Veledar and Gadžo, and Knežević 2024) argue that effective management of these risks is a key to sustainable business practices and long-term economic growth, especially in the context of the green transition, which is increasingly important in the Western Balkans. This transition to a greener economy, while necessary for sustainable development, also brings new social and economic challenges, further emphasizing the need for a comprehensive approach to ESG risk management.

### 2.3 Regulatory and Reporting Framework for ESG in the Western Balkans

As many authors (Bătcă-Dumitru and Șendroi, and Cuc 2022; Đalić and Barjaktarović, and Cogoljević 2023; Delova-Jolevska et al. 2024; Ljutić and Veledar and Gadžo, and Knežević 2024) emphasize, organizations face increasing pressure from various stakeholders, including regulators, investors, and consumers, to align their operations with ESG standards and transparently report on their sustainability efforts.

The Western Balkans is increasingly influenced by the European Union's (EU) Green Agenda, which aims to align the region with the European Green Deal and promotes climate action, circular economy, pollution elimination, sustainable food systems, and biodiversity. As Western Balkan countries aspire to EU membership, they are increasingly adopting and aligning with EU directives related to ESG reporting. The Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) are particularly relevant as they mandate sustainability reporting for large companies within the EU and are expected to impact reporting practices in the Western Balkans. Some countries in the region have already begun to incorporate ESG considerations into their national legislation. For example, Serbia has environmental protection laws aligned with EU regulations and requires large companies to disclose non-financial information (Peredy and Laki 2024, 873).

Several factors present challenges in adopting the European Sustainability Reporting Standards. Western Balkan countries generally have weaker institutional frameworks and capacities (Milutinović and Jocović 2010, 298-305) which hinder the effective implementation of sustainability reporting standards. Also, there is often a lack of robust regulatory bodies to enforce compliance with these standards (Ljutić and Veledar and Gadžo, and Knežević 2024, 38). The sustainability reporting landscape in the region is characterized by a patchwork of differing requirements. This lack of a dominant, unified set of standards adds complexity and confusion for businesses attempting to align with European Sustainability Reporting Standards. Ljutić and Veledar and Gadžo, and Knežević (2024, 41) argue that the intricate nature of the new sustainability requirements under the Corporate Sustainability Reporting Directive may pose challenges for companies, especially those that have not previously engaged in detailed reporting or data collection related to sustainability, and that there has been inadequate public and professional discussion about sustainability reporting and the corresponding regulatory frameworks in the Western Balkan region. Many companies in the region are small and medium-sized enterprises that may struggle with the financial and human resources necessary to comply with new reporting standards. The authors elaborate that the economic environment is further complicated by challenges such as corporate over-indebtedness and a difficult business climate. Issues such as inflation and immigration dominate public debate over climate change and sustainability. As a result, sustainability reporting is not viewed as a top priority by public opinion or elites, affecting the receptiveness of companies to adopt these practices (Ljutić and Veledar and Gadžo, and Knežević 2024, 42). Radukić and Petrović-Randelović, and Kostić

(2019, 9-18) indicate that existing laws and regulations in the Western Balkan countries often do not adequately support the goals of sustainability reporting, resulting in poor indicators in the Sustainable Development Goals (SDG) Index.

As concluded by Ljutić and Veledar and Gadžo, and Knežević (2024, 36), despite the growing importance of ESG reporting and the influence of EU directives, there is a lack of significant progress in aligning and harmonizing corporate reporting with European Sustainability Reporting Standards in the Western Balkans compared to EU member states and other European countries. This suggests that the adoption of these standards in the region is still in its early stages.

The Corporate Sustainability Reporting Directive also mandates limited assurance (initially) on the reported information, which will likely increase the need for robust internal controls and oversight. According to the World Bank 2024 report “Helping Western Balkan countries get ahead with sustainability reporting and corporate governance”, the implementation of these new reporting requirements presents challenges for companies in the Western Balkans, especially for smaller companies that may lack the resources and expertise for compliance. Therefore, the upcoming requirements of EU Directive and Standards represent a significant shift in the reporting landscape for the Western Balkans, and the current lack of alignment highlights the need for increased efforts in adopting these standards, where internal audit can play a crucial role in facilitating this transition.

## 2.4 Understanding the Role of Internal Audit in ESG Risk Management

The integration of ESG considerations into internal audit processes is essential for effective risk management. Internal auditors must assess ESG risks, evaluate the effectiveness of internal controls, and provide recommendations for improvement. This requires internal auditors to develop expertise in ESG metrics and controls, ensuring that ESG risks are adequately addressed within the organization (Ramadhan and Ramzy and Faridatul, and Sunardi 2023, 552-553). In order to ensure effective ESG governance, internal audit functions must collaborate with audit committees and other stakeholders. As indicated by some authors (Rakipi and D'Onza 2023, 522, 531; Olteanu Burcă et al. 2024, 2063) it is important for internal auditors to engage with stakeholders to understand their expectations and ensure that ESG reporting aligns with stakeholder needs.

The COSO guidance and International Financial Reporting Standards emphasize the need for internal audit to ensure the accuracy and reliability of ESG disclosures. The research by Rakipi and D'Onza (2023, 522, 525) shows that internal auditors are increasingly involved in providing assurance over ESG practices, reporting, and reputation risks, particularly in ESG-mature companies. The authors (2023, 522) notice that in ESG-mature companies, internal audit functions focus on assurance over ESG practices and reporting, while in less mature companies, the focus is on compliance with legal requirements and prevention of unethical behavior.

Considering its unique position within organizations and scope of work defined by the professional standards, some authors (Canestrari-Soh and Martinov-Bennie 2015; Otto-Mentz et al. 2022; Ramadhan and Ramzy and Faridatul, and Sunardi 2023) argue that internal audit function should be able to provide independent and objective assurance and consulting services with the aim of adding value and improving operations. Many authors (Ridley and D'Silva, and Szombathelyi 2011; Fraser and Quail, and Simkins 2022; Rakipi and D'Onza 2023; Kacani and Kopani 2023; Ramadhan and Ramzy and Faridatul, and Sunardi 2023; Olteanu Burcă et al. 2024; Wahyuni 2025) agree that given the increasing importance of ESG risks for governing bodies and executive management, there is a growing need for reliable assurance regarding the effectiveness of managing these risks, including ESG reporting itself. According to Rakipi and D'Onza (2023, 523) and Miao (2024, 62) the internal audit's expertise in risk assessment and control systems makes it indispensable in mitigating potential legal and reputational risks associated with ESG.



In this context, internal auditors are facing many challenges that extend beyond traditional risk management frameworks. Some of them include data quality issues, regulatory compliance, and the complexity of ESG strategies. Miao (2024, 59-62) suggests that, to address these challenges, internal auditors must establish robust data quality management systems, adapt to regulatory changes, and promote deep integration of ESG strategies across the organization. Taking that into consideration, the internal audit capabilities can be a challenge as well. Otto-Mentz et al. (2022, 246, 248) emphasizes that auditors must invest in training focused on ESG issues, ensuring they possess the necessary knowledge to evaluate sustainability claims accurately.

## **2.5 Development and Current State of Internal Audit in the Western Balkan Region**

The literature on internal audit practices in Western Balkan countries reveals a region in transition, with varying levels of internal audit development across different countries. Kacani and Shaqiri and Qorraj, and Kopani (2024, 1-24) describe how internal audit in Albania has evolved as a crucial component of public institutions, providing assurance, educational, and advisory services to decision-makers and senior officials. This role is described as pivotal for sustaining and enhancing good governance in public administration.

The development of internal audit in the Western Balkans is closely tied to these countries' aspirations for European Union membership. As noted in the study "Performance Audit and Policy Evaluation in the Western Balkans: On the Same or Parallel Tracks?" written by Lazarević et al. (2015), performance management instruments like performance audit have been evolving in the region, though often without connection to related fields like policy evaluation. This disconnected development suggests that internal audit practices in the region may not be fully integrated with other governance mechanisms.

The literature identifies several challenges facing internal audit in Western Balkan countries. Kacani and Shaqiri and Qorraj, and Kopani (2024, 19-20) note that the absence of a conducive environment, frequent changes of decision-makers, and political resistance to change impede internal auditors in Albania from delivering their educational and advisory services effectively. These challenges likely extend to other countries in the region with similar governance structures and political dynamics. Lazarević et al. (2015) identify additional challenges related to the disconnected development of performance management instruments in the region. Their study of Macedonia, Montenegro, and Serbia found that performance audit and policy evaluation have been evolving without connection and reference to each other, despite having similar goals and methods (Lazarević et al. 2015, 58-85). This suggests a need for greater integration of various governance and accountability mechanisms in the region. Therefore, internal audit functions in the Western Balkans face a unique set of challenges stemming from the specific economic, political, and developmental context of the region. These challenges, including limited resources, lack of expertise, and a less mature ESG ecosystem, must be recognized and addressed for internal audit to fulfill effectively its role.

The literature on the specific role of internal audit in ESG risk management is limited, particularly in the context of Western Balkan countries. However, some insights can be drawn from the broader literature. Feng and Saleh (2024, 6-20) highlight the importance of internal control quality in moderating ESG risks, suggesting that internal audit, as a key component of internal control, could play a significant role in ESG risk management. The three lines of defense model described by Kacani and Shaqiri and Qorraj, and Kopani (2024, 3) provides a potential framework for understanding how internal audit could contribute to ESG risk management. As the third line of defense, internal audit units could perform independent and objective examinations of organizations' ESG governance, risk management, and control systems. These three lines of defense model provides a structured approach to risk management and governance that could potentially be applied to ESG risks as well.

### 3. FINDINGS AND DISCUSSION

#### 3.1 Challenges and Opportunities for Internal Audit in ESG Risk Management

Our analysis identified several key challenges that internal audit functions in Western Balkan countries face in effectively addressing ESG risks:

1. *Structural and Organizational Challenges.* Internal audit functions in Western Balkan countries often face limited independence and authority, restricting their ability to address ESG issues, especially governance-related ones. Political resistance, as seen in Albania, further restricts auditors' roles. Additionally, resource constraints, such as insufficient staffing and budgets, are major hurdles, particularly for smaller organizations and less economically developed countries. Moreover, internal audit is often regarded as a compliance function rather than a strategic partner, limiting its contribution to ESG risk management. The literature suggests that this perception is common in the region, particularly in organizations with less mature governance structures.
2. *Professional and Methodological Challenges.* There is a significant gap in ESG expertise among internal auditors, as traditional training focuses on financial and compliance audits, neglecting ESG risks. This gap is compounded by the complex, evolving nature of ESG issues that require specialized knowledge. Methodological shortcomings also hinder effective ESG risk assessment, particularly in emerging areas like climate risks and sustainable supply chains. Access to reliable ESG data is another challenge, complicating auditors' ability to measure performance and ensure meaningful assurance. As mentioned by Olorunyomi and Adewale, and Odonkor (2021, 172-174), many ESG metrics are subjective and hard to quantify, and this lack of reliable data hinders effective assessment and integration of ESG factors.
3. *Contextual Challenges.* Economic, political, and social contexts in the region impose additional challenges. Economic pressures often lead to short-term priorities that downplay ESG concerns. Political instability can undermine internal audit functions. Regulatory fragmentation regarding ESG requirements further complicates auditing, as does the lack of organizational cultures promoting transparency and sustainability. The literature (Bătcă-Dumitru and Şendroi, and Cuc 2022; Fraser and Quail, and Simkins 2022; Otto-Mentz et al. 2022; Feng and Saleh 2024) suggests that building a culture that values these principles is essential for effective ESG risk management, but remains a challenge in many Western Balkan organizations.

Despite these challenges, our analysis also identified several opportunities and potential strategies for enhancing internal audit's role in ESG risk management in Western Balkan countries:

1. *Leveraging EU Accession Processes.* Aligning with EU regulatory frameworks, particularly those concerning sustainability, offers significant opportunities for internal audit functions to enhance their role in ESG risk management. EU-driven reforms have already strengthened public sector audit functions, and internal audit can expand its role in supporting governance and compliance with these reforms.
2. *Building on the Three Lines of Defense Model.* Adopting the three lines of defense model helps clarify internal audit's role in managing ESG risks. As the third line of defense, internal audit can independently assure the effectiveness of ESG risk management processes and support improved ESG performance.
3. *Capacity Building and Professional Development.* Enhancing auditor capabilities through training on ESG risks, developing audit methodologies with professional associations, and integrating ESG aspects into educational programs could strengthen internal auditing in the region.
4. *Collaborative and Integrated Approaches.* Working closely with other functions like sustainability and compliance teams can pool expertise and resources, fostering a more

comprehensive and effective approach to managing ESG risks. Collaborative strategies are crucial in the Western Balkans where ESG resources and expertise may be scarce.

Internal audit functions in the region need to strategically position themselves as valuable partners in ESG risk management, demonstrating their ability to contribute to organizational resilience and sustainable value creation. In order to achieve that internal auditors in Western Balkan countries need to develop new skills and knowledge related to ESG risks, including understanding of environmental impacts, social responsibility, and sustainable governance practices. Also, their audit methodologies need to evolve to effectively address ESG risks, incorporating new approaches for identifying, assessing, and auditing these risks. Above all, as emphasized by Olorunyomi and Adewale, and Odonkor (2021, 174), and Markova-Karpuzova and Marinov, and Kotzev (2024, 235), internal audit functions should leverage technology to enhance their effectiveness in ESG risk management, including data analytics tools for analyzing ESG performance and identifying emerging risks.

Effective ESG risk management does not depend only on internal audit functions. Organizations, policymakers, and regulators need to give their own contributions.

Organizations should: *strengthen governance structures* (establish clear governance frameworks for managing ESG risks, defining the roles and responsibilities of the board, management, and internal audit); *invest in internal audit capacity* (allocate sufficient resources and support to internal audit functions, ensuring they have the staffing, budgets, and technological tools required to effectively address ESG risks); *foster collaboration* (encourage collaboration between internal audit and other departments involved in ESG risk management to facilitate knowledge sharing and coordinated efforts); and *build a supportive culture* (develop an organizational culture that emphasizes transparency, accountability, and sustainability, enabling internal audit to effectively contribute to ESG risk management).

On the other hand, policymakers and regulators should contribute by: *harmonizing regulatory frameworks* (aligning ESG-related regulations across Western Balkan countries with EU standards, while considering the specific needs of the region); *strengthening professional standards* (supporting the development of internal audit standards that include ESG considerations, offering clear guidance for auditors on integrating these factors); *promoting capacity building* (such as training programs and professional development opportunities focused on ESG risks); and *encouraging transparency* (by creating incentives for organizations to enhance their ESG risk management, including internal audit's role).

## CONCLUSION

The paper has analyzed the existing academic literature on the role of internal audit in managing ESG risks by focusing on the Western Balkans. It shows that ESG risk management in the Western Balkans is underdeveloped compared to more advanced economies. Historical challenges, such as political instability and governance issues, have made ESG considerations secondary to other concerns. Nonetheless, the regulatory landscape for ESG reporting in the Western Balkans is evolving, with EU directives such as CSRD and ESRS having a significant impact. As a result, the EU accession process is pushing improvements in governance structures that include ESG factors.

Literature review confirm that internal audit is positioned as a key function that can provide independent assurance and advisory support to organizations in addressing these complex challenges. However, the effectiveness of internal audit varies significantly across regions, sectors, and organizations in Western Balkan region. The research indicates that internal audits often focus on financial compliance and operational efficiency, with little integration of ESG risks. When ESG is partially integrated, it primarily addresses governance, overlooking environmental and social aspects. Public sector audits have evolved as part of financial management reforms linked to EU requirements. Larger private organizations with



international ties have more developed audits, while smaller ones often lack formal capabilities. Despite existing challenges such as limited resources and lack of expertise, there are significant opportunities for internal audit to increase its strategic value and contribute to organizational sustainability. To fulfill effectively this role, internal auditors need to develop specialized knowledge and skills in the ESG area and continuously improve their competencies.

This review enhances the theoretical understanding of internal audit's role in ESG risk management by making several contributions. First, it extends the application of the three lines of defense model to the context of ESG risks in Western Balkan countries, emphasizing the need to consider governance maturity, resource constraints, and cultural factors for effective implementation. Second, it sheds light on how internal audit functions evolve in transitional economies, driven by external pressures like EU accession, but notes that true effectiveness in handling ESG risks requires deeper organizational and cultural changes. Third, the review highlights the interconnections among governance, risk management, and internal audit, stressing that effective ESG risk management needs not only technical skills but also robust governance and cultural support for transparency and accountability.

The limitations of the study that should be acknowledged include: limited empirical data, reliance on the open-access academic sources in English language, and the absence of primary data from practitioners. Due to the emerging nature of ESG risk management in the region, available research is often theoretical rather than empirical, limiting the empirical basis for the review's findings.

Future research directions based on this review include several key areas. First, empirical studies on current internal audit practices regarding ESG risks in Western Balkan countries can offer valuable insights into existing challenges and opportunities. Second, exploring the effectiveness of various approaches to integrating ESG considerations into internal audit functions would provide practical guidance, including comparative analyses of methodologies for ESG risk assessment. Third, longitudinal studies could track the evolution of internal audit's role in ESG management over time, identifying factors that influence its development. Lastly, research examining the impact of internal audit's involvement in ESG management on outcomes like ESG performance and stakeholder trust could demonstrate the value of enhancing internal audit's role in this area.

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