**Governance in the Public Sector Internal Audit:
A Dynamic Comparative Perspective**

By

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ABSTRACT

The 21st century was marked by an “internal audit explosion” in all sectors of the global economy, including government. However, very little is known about its origins, characteristics, scale and impact on public sectors. This thesis advances the emerging and poorly understood field of public-sector internal auditing (IA) by providing the first comprehensive examination of the public-sector reforms that led to and resulted from this IA explosion, covering global, world regions, and country levels of analysis, in dynamic and comparative analytical perspectives.

The thesis argues that public-sector IA explosion is a manifestation of a paradigmatic shift in the global IA profession, led by the global Institute of Internal Auditors (IIA), and dubbed by the author as a “Value-Added Management Partner Paradigm” (VAMP). The methodology is based on the author’s conceptual framework for the analysis of IA policy dynamics and variation, which is an adaptation of the meta-theory of policy making developed by Howlett and colleagues (2009). As an over-arching research philosophy, it incorporates a range of mid-level theories, frameworks, and concepts from three fields of knowledge: public policy and administration, business administration, and the IA profession. The methodological tools employed include a mix of quantitative and qualitative methods, applied to new and previously untapped sources of data. The main approaches involve professional paradigm analysis, capability maturity assessment, policy evaluation, and international case studies. These are based on historical, archival, documentary and legislative information from governments, IA-related organizations, supra-national institutions, parliaments (Hansard); interviews with public-sector officials and leaders of the IA industry and government IA sectors; and statistical analysis of the new dataset from the 2015 IIA Global Internal Audit Practitioners Survey.

The study produced several important findings. First, the source of VAMP genesis – the modern IA industry - went through three professional paradigms during the period from 1941 to 2017, the last of which became a global best-practice blueprint for IA activity and IA reforms in the private, public and non-profit sectors of the global economy. Second, VAMP was strongly recognized, supported and advocated to the national governments by the key supra-national institutions, notably the World Bank, the Organization for Economic Cooperation and Development, and the European Commission, because it fit with their agendas and means of international influence. Third, over the last two decades a global adoption of the VAMP model of IA activity occurred in the public sectors across the world, leading to a high degree of convergence in IA practices. However, with the global success of establishing best-practice modern IA governance regimes based on VAMP, there are also signs of problems, mainly associated with the high level of resource constraints on governments and increased politicization of the public-sector IA. Fourth, case studies into the substance of IA reforms in the national Westminster governments of the UK, Australia, and Canada as early adopters of VAMP demonstrated that while the VAMP has taken the firm ground in the IA sectors, the countries vary with respect to the design of the IA governance regimes, as well as public policy and procedural specifications of their elements.

The major implication is that VAMP-inspired public-sector IA reforms are still work-in-progress and their outcomes are difficult to assess, meaning that a significant long-term public-sector adaptation and modification is required in order to achieve desirable outcomes for the IA reforms under the VAMP paradigm.

Key issues for future research point to the need to develop better IA data and a theory for public-sector IA.

Keywords: internal audit explosion, public-sector internal auditing, internal audit sector, governance, professional paradigms, Value-Added Management Partner (VAMP) paradigm, professional paradigm adoption, IA policy advocacy coalitions, capability maturity assessment, policy evaluation, policy implementation, case studies, international comparative analysis.

DEDICATION

To my family

To all of my teachers, professors, and mentors

To the internal audit community

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Due to the inter-disciplinary and ground-breaking nature of this research project, it necessitated establishment of the thesis committee comprised of Canadian experts in public policy and administration, business administration, and international public policy.

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List of Acronyms

AA	Accountable Authority
AAA	American Accounting Association
AC	Accounting Officer
ACCA	Association of Chartered Accountants
ACFE	Association of Certified Fraud Examiners
ACGA	American Center for Government Auditing
ACIIA	Asian Confederation of Institutes of Internal Auditors
ACIPIA	Advisory Committee on the Implementation of the Policy on IA
AEC	Audit Executive Center
AFIIA	African Federation of Institutes of Internal Auditors
AG	Auditor General
AICD	Australian Institute of Company Directors
AICPA	American Institute of Certified Public Accountants
ANAO	Australian National Audit Office
ANSI	American National Standards Institute
AO	Accounting Officer
APESB	Accounting Professional and Ethical Standards Board
APS	Australian Public Service
ARAC	Audit and Risk Assurance Committees
ASCs	Assistant Deputy Ministers
AUASB	Auditing and Assurance Standards Board
BCI	Business Continuity Institute
BEAC	Board of Environmental Health, Safety and Auditor Certifications
BOA	Board of Auditors
CAANZ	Chartered Accountants of Australia and New Zealand
CABE	Canadian Association for Business Economics
CAE	Chief Audit Executives
CAE	Chief Audit Executives
CAMC	Canadian Association of Management Consultants
CAMT	Common Audit Metrics Tool
CBCD	Capacity Building and Community Development
CBOK	Common Body of Knowledge
CCSA	Certification in Control Self-Assessment
CEO	Chief Executive Officer
CEPA	Certified Professional Environment Auditor
CES	Canadian Evaluation Society
CFO	Chief Financial Officer
CFSA	Certified Financial Services Auditor
CG	Comptroller General
CGAP	Certified Government Auditing Professional

CGC	Corporate Governance Committee
CIA	Certified Internal Auditor
CIAO	U.S. Critical Infrastructure Assurance Office
CICA	Canadian Institute of Chartered Accountants
CIIA	Chartered Institute of Internal Auditors
CIPFA	Chartered Institute of Public Finance and Accountancy
CLO	Chief Legal Officer
CMM	Capability Maturity Model
CoCo	Criteria of Control Framework (Canada)
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organization
COSO-ICIF	Internal Control-Integrated Framework
CPD	Continuing Professional Development
CPE	Continuing Professional Education
CPEA	Certified Professional Environmental Auditor
CPSA	Certified Process Safety Auditor
CRMA	Certification in Risk Management Assurance
CSPC	Canada School of Public Service
DAC	Departmental Audit Committees
DAF	Directorate for Financial and Enterprise Affairs
DCAA	Defense Contract Audit Agency
DFID	Department for International Development
EAFD	Executive Agency Framework Document
EC	European Commission
EC IICF	EC Integrated Internal Control Framework
ECIIA	European Confederation of Institutes of Internal Auditing
ECOSOC	General Assembly, Security Council, Economic and Social Council
EEC	European Economic Community
EHSAC	Environmental, Health & Safety Audit Center
EQA	external quality assessment services
ERM	Enterprise Risk Management
ERMIF	Enterprise Risk Management Integrated Framework
EU	European Union
EU-REPARIS	Program of Accounting Reform and Institutional Strengthening
EY	Ernst & Young
FAA	Financial Administration Act
FARE	Foundation for Auditability, Research and Education
FCO	Foreign and Commonwealth Office
FCPA	Foreign Corrupt Practices Act
FCWG	Functional Communities Working Group
FEI	Financial Executives International
FLAI	Fundación Latinoamericana de Auditores Internos
FReM	Financial Reporting Manual

G20	Group of Twenty
G7	Group of Seven
GAAP	Generally Accepted Accounting Principles
GAC	Global Advocacy Committee
GAG	Government Audit Group Program
GAIN	Global Auditing Information Network
GAM	General Audit Management
GAO	General Accounting Office
GAP	Global Advocacy Program
GGP	Governance Global Practice
GIAA	Government Internal Audit Agency
GIAPS	Global Internal Audit Practitioner Survey
GIAS	Government Internal Audit Standards
GOA	Government Organization Act
GOC	Government of Canada
GRC	Governance, Risk and Control
HIA	Heads of Internal Audit
HIP	Home Insulation Program
HM	Her Majesty
HMRC	HM Revenue and Customs
IA	Internal Audit
IA PACs	IA Policy Advocacy Coalitions
IAASB	International Auditing and Assurance Standards Board
IAC	Internal Audit Service (IAS) group and EC IA Capabilities units
IA-CM	Internal Audit Capability Model
IAD	Internal Audit Division
IAS	Internal Audit Service
IATP	Internal Audit Transformation Programme
IBRD	International Bank for Reconstruction and Development
ICGFM	International Consortium on Governmental Financial Management
ICIF	Internal Control-Integrated Framework
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IDI	INTOSAI Development Initiative
IFAC	International Federation of Accountants
IFC	International Finance Corporate
IFRS	International Financial Reporting Standards
SNIs	International Governing Organizations
IIA	Institute of Internal Auditors (Global)
IIARF	IIA Research Foundation
IIASB	International Internal Audit Standards Board
IIRC	International Integrated Reporting Council
IMA	Institute of Management Accountants

IMF	International Monetary Fund
INTOSAI	Organization of Supreme Audit Institutions
IPPF	International Professional Practices Framework
ISA	International Standards on Auditing
ISACA	Information Systems Audit and Control Association
ISO	International Standards Organization
ISSAI	International Standards of Supreme Audit Institutions
JCPAA	Committee on Public Accounts and Audit
JIU	United Nations Joint Inspection Unit
KPA	Key Process Areas
MAF	Management Accountability Framework
MCI	Modern Comptrollership Initiative
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
MOD	Ministry of Defense
MOU	Memorandum of Understanding
NACD	National Association of Corporate Directors
NAO	National Audit Office
NCA	National Commissions of Audit
NGOs	Non-Governmental Organizations
NPA	New Public Administration
NPG	New Public Governance
NPM	New Public Management
OAG	Office of the Auditor General
OCG	Office of the Comptroller General
OECD	Organization for Economic Co-operation and Development
OECD AA	OECD Auditors Alliance
OICU-IOSCO	International Forum of Independent Audit Regulators and International Organization of Securities Commissions
OIOS	UN Office of Internal Oversight Services
PA	Public Administration
HC PAC	Standing Committee on Public Accounts of the House of Commons
PAC	Policy Advocacy Coalitions
PAO	Principal Accounting Officer
PGPAA	Public Governance, Performance and Accountability Act
PIC	Compendium on Public Internal Control
PIOB	Public Interest Oversight Board
PPBS	Planning-Programming-Budgeting System
PPF	Professional Practices Framework
PPU	Professional Practices Units
PSC	Public Spending Group
PSGC	Public Sector Guidance Committee
PSIAS	Public Sector Internal Audit Standards

PSM	Public Sector Management
PSR	Policy Suite Reset (TBS)
PUMA	Public Management Committee (OECD)
PWC	PriceWaterhouseCoopers
QAIP	Quality Assurance Improvement Program
QIAL	Qualification in Internal Audit Leadership
RIAS	Representatives of Internal Audit Services of United Nations
RIASS	Relevant Internal Audit Standard Setters
ROSC	Reports on the Observance of Standards and Codes
SAC	Systems Auditability and Control
SAI	Supreme Audit Institutions
SEC	Securities and Exchange Commission
SIAS	Statements on Internal Auditing Standards
SNI	Supra-national institution
SOX	Sarbanes-Oxley Act
STAREP	Strengthening Auditing and Reporting in Countries of the Eastern Partnership
TBS	Treasury Board Secretariat
TNCs	Transnational Corporations
UFAI	Union Francophone de l' Audit Interne
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
VAMP	Value-Added Management Partner
VFM	Value-For Money
WB	World Bank
WDR	World Bank's World Development Report
WEF	The World Economic Forum
WGI	Worldwide Governance Indicators
XDIAS	Cross Departmental Internal Audit Service

1. Chapter 1: Introduction

1.1. Motivation for the Study

Public-sector internal audit (IA) is an important regulatory institution of modern societies and governments that helps them function and maintain legitimacy. It is important to understand IA's role in public policy and monitor its development in order to continuously assess its effectiveness and public value, and to introduce reforms when necessary.

At the turn of the 21st century, a new global paradigm of internal audit activity emerged – a Value-Added Management Partner (VAMP). It completely changed the practices of internal auditors in all sectors of economic activity and reshaped the governance, risk management, and internal control in organizations around the world, leading to the establishment of new accountability regimes. The most fascinating change occurred in the public sectors worldwide, manifested in the 'IA explosion' of activities. Yet, this 'quiet revolution' has gone virtually undetected in public policy literature.

This doctoral research project addresses this knowledge gap by providing the first comprehensive inter-disciplinary and multi-level examination of the global change in public-sector IA policy and practice, associated with the VAMP-inspired "IA explosion", and assesses its impact on the government IA sectors. To frame this complex public policy research project, Blaiki's (2000, 2003, 2010) methodology of research design is used, and the first chapter follows its logic and order. First, it presents the observed public policy phenomena, followed by the formulation of the respective public policy research problems and identified explanatory gaps, as the motivation for this research. Second, it provides a

high-level overview of the research design. Third, it describes the thesis structure and contribution to the field of knowledge.

1.2.1. Public Policy Phenomena

1.2.1.1. International Recognition of Effective Internal Audit as a Vital Element of Governance

While internal auditing existed for centuries in all regions of the world, born out of the needs of various types of governments to control public finances and the behaviour of public officials, according to the historians Ramamoorti (2003), Mautz and Sharaf (1961), and Sawyer et al. (2003), it gained new importance and scale at the turn of the 21st century. Since the mid-1990s, the issues of public-sector governance have become the centre of government management reforms in the Organization for Economic Cooperation and Development (OECD) countries and in the global “good governance” agenda of the World Bank and other supra-national institutions (SNIs) in the fight against public sector mismanagement, corruption, fraud and poverty. As stated in an early World Bank report, “Good governance is epitomized by predictable, open, and enlightened policymaking (that is, transparent processes); a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions, and a strong civil society participating in public affairs; and all behaving under the rule of law” (WB 1994: vii).

Stemming from this worldview, the notion of effective IA, as a vital element of good public-sector governance, assuring government accountability, transparency, integrity, and equity, has steadily gained prominence in the international public policy discourse. This resulted in the renewed interest in government IA and subsequent calls for its modernization, as observed by Diamond (2002). Further, effective IA has been

recognized in international regulatory regimes as a key element in fighting government corruption. This includes the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1999) and the United Nations Convention against Corruption (2005).

The Institute of Internal Auditors (IIA), a global professional body regulating the activities of internal auditors in all sectors of the economy worldwide, sees the role of the public-sector IA in line with this worldview:

As an essential element of a strong public sector governance structure, auditing supports the governance roles of oversight, insight, and foresight. Because the public sector's success is measured primarily by its ability to deliver services successfully and carry out programs in an equitable and appropriate manner, public sector audit activities should have the authority and the competency to evaluate financial and program compliance, effectiveness, economy, and efficiency. Moreover, auditors also must protect the core values of the public sector, as it serves all citizens. (IIA 2012a)

Power (1996) provides a useful characterization of IA as a particular approach to management accountability, transparency and governance issues - a “control of controls” and a mitigation strategy in case of regulatory failure. More specifically, as defined by the IIA, internal audit plays the role of a *“third line of defense”* within the organization's governance and risk management framework, by serving as an independent assurance and advisory mechanism on all management activities in the organization. (IIA 2012a)

The effective IA function has been recognized internationally as a vital element of good governance. The puzzle from the public policy perspective is why IA received this increased attention and status at the turn of the 21st century, and what role did the supra-national institutions (SNIs) played in it.

1.2.1.2. Internal Audit Explosion in the Public Sectors Worldwide at the Turn of the 21st Century

The international recognition of the vital role of effective IA in ensuring good governance in the organizations has manifested in the phenomenon of an “audit explosion”¹ in public sectors worldwide, characterized by political agendas of developing a modern government IA function with expended mandates and more powerful governance mechanisms at its disposal. Power (1996) identified this trend in the late 1990s in the various fields of the practice worldwide, in both the private and public sectors. However, his analysis did not distinguish between the patterns and sources of the aggregate audit explosion, such as internal versus external auditing, or public-sector versus private-sector auditing.

To test for the initial evidence of the IA explosion worldwide, a simple analysis of the global number of internal auditors was conducted, based on the compilation of data from the annual reports of the global Institute of Internal Auditors (IIA) and the publications of IIA historians, Flesher (1991) and Flesher and McIntosh (2002), as illustrated in Figure 1 below. The data show that, indeed, there was an exponential increase in the total number of internal auditors globally (including private-sector, public-sector, and non-profit sector) that occurred at the end of the 1990s, with numbers rising from 42,000 in 1991 to 100,000 in 2001, and almost a double growth in the next 15 years to a total of 190,000 in 2016.

¹ Term introduced by Power (1996)

Figure 1 Global Number of Internal Auditors, 1941-2017

Source: Author, December 2017

At the turn of the 21st century, an internal audit “explosion” occurred in all sectors of economic activity worldwide. From a public policy perspective, the puzzle is how much of this extraordinary growth can be attributed to the public sector on a global scale.

1.2.1.3. Emergence of a Global Paradigm of Internal Audit Activity in the 21st Century

This thesis is based on the main argument that the public-sector internal audit explosion is a manifestation of the paradigmatic shift in the global IA profession, led by the global IIA. Specifically, since 1999, the profile of IA services started to change to a proactive value-added activity. This change occurred both in the private and public sectors worldwide.

Currently, the prevailing pattern of IA practices across the world is a **“value-added approach”**, according to which the IA function is viewed as a value-adding business

partner to the senior management and the board of the organization, as outlined in the *IA Value Proposition*, issued by the IIA. (IIA (2012b). This pattern was institutionalized by the IIA at the turn of the 21st century in its new definition of IA activity, after the global survey of the auditing profession in 1999, to reflect changes in the business and regulatory environments, and resulting new demands and stakeholder expectations for the role and services of internal auditors, as noted in Birkett et al. (1999a-c) and Chen and Lin (2011).

To clarify the meaning of this new global model of IA activity, it is dubbed by the author of this study in a generalized way as a “**Valued-Added Management Partner Paradigm (VAMP)**”, since it applies universally to both private and public sectors. The detailed technical concept and content description of the VAMP is provided later in the study. In a nutshell, VAMP is explicitly apparent in the new IIA definition of internal audit activity, released in 1999 and embedded in the IIA International Professional Practices Framework (IPPF²): “*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations*. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”. (IIA 2017a) Further, the mission of IA is “...to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.” (IIA 2017a)

² IIA IPPF – Institute of Internal Auditors’ International Professional Practices Framework, issued in 2000 and last updated in 2017, containing definition of IA, mission of IA, Core Principles, Code of Ethics, international IA standards, implementation guidance, and supplemental guidance. See <https://na.theiia.org/standards-guidance/Pages/New-IPPF.aspx>

The official IIA-defined “*value proposition*” of *IA* is that it is an organizational function, providing management assurance, insight and objectivity to the governing bodies and senior management of the organization:

Governing bodies and senior management rely on internal auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes... Internal auditing provides assurance on the organization’s governance, risk management, and control processes to help the organization achieve its strategic, operational, financial, and compliance objectives... Internal auditing is a catalyst for improving an organization’s effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business process... With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice (IIA 2012b).

Empirically, the paradigmatic shift of the IA industry to a “more proactive value-added approach where internal auditors are taking up partnerships with management”, was recognized by several academics, including Bou-Raad (2000) and Yee et al. (2008). This shift was corroborated by the emerging body of academic and industry research on IA activities in both private and public sectors in many countries and regions of the world. Allegrini et al. (2006) documented the incremental shift to the value-adding IA activities in Europe after the release of the 1999 IA definition and updates to the IIA standards, based on the review of several studies from Belgium, France, Italy, Netherlands and the UK. Similarly, Haas et al. (2006) conducted a review of the studies on the trends in value-adding auditing in the Americas (covering primarily the United States and Canada), and found clear evidence of the growth in the scope of IA activities and expansion in the required skills and attributes of the internal auditors. Cooper et al. (2006), in their review of the literature from Pacific Asia (covering Australia, New Zealand, China, Malaysia, Singapore and Hong Kong), also noted some shifts in the role of internal auditors in the private and public sectors, but still insufficient to fully support a value-added approach. Al-Akra et al.

(2016) reviewed the Middle East and North Africa (MENA)³ region literature, and found evidence of “vast advances” in the IA activities and “extensive reforms to IA”, although with less emphasis on the value-added approach, prescribed by the profession.

In the new millennium, governments worldwide have conducted modernization reforms of their public sectors in many areas of activity, including IA. In many cases, the IA policy change was implemented in response to internal and external forces and shocks that were reshaping public administration, as a result of various governance breakdowns across the private and public sectors worldwide. These national government strategies were part of global efforts and electoral promises to restore the trust of consumers and citizens in accounting, financial, control and governance systems in the private and public sectors after their spectacular failures with broad negative effects.

Remarkably, the design and implementation of these government IA reforms followed the global IA industry “international blueprint” - the VAMP paradigm, devised and advocated by the IIA - with respect to: 1) the definition of the IA role, scope, and governance regime; 2) guidance on how to set-up a professional IA function in the organization and how to manage it; and 3) what to expect in terms of its functional role and performance, prescribed by the international standards on internal auditing issued by the IIA.

When transferred directly to the government setting, VAMP positions the internal audit function of a department or agency as a management partner of government officials and senior bureaucrats in identifying problems in the areas of risk management, governance and internal control of their respective organizations, and offering feasible solutions.

³ MENA region includes the following countries: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates UAE, West Bank and Gaza, and Yemen.

At the turn of the 21st century, a global paradigm of internal audit activity – the Value-Added Management Partner (VAMP) paradigm - emerged. From the public policy perspective, the key questions (i.e. the puzzle) are: what exactly constitutes the VAMP paradigm; what are its origins; why and how was it adopted in public sectors worldwide; and did it help solve the problems targeted by the public-sector IA reforms?

1.2.1.4. National Westminster Governments as Early Adopters of VAMP

Emerging empirical evidence suggests that the national governments of the United Kingdom, Australia, and Canada, representing the cluster of the Westminster parliamentary democracies, were early adopters of VAMP as the model of IA activity among OECD countries: all adopted the IIA IPPF shortly after its release. Specifically, Sterck and Bouckaert (2006) and Bouckaert (2008) provide an initial identification of several trends in recent IA reforms in the public sectors of six OECD countries (i.e. Australia, Canada, the Netherlands, Sweden, the United Kingdom, and the United States). They find that these trends are based on a value-added notion, and are linked to broader financial and governance reforms, such as legislation of audit committees and IA functions, adoption of the IIA standards and arrangements to ensure IA independence, spread of the risk-based auditing, establishing a professional and systematic IA practice with adequate funding, and attracting and developing professional IA staff.

National Westminster governments of the UK, Australia, and Canada have been noted as early adopters of VAMP. From the public policy perspective, the puzzle is why the national Westminster governments of the UK, Australia, and Canada have chosen VAMP as a policy instrument in IA reforms, how they approached its implementation, and what the results are.

1.2.2. Public Policy Research Problems and Explanatory Gaps

1.2.2.1. Insufficient Description of VAMP as a Global IA Governance Paradigm and Lack of Account of its Genesis from the Public Policy Perspective

As noted earlier, VAMP is this author's label for the global paradigm of IA governance that emerged at the turn of the 21st century and spread rapidly across organizations worldwide. Yet, while there is recognition across the IA industry and governments that a new "value-added" paradigm of IA activity is in operation, there is no comprehensive or unified understanding of its nature, content, ontological and epistemological origins in the academic literature, industry or government materials. The available literature contains fragments of the VAMP artefacts or exemplars based on the new IIA normative guidance since 1999, and some empirical evidence about its implementation, but not the complete account or reference to any holistic conceptual or theoretical frameworks. Without this information, it is difficult to understand whether VAMP has any theoretical and practical validity from a public-policy standpoint as a private-sector or industry ideational framework, and whether it should be supported, redesigned or replaced.

VAMP as a global IA governance paradigm is not described sufficiently and there is no account and explanation of its genesis. This presents an opportunity to conduct a research study focused on the description and conceptualization of VAMP as a global IA governance paradigm, development of its historical account, and explanation of its genesis, from a public policy perspective.

1.2.2.2. Lack of Assessment of VAMP Adoption in the Public Sectors Worldwide from the Public Policy Perspective

By 2017, the governments around the world have accumulated at least 15 years of experience of transition to the VAMP paradigm in their IA sectors. However, there is no comprehensive information in the academic literature and government materials on how the VAMP as a “universal blueprint” for the IA activity was transferred to the public sectors of the countries worldwide and what were the outcomes. The emerging literature allows deducting some adoption and convergence trends with respect to the public-sector IA reforms based on VAMP prescriptions, as identified in Allegrini et al. (2006), Collier and Zaman (2005), Cooper et al. (2006), and Al-Akra et al. (2016). Logically, many questions arise with respect to whether and how VAMP, as a global industry model of IA activity, was directly transferred to the public-sector environment and to what extent, and whether there were any problems of adoption and implementation.

There is no comprehensive assessment of VAMP adoption in the public sectors worldwide, based on public policy objectives. This presents an opportunity to conduct a research study focused on the comparative analysis of the patterns and assessment of results and outcomes of the adoption of VAMP paradigm in public sectors worldwide.

1.2.2.3. Lack of Comprehensive Account and Explanation of the Role of Supra-National Institutions (SNIs) in Global VAMP Diffusion and Adoption from the Public Policy Perspective

There is some empirical evidence that the global advocacy of the VAMP paradigm in the public sectors, carried out by the SNIs, partners of the IIA, is the strongest factor in its proliferation in public sectors worldwide. While there is an extensive body of academic and SNI literature on the general matters of international mechanisms of policy transfer and SNI involvement in various policy sectors globally, the literature is remarkably silent when it comes to IA policy. However, some academics note the indirect impact of the SNIs' work on international initiatives, standards and best practices on government modernization, accountability and governance, where IA plays a special role. In these, the SNIs have been highly influential, and contributed to the adoption of best-practices and standards in the government IA sectors worldwide, as noted by Al-Twajjry et al. (2003) and Diamond (2002). Yet, the SNIs as the key IA policy actors, have not yet been studied, and their role and mechanisms of influencing IA public policy have not been explored in the academic, SNI or IA professional literature.

There is no comprehensive account and no explanation of the role of supra-national institutions (SNIs) in VAMP diffusion and adoption from the public-policy stand point. This presents an opportunity to conduct a research study focused on the development of such an account and explanation of the role of SNIs in global VAMP advocacy for public sectors.

1.1.2.4. Lack of Assessment of VAMP Implementation in the National Westminster Governments from the Public Policy Perspective

The cluster of Westminster countries has historically similar government traditions and institutions, inherited from the British colonization and resulting transfer of parliamentary traditions, explaining why these countries tend to adopt similar policies and undertake similar reforms. At present, national governments of the UK, Canada, and Australia have accumulated at least 15 years of experience of IA reforms, marked by the transition to the VAMP paradigm in their IA sectors. Logically, many questions arise with respect to whether the direct transfer of this private-sector model to the public-sector environment was feasible and whether there were any problems of implementation. However, there is not much information in the academic literature and government materials on: 1) whether and how fully the VAMP as a “universal blueprint” for the IA activity was transferred to the public sectors of the Westminster countries; 2) whether the specifics of nation-states were considered during the adoption process; and 3) what were the outcomes of these reforms.

In the case of the United Kingdom, where the HM Treasury and the Relevant Internal Audit Standard Setters (RIASS) have accepted the new IA definition and the IIA standards since their release in 1999, there are some academic accounts, such as by Selim et al. (2009), of the overall increase of IA activity in the country after the change in the IA definition by the IIA in 1999. However, the 2012 report of the National Audit Office (see NAO 2012) slammed the HM Treasury’s Internal Audit Transformation Programme (IATP) as partial and ineffective, and declared that the IA sector in the UK’s national government does not provide value for money and needs further reforms. In the case of

Australia, where the new IA definition and standards were popularized by the IIA Australia since their release in 1999 and 2000, the IIA research found that the Australian government's audit activity as lackluster and that "...at the state government level, commitment to internal audit remains patchy" (IIA 2009c), while there is no research on how the IA functions are doing in the national government under the new paradigm. In the case of Canada, where the Government of Canada (GOC) accepted the IIA standards in 2001 as is, the experience of transition to VAMP has been claimed as a success by the Cabinet according to the 2011 federal IA policy evaluation report by Ference Wicker (2011). It stated that the positions of the CAEs and the Departmental Audit Committees (DACs) have been established, the IA functional community has been enhanced, and the professionalization initiatives have been rolled out. However, there is no independent or comprehensive empirical evaluation to assess how VAMP is performing in the GOC, except the special-issue assessments by Larson and Zussman (2010a-b) and Shepherd (2011) on the impact of establishment of DACs, and description of the drivers behind public-sector IA professionalization by Troupin (2012). In the post-reform environment, there are signs that the international IA blueprint has some problems, and it is necessary to understand these developments in full.

There is no comprehensive account and assessment of VAMP implementation in the 21st century reforms in the national Westminster governments of the UK, Australia, and Canada. This presents an opportunity to construct such an account and conduct a comparative analysis and evaluation of the VAMP implementation within the context of IA reforms in these countries, in order to assess its implications, understand its problems and assess the degree of achievement of expected outcomes.

1.2. Overview of Research Design

The research design in this thesis is informed by Blaikie (2000, 2003, 2010), who developed a general research design framework for the social research projects, to which public policy research projects belong as a sub-group. These general concepts are used to develop a tailored research design for this thesis, which constitutes a significant project in basic and applied policy research. This stems from the fact that research problems, identified in this thesis, point to the exploration, description, explanation, and evaluation as the appropriate types of research objectives to employ. They can be used in combination and their implementation would require to conduct both the basic and the applied research studies. Further, these types of research objectives require the use of a combination of inductive and deductive research strategies. The investigation of each of the four public policy research problems is treated as a separate empirical research project, subject to a specific research approach, but linked to the overall logic of enquiry in the thesis, intended to provide a dynamic and comparative view of the story of IA governance in the public sectors worldwide and in the Westminster cluster of countries, illustrated in Figure 2.

Due to the nature of the stated research problems, they will be investigated at several levels of analysis: global, world regions, country cluster, and country case. Next, a description of *research approaches* for the *empirical research projects* is presented, specific for the study of each of the research problems, in the logic chain from the public policy research problem - to research objective - to research questions - to research hypotheses – to a statement of the research approach combining the relevant elements and project boundaries.

Figure 2 Overview of Research Design

Source: Author, December 2017

- *Empirical Study 1*

The first public policy research problem stems from the fact that there is an insufficient description or understanding of VAMP as a global IA governance paradigm and no account and explanation of its genesis from the scientific public policy perspective, which leads to the research objective to establish its historical account, describe and explain VAMP as a global paradigm of the modern IA industry and profession in a dynamic perspective. This leads to the generation of research questions, such as: What are the characteristics of VAMP as a global paradigm of the IA profession, how did it emerge and why? Based on the preliminary literature review, a tentative research hypothesis can be formulated that VAMP is considered to be a best-practice solution for the IA activity worldwide, and that it has emerged as a response of the global IA profession and industry to multiple endogenous and exogenous conditions and pressures. The nature of the research questions and hypothesis requires adopting both inductive and deductive research strategies and a hybrid research approach, in order to conduct exploratory, descriptive and explanatory study of the evolution of paradigms in the modern IA profession at the global level, which would allow the identification and positioning of VAMP. The time period under research is 1941-2017, since the modern IA profession began its development in 1941 with the creation of the IIA in the United States. The types of methods that are useful for this type of study include primarily qualitative analysis techniques, while the sources of data are drawn primarily from the IA professional literature historical records, and documentation, academic literature, and the documentation of organizations that played a role in IA industry development.

- ***Empirical Study 2***

The second public policy research problem is the lack of assessment of VAMP adoption in the public sectors worldwide from a public policy perspective, which leads to the research objective of establishing an account of global public-sector VAMP adoption and conducting a comparative assessment of outcomes. Based on the preliminary literature review, the main research question can be formulated as: What is the extent and key results of VAMP adoption in the public sectors worldwide? Several research hypotheses can be identified: 1) despite the overall global convergence trend, the world regions vary in patterns of VAMP adoption in public IA sectors; and 2) VAMP adoption has both successes and failures. The nature of the research questions and hypotheses produced a research approach that facilitates measurement and assessment of public-sector VAMP adoption on the aggregate, global basis, and comparatively across the world regions. Since VAMP emerged in 1999, the most recent data from the 2015 IIA Global Internal Audit Practitioners Survey were used as the most effective in constructing a snapshot of the status of adoption and conducting assessment of the VAMP implementation outcomes.

- ***Empirical Study 3***

The third public policy research problem is the lack of a comprehensive account and explanation of the role of SNIs in global VAMP diffusion and adoption in public sectors worldwide, from the public policy perspective. The research objective of this component is to establish such an account, and to describe and explain SNI involvement in global VAMP diffusion and adoption. The main research question can be formulated as: What are the key reasons and mechanisms of SNI participation in global VAMP advocacy? The preliminary research hypotheses are that the key rationale for SNI involvement is that

VAMP fits international regimes and agendas of SNIs as a universal international best-practice solution for IA activity, and that the key mechanism of SNI participation in VAMP diffusion and advocacy is through their membership in the global IA policy networks and advocacy coalitions. The research approach involves conducting a comparative exploratory, descriptive and explanatory study of the role of SNIs in VAMP advocacy through qualitative case studies of select SNIs from the end of the 20th century up to the end of 2017. This analysis requires a variety of mostly secondary and tertiary data sources, including academic literature, documentation from SNIs, international standard-setting bodies, and other international actors in IA policy networks and coalitions.

- *Empirical Study 4*

The fourth public policy research problem is the lack of a comprehensive account, explanation and assessment of VAMP implementation in the national Westminster governments of the UK, Australia, and Canada from a public policy perspective. This leads to the research objective of establishing such an account, followed by the comparative description, explanation, and evaluation of VAMP implementation in these governments. The main research question is posed as follows: What is the degree of VAMP adoption and patterns of variation, convergence versus divergence, success versus failure in the policy implementation and IA governance regimes in national governments of the UK, Australia, and Canada? The main research hypothesis is that country VAMP implementation styles and resulting IA policy regimes differ, even though there is a convergence trend in the overall adoption results. The research approach is a comparative exploratory, descriptive and explanatory analysis and evaluation of VAMP adoption in select Westminster countries, as part of their IA reforms. The focus is on identifying any commonalities and

differences in the implementation practices, as well as any common determinants of success or failure of the VAMP-inspired IA reforms. This empirical research project employs a case study methodology based on a mix of analytical methods. It requires an integration of a broad range of data sources, including historical, archival, documentary and legislative and policy information from the governments and IA-related organizations, parliamentary records (Hansard), interviews with public-sector officials and leaders of the IA industry and government IA sectors, and country statistics from the 2015 IIA Global Internal Audit Practitioners Survey. The period of study is from the end of 1999, when VAMP emerged, to the present (2017). However, because countries have historically established institutions and government practices, that determine the paths of public policy, the context of the history of these countries' systems of public administration and policy-making is considered, as needed, to explain policy rationales and outcomes of VAMP adoption.

1.3. Thesis Structure and Contribution

The research design statement presented above provides the structure for the thesis. Chapter 2 outlines the theories and methods employed in the research. The first section describes the author's synthetic ***Generalized Conceptual Framework for Analysis of IA Policy Dynamics and Variation***, based on the adaptation of Howlett et al. (2009) meta-theory of public policy-making and a range of the mid-level neo-institutionalist theories, frameworks, and concepts, drawn from three fields of knowledge: public policy and administration, business administration, and IA profession. The ***theoretical contribution*** is that this framework can be applied to the study of policy dynamics and variation in the government IA sectors across all jurisdictions. The second section details four applied

analytical frameworks (i.e. examples of operationalization of the conceptual framework), developed by the author, to conduct empirical research in application to select public policy research problems and customized to their policy context, at the global, world regions, and Westminster country clusters (national government) levels of analysis. These analytical frameworks for empirical studies are replicable in other jurisdictions and cases.

The thesis contains four substantive chapters, detailing the empirical studies. Chapter 3 provides the study of the post-1941 historical development of the professional paradigms in modern internal auditing, including the current global IA paradigm – Value-Added Management Partner (VAMP). The *theoretical contribution* of this study is the extension of Kuhn’s (1962, 1969) paradigm analysis framework and Abbott’s (1988, 1991) theories of professionalization and systems of professions to design the concept of professional paradigms and the methodology for dynamic professional IA paradigm conceptualization and analysis. Overall, this research provides a practical theoretical framework and empirical illustration for the studies of professional paradigm dynamics, which can be applied in other professional fields. The *empirical contribution* of this research is the application of these new theoretical constructs in the development of the first historical account and explanation of the evolution of three paradigms of the modern IA profession from 1941 to 2017, identification of drivers of their stability and change, and paradigm conceptualization, based on historical materials, documentation of the professional associations (primarily the IIA), and professional IA literature.

Chapter 4 examines the “audit explosion” phenomenon in the public-sector internal auditing (IA) worldwide, powered by the emergence of the global VAMP paradigm in the global internal audit industry at the turn of the 21st century, taking into account the key

sources that feed it, such as the IIA as the main regulatory and standard-setting body of the global IA profession. The *methodological contribution* of this study is the development of an approach for the comparative measurement and assessment of professional IA paradigm adoption in the government setting, based on derivation of key indicators of the VAMP paradigm and linking them to the empirical data. The *empirical contribution* of the study is: 1) production of the first comprehensive statistical snapshot of the status of VAMP adoption in the public sectors worldwide, based on the latest IIA data from the 2015 Global Internal Audit Practitioners Survey (GIAPS-CBOK); and 2) assessment of the degree of success and variation in policy implementation of VAMP as an international best-practice blueprint, followed by the explanation of their main causes.

Chapter 5 provides the study of the role of SNIs in the VAMP diffusion and transfer in the public sectors worldwide, based on three case studies of VAMP advocacy by the World Bank, the OECD, and the European Commission (EC) of the European Union. The *theoretical contribution* of this study is the application of Kuhn (1974) and Nicholls and Teasdale (2016) concepts of nested paradigms, Howlett et al. (2009) definition of international regimes, Daigneault (2014) concept of policy paradigm, author's concept of professional paradigm, and Sabatier (1988) concept of the policy advocacy coalitions, to develop an integrated methodology for identifying the key drivers, channels and patterns of SNI participation in the global IA policy-making and VAMP advocacy, which can be applied to the study of other SNIs. The *empirical contribution* of this study is the development of the first account and explanation of the involvement of SNIs in VAMP advocacy in the government domain. It provides a better understanding of the work of the global IA policy networks and policy advocacy coalitions in the international IA policy

agenda-setting, diffusion, transfer and advocacy of the international standards and best practices.

Chapter 6 outlines three case studies of VAMP adoption as the policy choice in the IA reforms of three national Westminster governments of the UK, Australia, and Canada in the post-2000 period, with historical excursions into the formation of the Westminster institutions of responsible government as the traditional determinants of IA governance regimes. A *methodological contribution* of this study is the development of a hybrid methodology for the comparative analysis and evaluation of policy implementation, where the adoption of private-sector best practice and international standards is a special case, from the public policy perspective, using both the IA industry and the public-sector evaluation tools. The *empirical contribution* of the study is that it presents the first comparative analysis and evaluation of implementation of the private-sector IA paradigm VAMP in the national Westminster governments of the UK, Australia, and Canada from the public policy perspective. The research identifies key successes and problems of VAMP adoption, and the patterns of variation in policy implementation of VAMP-inspired IA reforms in the IA sectors of these governments. It provides a better understanding of the issues associated with implementation of international and private-sector policy blueprints in the public sector and informs public policy analysis. From the point of view of the Canadian public administration and policy research, this study is the first attempt to position the recent modernization of the IA sector in the GOC to similar reforms in other Westminster countries, and to assess how Canada fares in comparison.

Finally, Chapter 7 provides the summary of key research findings, outlines overarching policy propositions for domestic and international policy communities to consider, and offers perspectives on future research.

2. Chapter 2: Theories and Methods

The dynamic and comparative analysis of change of a complex policy sector, such as public-sector IA, requires assessment of the ideational frame and boundaries of its concepts and practices, the public policy context in which it is applied – including the domestic and international institutions and actors – and the factors that influence change. This thesis aims to do more than just reveal a static “snapshot” of the public-sector IA policy-making process, but also explain its dynamics and variation. Because public-sector IA is an interdisciplinary field, the theoretical and methodological challenge is to correctly reflect its nature by drawing on three relevant epistemological sources of theories, concepts and practices: public policy and administration, business administration and management sciences, and the IA profession. This chapter is comprised of two parts: 1) articulation of the conceptual framework that guides the analysis, and 2) specification of the methodology and data sources for each of the four empirical studies identified in the research design.

The conceptual framework draws on Howlett et al. (2009) **meta-theory of public policy-making** (further referred to as **meta-theory**) that integrates the concepts of policy context (based on institutions-ideas-interests or 3Is), policy subsystems, policy regimes, and policy ideas (paradigms) in a way that explains **policy dynamics** (stability, change, and termination) across the policy cycle (i.e. agenda-setting, policy formulation, decision-making, policy implementation, and policy evaluation) and **policy variation** across the socio-legal and geo-spatial dimensions. Each component of the system can be both an independent and dependent variable, and has its own dynamics and patterns of interactions with other elements of the system, resulting in a unique impact on the system (explanatory power), and vice versa, in analogy to the mathematical systems of equations. As an

overarching meta-theory, this approach has the flexibility to incorporate various *mid-level theories and models* into the logic, providing nuanced explanations for the interactions between the system elements and the internal and external dynamics of each element, specific to the policy sector under study. As a dynamic approach, it explicitly recognizes that the policy process may often follow a non-linear rather than a sequential pattern, making it sometimes difficult to distinguish between the stages of the policy cycle. The point is to make this framework generalized enough to be able to apply it for the study of public-sector IA policy dynamics and variation in various jurisdictions and levels of analysis, such as national, country cluster, regional, and global, and to reflect both dynamic and comparative perspectives.

2.1. Generalized Conceptual Framework for Analysis of Public-Sector IA Policy

Dynamics and Variation

The high-level architecture of the *Generalized Conceptual Framework for the Study of Public-Sector IA Policy Dynamics and Variation* in the government IA sectors is presented in Figure 3. The framework is based on four pillars: 1) public-sector IA theoretical lens; 2) public-sector IA policy context; 3) public-sector IA policy dynamics across policy cycle; and 4) public-sector IA policy variation. Each pillar contains elements that help to define and study the public-sector IA policy subsystems and policy regimes, to be able to apply it effectively in various jurisdictions to gain meaningful insights and to analyze evidence more precisely.

The integrative or synthesizing explanatory logic of the conceptual framework is illustrated in Figure 4. First, the theoretical lens define the IA policy boundaries.

Figure 3 Generalized Conceptual Framework for Analysis of Public-Sector IA Policy Dynamics and Variation: High-Level Overview

Source: Author, December 2017

Second, it allows narrowing down the relevant spectrum of IA policy context and conduct the mapping of its relevant 3I elements, e.g. groups of all relevant ideas (paradigms), institutions, interests (actors) and macro-political and socio-economic factors and conditions that interact in the policy subsystem. Third, the IA policy context map permits identifying complex mechanisms of this interaction that produce responses to the IA public policy problems over the IA policy cycle, which result either in the support for the existing policy or in a policy change/termination, explained by the applicable theories and models of policy dynamics.

Figure 4 Explanatory Logic of the Generalized Conceptual Framework for Analysis of Public-Sector IA Dynamics and Variation

Source: Author, December 2017

Fourth, it then makes it possible to identify IA sector-specific policy responses, that result in a variety of IA policy outcomes and policy regimes, manifesting in various degrees of policy success versus failure, as well as convergence versus divergence, across various socio-legal and spatial dimensions.

2.1.1. Public-Sector IA Theoretical Lenses

The theoretical lenses view the public-sector IA in four perspectives: 1) public-sector IA as a policy sector and a policy subsystem within domestic and international political systems; 2) public-sector IA governance as a policy regime; 3) IA as a profession in a system of management professions; and 4) IA as a discipline in a system of management sciences. These lenses provide important definitions and concepts framing the overall philosophy of this inter-disciplinary research project on public-sector IA, which are used as key theoretical constructs in the conceptual framework and applied consistently throughout the research processes and research outputs.

2.1.1.1. Public-Sector IA as a Policy Sector and a Policy Subsystem within Domestic and International Political Systems

The first theoretical lens of the government IA as a sector and a policy subsystem is derived from the systems view of public policy, where the national policy systems are comprised of a set of policy sectors, operating in the larger domestic and international political systems. John (1998: 5) suggests “...each policy sector varies by the extent to which actors cooperate to achieve their goals. The policy sectors are also different in the way decision makers can achieve outcomes and whether success or failure of a policy feeds back into the rest of the political world...Policy sectors vary according to the instruments and resources available to decision-makers”.

Building on this view, Howlett et al. (2009) associate the concept of “policy sector” with the concept of “policy subsystem”, operating within the policy universe and political system, and consisting of the actors (interests) and institutions: “The policy universe can be thought as an encompassing aggregation of all possible international, state, and social actors and institutions that directly or indirectly impact a specific policy area. The actors and institutions found in each sector or issue area can be said to constitute a **policy subsystem**... within the larger political economic system”, which in turn, could consist of several sub-components (Howlett et al. 2009: 81-83).

Through this lens, the **IA policy sector (policy subsystem)** is defined by the author for the purposes of this study as a dynamic restricted-membership system comprised of two components, linked by the complex policy feedback and interaction mechanisms:

- ***Internal IA policy subsystem***, comprised of: 1) government conventions and statutes prescribing the regime of government accountability; 2) system of government accountability institutions; 3) executive government IA policy units (structures and governance arrangements at the various levels of government, i.e. national, local, municipal, etc.); 4) IA functional community and governance structures, comprised of IA functions, IA committees, and various IA networks.
- ***External IA policy subsystem***, comprised of: 1) relevant supranational policy coordination organizations and international policy networks; 2) international and domestic professional auditing, accounting and management consulting associations and standard-setting bodies, and industry networks; 3) multinational and domestic auditing, accounting and management consulting firms and other assurance practice consultancy providers.

2.1.1.2. Public-Sector IA Governance as a Policy Regime

The second theoretical lens reflects the notion that IA sector governance can be viewed as a policy regime. Howlett et al. (2009) define **policy regime** as a long-standing pattern in the substance and process of public policy-making in a specific policy sector, representing a combination of:

- 1) a common set of policy ideas (or a policy paradigm); and
- 2) a common or typical set of policy actors and institutions organized around those ideas (a policy subsystem), who have common interests and cooperate to some extent (see Howlett et al. 2009: 87).

Building on these notions, the **IA governance regime in the IA policy sector** can be defined broadly as a mix of public policy ideas (paradigms), institutions and interests (actors), which determine the substance, the processes, and the structures aimed at informing, directing, managing, and monitoring IA sector's activities towards achievement of its policy objectives, throughout the IA policy cycle. In general, this mix includes:

- ***IA ideas (paradigms) as sets of dominant philosophies, standards, policies, strategies, procedures and processes***, prescribing the role, scope and nature of IA services with respect to assuring government accountability, transparency, risk management, governance and control; the governing relationships between the members of the IA policy sector, its stakeholders, and institutions; and the organization, management, monitoring and measurement of IA performance.
- ***IA internal and external policy subsystems (composed of institutions, interests (actors), and governance arrangements)***, as described above.

2.1.1.3. *IA as a Distinct Profession in a System of Management Professions*

The third theoretical lens is derived from the fact that the public-sector IA community is an integral part of the modern internal auditing profession, and it is expected to evolve with the profession and to reflect its norms, standards, practices, and paradigms. The global IA profession itself is an influential actor in the IA policy subsystem. It is also expected that the IA profession operates in the system of related professions (e.g. external government auditing, accounting, finance, information management, etc.), whose professional paradigms affect IA knowledge and practices and vice-versa.

These theoretical assumptions arise from the historical development of the modern IA industry, that according to Flesher (1991), emerged out of the external need of the growing capitalist societies for it to be an integral part of the management of the organizations and offer practical solutions (see Flesher 1991: 3-4). Further, according to Kuhn's (1970) framework for paradigmatic analysis of natural-science specialties (disciplines), *IA qualifies as an applied field of knowledge*, rather than a scientific one, since it exists due to the broad societal need for IA services and practical solutions in the management of organizations. In Abbot's (1988) framework of the systems of professions, the *IA also qualifies as a profession*, i.e. the exclusive occupational group applying somewhat abstract knowledge to particular cases, evolving through the waves of professionalization and jurisdictional contests (see Abbott 1988: 8). Using these two notions of the internal audit as an applied field and a profession, in application to the public-sector IA, it is possible to theorize that its development and change would inevitably be subject to the dynamics of the **professional paradigms** of IA industry in a system of related professions.

2.1.1.4. IA as a Discipline in a System of Management Sciences

The fourth theoretical lens reflects the fact that IA as a discipline is an applied meta-field, which draws on and integrates its knowledge and practices primarily from the field of business administration comprised of a system of management sciences, including corporate governance, accounting, finance, strategic management, organizational analysis, etc. This provides additional insight into the possible sets of the ideas and paradigms that shape the IA policy context.

2.1.2. Public-Sector IA Policy Context

Since the IA policy sectors operate within the larger domestic and international political systems, it is necessary to understand the relevant policy context, generally comprised of the four dimensions: 1) institutions; 2) ideas (paradigms), norms and standards; 3) actors (interests); and 4) macro-political and socio-economic environment (see Howlett et al. 2009: 87).

2.1.2.1. Institutions

The meta-theory is based on the statist view of the institutions and distinguishes the following categories: 1) meta-institutions, such as political-economic systems and underlying political ideologies; 2) public administrations and their supporting bureaucracies; and 3) policy-making structures and conventions.

2.1.2.1.1. Meta-Institutions: Political-Economic Systems

According to Howlett et al. (2009), the meta-institutions, such as *political-economic systems and supporting political ideologies*, “inform the structure within which the public policy process unfolds in most modern societies” (Howlett et al. 2009: 53), and thus they are expected to inform the structure of the public-sector IA. Howlett et al. (2009)

restricted their examples to the description of only one type of the political-economic systems - a liberal-democratic capitalist state, shaped by the ideologies of capitalism, liberalism and democracy, with differentiation into the federal/unitary and presidential/parliamentary types, which cover much of the Western world. However, the meta-theory applies equally well to other parts of the world, which have different settings of meta-institutions, including those shaped by alternative ideas on the organization of state and economic development, such as those found in communism, socialism, and various religions. The parameters of public-sector IA policy subsystems and policy regimes are expected to vary, depending on the type of the political-economic system in which the national IA sector is situated, that would, in turn, help explain the differences in the public-sector IA policy outcomes in different jurisdictions.

2.1.2.1.2. Public Administrations

The mix of meta-institutions in each nation-state has an impact on the design of the respective *public administration models*, which are the settings in which government IA sectors operate. Drechsler (2013) explained the impact of the political-economic systems on the formation of the Western (Anglo-American), Chinese (Confucian), and Islamic (Ottoman) paradigms of public administration, and the differences between them. Thus, it is possible to theorize that the type of public administration (PA), employed by the state bureaucracies, can have important implications for the variation in public-sector IA governance models across the nation-states, on the continuums of: 1) centralized versus decentralized IA organization; 2) executive versus legislative control of IA function; and 3) IA as a preventative ax-ante control versus strong ex-post accountability control.

Indeed, according to Diamond (2002), the country's political system and public sector management conventions determine the overall regime of governance, which in turn determines the IA governance regime. He states that IA models differ between countries due to the different institutional approaches and operational conventions inherent in the country public expenditure management systems. It is fair to assume that these ideational frameworks would inevitably affect such crucial public-sector IA policy dimensions and modes as: 1) IA policy development and coordination; 2) IA standard setting; 3) relationship of IA with other elements of the political system, such as the legislative branch, national Supreme Audit Institutions (SAIs), etc.; 4) IA reporting; 5) IA operations; and 6) IA professional practice management. For example, based on Diamond (2002) and author's own research, it is possible to conclude that there are three types of IA governance regimes in the public sectors of the OECD countries, which operate under the Western PA model: centralized (e.g. UK, France, and Portugal), decentralized (e.g. Canada, Australia, and Netherlands), and mixed (e.g. US, Germany, and Sweden), illustrated in Annex 1.

Therefore, when approaching analysis of the public-sector IA sector policies and governance regimes, it is important to first take a look at the political-economic systems of the nation-states and the type of PA they employ.

2.1.2.1.3. Policy-Making Structures and Conventions

Further, the political-economic system and the PA type are important determinants of the mix of the *policy-making structures (units) and conventions* in any modern state, inevitably affecting the policy sectors, including the public-sector IA. The former refer to the combination of executive, legislative and judiciary institutions in the public administration and the interactions between the levels of government, while the latter refer

to the constitutional conventions, legislative frameworks and their policy implementation apparatus. Logically, each dimension will vary depending on the political-economic system and the PA type of the nation state. Identifying and mapping policy-making structures and conventions in application to the public-sector IA policy sector in various jurisdictions is an important public policy research objective.

2.1.2.2. *Ideas (Paradigms), Norms and Standards*

The *ideas, norms, and standards dimension* contains five key sources of the modern IA theory and practice: 1) governance ideas, related to the public, corporate, and private governance; 2) internal control and risk management ideas; 3) public policy and professional paradigms; 4) international regimes and norms; and 5) international auditing standards.

2.1.2.2.1. Governance Ideas

- **Public Governance**

The concept of public governance has Western epistemological roots, is constantly evolving, and is subject to continuing scholarly debates, according to Pierre and Peters (2000), Osborne (2010), Pal (2014), Villanueva (2015), and Katsamunskaja (2016):

Scholars use governance in both the old and the new sense: Governance is the institutional capacity of public organizations to provide public and other goods demanded by a country's citizens or the representatives thereof in an effective, transparent, impartial, and accountable manner, subject to resource constraints (Katsamunskaja 2016:134).

Osborne (2010) provides a multiple-strand theoretical view of the public governance concept, such as: 1) "*Socio-political governance*, concerned with the overarching institutional relationships within society; 2) *Public policy governance*, concerned with how policy elites and networks interact to create and govern the public policy process; 3) *Administrative governance*, concerned with the effective application of PA and its

repositioning to encompass the complexities of the contemporary state; 4) *Contract governance*, concerned with the inner workings of the NPM, and particularly the governance of contractual relationships in the delivery of public services; and 5) *Network governance*, concerned with how “self-organizing inter-organizational networks” function both with and without government to provide public services” (Osborne 2010: 6-7).

Conventionally, the Western public policy literature situates public governance on the continuum of paradigms of public administration, since it is its problem and its subject.

- **Corporate Governance**

“Corporate governance is concerned with the internal systems and processes that provide direction and accountability to any organization” (Osborne 2010: 6). The *corporate governance theories*, coming from the business administration field, are the source of concepts that indirectly determine the role of IA in the organization through the prism of its relationship with the top governance structures in the organization, such as corporate management boards, due to the theoretical and regulatory requirements of separation between the functions of ownership and control. There are four major corporate governance theories that attempt to define the role of IA in application to the private-sector setting: 1) agency theory; 2) stewardship theory; 3) resource-dependence theory; and 4) stakeholder theory. These are described in Johnson et al. (1996), Eisenhardt (1989), Sundaramurthy and Lewis (2003), Davis et al. (1997), Donaldson and Davis (1991), Hillman et al. (2000), Hillman and Dalziel (2003), and Jones et al. (2002).

These theories are the key sources of ideas about the composition of the boards of directors and the role of audit committees on the board, as well as the composition of the IA committees and the independence of its members from management, as noted by Clarke

(2008, 2009). Historically, they made their way to the judicial and regulatory institutions, such as securities commissions and courts, which then issued the laws, regulations, and Corporate Codes, prescribing the structure and the management principles for the corporate boards and their audit committees (see Verschoor 2008: 42-46).

It is important to note that there are differences between the Anglo-American and European views on corporate governance and the composition of the boards of directors, where the former favors the shareholder primacy, while the latter – the stakeholder privacy. This results in the one-tier board structure in the Anglo-American world, and the two-tier board structure in the European countries, as described in Block and Gerstner (2016). These differences in the corporate governance views and resulting national or sub-national regulations for the corporate boards determine the role of the audit committees and the specifics of their operations. The prevailing practice is to have the IA committees as the committees of the board of directors of the organization, consisting of independent non-executive directors, to ensure IA independence.

The corporate governance concepts also influenced the development of the laws that directly determine the position of IA in the organizational governance regimes, such as the 8th EU Company Law Directive, article 41, that mandated the currently prevailing “Three Lines of Defense Model”, as illustrated in Figure 5. The “Three Lines of Defense” model is the foundation of the formal guidance of the European Confederation of Institutes of Internal Auditing and Federation of European Risk Management Associations to senior management and IA functions, later adopted by the IIA in its key position paper (see ECIIA-FERMA 2011; IIA 2013a).

Figure 5 Three Lines of Defense Model⁴

Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

It underpins modern organizational governance and articulates the roles and responsibilities of the functions involved in the Enterprise Risk Management (ERM) as follows:

- In the Three Lines of Defense model, management control is the first line of defense in risk management, the various risk control and compliance oversight functions established by management are the second line of defense, and independent assurance is the third. Each of these three “lines” plays a distinct role within the organization’s wider governance framework. Governing bodies and senior management are the primary stakeholders served by the “lines,” and they are the parties best positioned to help ensure that the Three Lines of Defense model is reflected in the organization’s risk management and control processes (IIA 2013a: 5).
- Management establishes various risk management and compliance functions to help build and/or monitor the first line-of-defense controls...Each of these functions has some degree of independence from the first line of defense, but they are by nature management functions. As management functions, they may intervene directly in modifying and developing the internal control and risk systems. Therefore, the second line of defense serves a vital purpose but cannot offer truly independent analyses to governing bodies regarding risk management and internal controls (IIA 2013a: 4).
- Internal auditors provide the governing body and senior management with comprehensive assurance based on the highest level of independence and objectivity within the organization. This high level of independence is not available in the second line of defense. Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives (IIA 2013a: 5).

⁴ Image copied from the IIA (2013a)

Thus, internal audit is a third line of defense in the corporate ERM system, tasked to provide independent assurance and advisory services to the senior management and governing bodies of the organization, who are the “owners” of the governance and risk management regime. It is important to emphasize that this model provides important separation between the business lines and controlling functions of the organization to ensure their proper functioning.

Further, ideas and theories of corporate governance have entered the international regimes of supra-national institutions, which shaped the global corporate governance practices for decades. This thesis will demonstrate that corporate governance ideas were crucial in the evolution of the IA profession and IA governance regimes, and continue to play an important predictive role in the evolution of IA function and its governance in both private and public sectors.

- **Private Governance**

The IA profession and related professions, such as accounting, external auditing, and management consulting, are the “prime examples” of private-sector governance, according to Quaglia (2014). Rudder et al. (2016) define *private governance* as a “public policy privately made” by the private organizations on the premise of state delegation, comprised of decisions and standards (see Rudder et al. 2016: 13-14). Private governance is also associated with the concept of “self-regulation” or “self-governance” that professions employ as their legislated privilege and a right to organize themselves into independent professional associations in the name of public interest, to develop their own professional standards and rules of conduct, and to establish their own training and certification programs (see Schultze 2007). The implications for the public-sector IA public

policy is that it will be inevitably affected by the private-governance systems of the IA, as a global professional body of internal auditors, and all of the other related professional associations.

Of specific importance to the public-sector IA public policy is the tendency of the private-governance institutions to engage in *transnational private governance*, noted by Auld et al. (2015) and Graz and Nolke (2007), and characterized by the devolution of state power and authority in the global policy-setting arena to the private-governance institutions. In the world of IA, this is directly related to the global advocacy activities regarding certain models of IA governance and IIA standards, conducted via transnational or global private-governance networks, comprised of the IIA and other professional associations, where the state and supra-national actors get involved as well.

2.1.2.2.2. Internal Control and Risk Management Frameworks

The management-science theories of internal control and risk management have been operationalized by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992, with the issue of the *Integrated Control-Integrated Framework (ICIF)*, and in 2004, with the release of the *Enterprise Risk Management-Integrated Framework (ERMIF)*. These have become very important frameworks for the IA function, solidifying its role in the apex of every organization as a service to the management boards. They are often referred by the IA practitioners as COSO Cubes (see Annex 2 for details). COSO ICIF postulates that each organization should have an internal control system consisting of five integrated components, such as control environment, risk assessment, control activities, information and communication activities, and monitoring activities, which have a direct relationship between the objectives of the organizations (e.g.

operations, reporting, and compliance) and its organizational structure (see COSO 2013: 4-6). The role of the IA function and the audit committee is defined within the monitoring dimension. COSO ERMIF postulates that each organization should have a risk management system, consisting of internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. The responsibilities of internal auditors in the ERMIF are defined as an obligation to provide input to the board of directors on the adequacy and effectiveness of the framework (see COSO web1).

2.1.2.2.3. Public Policy and Paradigms

Meta-theory postulates that policy regimes contain paradigms that are important determinants of their dynamics. In the case of public-sector IA, it is expected that the IA governance regime will be in many ways determined by the various types of paradigms that affect the views of the policy actors, including such main types as PA paradigms, policy paradigms and the professional paradigms of IA and related professions. Naturally, the composition of paradigms will differ in each jurisdiction.

- **General Definitions of Paradigm and Paradigm-Practicing Communities**

Kuhn's (1969, 1996) concept of paradigm is useful in understanding developments in any field of knowledge: "...the term 'paradigm' is used in two different senses. On the one hand, it stands for the entire constellation of beliefs, values, and techniques, and so on shared by the members of a given community. On the other hand, it denotes one sort of elements in that constellation, the concrete puzzle-solutions which, employed as models or examples, can replace explicit rules as a basis for the solution of the remaining puzzles of normal science" (Kuhn 1996: 75)

In the Postscript (1969), Kuhn elaborated a description of paradigm as a **‘disciplinary matrix’**, shared by a community of specialists or practitioners, which has four dimensions⁵: 1) shared theory (sets of theories), or symbolic generalizations⁶, 2) shared beliefs in particular models⁷, 3) shared values⁸, and 4) shared exemplars and artifacts (concrete and technical problem-solutions)⁹.

In Kuhn’s framework, an exploration of the paradigm begins with an understanding of the *community* that shares it, i.e. the practitioners of a *specialty* that form the sociological basis of a paradigm. The members of the community must have the following unifying traits: 1) similar education and professional initiations; 2) same technical literature and lesson-drawing experience; 3) relatively good intra-group communication and consensus-based professional judgment; 4) membership in the same professional societies, and subscription to professional journals and attendance at professional conferences; 5) production and validation of scientific knowledge¹⁰.

- **Public Administration Paradigms**

Osborne (2006, 2011) divides the evolution of Western public administration into three paradigms – the traditional PA (late 19th century to the late 1970s), the New Public Management (NPM) – from the late 1970s to early 2000s, and the New Public Governance (NPG) – from early 2000s to present.

The *PA paradigm* is defined as the practice of public administration with the dominance of the “rule of law”, where bureaucracy would have a central role in policy

⁵ (Kuhn 1996: 181-187)

⁶ i.e. symbolic generalizations, theorems, laws, etc.’ (Kuhn 1996: 82-183)

⁷ i.e. on the spectrum of heuristic to ontological philosophies/models (Kuhn 1996: 184)

⁸ i.e. predictions, evaluations of crises, judgments of accuracy of the theories, etc. (Kuhn 1996: 184-186)

⁹ (Kuhn 1996: 186-190)

¹⁰ (Kuhn 1996: 176-181)

setting and implementation, a clear separation between the politics and administration, incremental budgeting, and commitment to professionalism in public service delivery (see Osborne 2010)

The *NPM paradigm* is a phenomenon in public management and administration that ranges from managerialism to the full package of government reforms introduced by governments with three common elements: 1) changes in machinery of government, such as departmental restructuring, creation of service delivery agencies, decentralization of authority and responsibility from central to lower levels of government and separation of policy and service delivery functions; 2) new approaches to internal management, such as introduction of private-sector management approaches; and 3) reduction in the role of the state, manifested by the privatization of public enterprises, budgetary and program cut-backs, tax cuts, and cuts to public services and deregulation (see Glor 2001). The general literature on NPM reforms is extensive, as seen in Dunleavy and Hood (1994), Lane (2000), Pollitt et al. (2007), and Pal (2014), including the coverage for Westminster countries in Aucoin (1995, 2012).

The *NPG paradigm* of public management and administration is “both a product of and a response to the increasingly complex, plural and fragmented nature of public policy implementation and service delivery in the twenty-first century” (Osborne 2010: 12). Empirically, it has been most prominently manifested in the areas of “the inter-organizational collaboration, contractual relationships, inter-organizational networks for services delivery, and public policy networks” (Osborne 2010: 12) There is a large body of literature on NPG, including Aucoin (2008), Bovaird (2005), Osborne (2006), Osborne et al. (2012), Haque (2000), Bao et al. (2012), and many others.

Osborne (2010) states that these PA paradigms had a distinct impact on the treatment of the issues of *government accountability*, one of the concerns of public-sector IA (see Osborne 2010: 421-422). The implication for the public-sector IA in the Western PA systems is that it is expected to be affected or to be reflective of the ideas, values and performance expectations of every public governance paradigm and the bureaucracy and public service that supports it, and to change with it. For example, this thesis will demonstrate how the NPM paradigm affected early adoption of VAMP in the public sectors of Western democracies, and how it permeated the international agendas of SNIs, which facilitated the transfer of its Western-based policy concepts around the world.

- **Policy Paradigms**

Meta-theory states that policy paradigms represent a “set of cognitive background assumptions that constrain action by limiting the range of alternatives that policy-making elites are likely to perceive as useful and worth considering” (Howlett et al. 2009: 51). First, it is necessary to understand how policy paradigms are defined in theory, in order to be able to identify them empirically. Second, mapping key policy paradigms that may be relevant for IA policy in any given public-sector IA is an important research objective.

According to Hogan and Howlett (2015), Daigneault (2014, 2015) and Carstensen (2015), Hall (1993) pioneered transposition of Kuhn’s concept of the natural-sciences paradigm into the concept of the policy-making paradigm. This includes his three-order process of paradigm change based on the theory of social learning, consistent with the *evolutionary theory of punctuated equilibrium* used by Kuhn, where there is no constant rate of change, in contrast to the *evolutionary theory of phyletic gradualism*¹¹. However,

¹¹ The *evolutionary theory of phyletic gradualism* states that evolution generally occurs uniformly and by the steady and gradual transformation, and the process is smooth and continuous. [see <http://www.thwink.org/sustain/glossary/KuhnCycle.htm> or

while Hall (1993) inspired a legion of policy scientists to use the concept of policy paradigms, the concept itself remains a subject of considerable scholarly debate.

Further, Daigneault (2014) provided a *definition of the policy paradigm* closest to Kuhn's original, making it sufficiently observable for empirical research purposes, and which is adopted for the purposes of this study, as follows: "Policy paradigms possess four fundamental dimensions: i) values, assumptions and principles about the nature of reality, social justice and the appropriate role of the State; ii) a conception of the problem that requires public intervention; iii) ideas about which policy ends and objectives should be pursued; and iv) ideas about appropriate policy 'means' to achieve those ends (i.e. implementation principles, type of instruments and their settings)" (Daigneault 2014: 461).

When studying paradigms, it is necessary to adopt a long-term view of their development and change. Further, it is important to understand what policy paradigms affect public-sector IA and its governance regimes in any jurisdiction under study, which makes building taxonomies of relevant policy paradigms an important research objective. For example, it is possible to hypothesize that in the Western PAs the policy paradigms relevant for public-sector IA would come from the over-arching ideational macro-economic public management frameworks, since the public-sector IA is an element of the system of government financial management. Such macro-economic policy paradigms as Keynesianism, Monetarism, Neoliberalism, Globalization, observable in the last 100 years of the Western nations' history, come to mind. Obviously, the sets of relevant policy paradigms for government IA sectors in the non-Western countries would be different and

https://en.wikipedia.org/wiki/Phyletic_gradualism] In this dissertation, the *evolutionary theory of punctuated equilibrium* is a preferred choice due to better fit with the theories employed in the research, and especially because it has been used by Howlett et al. (2009), Hall (2003), and Hogan and Howlett (2015) that are major theoretical references in this study.

unique due to differences in institutions, which would also explain public-sector IA policy variation across jurisdictions.

- **Professional Paradigms**

The study of the dynamics of professional paradigms of IA industry and the underlying community is an important part of the public policy research and is key to understanding the dynamics of public-sector IA. Since the public-sector IA community is part of the IA profession, it is expected to reflect its professional paradigms. The challenge in the task of analyzing professional paradigms is that there is no unifying theory or definition of the professional paradigm. The available academic literature is remarkably heterogeneous with respect to the models and methods of professional paradigm analysis, employed in various fields of knowledge, and it does not offer a single theoretical framework, as evidenced in Mukan et al. (2017), Wu and He (2009), Majdalawieh and Zaghloul (2008), Chambers and Odar (2015), Lindstrom (1995), Tomebohm (1987), Jackson (2015), Harington and Beddoe (2014), Cane and Conaghan (2009), Sommerland (1995), and Sommerland (1995). What is common in the literature on professional paradigm analysis is that the analytical approaches are rooted in pragmatism as an important philosophical consideration of the professions under study.

Further, Kuhn (1969) noted that there are differences between the emerging and mature paradigm-sharing communities, and that paradigm dynamics is closely related to the level of community maturity and its professional development path, and he encouraged the researchers to study the community structure.

Thus, following in the footsteps of Hall (1993) and Daigneault (2014), one could venture into the development of a ***general concept of the professional paradigm***, without

getting into extensive theoretical debate, which is still unresolved, according to Hogan and Howlett (2015). Taking Kuhn's (1969) concept of the disciplinary matrix and combining it with the laws of profession-building and evolution, explained in the Abbott's (1988) theory of the systems of professions and Abbot's (1991) concept of the order of professionalization (i.e. control of work and jurisdiction, development of schools and other knowledge institutions, creation of professionally dominated work sites, association, licensing, and scientific transformation), the *disciplinary matrix for the professional paradigms* could be defined as based on four dimensions: 1) a theory of discipline or a common body of knowledge (CBOK) for the profession; 2) definition of the professional activity; 3) professional ethics; and 4) professional standards, professional practices frameworks, and best-practice solutions.

Further, Kuhn in the Postscript elaborated that the *essence of the paradigm* is most often encapsulated in its *shared exemplars* (Kuhn 1969: 187), which is an important construct used in this thesis to refer to major artifacts of VAMP.

This thesis will demonstrate how these different types of paradigms intertwine in the public-sector IA policy environment and influence the formation of the IA policy regimes.

2.1.2.2.4. International Regimes

According to Howett et al. (2009), while “policy-making is very much a domestic concern involving national government and their citizens...the international system also is increasingly vital in shaping domestic public policy choice and policy development” (Howett et al. 2009: 75). Meta-theory identifies the international system, and more specifically, the international regimes, as influential factors in domestic policy, the latter defined as the sets of international governing arrangements, that “vary considerably in

form, scope of coverage, level of adherence, and the instruments through which they are put into practice”, and which make it possible for the international actors to intervene in domestic policy “by promoting certain options and constraining others”, and for the domestic actors to advocate or resist these options for domestic policy (see Howlett et al. 2009: 76). It is important to note that contemporary international system and international regimes originated after the World War II with the formation of the United Nations and the new World Order, aimed to promote international policy cooperation and development.

International regimes could take the form of various multilateral treaties, conventions, agreements, declarations, recommendations, principles, protocols, standards, codes, best-practice guidance, etc. In application to public-sector IA policy subsystems, the international regimes in the areas of public management and administration, economy, finance and banking, trade, development, and corporate and public governance are of greatest importance. According to Howlett et al. (2009), the key effects of the international regimes are the development of common regulatory and policy frameworks, and policy learning, diffusion and transfer (see Howlett et al. 2009: 78). Mapping these regimes would help to understand how the international system affects public-sector IA policies and would constitute an important part of the policy research on its own.

Research allowed identifying the following key international regimes of specific relevance to IA public policy:

1) ***International anti-corruption regime***, implemented by the United Nations via the legally-binding United Nations Convention against Corruption (2003), where IA is referenced as an important preventative anti-corruption control in both private and public sectors (see UN-ODC web1).

2) ***International monetary regime***, carried out by the International Monetary Fund since 1945, where internal audit is recognized as an important component of government financial management (see IMF web4; Diamond 2002; Boughton 2004). One of the corollaries of the monetary regime is the ***IMF Code of Good Practices on Transparency in Monetary and Financial Policies***, where the IMF, together with the World Bank, endorsed the internationally recognized standards and codes in 12 areas important for their work, for which they prepare Reports on the Observance of Standards and Codes or ROSCs (see IMF 2018b). In relevance for IA is the fact that the IMF and the World Bank recognized the OECD's Principles of Corporate Governance, the International Accounting Standards Board's International Accounting Standards (IAS), and the International Federation of Accountants' International Standards on Auditing as part of their ROSC program.

3) ***International development and governance regime***, carried out by the World Bank, with such key initiatives as ***Good Governance***, where IA is recognized as an essential element (see WB web1-3).

4) ***International regime for international cooperation on corporate and public governance***, shaped by the OECD principles and recommendations, where the prescriptions for IA governance and its role in the private and public sectors are specified (see OECD 1999, 2004b, 2015a-d, 2017b).

2.1.2.2.5. International Standards

Pal (2014: 60-62) considers emergence and proliferation of international standards a result of the economic and cultural globalization that occurred after the formation of the new regime of international cooperation after World War II. In application to public-sector

IA, there are three sets of international auditing standards that determine the normative base for IA practices and directly impact policies in the government IA sectors.

The first set is the ***International Professional Practices Framework for Internal Auditing (IPPF)***, designed for the IA industry by the global Institute of Internal Auditors (IIA), a global professional association of internal auditors, which provides the fundamental normative and methodological guidance in auditing of the organizations, on how to set-up the IA function in the organization, how to govern it, and what to expect in terms of its functional role and performance (see IIA 2017; IIA web4).

The second set is the ***International Standards of Supreme Audit Institutions (ISSAI)***, designed for the external government auditing organizations by the International Organization of Supreme Audit Institutions (INTOSAI), that provide the framework for the work of SAIs as national audit offices and the fundamental principles of public-sector auditing, including guidance on their relationship with internal auditors (see INTOSAI web2). These standards are supplemented by the **INTOSAI Guidance for Good Governance** to public authorities on administration of public funds (see INTOSAI web3).

The third set is the ***International Standards on Auditing (ISA)***, designed by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), which provide the normative and methodological guidance for financial auditing of the private and public sector entities.

The IIA IPPF is the primary normative framework for the IA practice worldwide. The ISSAIs and ISAs are the complementary frameworks, providing the link between common elements or understanding between the types of auditing, such as:

- **ISA 610 standard “Using the Work of Internal Auditors”** states that the financial auditors can rely on the work of internal auditors, but still have the sole responsibility for the audit opinion on financial statements.
- **ISSAI 100-39 standard “Fundamental Principles of Public-Sector Auditing”** states that external government auditors may use the work of internal auditors, when the mandate and legislation permit; but, most importantly, because both the external and internal audit functions promote good governance through contributions to transparency and accountability for the use of public resources, they should be able to coordinate their work and cooperate where possible in order to eliminate duplication.

The IIA, the INTOSAI, and the IFAC closely cooperate with each other according to their bilateral Memorandums of Understanding (MOUs) on joint global advocacy efforts for their standards and agendas, through memberships on the respective standard-setting committees, and participation in various joint projects and initiatives (see IIA web 3). The standards overlap in some areas, because the standard-setting bodies work in coordination and harmonization with each other. They regularly provide drafts of their standards for exposure to other counterparts for comments, as well as disseminate position papers on comparisons between their standards.

2.1.2.3. Interests (Actors)

Meta-theory postulates that, in general, there are three major sets of domestic and international policy actors in the country’s political-economic system, representing diverse policy interests, which influence the policy sectors and policy regimes: domestic, policy communities and networks, and international (transnational). Identifying them in relation

to the public-sector IA in any jurisdiction under study is an important public policy research objective.

2.1.3.3.1. Domestic Policy Actors

Howlett et al. (2009) provide a taxonomy of the usual domestic actors, expected to be involved in policy-making, such as political parties, politicians, the public, the bureaucracy (appointed officials), labor unions, interest or pressure groups, think-tanks, research organizations, academic policy experts, consultants, mass media, etc. The theoretical lens for this study suggest that professions and their associations, as private-governance institutions, are important policy actors as well. Naturally, the set of domestic public-sector IA actors will vary depending on the jurisdiction.

2.1.3.3.2. Policy Communities and Networks

The New Public Governance age of public administration assumes existence of a range of inter-connected policy communities and interests in every policy sector and policy regime. Pal (2014: 229-231) provides a taxonomy of the policy communities and networks that can operate both domestically and internationally, such as policy advocacy coalitions, discourse coalitions, epistemic communities, global public policy networks, iron triangle, issue network, policy community, policy network, public interest groups, social movement organizations, and sub-government. Mapping these groups is important in understanding the composition of the policy subsystems in the public-sector IA in any jurisdiction.

2.1.3.3.3. International IA Policy Actors

It is necessary to identify the international actors that are expected to impact the domestic IA sector, either through the international regimes or policy communities and networks. The research showed that there are several groups of international actors relevant

for public-sector IA, such as supra-national institutions (SNIs), international audit-standard setting bodies and professional associations, international IA epistemic communities, Committee of Sponsoring Organizations (COSO), global audit policy networks, global IA policy advocacy coalitions, and the Big Four transnational auditing, accounting and management consulting firms. Their descriptions are presented below.

- **Supra-National Institutions (SNIs)**

Howlett et al. (2009: 76-78), Pal (2014: 28-32), and Hadjiisky et al. (2017: 6, 9-13) argue that SNIs, as one of the most influential types of international policy actors, develop and support international regimes, standards, policy ideas and paradigms, which can then be readily adopted by the domestic policy sector. This also makes it easier for the SNIs to advocate for specific policy options and practices, because: 1) their authority is already embedded in the governing arrangements and international mandates; 2) their theoretical and practical expertise in a policy sector becomes a recognized and valued resource for the domestic governments that allocate their representatives to work with these organizations; and 3) their funding capabilities are significant. The United Nations (1944) and its system of organizations, which includes the World Bank (1945) and the International Monetary Fund (1945), and the OECD (1961) have been consistently identified in the policy diffusion and transfer literature as the most influential. It is fair to hypothesize that they had an impact on the development of IA sectors worldwide and the proliferation of VAMP. Other prominent SNIs are those related to the multilateral trade agreements, such as the European Union (1993) and the World Trade Organization (1995), which superseded the General Agreement on Tariffs and Trade (1947).

- **International Audit Standard-Setting Bodies and Associations**

There are three prominent international audit standard-setting bodies and professional associations that develop international IA and external auditing standards, including those that impact public sector: the Institute of Internal Auditors (IIA), the International Organization of Supreme Audit Institutions (INTOSAI), and the International Federation of Accountants (IFAC).

The IIA, established in 1941, is the global professional association of all internal auditors worldwide, responsible for the regulation and advocacy of the profession, certification, and development of the International Professional Framework on Internal Auditing (IPPF), with more than 190,000 members and 100 institutes across over 170 countries (see IIA web 1, 2).

The INTOSAI, founded in 1953, is a global professional association of all external government auditing agencies (SAIs) and 6 associate and affiliate members, providing an institutional framework for the work of SAIs and responsible for development of the International Standards of Supreme Audit Institutions (ISSAI) and the Guidance for Good Governance or INTOSAI GOV (see INTOSAI web1-4).

The IFAC, founded in 1977, is the global professional association for about three million of public accountants worldwide, with more than 175 member and associate organizations in over 130 countries, responsible for the development, regulation and advocacy of the public accounting profession and associated international standards (see IFAC web1). IFAC's International Auditing and Assurance Standards Board (IAASB), founded in 1978, is responsible for the development of the International Standards on Auditing or ISA (see IAASB web 1).

The IIA and INTOSAI have a consultative status with the United Nations' Economics and Social Council (ECOSOC), while IFAC's IASSB belongs to the category Liaison A of the International Organization for Standardization (ISO), which also has a consultative status with the UN's ECOSOC as a non-governmental organization or NGO (see UN ECOSOC 2008).

- **International IA Epistemic Communities**

According to Pal (2014), international epistemic communities refer to the communities of international groups of experts in policymaking, specific to the policy sector. For example, the OECD established an *Auditors Alliance (AA)*, “a unique forum for public sector internal and external auditors to share insights and expertise on their audit practices”, aiming to “bring together public sector auditors, create a space to share better practices and overcome challenges in public sector auditing, and facilitate institutional partnerships in the spirit of mutual learning and targeted co-operation, matching the needs and skills of different auditors and audit entities” (see OECD AA web1).

There are also broader epistemic communities that have a direct effect on the domestic IA sectors, such as: 1) experts at SNIs; 2) experts at international standard-setting bodies and professional associations and their local chapters; and 3) experts in government IA functions. Further research is necessary to fully map these communities.

- **Committee of Sponsoring Organizations of the Treadway Commission (COSO)**

COSO is a transnational private-governance initiative, founded in 1985, jointly sponsored and funded by the American Accounting Association (AAA), American Institute of Certified Public Accountants (AICPA), Financial Executives International

(FEI), Institute of Management Accountants (IMA), and the Institute of Internal Auditors (IIA) (see COSO 2013). “The COSO mission is to provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations” (COSO web1). COSO is directly engaged in the setting of the international norms and guidance in these subject-matter areas, including the Internal Control-Integrated Framework (ICIF) and Enterprise Risk Management-Integrated Framework (ERMIF), described earlier. These frameworks have been operationalized globally.

- **Global Audit Policy Networks**

According to Pal (2014: 230), global public policy networks are “quasi-official constellations of state actors, international organizations, and non-governmental organization that do more than advocate, but develop and sometimes even implement policies and assist in global coordination.” McNutt and Pal (2011) suggest that it is important to map them in order to understand how these policy actors influence specific policy fields and how they drive the policy transfer.

In the area of IA policy, in 1968, the United Nations created and consistently maintained UN-RIAS and RIAS, global networks of representatives of internal audit services of the UN System organizations, covering all UN member states. The UN System includes General Assembly, Security Council, Economic and Social Council (ECOSOC), the UN Secretariat, Chief Executives Board for Coordination (CEB), specialized agencies (including the World Bank and the IMF), and affiliated organizations, funds and programs, research and training institutes and other bodies, which lists more than 50 organizations

(see UN web1-2). The UN Office of Internal Oversight Services (OIOS) and its Internal Audit Division (IAD) are also part of these networks (see UN-OIOS web1-2; Zahran et al. 2010; Zahran 2011). “UN-RIAS is an affiliation of Chief Audit Executives of United Nations System organizations. It is a framework and a forum to promote the development and exchange of UN internal audit and oversight related practices and experience. UN-RIAS is a part of RIAS, the Representatives of Internal Audit Services of United Nations organizations and multilateral financial institutions and other associated intergovernmental organizations” (UN web3). The UN-RIAS and RIAS conduct annual meetings “to share good practices and establish guidance for internal audit in the international public sector” (Sukayri and Terzi (2016), p.vi), and are included in all consultative and policy processes related to the UN oversight system, as well as participate in the coordination meetings and conferences of the UN Board of Auditors (BOA), Joint Inspection Unit (JIU), Office of Internal Oversight Services (OIOS), and UN investigators and evaluators (see UN-JIU 2006; UN-JIU 2017; Sukayri and Terzi 2016). Further, since the IIA has a consultative status with the ECOSOC, it regularly participates in its meetings, and in the work of the RIAS and UN-RIAS, including conducting independent assessments on request (see UN-CNGO 1995; UN JIU 2006).

In the area of external audit policy, in 1971, the INTOSAI, in partnership with the UN system organizations, has created a global network for capacity building for the national SAIs, called UN/INTOSAI Symposia (INTOSAI web5-6). All of its members participate, including the national SAIs (94) and the SAI of supranational organizations - the European Court of Auditors, and the associated members, such as the World Bank, the IIA, and the SAI associations of the Francophone (AISCCUF), Portuguese (OISC/CPLP),

and West African countries (UEMOA) (see INTOSAI web5-7). Aside from delivering capacity building projects, the network holds biennial meetings for the exchange of information and experience.

- **IA Policy Advocacy Coalitions (IA PACs)**

Sabatier (1988:133) in his Advocacy Coalition Framework (ACF) theory defines an advocacy coalition operating in a policy subsystem, in general, as a composition of people from various organizations, who share a set of normative and causal beliefs and who often act in concert, adopting a strategy for an institutional innovation that would further its policy objectives, with the end result in government program change.

For the purposes of this study, the *IA Policy Advocacy Coalitions (IA PACs)* are defined as the groups and networks of people from a variety of organizations and positions, key among which are: 1) international IA and external audit standard-setting bodies and other related professional associations; 2) IA industry (i.e. auditing, accounting and management consulting firms); 3) government (i.e. elected politicians and agency officials, including heads of departments, IA executives at the departmental and central agency levels, IA functional communities in IA sectors); 4) epistemic IA or related policy communities at SNIs; 5) advisors, consultants and academics, etc., and who share a particular belief system - i.e. a set of basic values, causal assumptions, and problem perceptions on the IA role, policy and governance -- and who show a non-trivial degree of coordinated activity over time.

The IIA has created and maintains a *Global IA Policy Advocacy Coalition*, coordinated by the IIA's Global Advocacy Committee (GAC) and its Global Board of Directors, and comprised of the following: 1) more than 100 global IIA Institutes; 2)

affiliated regional IIA institutes, such as Asian Confederation of Institutes of Internal Auditors (ACIIA), African Federation of Institutes of Internal Auditors (AFIIA), European Confederation of Institutes of Internal Auditing (ECIIA), Fundación Latinoamericana de Auditores Internos (FLAI), and Union Francophone de l' Audit Interne (UFAI); 3) members of GAC – representatives of various countries/regions; 4) SNIs, such as the World Bank, the OECD; 5) professional associations, such as the Association of Chartered Accountants (ACCA), INTOSAI, and IFAC; 7) international regulators, such as Basel Committee on Banking Supervision; 8) principal partners, including the Big Four multinational corporations and firms (i.e. Deloitte, PriceWaterhouseCoopers (PWC), KPMG, Ernst &Young (EY)); and 9) members of the International Professional Practices Framework (IPPF) Oversight Council, including the World Bank, the OECD, IFAC, INTOSAI, and National Association of Corporate Directors (NACD).

The IIA describes its advocacy mission as follows: “Advocacy is defined by The Institute of Internal Auditors (IIA) as instilling pride in the internal audit profession, encouraging change, and building relationships with organizations and stakeholders that impact the profession globally. The IIA and Institutes throughout the world are advocating internal auditing by building and maintaining long-term relationships. The IIA’s desired results are to: influence standard-setting bodies, oversight entities, regulators, and other stakeholders to endorse or adopt the International Standards for the Professional Practice of Internal Auditing (Standards); ensure that internal auditing is at the governance table and is acknowledged as a cornerstone of effective governance; and ensure that the internal auditing profession is universally recognized” (IIA web4).

The Global IA PAC is quite visible and influential, according to many researchers, and has been subjected to regulatory monitoring in Western countries starting in early 2000s (see Quaglia (2014)).

- **The “Big Four”**

Another group of influential global IA policy actors are the ***Big Four*** – major multinational assurance, accounting and management consulting firms, such as Deloitte, PriceWaterhouseCoopers (PWC), KPMG, and Ernst &Young (EY). The Big Four have been influencing politicians, governments, publicly-traded corporations, and related professions for at least a century. Their influence is most famously depicted in Denis Saint-Martin (2004), who showed how these firms have bundled accounting, assurance and consulting services, entered the governments of the UK, Canada and France and institutionalized various private-sector ideas and practices in the government setting. Moreover, these firms are the principle partners of the IIA Global and its national institutes. They have presence in practically every country in the world and exert significant influence over IA standard-setting and policy transfer. The Big Four have the global IA practice and regularly provide external assurance and IA quality assurance services to all SNIs, governments and large corporations, especially because they are most often chosen by the boards to be the external auditors to certify organizations’ annual financial statements. Further, the Big Four have also established “thought leadership” practices via the networks of institutes and centers on various issues of IA, where they provide top training to executives of all kinds of organizations, popularize the IIA standards and disseminate best-practices in internal auditing.

2.1.2.4. Macro-Political and Socio-Economic Environment

According to John (1998, 2012), Howlett et al. (2009: 52-56) and Pal (2014), a set of factors, conditions and structures that can be summed up as a **macro political and socio-economic environment** of the nation-state, plays an important role in the determination of the particular policy discourse and governance regimes. It also specifies the resources and constraints of the nation-state, its political systems and the policy sectors.

With respect to the IA sector, this dimension can be conceptualized into two elements. The first element represents significant national and international **macro-political events** that demand a policy change or present opportunities for policy transformation, such as the revamping of the IA sector to render it more effective as a response to accountability scandals, or reshaping it as part of electoral or reform agendas. Elections and government crises and scandals can be viewed as the lead indicators for changes in IA policies. The second element of this dimension refers to various **socio-economic conditions** that demand a policy change or present opportunities for transformation in the IA sector, such as cutting back or expanding on IA activity during economic crises, recessions or austerity reforms.

2.1.3. Public-Sector IA Policy Dynamics across Policy Cycle

Meta-theory suggests that there are three main types of long-term policy dynamics: policy stability, policy change, and policy termination, with the underlying processes that are very complex and non-linear.

2.1.3.1. Policy Stability

In meta-theory, there are two complementary theoretical explanations for policy stability in any given policy sector:

1) ***Historical or ‘path-dependent’ nature of policy-making in modern states***, based on the historical neo-institutionalist view, explains that preset historical ideational and institutional factors determine the future path of policy and its continuity over time, because they create policy legacies and institutional routines and procedures that limit, eliminate or distort the policy choices and actions of the players in the internal and external policy subsystems, leading to the iterations in the policy cycle, and where certain characteristics of the policy subsystems and dominant ideas become obstacles to policy change (see Howlett et al. 2009: 200-201; Hall and Taylor 1996; Thelen 1999; Mahoney 1999; Pierson 2000; Kay 2000).

2) ***Inherent long-term nature of the policy regimes***, based on the policy systems view, which explains that this happens because “policy making tends to develop in such a way that the same actors, institutions, instruments, and governing ideas tend to dominate for extended period of time, infusing a policy sector with both a consistent content and a set of typical policy processes or procedures” (Howlett et al. 2009: 201).

Further, policy regimes tend to stay stable because of the long-term and fixed ‘policy monopolies’, created by the policy subsystems, until their monopoly is broken due to the changes in composition of the subsystems and associated policy networks (see Howlett et al. 2009: 203).

2.1.3.2. Policy Change

Meta-theory predicts that policy regimes will change when the underlying policy contexts, paradigms and subsystems change, based on the ***theory of punctuated equilibrium*** (i.e. non-linear evolutionary path). There are two main types of policy change processes (Howlett et al. 2009: 202): 1) ***normal or incremental policy change (an***

equilibrium), which does not affect the substance of individual elements of the policy regime, but may influence their coherence and consistency; and 2) *atypical or transformational policy change*, resulting in a fundamental transformation of the policy regime, i.e. its redesign or replacement.

In the long-run, these processes are “connected in an overarching pattern of policy change than can be described as a ‘punctuated equilibrium’...and where ...change occurs as an irregular, non-linear, or stepped function in which relatively long periods of policy stability are interspersed with infrequent period of substantial change”, and where “these policy dynamics are complex and characterized by different forces and processes enhancing policy stability and turbulence in specific cases” (Howlett et al. 2009: 207, 209).

2.1.3.2.1. Normal (Incremental) Policy Change

Despite the stability of existing policy regimes due to policy monopolies, in the long-run they undergo marginal or incremental changes in reaction to the “policy feedback from evaluation stage of the policy cycle”, leading to a normal change (see Howlett et al. 2009: 204). Normal policy change can occur through three policy development processes: 1) layering (new policy ends and means are added to existing mix); 2) drift (policy ends change while holding policy means constant); and 3) conversion (change of the mix of policy means to meet policy goals); which may either correct the policy problems or lead to accumulation of new anomalies due to duplication and confusion in policy goals, instruments, and initiatives; which, in turn, can lead to policy failure and ultimately subject the policy regime to criticism (see Howlett et al. 2009: 204; Streeck and Thelen 2005). According to Howlett et al. (2009: 205), “many existing policy regimes have been developed haphazardly through layering process”.

2.1.3.2.2. Atypical or Transformational Policy Change

Meta-theory postulates that *atypical change (or big-bang)* in the policy regime, i.e. redesign or replacement, arises from significant *shifts in policy paradigms and policy subsystems*, caused by the accumulation of the anomalies in the existing policy regime, that make it susceptible to the *endogenous and exogenous forces and processes of change*, and the system's reaction to them (see Howlett et al. 2009: 207-208). The more stable the subsystem, the longer the period of policy equilibrium, and the policy regime change would appear more innovative and substantive (i.e. big-bang); in contrast, the more unstable and chaotic policy subsystem, the more opportunities for policy debates on diverse positions of the policy actors to emerge, preventing substantial innovation in the policy regime (Howlett et al. 2009: 208).

Further, Howlett et al. (2009: 205-206) distinguish between two types of factors or drivers of transformational policy change: 1) *exogenous*, caused by systemic perturbations or crises in the policy environment and associated subsystems, and external policy subsystem change spillovers; and 2) *endogenous*, caused by policy venue change (i.e. changes in the strategies of policy actors) and policy learning, diffusion and transfer. When studying dynamics of the public-sector IA, it is important to identify the factors and drives of change, in order to understand their significance, both from the explanatory and predictive perspectives.

- **Change due to Shifts in Paradigms and Nested Paradigm Systems**

Policy and professional paradigm shifts often lead to atypical policy change, and it is necessary to understand how to detect these shifts empirically. A *definition of paradigm shift* can be drawn from Daigneault (2014: 462-463), who developed a theoretical

proposition that “significant changes on all four dimensions of the concept of policy paradigm are a necessary and sufficient condition for a paradigm shift”, in line with the definitions of policy and professional paradigms developed in earlier sections of this paper. Daigneault (2014) provides two other important points: 1) the paradigm shifts have to be significant and qualify as a substantial departure from the policy equilibrium, and 2) they could be gradual and cumulative. Applying this proposition to the concept of the professional paradigm, developed earlier in this paper, it is logical to conclude that, in theory, the *professional paradigm shift* would occur across dimensions of the disciplinary matrix. However, the claim in this paper is that, in practice, the paradigm shift can begin from one dimension of the disciplinary matrix and then affect the rest of the elements, leading to an aggregate change over the course of a few years.

According to Nicholls and Teasdale (2016), the paradigmatic shifts could also be caused by the changes in the “*nested paradigm*” system, since the policy fields are inter-related. Using Kuhn’s (1974) notion of ‘nested’ paradigms, they have developed a concept of ‘nested policy paradigms’, on the continuum from micro- to meso- to macro-paradigms, suggesting that various levels of policy paradigms are connected with each other and where ideas flow both vertically and horizontally. This concept is useful for the study of the inter-play between the various international regimes, PA, policy and professional paradigms in the government IA sectors, as well as their impact on the dynamics of stability and change in the public-sector IA policy regimes of the nation-states.

While it is generally understood in the literature that paradigm shift is one of the causes of the policy regime shift, it is not clear when and how the paradigm shift is translated into the policy change, i.e. there is a theoretical and empirical ambiguity about

the nature of the relationship between the policy paradigm shift and the policy change, noted by Daigneault (2014: 455-456). Daigneault (2014) and Hall (1993) consider policy paradigms as “policy means”, which are necessary, but insufficient conditions of transformative policy change: “Policy change requires an additional motivation, in the form of a crisis, or at least an important policy problem, as well as a motor, the political actors who drive the change” (Daigneault 2014: 457). This view is consistent with the meta-theory and can be applied in relation to all types of paradigms used in this study.

- **Policy Learning, Diffusion and Transfer**

Policy learning is one of the most important mechanisms of change in policy regimes, and it is also related to policy diffusion and policy transfer mechanisms, all representing the processes by which “policy innovations spread from one government to another” (Cerna 2013: 6-8)

Hadjiisky et al. (2017: 6-7) identify the following main pathways of the *modern-age policy learning, diffusion and transfer*, void of overt coercion:

- 1) intra-state policy learning, diffusion and transfer by learning from early adopters, where competition among states is motivated by inter-jurisdictional spillovers and cross-national emulation;

- 2) international governmental organizations in global development and governance fields, advocating for use of certain broad economic and political models;

- 3) international governmental organizations advocating for transfer of best practice policy models and norms;

- 4) global public policy networks, comprised of SNIs, non-governmental organizations (NGOs), and other idea brokers, that act as channels of ideas and models;

5) Europeanization, related to the EU project of developing supra-national institutions and policy frameworks, laws, regulations and standards that apply across and within all member states;

6) policy mobilities, happening though the “increased intensity and velocity of policy transfers” in the digital age; and

7) socio-political policy transplantation, due to institutional, political and cultural environments as conditions of policy transfer.

The approach taken in this research is to follow Hadjiisky et al. (2017) by assuming that the modern international IA policy diffusion and transfer exclude overt coercion. Thus, in this research paper, there is no attempt to distinguish between the voluntary and coercive policy influence processes, as it is very difficult to observe this distinction in practice and because it would oversimplify the reality, as noted by Dolowitz and March (2000:13).

➤ ***Government Adoption of International Standards***

A specific case of the international policy transfer is ***government adoption of international standards*** as a type of regulation, explored by Brunsson and Jacobsson (2000), Lodge (2005), Alasdair (2005), Simmons et al. (2008), and Minard and Pal (2012).

The most frequent reasons for adoption of international standards are political, including: 1) internationalization and operability of the informational requirements; 2) consistency in functions and operations and reduction in information costs; 3) need to conform to the international norms, ensure quality and performance according to the “best-practices”; 4) need to “benchmark” practices to other jurisdictions, to ensure a “common language” in international policy coordination, and a specific international ranking or

status; and 5) devolution of responsibility for standard-setting to non-governmental organizations, etc.

Very often adoption of international standards occurs due to advocacy work of various global policy actors, as noted by Quaglia (2014).

➤ ***Government Adoption of International Best Practices***

Another case of the international policy transfer is the ***government adoption of international “best practices”***, illustrated by Bardach (2005), Minard and Pal (2012), Pal and Clark (2013), and Pal (2016), providing several explanations on why governments tend to adopt the internationally accepted or popular best-practices as domestic policy solutions.

➤ ***Government Adoption of International Policy Regimes and Paradigms***

Since governments are signatories to the international regimes, due to their membership in the United Nations systems organizations and SNIs, they also often adopt the international policy initiatives and paradigms, by the virtue of participation in the international policy networks and epistemic communities. For example, a majority of the OECD countries have implemented the NPM paradigm of public administration during 1980s-2000s to varying degrees, on which a tremendous body of literature exists, as mentioned earlier. The main hypothesis in the NPM reforms was that more market orientation in the public sector would lead to great cost-efficiency for governments, which in turn led to incorporation of many private-sector practices in the public sector, privatization, outsourcing and downsizing of public services and operations. Therefore, it is possible to theorize that NPM thinking would be conducive to the adoption of the international private-governance models for IA governance regimes, promoted by the global IA industry.

In addition, the IMF (2003), Pal and Ireland (2009), McNutt and Pal (2011), and Nay (2014), highlight the role of SNIs as international policy transfer agents in creation of the global public policy networks, where the international standards and best practices are advocated and propagated, often as conditions for technical assistance and funding for capacity building, resulting in their rapid adoption.

Further, Phillips and Smith (2014: 1144) suggest that international approaches advocated by the SNIs, such as international regimes and standards, represent the *higher-order mechanisms* of international importance, and their adoption by nation-states is more likely to lead to policy convergence. It is therefore possible to theorize that adoption of the international professional paradigms and standards, including those of the IA industry, can occur when the SNIs view them as consistent with their higher-order international regimes and policy paradigms. Understanding how the SNIs are involved in the IA policy diffusion and transfer is an important public policy research problem.

- **Change due to Work of Policy Entrepreneurs and Policy Advocacy**

- Coalitions (PACs)**

Howlett et al. (2009: 205) give special attention to the concept of “policy entrepreneurs” as crucial agents of policy regime change, reacting to policy anomalies by introduction of new ideas and innovations into the policy arena. The policy entrepreneurs could be the old or the new policy actors in the policy sector. Another important factors of change are the *policy advocacy coalitions (PACs)*, defined earlier and mapped specifically for the public-sector IA, which are expected, most certainly, to interact with the global public policy networks as part of their membership structure and vice versa, and to serve

as powerful agents of policy regime change, according to predictions of Sabatier's (1988) Advocacy Collations Framework (ACF).

The research on public-sector IA in any jurisdiction would inevitably lead to the identification of the prominent policy entrepreneurs and PACs, either historical or contemporary that are visible in the government and policy literature as driving the change in IA policy regimes.

2.1.3.3. Policy Termination

In meta-theory, the processes of policy feedback and evaluation may result in a decision to terminate the policy, which in turn, causes a complete dissolution of the existing policy regime that supported the programs and reforms (see Howlett et al. 2009: 202). However, these events happen rarely. Nevertheless, it is important to understand their theoretical possibility during the empirical studies of the public-sector IA policy regimes stability and change.

2.1.4. Public-Sector IA Policy Variation

2.1.4.1. General Approaches to Policy Implementation

In meta-theory, establishment of a new policy regime can be considered as an outcome of new policy implementation, which may vary according to the approaches taken by the nation states and jurisdictions. Description of the various scholarly approaches to the study of policy implementation in Sabatier (1986), Howlett et al. (2009), Cerna (2013), and Pal (2014) allow constructing the following taxonomy:

- 1) Top-down approaches, where the main view is that the effective policy implementation process must be carried out by the senior politicians and officials in order to ensure policy success (see Howlett et al. 2009: 165).

- 2) Bottom-up approaches, where the main view is that policy implementation effectiveness is determined by the adaptability of the ‘street-level bureaucrats’ or lower-level officials and public to achieve the policy goals on the ground (see Howlett et al. 2009: 165).
- 3) Rational-choice approaches, which use causal models, such as game theory and principal-agent theory, to link policy design and behavior of implementers in order to explain policy implementation choices and outcomes.
- 4) Paradigm-driven approaches, which state that the mix of policy implementation instruments and modes is determined by the broad underlying paradigms of public policy management and governance (see Pal 2014; Pollitt and Bouckaert 2017; Manning and Lau 2016).

The fourth approach to the analysis of policy implementation is consistent with the meta-theory and the theoretical lens of the IA sector as a policy subsystem. Therefore, the approach in this study is to view the transfer or adoption of international regimes, policy and professional paradigms into the IA sector of governments, especially adoption of VAMP as an international best-practice solution of the global IA industry, as specific cases of *paradigm-driven policy implementation* in the nation-states.

2.1.4.2. Policy Implementation Success versus Failure

The review of policy implementation literature suggests that there are many views and conceptual frameworks trying to explain what determines the success of policy implementation (including transfer and adoption), and its variation across jurisdictions. Sabatier and Mazmanian (1981) state that there are three key groups of factors in policy implementation:

1) tractability of the problem (availability of valid technical theory and technology, diversity of target-group behavior, target group as percentage of the population, extent of behavioral change required), where the smaller the diversity and size of the target group and the smaller the change required, the higher the probability of success:

2) ability of statutes to structure implementation (incorporation of adequate causal theory, unambiguous policy directives, availability of financial resources, hierarchical integration with and among implementing institutions, decision-rules of implementing agencies supportive of objectives, recruitment of implementing official committed to objectives, formal access by outsiders or extent to which opportunities for participation by external actors are biased towards supporters of objectives); and

3) non-statutory variables (variation over time and among governmental jurisdictions in social, economic, and technological conditions affecting the attainability of statutory objectives, the amount and continuity of media attention to the problem, variations over time and jurisdiction in public support, changes in the resources and attitudes of constituency groups and the policy outputs of implementing institutions, support from sovereigns, commitment and leadership skills of implementing officials).

This is consistent with the meta-theory, which postulates that the policy **subsystem complexity** and **issue (problem) tractability** are the key determinants of policy implementation success or failure (see Howlett et al. 2009:175).

Howlett et al. (2009:175) provide the following decision-making matrix on state preferences regarding the choice of policy instruments in policy implementation:

- if the policy subsystem is complex and constraints on state high, then the state will focus on directive instruments (e.g. statutes amendments and government reorganization);
- if the policy subsystem is complex and constraints on state low, then the state will focus on subsidy instruments (e.g. grants and interest group funding);
- if the policy subsystem is simple and constraints on state high, then the state will focus on authoritative instruments (i.e. regulation and advisory committees); and
- if the policy subsystem is simple and constraints on state low, then the state will focus on information instruments (e.g. advertising campaigns and information disclosure).

Further, Howlett et al. (2009: 175-176) postulate that the higher the tractability of the policy issues and the lower the constraints on the state, the higher the chances of policy implementation success and vice versa. It is illustrated in the following matrix of policy implementation models and degree of success:

- if the problem is tractable and constraints on the state high, then policy implementation may be contested;
- if the problem is tractable and constraints on the state low, then policy implementation may be full;
- if the problem is non-tractable and constraints on the state high, then policy implementation may be symbolic; and
- if the problem is non-tractable and constraints on the state low, then policy implementation may be experimental.

Based on the concepts above, in application to the government IA sectors, the basic assumption taken in this study is that the **public-sector IA policy subsystems are**

complex, and the IA policy regime represents **high constraints on state**. This leads to the hypothesis that any IA policy change or IA reform would impose high political and economic costs, which would explain why the adoption of readily available international regimes, policy and professional paradigms, which increase tractability of the problem and chances of policy success, may be considered as cost-optimizing by the politicians, policy entrepreneurs, and progressive bureaucrats. Further, in this case, the types of policy implementation instruments employed by the government are most likely to be directive and authoritative.

Since the public-sector IA policy subsystems are complex and the IA policy regimes high-constraint, it is reasonable to assume that there will be inevitable tensions between the various actors, institutions and ideas, including bureaucratic resistance to policy implementation, as described earlier in the conceptual framework. This is also supported by the models and cases of incrementalism/gradualism and bureaucratic politics and resistance in policy implementation, described in Lindblom (1959, 1979), Wildavsky (1961, 1964, 1975, 1988), Allison (1969), and Allison and Halperin (1972). As a result, change may occur in incremental or gradual ways, or lead to mixed results.

While the directive and authoritative policy instruments and targeted funding can reduce incrementalism and gradualism, inherent to bureaucracies, there is still a problem of bureaucratic resistance affecting the success of implementation. It is fair to hypothesize that it is not natural for bureaucrats to voluntarily accept any change in oversight and regulation, yet alone the new IA policy regime that would impose tighter controls. Therefore, overcoming bureaucratic resistance to the introduction of new IA policy regimes in the public sectors would require the highest level of top-down political action,

such as the introduction of new legislation or significant amendments to the existing statutes, and new policies and directives outlining direct accountabilities for senior bureaucrats. Further, it is reasonable to expect that bureaucratic resistance to new IA policies may be manifested in a wide array of actions on the spectrum from delays and distortions in policy implementation to outright refusal and sabotage.

The concepts above provide robust explanations as to the causes of variation in the IA policy implementation outcomes, such as those of IA reforms and IA policy regimes, even if implementation is based on a common international blueprint for reforms.

2.1.4.3. Policy Convergence versus Divergence

Howlett et al. (2009: 94) note that decades of academic comparative cross-country studies of policy learning during 1960s-1980s led to the development of the *convergence thesis*, where the main postulate is that “as counties industrialize, they tend to converge towards the same policy”, where economic conditions of the nation state are considered the major determinants of the public policy. The convergence thesis has been further extended theoretically to include political factors as variables, including the resource-dependency model, the role of international economic forces, and the role of the political business cycle, etc. (Howlett et al. 2009: 94-95)

Further, the neo-institutional theory of DiMaggio and Powell (1983: 150) on institutional convergence postulates that the processes of policy learning, diffusion and transfer often lead to “isomorphic change”, through the following three types of mechanisms: 1) *coercive isomorphism* that stems from political influence and the problem of legitimacy; 2) *mimetic isomorphism* resulting from standard responses to uncertainty; and 3) *normative isomorphism*, associated with professionalization.

Several researchers have tested this theory in application to the IA policy regimes in several countries. Al-Twaijry et al. (2003) used the DiMaggio-Powell (1983) framework to examine the development of IA in the private sector in Saudi Arabia. They suggested that normative and coercive isomorphism can explain the role of governments and international professional bodies, like the IIA, in the establishment of the IA departments and diffusion of the international IA and accounting standards and respective IA governance regimes. Van Gils (2012) tested the explanatory power of the DiMaggio-Powell (1983) framework in the study of IA reforms in the Belgian public sector, specifically the adoption of IIA standards and professionalization. The study concluded that normative institutionalism provided only a partial explanation of the IA reform processes, arguing that the institutional pressures were found to be necessary, but not sufficient conditions to explain IA outcomes. Further, Van Gils (2012) suggested that IA is a complex field and that a research design for the study of the public-sector IA should incorporate multiple-cause models.

Finally, according to Phillips and Smith (2014: 1144), policy convergence across different jurisdictions often occurs when a *higher-order international mechanism* exists that imposes compliance or generates conditions for the adoption of similar policies (such as pressures exercised by the SNIs and international standard-setting institutions), while *policy divergence* happens when there are strong domestic approaches. This argument is corroborated by Oulasvirta (2013), illustrating that the pressure to adopt international approaches may backfire, when strong domestic approaches exist, such as in the case of Finland, which refused to adopt international accounting standards due to the presence of well-supported traditional accounting systems in the country.

The theorizing above leads to a hypothesis that a certain degree of convergence and success in IA policy reforms across various jurisdictions can be reasonably expected if an international “best-practice” or standard is accepted by the nation-states as a policy implementation instrument, expected to increase the issue tractability (i.e. IA reform), while the various levels of complexity of national policy subsystems and levels of constraints on the nation-states would explain the degree of divergence and failure.

As pointed in the reviews above, there are no commonly accepted or definitive measures of success, failure, convergence, and divergence of policy implementation, since these are defined by the political context, which varies in each jurisdiction.

2.1.4.4. Evaluation of Policy Implementation

According to Howlett et al. (2009) and Pal (2014), any type of policy implementation, including adoption of international standards and best practices, is subject to policy evaluation as the last and key point in the policy cycle, because it leads to policy learning and change. However, there are many challenges in evaluating the success or failure of policy initiatives, due to the following factors: 1) success or failure is difficult to define and measure; 2) absence of fixed evaluation criteria; 3) failures can occur at any stage of the policy cycle; 4) number of outcomes is too small to assess; 5) policy actors can have competing “judgements” about success or failure, due to their administrative, electoral and other consequences (see Howlett et al. 2009: 182-183).

Moreover, evaluating the implementation of policies that come from the international or private-sector sources presents a conundrum for evaluation from the public policy perspective, since these “blueprints” will need to be placed into the theoretical and methodological frameworks of the formal government evaluation.

2.1.4.4.1. Public-Sector Evaluation Approaches

The range of available public-sector policy implementation evaluation approaches includes *administrative evaluation (i.e. process, effort, efficiency, performance, and effectiveness)*, *judicial and political evaluation*, where the first approach is the most frequent in practice and the most represented in academic literature (see Howlett et al. 2009: 195). In the academic setting, only an administrative approach can be applied, based on the methodology of McDavid and Hawthorn (2006), and is, therefore, adopted in this conceptual framework. The advantage of conducting an evaluation in the academic setting is the obvious technocratic objective application and abstraction from the political consequences. The public-sector evaluation methodology is best represented by such concepts as logic models and performance measurement frameworks, used to perform the evaluation studies.

2.1.4.4.2. IA Industry Evaluation Approaches

- **The IIA Internal Audit Capability Maturity Model (IA-CM) for the Public Sector as a Prominent Exemplar of VAMP Paradigm**

In the new millennium, the global IA industry has adopted capability maturity modeling as a key methodology for benchmarking and assessing whether the IA functions around the world follow the IIA IPPF, leading to the identification of gaps and improvements. Specifically, in 2008, the IIA and the World Bank partnered to develop an *Internal Audit Capability Model (IA-CM) for the Public Sector*¹² as a flexible self-assessment tool for the IA functions, which was released in 2009. It is an industry evaluation framework, linked to the IIA IPPF, containing the fundamental criteria for the

¹² see IIA 2009b

effective IA function in the government. It is also an embodiment of VAMP paradigm prescriptions for the model IA activity (see Table 1).

Table 1 IIA Public Sector Internal Audit Capability Model (IA-CM) Matrix

CM Levels	Services and role of IA	People management	Professional practices	Performance management & accountability	Organizational relationships and culture	Governance structures
Level 5 - Optimizing	IA recognized as key agent of change	- Leadership involvement with professional bodies -Workforce projection	-Continuous improvement in professional practices -Strategic IA planning	Public reporting of IA effectiveness	Effective and ongoing relationships	Independence, power, and authority of the IA activity
Level 4 - Managed	Overall assurance on governance, risk management, and control	-IA Contributes to management development -IA activity supports professional bodies -Workforce planning	Audit strategy leverages organization's management of risk	Integration of qualitative and quantitative performance measures	CAE advises and influences top-level management	-Independent oversight of the IA activity -CAE reports to top-level authority
Level 3 - Integrated	-Advisory services -Performance or Value-for-Money audits	-Team building and competency -Professionally qualified staff -Workforce coordination	-Quality management framework -Risk-based audit plans	-Performance measures -Cost information -IA management reports	-Coordination with other review groups -Integral component of management team	-Management oversight of the IA activity -Funding mechanisms
Level 2 - Infrastructure	Compliance auditing	-Individual professional development -Skilled people identified and recruited	-Professional practices and processes framework -Audit plan based on management/ stakeholder priorities	-IA operating budget -IA business plan	Managing within the IA activity	-Full access to organization's information, assets, and people -Reporting relationships established
Level 1 - Initial	Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas.					

Source: Author, December 2017, adopted from IIA 2009b.

IA-CM illustrates the levels through which an internal audit (IA) activity can evolve as it defines, implements, measures, controls, and improves its processes and practices. It highlights the fact that the IA function is a dynamic system containing six key elements of internal auditing: 1) services and role of IA; 2) people management; 3) professional

practices; 4) performance management and accountability; 5) organizational relationships and culture; and 6) governance structures. These elements undergo 5 different levels of development, from the initial to the optimized. The 41 high-level key process areas (KPAs) of the IA activity at the organizational level according to the IA-CM are summarized in Table 1. The IA-CM model can be effectively used for the evaluation of VAMP adoption in the public-sector IA reforms in any jurisdiction, from the IA industry perspective.

- **Existing Studies of the Post-2000 Public-Sector IA Modernization based on IA-CM**

There have been only several academic studies attempting to evaluate the post-2000 changes in the public-sector IA activities, and they are all based on application of the IA-CM. Van Gils (2012) used it to complement an institutional analysis framework to study IA modernization in the Belgian public sector, in order to test the IA professionalization in government at the level of IA functions, and based on a national survey of public-sector organizations. MacRae and Van Gils (2014) utilized IA-CM in application to the *IIA 2010 Global Internal Audit Survey* data to conduct a global assessment of the IA capability in the public sectors worldwide, based on 41 key process areas (KPAs). The conclusion was that most of the IA activities were at the very low capability maturity levels (Initial and Infrastructure), but the United States and Canada appeared to be the most advanced. Van Rensburg (2014) used it for determination of the capability maturity of the South African public-sector IA activity, based on the case studies of several national government departments. The methodology was based on the author's questionnaire that linked the questions to the key performance areas (KPAs) from the model, which was then tested and found as appropriate for the government setting. In a similar way, Van Rensburg and

Coetzee (2016) tested the IA-CM on a set of South African public-sector organizations, using case study approach, and determined that the model was successful in measuring IA capability levels. However, it is important to underscore that IA-CM is a global IA industry exemplar that is not linked to the public policy objectives or the objectives of the government IA reforms. Not surprisingly, no attempt has ever been made in the academic literature to extend the analysis to evaluation of the public-sector IA reforms and initiatives from the public-policy perspective.

2.1.4.4.3. Need for Hybrid Evaluation Approaches

To reiterate, a specific case of public policy evaluation arises when the government adopts international or private-sector policy models/blueprints that come with their own evaluation frameworks, while still being subject to formal government evaluation from the public policy perspective. For example, the task of assessment of VAMP adoption in various jurisdictions represents just such a case, requiring a hybrid approach.

First, the reference model - VAMP, subject to evaluation on its performance in the government setting, is an international industry blueprint for the IA function and its governance, which has its own industry evaluation framework - the IIA Internal Audit Capability Model for Public Sector (IA-CM), described earlier. Second, the IA-CM needs to be incorporated into the public-sector evaluation methodology. This necessitates the development of a hybrid evaluation model, where the industry indicators of VAMP paradigm implementation and capability maturity are integrated into the logic models of the public-sector IA reforms. The challenge is that often the public-sector logic models are not explicitly developed at the start of the reforms, and have to be derived from the legislative and policy documentation.

For the purposes of this research project, the ontological and epistemological assumptions are that the use of IA-CM tool is justified theoretically, because it is consistent with the neo-institutionalist approaches, such as stability and change in the policy subsystems and policy regimes, reflecting their maturity and cycles. IA-CM is after all, a dynamic management framework, based on the concepts of life-cycle and continuous organizational/system improvement.

2.2. Application: Analytical Frameworks for Empirical Studies

In order to address the four groups of research questions, posed in the research design statement, the corresponding analytical frameworks for empirical studies are designed. Each empirical study draws on specific element or sets of elements of the author's conceptual framework and then applies and extends them to the policy and temporal and spatial context of research questions, to reflect their specifics at the global, world region, and the Westminster country cluster levels of analysis.

2.2.1. Analytical Framework for Empirical Study of IA Professional Paradigms

2.2.1.1. Design

The first research objective is to establish that VAMP is a global professional paradigm of the IA industry and profession, and to answer the main research question on what are its characteristics, how it emerged and why. The preliminary research hypothesis is that VAMP is an international best-practice solution for IA activity, which emerged as a response of the global IA profession to multiple endogenous and exogenous factors. This requires a historical (dynamic) descriptive and exploratory study of the features and drivers of development of VAMP and its antecedents. The theoretical basis for this analysis is provided in the author's conceptual framework.

To accomplish this task, an applied analytical framework is developed to guide empirical research on the dynamics of professional paradigms in the modern IA industry, in order to identify the factors behind their formation, stability and change, the paradigmatic shifts, and the essence of paradigms. Earlier in the conceptual framework, the dynamic frameworks of Kuhn's (1962, 1969) paradigm analysis, Abbott's (1988) systems of professions, and Abbot's (1991) concept of the order of professionalization were used to design a **general concept of the professional paradigm, the disciplinary matrix, the paradigm-practicing community**, and to identify the **rules for the professional paradigm shift**, that will be further used in the empirical study. This involves three stages of research:

1. Construction of the the historical (chronological) timeline and facts of the evolution of the modern IA profession through the focused lines of enquiry, identifying the factors, processes, mechanisms and outcomes of evolution of IA profession, and based on the empirical evidence.
2. Identification of the paradigmatic shifts in the IA profession, based on empirical evidence.
3. Conceptualization of the IA professional paradigms via construction of a disciplinary matrix for each paradigm as a summary of observable characteristics, followed by the development of associated conceptual model of the paradigm as a summary of indicators which could be measured if linked to the qualitative and quantitative data.

For the first stage of empirical research, the analysis of historical dynamics of the IA professional paradigms is accomplished by combining broad interpretations of Kuhn's and Abbott's theories to identify key groups of applicable factors, processes, and

mechanisms of paradigm formation, stability and change, that would serve as lines of enquiry, and apply them to the context of the IA profession. These groups have been determined as follows: 1) IA professional community and organization; 2) IA professional knowledge and practices; 3) IA profession authority, jurisdiction, and environment; and 4) IA professional consensus and compliance to support status-quo & change, as illustrated in Figure 6 below.

Figure 6 Factors, Processes and Mechanisms of IA Professional Paradigm Formation, Stability and Change

Source: Author, December 2017

The first group *“IA professional community and organization”* refers to the structure of the professional bodies, legalization of the profession, certification and

licensing, and traits of the members of the profession (see Kuhn 1996): 176-181; Abbott 1988: 9-20).

The second group *“IA professional knowledge and practices”* involves the main types of tasks that profession is performing, such as definition and scope of IA activity, professional standards, IA theory and common knowledge framework, the systems of professional training and knowledge dissemination (see Abbott 1988: 35-58; Kuhn 1996: 181-187).

The third group *“IA profession authority, jurisdiction, and environment”* describes the basis for the legislative authority for the profession, patterns of interaction of the IA profession with key external factors and players, which influence how it gains jurisdiction to practice in certain areas of knowledge and services, and in competition with other professions. In Abbot’s framework, professions develop and change as a result of jurisdictional claims that could be promoted through the court of public opinion, the legal system, or the dynamics of changing organizational practices (see Abbott 1988: 60-61). This could be further expanded to include such mechanisms of gaining jurisdiction, as advocacy activities with various government bodies, regulators, external auditors or supreme audit institutions (SAIs), international standard-setting bodies and policy coordination institutions, as well as partnerships with other professions and their bodies, in order to promote professional interests.

The fourth group *“IA professional consensus and compliance to support status-quo and change”* refers to the internal and external dynamics of developing and modernizing IA knowledge base and practices, adoption of new norms, best practices and standards, leading ultimately to a compliance framework or a paradigm change in the

profession. This would normally involve: 1) the work of IIA governance bodies, committees and task forces; 2) the processes and mechanisms of exposure, promulgation and enforcement of the key professional pronouncements, standards, and positions; and 3) various types of internal and external consultation activities. This would also involve interaction both with the IIA membership and external bodies, including other relevant professional associations, regulators, courts, etc. These lines of enquiry are then applied to the analysis of the body of empirical evidence in order to construct a structured historical account of the evolution of the global IA profession since its inception in 1941, where establishment of the IIA is considered a beginning of the formation of modern IA profession, until 2017.

In the second stage of empirical research, the paradigmatic shifts in the IA profession are identified based on the application of a general concept of professional paradigm shift described in the conceptual framework, and based on the evidence from the first stage of research. A **professional paradigm shift** in the IA industry is defined as a significant change in at least one of the components of the disciplinary matrix leading to a “chain reaction” in the rest of the components in a few years.

In the third stage of empirical research, the general concept of the disciplinary matrix for professional paradigms, developed in the conceptual framework, is applied to the context of the IA profession in order to construct the relevant disciplinary matrices for each paradigm. Therefore, a ***disciplinary matrix for the IA professional paradigms*** is defined as based on four dimensions: 1) a theory of discipline or a common body of knowledge (CBOK) for the IA profession; 2) definition of the IA professional activity; 3) IA professional ethics; and 4) IA professional standards, professional practices

frameworks, and best-practice solutions. These matrices would essentially represent a summary of observable characteristics of each paradigm. To finalize the paradigm conceptualization, a summary of indicators is identified for each paradigm and visualized in the conceptual models for each paradigm, which could become measurable if linked to the qualitative and quantitative data, either organizational, industry-wide, or international. However, in this study, only the VAMP paradigm indicators are linked to the available statistics and information.

2.2.1.2. Data and Methods

Following the advice from Daigneault (2014: 463) that descriptive and qualitative studies of paradigms should primarily rely on direct evidence, the selection of key data sources for the IA professional paradigm analysis in this study includes primarily the following: 1) the historical materials and documentation of the IIA as a global professional body; 2) the IA professional literature; and 3) the vast website content of the IIA and its partners and policy advocacy coalitions, including both open-access and member-access materials¹³. These sources are detailed in the Bibliography.

2.2.2. Analytical Framework for Empirical Assessment of VAMP Adoption in Public Sectors Worldwide

2.2.2.1. Design

The second research objective is to establish the facts of global public-sector VAMP adoption and to conduct the assessment of outcomes, in order to answer the main research question on what is the extent and key results of VAMP adoption in the public sectors worldwide. The preliminary research hypotheses are that despite the global

¹³ Author is the IIA member

convergence trend, the world regions vary in patterns of VAMP adoption in public IA sectors, and that VAMP adoption has both successes and failures. Thus, the research approach is to conduct a comparative empirical study, focused on measurement and qualitative assessment of the public-sector VAMP adoption and its outcomes globally and across the world regions.

The theoretical impetus for hypotheses comes primarily from the concepts of public-sector IA policy context, including institutions and paradigms that shape the national public-sector IA policy outcomes and policy regimes, presented in the conceptual framework. Specifically, the notion of IA professional paradigm adoption as a type of policy implementation is used, where the degree of convergence and success in results of VAMP adoption across jurisdictions can be explained by the differences in composition and degree of complexity in the state policy subsystems and state resources and constraints.

To conduct the study, a ***Conceptual Model of VAMP Paradigm***, constructed in the first empirical study on professional paradigm analysis in the modern internal auditing, is applied to the analysis of the new data from the 2015 IIA GIAPS-CBOK (see Figure 14). The model is essentially a summary of measurable indicators of the VAMP paradigm, which are mapped to the survey data. For the purposes of this study, the **convergence** and **success** in VAMP adoption is defined broadly as the rate of 50% or higher achieved across key indicators. Where appropriate and possible, a qualitative assessment is provided.

2.2.2.2. Data and Methods

In order to understand the scale and patterns of VAMP paradigm adoption across the public sectors worldwide, a metadata description for the new dataset from the **2015 IIA Global Internal Audit Practitioners Survey (GIAPS) – Common Body of Knowledge**

(CBOK) database was used to map the questions from the survey to the indicators contained in the Conceptual Model of VAMP Paradigm (see Annexes 3-4). The survey is described below.

It is important to mention that there were four CBOK studies prior to the advent of VAMP, in 1972 (1 country, 72 responses), 1985 (2 countries, 346 responses), 1991 (2 countries, 1163 responses), and 1999 (21 countries, 136 responses), as detailed in IIA 2007a. In 2006, the IIA conducted the fifth CBOK study that used a new methodology: “CBOK 2006 is the first study that invited The IIA’s entire worldwide membership to participate. The participation of members from 91 countries and 9,366 usable respondents makes CBOK 2006 the most comprehensive study in The IIA’s history. This results in an overall 7.3% response from the 127, 735 IIA members as of September 30, 2006” (IIA 2007a: 4-7). Since then, there were two other CBOK surveys – in 2010 and 2015.

The latest 2015 CBOK survey, used in this study, covered 7 global World Bank Regions, 166 countries, and around 14,518 respondents, comprised of Chief Audit Executives (26%), IA directors (13%), IA managers (17%), and IA staff (44%) (see IIA 2015b; Piper (2015); IIA web19).

However, the CBOK survey data from the pre-2000 surveys were not digitized or made available to researchers, while the data from the 2006, 2010 and 2015 CBOK survey were made digitally available to researchers only recently. Unfortunately, the survey questions between the last three CBOK surveys can’t be linked for the purposes of this study, due to the differences in the sets of questions and statistical methodologies employed.

The dataset was obtained by the author due to membership status in the IIA Global and according to the *Confidentiality and Non-Disclosure Agreement* between the author and the IIA Research Foundation (IARF), recently renamed into Internal Audit Foundation (IAF). Extraction, processing and statistical analysis of the survey data was conducted with the application of Q-Reader software, obtained from the IARF. Available data were extracted at the aggregate public-sector level, which includes all levels and types of government organizations, i.e. federal, regional, and local government, government agencies, and government-owned organizations. The descriptive statistical analysis of data was conducted by the variables, identified in Annex 3, for the public-sector aggregates and by the World Bank regions, including Latin America and Caribbean, South Asia, Sub-Saharan Africa, East Asia & Pacific, Middle East & North Africa, Europe & Central Asia, and North America, with comparisons to the Global Public-Sector Average. The total number of public-sector respondents amounted to 3,125 audit practitioners.

Finally, the review of relevant IA professional and academic literature, listed in the Bibliography, was conducted to supplement the assessment and explain the results.

2.2.3. Analytical Framework for Empirical Study of VAMP Advocacy by SNIs

2.2.3.1. Design

The third research objective is to establish the facts of SNI involvement in global VAMP diffusion and advocacy in public sectors and address the research question on what were their key reasons and mechanisms in doing this. The preliminary research hypotheses are that the key rationale for SNI involvement is that VAMP fits international regimes and agendas of SNIs as a universal international best-practice solution for IA activity, and that

the key mechanism of SNI participation in VAMP diffusion and advocacy is through their membership in the global IA policy networks and advocacy coalitions.

The research approach is a comparative exploratory, descriptive and explanatory empirical study of the role of SNIs in VAMP advocacy, based on the case studies methodology according to Yin (2012), encompassing the period of late 20th century until the end of 2017. The case selection of the supra-national institutions – the World Bank, the Organization for Economic Cooperation and Development (OECD), and the European Commission - is based on the fact that they have a long standing relationship with the IIA as members of the IA Global Policy Advocacy Coalition, identified in the conceptual framework.

The theoretical underpinning for this research is drawn primarily from such key concepts and author's mappings, as international regimes, global IA policy networks and advocacy coalitions, theories of policy learning, diffusion and transfer in application to the government adoption of international standards, best practices, international policy regimes and paradigms, and mechanisms of convergence.

To conduct this research, an applied analytical framework is developed, where a uniform set of three lines of enquiry is applied to the selection of cases, focused on identification and mapping of the following: 1) reasons for SNI involvement in the setting of international IA policy agenda and VAMP advocacy, including the international regimes, reforms and initiatives within their mandates, responding to the broad political, economic and social problems and crises, and where IA is considered an important element; 2) patterns of participation of SNIs in the global IA policy networks and advocacy

coalitions; 3) patterns of leveraging SNI authority, expertise, resources and leadership in VAMP advocacy.

2.2.3.2. Data and Methods

First, a literature review on the geo-political, economic, and ideological pre-conditions for VAMP diffusion and adoption is conducted, to describe the environment. Second, the case studies are conducted for each SNI along the three lines of enquiry listed above, based on integrated sources of information and documentation, such as:

- **IIA:** online website materials related to advocacy and committee/board activities, technical documentation and reports, and related member-access professional literature, listed in the Bibliography.
- **World Bank:** IA-related website materials, reports, online publications and proceedings of forums, and technical documentation, listed in the Bibliography.
- **OECD:** IA-related website materials, reports, online publications and proceedings of forums, published and declassified technical documentation and working papers, listed in the Bibliography.
- **European Commission:** IA-related website materials, reports, online publications and proceedings of forums, and technical documentation, listed in the Bibliography.

These official sources of information are supplemented by the triangulation of evidence and analysis from the available academic studies and other professional associations. It is important to note that due to the secrecy of the IA profession, novelty of the IA reforms, and a long-standing lack of information on the public-sector IA functions around the world, not much is available in the form of alternative commentary. Third, a comparative analysis of the findings is provided vis-à-vis the earlier stated research hypotheses.

2.2.4. Analytical Framework for Empirical Examination and Evaluation of VAMP Adoption in the National Westminster Governments

2.2.4.1.Design

The fourth research objective is to establish the account of VAMP implementation as an international private-sector blueprint for the effective IA function and IA governance regime, in the cluster of national governments of the United Kingdom, Australia, and Canada, operating under the Westminster system of responsible government, and to evaluate its results. The main research questions are: 1) What is the degree of VAMP implementation, interpretation and adoption across the Westminster cluster?; 2) What are the patterns of variation in VAMP implementation across the Westminster cluster?; and 3) What are the successes and problems of VAMP adoption in the public sector of these selected Westminster systems of government? The preliminary research hypothesis is that despite the convergence trend, country VAMP implementation styles and resulting IA policy regimes differ.

The research approach is to conduct a comparative exploratory, descriptive and explanatory analysis and evaluation of VAMP adoption as part of IA reforms in select national Westminster governments, according to country case study methodology inspired by Collier (1993) and Yin (2012), and a **hybrid policy implementation evaluation approach**, which integrates public-sector administrative evaluation methodologies of McDavid and Hawthorn (2006) with the IA industry evaluation framework (i.e. the IIA Internal Audit Capability Maturity Model for Public Sector (IA-CM)). The case selection of the countries – the UK, Australia, and Canada - is based on the replication logic due to

similarities of the Westminster countries' government systems and resulting internal audit governance models.

To conduct this empirical research, an applied country-case study analytical framework is developed, and includes the following components:

- 1) Identification of important considerations for the common country internal and external IA policy context in the Westminster systems of responsible government;
- 2) Development of the model of capability maturity assessment of IA sectors in select national Westminster governments in order to conduct evaluation of the VAMP implementation in the IA public-sector reforms from the industry perspective, based on IA-CM;
- 3) Development of the evaluation model of VAMP-inspired IA reforms, from the public policy perspective;
- 4) Conduct of the case studies that contain both the industry and public policy view of the VAMP implementation during the IA reforms in the public sectors of select Westminster government, based on the integration of the various data sources (primary, secondary and tertiary). This entails: 1) construction of the profiles of resulting public-sector IA governance regimes under the VAMP paradigm applied in the context of the Westminster system of responsible government; 2) determination of the capability maturity levels of the national IA sectors based on IA-CM; 3) evaluation of the VAMP implementation within the public-sector IA reforms from the public policy perspective.
- 5) Comparative analysis of the degree of success and variation in VAMP implementation across the jurisdictions under the study.

The sub-sections below describe the elements of the analytical framework in detail.

2.2.4.1.1. Considerations for the Common Elements of the Country IA Policy

Environment in the Westminster Systems of Responsible Government

It is reasonable to expect that adoption of the global industry model of IA governance, such as VAMP, in the Westminster-type governments would inevitably create a hybrid open-system IA policy environment, with internal and external components and multiple interaction and feedback mechanisms. In brief, the internal component of the IA sector policy system and governance regime is related to the following: 1) statutes and conventions of responsible government in Westminster democracies, including doctrine of ministerial responsibility and the concepts of Accounting Officer (AO); 2) Parliament and its agents; 3) Royal commissions and independent inquiries; and 4) executive branch of government and its relationship with the government IA sector, detailed in Annex 5.

With respect to the external IA policy influences, it is a fact that the global IA industry is the source of VAMP genesis. Therefore, it is important to consider the external IA policy environment, affecting national governments. This environment is comprised of the following elements: 1) regional, national and international IA standard-setting bodies and supra-national institutions (SNIs), such as the IIA, the INTOSAI, the OECD, the World Bank, etc.); 2) multinational internal auditing, accounting and management consulting firms or the “Big Four” (i.e. Deloitte, KPMG, PWC, EY); 3) international IA standards and guidance; and 4) international IA and other relevant certifications. The first and second group form the IA Policy Advocacy Coalitions (PACs)¹⁴, to which any government member of the IA community may belong.

¹⁴ Sabatier (1988) defines PAC generally as a composition of people from various organizations, who share a set of normative and causal beliefs and who often act in concert, adopting a strategy for an institutional innovation that would further its policy objectives, with the end result in government program change (Sabatier 1988: 133).

2.2.4.1.2. *Model of Capability Maturity Assessment of IA Sectors in the National*

Westminster Governments under the VAMP Paradigm: Industry Perspective

The *IIA Public-Sector IA Capability Model (IA-CM)*, as one of the key exemplars of VAMP and the IA industry evaluation approach, and the above-outlined considerations for the internal and external IA policy environments in the national Westminster governments under study, are used to construct an integrative model of assessment of IA sectors maturity after the VAMP-inspired IA reforms (Figure 7).

Figure 7 Model of IA-CM Assessment of IA Sectors in the National Westminster Governments under VAMP Paradigm

Source: Author, December 2017

Next, this model is applied to conduct the analysis of integrated data sources, determine the capability maturity levels of the national IA sectors, and to construct profiles of resulting public-sector IA governance regimes under the VAMP paradigm, illustrating key features and outcomes for each country.

2.2.4.1.3. Model of IA Reforms Evaluation in the National Westminster

Governments under the VAMP Paradigm: Public Policy Perspective

To evaluate the outcomes of IA reforms in the national governments of UK, Australia, and Canada under the VAMP paradigm, within the context of the Westminster system of responsible government, and from the public policy perspective, a ***Generalized Public Sector IA Reform Logic Model*** is constructed (Figure 8). It is a government policy and program evaluation tool according to McDavid and Hawthorn (2006).

The key elements of the IA-CM model and the general conventions of the Westminster systems of responsible government are used to formulate the model, in order to evaluate how the governments under study have adopted VAMP, and what the key features and outcome are. The model contains five elements:

- 1) key **investments and resources** used to conduct IA reforms based on the VAMP model of IA, such as funds for establishment of new IA institutions, structures and processes, and policy formulation;
- 2) key **activities** undertaken, including legislative or policy innovation, establishment of key attributes of IA functions and systems according to VAMP requirements;
- 3) key **outputs**, described as mechanisms, processes and structures resulting from the adoption for the IIA IPPF mandatory and recommended guidance;
- 4) key **outcomes**, such as *immediate* (independent IA activity; appropriate IA capacity, capability and professionalism), *intermediate* (Ministers and their deputies have confidence in IA regime; IA regime is effective and value-added; senior management acts on IA advice), and *long-term* (Ministers and their deputies are supported in their

Figure 8 Generalized Logic Model for the IA Reform Evaluation under VAMP Paradigm in the Context of Westminster System of Responsible Government in the National Governments of the UK, Australia, and Canada

Source: Author, December 2017

Parliamentary accountability roles; improved government risk management, control and governance regime, improved government ability to meet objectives and deliver results); and ultimate impact, i.e. accountable and appropriate government management of public resources.

It is important to note that while the logic model is designed in the best traditions of the government evaluation methodology, it is the available data, obtained during the research process that will determine the measurability of outputs and outcomes.

2.2.4.2. Data and Methods

A mix of data sources and methods of analysis was used in the study, such as: 1) 2015 IIA Global Internal Audit Practitioners Survey (GIAPS-CBOK) described earlier in section 2.2.2 and in Annex 6; 2) anonymous semi-structured in-person/telephone interviews described in Annexes 7-9; 3) publicly available, archived, declassified, restricted-access and member-access information from the national governments of Westminster countries under study, listed in the Bibliography; 4) parliamentary records (Hansard); 5) online and member-access documentation and professional literature from the IIA and the IA PACs, listed in the Bibliography; and 6) available academic commentaries, reports of Auditors General and inquiries, and relevant media reports.

- **2015 IIA Global Internal Audit Practitioners Survey – Common Body of Knowledge (GIAPS-CBOK)**

A new dataset from the 2015 IIA Global Internal Audit Practitioners Survey – Common Body of Knowledge (2015 IIA GIAPS-CBOK) and associated software Q-Reader were obtained according to the data *Confidentiality and Non-Disclosure Agreement* between the author and the IIA Research Foundation (IARF), due to the

author's membership status in the IIA Global. Extraction, processing and statistical analysis of the survey data for the UK, Australia and Canada, and the global public-sector averages were conducted with the application of Q-Reader software. Available data were aggregated at the country public-sector level (including all levels and types of government organizations, i.e. federal, regional, and local government, government agencies, and government-owned organizations), and were used as a proxy when the official data for national governments of the UK, Australia, and Canada are not available for the purposes of IA-CM analysis and evaluation of the IA reforms. The questions from the 2015 IIA GIAPS-CBOK were mapped to the IA-CM's 6 elements and 41 key process areas (KPAs), as described in Annex 6. The descriptive statistical analysis of data was then conducted by the variables, representing questions identified in Annex 6, for the public-sector aggregates and by the selection of countries.

- **Anonymous semi-structured in-person/telephone interviews**

The study employed a set of anonymous semi-structured in-person/telephone interviews with key informants - representatives of respective country public-sector IA community and country IA PACs (19), in conformance with the protocol of the *Carleton University Research Ethics Board* (see detailed Annexes 7-9).

- **Publicly available, archived, declassified, restricted-access and member-access information from the national governments and Parliaments**

For the research on IA reforms in the UK national government in the post-1999 period, the data were collected from the statutes, programmatic and reporting documentation on IA reforms, available online from the government websites and databases and obtained from the interviewees, and are all listed in the Bibliography and respective interview-related Annexes 7-9.

For the research on IA reforms in the Australian national government, the data came from the statutes, programmatic and reporting documentation on IA reforms in the post-1999 period, collected online from the government websites and databases, as well as obtained from the interviewees, listed in the Bibliography and respective interview-related Annexes 7-9.

For the research on IA reforms in the Government of Canada, the following data sources were used:

- 1) access to information requests (ATIPs) submitted to the Treasury Board of Canada Secretariat and granted to the extent of data availability;
- 2) GOC IA GCpedia webpages with declassified government documentation, accessed based on the author's membership in the GOC IA community;
- 3) online GOC statutes, programmatic and reporting documentation on IA reforms in the post-1999 period, including statutes and legislative documentation, Treasury Board of Canada website, and management information (including Departmental Performance Reports (DPRs), Reports on Plans and Priorities (RPPs), Management Accountability Framework (MAF) Portal, etc.);
- 4) Parliamentary records (Hansard), i.e. online historical and current debates and documents of the House of Commons, including the Standing Committee on Public Accounts (PAC); and
- 5) historical archival information obtained from the Library and Archives Canada (LAC) and various published materials. All of the theses sources are listed in Bibliography.

Further, these data sources were supplemented by the information from online and member-access documentation and professional literature from the IIA and the IA Policy

Advocacy Coalitions, including the Big Four firms Deloitte, PWC, Ernst & Young, and KPMG, listed in the Bibliography. Available academic commentaries, reports of Auditors General and inquiries, and relevant media reports, listed in the Bibliography, were also used to cross-verify the evidence.

Finally, the *Model of IA-CM Assessment of IA Sectors under VAMP Paradigm* and the *Generalized Public-Sector IA Reform Logic Model*, presented above, were applied against all of the country data in select national Westminster governments in order to: 1) identify the capability maturity level of the national IA sectors in these countries; 2) construct the resulting country profiles of the IA governance regimes under the VAMP paradigm applied in the context of the Westminster system of responsible government; 3) evaluate VAMP implementation within the public-sector IA reforms in these countries; and 4) conduct comparative analysis and evaluation across the case studies.

2.2.5. Role of the Policy Researcher

In the digital age, policy researchers increasingly operate in the virtual networked policy environments, where the policy influences come from different sources, both direct and indirect. This research project is a direct example of this reality. First, the author is a *member of five professional associations*, privately regulated, both domestic and global, such as the Global Institute of Internal Auditors (IIA), Canadian Evaluation Society (CES), Canadian Association of Management Consultants (CAMC), Canadian Economics Association (CEA), and Canadian Association for Business Economics (CABE), and holds their certifications. This provides an understanding of how privately-regulated professions operate and interact with each other, as well as how they are linked in the IA policy environment on the domestic and global scale. Second, the researcher is a member of

several restricted-membership *Government of Canada epistemic communities*, including the digital GCTools (GCpedia/GCconnex/GCcollab) functional and policy networks on IA and evaluation, which operate as closed networks with restricted access. This allows access to the policy and operational information that is classified and not visible to the public or other communities. Third, the researcher is a *member of epistemic communities of the supra-national institutions (SNIs)*, as a representative of the Government of Canada, by the virtue of being a national coordinator for several OECD committees, and a national subject-matter expert, providing input to the policy-coordination initiatives of the OECD, the United Nations systems of organizations, the World Economic Forum (WEF), the G7 and G20, etc. This unique position allowed the author to see what others can't see, i.e. to spot a *paradigm*, to develop a deep understanding of the workings of the *domestic and international policy networks and epistemic communities*, an appreciation of the *policy systems view* as an over-arching approach to policy research, as well as an understanding of the complexity and intricate interactions between the *actors in the policy subsystems*, their role and their impact on the *policy regimes*.

In this dissertation, an important choice was made by the researcher in terms of what stance to take with respect to the research, on the continuum of possibilities in Blaikie's (2010: 50-51) typology, i.e. detached observer, empathetic observer, faithful reporter, mediator, reflective partner or dialogic facilitator. A combination of the behavioral patterns of an empathetic observer, faithful reporter and dialogic facilitator during the interviews seemed appropriate in addressing the complex public policy phenomena in the IA policy world, covered in this research project.

3. Chapter 3: Professional Paradigms in Modern Internal Auditing

3.1. Introduction

This chapter aims to empirically identify the essence of VAMP as a global professional paradigm of the modern IA industry, the drivers behind its emergence, and its antecedents. As a first step, the research constructed the historical (chronological) timeline and facts of the evolution of the modern IA profession through four lines of enquiry, identifying the factors, processes, mechanisms and outcomes of development: 1) IA professional community and organization; 2) IA professional knowledge and practices; 3) IA professional authority, jurisdiction, and environment; and 4) IA professional consensus and compliance to support status-quo or change, when determined necessary. Second, the paradigmatic shifts¹⁵ were identified based on the empirical evidence. Third, a paradigm conceptualization was conducted, by constructing a disciplinary matrix for each paradigm as a summary of observable characteristics, followed by the development of an associated conceptual model of the paradigm as a summary of measurable indicators.

The starting point of analysis is the fact that the modern IA profession was born in 1941 in the United States with the creation of the IIA. Analysis of the historical developments, based on professional and academic literature, allowed to determine that since then the IA profession has gone through three paradigms, identified and dubbed by the author as follows: 1) Attest & Operational IA paradigm from 1941 to mid-1980s; 2) Control Frameworks IA paradigm from end of 1980s to end of 1990s; and

¹⁵ Paradigmatic shift is defined as an observable significant change in at least one component of the disciplinary matrix

Figure 9 Timeline of Paradigms in Modern Internal Auditing Profession: 1941-2017

Source: Author, December 2017

3) Value-Added Management Partner (VAMP) paradigm from end of 1990s to the present, illustrated in Figure 9 and described in the sections that follow.

3.2. Attest & Operational IA Paradigm: 1941-Mid 1980s

Abbott (1988: 16) found that the development of professions follows a sequence of first-order events, although not necessarily in the same order or independently of other events: 1) first (national) professional association; 2) first licensing legislation; 3) first professional examination; 4) first professional school separate from some other profession; 5) first university-based professional education; 6) first ethics code; 7) first national-level journal; 8) first accreditation of schools or certification by association. This finding seems to apply to the development of the IA profession as well, which has achieved almost all of the first-order professionalization conditions during its first 40 years of existence, as demonstrated in the analysis of the first IA paradigm below.

3.2.1. IA Professional Community and Organization

In 1941, the Institute of Internal Auditors (IIA) was founded in the New York City, United States, through the certificate of incorporation, by Victor Brink (author of the first book in internal auditing), John Thurston (internal auditor for the North American Company in New York) and Robert Milne (member of IA subcommittee formed by Edison Electric Institute and American Gas Association) (see [IIA web1; Jackson 2011).

It is fair to say that the advent and evolution of the IIA is synonymous with the formation of the distinct IA profession, because the IIA obtained a legal authority to issue professional standards, offer training, and promote the practice of internal auditing. According to Flesher (1991:1), before 1941, the internal auditing did not qualify as a profession because IA was viewed as a clerical function, with no organization and no

standards of conduct of its own: “Internal auditing wasn’t really a profession unto itself at the time; it was, in most cases, an offshoot or subdivision of an organization’s accounting department. Internal auditors spent more of their time ensuring compliance with accounting and operational procedures and verifying the accuracy of departmental calculations” (Jackson 2011: 34).

The establishment of the IIA provided legitimacy and credibility to the profession, and a supply of qualified members, which inevitably had an impact on the growth in internal audit departments in American organizations, as noted by Brink (1947). According to the IIA records, membership grew quickly from the original 24 members in 1941 to 104 by the end of the first year, to 1,018 by the end of 1947, and to 3,700 by 1957, where 20 percent were located outside of the United States (IIA web1).

According to the IIA historians Flesher (1992), Flesher and McIntosh (2002) and Ramamoorti (2003), the internal auditors in the 1940s were primarily accountants with accounting degrees and experience, often members of the American Accounting Association (AAA) and national accounting associations in other countries, drawing their knowledge from the theories of accounting, while the internal auditing activity had a modest role and limited responsibilities in the overall organizational management system, and was viewed as an extension of the work of external auditors in the financial statement reviews and various accounting reconciliations.

In those times, the IIA recognized that in order to develop a distinct profession, a major effort needed to be directed towards the creation of IA-specific academic education and degrees. Flesher (1991: 95-96) identified that the IIA participation in the development of IA education in colleges and universities experienced a period of major activity during

1941-1959, then a period of minimal activity during 1960-1972, and a period of interest during 1973-1980, with a major activity beginning afterwards:

From its founding, The Institute was an organization interested in professionalizing the field of internal auditing, and one way of reaching that objective was for the field to be recognized in colleges and universities...Victor Brinks 1941 book, *Internal Auditing*, was written for college students (as well as practicing internal auditors) to explain the objectives and detailed work of internal auditing (Flesher 1991: 96).

In 1944, an IIA Education Committee was formed. During 1944-1959, it carried out such main activities as assisting chapters in getting the local universities to initiate IA courses, conducting surveys of IA education, developing textbook for college students, developing capsule presentation on the field of IA, promoting more direct plans to interest students in IA, resulting in IA courses being offered at about 30 schools in North America. However, in the first two decades of the development of the IA profession, the IA courses in American colleges and universities were still scarce, as documented by Cunningham (1955) and Van Voorhis (1952).

In 1954, a joint IIA – AAA¹⁶ Task Committee on Internal Auditing Education published a report, based on a survey of 175 academic institutions, regarding the existence of IA courses, which found that only 24 schools were offering IA-related courses, the content of which was found heterogeneous (see CIA 1954). A majority of schools were not in favor of introducing a course dedicated to IA due to the difficulty of differentiating it from general auditing and accounting subject-matter, and “a considerable difference of opinion as to what internal auditing really is, and as to where, how, and to what extent (if at all) it should be covered in college courses” (TCIA 1954: 69).

¹⁶ American Accounting Association

This view had a huge impact on the development of IA profession, as the academics were generally not interested in pursuing IA research or teaching streams, which led to the period of minimal activity of the IIA in the area of academic education from 1960 to 1972. The IIA Education Committee dropped its concept of building the profession through university education and shifted its focus on assisting the members in their personal development through publications of manuals on seminars, and resulting in educational institutions dropping IA courses, with only two schools remaining in 1972 (Flesher 1991: 101-102).

In 1974, an international Certified Internal Auditor (CIA) program was rolled-out by the IIA, with exams taking place at 41 locations by 654 auditors (see Jackson 2011). The CIA program effectively constituted a formal educational process necessary to obtain the professional license.

This led to a renewed interest in IA education. In 1976, the IIA developed a career film “Discover Internal Auditing – A Dynamic Profession” seen by about half a million people, followed by the release of the recruiting films “The Problem Solvers” and “The Best Seat in the House” in 1980, which were popular among the students (Flesher 1991: 103-104).

By 1979, 35 percent of all IIA membership was located outside of North America, which prompted the decision to create national institutes via separate agreements, that would be represented at the IIA International Relations Committee and would be able to address the needs of chapters outside of North America more fully (Flesher 1991: 69-74).

In 1981, the IIA established a new college and university relations program, designed and administered by the IIA Education Committee of the Subcommittee on

College and University Relations. The efforts focused on the development of the handbook for chapters to make contacts with the local campuses, distribution of the list of cases for use in IA classes, development of the curricula and course syllabi for use in IA, establishment of the IA pilot schools at universities, which resulted in 15 schools offering IA courses by 1983 (see Flesher 1991: 104-105).

By mid-1980s, the IIA was functioning as a well-managed organization with a structure of the secretariats and services to membership, which mobilized the members through local and regional chapters, national institutes, and, a variety of committees and task forces. The IIA developed bylaws, guiding the membership with such status categories as full member, associate member, and honorary member (see Flesher 1991: 60). The process of the local chapter formation began in 1942, and by mid-1980s, there were more than 180 chapters worldwide (see Flesher 1991: 61-67).

3.2.2. IA Professional Knowledge and Practices

The IA theory during this period was formed by the first textbook on internal auditing by Viktor Z. Brink in 1941 and the second textbook by Lawrence Sawyer in 1973.

Brink's "Internal Auditing" textbook released in 1941, based on his doctorate thesis, was regarded as a pioneering and necessary work and was widely accepted by the IA practitioners and the accountants. Brink defined modern IA as an attest function, and a control of other accounting and financial controls in the organization. According to Lang (1941) and Cunningham (1955), his textbook provided such fundamentals as: 1) the nature of internal auditing and its related problem of internal check; 2) the elements of the internal audit program, including for the detailed procedures for cash, receivables, investments, inventories, etc.; and 3) development of IA working papers, findings, and reports. Brink

also developed and offered first occasional IA courses at the University of Columbia, which covered such topics as the scope of the IA services, organization and operation of an IA department, internal check and internal control, and various accounting procedures, development of working papers and reporting, and coordination with outside auditors (see Brink 1947). Brink's textbook was updated several times in 1958 and 1982, and continues to be the key technical reference for internal auditors to this day.

In 1944, the IIA held the first annual conference in New York and published the first issue of *Internal Auditor* magazine, the latter in essence serving as the vehicle for the gradual formation, production, and validation of the practical body of knowledge for the IA practitioners, according to the recollections of its users, like the former IIA Chair Duane Wilson (Jackson 2011: 33).

In 1945, the IIA established a Research Committee, to guide the development of the professional knowledge, where Brink was the first director, with the first project of formulating a Statement of Responsibilities of Internal Auditing (Flesher 1991: 127-128).

According to Ramamoorti (2003), Flesher (1991), and Swinkels (2012), in 1947, the IIA released the first official definition of internal auditing (development of which was led by Victor Brink, the first IIA research director), called the Statement of Responsibilities for Internal Audit (SRIA 1947), which clarified that IA dealt primarily with accounting and financial matters, but may extend its scope to operational auditing:

Internal audit is an independent appraisal activity within an organization for the review of the accounting, financial, and other operations as a basis for protective and constructive service to management. It is a type of control that functions by measuring and evaluating the effectiveness of other types of control. It deals primarily with accounting and financial matters, but it may also properly deal with matters of an operating nature (Flesher 1991: 22).

In 1957, the IIA updated the definition of IA, i.e. in the new Statement of Responsibilities of Internal Auditing (SRIA 1957), which broadened the scope of IA “to include more responsibility for operational areas”, such as: 1) review and appraisal of the company accounting, financial and operating controls; 2) assurance on compliance with policies, plans, and procedures; 3) assurance on integrity and safeguarding of company assets; and 4) appraisal of the quality of performance (see Ramamoorti 2003: 5; Flesher 1991: 178). This led to yet another phase of growth in demand for internal auditors and subsequent expansion of the profession, which by 1966 grew to 78 chapters in 24 countries (IIA 2016c: 35).

Further research was conducted by the first IIA managing director Bradford Cadmus during 1953-1964, who produced 14 research reports and published a seminal Operational Auditing Handbook (see Flesher 1991: 128-129; Ramamoorti 2003: 19).

In 1968, the IIA approved the Code of Ethics (1968) as a standard for every member of the IIA (Jackson 2011: 34) In 1971, the second theorist of IA, Lawrence Sawyer, became a chairman of the IIA Research Committee and led the work on the revision of the Statement of Responsibilities of Internal Auditing (SRIA 1971) as follows:

Internal auditing is an independent appraisal activity within an organization for the review of operations as a service to management. It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls (Flesher 1991: 24).

SRIA was revised three more times in 1976, 1981, and 1990 as the profession evolved (see Ramamoorti 2003: 6).

In 1972, the IIA approved the official Common Body of Knowledge for the IA Profession (CBOK 1972), which was developed on the basis of the survey of auditors in the United States (see Ramamoorti 2003: 7; Abdolmohammadi et al. 2006).

The objective of CBOK I (Gobeil, 1972) was to define the CBOK for the profession of internal auditing. The survey was conducted only in the USA...It attempted to define and interpret three issues. The IIA wanted to know the knowledge that should be possessed by internal auditors who are considered professionally proficient. The second area of interest was the knowledge required for candidates seating for the CIA exam. The final area was the type of knowledge that should be the focus of continuing professional development and training. (Abdolmohammadi et al. 2006: 812).

The CBOK (1972) was developed as the first step for determination of the global educational requirements for internal auditors and the syllabus of the Certified Internal Auditor (CIA) examination, which stated that internal auditors should have a broad knowledge in several areas, such as behavioral sciences, computer systems, communications, accounting and finance, the management process, systems and procedures, etc. (IIA 2016f: 25).

Further, in 1973, Sawyer published “Internal Auditing”, a reference book in a dialogue style, aimed at explaining the IA concepts and the nature of IA activities to non-practitioners and differentiating IA from accounting, as a service to operational management. Later, the book was developed into the textbook many times and continues to be the guide for modern-day internal auditors (see Guy 1976). Stepping into Victor Brick’s shoes as an IIA Research Director, Sawyer continued to develop the applied theory of internal auditing and propagate the knowledge (see Goza 2005).

In 1974, the IIA held the first international conference outside of North America in London, after the move of its headquarters from New York to Orlando, Florida in 1972.

In 1976, the IIA established the Foundation for Auditability, Research and Education (FARE), later renamed into the IIA Research Foundation (IAARF). It later established a Doctoral Thesis Grants program (1981). In the same year, the IIA also revised the Statement of Responsibilities of Internal Auditing (SRIA 1976) to remove gender references (Flesher 1991: 24).

In 1978, the IIA issued the first official Standards for the Professional Practice of Internal Auditing (Standards 1978), as the criteria for evaluation and performance measurement of the operations of an IA function, which were immediately promulgated by the IIA chapters and quickly gained international acceptance, as noted by Jackson (2011), Ramamoorti (2003), and Moeller (2016). The standards contained the 1976 Statement of Responsibilities of Internal Auditing as the definition of IA, the 1968 Code of Ethics for Internal Auditors, and the 1978 Statements on Internal Auditing Standards (SIAS). (Ramamoorti 2003: 6). They were established with the following purpose: “1. Assist in communicating to others the role, scope, performance, and objectives of internal auditing. 2. Unify internal auditing throughout the world. 3. Encourage improved internal auditing. 4. Establish basis for consistent measurement of internal auditing operations. 5. Provide a vehicle by which internal auditing can be fully recognized as a profession” (Ramamoorti 2003: 6).

The standards outlined various aspects of operational internal auditing within organizations, such as independence, professional proficiency, scope of work, performance of audit work, management of the internal audit department, and the evaluation and measurement of the IA function, including control concepts, risk assessment, preventing and investigating fraud, relationships with external auditors, communication with board of directors, assignment planning, and follow-up on audit findings (see Ramamoorti 2003: 6; Idiab 2012).

In 1981, the Statement of Responsibilities of Internal Auditing (SRIA 1981) was updated as follows:

- Internal auditing is an independent appraisal activity established within an organization as a service to the organization. It is a control, which functions by examining and evaluating the adequacy and effectiveness of other controls (IIA 1981).

- The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed (IIA 1981).
- The audit objective includes promoting effective control at reasonable cost. The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. The scope of internal auditing includes: 1) Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information; 2) Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and determining whether the organization is in compliance. 3) Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets. 4) Appraising the economy and efficiency with which resources are employed. 5) Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned (IIA 1981).

In 1984, the IIA published a Quality Assurance Review Manual, and then in 1985 it instituted a Quality Assurance Review Service, signaling that the IA profession has formed a sufficient body of knowledge, which was expected to be applied in a consistent and standard way across IA departments in the organizations, in order to move the profession forward (see Jackson 2011: 36; Flesher 1991: 31).

Further, by mid-1980s, the IIA has become an authoritative source and major publisher of the IA professional periodic literature, through such publications as Internal Auditor journal, Member News Bulletin, Auditing News, IIA Educator, etc. (Flesher 1991: 75-86). During this time, 19 research reports, 10 monographs, and a dozen of empirical research papers were produced on various conceptual and technical issues in the IA practice (see Flesher 1991:130-138).

The IIA has also established a robust Continuing Professional Education (CPE) program for the members, which included conference and seminars program, with offerings of general and special-subject international and regional conferences and seminars on the annual or periodic basis, which attracted a wide spectrum of members and

representatives from businesses and various government, regulatory, and international institutions.

3.2.3. IA Professional Authority, Jurisdiction and Environment

According to Moeller (2016), the IA was recognized as an important process and corrective control by the U.S. Securities and Exchange Commission (SEC) in 1934, due to the financial frauds that caused the Great Depression in much of the Western world:

As a legislative corrective action, the SEC required that all enterprises registered with it must provide financial statements certified by independent auditors. This required also promoted corporations to establish internal auditing departments, but with the objective primarily to assist their independent auditors. At that time, external financial auditors were focused on expressing an opinion on the fairness of an enterprise's financial statements rather than on detecting internal control weaknesses or even clerical errors. The SEC rules precipitated auditing based on a limited sample of transactions, along with greater reliance on internal control processes (Moeller 2016: 6).

To reiterate, in 1941, the IIA obtained a certificate of incorporation, providing legal authority to issue professional standards, offer training, and promote the practice of internal auditing. This set off a profession-building process.

According to Cunningham (1955), Flesher (1992), Flesher and McIntosh (2002), and Ramamoorti (2003), the 1940s were marked with the surge in demand for internal auditors due to unprecedented growth in organizational management problems related to the World War II and resulting new business models:

While normal management problems have been constantly increasing over the years, World War II brought a pyramid of new problems. The social and economic problems that have developed in the past ten or fifteen years have been so vital to business that management has been forced to devote a large part of its time to their solution and administration. This condition has forced top executives to delegate many of the normal duties that they formerly performed...The increase in management problems over the years has forced management executives farther and farther away from line operations and has curtailed the opportunity for personal observations and evaluation of operating activities. As a result, management has been forced to rely more and more upon its system of internal control to provide operating data and the assurance that its directives were being faithfully executed (Cunningham 1955: 52).

This external demand created favorable conditions for the formation of the IA as a distinct profession and its legalization through the establishment of the IIA in 1941 as the main standard-setting and self-regulating professional body.

A number of government bodies in the United States and abroad played a role in the early development of the IA profession and broadening its role and functions from financial auditing to operational auditing, including legislative institutions and the federal Supreme Audit Institutions (SAIs).

In 1945, the U.S Congress passed the Government Corporation Control Act, which legislated the creation of the Corporation Audits Division at the General Accounting Office (GAO) in the same year, with the scope of audits much broader than typically carried out in the private sector (Flesher 1991: 12). As a result, the federal government internal auditors were recruited from the membership of the American Institute of Certified Public Accountants (AICPA) (Flesher 1991: 12). GAO played a major role in the broadening of the role of IA, through the GAO Standards for Audit of Governmental Organization, Programs, Activities and Functions (Yellow Book), based on the AICPA standards, but expanding the scope of IA to the audits of program economy, efficiency and program results.

The year of 1977 marked the next significant change in the IA environment with the passing of the Foreign Corrupt Practices Act (FCPA) by the U.S. Congress, leading to a surge in demand for internal auditors across American corporations:

Although it was emphasized that the purpose of the new law was to eliminate payments by U.S. corporations to foreign officials, the secondary purpose of enhanced internal controls was more important to internal auditors. Congress was smart to include in the law a provision that organizations should have sufficient internal controls so that any illegal payments would be uncovered by the accounting system. Thus, if a corporation was guilty of making an illegal payment, management could not escape conviction by claiming a lack of knowledge of those payments. If management really did lack knowledge, then they were guilty of having a system that could not uncover illegal payments. As a result of this law, corporate management began

placing more emphasis on internal controls. The result was the hiring of more internal auditors by corporations with internal audit departments, and the establishment of new internal audit departments by those organizations that did not already have them (Flesher 1991: 10).

According to Flesher (1991: 32), the FCPA was brought by the changing societal expectations of the roles of business management in the 1960s and 1970s, brought about by the public concerns about the environment, elimination of poverty, conservation of resources, equality, and morality standards in business.

During 1973-1978, the Government of Canada's Office of the Auditor General (OAG), under the leadership of the Auditor General J.J. Macdonnell, had pioneered the concept and practice of the value-for-money (VFM) auditing as another type of independent government operational auditing (i.e. audits of program economy, efficiency, and effectiveness), which was then legislated in 1977 by the Parliament of Canada as one of the major duties of the OAG (see Flesher 1991: 13). The major driver behind this development was the fact that public-sector IA was assessed as a weak control in the government environments of the time. Thus, the OAG offered a way to mitigate this assurance gap in the government accountability regime by providing a more effective and credible instrument.

In the 1970s-mid 1980s, the practice of VFM auditing by the SAIs spread across Westminster parliamentary democracies with their legislation in the UK (1983 National Audit Act), New Zealand (1977 Public Finance Act), and Australia (1979 Audit Act), as noted in Flesher (1991: 13-14). This contributed to the adoption of VFM methodologies by the government IA functions in Northern America, in order to assist the SAIs in this practice.

In 1976, the IIA established a Directorate for Government and Public Affairs, which developed a system of liaison activities with the congressional committees, regulatory agencies, federal departments, and other standard-setting and rule-making bodies, to make sure that the IIA views were a matter of public record and that the profession can influence the important legislative and regulatory decisions, affecting its interests (Flesher 1991: 34). The IIA started to regularly provide position and briefing papers on various legislative proposals and bills, government studies, standards of governments and other professional associations, and releases of the government and regulatory bodies in the areas of public accountancy, auditing and investigative services, internal accounting administrative controls, etc.

Since 1981, the IIA started to provide testimonies and endorsements on government initiatives before the various U.S. government committees, e.g. the U.S. Senate, National Security Subcommittee of the Committee on Government Operations, Committee on Banking, Housing and Urban Affairs, etc. (Flesher 1991: 34). It also got involved in various government actions, e.g. the Grace Commission or Private Sector Survey on Cost Control (PSSCC), the Federal Computer Systems Protection Act, Foreign Corrupt Practices Act, Foreign Trade Practices Act, GAO Standards for Internal Control in the Federal Government, etc. (Flesher 1991: 35). In 1985, the IIA also became involved with courts for the first time in the case against U.S. Defense Contract Audit Agency (DCAA), in order to protect the secrecy of the IA working papers (Flesher 1991: 35). Outside of the United States, the IIA chapters had started to roll out the professional advocacy activities. These IIA activities increased the visibility and legitimacy of the IA profession in both business and government circles in North America and in Westminster countries.

3.2.4. *IA Professional Consensus and Compliance to Support Status-Quo or Change*

During this period, the IIA developed the processes and mechanisms of professional consensus and indirect compliance, related to the key milestones in its professionalization program, such as:

- Development of the Statement of Responsibilities of the Internal Auditor (SRIA 1947) and its revisions in 1957, 1971 and 1981, led by the IIA Research Committee and IIA presidents; the draft of which was communicated to the membership through the process of “exposure” in the *Internal Auditor* magazine, and the revised accordingly and approved by the IIA Board of Directors (Flesher 1991: 20). The changes would be based on the IIA research on external pressures on the IA profession and the need to reflect it in the practices, the scope of IA, and the roles and responsibilities of the auditors (Flesher 1991: 19-24).
- Development of the Code of Ethics (1968), led by the IIA Professional Development Committee, following the same process of exposure to membership, revision and approval by the IIA Board of Directors (Flesher 1991: 25-26).
- Development of the Standards for the Professional Practice of Internal Auditing (Standards 1978), led by the IIA Professional Standards & Responsibilities Committee (PS&R Committee), and then introduced to membership in the issue of *Internal Auditor* magazine, followed by the consultations with the IIA chapters, and approval by the IIA Board of Directors (Flesher 1991: 27-29).
- Changes to the standards via the Statements on the Internal Auditing Standards (SIAS), led by the PS&R Committee task force, to be exposed to membership and issued only

for significant changes facing the profession, and approved by the IIA Board of Directors (Flesher 1991: 30).

- Establishment of the Quality Assurance Review Service (QARS 1986), i.e. the external audit of the IA functions in the client organizations, after publication of the Quality Assurance Review Manual (1984), by the decision of the IIA Executive Committee (Flesher 1991: 31).

Once the key documents and initiatives were approved, the IIA membership was encouraged to comply with them and was subjected to the mechanism of indirect enforcement, as in case with the *Standards*: “Compliance was to be indirect, resulting from the actions of people outside the internal auditing profession. This enforcement process was to be achieved through pressures exerted on internal auditing by external auditors, regulatory agencies, audit committees, and perhaps by the courts...This external enforcement process ultimately did develop as corporations and governmental units adopted the Standards as official policy” (Flesher 1991: 28).

These processes and mechanisms proved to be working well for the IIA membership, since their legitimacy was broadly tested and accepted.

3.2.5. *Paradigm Conceptualization*

According to Ramamoorti (2003, p. 7), from 1941 to the end of 1970s, the IA field already satisfied the conditions¹⁷ to be recognized as a profession:

There was no doubt that, by the late 1970s, the field of internal auditing had earned the right to be called a “full-fledged profession,” even using James Carey’s (1969) seven, fairly stringent qualifying conditions for a “profession.” Sometime after 1974, when the Certified Internal Auditor (CIA) exam was sponsored by The IIA, internal auditing had a sufficiently respectable profile and merited being called an established profession because: it had a body of specialized knowledge (common body of knowledge approved in 1972), a formal

¹⁷ According to Ennis T. (1970: 192), Carey specified the following seven conditions for the accounting field to be called a profession: 1) a body of specialized knowledge; 2) a formal educational process; 3) standards governing admission; 4) a code of ethics; 5) a recognized status indicated by a license or special designation; 6) public interest in the work; and 7) social obligations.

educational process (a minimum prescribed course of formal education), standards governing admission as a full member of The IIA (prescribed course of study, passing CIA exam, professional experience requirements, and the Standards), a Code of Ethics (first approved in 1968), a recognized status indicated by a license or special designation (the CIA, or the MIIA⁷, recognized in several jurisdictions worldwide), a public interest in the work that the practitioners perform (perhaps more evident in the work performed by internal auditors in government, education, and nonprofit organizations rather than in the private sector), and a recognition by professionals of a social obligation (again, perhaps more evident in government, education, and nonprofit organizations) (Ramamoorti 2003: 7).

Further, by the mid-1980s, the IA profession achieved all of the first-order conditions of professionalization, except for the distinct academic programming and accreditation. Most importantly, during this paradigm, the IA profession not only was established and gained legal authority and jurisdiction, but also grew from a “lackluster” activity to a “training ground for management-level personnel” (Flesher 1991: 14). During this time, the IA community was formed into a professional community rather than a scientific one, since there were no distinct academic programs or degrees awarded, but rather an applied certification (CIA) that provided a license to practice. Also, the IA community was dominated by graduates from the accounting and financial disciplines, who obtained practical experience in IA on the job during their careers. Since the establishment of the CIA certification in 1974, the practitioners gradually obtained their certifications.

3.2.5.1. Disciplinary Matrix

In a Kuhnian sense, under this Attest & Operational IA paradigm, the IA profession developed a distinct “disciplinary matrix”, as follows:

1) IA theory, exemplified by the textbooks of Brink (1941) and Sawyer (1973), but not as a distinct academic theory of IA, rather as an application and extension of the accounting and financial fields to perform attest and operational auditing so that IA is a “control of controls”; IA Common Body of Knowledge (CBOK 1972), as a set of practical generalizations about the fundamentals of IA services and knowledge requirements in the

areas of accounting and finance, behavioral sciences, computer systems, communications, the management process, systems and procedures, developed by practitioners with apparent lack of the involvement of the academic establishment in its formulation.

2) IA definition, embodied in the Statement of Responsibilities of Internal Auditing (SRIA 1981), representing a shared belief of practitioners that IA is an independent organizational function, assuring adequacy and effectiveness of the internal control systems to shareholders and stakeholders in a practical way, without any theoretical debates regarding the validity of solutions, with the latter sourced from the conceptual and normative guidance embodied in the IIA CBOK and Standards.

3) IA Code of Ethics (1968), as a summary of formalized core values of the entire community of IA practitioners that in order for the management of the organizations to rely on the IA profession in ensuring management stewardship, the members of the profession “must maintain high standards of conduct, honor, and character in order to carry on proper and meaningful internal auditing practice”. The ethical principles could be summarized as follows: 1) honesty, objectivity, and diligence in performance of duties; 2) loyalty to employer and the clients; 3) no conflict of interest or bribery to ensure objectivity; 4) confidentiality of information and prohibition of use of information for personal gain; 5) exercise of reasonable care in expressing audit opinion based on evidence and the obligation to report all findings; 6) obligation to continually strive for improvement in the proficiency and effectiveness; 7) observance of bylaws of the IIA and maintenance of the high standard of competence, morality, and dignity.[IIA (1968)]

4) Standards for the Professional Practice of Internal Auditing (Standards 1978), associated Statements on Internal Auditing Standards (SIAS), Quality Assurance Review

Manual (1985), Operational Auditing Handbook (1964), as the most prominent exemplars (puzzle-solutions). This defined the desirable IA governance regime (i.e. formalization of the IA department in the organization by approval of its governing documents by the senior management and the board), and prescribed and recommended best-practice IA processes, methodologies, and templates for work products, focused on ensuring primarily financial compliance and operational control in the management of the organization.

3.2.5.2. Conceptual Model of the Attest & Operational IA Paradigm

The disciplinary matrix summarizes the observable ideational framework for the Attest & Operational IA paradigm, including the last iteration of the IIA Statement of Responsibilities of Internal Auditing (SRIA 1981), the 1978 IIA Standards for the Professional Practice of Internal Auditing, and the 1968 Code of Ethics for Internal Auditors. The synthetic conceptual construct of the paradigm, illustrated in Figure 10, provides a summary of measurable indicators. The overall idea is that in order for the organizational system of internal control to be adequate and effective, three groups of necessary conditions should be satisfied, summarized in pillars.

Under Pillar 1, the main postulate is that IA activity is an independent appraisal (attest) function in the organization, serving as a “control of controls”.

Under Pillar 2, the main postulate is that the IA function serves all members of the organization by promoting adequate, effective and efficient control systems via various types of reviews of the financial and operating information, compliance systems, assets, operations, and programs, and performance of the organizational units, as well as appraising the overall economy and efficiency in the organization, resulting in various types of assessments and recommendations to senior management and the board.

Figure 10 Conceptual Model of the Attest & Operational IA Paradigm

Source: Author, December 2017

Under Pillar 3, the key assumption is that the status and role of the IA function in the organization should be formally acknowledged by the management and the board and defined in its charter in order to permit it to be effective. The IA function, despite being a service to the employer and maintaining its loyalty, should maintain its independence and self-regulation principles by complying with the IIA Standards, the Code of Ethics and prescribed best practices in ensuring the quality of IA services. Further, to ensure the

appropriate level of regulation and competencies of the auditors, it is recommended that internal auditors obtain a membership in the IIA and undergo the CIA certification.

3.3. Control Frameworks IA Paradigm: End of 1980s - End of 1990s

This period in the development of the IA profession was propelled by globalization, enabling significant organizational and jurisdictional growth of the IIA around the world, diversification in the scope of IA activities, and internationalization of its operations, as underscored in the annual report titles of that period, like “Globalization through Partnership”, “Harmonizing Diversity”, “Embracing Change”, as described in Flesher and McIntosh (2002). However, this development was over-shadowed by the global trends of downsizing and outsourcing in business and government, cuts in public-sector spending and private-sector investment, and a spread of fraudulent management practices, creating new conditions and requirements for internal auditors worldwide. The external pressures on the IA profession and its own research and analysis necessitated a paradigmatic shift, which occurred approximately in 1986-1987.

3.3.1. IA Professional Community and Organization

The local chapters and Institutes of the IIA were growing rapidly across the world, as the demand for IA services increased. In 1987, the IIA made a decision and later approved a mandatory Continuing Professional Education (CPE) requirement for the CIAs, whose numbers reached 35,000 by the end of 1990s (Flesher and McIntosh 2002: 161).

In 1990, the IIA established an Audit Group Membership Program, offering discounted rates for the entire staff of the participating IA departments, indirectly implying that their staff will be required to comply with the conditions of certification and continuous professional development (Flesher 1991: 58). This led to a surge in the IIA

membership, which almost doubled during the decade to nearly 100,000 in 141 countries, with about 50/50 distribution between North America and the rest of the world.

By the end of 1990s, the IIA established a number of new certification boards and service programs, such as: 1) Gaming Audit Group; 2) Chief Audit Executives (CAE) Services Program; 3) Board of Environmental Health, Safety and Auditor Certifications (BEAC) providing a Certified Professional Environmental Auditor (CPEA) designation; 4) Certification in Control Self-Assessment (CCSA) designation; and 5) Certified Government Auditing Professional (CGAP) designation (Flesher and McIntosh 2002: xiv).

3.3.2. IA Professional Knowledge and Practices

In 1985, understanding the need to identify new organizational requirements for internal auditors in the business and government environments, the IIA conducted a second CBOK study, based on a survey of internal auditors in Canada and the United States, and determined three key areas of knowledge that were important: 1) knowledge of relevant disciplines; 2) skills to perform IA tasks; and 3) necessary experience:

The objective of CBOK II (Barrett et al., 1985) was to establish the structure of the CBOK for practicing internal auditors...They identified three key areas of CBOK: knowledge of relevant disciplines; skills needed to perform appropriate internal auditing tasks; and experiences necessary to be professionally qualified, proficient and a competent internal auditor. Barret et al. (1985) presented three broad conclusions. First, senior internal auditors should have a firm grasp of the core academic disciplines of auditing and computer systems and a working knowledge of communications and accounting. Second, at the bottom of the importance scale of knowledge is marketing. Finally, entry level internal auditors are expected to possess as much knowledge but fewer skills as senior-level auditors and senior-level (not entry-level) auditors are expected to become professionally certified (Abdolmohammadi et al. 2006: 813).

During this period, the IIA Research Foundation produced a significant volume of professional guidance and research reports, reflecting important trends and changing practices in the profession, including: IT auditing; audit committee performance;

perspective on and control implications due to outsourcing, downsizing and re-engineering; IA quality assurance; corporate governance; information security management and assurance; enterprise risk management (ERM), etc. (see Flesher and McIntosh 2002: xi-xii).

The IIA also expanded its program of regular professional seminars, conferences, global forums, on-site corporate seminars and training programs, with offerings to broad membership, organizational leaders, universities, governments, etc. (Flesher and McIntosh 2002: xiv).

In 1987, the IIA decided to sponsor the development of the first academic IA program at Brigham Young University with a \$15,000 grant, signaling its commitment to elevate the IA knowledge to the academic level (Jackson 2001: 37). The renewed IIA commitment to academic education resulted in a three-fold growth of IA programs at colleges and universities with up to 44 of them established worldwide over a decade (Flesher and McIntosh 2002: xv).

Most importantly, during 1987-1992, the IIA worked as part of the Committee of Sponsoring Organizations (COSO), to develop a new Internal Control-Integrated Framework (COSO-ICIF), drafts of which were exposed to membership, as well as the IIA position papers regarding ICIF and the final report in 1992 (Flesher and McIntosh 2002: 15). This work proved to be crucial in changing professional IA practices in terms of bringing them up to a higher level of sophistication, based on modern innovations in the international governance field. The release of COSO ICIF in 1992 was met with the global recognition of its value as a seminal practical guidance, a framework for designing and implementing internal control systems and assessing their effectiveness in organizations.

COSO (1992) defined internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives on effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations, and consisting of five interrelated components – Monitoring Activities, Information & Communication, Control Activities, Risk Assessment, and Control Environment, i.e. so-called COSO cube. Consequently, the IIA released several Statements on Internal Auditing Standards (SIASs) to incorporate COSO ICIF (Flesher and McIntosh 2002: 17).

In 1988, the IIA updated the Code of Ethics (1988). The changes were to declare that IA is a recognized and a reputable profession, and to clarify that the code is applicable only to the members of the IIA and Certified Internal Auditors (CIAs), as well as to position CIAs as a special class of auditors with higher professional requirements. The document contained 11 standards of conduct, in comparison to 8 in the previous Code of Ethics (1968). The additional principles required the members and CIAs to ensure their compliance with the Standards for the Professional Practice of International Auditing (1978), to “undertake only those services which they can reasonably expect to complete with professional competence”, and prohibiting them in engaging in “acts or activities which are discreditable to the profession of internal auditing or to their organization” (IIA 1988).

In 1990, responding to the rise of computing and the Internet, the IIA initiated the Systems Auditability and Control (SAC) project, with the publication of its first report in 1991. In that year, the IIA also revised the definition of IA and its scope in the new Statement of Responsibilities for Internal Auditing (1990) as follows:

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. The members of the organization assisted by internal auditing include those in management and the board of directors. The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. Internal auditors should: 1) Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information. 2) Review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance. 3) Review the means of safeguarding assets and, as appropriate, verify the existence of such assets. Appraise the economy and efficiency with which resources are employed. 4) Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned (IIA (1990)).

The IA definition was changed to position it as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The SRIA (1990) specified that the clients of the IA function included management and the board, however, the scope did not change in comparison to the SRIA (1981). Further, the document noted the global expansion in the jurisdiction of the IA profession and obligated the auditors to respect the laws and customs of the countries they service, and recognized that this may affect the IA practices in each of these environments. However, the auditors were expected to follow the IIA Standards (1978) and the Code of Ethics (1968) to the best of their abilities. Most importantly, the SRIA (1990) made a major change to the prescriptions on the model IA governance regime in the organization by introducing an “administrative independence” requirement, according to which the director of the IA function “should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure a broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations”, implementation of which would effectively elevate the status of IA in the organization in

order to ensure its effectiveness (see IIA 1990). The SRIA (1990) also strengthened the requirement for auditor objectivity as follows:

Objectivity is an independent mental attitude, which internal auditors should maintain in performing audits. Internal auditors are not to subordinate their judgment on audit matters to that of others. Designing, installing, and operating systems are not audit functions. Also, the drafting of procedures for systems is not an audit function. Performing such activities is presumed to impair audit objectivity (IIA 1990).

In 1992, the IIA decided to update the CBOK and conducted another survey of internal auditors in the United States and Canada, resulting in CBOK (1992):

It identified the competencies and knowledge that was required for internal auditors to practice at varying levels of experience. It also identified the most appropriate setting (formal education, professional development seminars, or on the job experience) where the competency should be acquired. The researchers included the following in their findings: the knowledge to be included in the CBOK; the levels at which internal auditors should possess various knowledge elements of the CBOK; the kind of knowledge that should be included on the CIA examination; and the kind of knowledge that should be included in professional development and training seminars for internal auditors (Abdolmohammadi et al. 2006: 813).

In 1993, recognizing the need to unite the globally dispersed IA professional membership in the virtual environment and increase the information sharing and networking opportunities, the IIA introduced a Global Auditing Information Network (GAIN), which became the world's largest IA professional database and a benchmarking tool for IA departments (see Flesher and McIntosh 2002: xiv-1). In 1994, the IIA gained global presence by establishing a website, which has become the source of the most comprehensive IA-related information and services to membership and partners (Flesher and McIntosh 2002: xii).

In 1993, the IIA published a handbook "Best Practices of Audit Committees", which became a staple in the training of IA committee members of the client organizations (see Flesher and McIntosh 2002: 162).

In 1996, the IIA held the first Global Forum of the profession, where the national and international developments in control frameworks and their impact on the IA

profession were discussed at length, signaling a global acceptance of the IIA as a profession and its understanding of the global management problems (see Jackson 2011: 37).

During the 1990s, the IIA issued a dozen of Statements on Internal Auditing Standards (SIASs), as extensions and interpretations of the existing IIA Standards (1978). The SIASs incorporated the developments in the corporate governance field with respect to IA governance and its role in the organizational system of integrated internal control, and the need for the IA function to be administratively independent from the line management and to have a working relationship with the audit committee of the board (Idiab 2016: 931). According to Ramamoorti (2003: 7), this special relationship between the IA function and the audit committees of the boards of directors, that formed during the 1990s, has become a bridge to the board of directors and management, which had to fulfill their responsibilities to shareholders and the public by paying attention to the work of auditors, both for the protection of the organization and for improving its operations. The growing link between the IA function and the audit committee ensured the improvement in the status of IA within many organizations, and internal auditors were increasingly seen as trusted experts and advisors to the top management and the board of the organization (Ramamoorti 2003: 7-8).

Finally, the 1990s also saw the rise of other international control frameworks in other fields of management, complementary to COSO, such as the ISACA's Control Objectives for Information and Related Technology (COBIT 1996), Basil Committee's Framework for Internal Control Systems (1998), United States Standards for Internal Control in the Federal Government (1999) and the ISO's 9000, 14000 and 27000 series of standards on various types of internal controls in the organizations (IIA 2008a).

3.3.3. IA Professional Authority, Jurisdiction, and Environment

In 1987, the IIA formed the first long-standing partnership with accounting professions based on common interests. It joined forces with the American Institute of Certified Public Accountants (AICPA), the American Accounting Association (AAA), the Financial Executives Institute (FEI), and the National Association of Accountants (NAA) to form a United States National Commission on Fraudulent Financial Reporting (The Treadway Commission), in order “to identify causal factors that can lead to fraudulent financial reporting and steps to reduce its incidence”, specifically targeting the practices at the publicly-traded companies (Treadway Commission 1987: 1). This was also a way to define inter-professional jurisdictional boundaries on this subject matter.

In 1987, the commission issued a report with recommendations for the public companies, the public accountants, and the U.S. Securities and Exchange Commission (SEC) to improve the regulatory and legal environment. First, of relevance to the IA profession were the recommendations for the public companies, focused on six areas of improvements in their financial reporting processes: 1) the tone set by the management; 2) the internal accounting and audit functions; 3) the audit committee; 4) management and audit committee reports; 5) the practice of seeking second opinions from independent public accountants; and 6) quarterly reporting (see Treadway Commission 1987: 11). The first recommendation was that the company should develop a code of corporate conduct, while the company’s audit committee should annually review the management program for compliance with the code. The second recommendation was crucial:

All public companies must have an effective and objective internal audit function. The internal auditor's qualifications, staff, status within the company, reporting lines, and relationship with the audit committee of the board of directors must be adequate to ensure the internal audit function's effectiveness and objectivity. The internal auditor should consider his audit findings in the context of the company's financial statements and should, to the extent appropriate,

coordinate his activities with the activities of the independent public accountant (Treadway Commission 1987: 11).

Second, the report emphasized the importance of the audit committee of the board of directors in ensuring integrity in the financial reporting and recommended that all public companies should establish an audit committee, composed of entirely independent directors (see Treadway Commission 1987: 12). Third, the report recommended development of a practice of issuing a letter from the chairman of the audit committee, describing its activities, along with the management's opinion on the effectiveness of the company's internal control, in the annual report to stakeholders (see Treadway Commission 1987: 12). Fourth, the Commission recommended that the audit committees establish an oversight of the quarterly reporting process.

Subsequently, in 1987, a Committee of Sponsoring Organizations (COSO) was formed as a permanent partnership between the internal auditing, accounting and financial professional associations – the IIA, the American Accounting Association (AAA), the Association of Accountants and Financial Professionals in Business (IMA), the Financial Executives International (FEI), and the American Institute of Certified Public Accountants – with the purpose of developing the global framework and guidance on internal controls, risk management and fraud deterrence. Shortly after the release of the report of the Treadway Commission, COSO initiated a project on the development of a new internal control tool for the organizations (COSO web1).

In terms of expanding IIA's authority and jurisdiction, the year of 1989 was groundbreaking for the IIA since it had achieved a permanent consultative and observer status at the United Nations' Economic and Social Council and the Assembly of Internal Auditors, and the International Organization of Supreme Audit Institutions (INTOSAI), which

cemented its international reputation as a global professional and standard-setting body in the field of internal auditing, according to Flesher and McIntosh (2002).

In 1992, COSO published a report that presented a new comprehensive Internal Control-Integrated Framework (ICIF) for designing, implementing, and establishing internal control and assessing its effectiveness in organizations (see COSO 1992). The framework soon gained broad acceptance worldwide. According to Ramamoorti (2003) and Birkett et al. (1999a), similar internal control frameworks were also developed as a result of national initiatives in the UK (Cadbury Committee Report 1992), Canada (the Criteria of Control Committee – CoCo Report), and South Africa (the King Committee Report). These developments indicated a changing risk appetite of the regulatory bodies and the public worldwide towards management practices, and the expectations for a tighter control and greater accountability in the organizations, with an increased role for the IA.

Special attention was paid in the English-speaking countries to the report of the UK Committee on the Financial Aspects of Corporate Governance (Cadbury Committee 1992), established in 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy profession, issued a report, focused on the control and reporting functions of the corporate boards and on the role of auditors, with the subsequent release of the Code of Best Practice [see Cadbury 1992]. The committee was established because of the shocking financial scandals of several prominent companies in the UK, which negatively affected the probity and integrity of the UK financial institutions (Cambridge web1). The committee issued recommendations, where internal audit was recognized as a good governance practice and it was recommended to establish the IA function in all publicly-traded corporations, as well as to ensure that heads of IA have an unrestricted access to the

audit committee of the board to ensure IA independence (see Dunlop et al. 1999: 4; Cadbury 1992). This had major influence on the shaping of the IA governance regimes in both corporate and public sectors, especially in the English-speaking cluster of the countries. Birkett et al. (1999a) assessed the impact of COSO, CoCo and Cadbury on the IA profession as follows:

COSO is fundamental to internal auditing, because a primary purpose of internal auditing is to ensure that a control system such as described by COSO is in place and is effective. With this approach, internal auditing can be regarded as the specialized service to organizations which assists managers to maintain the effectiveness of control systems based on COSO... Internal auditing is characterized by COSO as being relevant to control systems in all areas of an organization, such as operations, financial reporting, and external compliance. Similarly, internal auditing is characterized by COSO as concerned with all components of the system of internal controls... In this way internal auditing has a role in relation to both hard controls (control activities) as well as soft controls (control environment, communications). Finally, internal auditing is characterized by COSO as related to the objective and components of control systems in general... COSO recognizes a capable internal auditing function as one of a number of functions which, coupled with effective upward communication channels, can guard against a dishonest management. Board members, COSO suggests, can seek input from internal audit when reviewing the entity's internal control system (Birkett et al. 1999a: 122).

During 1993-1996, the IIA built alliances with the International Federation of Accountants (IFAC), through the Information Technology Committee, and the Information Systems Audit and Control Association or ISACA (see Flesher and McIntosh 2002: 33, 162). This proved to be very valuable, leading the IIA to carve out a new jurisdiction in the field of IT internal auditing. The IIA has also collaborated with the U.S. Critical Infrastructure Assurance Office (CIAO), which then prompted it to create a new jurisdiction in the field of security auditing (Flesher and McIntosh 2002: xv).

As this was the time of outsourcing and restructuring in the United States and the Western world, the IIA was frequently providing testimonies on the various "Blue Ribbon" committees, including recommendations on the best practices for the IA committees (Flesher and McIntosh 2002: xv).

According to Flasher and McIntosh (2002), the IIA Government Relations Committee was active in establishing contacts with various governments, establishing special membership programs and services, developing relevant guidance on public-sector IA, and providing its positions to influence the policies, including:

- 1) establishment of the lobbying presence in Washington;
- 2) development and distribution of the position paper “The Audit Committee in the Public Sector”;
- 3) liaison with the U.S. National Association of Local Government Auditors;
- 4) advocacy for the IIA Standards in the state audit agencies;
- 5) development and distribution of the Model IA Legislation for State Governments;
- 6) submission of position papers to the U.S. Department of Education;
- 7) inhibition of the moves of certain states to diminish the value of CIA certification;
- 8) work with chapters on state adoption of model IA legislation; 8) sponsoring Government Auditors Forum, The State and Local Government Conference, the Internal Auditing in Government Conference; and
- 9) publication “Government Auditors: Meeting New Challenges”.

In the mid-1990s, the IIA began liaising with the top multinational accounting and management consulting firms, such as Price Waterhouse, Arthur Andersen, and Coopers and Lybrand, that proved to be strategic in terms of securing their partnership in the development of the profession (Flasher and McIntosh 2002: 40).

In 1994, the IIA joined the American National Standards Institute (ANSI) to ensure that its view on IA issues were presented to the International Standards Organization or ISO (Flasher and McIntosh 2002: 44).

In 1995, the IIA began the practice of attending meetings of other professional bodies, such as AICPA, in order to offer opinions during the inter-jurisdictional or inter-professional processes of “draft exposures” for various standards and position papers, to ensure that positions and interests of the IA profession are observed (see Flesher and McIntosh 2002: 57-58).

Flesher and McIntosh (2002) also reported that the IIA co-sponsored a number of key initiatives, increasing its international reputation and inter-jurisdictional competition, such as: 1) XIV World Congress of Accountants (with AICPA, Institute of Management Consultants, and the American Institute of CPAs); and 2) joint technology research projects with ISACA, Microsoft, Citibank, Coopers & Lybrand.

3.3.4. IA Professional Consensus and Compliance to Support Status-Quo or Change

By the end of 1990s, the IIA had created a system of permanent international councils and committees with sub-committees in various subject-matter areas and drawn from the international membership in chapters and institutes, which provided mechanisms of consultation with the members and partners, and ensured collective consensus and decision-making on the development of programs, services, papers, standards, etc. Specifically, Flesher and McIntosh 2002 noted the following important mechanisms:

- Executive Committee, with the mandate of development of the vision for the profession and providing strategic direction for its development and marketing, most notable of which were *Globalization Through Partnership*, *Harmonizing Diversity*, *Embracing Change*, *By Design*, *Make it Happen*, *A Profession for the 21st Century*, etc.

- Professional Development Advisory Council, charged with development and delivery of seminars, professional conferences and international conferences, educational products, and advanced technology programs.
- Professional Services Advisory Council, with a mandate to develop and conduct Editorial Policy, Business and Industry Relations, Government Relations (1991), International Relations, Membership Relations, and Regional Directors Relations.
- Professional Practices Advisory Council, responsible for the College and University Relations, Board of Regents for certifications, Professional Issues, International Auditing Standards Board (1991), Quality Assurance Committee.

3.3.5. Paradigm Conceptualization

The Control Frameworks IA paradigm featured a significant change in the IA community. Most importantly, it broke the monopoly of accountants and financial specialists by opening the gates of industry to other professions. Due to expansion of the IA scope to all areas of the organization, where the controls and risks existed or were identified, the ‘role-mix’, the ‘people-mix’ and the ‘skill-mix’ of the IA profession changed. The internal auditors were drawn from all industries and associated subject-matter backgrounds and domains, and not just the accounting, which led to the development of specializations, as well as gender and geographic diversification, with greater inclusion of women, international specifics, and venturing into the roles other than IA, such as risk officers, ethics officers, and compliance officers:

It was well-understood by the early 1990s that internal auditors, depending on their particular organization’s needs and preferences, worked in several areas: compliance audits, audits of transaction cycles, investigating fraud and other irregularities, evaluating operational efficiency, analysis, measurement and reporting of operational and organization-wide risks, and other assurance and consulting activities. They performed a combination of financial reviews and audits, operational reviews and audits (sometimes called program audits, performance audits, comprehensive audits, and other similar descriptive labels), management audits, and compliance audits. In performing many of these activities, internal auditors made

their approach risk-based and controls-focused...Gradually, internal auditors also began to exhibit “industry specialization” in terms of their domain knowledge of specific industries such as health care, oil, gas, and energy, defense, financial services, transportation, wholesale and retail, technology, telecommunications, media and entertainment, government and nonprofits, education, etc. Internal audit staff began to come from diverse backgrounds, including a large proportion of non-accounting majors, and women gained prominence within the profession. Internal auditors also became much more internationally oriented (Ramamoorti 2003: 8-9).

It is, therefore, not surprising, that the rates of outsourcing of IA services were rising since the 1990s, as observed by Rittenberg and Covaleski (1997). To offset this, the IIA introduced a strategy of diversification of its certification programs. Thus, the new entrants to the industry were still expected to conform to the same Code of Ethics, the IIA Standards, and go through the standard certifications.

This paradigm was also characterized by a significant change in the body of knowledge, IA definition, Code of Ethics, and expansion in Standards and IA exemplars (puzzle-solutions), and their promulgation and advocacy channels. Key examples are changes to the IA definition to include new IA function governance requirements, changes to professional practice guidance due to application of the COSO ICIF approaches, as well as launch of the website and online training tools. The internal auditors performed a diverse mix of services, including financial reviews and audits, operational reviews and audits, management audits, compliance audits in practically all areas of the organization, for which a large volume of the practical best-practice guidance had to be developed in a decade, as observed by Quiévreux (2011) and Ramamoorti (2003).

This paradigm was also marked by a significant expansion in the jurisdiction of IA into various specialties of auditing, due to the IIA work with other accounting and auditing associations and resulting inter-professional partnerships and advocacy coalitions, as well as the achievement of international recognition, including by the SNIs and regulators, as a single global body representing the IA profession. This facilitated its geographic

expansion. By the end of 1990s, the IIA established a global monopoly on IA standard-setting and certification, with presence in 140 countries and an IA membership force of more than 70,000 internal auditors.

3.3.5.1. Disciplinary Matrix

Under the Control Frameworks IA paradigm, the IA profession significantly revised, updated and developed further its “disciplinary matrix” across all dimensions, as follows:

1) IA theory, still based on the textbooks of Brink (1941) and Sawyer (1973), which consider IA as a “control of controls”, and an application and extension of the accounting and financial fields to perform attest and operational auditing; updated IA Common Body of Knowledge (1992), expanding the previous set of conceptual generalizations about the fundamentals of IA services, developed by practitioners; new COSO Internal Control-Integrated Framework (ICIF 1992), where IA was recognized as a key element in the system of internal controls of the organization and part of good governance, which provided a conceptual framework for the design, implementation and evaluation of internal controls.

2) Revised IA definition, embodied in the Statement of Responsibilities of Internal Auditing (1990), representing a shared belief of practitioners that IA is an independent organizational function, established within an organization to examine and evaluate its activities as a service to the organization, with the objective of providing assurance on the adequacy and effectiveness of the organization’s system of internal control and the quality of organizational performance. It was also clarified that the clients of the IA function are

the management and the board. It reinforced that IIA normative and professional guidance are the best sources for internal auditors in dispensing their duties and responsibilities.

3) Revised IA Code of Ethics (1988), as a summary of formalized core values of the entire community of IA practitioners, defined as IIA Members and CIAs, that in order to be called a profession, the internal auditors need to accept responsibility for the interests of those it serves. The document contained 11 standards of conduct, in comparison to 8 in the previous Code of Ethics (1968). The additional principles required the members and CIAs to ensure their compliance with the Standards for the Professional Practice of International Auditing (1978), to “undertake only those services which they can reasonably expect to complete with professional competence”, and prohibiting them in engaging in “acts or activities which are discreditable to the profession of internal auditing or to their organization” (IIA 1988).

4) Standards for the Professional Practice of Internal Auditing (1978), updated with a dozen of Statements on Internal Auditing Standards (SIAS), Operational Auditing Handbook (1964), Quality Assurance Review Manual (1985), Best Practices of Audit Committees (1993), Model IA Legislation for State Governments, as the most prominent exemplars (puzzle-solutions). This defined the recommended governance regime for IA functions in the organizations, including formalization of the role and status of the IA department, administrative independence of the IA function from the line management, and establishment of the regular working relationship with the audit committee of the board of directors. Further, a large body of the professional and empirical literature and best-practice guidance in many different IA specializations (e.g. IT, security, environment, government, gaming, etc.) was developed to support the professional development of the

internal auditors, and to standardize the IA services around the globe, powered by diverse lines of delivering this knowledge to the membership, as tracked in Flesher (1991) and Flesher and McIntosh (2002).

3.3.5.2. Conceptual Model of the Control Frameworks IA Paradigm

The conceptual model of the Control Framework IA paradigm, illustrated below, provides a summary of measurable indicators that allow reflecting a “good governance” ideology, that in order for the organizational system of internal control and its overall performance to be adequate and effective, three groups of necessary conditions with respect to the IA function should be satisfied, summarized in pillars and illustrated in Figure 11 below.

Under Pillar 1, the main postulate is that IA activity is an independent appraisal function in the organization, whose objective is to systematically examine and evaluate organizational activities as a service to the management and the board of directors, through a variety of financial and operational reviews of systems, operations, and programs.

Under Pillar 2, the primary notion is that, for the IA function to be effective, a specific IA governance regime needs to be established to ensure its independence and objectivity. This includes legislation of IIA standards, formalization and approval of the status and role of IA in the organization, unrestricted scope, administrative independence from line management via reporting of the IA head directly to the highest authority in the organization, a regular working relationship with the audit committee of the board, and compliance with the IIA normative, ethical and professional requirements.

Figure 11 Conceptual Model of the Control Frameworks IA Paradigm

Source: Author, December 2017

Under Pillar 3, the main postulate is that IIA standards and COSO ICIF are the major normative and conceptual frameworks for internal auditors to follow in their work, with the expectation that the IIA quality assurance best-practice guidance is followed. The key assumption is that internal auditors should be members of the IIA and comply with its

professional, certification and educational requirements, and are expected to possess the knowledge, skills and experience outlined in the CBOK, according to their seniority.

3.4. Value-Added Management Partner (VAMP) IA Paradigm: End of 1990s-Current

The end of the 20th century was marked by increasing impact of globalization on business environment and management practices, changing the conditions for the IA profession. By that time, internal auditors gained high statute and management confidence across the corporate boards and audit committees and were viewed as one of the most qualified groups to help management change and improve business practices, and to be prepared to audit virtually everything, as reported in Ramamoorti (2003: 9-10).

In the background, in the early 2000s, a wave of devastating financial scandals in publicly-traded companies rocked the United States (e.g. ENRON, WorldCom, Adelphia, Tyco, etc.). Soileau (2003) reports that the impact was so great, that it led the shareholders to doubt the accuracy of corporate communications and representations of financial results and company stability, as well as calls to regulate the work of privately-governed financial accountants and auditors and their firms, and put the spotlight on the governance of internal controls and the IA function in the organizations around the globe. This development necessitated a paradigmatic shift in the profession around 1999-2000, marked by expansion of the IIA global reach to major groups of stakeholders and partners, and creation of the global IA advocacy practice.

3.4.1. IA Professional Community and Organization

By 2017, the IIA has significantly expanded its offerings of certifications and became a sole provider of the global IA certifications suite (Figure 12).

Figure 12 Global IIA Certifications Suite¹⁸

The suite includes Certified Internal Auditor (CIA), Qualification in Internal Audit Leadership (QIAL), Certification in Control Self-Assessment (CCSA), Certification in Risk Management Assurance (CRMA), Certified Financial Services Auditor (CFSA), Certified Government Auditing Professional (CGAP), Certified Process Safety Auditor (CPSA), and Certified Professional Environment Auditor (CEPA) (IIA web11).

With the exception of the CIA (1974), these certifications were established after 2000. According to the 2016 IIA Annual Report, at the end of 2016, among the 193,420 members, more than 143,000 individuals had received CIAs, 7,207 - CCSA, 14,722 - CRMA, 6,656 - CFSA, 4,829 - CGAP, and 536 – QIAL (IIA 2016c: 10).

The IA member services have also expanded to multiple streams. *Specialty audit centers* were created, such as Audit Executive Center (AEC), American Center for

¹⁸ Image copied from The IIA Global website <https://global.theiia.org/>

Government Auditing (ACGA), Environmental, Health & Safety Audit Center (EHSAC), and Financial Services Audit Center (FSAC).

By the end of 2017, the IIA had more than 190,000 members in more than 170 countries and territories, and more than 100 institutes.

3.4.2. IA Professional Knowledge and Practices

In 1997, understanding the challenges and opportunities arising from the pressures of business environment and the need for change and revision of the 20-year-old IIA standards, the IIA's Board of Directors appointed the Guidance Task Force, with the purpose of identifying the gaps between evolving IA practices and the standards, and the way to improve the existing standard-setting and guidance development processes (IIA 1999a: 1). In 1999, the Guidance Task Force released a report to the IIA's Board of Directors titled "A Vision for the Future: Professional Practices Framework for Internal Auditing" with the strategic recommendations to the IIA Board of Directors and the Internal Audit Standards Board (IASB), including:

- 1) adoption of an expanded definition of IA and revised Professional Practices Framework (PPF) developed by the Task Force;
- 2) establishment of the PPF Oversight Committee;
- 3) assigning a more strategic role for the IASB;
- 4) instituting a mandatory compliance of the organizations with the IIA standards and external Quality Assurance Review (QAR);
- 5) mandating CIAs to have an active license and continuous professional development (CPD);

- 6) requesting the IIA to design the structure and processes to support the Quality Assurance Review (QAR), CIA, and CPD elements;
- 7) conducting assessment of the world-wide viability of the Code of Ethics;
- 8) implementing an image building plan to increase knowledge of the Standards and to promote their worldwide acceptance among auditors and stakeholders to enhance the prominence of the profession (IIA1999b).

This work set the strategic direction for guiding a paradigmatic change in the IA profession in terms of developing a new IA definition and practice standards, shifting to mandatory compliance with the standards, new IA quality assurance standards, new Code of Ethics, and the promotion of the worldwide acceptance of the IIA standards to various stakeholders.

Further, in 1999, in order to better understand the new global requirements for internal auditors and the profession overall, the IIA launched a study, described in Birkett et al. (1999a-c). The study focused on the following questions: 1) what is to be understood by Internal Auditing in the future from a global perspective; 2) what are the attributes of a competent IA function within an organization, from the perspective of best practice globally; 3) what capabilities are to be required of those taking key roles in a competent IA function; and 4) how is the competency of an IA function and the capabilities of those taking key roles best assessed (see Birkett et al. 1999a: 113-117).

First, the study found that stakeholders' expectations for IA have changed significantly: "...internal auditing is being repositioned to serve as a broad ranging mechanism for providing assurance about risk and its management within organizations. If this is the case, then the nature of the internal auditing value proposition changes, both

substantively and qualitatively... Internal auditing adds value to organizations by providing proactive and real time assurance that risk exposures faces are understood and managed appropriately in the midst of dynamic change. This value is enhanced by the expertise and professionalism embodies in the service provided” (Birkett et al. 1999a: 113).

Second, the key attributes of a competent IA practice were determined as: 1) IA adds value to the organization; and 2) IA function performs at the level of best practice. Third, a model for IA capability profiles for the key roles of internal auditors was developed, based on the knowledge capacities and skills requirements. Fourth, a set of criteria was identified to assess performance of the IA function and the competencies of the key role-takers: 1) assessment of the IA function by its value-added, performance of tasks relative to best practices, and possession of the capabilities, required to secure these outcomes; 2) assessment of the IA role-takers competencies, based on the expectations about performance and the exercise of responsibilities/authority, in terms of the knowledge and skills requirements deemed necessary for meeting these expectations. This led to the development of the Competency Framework for Internal Auditing (CFIA) by IIA in 1999:

1999 also saw publication by the IIA Inc. of a new Competency Framework for Internal Auditing (CFIA). CFIA had its unveiling at the IIA Inc. 1998 International Conference in North America. This new study, by a global research team, built on the IIA Inc.’s researched Common Body of Knowledge (CBOK) published in 1992, and a previous study in the 1970s. CBOK comprised 334 individual competencies in 20 different discipline areas, ranking reasoning, communications, auditing, ethics and organization as the five most important disciplines – in that order. Internal auditing leaders, trainers and educators across the world have used CBOK and CFIA to design degree and postgraduate education, skill courses and professional qualification programmes. Both have directed and guided the learning of many internal auditors across the world, contributing significantly to the development and improvement of professional internal auditing (D’Silva and Ridley 2007: 118).

In 1999, the IIA published a new definition of IA, which proclaimed it as a value-added activity of management in organizations, as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA 1999a-b; IIA 2001).

The new definition incorporated both an assurance and consulting role for the IA, which effectively launched the new era of IA governance worldwide, which the author of this study dubbed as a Value-Added Management Partner (VAMP) paradigm.

In 2000, the IIA issued a new Code of Ethics (2000) based on: 1) principles relevant to the IA profession and practice; and 2) rules of conduct describing behavioral norms expected of internal auditors. The Code of Ethics was made applicable to all IIA members, recipients of or candidates for IIA professional certifications, and to those who provide IA services within the new IA definition. It also contained a strong clause on application and enforcement, warning that breaches will be evaluated and administered according to the IIA Bylaws and Administrative Guidelines, and may be subject to disciplinary action. The principles were listed as integrity, objective, confidentiality, and competency. The rules of conduct listed expected behavioral norms in implementation of each principle, similar to the previous Code of Ethics (1988), but with the addition of several new requirements to provide disclosures expected by law and the profession, contribution to the legitimate and ethical objectives of the organization, and continuous improvement in proficiency and the effectiveness and quality of IA services.

In 2000, the IIA also issued the new IIA Standards (2000), which integrated all relevant concepts and innovations from the modern risk management, control, and governance models and frameworks, such as those of the Committee of Sponsoring Organizations (COSO), Criteria of Control Framework (CoCo) developed by CICA (now CPA Canada), and the 1992 report of the UK Cadbury Committee on Corporate

Governance, etc. (see IIA 2001; Jackson 2011). The most important feature of the standards was introduction of the new requirements for the IA governance regime in the organizations, making it necessary that the head of the IA function reports administratively to the highest authority in the organization and functionally to the audit committee of the board of the organization.

According to Rittenberg (2001), in 2001, the IIA released an integrated package of the Professional Practices Framework for Internal Auditing (PPF 2001), containing the 1999 definition of IA, 2000 IIA Standards, Code of Ethics (2000), and sets of practice advisories and practice aids.

Further, in 2006, the IIA Research Foundation initiated a new Global Survey of Internal Auditors titled Common Body of Knowledge (CBOK), to be conducted with a five-year periodicity, with the aim of collecting comprehensive information about the IA community, professional practices and stakeholders around the world, as well as obtaining insight on various issues and problems in modern internal auditing, with the last survey conducted in 2015 (see IIA web6; IIA 2015b). This led to the development of the IIA Global IA Competency Framework, based on 10 core competencies, and a subsequent practice guide (see IIA 2014e). Dozens of reports have been produced based on the data collected from the survey.

In 2009, COSO updated its ERMIF, and consequently the IIA released its first International Professional Practices Framework (IPPF). Issue of these international standards and guidance signaled that they have become globally accepted. The IIA IPPF consisted of the following elements: mandatory guidance (i.e. definition of IA, Code of

Ethics, IIA standards), and recommended guidance, i.e. interpretations, position papers, practice advisories and practice guides (see IIA 2009a).

In 2015, the IIA updated the IPPF. Specifically, the Standard 2000 “Managing the Internal Audit Activity” reinforced that internal audit adds value when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes (see IIA 2015a). It also issued the Core Principles for the Professional Practices of Internal Auditing. Aside from the updates of the mandatory guidance (i.e. Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing (unchanged), Code of Ethics (unchanged), and International Standards for the Professional Practice of Internal Auditing), the recommended guidance was redesigned into a framework of implementation guides (IGs) and supplemental guides (SGs). And in 2017, the IIA issued a revised IPPF, illustrated in Figure 13 below.

Figure 13 2017 IIA IPPF Overview¹⁹

¹⁹ Image copied from The IIA Global website <https://global.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

The IA mission was defined as follows: “to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight” (IIA 2017a).

By the end of 2017, the mandatory guidance was comprised of the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

The ten Core Principles articulate the criteria for effectiveness of IA function in achieving its mission, such as: 1) demonstrates integrity; 2) demonstrates competence and due professional care; 3) is objective and free from undue influence (independent); 4) aligns with the strategies, objectives, and risks of the organization; 5) is appropriately positioned and adequately resourced; 6) demonstrates quality and continuous improvement; 7) communicates effectively; 8) provides risk-based assurance; 9) is insightful, proactive, and future-focused; 10) promotes organizational improvement.

In the 2017 edition of the IIA IPPF, the definition of IA (1999) and the content of the Code of Ethics (2000) did not change. The standards remain “a set of principles-based, mandatory requirements consisting of statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels and interpretations clarifying terms or concepts within the standards” (IIA 2017a: 1). The standards contain the attribute and performance standards, the first addressing the attributes of organizations and individual performing IA, while the second describing the nature of IA and providing quality criteria for performance measurements (IIA 2017a: 1).

The recommended guidance includes 52 implementation guides (IGs) for each standard and 51 supplemental guides (SGs), providing detailed guidance for the conduct

of associated IA activities, as listed in IIA web9-10. The latter includes “topical areas, sector-specific issues, as well as processes and procedures, tools and techniques, programs, step-by-step approaches, and examples of deliverables” (IIA web10).

By 2017, the IIA significantly expanded its practices on creation and dissemination of IA industry knowledge. Annually about 2,500 auditors participate in seminars and about 5,000 attend conferences, such as the General Audit Management (GAM) conference, Governance, Risk and Control (GRC) conference in collaboration with ISACA, All Star Conference, and niche-based conferences by specialty audit centers (IIA 2016c).

The IIA also publishes such periodicals as the Internal Auditor magazine, newsletters IIA Global Smart Brief, Tone at the Top, Global Connections, and Your Global Career Compass, and thought leadership series Global Perspectives and Insights (based on the respective global surveys), various blogs and news. The members can also access hundreds of applied research reports, articles and books.

The IIA Internal Audit Foundation (formerly IIA Research Foundation) is responsible for expanding the knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally, including the teaching of internal auditing, establishment of standards for internal auditing education at post-secondary educational institutions, and other related purposes. The Foundation also runs an Internal Auditing Educational Partnership (IAEP), reaching about 5,000 educators and students annually through the provision of materials to the affiliates to make the local connection to the universities, such as IIA Chapter and Institute Manual for Academic Relations (IIA 2016d) and the Global Model Internal Audit Curriculum:

Various levels of involvement, based on teaching of the curriculum and other criteria, are required of universities wishing to be part of the IAEP program. In 2016, there were 49 IAEP universities in 12 countries and territories. Universities that are IAEP-approved have a competitive advantage in the marketplace and enjoy the benefits of The IIA's tools and its endorsement as a good location for job recruiters to find well-qualified candidates. Financial support is also available to IAEP universities through the Internal Audit Foundation — more than \$100,000 was granted in 2016 to support curriculum development, teaching assistants, mentorship opportunities, and more. Students and professors at IAEP universities are also eligible for scholarship funds through the Esther Sawyer Award and the Michael J. Barret Doctoral Thesis Grant (IIA 2016c: 18).

This reflects the industry consensus for the necessity to create systematic and theoretical IA knowledge and to legitimize the existing applied Common Body of Knowledge (CBOK), the CIA curriculum, and the Competency Framework. However, the IAEP focused primarily on the business schools, while the public policy and administration schools were not on the radar yet. Finally, the IIA established a Quality Services Company for the purpose of conducting External Quality Assessments (EQAs) and related activities, earning about \$2 million annually (see IIA 2016c).

While the guidance for the general private-sector practice of internal auditing is extensive, the knowledge base for public-sector IA is only emerging. In 2010, the IIA realized that although the IPPF was generically targeting the internal auditing in the private sectors of the global economy, the public sector auditing required specific guidance. It established a Public Sector Guidance Committee (PSGC) with global representation, comprised of the IIA members representing a cross-section of government IA activities, where the requirements for participation are the CAEs or Directors with the CIA and/or CGAP certifications and at least 10 years of IA management experience (see IIA web15).

During 2009-2016, the IIA published a set of specific guides on the issues in public sector auditing, including such topics as the public sector definition, the role of auditing in public sector governance, Public-Sector IA Capability Model (IA-CM 2009), implementing a new IA function in the public sector, policy setting for public-sector

auditing in the absence of government legislation, independent audit committees in public sector organization, optimizing public-sector audit activities, and transparency of the IA report in the public sector, etc. (see IIA web16, IIA 2009b, IIA 2011a, IIA 2012a-e, IIA (2014a-c).

Further, to promote development of IA functions in the public sector, the IIA established a special discount membership via the Government Audit Group Program or GAG (IIA web17).

3.4.3. IA Professional Authority, Jurisdiction, and Environment

The U.S. government responded to both domestic and global governance and fraud crisis that unfolded as a contagion from the private sector, with the adoption of the United States' Public Company Accounting Reform and Protection Act (i.e. Sarbanes-Oxley Act or SOX) in 2002, designed to prevent and identify fraud. SOX had profound influence on the global IA profession:

The Sarbanes Oxley Act of 2002 (specifically Section 404) requires management to assess the effectiveness of internal financial controls and instructs auditors to report on whether the controls are adequate or have material weaknesses... it has increased the focus on internal audit departments as a key partner in assisting management and the board of directors (especially audit committees) in fulfilling their corporate governance activities;... most internal audit departments were impacted by SOX in that they allocated significant resources to assist management in the initial Section 404 compliance efforts; ...some departments also increased their mission to include corporate governance activities such as reviewing the company's ethics and business conduct and legal and regulatory compliance areas not previously included in audit plans (Elson and Lynn 2008).

According to interviews of Jackson (2011) with the IIA leaders, the post-SOX period was a wake-up call for the audit profession, both internal and external.

In 2004, in response to the financial fraud scandals in many countries, COSO issued "Enterprise Risk Management – Integrated Framework (ERMIF)", which specified the principles of ERM for all organizations, defining such key components as internal

environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring (COSO 2004a). The framework document was then supplemented with the detailed technical application guidelines on ERM implementation (COSO 2004b). Since the IIA is one of the sponsoring organizations, it issued a position paper on the role of IA in ERM as a guidance to the heads of IA functions on the core IA roles, the legitimate IA roles with safeguards, and roles that IA should not undertake (IIA 2004). Further, the IIA updated the *Professional Practices Framework (PPF)* to incorporate the ERM principles and provide guidance to the profession on their application.

To reiterate, in the next update cycle in 2009, COSO updated its ERMIF, and the IIA incorporated it into the new International Professional Practices Framework (IPPF), released in January 2009.

Shortly after in October 2010, the IIA had formed an IPPF Oversight Council for the purposes of independent evaluation and advice to the IIA Global Board of Directors on the IIA's standard-setting process, coordination with other relevant global standard-setting bodies, and monitoring of the progress. It is composed of the representatives from the IIA itself, the International Federation of Accountants (IFAC), International Organization of Supreme Audit Institutions (INTOSAI), the World Bank, Organization for Economic Cooperation and Development (OECD), and the National Association of Corporate Directors (NACD), currently referred to as the IPPFOC (IIA web12). Further, the IIA established working relationships with other key international standard-setters, such as Association of Certified Fraud Examiners (ACFE), Association of Chartered Certified Accountants (ACCA), Financial Executives International (FEI), International Consortium

on Governmental Financial Management (ICGFM), International Integrated Reporting Council (IIRC), and Information Systems Audit and Control Association (ISACA), stated in IIA (2016b) and IIA web12.

Further, in 2010, the IIA “...issued the position paper Value Proposition for Internal Auditing to help internal audit activities effectively communicate the value of their work to primary stakeholders — such as audit committees, boards, management, and audit clients” (IIA 2012b: 3). The value of the IA was defined as that of assurance, insight and objectivity.

To aid the global advocacy efforts, in 2013, the IIA issued a seminal position paper “The Three Lines of Defense in Effective Risk Management and Control” model, where “management control is the first line of defense in risk management, the various risk control and compliance oversight functions established by management are the second line of defense, and independent assurance is the third” (IIA 2013a: 2). The importance of this development was to underscore that IA is an integral element in the corporate governance regime, but is not its owner, drawing the lines between the roles and responsibilities of the board and governance structures, the management, the control framework, and the IA as an independent assurance and advice provider.

Shortly after, the IIA established a Global Advocacy Program (GAP) for the IA profession, with such stated desired results as: 1) influence standard-setting bodies, oversight entities, regulators, and other stakeholders to endorse or adopt the International Standards for the Professional Practice of Internal Auditing (Standards); 2) ensure that internal auditing is at the governance table and is acknowledged as a cornerstone of

effective governance; and 3) ensure that the internal auditing profession is universally recognized:

Engaging with stakeholders at the local, national, and regional levels is vital to The IIA's advocacy efforts. Within this context, stakeholders include oversight bodies, regulators, government officials, standard-setting bodies, board of directors, audit committee members, executive management, external auditors, shareholders, customers, and the business community at large (IIA web4).

At the heart of the IIA GAP are the efforts to build awareness on the value of IA, with such instruments as the Building Awareness Toolkit, IA Value Proposition, and various promotional material, and such programs as Building Awareness Champion, Awareness Month, etc. In 2016, the IIA released a Global Advocacy Platform, a document of its Global Advocacy Committee (GAC) and the Global Board of Directors to support the advocacy efforts of the IIA institutes, positioning IA as one of the pillars of good governance (IIA 2016a).

For the purposes of securing its jurisdiction, the IIA has signed the Memorandum of Understanding (MOU) with the International Organization of Supreme Audit Institutions (INTOSAI) and the International Federation of Accountants (IFAC), to provide for the opportunities to work together on the international standards – International Standards of Supreme Audit Institutions (ISSAIs) in case of INTOSAI and International Standards on Internal Auditing (ISAs) in case of IFAC.

The IIA participates in various global policy consultations and provides important liaison with regulators and oversight bodies on various issues of corporate governance, such as the U.S. Government Audit Office (GAO), SEC, INTOSAI, IIRC, OCC, COSO, AICPA, the U.S. Congress, Securities Exchange Commission, World Federation of Exchanges, Basel Committee on Banking, Integrational Integrated Reporting Council,

FSB, ISACA, etc. (IIA web4, IIA web5, IIA web11). The IIA Global webpage “Responses to Regulators and Oversight Bodies” shows that during the period of 2010-2017, the IIA has provided around 60 positions and recommendations. The global internal audit industry is the primary sponsor of the IIA, with such key partners as multi-billion global corporations Deloitte, EY, KPMG, PWC, Wolters Kluwer TeamMate, Protivity, GrantThornton, Crowe Horwath, ACL, and CaseWare Analytics (IIA web11).

3.4.4. IA Professional Consensus and Compliance to Support Status-Quo or Change

By the end of 2017, the IIA had cemented its role as an international standard-setter for the IA, a sole provider of global IA certifications, chief advocate for the profession, a principal research and education body for the IA profession, and a networking forum with more than 100 institutes in more than 170 countries, 18 global boards/committees, and more than 193,000 members (see IIA 2016b-c).

The IA has become a rapidly growing global profession and significantly expanded its toolbox to foster professional consensus and compliance to support stability or change, when necessary, to include the following: 1) global website as a key IA knowledge repository, networking and advocacy platform; 2) global task forces; 3) global committees and boards; 4) global position papers; 5) online provision of responses to regulators and oversight bodies; 6) IPPF; 7) global Common Body of Knowledge (CBOK) and Global IA Surveys exchange; 8) diversification of the membership & certification programs and benefits and introduction of the global online management systems; and 10) diversification of training and conference programs.

3.4.5. Paradigm Conceptualization

The major outcome of about two decades of the VAMP paradigm for the IA community is that the IA profession has made significant strides to formally include the academics and public-sector internal auditors. Another significant development is that most of the governments worldwide have accepted the IIA IPPF as the basis for their government standards. The professionalism requirement of the IIA IPPF is reflected in the expectations and the drive in the government IA functions to institute standard job descriptions and professional qualifications for auditors, to become members of the IIA and other qualifying professional bodies, and to require the auditors to obtain one of the professional certifications. It is expected that once recruited to the IA functions, internal auditors have to go through a training period on standards and practices. The government internal auditors, irrespective of their subject-matter specializations, have to follow the IIA IPPF or their modification by the national governments. Apparent professional judgment is facilitated through compliance to these requirements.

However, the IA remains an applied field, where the knowledge and the global research and policy agenda are still largely driven and generated by the practitioners, and not the academics or public-sector administrators, while the applied knowledge base for the public-sector is only beginning to emerge. The IA has not been yet recognized as a separate academic field universally across academic institutions around the world, and only several dozens of schools have established IA-related academic degree programs. Further, the academic IA curriculum has not been formalized in universities and the IA courses are still offered rarely and in a small number of universities, while the applied professional IA practices are increasingly spread by practitioners in all management areas.

Compensating for the lack of IA academic foundations, the formal professionalism requirements for internal auditors have become much stronger. Internal auditors come from various backgrounds in the private-sector and different grades and classifications in the public sector, explained by the multi-disciplinary nature of the global IA profession. This is reflected in the mandatory requirements for internal auditors to receive at least one of the qualifications from the IIA Certifications Suite (8 certifications), and commit to continuous professional development.

3.4.5.1. Disciplinary Matrix

Under the VAMP paradigm, the IA profession significantly revamped its “disciplinary matrix” across all dimensions:

1) IA theory, while still fundamentally based on the Brink’s and Sawyer’s textbooks on modern auditing, where IA is a “control of controls”, has been elevated to apply this postulate to all management fields, making the IA’s conceptual and methodological base an eclectic application of all management sciences. The theoretical core for VAMP has grown considerably from the technical applications of the financial and accounting theories to the comprehensive mix of assurance and management consulting methods in all areas of the organization. The broad methodologies of Internal Control-Integrated Framework (ICIF), Enterprise Risk Management (ERM), Capability Maturity Modeling (CMM), and a wide range of other business innovations have helped to advance the theoretical base. However, there is still no generally-accepted single theory or set of academic theories for the IA. According to Spraakman (1997, p.323), the IA function as a unit either in the private or public sector has no formal academic theory to guide academic research and practice, since the academics ignored it due to strong acceptance of professional practice by the

public sector administrators and business managers. The available literature is dominated by the IIA standards and associated guidance, the CBOK, and often guidance from other relevant professional associations. The largest volume of production and validation of IA knowledge occurs on the job and in the field, in the form of audit templates, techniques, specialized IA processes and training. Another venue, as already discussed, is related to the applied research activities of IA practitioners and industry experts, led by the IIA Internal Audit Foundation. The frequency and volume of the production of IA knowledge has increased exponentially.

2) New IA definition (1999), proclaiming that IA is an independent and objective assurance and consulting activity designed to add value and improve an organization's operations, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This accomplished the objectives of significantly expanding the scope of the IA profession to proactive advisory services and the overall governance regime of the organization, and signaling the introduction of significant management innovations in IA methodologies. This indicated that the new IA paradigm (VAMP) is based on the philosophy of IA as an accountability relationship between the management and stakeholders of the organization. The new beliefs position VAMP as a compromise solution to the conflicts, inherent in the duality of IA relationships with management and stakeholders, because of the introduction of the mandatory requirements for administrative and functional independence of the IA function in the new IIA Standards. The definition also reconfirmed the core beliefs of the IA practitioners on the determinants of the effectiveness of IA activity in assuring organizational accountability, i.e. the independence and objectivity of the IA function, which remain

unchanged between the paradigms. However, the new Core Principles for the Professional Practice of Internal Auditing indicate that beliefs of the internal auditors with respect to the methods of assuring IA function independence and effectiveness have shifted considerably from the realm of ‘recommended’ to ‘mandatory’ to ‘legislated’, indicating that enforcement of these values is most effective if they are considered legal. The core principles embody the non-negotiable philosophical consensus in the profession about the absolute and necessary conditions for IA effectiveness, such as its integrity, competence and due professional care, objectivity and independence, appropriate positioning and resourcing, quality and continuous improvement, effective communication, risk-based assurance, insightful, pro-active and future-focused service, and promotion of organization improvement.

3) Revised Code of Ethics (2000) contains four sections: 1) introduction; 2) applicability and enforcement; 3) principles relevant for the profession and practice of IA; and 4) rules of conduct, describing behavioral norms expected of internal auditors. The universe of “internal auditors” includes the IIA members, recipients or candidate of IIA professional certifications, and those who perform IA services within the definition of IA. The enforcement of the Code of Ethics has become much stricter, where the breaches are evaluated and administered according to the IIA bylaws and administrative directives. Further, there are four ethical principles: integrity, objectivity, confidentiality and competency. These principles are then applied within twelve rules of conduct. However, the principles and the rules of conduct are similar to the previous edition of the Code of Ethics.

4) New IIA International Professional Practices Framework for Internal Auditing (IPPF 2001, 2009, 2015, 2017), a compendium of normative and methodological guidance containing definition of IA (1999), Core Principles for the Professional Practice of Internal Auditing, Code of Ethics (2000), International Standards for the Professional Practice of Internal Auditing, and more than a hundred sets of practice implementation and supplementary guides on the provision of management consulting, external assurance services, the prescribed IA governance regime and IA performance measurement. IA exemplars and artifacts or puzzle-solutions as the ways of solving problems of independence (including programming, investigative and reporting independence) and effectiveness of IA functions through the IA governance regimes and the resulting IA processes have changed considerably, key among which is the IIA IPPF. Under VAMP, the independence of IA functions is strengthened by the mandatory requirement to establish independent audit committees with external members and Chief Audit Executives (CAEs) positions with dual reporting lines both to the most senior levels of management and the corporate board/audit committee. The performance management of the IA function is guided by the philosophy of continuous improvement and capability maturity modeling, with the requirement to establish a mandatory continuous Quality Assurance Improvement Program (QAIP) and to conduct five-year periodic external quality assessments (EQAs) of the IA function. Although there is a notable trend towards convergence in IA governance regimes worldwide, the resulting IA processes vary in implementation by organization, industry and country²⁰. Further, various IA international networks and local chapter activities allow internal auditors to share and exchange their practical knowledge and

²⁰ The IIA recommends specifying these processes in the IA function manuals and charters, supplemented with 'best-practice' examples and generic templates.

experiences. The IA professional institutions, such as the IIA and its affiliates, board members and partners continue to lead the development and maintenance of the normative notions of internal audit activity in the form of standards, practice guides and ‘best practice’ cases. The philosophical consensus in the field remains that the best way to solve the problems of organizational accountability is to use normative IA guidance and to create “best-practice” examples and generalized templates. These are propagated across the industry without necessarily testing their impact on the accountability regimes within specific organizational contexts. This emphasis on the practical, standard, sharable and easily deployable solutions is embedded in the implementation and supplementary guidance of the IIA IPPF and the hundreds of the IIA methodological and empirical publications that have accumulated in the post-2000 period. However, the VAMP exemplars are diverse, not linked to a single theory of IA, and are not sufficiently tested and evaluated.

3.4.5.2. Conceptual Model of the VAMP Paradigm

The Conceptual Model of the VAMP Paradigm (Figure 14) summarizes its characteristics in three pillars: 1) increased IA independence and status; 2) improved IA effectiveness; and 3) increased IA professionalization.

The basis for VAMP is a 1999 IIA definition of IA activity and the IIA IPPF, developed by the IIA in 2000, with the last update in 2017 - a “rule book” embodied in the normative guidance for the IA profession. The key element of IIA IPPF is that IA activity is mandated to follow the definition and mission of IA, Core Principles, Code of Ethics, and international IIA standards.

Figure 14 Conceptual Model of the VAMP Paradigm

Source: Author, December 2017

Under Pillar 1, the main postulate is that IA activity in the organization should achieve a greater independence and status, paramount to the accountability of the organization before the internal and external stakeholders, through such IA governance mechanisms and conditions as: 1) appropriate formalization and positioning of the IA function in the organization; 2) establishment of the independent audit committees comprised of external members as a key governance mechanism for IA functions, able to provide strategic assurance and consulting services to the senior management and the board; 3) establishment of the CAE position and dual reporting mechanisms

(administratively to the highest authority in the organization and functionally to audit committee/board); and 4) adequate level of IA resourcing.

Under Pillar 2, the main postulate is that IA activity in the organization will improve its effectiveness under the conditions that it: 1) follows the definition of IA as a value-added assurance and consulting activity; 2) adopts the IIA IPFF and achieves mandatory compliance to it; 3) implements a risk-based approach to IA planning and operations; 4) establishes a Quality Assurance and Improvement Program (QAIP), including 5-year External Quality Assessments (EQAs) of the IA function; and 5) established IA value-added as a key performance indicator, stated as “IA adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance” (IIA 2017a).

Under Pillar 3, the main postulate is that IA professionalization, as a key to the independence and objectivity of auditors and the delivery of quality IA work, is improved if the following necessary conditions are met: 1) the self-regulation requirement, i.e. internal audit activity is self-regulated by the professional bodies, such as IIA and its affiliates, and is guided by the international standards for the independent professional practice and its Code of Ethics; 2) internal auditors and IA functions are subject to mandatory professionalization and industry regulation, which includes obtaining a Certified Internal Auditor (CIA) certification or other comparable qualifications from the suite of the IIA certifications or other recognized relevant professional certifications, membership in the IIA or its national/local affiliates, and subscription to continuing professional education (CPE) program;

Under the IIA IPPF - the global IA industry VAMP “rule book” - the fundamental assumption and expected outcome from the implementation of the new IA function and governance model in organizations is that the increased independence of the IA function will lead to improved IA effectiveness and professionalization, which in turn will lead to improvements in overall organizational accountability, efficiency and effectiveness.

3.5. Conclusions

This chapter presented the first historical account of the evolution of the modern internal auditing industry over the last eight decades (1941-2017) and the first scientific conceptualization of its professional paradigms, from a public policy perspective. It finds that the IA industry has gone through three professional paradigms, with distinct ideational frameworks (disciplinary matrixes) and conceptual paradigm models (with a set of measurable indicators). Further, the key drivers of stability and change in the IA professional paradigms were both endogenous to the profession and exogenous, reflecting changes in the broader economic, policy, and regulatory environment.

The first paradigm – Attest & Operational IA that spanned for 45 years from 1941 to mid-1980s – focused on building the modern IA profession by satisfying the first-order professionalization conditions, which were consistent with the patterns of normal or incremental change. The continuity was necessary due to the massive efforts undertaken to establish the organizational structure of the profession, basic common knowledge base, secure the legal authority and jurisdiction for the professional activities, and build the internal decision-making and supporting structures that promote consensus-building and ensure compliance. While the key *exogenous factor* for the paradigm stability was the growing demand for the internal auditors, majority of the mechanisms supporting the

stability of the IA professional regime were *endogenous*, i.e. mechanisms of internal governance, profession-building and private-regulation, established by the Institute of Internal Auditors as a single regulatory and professional body of the global IA industry.

The paradigmatic shift to the second paradigm – Control Frameworks IA paradigm that lasted for about 15 years from mid-1980s to late 1990s – was caused by: 1) major *exogenous drivers of change*, such as developments in theory and state regulation on internal control systems in multiple English-speaking jurisdictions around the world (US, Canada, UK, South Africa, etc.), where the IIA took part as well; and 2) *endogenous drivers of change*, based on strategic research of the IIA and its partners on the corporate trends, and their consensus on the need for regulatory intervention to strengthen the internal control regime in organizations. The IA profession, together with partners in the policy advocacy coalitions, made a conscious choice to modify the knowledge and normative base accordingly. The period of normal change in the IA profession was quite short, as the rapid globalization during the 1980s and 1990s, coupled with the devastation of the neo-liberal reforms and crises worldwide, created massive pressures on internal auditors to respond to the new demands and threats. The new control frameworks were not sufficient to address the speed and type of change in the business and regulatory environment.

The third paradigm – Value-Added Management Partner (VAMP) - that began in 1999 and is presently in action - emerged as response of the global IA industry to:

1) *endogenous drivers of change*, such as the internal IIA strategic research and growing calls of the global IA community for modernization of the profession and its knowledge and normative apparatus in order to capitalize on globalization; and

2) *exogenous drivers of change*, such as the need to respond to a sudden increase in regulatory oversight of the profession due to multiple failures of accountability in the public and private sectors, that put the auditors in the spotlight.

VAMP, as a universal international blueprint and a package of new prescriptions for IA governance in any type of the organization, was rolled out as a promising solution to the crises of accountability. The key means are strengthening of the IA functions through the introduction of a new IA operational model based on value-added services to management and independent IA governance regime, appealing to all stakeholders.

While the research methodology allowed identifying definite shifts in the IA professional paradigms, based on the official evidence of observed changes in the disciplinary matrix of the IA profession, the Kuhn's theory of paradigm analysis does not preclude the possibility of the overlap of paradigms, i.e. gradual gestation of the emerging paradigm in parallel to the dominant one. This may add to the explanation as to why the Control Frameworks IA paradigm had a relatively short time span and was replaced by the VAMP. The theory also predicts that accumulation of anomalies and internal and external pressures for change within the VAMP paradigm would lead to the emergence of its successor. However, in practice, it is difficult to observe and forecast when this would happen.

One of the most interesting findings of the research is that the changes in the disciplinary matrix of the professional paradigm normally led to changes in the IA community. The Control Frameworks IA paradigm broke the monopoly of the accountants and financial specialists in the field and opened the gates for professionals from all sectors of the economy and all areas of organizations. The VAMP IA paradigm attracted the rest

of the previously uninterested or less engaged communities of academics and the government auditors to join the global IA industry. Another major finding is that over the course of three paradigms the modern IA profession grew from a mere extension of the accounting field to an all-encompassing meta-field of management. The internal auditors became the trusted advisors of the boards and senior management, also corroborated by Sawyer et al. (2003). Moreover, the IA profession gained international recognition, status and influence in IA policy-making due to the work of the IIA as its professional and private-regulation body.

Another important outcome of the research process was a realization that the modern IA profession was born in the U.S., and that its development was greatly influenced by the various conventions and breakthroughs in the views of the US political, regulatory, legislative, and judicial institutions. Further, the VAMP paradigm carries largely Anglo-American perspectives on the design of the IA function and its governance, and it propagates them at the global level, which is both its virtue and vice. The positive side of VAMP as an international blueprint is that it promotes a strong IA governance regime in every organization, based on international standards and professional practices framework, and it seems to work in Anglo-American countries. The negative side is that the implementation theory predicts that diffusion and adoption of VAMP as a global blueprint would inevitably encounter problems outside of the Anglo-American world, because its pronouncements and requirements would most probably fall outside of the statutes and political systems of many jurisdictions. This would mean the need for a top-down implementation approach in the national IA reforms, supported by the legislative and policy adjustments at the very beginning of the planned policy regime change.

4. Chapter 4: Assessment of VAMP Paradigm Adoption in Public Sectors Worldwide

4.1. Introduction

This chapter provides a snapshot of statistical indicators of adoption of the VAMP paradigm across the public sectors at the global and world regions levels, followed by the assessment of the degree of success versus failure and convergence versus divergence. Statistical analysis is based on the new dataset from the latest 2015 IIA Global Survey of Internal Auditing Practitioners (GIAPS-CBOK) and the author's analytical framework, described in section 2.2.2.

First, a statistical analysis of the patterns of VAMP adoption is conducted across the key indicators as a concise 2015 snapshot. Second, an explanation and assessment of the outcomes of VAMP adoption and their variation across the world regions is provided. Third, an identification, explanation and assessment of the key failures and problems of VAMP adoption in the public sectors worldwide is conducted, based on the additional statistics from the 2015 IIA GIAPS-CBOK and literature review.

Finally, this study provides the first evidence-based assessment of VAMP adoption in public sectors worldwide, using global industry baseline statistics and independent commentary.

4.2. Patterns of VAMP Adoption

Patterns of VAMP adoption are analyzed based on the author's VAMP Paradigm Model and its three pillars - 1) increased IA independence and status; 2) improved IA effectiveness; and 3) increased IA professionalization - in application to the public-sector

data from the 2015 IIA GIAPS-CBOK, by the World Bank Regions. The detailed statistical analysis is presented by each group of indicators in the sections that follow.

4.2.1. *IA Independence and Status*

IA independence and status in the country public sector is measured via the following groups of indicators: 1) existence of IA legislation; 2) existence and growth of IA functions; 3) existence of audit committees; 4) existence of IA charter or other formal IA policy documents in the IA functions; 5) existence of CAE positions and dual reporting lines in line with the IIA standards.

- **Existence of IA Legislation**

Figure 15 Public-Sector IA Legislation, by the World Bank Regions

Source: Author, May 2017

By 2015, on average, 71% countries around the world have instituted some form of public-sector IA legislation (Figure 15). The Latin America & Caribbean region shows the highest rate (88%), while North America the lowest (62%).

- **Existence and Growth of IA Functions**

By 2015, on average, new IA functions were established in half (49%) of the public-sector organizations worldwide after the advent of the VAMP paradigm (i.e.) release of the IIA PPF in 2001 (i.e. IA function age between 1 and 14 years), indicating a remarkable two-fold increase in their numbers. The highest growth occurred in the Middle East & North Africa region, while the lowest - in the Latin America & Caribbean region.

Figure 16 Age of IA Functions in Public-Sector Organizations, by the World Bank Regions

Source: Author, May 2017

- **Existence of Audit Committees**

By 2015, the internal audit committees were established in 67% of the public-sector organizations worldwide, with the highest numbers in Sub-Saharan Africa (92%), and the

lowest numbers in Europe and Central Asia (51%). In all regions, the incidence of the IA committees is lower in the public-sector, compared to the private-sector's global average of 83%.

Figure 17 Audit Committees in Public Sector Organizations, by the World Bank Regions

Source: Author, May 2017

- **Existence of IA Charter or Other Formal IA Policy Documents**

By 2015, on average, 59% of the public-sector IA functions around the world had some form of document establishing its position and status in the organization. 82% of the public-sector IA functions had a formal charter, indicating a high level of the formalization and recognition of their status in the organization. The IA operating manual, as the second most important document, existed in 73% of the public-sector IA functions, on average. The highest degree of formalization and positioning of the IA function was achieved in North America (62%), Middle East & North Africa (62%), and Sub-Saharan Africa (66%).

Figure 18 IA Formalization and Positioning, by the World Bank Regions

Source: Author, May 2017

- **Existence of CAE Positions and Dual Reporting Lines**

Data indicate that by 2015, the CAE positions have been established in public sectors worldwide. On average, 60% of the public-sector CAEs had a primary administrative reporting line to the highest authority of the organization, i.e. Chief Executive Officer (CEO), president, head of the government agency, and 61% reported functionally to the audit committee or the board of directors, which is what VAMP prescribes.

Figure 19 Patterns of Public-Sector CAE Administrative Reporting Lines, by the World Bank Regions

Figure 20 Patterns of Public-Sector CAE Functional Reporting Lines, by the World Bank Regions

4.2.2. IA Effectiveness and Scope

IA effectiveness in a country's public sector is measured via the following groups of indicators: 1) use of IIA standards; 2) distribution of IA activities between assurance and advisory roles; 3) use of risk-based approach to IA activities; 4) existence of Quality Assurance and Improvement Program (QAIP); and 5) measuring IA value-added as a performance indicator.

- **Use of IIA Standards**

By 2015, on average, 86% of the public-sector IA functions worldwide have adopted the IIA IPPF either entirely or partially, with North America as the leader.

Figure 21 Scale of Public-Sector Adoption of the IIA Standards, by the World Bank Regions

Source: Author, May 2017

Figure 22 Patterns of Public-Sector Full Conformance with IIA Standards (IPPF), by the World Bank Regions

Source: Author, May 2017

Further, on average, 72% of the public-sector IA functions worldwide were in conformance with the key standards, with the highest levels of compliance in South Asia (92%) and North America (85%).

- **Distribution of IA Activities between Assurance and Advisory Roles**

By 2015, on average, 62% of the public-sector IA functions spent almost all of their resources on assurance activities and few on consulting, while 24% divided them equally between the two types of activities.

Figure 23 Assurance versus Consulting IA Activities, by the World Bank Regions

Source: Author, May 2017

- **Use of Risk-Based Approach to IA Activities**

By 2015, on average, 86% of the public-sector IA functions used risk-based methodology in their planning, with the highest application rates achieved in South Asia (100%), North America (90%), and Sub-Saharan Africa (90%).

Figure 24 Use of Risk-Based Methodology in IA Activities, by the World Bank Regions

Source: Author, May 2017

- **Existence of Quality Assurance and Improvement Program (QAIP)**

By 2015, on average, 38% of the public-sector IA functions worldwide had a well-defined QAIP, including external quality review and a formal link to continuous improvement and staff training activities, while 42% were in the stage of development. The highest rates of QAIP maturity were achieved by North America (48%) and Europe and Central Asia (48%).

Figure 25 Maturity of the IA Quality Assurance and Improvement Program (QAIP), by the World Bank Regions

Source: Author, May 2017

- **Measuring IA Value-Added as a Performance Indicator**

By 2015, on average, 41% of the public-sector IA functions worldwide have established indicators for measuring IA performance, top five among which were: 1) percentage of audit plan complete (65% average); 2) timely closure of audit issues (37%); 3) completion of mandated coverage (39%); 4) client satisfaction goals (38%); and 5) the fulfillment of specific expectations set and agreed to with key stakeholders (27%).

Figure 26 Top 5 Public-Sector IA Performance Indicators, by the World Bank Regions

Source: Author, May 2017

Further, by 2015, on average, 58% of public-sector IA functions established indicators of IA value-added, top five of which were, on average: 1) assuring the adequacy and effectiveness of the internal control system (85%); 2) recommending business improvement (57%); 3) assuring the organization's risk management processes (50%); 4) assuring regulatory compliance (51%); and 5) informing and advising management (46%).

Figure 27 Top 5 Public-Sector IA Value-Added Indicators, by the World Bank Regions

Source: Author, May 2017

4.2.3. IA Professionalization

The IA professionalization in the country public sector is measured via the following groups of indicators: 1) IIA membership; and 2) scale of IA-related certification.

- **IIA membership**

By 2015, 80% of the staff of public-sector IA functions had membership in the IIA global or its affiliates, where North America had the highest level (99%).

Figure 28 IIA Membership, by the World Bank Regions

Source: Author, May 2017

- **Scale of IA-Related Certification**

By 2015, on average, the IIA certifications displayed a high rate of adoption, where 51% of the public-sector internal auditors worldwide held them, including: 1) CIA (Certified Internal Auditor) – 28%; 2) CGAP (Certified Government Auditing Professional) – 8%; 3) CFSA (Certified Financial Services Auditor) – 1%; 4) CCSA (Certification in Control Self-Assessment) – 3%; 5) CRMA (Certification in Risk Management Assurance) – 9%; and 6) QIAL (Qualification in Internal Audit Leadership) – 1%. However, other national internal audit certifications had a 12% of the overall share of the certified IA workforce.

Figure 29 IIA Certifications, by the World Bank Regions

Source: Author, May 2017

4.3. Assessment of VAMP Adoption Success and Convergence

This section presents an assessment of public-sector VAMP adoption success and convergence globally and across the World Bank regions, based on the above analysis of key VAMP indicators, drawn from the 2015 IIA GIAPS-CBOK. It is important to reiterate that due to the absence of commonly-accepted definitions of what constitutes success and convergence in policy implementation, the approach in this paper is to apply a rate of 50% as an approximate threshold.

The 2015 statistical snapshot, presented in the previous sections, tells a compelling story of a rapid spread of VAMP in the government IA sectors worldwide since 2000, indicating 65% average implementation rate across key indicators (see Figure 30 below).

Figure 30 Global Public-Sector IA Average Rates of VAMP Implementation, by Key Indicators

Source: Author, May 2017

The data also indicate significant average convergence rates in VAMP implementation across World Regions by key indicators (see Figure 31), where North America and Sub-Saharan Africa lead with 70%, while the East Asia & Pacific are the laggards (57.9%).

Figure 31 Convergence in VAMP Implementation in Public-Sector IA, by the World Bank Regions

Source: Author, May 2017

While the data show high global convergence in the public-sector IA function design and governance, they also flag areas of variation in the World Bank regions by key VAMP indicators, as illustrated in Figure 32 below.

Figure 32 Variation in VAMP Implementation in Public-Sector IA across the World Bank Regions, by Key Indicators

Source: Author, May 2017

The average rate of regional variation in VAMP implementation is 34%. Interestingly enough, the highest variation (above 40%) across the World Bank regions is observed in the IIA membership and certification, while the lowest – in formalization of the IA function (13.2%) and use of the IIA standards (14.6%). This indicates the perceptions of “hierarchy” of the importance of VAMP targets in the implementation of national IA reforms.

Overall, the VAMP implementation can be assessed as moderate, with the average global rate of implementation of 65% and high convergence in IA governance regimes and practices worldwide, but with a significant regional variation of 34% in reaching key

targets. Nevertheless, it is a success story, because VAMP adoption led to a significant increase in IA independence and status, effectiveness, and professionalization in the public-sectors worldwide in less than two decades.

4.4. Assessment of VAMP Adoption Failures and Problems

However, these findings also indicate that VAMP implementation is still in progress, raising the question about what is stalling its adoption. Further investigation is conducted using additional statistics from the 2015 IIA GIAPS-CBOK and literature review, outside of the key VAMP indicators framework, to see whether there were any unintended consequences. These additional data and literature highlight and explain the key global “opportunity costs” or drawbacks of the transfer of VAMP as a global industry model into the public-sector IA across the world, characterized as the threats to the public-sector IA independence and effectiveness.

Despite the progressive nature of the VAMP paradigm, which led to an increase in IA independence and status, and effectiveness and professionalization in the public-sectors worldwide during the first two decades of the 21st century, significant barriers remain to a full realization of the IA value-adding potential. Undermining public-sector IA independence and effectiveness are: 1) the pressure to politically suppress IA leadership and staff with a threat of personal recrimination; 2) non-conformance with the standards; 3) inadequate funding; 4) suppression of the IA findings; 5) loss of the IA workforce; and 6) low rates of recognition of public-sector IA as a third line of defense in the organizational governance, risk management, and control framework.

The coverage of these failures and problems is provided below.

4.4.1. *Politicization of the Public-Sector IA*

One of the results of assessment in this study is that VAMP led to higher levels of politicization in the public-sector IA, supported both by the data from the 2015 IIA GIAPS-CBOK and the IA professional literature. In the June 2017 issue of the *Internal Auditor* magazine with the cover “Public Sector Auditing under Siege”, the editor noted that “it takes courage to be a public sector auditor today; in fact, courage is a pre-requisite of being an internal auditor, in general” (Millage 2017: 7).

The CAEs and their IA departments continue to face severe challenges associated with the pressure of the political systems of the governments within which they operate. In 2014, Miller and Rittenberg (2015) conducted a study to assess this issue in the private and public sectors, based on a survey of CAEs (approximately 500 respondents), focus groups with CAEs (24), and interviews with CAEs (23) in North America and a selection of developed nations outside of North America, and found the following:

- **Political pressure on CAEs is extensive and pervasive:** “...more than half of our survey participants (55%) had been subjected to pressure to omit or modify a finding; the vast majority (71%) noted the pressure was due to a concern that the report would reflect badly on key operating management. Further, almost half (49%) were directed to not audit a high risk area, usually by an executive in the organization (80% of responders said the request was from executive management).CAEs with impeccable service records in both the private and public sector lost their jobs or were encouraged to take other positions or early retirement for challenging management on political issues” (Miller and Rittenberg 2015: 6).
- **Political pressure comes in many forms:** “Some political pressure is not very subtle, e.g., physical threats ...or loss of jobs. But pressure can be more subtle, e.g., loss of staff, decrease in the internal audit budget, CAE transfer to a lower-level position within the company, or a CAE encouraged to take an early retirement” (Miller and Rittenberg 2015: 7).
- **Good corporate governance is crucial:** “It is difficult for internal audit to be better than the underlying organizational culture and governance process... some organizations do not have effective audit committees, and many governmental and private organizations do not have audit committees at all—or the ones they have are chaired by the organization’s CEO” (Miller and Rittenberg 2015: 7).
- **Political pressure can be managed and partially mitigated, but it always exists:** “Political pressure might be analogous to a latent disease; it exists, but the internal audit strain can be kept dormant by highly effective CAEs. However, it requires a competent CAE, a sound internal audit function, a clear understanding of the business, conclusions based on factual evidence, and respectful relationships with executives and the board.” (Miller and Rittenberg 2015: 7),

- **Professional competence is required, but it is not sufficient:** “Internal auditors must understand that there is a difference between genuine disagreements and political pressure. All CAEs, no matter how competent or professional they are, must also be politically astute to anticipate and successfully manage political pressure” (Miller and Rittenberg 2015: 7).
- **Organizations, technology, and organizational objectives change:** Internal audit must invest in change, whether it is building a better core staff or making better use of technology to perform audits (Miller and Rittenberg 2015: 8).
- **Political pressure exists whether the CAE position is career-focused or rotational:** “...many organizations that move to a rotational CAE are doing so because the previous CAE was not necessarily keeping up with organizational change, and that many rotational CAEs are astute at identifying and managing potential conflicts (Miller and Rittenberg 2015: 8).

Further, in Rittenberg’s (2016: 29) study on IA ethics and political environment in the public and private sectors worldwide, based on the data from 2015 IIA GIAPS-CBOK, it was found that the key reasons for pressuring internal auditors were those related to management corruption: 1) executive misuse of corporate funds; 2) operational audit would reflect badly on key operational management; and 3) financial reporting issue at odds with the external auditor or CFO. The most severe consequences to the CAEs and the internal auditors for resisting the political pressure were: 1) exclusion from meetings; 2) loss of opportunities; 3) budget cuts; 4) demotion; and 5) pay cuts (see Rittenberg 2016: 30).

In another article by Jackson (2017), a number of horror stories were shared to illustrate patterns of retaliation against auditors in the public sector, based on political motivation, with the conclusion that this threat is widespread and serious:

The sad reality is that public sector auditors can face retaliation — isolation, smear campaigns, diminution of duties, even suspension and termination — just for doing their jobs. If the fruits of the audit function’s labor conflict with an agency head’s political agenda, too often the political agenda wins and the auditor loses. The threat is so real, and the stakes so high, that many practitioners embroiled in sticky political situations have to inform their colleagues anonymously — or with the approval of a lawyer (Jackson 2017: 25).

4.4.2. Impediments to Full Conformance with the Standards

Another result of the assessment is that there are many impediments to full conformance with the IIA standards in the national IA sectors. Public-sector internal

auditors admit that there are many reasons beyond their control when their IA functions are not fully compliant with the IIA standards, chief among which is the fact that they are superseded by the national or local government standards and regulations (36% public-sector global average).

Figure 33 Reasons for Public-Sector Partial Non-Conformance with IIA Standards, by the World Bank Regions

Source: Author, May 2017

Other factors include various financial, human resource, and political considerations, such as: 1) undisclosed other factors (22%); 2) inadequate internal audit staff (22%); 3) compliance not supported by management/board (22%); 4) lack of perceived benefit compared to cost (18%); 5) not appropriate for small organizations (14%); 6) too time-consuming (12%); 7) not appropriate for the public sector (10%); 8) too

complex (10%); 9) conformance not expected in the country (8%); 10) not aware of the standards (8%); and 11) not available in local language (2%).

4.4.3. *Inadequate Funding*

In 2015, on average, 74% public-sector CAEs indicated that the IA funding is inadequate, where the most under-funded IA functions are in Sub-Saharan Africa (91%), Latin America & Caribbean (80%) and Middle East & North Africa (80%).

Figure 34 Rates of Public-Sector IA Funding Adequacy, by the World Bank Regions

Source: Author, May 2017

4.4.4. *Suppression of the Internal Audit Findings*

In 2015, on average in public-sector IA functions worldwide, 33% of internal auditors reported that they have been regularly directed to suppress or significantly modify a valid IA finding or report, with the highest rates of suppression in Sub-Saharan Africa (53%) and Middle East & North Africa (49%). This is a disturbing finding, indicating that

the IA functions have not yet achieved a required level of status and protection, and suffer from the resistance of political and bureaucratic elites to have a proper accountability regime in the organizations.

Figure 35 Rates of Public-Sector Suppression of IA Reports, by the World Bank Regions

Source: Author, May 2017

4.4.5. Loss of the IA Workforce

The findings above have serious implications for the ability of the public-sectors worldwide to establish and maintain sustainable and well-functioning IA functions. This also speaks to the fact that it is difficult for the internal auditors to maintain integrity, mental health, and work-life balance under these conditions. In 2015, on average, 19% of the public-sector internal auditors worldwide were not certain about staying in the IA

profession or wanted to leave, while 7% planned to retire, with the highest levels reported in East Asia & Pacific (30%) and North America (20%).

Figure 36 Career Plans of Public-Sector Internal Auditors, by the World Bank Regions

Source: Author, May 2017

4.4.6. Low Rates of Recognition of Public-Sector IA as a Third Line of Defense

In 2015, on average, only one-third (33%) of the public-sector IA functions were considered by the senior management as the third line of defense in the organizational risk management framework, as recommended by the IIA. The highest levels of recognition were observed in Sub-Saharan Africa (40%) and Europe & Central Asia (38.9%), while the lowest – in South Asia (27.3%). There are also significant differences across the public

sectors in terms of the understanding of the role of IA and its proper position. This means that there is still a long way to go before the political and bureaucratic cultures fully accept the IA function as a partner in the government governance, risk management, and control regimes under the VAMP paradigm.

Figure 37 Rates of Recognition of Public-Sector IA as the Third Line of Defense

Source: Author, May 2017

4.5. Conclusions

In summary, in the new millennium, the governments worldwide have embraced the internal audit governance reforms aimed at improving organizational accountability. These reforms were based on the implementation of a private-sector “international blueprint” – a VAMP paradigm of the IA function and its governance, prescribed by the

International Professional Practices Framework for Internal Auditing (IPPF) and devised by the global Institute of Internal Auditors (IIA). *Under VAMP paradigm, senior management and the board are viewed as clients of the internal audit and the value of internal audit is defined as that of the management partner.*

The most distinctive features of the VAMP are the requirements for the establishment of the Chief Audit Executive (CAE) positions with dual reporting lines to the most senior level of the organization and the IA committee of the board, independent IA committees with members external to organization, and professionalization of the IA workforce and IA practices under the auspices of the normative professional guidance from the IIA.

Analysis of the VAMP adoption in the public sectors globally and across the World Bank regions shows moderate global rates of VAMP implementation (65% on average) and significant convergence in IA governance regimes and practices worldwide (above 50% on average). It is a commendable success story because it is indisputable that VAMP implementation led to a significant increase in IA independence and status, effectiveness and professionalization in the public sectors worldwide during the first two decades of the 21st century.

This outcome is consistent with the predictions of the meta-theory and a hypothesis that adoption of the international best practices and standards occurs because they are validated internationally, especially in the absence of strong domestic practices, and because their adoption ensures high policy problem tractability.

However, the additional statistics outside of the VAMP indicators framework and literature also show that VAMP implementation is not full (only 65%) and that the variation

in reaching the key targets across the World Bank regions is significant (34%). Despite the progressive nature of the VAMP paradigm, significant barriers remain to an optimal realization of the value-adding potential of the public-sector IA.

Analysis and assessment indicated that significant barriers and problems of VAMP adoption emerged as well, such as: 1) partial country conformance with the IIA standards due to a variety of reasons, including national and organizational policy environment and various resource constraints on the state; 2) inadequate funding for the IA modernization; 3) politicization of public-sector IA and pressures to politically suppress IA leadership and staff; 4) suppression of the IA findings; 5) loss of the IA workforce; and 6) low rates of recognition of the public-sector IA as the third line of defense in the organizational risk management framework.

The first and second groups of problems are consistent with the hypothesis that the practice of implementation of the international best-practice varies across jurisdictions, depending on the level of constraints on the state and bureaucratic resistance to policy change. It is a fair expectation that the national governments need the time, resources, and political buy-in, including that of the bureaucracy, to implement the new paradigm and make it work in the national setting. After all, Rodrik (1999: 15-19) argues that in devising national institutions and transitioning to the new paradigms, neither the “blueprint” approach - acquisition of the international or generic templates for policy or institutional design, nor the “local-knowledge” experimental perspectives capture the complexity of the political, socioeconomic and institutional conditions of the country, and that careful balancing and trade-offs between the two is necessary.” Rodrik (1999) further concludes

that although “universal” best-practices can be useful, it is important to take into account the “particularism” of the nation-states.

The rest of the identified problems in the VAMP implementation around the world lie in the political and conceptual duality of the VAMP paradigm. There is an inherent danger in the VAMP philosophy both for private and public sectors, as noted by Yee et al. (2008): “When IA is viewed primarily as value-adding, its primary goal is not fraud detection and integrity of the financial records, but directly increasing the rate of return on capital through sound advice.”

In the public sector, due to the political nature of the IA environment and the unresolved duality of pressures experienced by government auditors under the VAMP paradigm – i.e. to protect the senior management of the organization and to protect the public and stakeholders – an imbalance in the IA policy subsystems emerged, characterized by the rise of untenable conflicts of interest, the breakdown of ethics, and the difficulty to keep the executives accountable, as noted by Rittenberg (2016).

Therefore, the overall assessment in this study is that global adoption of VAMP in public sectors shows moderate implementation with mixed results.

5. Chapter 5: Role of Supra-National Institutions in VAMP

Advocacy

5.1. Introduction

This chapter provides the first account of the involvement of supra-national institutions (SNIs) in the global VAMP diffusion and advocacy, based on the case study approach. The selected SNIs are the World Bank, the OECD, and the European Commission (EC) of the European Union. The empirical research focused on lines of enquiry, aimed at identifying and mapping the following: 1) reasons for SNI involvement in the setting of international IA policy agenda and VAMP advocacy, including the international regimes, reforms and initiatives within their mandates, responding to the broad political, economic and social problems and crises; 2) patterns of participation of SNIs in the global IA policy networks and advocacy coalitions; 3) patterns of leveraging SNI authority, expertise, resources and leadership in VAMP advocacy. The cases are presented below, preceded by the analysis of key pre-conditions for the global VAMP diffusion and advocacy, and followed by a summary of findings.

5.2. Geo-Political, Economic and Ideological Pre-Conditions

The advocacy of SNIs for the VAMP paradigm as a universal best-practice solution for IA activity, aimed at improving management accountability and governance in the public sectors worldwide, began at the turn of the 21st century. It was conditioned by multiple forces and factors, chief among which are:

1. Globalization processes of the late 20th century, increasing pressures for governments and SNIs for internationalization and standardization in the public policy domain.

2. Financial and accountability crises of the governments, creating the need to react quickly to demands of electorates for higher accountability and efficiency with new solutions, which translated into criticism of SNIs and regulators, and the international demands for them to come up with practical solutions and adjust their international regimes, regulatory frameworks, initiatives and programs.
3. Theoretical and solutions vacuum for the public-sector IA in the public policy and administration sciences.
4. Dominant New Public Management (NPM) ideology that created favorable ground for the SNIs to advocate for government adoption of the private-sector management models and “best practices”, and for the governments to adopt them.
5. Historical propensity of SNIs to engage in standard-setting activities across a number of domains.

First, the forces of globalization have become more powerful in the late 20th century due to the rise of neo-liberalism as an ideology advocating for free-market capitalism, predicated on the development of the global capitalist economy, and manifesting in such processes as: 1) internationalization as “the growth of transaction and interdependence between countries”; 2) liberalization as a process of removing officially imposed restrictions on movements of resources between countries in order to form an ‘open’ and ‘borderless’ world economy; 3) universalization as “a process of dispersing various objectives and experiences to people at all inhabited parts of the earth; and 4) westernization as process of diffusion of the “social structures of modernity [e.g., capitalism, industrialism, rationalism, urbanism]... destroying pre-existent cultures and local self-determination” (see Pal 2014: 44).

Pal (2014: 44-60) explains contemporary globalization and its impact on policy-making through the lens of three key processes: 1) *economic globalization* as a process that began after the World War II with the establishment of the “complex international trading system”, supra-national institutions, emergence of global supply chains, transnational corporations (TNCs), global capital flows and mobility, international networks of governmental and non-governmental organizations, etc., resulting in reduction of sovereignty of the nation-states in the policy-making and increasing pressures on them to participate in the international policy-making arena; and 2) *cultural globalization* as a corollary of the economic globalization and global digital revolution, leading to the global “networked society”, resulting in the “homogenization” of people’s preferences, destabilization of cultural norms, decrease in social cohesion within local communities, and the constant struggle between the local and global values and identities, all creating “policy conundrums” on governments; 3) *development of international standards*, as the means of facilitating and communicating the global understanding of norms, values, and rules.

Second, the 1990s and the first decade of the 21st century were marked by such major geo-political and economic events as: 1) dissolution of the Soviet Union in 1991, creating massive long-term political, economic and societal crises for Eastern European countries and resulting in fundamental public sector reforms, as well as emergence of markets for international policy transfer and diffusion (see Pal 2012); 2) European integration that began with the creation of the European Union in 1993; 2) Asian financial crisis in 1997 that led to a dramatic increase in the levels of global government lending and debt; 3) large imbalances in global capital flows in the early 2000s; 4) global economic

crisis of 2008, which spiralled into multiple sovereign debt crises in European and Latin American countries, followed by the massive economic restructuring and cuts to government services and expenditures. This was also amplified by the crises of accountability in private sectors world-wide, including frauds of Enron, WorldCom and Global Crossing in the United States that led to increased regulation of the financial activities with the adoption of the Sarbanes-Oxley Act (SOX), aimed at strengthening IA governance in public companies in the United States, with broad extra-territorial spillovers, as described in Bou-Raad (2000).

Third, according to Spraakman (1997: 323), the IA function as a unit either in the private or public sector has no formal theory to guide academic research and practice, since the academics ignored it due to strong acceptance of professional practice by public sector administrators and business managers. The IA knowledge and practices are created by the global IA industry, dominated by the several top multinational audit, accounting and consulting firms, such as Deloitte, KPMG, PWC, EY (the Big Four) and a self-regulated profession, led by the IIA. They are based on the fusion of practically all management fields and the fields that are subject to the audit, at the discretion of practitioners. Thus, IA integrates multiple theories and knowledge from various applied fields and sciences. This explains the absence of theoretical and practical solutions for the public-sector IA in the public policy and administration sciences. This vacuum led SNIs and governments to look for the private-sector solutions that would seem to be easily transferable to the public-sector domain.

Fourth, the *New Public Management (NPM) ideology*, with its focus on adopting private-sector management best-practices and solutions that spread in the late 1970s

through to the early 2000s, seemed to play one of the most important roles in VAMP advocacy and adoption. It is a widely accepted view that the NPM-inspired public sector reforms, as a response to the fiscal and accountability crises, led to the adoption of private-sector practices in the government IA sectors, despite their controversy:

In the wake of these events, it has been speculated that the control systems in public organizations are similarly flawed and that SOX-type reforms, may therefore be necessary in government and non-profit organizations in order to prevent comparable financial disasters (Brown, 2005; Jackson and Fogarty, 2005; Roberts and Candreva, 2006). These “new public management initiatives” are powerful (Free and Radcliffe, 2009): governance is now often understood in financial terms and underpinned by a commitment to permeate the public sector with “best practices” from the private sector (Gendron, Cooper et Townley, 2007). As a result, boards of directors in government corporations and their auditors increasingly emulate private-sector practices and are given specific responsibilities in terms of risk management and internal control – the overarching objective being increased efficiency and accountability. However, the importation of such practices and techniques has generated spirited discussions over their necessity and their added value in the infrastructure of public-sector (Clatworthy et al., 2000; Vermeer et al., 2006) (Tremblay and Malsch 2012: 1).

Shepherd (2011: 278) attributes the emergence of current IA governance practices in the Canadian federal government directly to the influence of NPM ideas: “Not only is the public sector a net importer of private-sector ideas and tools, it now has an institutional voice and a means for acting on its preferences for public-sector action at least at the level of management.” This claim is supported by Van Gils (2011, 2012), suggesting that NPM reforms were the key drivers behind adoption of VAMP in the Belgian public sector:

Within the context of managerial reforms in the Belgian public sector since the 1990, the internal audit function is viewed as a new managerial instrument to reinforce the reliability of an organization’s internal control system. It has spread sporadically amongst public entities. At the same time, recent research on internal auditing has shown that the professional boundaries of the internal audit continue to evolve, driven primarily by increased attention to “good governance” and the resulting regulations, codes of good governance, guidelines, and internal control standards (Van Gils 2012).

Further, SNIs were instrumental in encouraging the diffusion of NPM across the world.

Fifth, SNIs have been historically active and influential in setting the standards, codes of practice, and benchmarking indicators within the broader normative and

regulatory frameworks, by influencing their design, legitimizing their authority and validity, and enforcing or advocating the institutional adherence to them. Adherence to the international codes and standards is one of the benchmarking tools by which the SNIs can measure the success of their reforms, programs and operations, create incentives for the countries, establish dialogue, enhance transparency and objectivity in resource allocation, and make decisions, according to Arndt (2008) and Davis et al. (2012).

5.3. Case Study 1: The World Bank

This section provides a profile of the World Bank's activities in setting of the broad international IA policy agenda through its international development regime, Good Governance agenda and associated initiatives, distinct patterns of its participation in the global IA policy networks and advocacy coalitions and mechanisms of VAMP advocacy.

5.3.1. International Regimes, Agendas and Initiatives

5.3.1.1. International Development Regime

The World Bank is a UN system organization, responsible for the operation of the international development regime since 1945. It consists of five organizations, managed by 189 member countries: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporate (IFC), and Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes or ICSID (see WB web1-2).

Based on the bank's archival and online documentation (see WB web1-3; WB 1991; WB 2014), the goals of the international development regime and respective bank's mandate have evolved over time, as follows:

- 1) **1940s:** focus on the post-World War II reconstruction by providing loans to affected countries, primarily European;
- 2) **1950s-1960s:** shift to technical assistance to the members in Latin America, Africa, and Asia and lending to private companies and financial institutions in developing countries;
- 3) **1970s:** shift to the goal of poverty eradication worldwide by a) funding projects in the areas of food production, rural and urban development, and population, health and nutrition, and b) advocacy for the adoption of policies, strategies and institutions aimed at sectoral and structural reforms, supported by the bank's loans;
- 4) **1980s:** focus on pro-market public sector management (PSM) reforms, structural adjustment programs, and on macroeconomic and debt restructuring;
- 5) **1990s:** focus on Good Governance initiatives and public sector reforms;
- 6) **2000s-2010s:** mandate to end poverty, support economic growth, promote share prosperity by fostering income growth, and ensure a sustainable quality of life around the world.

Throughout its history, the bank viewed external and internal audit systems as important controls in the management of its economic development operations and projects, especially in relation to lending. The shift occurred in the 1990s, when the bank started to recognize the importance of the political aspects of development and the need to prevent governance failures by strengthening accountability regimes. This is when the external audit institutions and practices were recognized as crucial ex-post controls and placed explicitly at the center of the World Bank's Good Governance agenda during the

1990s. By default, the role of internal auditing systems, as preventative ex-ante controls, started to receive greater recognition in the new millennium.

5.3.1.2. Good Governance Agenda and Practice

According to Diarra and Plane (2011: 26), the origins of the World Bank's model of Good Governance can be traced to the end of 1970s. However, the vast majority of scholars link the modern understanding of the concept to the early 1990s, when the concept reappeared on the bank's agenda, which placed the Public Sector Management and the Good Governance initiatives at the center of development efforts around the world (see Maldonado 2010; WB 1992, 1994, 1997). Specifically, in the bank's 1992 report "Governance and Development", the concept was encapsulated as "...the manner in which power is exercised in the management of a country's economic and social resources for development synonymous with sound development management" (see WB 1992: 1; Nanda 2006; Stone and Wright 2007). In that report, the Good Governance concept was initially defined as consisting of three elements: 1) accountability, including macro-accountability, micro-accountability, and decentralization as a link between them; 2) legal frameworks for development; and 3) information and transparency systems and processes. The accountability dimension tied the Good Governance to the macro-level government accountability, in turn described as a sum of the financial and microeconomic performance of the country. Specifically, the financial accountability was viewed as being built on three pillars, including the external audit system:

- A properly functioning government accounting system for effective expenditure control and cash management;
- An external audit system which reinforces expenditure control by exposure and sanctions against misspending and corruption;
- Mechanisms to review and act on the results of audits and to ensure that follow-up action is taken to remedy problems identified (WB 1992: 15).

The report noted that because the “...compliance with accounting and auditing covenants has been uneven” in the bank-financed projects, it decided: 1) “...to encourage more systematic review of auditing and accounting capacities and needs during project preparation, and encouraging greater contracting out for project accounting and audit services”, and 2) “....to strengthen borrower capacity through countrywide reviews of auditing and accounting systems, and following up with assistance” (WB 1992: 15). Further, the bank found that “in most countries, however, there are no basic accounting and auditing systems”, which led the bank to conclude that it is necessary to encourage strengthening of the countries’ public-sector accounting systems and undertaking government auditing reforms, referring primarily to the external financial auditing, normally carried out by the SAIs and private-sector firms (see WB 1992: 21, 49). This set the global public policy agenda for the broad accounting and auditing reforms, with a spillover effect on internal audit.

According to Diarra and Plane (2011: 7), the Good Governance concept justified the bank’s “lending conditionality” practice, based on the *Worldwide Governance Indicators (WGI)*, introduced in 1996. These indicators included measurement of government accountability as a dimension:

The WGI cover over 200 countries and territories, measuring six dimensions of governance starting in 1996: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. The aggregate indicators are based on several hundred individual underlying variables, taken from a wide variety of existing data sources (Kaufmann et al. 2010).

According to Kaufmann et al. (2010), the World Bank’s WGI project had a profound effect on advocacy and spread of common governance norms across the world.

According to Drake et al. (2003) and Pal (2014), over the next decade, the bank's Good Governance agenda was implemented on a large scale, with the increase in lending conditioned on good-governance indicators: 1) "...since 1996, the World Bank has set up over 600 governance-related programmes and initiatives in 95 developing countries, and has also supported governance and public sector reform programs in 50 countries" (Drake et al. 2003: 6); 2) "By one estimate, World Bank lending for economic reforms fell by 14 percent annually in 2000-2004, but lending on improved governance rose to the point that in 2004, 25 percent of World Bank lending was targeted on law and public administration" (Pal 2014: p.31). The bank's annual reports during the 1990s indicated disposition of lending to various countries for reforms of their public-sector accounting and auditing institutions (see WB AR 1990-2017).

The bank's *1997 WDR "The State in a Changing World"* stated that "the good government is not a luxury, but a vital necessity for development", and identified three mechanisms that improve the state's capability": 1) rules and restraints; 2) competitive pressures; and 3) voice and partnership. The first mechanism recognized the importance of having an audit and the minimum auditing standards (see WB 1997: 28, 68).

At the turn of the 21st century, fighting poverty, corruption, fraud and mismanagement in the public sector through reforms of public management, including building the IA capacity, were high on the World Bank's agenda:

Much of the Bank's poverty work points to the high cost of weak government and inadequate service delivery to poor people. Responding to this accumulation of evidence, the Bank has increasingly focused its assistance on the reform of public sector institutions. Work with partners and clients in country and international forums reveals the harmful economic consequences of corruption, which is a fundamental symptom of public sector malfunction. ...Support in core areas of public sector functioning, such as public expenditure analysis, tax administration, civil service reform, auditing, and judicial reform, has grown steadily (WB 2000: 84).

The bank's *2000 WDR "Reforming Public Institutions and Strengthening Governance: A World Bank Strategy"* reaffirmed its commitment to the modernization of the national external and internal auditing systems and institutions, as "mechanisms that promote public-sector effectiveness and good governance" (WB 2000: xiv, 12).

In the 2010s, the World Bank remained committed to the Good Governance agenda, and continued to emphasize the importance of effective auditing systems and institutions to ensure government accountability. In line with the public-sector requirements in the digital age, the bank enhanced its Good Governance agenda through the *Governance Global Practice (GGP)*, which "provides financing, intellectual leadership and a reservoir of global experience to help countries develop practical reforms to address these complex governance challenges" (WB web4). The 2017 GGP strategic priorities were listed as follows: 1) improving public financial management; 2) strengthening public sector performance; and 3) enhancing accountability in service delivery, including such initiatives as Open Government Partnership, Open Contracting, Global Partnership for Social Accountability, etc. (see WB web4).

The bank's *2017 WDR "Governance and the Law"* positioned external and internal audit as elements of the good legal system, serving as horizontal anti-corruption controls of public institutions, and as formal checks and balances mechanisms. It was noted that the number of audits, normalized by population statistics, are usually lower in the developing countries than in the developed ones, correlating it with higher levels of corruption (see WB 2017b: 149).

5.3.1.2. Public Expenditure and Financial Accountability (PEFA) Program

In 2001, an international Public Expenditure and Financial Accountability (PEFA) program was established, jointly with the World Bank, the OECD, the IMF, the European Commission, and the governments of UK, France, Norway, and Switzerland, in order to support implementation of their respective international development regime, the UN Sustainable Development Goals and the Paris Declaration on Aid Effectiveness (see PEFA web1-2). The World Bank, together with the partners, provides funding for the PEFA secretariat and the technical assistance.

PEFA is essentially a methodological tool for governments that “provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance...The PEFA framework includes a report that provides an overview of the PFM system and evidence-based measurement against 31 performance indicators. It also provides an assessment of the implications for overall system performance and desirable public financial management outcomes. It provides a foundation for reform planning, dialogue on strategy and priorities, and progress monitoring” (PEFA web2).

The PEFA framework is based on seven pillars of PFM performance and associated 31 indicators: 1) budget reliability, 2) transparency of public finances; 3) management of assets and liabilities; 4) policy-based fiscal strategy and budgeting; 5) predictability and control in budget execution; 6) accounting and reporting; and 7) external scrutiny and audit (see PEFA web1). The role of IA is embedded in the principles 6 and 7, primarily related to the application of IIA IPPF in the PFM systems of the countries.

5.3.2. Participation in the Global IA Policy Networks and Advocacy Coalitions

The World Bank has an active and long-standing membership on several global accounting and auditing policy networks and advocacy coalitions, including those managed by the UN, the IIA, the INTOSAI and the IFAC, where it participates in the oversight of the international processes on the development of international auditing standards and their promulgation.

First, the World Bank is a regular member of the global IA policy networks of the ***United Nations Representatives of Internal Audit Services (RIAS and UN-RIAS)*** since their inception in 1968. It sends the executives of its IA department to the annual meetings, in order to provide the Bank's positions and to participate in the policy-setting and coordination processes.

Second, the World Bank is a member of the ***IIA's Global Advocacy Committee (GAC) and the International Professional Practices Framework (IPPF) Oversight Council***, and sends its representatives to the meetings (see IIA web4). Besides providing public-interest oversight and input to the work of these bodies, it also occasionally engages in strategic partnerships with the IIA, such as development of the ***IIA's Internal Audit Capability Model for the Public Sector (IA-CM)*** in 2008-2009 (see IIA 2009b, e).

Third, the World Bank is also an associate member of the ***INTOSAI***. This allows the organization to sit on the INTOSAI committees in order to participate in the development and implementation of International Standards of Supreme Audit Institutions (ISSAIs), as well as to form strategic partnerships on various projects and initiatives. For example, for the work on the SAI Capacity Building Working Group, the bank provides funding for the INTOSAI's multi-donor technical assistance project ***"The INTOSAI***

Development Initiative” (IDI) in order to support SAIs in the developing world in strengthening their performance and capacities (see IDI web1; IDC web1; UNITAR web1).

Fourth, the World Bank is also a member of the *International Auditing and Assurance Board (IAASB) of the International Federation of Accountants (IFAC)*, which allows it to participate in the oversight of the standard-setting processes for the financial auditing standards, via the Public Interest Oversight Board (PIOB), along with other SNIs and international financial regulators:

The International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the World Bank and the Financial Stability Forum announced the formal establishment of the Public Interest Oversight Board (PIOB) to oversee the public interest activities of the International Federation of Accountants (IFAC). The PIOB will oversee IFAC’s international standard setting activities in the areas of audit performance standards, independence and other ethical standards for auditors, audit quality control and assurance standards, and education standards. The establishment of the PIOB is the result of a collaborative effort by the international financial regulatory community to ensure that the auditing standards set by IFAC and its committees are set in the public interest (WB 2014: 466).

5.3.3. Leveraging Authority, Expertise, Resources and Leadership

5.3.3.1. Reviews of Country Accounting and Auditing Practices

In 1999, the World Bank launched the initiative *Reports on the Observance of Standards and Codes (ROSC)*, administered jointly with the International Monetary Fund (IMF):

Standards and codes are benchmarks of good practices. The Report on the Observance of Standards and Codes (ROSC) initiative was launched in 1999 as a prominent component of efforts to strengthen the international financial architecture. The initiative aims at promoting greater financial stability, both domestically and internationally, through the development, dissemination, adoption, and implementation of international standards and codes (WB web7).

The World Bank conducts ROSC country reviews for three out of twelve review areas, including Accounting and Auditing, covering the International Financial Reporting Standards (IFRS) and the International Standards on Auditing (ISA), related to the IIA

standards in terms of links with external auditing (see IMF 2002; WB web7). Analysis of the bank's technical ROSC reports during 2000-2016 indicates that it conducted about 200 reviews of the country accounting and auditing practices and respective institutions, entailing assessments of country compliance with the international accounting and auditing standards, as well as institutional infrastructure and capacity.

The ROSC program impacts adoption of the IIA standards indirectly by asserting the need for standardization in the national financial reporting, accounting and auditing practices, especially in the countries that historically had different systems. For example, in 2004, the World Bank extended its ROSC program to the countries of the former Soviet Union:

Since 2004, the World Bank has been working with the countries of the EU's Eastern Partnership - Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine - to assess accounting and auditing standards and offer policy recommendations under the ROSC program. Given the often similar issues faced, a regional program on Strengthening Auditing and Reporting in the Eastern Partnership (STAREP) was launched by the World Bank's Centre for Financial Reporting Reform (CFRR) in October 2013 to support the design and implementation of sound corporate financial reporting reforms that strengthen business and investment climates and bring closer integration with the European Union (WB 2015).

5.3.3.2. Technical Assistance for National IA Capacity Building Projects

Analysis of the annual and project reports of the World Bank during 2000-2017 indicates that the World Bank has financed many national IA capacity building and strengthening projects, where adoption of the IIA IPPF was either observed or recommended (see WB AR 1990-2017).

For example, the project status report ISR10642 titled *“Kyrgyz Republic - Capacity Building for Public Sector Internal Audit IDF: P128733 - Implementation Status Results Report” (2017)* indicates that since 2012, the bank authorized the grant to this country in the amount of about half-million dollars to establish mechanisms that support

the implementation of a national IA program, development of online resources systems, capacity development of IA staff, and awareness building (see WB 2017a).

Another example is the project report PIDC58807 “Strengthening Internal Audit: Indonesia” (2016), which indicates that the objective of the project, for which the bank provided technical assistance, was to contribute to the government’s efforts to improve the capacity of the internal audit institutions to meet level 3 of the IIA Public Sector IA-CM, including requesting that that IIA-qualified IA-CM assessors and IIA-certified QAIP reviewers were made available to support the transformation (see WB 2016).

In the technical document 69835 “Strategic Plan for Strengthening of Internal Audit in Government of Bihar”, the bank outlined its recommendations on how to improve the national IA system in the country, with references to the international best practices and the IIA and INTOSAI standards (see WB 2012: 2).

The 2016 World Bank’s Annual Report mentions the use of the Reimbursable Advisory Services facility for the project aimed at strengthening internal audit in Kazakhstan (WB AR 2016: 33).

5.3.3.3. Establishment of Model IA Function Based on IIA Standards

The World Bank’s IA Division (later renamed into IA Vice-Presidency) is operating on the IIA IPPF, as evidenced in its web-published annual reports (see WB IAD web1; WB IAD 2011-2016). The annual reports always have references to the following: 1) IA value-added indicators for the World Bank; 2) risk-based methodologies; 3) quality assurance and improvement program (QAIP); 4) audit committee; 5) audit coverage for assurance and consulting engagements; 6) conformance to IIA IPPF; 7) external quality assessment (EQA); 8) collaboration with other oversight and risk management units and

the external auditors; 9) outreach to internal auditors of other multilateral organizations, development institutions, and the bank clients for the knowledge sharing and networking, etc. This indicates the World Bank's adoption of the VAMP paradigm.

5.3.3.4. Organization of the International IA Forums and Consultations for the Public Sector Officials of Member Countries

Van Gansberghe (2005) describes one example of the VAMP advocacy of the World Bank jointly with the IIA, under the umbrella of the project *“Public Expenditure and Financial Accountability for Africa”* covering 27 countries, where a consultative forum on IA was organized to popularize the IIA IPPF, highlight key requirements for the modern IA function, and provide some best-practice case-studies in implementation.

In June 2013, “....the World Bank's Centre for Financial Reporting Reform (CFRR), in cooperation with the Chamber of Financial Auditors of Romania held a conference ‘The Audit Committee: the keystone of the financial reporting and audit process—from policy to practice’ ” (see WB 2014).

In April 2016, CFRR conducted a workshop for about 100 senior officials of the leading accounting and auditing firms in the countries participating in the *Program of Accounting Reform and Institutional Strengthening (EU-REPARIS)* and *Strengthening Auditing and Reporting in Countries of the Eastern Partnership (STAREP)* program, in order to share reform progress and exchange experience (see WB CFRR 2016).

5.3.4. Case Conclusion

In conclusion, this case study demonstrated that starting at the end of the 20th century, the World Bank has gradually recognized the role of public-sector IA in its international development regime, Good Governance agenda and practice, and various

public expenditure and financial accountability programs. It has been an active participant in the international private and public-sector IA policy design and transfer through the global IA networks and policy advocacy coalitions and its own system, which led to the establishment and implementation of important IA initiatives on the global scale.

The World Bank leveraged its authority, expertise, and resources to establish reviews of country accounting and auditing practices, provide technical assistance for national government IA capacity building projects, and organization of various international IA forums and consultations for the public sector officials. This included technical and funding support for adoption of the IIA IPPF in the public sectors worldwide.

The World Bank was also among the first SNIs to advocate for transparency in the work of IA functions, by introducing online reporting on results of its own IA activity. However, the World Bank can do more in terms of developing the public-sector IA policy capacity around the world, as well as developing the multi-lateral government data on its development.

5.4. Case Study 2: The Organization for Economic Cooperation and Development (OECD)

This section provides a profile of the OECD activities in the setting of the broad international IA policy agenda through its international regimes on corporate and public governance, public-sector reform agendas and initiatives, patterns of participation in the global IA policy networks and advocacy coalitions, and mechanisms of VAMP advocacy.

5.4.1. International Regimes, Agendas and Initiatives

5.4.1.1. International Regimes of Policy Coordination in Corporate and Public Governance

The OECD, established in 1961, and having a membership of 35 countries, carries out its international IA policy coordination through the following channels and mechanisms: 1) the activities of relevant secretariats and associated committees and working groups that set international regimes, agendas and initiatives, where IA has a role to play; and 2) broad OECD legal instruments, with direct or indirect implications for IA.

According to Mahon and McBride (2008), Woodward (2009), and Pal (2012), the OECD has long been involved in the transnational governance, international public-sector management policy design, coordination, and diffusion of the best practices through the work of its committees, where all countries have their government delegates. The OECD Council, committees and secretariats are open to all OECD member countries and their representatives from the permanent missions, via regular meetings, conferences, ministerial forums, and publications, and provide the forum for international policy experience sharing, development, coordination and implementation. Research on the OECD activities, related to the VAMP diffusion and advocacy, points to the finding that several OECD secretariats, committees and working groups were prominent in the development and diffusion of public-sector IA reform ideas and best practices, as well as issuing legal instruments for member countries to follow. Specifically relevant for the IA policy are:

- ✓ **Corporate Governance Committee (CGC)**, supported by the **Directorate for Financial and Enterprise Affairs (DAF)**; and

- ✓ **Public Management Committee (PUMA)**, established in 1990;
- ✓ **Public Governance Committee (PGC)** in 2004, that succeeded PUMA (established in 1990), supported by the **Public Governance and Territorial Development Directorate (PGTDD)** (see OECD web1,2,4).

The PGC inherited the working parties of PUMA and its predecessor, the Technical Assistance Committee. Several new bodies were created since then, such as:

- Senior Officials from Centers of Government (1980);
- Working Party on Public Employment and Management (1985);
- Working Party of Senior Budget Officials, which coordinates the networks of Financial Management (2001), Performance and Results (2004), Senior Infrastructure Officials (2008), and Network of Parliamentary Budget Officials and Independent Fiscal Institutions (2009);
- Working Party of Senior Public Integrity Officials (2002), working with SAIs;
- Working Party of Senior Digital Government Officials (2003);
- High-Level Risk Forum (2014);
- Working Party of the Leading Practitioners on Public Procurement (2014).

These groups have contributed and continue to contribute to the development and dissemination of public management ideas and best practices across public sectors of the OECD countries, which in turn influenced the practices of government external and internal audit institutions (see OECD web4). The work of the OECD committees and the OECD Council also results in various legal instruments, such as Acts (Council decisions and recommendations), declarations, conventions, arrangements and understandings, and international agreements, with such end products as international norms and standards, best practices and policy guidelines, forming the international policy commitments framework (see OECD web2).

- **Corporate Governance Regime**

The OECD started to form its international regime of policy coordination on corporate governance, affecting public policy, soon after the World Bank announced its Good Governance agenda in the early 1990s. The principal channel for this regime is the

work of the CGC, the mandate of which has been “...to contribute to economic efficiency, sustainable growth and financial stability by improving corporate governance policies and supporting good corporate practices, in Members and Partners; ... aim to effectively fulfil its responsibilities as an international standard setter in corporate governance” (see OECD web4).

Several OECD legal instruments and initiatives shaped this regime, with the major implications for international IA policy and governance. On December 17th 1997, the OECD released a *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, establishing legally binding standards to criminalize this type of activity and providing guidance to member countries on its enforcement. [OECD web6] One of the key recommendations of the convention was establishment of the “...high level of auditing and internal investigation in order to ensure a proper use of resources and prevent, detect and remedy corruption risks”, in the coherent regime of external and internal audit” (OECD 1997: 41). Specifically, the OECD noted that IA services should be organized according to international standards, since “detailed standards for internal auditors are available through relevant international professional associations and should serve as guidance as appropriate” (OECD 1997: 41). This was a direct endorsement of the IIA standards and associated guidance materials in the OECD countries, setting the stage for VAMP diffusion and adoption later on.

Further, on May 27th 1999, the OECD and the World Bank announced a joint sponsorship of the Global Forum on Corporate Governance (see WB 2014). Since then, the work of the CGC and associated directorate DAF has been focused on promoting **Good**

Corporate Governance, including through the global anti-corruption agenda, directly impacting the views on international IA policy:

The Directorate contributes to G20 work on international financial architecture and the OECD Code of Liberalisation of Capital Movements, anti-corruption, corporate governance and responsible business conduct, global investment policy making, long-term institutional investment and infrastructure, financial literacy and consumer protection, small- and medium-sized enterprise financing, green finance and clean energy (OECD 2017: 86).

In 1999, at the start of the VAMP paradigm roll-out by the IIA, the CGC issued the **OECD Principles of Corporate Governance**. This document identified common principles for good corporate governance and different models of management oversight boards found in the OECD countries, such as: 1) a two-tier board structure, which includes the supervisory board and management board, and 2) a unitary board structure, where the board is overseen by an internal audit board or a committee. It provided several recommendations pertaining to the role and requirements for the boards, the external audit, the internal audit and the independent audit committees as mechanisms of management control and oversight in the overall corporate governance framework, key among which were:

- 1) boards are responsible for the auditor selection process and should consider measures to improve auditor independence by applying limitations on the percentage of non-audit income, instituting disclosure rules for the level of fees for the non-audit services, conducting quality reviews of auditors by another auditor, mandatory rotation of auditors, and the direct appointment of auditors by shareholders;
- 2) shareholders have the right to approve and elect auditors;
- 3) all corporate information should be audited and disclosed annually by the independent external auditors to ensure objectivity and application of high standards of quality and codes of ethics;
- 4) boards should ensure the integrity of the independent audit function and putting in place appropriate system of control, in particular, systems for monitoring risk, financial control, and compliance with the law;
- 5) board audit committees should be strengthened;
- 6) independent board members should be engaged to ensure objectivity in the evaluation of the performance of the board, the management, and providing balance in the areas where the interests of management, the company, and the shareholders may diverge, including the audit function;
- 7) non-executive board members should have access to certain key managers, including internal auditors, in order to be able to obtain accurate, relevant and timely information (OECD 1999).

This cemented the role of IA as a key element of the Good Corporate Governance in the policy views of the OECD member states. Almost a decade later, on July 8th 2015, the OECD CGC updated the *1999 Principles of Corporate Governance*, and issued ***Council Recommendation on Corporate Governance***, which reinforced the importance of independence of the internal audit committees, internal auditors, and the professional IA standards (see OECD 2015a).

In 2009, the OECD issued a ***Council Recommendation for Further Combating Bribery***, which was supplemented in 2010 by ***Good Practice Guidance on Internal Controls, Ethics, and Compliance***, as a practical enforcement solution for the anti-bribery convention, where IA figured as an important internal control (see OECD 2010b). In 2016, the CGC and the DAF conducted a ***2016 Anti-Bribery Ministerial*** and launched the fourth phase of monitoring of the implementation of the OECD Anti-Bribery Convention, followed by the 2017 OECD Roundtable “20 Years of the OECD Anti-Bribery Convention” (see OECD 2017a: 86; OECD web14).

Thus, the OECD played a significant role in setting the new principles of corporate governance that had implications for the redesign of IA governance regimes in the OECD countries. Overall, the role of IA in the public-sector was reinforced through these measures.

- **Public Governance Regime**

Since the beginning of the Public Governance paradigm in public policy and administration in the early 2000s, the mandate of PGC has been “...to assist Members and Partners in designing and implementing strategic, evidence-based and innovative policies to strengthen public governance, public sector institutions, responding to economic, social

and environmental challenges, and delivering on government's commitments to citizens through greater public sector capacity" (OECD web4). Since then, the focus of the PGC has been on promoting **Good Public Governance** worldwide, in cooperation with other SNIs, where strengthening public-sector IA is one of the elements:

Public governance is a key dimension of OECD regional programmes in Southeast Asia, Latin America and the Middle East and North Africa. The OECD collaborates on public governance issues with UN Habitat, the European Commission, the World Bank, the Inter-American Development Bank and many other international bodies (OECD 2017a: 100).

The OECD released a series of legal instruments relevant to the international IA policy and IA governance. In 2003, the OECD issued a ***Council Recommendation on the Guidelines for Managing Conflict of Interest in the Public Sector***. The recommendation stated that this action was prompted by the growing concerns of the public in member countries and worldwide about the conflicts of interest in both the private and public sectors:

In government and the public sector, conflict of interest situations have long been the focus of specific policy; legislation and management approaches intended to maintain integrity and disinterested decision-making in government and public institutions. In the private sector there has also been a long history of concern for integrity in business, and in particular for protecting the interests of shareholders and the public at large. Recent scandals have drawn attention to the importance of avoiding conflicts of interest which can become an issue when, for example, a public official leaves public office for employment in the business or NGO sector, or an accounting firm offers both auditing and consulting services to the same client, or a regulatory agency becomes too closely aligned to the business entities it is intended to supervise (OECD 2003b).

The document specified the core principles for managing conflicts of interest, defined key elements for the policy framework, and called on the OECD government officials to develop the Conflict of Interest Policy in their organization and lead its implementation. The implication for the IA was that these measures have become the points of control within the mandate of the IA function.

On February 18th 2015, the OECD PGC issued two legal instruments: 1) *Recommendation of the Council on Budgetary Governance* that urged member states to promote integrity of budgetary processes and products through assurance mechanisms, including independent audit (see OECD 2015c); and 2) *Recommendation of the Council on Public Procurement* that called on member states to ensure that internal controls (including financial controls and internal audit), and external controls and audits are coordinated, sufficiently resourced and integrated (see OECD 2015b).

Further, in 2015, the OECD announced a start of the work on the *Principles of Sound Public Governance* (see OECD 2015d). On January 26th 2017, the OECD PGC issued a *Recommendation on Public Integrity*, calling on the highest political and management levels within the public sectors of the member countries to enhance public integrity and reduce corruption with a set of recommended tools and measures, including application of the international frameworks in internal control and risk management to safeguard integrity in public sector organizations, and reinforcing the role of external and internal oversight and control within the public integrity systems (see OECD 2017b).

In order to measure and assess the state of Good Public Governance in the member state, the OECD initiated a series of projects, most notably the publication “**Government at a Glance**”, within its broader activities on international benchmarking and best-practice diffusion (see Lodge 2005; Erkkilä and Piironen 2014; OECD web8).

5.4.1.2. Public Sector Reform Agendas

- **New Public Management (NPM)**

Pal (2012) provides a comprehensive overall analysis of the role of the OECD in the international transfer of dominant policy ideas and “best practices”, especially the NPM

and public sector modernization. Further, this author's research indicated that PUMA, established in 1990, with the Technical Assistance Committee (1961) as a predecessor, supported the network of Senior Officials from Centers of Government (1980), the Working Party of Senior Budget Officials (which coordinated the networks of Financial Management (2001) and Performance and Results (2004)), the Working Party on Public Employment and Management (1985), the Working Party of Senior Public Integrity Officials (2002), and the Working Party of Senior Digital Government Officials (2003).

The OECD annual reports²¹ highlight PUMA's mandate during the NPM era as identifying strategic public sector governance challenges, assisting members and non-members in raising the performance of their public institutions, focusing on the development of capacities for more coherent and globalized policies, meeting policy commitments in a changing world, and institutionalizing transparency, honesty and accountability in government. It focused on governments' daily activity, management of public sectors in areas of human resources, regulation, budgeting and financial management, with the aim of promoting efficient functioning and good governance.

Of specific importance to the IA policy domain were PUMA's policy briefs on public sector management and modernization, where the new approach for assessment of the government performance advocated reliance on performance and value-for money auditing, which could be performed both by the external and internal auditors (see OECD 2004c).

At the end of the NPM era, the PGC took over the work of PUMA and committed to complete its two-year program on studying the trends in public sector modernization in

²¹ See OECD annual reports from 2000 to 2017 at http://www.oecd-ilibrary.org/economics/secretary-general-s-report-to-ministers_22223843

member countries that were initiated due to the failure of the NPM reforms in the preceding two decades (see OECD 2004a: 69-70). The study included the review of accountability and control reforms in transition in ten OECD countries. It concluded that with the international acceptance of the COSO framework of internal controls, the modern systems of government accountability were shifting from ex-ante to ex-post control in general, to the development and implementation of stronger internal control processes backed by strong ex-post audits by Supreme Audit Institutions (SAIs) (see OECD 2005b: 83-104; Ruffner and Sevilla 2006).

- **New Public Governance (NPG)**

In the New Public Governance (NPG) era that began in the early 2000s, the OECD's public-sector reform agenda covers such key work areas as: budgeting and public expenditures, digital government, anti-corruption and integrity in the public sector, Open Government, public employment and management, public finance and fiscal policy, public procurement, regional development, infrastructure governance, regulatory policy, risk governance, innovative government, accountable and effective institutions, trust in government, etc. (see OECD web7).

Crucial for the international IA policy are such strategic initiatives and projects, as *Budgeting and Public Expenditures*, *Public Sector Integrity Framework and Reviews*, *Public Governance Reviews*, *Government at a Glance* publication, *SIGMA (Support for Improvement in Governance and Management)* as a joint initiative of the OECD and the European Union, etc. (see OECD web8-13). In these initiatives, IA is viewed as part of the solution.

5.4.2. Participation in the Global IA Policy Networks and Advocacy Coalitions

The OECD has an active and long-standing membership on the IIA and INTOSAI committees, networks and oversight bodies, where it participates in the international processes of design and oversight of the IA and SAI standards and practices and their promulgation.

First, the OECD is a member of the *IIA's Global Advocacy Committee (GAC) and the International Professional Practices Framework (IPPF) Oversight Council*, along with other SNIs, which allows it to push its positions on the IIA standards from the public policy perspective of its member states, as well as to leverage the IIA and its networks in VAMP diffusion across member states (see IIA web4, 12).

Second, the OECD established a strategic bilateral partnership with *INTOSAI* (also a member of the IIA GAC and IPPF Oversight Council), which allows it to regularly participate in the meetings of its committees and various initiatives (see INTOSAI 2017: 40). The OECD study *“Good Public Governance: The Role of SAIs”*, carried out during 2014-16, is one example of the joint projects between the *INTOSAI Subcommittee on Internal Control Standards* and the *Public Sector Integrity Division* of the OECD Public Governance and Territorial Development Directorate (see Reza 2014; OECD 2016c).

5.4.3. Leveraging Authority, Expertise, Resources and Leadership

Since the emergence of VAMP in 1999, the key OECD advocacy mechanisms for its adoption in the public sectors of the member countries were: 1) establishment of its own model IA function based on the IIA standards, as a key advisory mechanism to the OECD Council and relevant committees on the matters of IA policy; 2) conduct of the broad-

themed initiatives, projects and forums relevant for IA; 3) organization of the international IA conferences and consultations for the public sector officials of member countries.

5.4.3.1. Establishment of the Model IA Function Based on IIA Standards

In 2003, the OECD established the **IA Services Directorate (IAS)** with the first reporting on its activities in the OECD Annual Report of the Secretary-General to the Ministers in 2008 (see OECD 2008-2017). The IAS mandate and its adherence to the IIA standards has been officially formalized in the OECD Financial Regulations (see OECD-C (2003, 2008). OECD IAS serves as a model IA function to be emulated across the member countries, spreading the knowledge and promoting best practices.

According to its website description and declassified annual reports of the Auditor General and the IAS to the OECD Council, the OECD IAS reports directly to the Secretary-General and the Audit Committee, comprised of the representatives from the permanent delegations and experts from the Supreme Audit Institutions (SAIs) of the member countries. It provides independent assurance on governance, risk management and control within OECD directorates and corporate services, designed to add value and improve operations, as well as advisory services to the Secretary General and management. It is part of the OECD Audit Architecture, which also includes External Audit (the SAI of a Member country appointed by the Council) and the Audit Committee as a sub-group of the OECD Council (see OECD web4, web5). The practices of the OECD IA function are based entirely on the IIA IPPF, which cemented its adoption across Member states since then. The IA annual reports during 2008-2017 and the IA sections of the OECD Secretary-General's Annual Reports to the Ministers during 2008-2017 indicate that the OECD IAS

provides risk-based assurance and advisory services to the Council, in accordance with the IIA standards (see OECD 2000-2017; OECD-C 2003-2017).

The 2003 Report of the Auditor General to the OECD Council highlighted the fact that a newly created IAS worked closely with the OECD Board of Auditors and External Experts (one of the Big Four firms appointed via the tender) and was in charge of development of the *OECD Tone of Accountability* and the *Risk Management Framework* (see OECD-C 2003).

Since its establishment, the OECD IAS is consistently liaising and working with the OECD Council and the Public Governance Committee (PGC) and its networks, as well as the IIA on government compliance with the international standards and improvements in internal control, and best practices in IA and overall public sector integrity and accountability.

Further, the OECD IAS director and staff are expected to be members of the IIA or its affiliates, hold IIA certifications, and regularly attend IIA forums and continuing professional education activities. Occasionally, staff provide articles for the IIA's *Internal Auditor* magazine.

5.4.3.2. Work on Broad-Themed Initiatives, Projects and Forums Relevant for IA

In the NPG era, PGC has been specifically responsible for the projects and initiatives in the area of *Internal Control Processes and Audit*:

The OECD is working with public institutions that are responsible for internal control and external audit to strengthen their ability to support accountability and performance of the public sector in their country. The OECD has been working with public institutions responsible for internal control and internal audit, as well as with internationally recognized professional organizations working in the field of control, audit and accounting. More specifically, the OECD is engaged in a three-year study which focusses, in part, on how SAIs can support good governance by supporting strong internal control processes (OECD web15).

The internal control and the internal audit are now viewed more relevant than ever in the public integrity reforms across OECD countries, as evidenced in the recent PGC paper **“Internal Control for Effective Integrity Reforms”**, where the establishment of the effective and independent IA function is promoted as one of the recommended measures for the national integrity policies, with references to the IIA definitions of the IA, the COSO ICIF and ERM, and the IIA’s “Three Lines of Defense Model” (see OECD 2016b: 15-19).

Another example is the work of the PGC Working Party of Senior Public Integrity Officials on a series of papers on the role of SAIs, such as **“Supreme Audit Institutions and Good Governance: Oversight, Insight and Foresight” (2016)** (see OECD 2016c).

In March 2017, the PGC and the associated directorate conducted the **OECD Global Anti-Corruption and Integrity Forum**, with the theme “In the Public Interest: Taking Integrity to Higher Standards” (see OECD 2017: 101).

5.4.3.3. Organization of the International IA Conferences and Consultations for the Public Sector Officials of Member Countries

The OECD became very active in VAMP diffusion in the 2010s. For example, in April 2011, the OECD IAS organized the first seminar for member countries titled **“Internal Control and Internal Audit: Ensuring Public Sector Integrity and Accountability”** in partnership with the IIA, OECD PGC, and Institut Français de l’Audit et du Contrôle Interne (IFACI), with an objective “to gather experience from, and to debate on the challenges with, public officials working on internal control and internal audit, representatives of their professional associations, and experts on integrity and the prevention of fraud and corruption” (see OECD web5; OECD 2011b: 9). The proceedings

of this event with results of the *2010 OECD Survey on Internal Control, Internal Audit and Integrity*, in which 12 countries participated²², and recommended best practices were disseminated in the report, which was conceived as a tool kit for governments on the nine themes of IA governance and professional practices.

The core messages of this report were crucial to understanding of the state of development of the IA functions in the public sectors of the OECD countries. The report was instructive in terms of highlighting key success factors and suggesting best practices, as well as indicating wider IA policy transfer and diffusion channels among OECD countries:

- The public sector needs to ensure integrity, transparency, and accountability. Calls for government transparency and accountability have increased following the financial and economic crisis. The scale of government intervention and spending that the crisis has induced, have placed integrity at the core of the good governance agenda worldwide (OECD 2011b: 9).
- Role of internal control and IA in preventing corruption is recognized in international conventions against corruption, such as OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the United Nations Convention against Corruption (OECD 2011b: 9).
- The OECD Public Governance and Territorial Development Directorate has developed a Public-sector Integrity Framework, where IA plays a crucial role, which serves as a basis for the OECD country integrity reviews (OECD 2011b: 9).
- The IIA and its chapters are the IA profession's leader in certification, education and research, and the IIA IPPF or Standards constitute authoritative guidance for the practice of internal auditing (OECD 2011b: 10).
- IA is the subject of Standard 9140 of the INTOSAI "Internal Audit Independence in the Public Sector" and Standard 9150 "Co-operation and Co-ordination between SAIs and Internal Auditors in the Public Sector", developed by its Internal Control Standards Committee. [OECD (2011), p.10]
- The first OECD Survey on Internal Control, Internal Audit and Integrity, conducted in 2010, with responses from 73 ministries across 12 OECD countries showed how professional standards, internal control systems, and internal audit activities help strengthen accountability and integrity in the public sector, and proposed improvements regarding prevention, detection, and reporting of fraud and corruption (F&C) (OECD 2011b: 10).

In the summary of findings and best practices, the report indicated that by 2011, the participating OECD countries were well on their way to ensuring independence of the public-sector IA function by establishing reporting to the highest level authority in the

²² Australia, Brazil, Bulgaria, Canada, Finland, France, Japan, Netherlands, South Africa, Sweden, United Kingdom, United States

organization (75%), independent audit committee (46%), and processes for strengthening risk management culture (91%). Most importantly, the report emphasized how its results will be used and propagated in the further work of the OECD and its member countries, the IIA, and the INTOSAI:

The results of this survey will feed into OECD activities, including Public Governance Reviews, and will complement OECD work on external audit at the national level for its project, Government at a Glance. Externally, they should complement the activities of the previously mentioned standard-setting bodies, The IIA, and INTOSAI. It is hoped that this report will open the way for future work and generate more exploration of ways in which, for the public sector, and, as advocated by The IIA, IA may enhance its contribution to improving the effectiveness of an organization's risk management, control, and governance processes, including the prevention, detection and reporting of F&C (OECD 2011b: 4).

Further, OECD frequently conducts consultations for member countries on the matters of best-practices in IA. For example, in 2016, the OECD conducted a consultation workshop for Greece “Modernizing Internal Audit”, under the auspices of the Greece-OECD Project on Technical Support on Anti-Corruption (OECD 2016d).

5.4.4. Case Conclusion

In conclusion, this case study has demonstrated that the OECD has become one of the key proponents of adoption of the IIA IPPF – an embodiment of VAMP - in the governments of member countries and globally, through multiple channels. These include its participation in various international IA policy networks and policy advocacy coalitions, international regimes on corporate and public governance, work on NPM and NPG reform agendas, its model IA function, various international horizontal and cross-cutting policy projects with increased role envisaged for IA, and international forums.

However, the OECD can do more in terms of developing international policy capability in the public-sector IA and the public-sector IA data. At present, there are no dedicated IA-specific secretariats or committees to guide the member countries on public-sector IA policy.

Further, OECD lags behind the United Nations and the World Bank IA functions in terms of transparency of its IA activities. While the declassified IA reports are made available to the OECD delegates and epistemic communities from the member countries, they are not yet published on the OECD website.

5.5. Case Study 3: The European Commission

This section outlines another case of international VAMP advocacy by the EC, an executive arm of the 28-state European Union. It illustrates how the EC's Europeanization Agenda, EU Good Governance agenda, and public management and accountability reforms affected VAMP diffusion. Patterns of participation of the EC in the global IA policy networks and advocacy coalitions are identified, as well as the specific mechanisms it uses in propagating the IIA standards and best practices.

5.5.1. International Regimes, Agendas and Initiatives

5.5.1.1. Europeanization Agenda

The European Union was established in 1993 by the Maastricht Treaty as an economic and political union, succeeding the 1958 European Economic Community (EEC). Soon, the EC began the process of integration of its member countries, often referred to as a "European Project" or "Europeanization". According to Hadjiisky et al. (2017: 7), the European project is the agenda of the European Union in "developing supra-national institutions and policy frameworks, laws, regulations and standards that apply – with a variable architecture and content that is sensitive to local and national distinction – across and within member states."

Featherstone and Radaelli (2003) describe the effect of Europeanization as similar to globalization, requiring political, economic and social adjustments of the member states:

“In a maximalist sense, the structural change that it entails must fundamentally be of a phenomenon exhibiting similar attributes to those that predominate in, or are closely identified with, ‘Europe’. Minimally, ‘Europeanization’ involves a response to the policies of the European Union (EU).” Their research showed that Europeanization involves three main processes: 1) *transnational cultural diffusion*, i.e. “the diffusion of cultural norms, ideas, identities, and patterns of behavior on a cross-national basis within Europe”; 2) *institutional adaptation*, i.e. “domestic adaptation to the pressures emanating directly or indirectly from EU membership”, and participation in the integration-building processes; and 3) *adaptation of policies and policy processes*, i.e. adoption of common EU policies and policy coordination processes, combination of each leads to “a domestic policy convergence or mimicry between the states” (see Featherstone and Radaelli 2003).

5.5.1.2. EU Good Governance Agenda

The European Commission started developing the EU Good Governance regime at the beginning of the 21st century, marked by the release of the 2001 white paper on the reform of European governance (Grzeszczak 2015: 450). The document defined the normative concept of the EU Good Governance as based on five principles or goals: openness, participation, accountability, effectiveness and coherence (see EC 2001: 10). The EC proposed four major changes to the EU processes in order to achieve these goals: 1) better involvement with citizens; 2) better policies, regulation and delivery; 3) the EU’s contribution to global governance; and 4) refocused policies and institutions (see EC 2001: 10; Grzeszczak 2015: 450).

The EC’s *2004 Handbook on Promoting Good Governance in Development and Cooperation* stated that Good Governance is a priority in EC policy (see EC 2004: 7).

Then, according to Addink (2015: 8), the principle of good governance in EU public administration was included in the Lisbon Treaty (2007), which was further translated into the activities of the Council of Europe, the European Ombudsman, and the EC itself. For example, in 2007, the Council of Europe adopted a **European Strategy for Innovation and Good Governance at Local Level**, enforced by the respective regulation (see CE web1; CE 2007).

However, the EU Good Governance regime is still under development, due to the complexity of the ongoing EU supra-national governance and institutional building and transformation, according to Joerges and Dehousse (2002), Goga (2009) and Addink (2015). While it has identified government accountability as one of the key principles of Good Governance, it requires further mapping, interpretation, elaboration and adjustment of the EU regulatory and institutional frameworks, both at the supra-national and nation-state levels, including the roles of external and internal audit in the public sector. Further, research showed that the role of public-sector IA in the EU Good Governance regime has not been defined yet. For now, it is interpreted according to the universal IIA definition of the IA activity, by default, in the Corporate Governance Codes of the individual EU states, according to the 2013 report of the European Confederation of the Institutes of Internal Auditing (see ECIIA 2013).

5.5.1.3. Impact of European Standardization on Adoption of IIA Standards

Within the context of the Europeanization agenda, the EC considers standardization as “a powerful and strategic tool for improving the efficiency of European policies” (see EC web1-2). However, “the regulatory capacity of the EU in auditing developed very late ...partly because of limited efforts by the Commission, and partly because of different

regulatory frameworks in the member states. The EU enhanced its regulatory capacity in auditing from the 2000s, following a process similar to, but distinct from, accounting” (Quaglia 2014). However, this was related only to the statutory audits, i.e. audits of the financial statements of the public and government entities, governed by the ISAs.

The push for the supra-national adoption of the ISAs in the EU came from the political pressures to mitigate financial crises and accountability scandals of the early 2000s. The EU resisted the lobbying from the financial industry, the Big Four accounting, auditing and management consulting firms, and the international private-sector standard-setting bodies, following the Anglo-American model of standards, and delegated the adoption decision to the individual member states:

In auditing, a combination of weak EU and US regulatory capacities meant that international auditing standards were set by private-sector bodies at the national level until the early 2000s. International auditing standards did not carry much weight. Once the US beefed up its regulatory capacity, some disputes emerged between the US and the EU because of the cross-loading effects of the Sarbanes-Oxley rules. Consequently, the European Commission, with the support of the member states, attempted to step up the EU regulatory capacity in auditing in order to be better positioned to negotiate with the US counterparts. The European Commission also proposed the downloading of the ISA in the EU, but left this task to the member states (Quaglia (2014).

However, in 2016 the EU adopted a new statutory audit legislation, allowing adoption by the European Commission of the ISAs and other standards issued by IFAC’s IAASB (see EC 2014a-b). This legislation was made possible due to the fact the IFAC was already subjected to regulation from the SNIs and financial institutions via the global oversight body – the Public Interest Oversight Board (PIOB), established in 2005, including the European Commission as part of the Monitoring Group (see IFAC web2; PIOB web1). The other key members of the PIOB Monitoring Group are the World Bank, the Basel Committee on Banking Supervision, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit

Regulators, and International Organization of Securities Commissions (see OICU-IOSCO web1).

These developments and decisions made it clear that the EU may at some point officially endorse adoption of the IIA standards as well, conditional on the increase in the public-interest oversight of the IIA standard-setting process, as the movement for the international governance reform of the private-sector audit standard-setting bodies has been steadily growing since 2005 (see OICU-IOSCO 2018). However, as of the end of 2017, on the matters of internal auditing, the IIA standards were operational in all EU member states, under the private regulation of the European Confederation of the Institutes of Internal Auditing (ECIIA), an associate member of the IIA.

5.5.1.4. Reforms of Government Accountability and Internal Control

In 2000, the European Commission began *accountability reforms*, in order to mitigate the identified weaknesses in the accountability regime, such as: 1) blurred responsibilities between political and administrative levels; 2) centralized (ex-ante) financial control; 3) under-developed accountability; and 4) cash-based accounting. This led to the amendments to the EC Financial Regulation, where the mandate of the IA function was specified under articles 85-87 (see EC 2017b; Gray 2011).

During 2004-2008, the EU also conducted a reform of the financial and public internal controls. One of the outcomes, the *EC Integrated Internal Control Framework (2007 EC IICF)*, recognized the importance of international accounting and auditing standards and COSO frameworks as best-practice reference points in policy design and implementation:

Included on the Barroso Commission's (2004-2008) policy agenda was the reform of internal financial control, prompted by significant irregularities in budget execution signaled repeatedly by the European Court of Auditors (ECA) in its annual Declaration of Assurance

(DAS) and Annual Reports. This led to a declared Barroso Commission strategic objective of achieving a 'positive DAS' by 2009. The proposed solution was 'integrated internal control' based on an international reference point within the accounting and auditing professions. The result was a centrally coordinated Commission project aiming to reform management and audit practices within both the Commission and EU member states (Levy et al. 2011).

The 2007 EC IICF, revised in 2017, outlined the responsibilities of the key actors in the domain of internal audit and internal control (see EC web4; EC 2017a).

Further, in 2010s, the EC established a network on the Public Internal Control systems, and in 2012 published the first *Compendium on Public Internal Control (PIC) in EU Member States*, summarizing the development in the area of PIC during NPM reforms in the member states in the last 15 years and sketching the way forward, including developing more effective IA services (see EC 2012: 12-13).

In 2015, the EC issued a position paper *Public Internal Control Systems in the European Union (2015)* for the member states, based on COSO frameworks, where internal audit was recognized as a pillar of the Public Internal Financial Control (PIFC) system (see EC 2015: 6). It also recognized that Public Internal Control (PIC) system should be built on the *“Three Lines of Defense”* governance model, where IA was recognized as a *third line of defense*: “To support their final authority, responsibility and accountability for PIC, those charged with governance establish subordinate lines of defense: management control by operational management (first line), specific risk management, control and inspection functions (second line), and independent assurance by internal auditing (third line)” (EC 2015: 8). Further, the position paper stated that PIC system requires an administratively and functionally independent IA function:

Internal audit provides assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve objectives; outspoken support by (senior) management; may be centralized or decentralized; operated with the highest level of professionalism in compliance with IIA

and other relevant standards; direct reporting line to the minister, governing body and senior management; supported by Audit Committee (or comparable body) (EC 2015: 8).

Thus, this position paper introduced the VAMP postulates (e.g. IA definition, administrative and functional independence, third line of defense, etc.) to the EU Public Internal Control systems, in alignment with the IIA standards.

5.5.2. Participation in the Global IA Policy Networks and Advocacy Coalitions

The EC participation in the global IA policy networks and advocacy coalitions is focused on using the benefits of group membership in the IIA and engagement with the EU associate of the IIA Global – the European Confederation of Institutes of Internal Auditing (EUIIA).

First, the European Commission, as a large institution, subscribes to the group membership in the *IIA Global*. This provides it not only with the membership services, but also with the right to send its representatives to participate on any of the IIA international committees that influence global IA policy.

Second, the EC established an active liaison and working relationship with the *ECIIA*, comprised of 36 national IA institutes across Europe and Mediterranean basin (see ECIIA web1-2). The mission of the ECIIA is “to be the consolidated voice for the profession of internal auditing in Europe by dealing with the European Union, its Parliament and Commission and any other appropriate institution of influence and to present and develop the internal audit profession and good corporate governance in Europe”, and “to represent the European profession globally and work with Global IIA” (see ECIIA web3). EC regularly engages with the ECIIA on the matters of IA policy consultation and participation in forums and conferences (see ECIIA web4). Moreover, the

ECIIA is actively engaged in VAMP advocacy by issuing influential position papers and disseminating them via the EC communication space as one of the channels:

Implementation of the IIA PPF in Europe has recently been given a high profile by a position paper published by the European Confederation of Institutes of Internal Auditing (ECIIA). This ECIIA (2005) paper promotes the IIA PPF across Europe, focusing many of its recommendations on themes developed in our 1997 research, but with a stronger emphasis on internal auditing in risk, governance processes and fraud. The ECIIA describes the "...ways professional internal auditing can provide value to those responsible for governance..." as: "In summary there are two sorts of contribution – assurance and consulting. With regard to assurance, a professional internal audit activity will complement and support management assurance by providing objective assurance on the effectiveness of the processes for achieving good governance, risk management and internal control. As part of its work, such an activity will also provide consulting services, facilitating and advising on improvements in key areas (D'Silva and Ridley 2007: 121).

Third, the internal audit unit of the EC has a working relationship with the **European Court of Auditors**, an EU SAI, which is a member of the INTOSAI.

Fourth, EC is also a member of the *Monitoring Group of the Public Interest Oversight Board of the IFAC*, overseeing its standard-setting processes for the ISAs.

5.5.3. Leveraging Authority, Expertise, Resources, and Leadership

5.5.3.1. Establishment of Model IA Function Based on IIA Standards

In 2001, an EC Internal Audit Service (IAS) group and EC IA Capabilities units (IACs) at each of the EU agencies and other bodies were established, with the IAS head having a Director General status with the functional reporting line to the EC Progress Committee (APC), and the administrative reporting line to the First Vice-President of the EC. The role and mandate of IAS was legislated in the *Financial Regulation of the European Commission (FR)*, art. 85-87, with its independence guaranteed by article 100. EC IAS vision at the end of 2016 was a testament to the VAMP prescriptions for the independent, effective and value-added IA activity:

The mission of the Internal Audit Service (IAS) is to provide to the European Commission and its executive agencies, and the EU decentralised agencies and other autonomous bodies receiving contributions from the EU budget (EU Autonomous Bodies), risk-based and

objective assurance, advice and insight, designed to enhance and protect organisational value (EC IAS 2016: 3).

Everything in the EC IAS activities is based on the IIA IPPF as a common methodology and tool box, reflected in its structure and annual reports, modified in order to arrive at a single EU IA methodologies and tools suite (see EC IAS 2016). In a decade's time, the EC IAS created a digital AuditNet and the common processes for the audits and governance, including quality reviews of IACs, IAS/IACs coordinated planning, IAS certification external quality reviews, IA Overall Opinion, Declaration of Assurance, IAS external quality assessment, etc. (Gray 2011: 12-27).

5.5.3.2. Liaison and Outreach with EU Institutions and IA Professional Bodies

Further, the EC IAS operates as an open-system IA governance model, where the exchange with other EU institutions and IA professional bodies occurs regularly and transparently, including study visits and presentations on 'good practices' to various professional and public organizations, exchange with internal auditors in other EU agencies, and EU Court of Auditors. IAS provides annual reports to the EC, which in turn, provides it to the European Parliament and Council, and its activities are transparent to public through its website (see Gray 2011:13; EC IAS web1).

5.5.3.3. Annual European Union IA conferences

The EC IAS is active in propagating such key VAMP postulates as value-added IA, IA as a lifetime career, and innovation in the IA services across the public sectors of EU countries, judging from the content of its annual conferences in the last decade (see EC IAS web1; EC IAS 2011-2017). These regulations and practices were also spread with the accession of the new members to EU, according to Day and Taylor (2010).

5.5.4. Case Conclusion

In conclusion, the European Commission has embraced VAMP by embedding it in the EU Good Governance Agenda, European Standardization efforts, and reforms of government accountability and internal control. It has been very vocal in the public oversight initiatives for the privately-governed external and internal audit professional bodies, and ensured that its positions are known in the global IA policy networks and policy advocacy coalitions.

The EC also did not hesitate to establish a modern and transparent IA function in its own system, based on IIA IPPF, and to propagate the model throughout the EU administratively and via advocacy measures.

5.6. Conclusions

The case studies showed that VAMP diffusion and adoption was powered by the work of the Global IA Policy Advocacy Coalition, led by the IIA, as the supplier of VAMP, and the key SNIs – the OECD, the World Bank, and the European Commission – as the “buyers”, the “adjudicators”, and the “brokers” of VAMP, from the public-interest perspective. This ensured its rapid diffusion and adoption in public sectors around the world.

The 2000 IIA Professional Practices Framework for Internal Auditing, a package of standards and guidance embodying VAMP, was identified by the key SNIs, involved in the IIA boards and projects, as a readily available and promising universal solution to fix government accountability problems that can be applied on the global scale. This “fix” would occur through introduction of the new IA operational model, based on the value-added services to management and independent IA governance regime, appealing to the

broad stakeholder groups. By that time, the IIA, as a global IA professional body, was viewed as being able to support this policy diffusion due to its developed infrastructure of institutes in practically every country of the world.

The SNIs were comfortable with VAMP and overall delegation of standard-setting to the IIA as a private-governance institution, because of their long-standing participation in the IIA committees, oversight bodies, and strategic partnerships, helping to build trust and confidence in the standard-setting process and the underlying knowledge and expertise. While the global IA profession is privately regulated by the IIA, its international standards and guidance are constantly subjected to the multi-lateral processes of validation via inter-professional and regulatory scrutiny of the other accounting and auditing associations, SNIs and various types of regulators. These processes allow supra-national public-interest IA policy actors to ensure consideration of the positions and circumstances of the member governments, as well as alignment with the higher-order international regimes and agendas.

The case studies also showed a strong support for the theoretical hypothesis that VAMP is viewed by the SNIs as a micro-paradigm in a system of higher-order or nested paradigms (see Figure 38). IFAD (1999) and Diarra and Plane (2011) note that Good Governance is a global paradigm, shared and advocated by such SNIs as the World Bank, the OECD, United Nations systems organizations, including UN Development Program (UNDP), international development banks (AsDB, AfDB), and International Development Association (IDA).

Figure 38 VAMP as a Nested Paradigm

This is corroborated by Osborne (2010), who considers the concept of “good governance” synonymous with the work of the SNIs:

Good governance is concerned with the promulgation of normative models of social, political and administrative governance by supra-national bodies such as the World Bank (Leftwich 1993; Rhodes 1997). Invariably this has placed a premium upon market-based approaches to the allocation and governance of public resources (see, for example, Osborne and Kaposvari 1997) (Osborne 2010: 6).

Thus, based on the case evidence, the global Good Governance could be considered as a macro-paradigm, shared by all SNIs in the case studies and determining many of their policies, including that of the IA. On the level of meso-paradigms, several could be identified, such as New Public Management, New Public Governance, Europeanization, etc., shaping the public-sector reform agendas of the SNIs.

While all of the SNIs have distinct profiles of VAMP advocacy, the common feature is that they lead by example in terms of being the early adopters of VAMP, by having established a model IA function in their organizations, based on the IIA standards.

The operations of this model function are transparent, as evidenced by the publication of the key government documents and the IA reports on respective websites, in case of the World Bank and the European Commission, and on the internal networks of the OECD. In the digital age, this is a “free publicity” for VAMP and the way to quickly propagate the IIA international standards and practices worldwide.

In addition, all SNIs in the case studies directly leverage their expertise, authority, and technical and financial resources to advocate for VAMP, via such mechanisms as:

- 1) serving as a platform for the international public-sector IA policy design, coordination and diffusion through broad-themes strategic initiatives, publications, Ministerial events within their spheres of influence;
- 2) administrative propagation of the IIA standards and best practices within their systems of organizations;
- 3) technical assistance for national IA capacity building; and
- 4) organization of the IA-specific international conferences, forums, and consultations for the public sector officials of the member states.

What this research has uncovered is that the SNIs are connected in the complex web of the auditing, accounting, financial and public policy networks and advocacy coalitions, along with various types of regulators, which are in turn linked to a myriad of their higher-order networks. This allows them to understand how the IA policy and the international standards fit in the global scheme of things, to position themselves among the international actors, and to stimulate a dialogue and consensus-generation. This illustrates that VAMP advocacy is a case of a truly global IA policy agenda-setting and diffusion, which is executed through the shared governance mechanisms, promoting collective

responsibility and higher “power of persuasion”. Under these arrangements, the influence on the IA policy subsystems of the nation states is indirect.

Another important finding of this research is that the SNIs under study have recently embraced the call from the United Nations Joint Inspection Unit (JIU) to deviate from the practice of secrecy in the global IA profession by making the annual IA activity reports, as well as individual IA reports, available to the public, despite the observed bureaucratic resistance:

- While individual internal audit reports are an institutionalized practice, there is much value in annual or periodic reporting that can summarize and synthesize results across audit engagements. JIU has previously recommended the practice of communicating overall results in the form of an annual report of the head of internal audit/oversight to the executive head and the governing body. By virtue of that recommendation and otherwise, publishing an annual or periodic report is standard practice for all 22 internal audit services (UN-JIU 2016: 43).
- The Inspectors noted some challenges with respect to the public sharing of individual internal audit reports... some interviewees expressed concern that sharing the reports publicly may threaten the utility of these documents to provide open and unfiltered advice and promote discussion and resolution of organizational challenges. In their view, the close and trusted nature of the relationship between internal audit and management could be challenged in the public sphere by media attention. Furthermore, some senior managers in United Nations system organizations indicated that they tended to be less open and frank with internal auditors in the face of public disclosure. It is likely that many senior managers are generally not supportive of having institutional weaknesses identified in internal audit reports that will be published externally (UN-JIU 2016: 45-46).
- The IIA Standards (2012) are aligned with the private-sector model, in which internal audit reports are rarely made public. While the Standards do allow for the external sharing of internal audit reports, external communications are subject to a number of special considerations and qualifications (UN-JIU 2016: 46).
- In 2013, a UN-RIAS working group examined the issue of public disclosure and prepared a discussion paper... The work included a survey of United Nations organizations regarding their motivation for public disclosure. According to the results of that survey, the most compelling reasons for public disclosure were external ones, such as providing confidence to outside parties that rely on internal audit and increasing transparency with key external stakeholders, in particular member States and donors. Internal reasons, such as presenting learning opportunities, were seen as less important, although it was noted that public disclosure could help to improve internal governance processes (UN-JIU 2016: 47).

This development in the international IA reporting transparency introduced a new global trend in opening up the public-sector IA functions to the scrutiny of citizens, civil society, think tanks, and media. The expectation is that this would eventually drive the public-sector IA functions out of their long-standing obscurity. As noted in the introduction

to this research project, at present, the alternative sources of commentary and assessment of the activity and performance of IA functions in the governments and SNIs are scarce and characterized by paucity and irrelevance to the problems of a rapidly emerging field of the global IA policy.

Further, a significant limitation in the IA policy work of SNIs across all case studies became apparent due to this research - the fact that they have not yet established initiatives to create consistent, timely, reliable, and open public-sector IA data, both survey-based and administrative, to support evidence-based policy analysis, development, and implementation. The SNIs could direct their expertise and funding to establish this facility to support global IA policy development and assist nation-states in the IA policy learning and evaluation. Having these datasets would provide a necessary alternative to the industry survey data generated by the IIA and the Big Four.

Finally, there is a perception of SNI dependence on the global U.S. policy interests, which was beyond the scope of this research project. It is important to note that, historically, the United States was behind the establishment of the post-World War II order of international cooperation and development, marked by the emergence of supra-national institutions to design and implement various elements of that order, including those covered in this research, i.e. the United Nations, the World Bank, the OECD, etc. According to McArthur and Rasmussen (2018) from the Brookings Institution, the U.S. is the largest contributor to the funding of the SNIs by contributing \$14.1 billion annually or 22% of the total funding. With this role and investment comes American dominance on the matters of global policy, including on IA policy, which merits future research.

6. Chapter 6: Comparative Analysis and Evaluation of IA Governance Regimes under VAMP Paradigm in Three National Westminster Governments

6.1. Introduction

This chapter presents the detailed author's accounts and evaluations of the UK, Australian, and Canadian country cases of VAMP implementation at the national public-sector IA level. Each country case has the following structure:

- 1) profile and overview of the current IA governance regime in the national government as a snapshot at the 2017 year-end;
- 2) IA-CM analysis and assessment of the capability maturity of the national IA sectors under VAMP paradigm and under conditions of Westminster system of responsible government, based on the IA industry evaluation perspective and with a historical institutionalism perspective, with the summative results at end of 2017); and
- 3) evaluation of the VAMP implementation within public-sector IA reforms, based on public policy evaluation perspective (end of 2017).

The case studies are followed by a comparative summary of the findings, identifying commonalities and differences in VAMP implementation practices in the countries under study, as well as any common determinants of success or failure of the VAMP-inspired IA reforms, in terms of the achievement of the public-sector policy goals.

A mix of data sources was used to triangulate and validate the analysis of the evidence and to produce the commentary and evaluation, including: 1) 2015 IIA Global Internal Audit Practitioners Survey (GIAPS-CBOK) described earlier in sections 2.2.2 and 2.2.4 and in Annex 6; 2) anonymous semi-structured in-person/telephone interviews described in Annexes 7-9; 3) publicly available, archived, declassified, restricted-access

and member-access information from the national governments of Westminster countries under study, listed in Bibliography; 4) Parliamentary records (Hansard); 5) online and member-access documentation and professional literature from the IIA and the IA PACs, listed in Bibliography; and 6) academic literature, reports of Auditors General, commissions and inquiries, and relevant media reports.

6.2. Case Study 1: IA Reform in the National Government of the United Kingdom under VAMP Paradigm

6.2.1. Profile and Overview of IA Governance Regime in the UK National Government

The key features and outcomes of the VAMP era of IA governance in the UK national government at the end of 2017 are illustrated in Figure 39. The current IA governance regime is assessed by the author as a strong *centralized shared-services model of the government IA activities*, which is only 2-years old and is regarded as an unprecedented experiment. The governance of the IA sector is embedded into the Westminster system of responsible government and is comprised of five elements: 1) authority and regulation under the modernized legislation and Westminster conventions; 2) parliamentary oversight of the public accounts and government IA activity via the Parliamentary committees, agents and instruments; 3) executive central agency oversight, policy and accountability regime implementation; 4) IA standard-setting bodies and policy advocacy groups, including the Big Four auditing, accounting and management consulting firms; and 5) international and national IA standards and certifications.

Figure 39 Profile of the IA Governance Regime under the VAMP Paradigm in the UK National Government: Key Features and Outcomes – 2017

Source: Author, December 2017

The first three elements are internal to the government, while the last two are representative of the external IA policy environment with significant consultative and operational links to government over IA policy and activities.

The ***Government Resources and Accounts Act 2000*** modernized the Westminster ***Exchequer and Audit Act 1866 (EAA)*** by providing a stronger authority and parliamentary responsibility for the Accounting Officers (AOs), to be appointed by the Treasury under s. 6-8, and for the Comptroller and Auditor General (C&AG), under s.6-8 and s.25-26 for the verification and certification of any resource and public accounts prepared by the AOs and the conduct of audits of the departments (see UK-GOV 2000).

The ***Budget Responsibility and National Audit Act 2011*** further clarified and strengthened the status and responsibilities of the Office of the Comptroller and Auditor General under s. 11-23 (see UK-GOV 2011). The ***Inquiries Act 2005*** that replaced the 1921 act and consolidated numerous pieces of legislation, provides the statutory authority to the Ministers to appoint an independent public inquiry into matters of current concern and inform the Parliament or Assembly about it (see UK-GOV 2005).

The legislation establishes a basis for the parliamentary scrutiny, oversight and external audit of the IA function in the government, implemented through the operations and instruments of the House of Commons Public Accounts Committee (PAC), the Comptroller and Auditor General, and various inquiries.

The executive branch of the UK national government provides IA policy development, oversight and accountability regime implementation. The national government IA policy framework is directed by two organizations: the Cabinet Office and the HM Treasury, where the latter sets the IA standards and policies and is the sponsor of

the national shared-services Government Internal Audit Agency (GIAA), established in 2015 as an executive agency operating on the shared-services fee-for-services model. HM Treasury policy frameworks govern the work of the Permanent Secretaries of the departments as Accounting Officer and the work of the Audit and Risk Assurance Committees (ARACs).

Externally, this policy ecosystem is supplemented by the IA Policy Advocacy Coalitions, comprised of the national, regional and international IA standard-setting bodies. These include the Institute of Internal Auditors (IIA), COSO, Chartered Institute of Internal Auditors (CIIA), the UK Public Sector Internal Audit Standards Advisory Board (IASAB), the Chartered Institute of Public Finance & Accountancy (CIPFA), UK Government Department of Health, Government Internal Audit Agency (GIAA), HM Treasury, Welsh Government, and Department of Finance of Northern Ireland. The global and auditing, accounting and management consulting firms (i.e. the Big Four – PWC, KPMG, Deloitte, and EY) are an influential component of this ecosystem.

It is important to emphasize that the UK has implemented a **‘sovereign’ adaptation of the IIA IPPF** according to all sources analyzed. Currently, the UK national government is using the **Public Sector Internal Audit Standards (PSIAS)** based on the *IIA IPPF*, as well as such key international risk management standards as *COSO Enterprise Risk Management Integrated Framework (ERMIF)* and *Internal Control Integrated Framework (ICIF)* (see HMT-IAP 2017). According to interviewees and Cain (2013), the UK national government had the **Government Internal Audit Standards (GIAS)** since the 1990s, and they acknowledged that they were based on the IIA standards of that time. However, in the first decade of the 2000s, the government did not update the GIAS in line

with the new IA definition (1999) and the Professional Practices Framework (PPF 2000), followed by the new International Professional Practices Framework (IPPF 2009). Understanding the need to modernize GIAS, the HM Treasury initiated a project on alignment of GIAS to the IIA IPPF, controlling for the British traditions of Westminster government and sovereignty. This was achieved by incorporating the IIA IPPF into GIAS with additions of so-called 'UK Central Government Requirements' and the release of updated GIAS in 2009.

During that time, there were different sets of IA standards and codes of practice in the public sector of the UK, coming from the CIPFA, government health agencies, and the local governments, which were inconsistent and did not incorporate the IIA IPPF. To rectify the situation, the CIIA and CIPFA established a collaborative project bringing together working groups from the **Relevant Internal Audit Standard Setters (RIASS²³)**, i.e. sovereign and local groups that regular or legislate the implementation of the IA standards, to unify a “mixed bag” of standards and to align it with the international standards (see HMT-IAP 2013a; Cain 2013).

On April 1st 2013, the HM Treasury released the national ***Public Sector Internal Audit Standards (PSIAS)*** (see NAO 2013b; HMT-IAP 2013a). The PSIAS are the application of the IIA IPPF in the UK Public Sector with minor additions, called public-sector interpretations and requirements, according to the following criteria:

1) where interpretation is required in order to achieve consistent application in the UK public sector;

²³ Relevant Internal Audit Standard Setters (RIASS) - HM Treasury of the central government, Scottish Government, Welsh Government, Department of Health, and Department of Finance of the Northern Ireland

- 2) where the issue is not addressed or not addressed adequately by the current IIA Standards;
- 3) where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc.); and
- 4) additional concepts of materiality, relevance, necessity and integrity (see HMT-IAP 2013a: 4).

PSIAS incorporated all of the elements of the IIA IPPF, including the IA Mission, the Definition of IA, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the IA Standards. One of the most valuable attributes of the PSIAS is the provision of the UK public-sector interpretations of terms and requirements, which eliminated confusion for the internal auditors in terms of their application in the government IA practice.

Mindful of the fact that IIA standards are generic and international in nature and do not account for the specifics of the UK public sector and government conventions, the UK government did not legislate them as the basis for compliance in its IA sector. Moreover, it established a Public Sector Internal Audit Standards Advisory Board (IASAB) at CIPFA to monitor developments in the IIA IPPF and to advise the RIASS on their application and implementation in the UK public sector (see Cain 2013). This model is currently in practice, with PSIAS last updated in 2017 in line with IIA updates of the IPPF (see UK IASAB web1; HMT-IAP 2017).

According to the interviews, NAO (2012), and GIAA (2016b), the IIA Certifications Suite, administered via the Chartered Institute of Internal Auditors of the UK

and Northern Ireland (CIIA,) provides the basis for training and professional qualifications of the internal auditors in the UK national government, with the CIA and CGAP being the most required. The public accounting certifications are also popular, such as those from CIPFA, Chartered Institute of Management Accountants (CIMA) and Association of Chartered Certified Accountants (ACCA). According to the interviews, this is due to the fact that when people arrive in the IA function, it is not always clear for them what the career path will look like, i.e. some may join internal audit for a relatively short period of time, e.g. 3-5 years, others for much longer.

6.2.2. IA-CM Assessment of the IA Sector in the UK National Government

The capability maturity assessment of the internal audit in the UK national government is provided below by the Key Process Areas (KPAs) under six major elements of the IIA Public Sector Internal Audit Capability Model (IA-CM).

6.2.2.1. Governance Structures

- **Westminster Mechanisms of Parliamentary Oversight**

- *Modernized Doctrine of Ministerial Responsibility*

In 2007²⁴, the HM Treasury issued a handbook for public service titled “**Managing Public Money**”, updated in 2012, where the principles of responsible government under the Westminster parliamentary system were specified, specifically in dealing with public money and the responsibilities and the relationships of the government officials and offices (i.e. Ministers, Treasury, departments (i.e. Accounting Officers and the boards), and the Parliament and its agents (i.e. the Committee of Public Accounts (PAC), the Comptroller and Auditor General (C&AG)) were clarified (see HMT 2013a).

²⁴ Updated in 2013 and 2015

Chapter 3 of this document mandates that each government department should have an Accounting Officer (AC), serving as the most senior permanent head of the organization, supported by a board structure, and appointed by HM Treasury, usually the Permanent Secretary or the Chief Executive; it also outlined responsibilities and standards for the ACs (see HMT 2013a).

Chapter 4 of this document also provides the requirements and best practices for the governance structures in the national government departments and their arms-length bodies (ALBs), including their boards (see HMT 2013a). Specifically, via Annexes 7.1-7.2, it issued guidance to the departments on how to set up or reform their ALBs and develop the ALB framework documents, in order to set the accountability and relationships of ALBs with the sponsor departments.

The doctrine of ministerial responsibility, as defined in s.4.1 of the Appendix to Annex 7.2, named the Minister accountable to Parliament, while s.5 provides the authority for the Principal Accounting Officer (PAO) of the sponsor department to designate Chief Executive of the ALB as an Accounting Officer, accountable to Parliament as well. Further, s.7 stipulated the responsibilities of the ALB's board to set up an Audit Committee, chaired by an independent non-executive member to provide independent advice, and to ensure that the department's Audit Committee provides assurance on risks, as well as describes the general responsibilities of the board (see HMT 2013a). Section 9 provides a requirement for establishing and maintaining **arrangements for internal audit** in accordance with the HM Treasury's Public Sector Internal Audit Standards (PSIAS), while section 10 specifies the authority for the Auditor and Comptroller General (C&AG) to audit the annual accounts of ALBs and to carry out performance audits.

➤ ***Public Accounts Committee***

The UK Parliament's House of Commons **Public Accounts Committee (PAC)** has been 'holding government to account' for 160 years since its establishment in 1857. It examines "the accounts showing the appropriation of the sums granted to Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the Committee may think fit" (UKP web1; UKP 2017). The PAC traditionally reviews the reports of the C&AG on the public accounts and the Value-For-Money audits and provides recommendations to the government, as well as conducts various inquiries and hearings related to the management of public resources in the national government:

In the 2010–15 Parliament, the Committee held 276 evidence sessions and published 244 unanimous reports which included 1,338 recommendations. As proof of how seriously government takes the Committee's work, 88% of those recommendations were accepted by departments (UKP web2).

It is important to reflect critically on this statement, since it presents only aggregate statistics, lumping reports on IA with all other types of reports. Unfortunately, the official government statistics on IA reports presented to the UK Parliament's PAC and the government's implementation of IA recommendations during the period of 2010-15 is not available. Only a detailed parliamentary records (Hansard) research and review of the C&AG reports could provide greater insight. However, what is worth noting is the fact that the UK government showed a 'risk appetite' of about 12% during this time. This falls within the boundaries of the "Three Lines of Defense" model, where the IA function does not own the government business lines, but only provides assurance and advice, while the government is responsible for the proper functioning of the rest of the elements of the model. In this case, the government is expected to take responsibility for not addressing

the IA recommendations for problem correction and risk mitigation. Clearly, this may backfire later, and the government will have to deal with broader political consequences.

➤ ***Comptroller and Auditor General (C&AG)***

The Comptroller and Auditor General (C&AG) was established in 1866 by the Exchequer and Audit Departments Act as an officer of parliament with an authority to examine the public accounts and expenditures. The authority was expanded under the ***National Audit Act 1983*** to conduct value-for-money audits of any government activity, including internal audit, and submit the reports to PAC with requests for government action. Further, the HM Treasury policy documents and PSIAS provide the authority for C&AG to access any resources of the government departments on demand and require the IA functions to assist C&AG in its work when needed (see NAO 2003).

During 2010-11, the C&AG conducted the VFM audit of IA activity in the UK national government. Its June 2012 report ***“The Effectiveness of Internal Audit in Central Government”*** found insufficiently clear expectation of what an effective internal audit service should deliver, a lack of consistent application of the Government Internal Audit Standards, variations in quality between internal audit services, a lack of focus on key risks and a lack of sufficiently strong central leadership or performance monitoring”, with the conclusions that the government did not get value for money from its internal audit service and that IA needed to provide a higher level of assurance to senior management and boards across government (see NAO 2012, 2013b). The C&AG recommended that the HM Treasury should: 1) develop a clear strategic view on the role of IA; 2) create an advisory and operational group of the most senior heads of IA to work to develop a plan to improve the IA capability; 3) Accounting officers and senior management set clear expectations for

the expected level of IA service they expect; and 4) IA services adopt more detailed operational standards, report performance and be held accountable to a set of agreed performance metrics (see NAO 2012).

According to the interviews and NAO documents, the HM Treasury responded by issuing a departmental guide “Assurance Frameworks” based on the IIA’s “Three Lines of Defense” model, where the IA is a third line of defense, encouraging the departments to follow it, as well as setting up the advisory group of the Heads of Internal Audit (HIAs) to develop an action plan for IA (NAO 2013a-b).

➤ ***National Inquiries***

Since the Inquiries Act 2005, there were at least 13 national inquiries conducted, but the work of the internal auditors was brought to light only a few times indirectly (see UK-MOJ 2010). The Parliamentary Select Committee on the Inquiries Act 2005 provided a report on its assessment in 2014 and recommendations, which the government mostly accepted (see UK-MOJ 2014). The Act has been more successful than the ancient tradition of the Royal Commissions, which has been on the decline in the UK since 2000, according to Barlow (2013). Most recently, a GIAA inquiry has been conducted by the Parliament in 2016, primarily to inquire about the operations of this newly formed agency, and it was concluded satisfactorily to the benefit of the new agency (see UKP 2016).

➤ ***Accounting Officers***

According to Clark (2016), the concept of the Accounting Officer – a government departmental official appointed by the Treasury responsible for public finances - was created in the UK by the *Exchequer and Audit Act 1866 (EAA)*, but with a limited statutory role. In 2000, their role was renewed by the *Government Resources and*

Accounts Act 2000 (GRAA) under sections 6-8, replacing the provisions of the EAA, with the requirements for the Treasury to appoint an official of the departments as its Accounting Officer, that would be responsible to the preparation of the department's resource accounts, their transmission to the Comptroller and Auditor General, as well as for the preparation of the part of the departments' resource accounts, with direct accountability before Parliament: "Accounting officers are individually accountable to Parliament through the Public Accounts Committee (PAC), which scrutinizes public spending for value for money. PAC hearings can be robust, and are seen by some in Whitehall as a deterrent to accounting officers being tempted to ignore their responsibilities" (Harris 2013: 2).

In 2007, the HM Treasury issued a handbook "Managing Public Money", further updated in 2013 and 2015, establishing the requirements and standards for the Accounting Officers (AOs) in the UK national government organizations. HM Treasury appoints permanent heads of each national government department as AOs or Principal AOs, in case of multiple permanent heads (see HMT 2013a).

The main standards and responsibilities of the AOs are:

- 1) to act within the authority of the minister(s) to whom he or she is responsible, to ensure that the organization and any ALBs it sponsors, operates effectively and to a high standard of probity;
- 2) to ensure an appropriate governance, decision-making and financial management regime;

- 3) to be personally responsible of the accounts of the organization, to sign the accounts, the annual report, the governance statement and to approve the voted budget limits and the associated Estimates Memorandum;
- 4) to be personally responsible to the regularity and propriety of the expenditures, affordability and sustainability of the budgets, value for money of the organization's procurement, projects and processes, control, management of opportunity and risk, learning from experience, and accounting accurately for the organization's financial position and transactions; and
- 5) to provide advice to the minister on any issues of conflict between the minister's instructions and the AC duties, routinely scrutinize significant policy proposals or plans, and request a written direction from the Minister to proceed in the case when the advice is not accepted, and consult with the Treasury on this matter with a copy to the C&AG (see HMT 2013a: 15-20).

In June 2012, the government published a Civil Service Reform Plan, promising to further develop the AO role and strengthen its accountability to Parliament (see Harris 2013: 4). In 2016, the UK Cabinet Office also issued a *Ministerial Code*, where the role and personal responsibility of the Accounting Officers within the Westminster framework of ministerial accountability to Parliament for the policies, actions and conduct of their departments, was reiterated (see UK-CO 2016: 11-12).

- ***National Shared-Services Government IA Executive Agency and IA Policy Units***

Up until the 2010s, the UK national government managed decentralized IA operations, where the HM Treasury required each department to have an IA function according to HM Treasury's "***Corporate Governance in Central Government***

Departments: Code of Good Practice” and government IA standards, and with an estimated workforce of about 1,200 qualified internal auditors, with the annual cost of about £70 million, according to report of the National Audit Office (NAO 2012: 10).

According to the interviews, in 2009, an idea emerged to group the IA services, which led to establishment of the ***Internal Audit Transformation Program (IATP)***. IATP envisaged the creation of several IA shared-services groups covering multiple departments and their arm’s-length bodies (ALBs), led by the Group Chief Internal Auditors, where each Accounting Officer retained a Head of the Internal Audit (HIAs). By 2012, there were several pilot shared-services IA groups (see NAO 2013b; HMT 2014, 2015b). Interviewees noted that upon publication of the 2012 NAO VFM study of IA in departments and ALBs, it was recognized that the departmental model of IA governance and operations was not holding up to the same standard with significant variations in the application of standards, and no central leadership of the profession. An initiative to transform IA was announced by the HM Treasury, which established the IA leadership group, comprised of 12 HIAs (out of 19 departments) with collective leadership for the direction of the profession, in order to develop an action plan (see NAO 2013b).

In June 2012, the HM Treasury issued a *Civil Service Reform Plan*, where it committed to implementing a shared-services agenda across the national government (see HMG 2012). According to the interviews, one of the “IA policy entrepreneurs” started to construct a case that all of the internal auditors should be moved into one central department or agency that would provide national shared services. Further, in reaction to these developments, the HM Treasury conducted a ***Review of Financial Management in Government (2013)***. The impetus for such review was defined by the Chief Secretary of

the Treasury Danny Alexander as the need to constrain the public expenditures, to reduce the government deficit, and to bring the public finances under control, by introducing various measures to improve financial management across the national government (HMT 2013b). According to the review documents, there were several sets of recommendations made, such as: 1) strengthening the leadership of government finance, including creating a new position for the Director General for Spending and Finance; 2) investments into the management information systems; 3) development of the spending control framework; and 4) strengthening internal audit. Specifically for the IA, the recommendations were:

- 1) consolidate internal audit shared services over the medium-term providing a single, integrated internal audit service, which will be an independent agency of the Treasury;
- 2) strengthen the role of the head of profession for internal audit, to become “the head of government internal audit”, which will report to the director general for spending and finance in the Treasury; and
- 3) provide an internal audit service to government departments and to government as a whole. (HMT 2013b: 8).

In October 2014, the government formed a centralized **Cross Departmental Internal Audit Service (XDIAS)** as a pilot (HMT 2015b: 48). To further implement the review recommendations, HM Treasury established a shared-services centralized model of the IA sector by instituting a **Government Internal Audit Agency (GIAA)** on April 1st 2015, as an executive agency sponsored by HM Treasury, budgeting £1 million for this initiative (HMT 2015b: 204). On this date and on November 1st 2015, the IA teams from other government departments were transferred to the GIAA by absorption (GIAA 2016b). In this framework, departments and associated agencies are the clients according to the Memorandums of Understanding (MOUs), paying fees for the services of the GIAA. By the end of 2017, GIAA employed around 450 people in 65 locations across the national government. Currently, 14 out of 18 national government departments and agencies and

about 100 associated government bodies are engaged in this shared-services delivery model (GIAA web1).

The departments remaining outside of the shared-services agency are Foreign and Commonwealth Office (FCO), Ministry of Defense (MOD), Department for International Development (DFID), and HM Revenue and Customs (HMRC). Interviews and documentary research indicate that the GIAA expansion strategy involves talks with these organizations regarding their inclusion, involving demonstration of benefits of the IA shared services, but they have to come willingly.

Jon Whitfield was appointed by the HM Treasury as the first Chief Executive and Accounting Officer of the GIAA and the Head of the Internal Audit Profession for Government, accountable to the HM Treasury Permanent Secretary. The latter delegates the oversight role to the HM Treasury's Director General of Public Finance and Spending, while the Economic Secretary to the HM Treasury is the responsible Minister (GIAA 2017a: 25).

The GIAA governance framework is still evolving. According to the 2017-18 GIAA Corporate Plan, the GIAA top-level governance structure consists of an Agency Board, Audit and Risk Assurance Committee, Remuneration and Nominations Committee, and the Executive Management Team, the latter consisting of the Senior Leadership Team, Single Audit Practice Programme Board, and Directorate Management Teams (see GIAA 2017b: 25).

To reiterate, the national oversight of the GIAA is performed by the HM Treasury, which is also in charge of the IA policy development and implementation, as defined in the GIAA framework document. The HM Treasury Permanent Secretary, as its Principal

Accounting Officer, has the GIAA Accounting Officer as a subordinate. In this executive agency framework, the Director General for Public Spending & Finance is the GIAA Sponsor, where the IA policy development is supported by the Public Spending Group (PSC).

- ***Audit Committees***

Interviews indicated that there are 18 Audit and Risk Assurance Committees (ARACs) at the UK national government departments and the GIAA with independent external members, reporting to the Board of the organization and to the Accounting Officer, which is usually a Permanent Secretary of the department/agency. The members of ARACs are appointed by the **UK Cabinet Office Centre for Public Appointments** according to a transparent process.

The responsibilities and operations of the ARACs are outlined in HM Treasury's Handbook on ARACs, issued in April 2013 as a replacement for the 2007 handbook, in order to align it with the ***Code of Good Practice 2011*** described in "Corporate Governance in Central Government Departments" (HMT 2017a), and last updated in 2016 (see NAO 2013b; HMT-IAP 2013b). The handbook specifies five good-practice principles for ARACs, such as:

- **Principle 1: Membership, independence, objectivity and understanding.** The Audit and Risk Assurance Committee should be independent and objective; in addition, each member should have a good understanding of the objectives and priorities of the organization and of their role as an Audit and Risk Assurance Committee member (HMT-IAP 2013b).
- **Principle 2: Skills.** The Audit and Risk Assurance Committee should corporately own an appropriate skills mix to allow it to carry out its overall function (HMT-IAP 2013b).
- **Principles 3: The role of the Audit and Risk Assurance Committee.** The Audit and Risk Assurance Committee should support the Board and Accounting Officer by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report (HMT-IAP 2013b).
- **Principle 4: Scope of work.** The scope of the Audit and Risk Assurance Committee's work should be defined in its terms of reference, and encompass all the assurance needs of the Board and Accounting Officer. Within this, the Audit and Risk Assurance Committee should have particular engagement with the work of internal audit, risk management, the External Auditor, and financial management and reporting issues (HMT-IAP 2013b).

- **Principle 5: Communication and Reporting.** The Audit and Risk Assurance Committee should ensure that it has effective communication with all key stakeholders, for example, the Board, the Group Chief Internal Auditor, Head of Internal Audit, the External Auditor, the Risk Manager and other relevant assurance providers (HMT-IAP 2013b).

With respect to principle 1, the document specified a new requirement for the ARACs to have a minimum of three non-executive members and at least two, including the ARAC chair, as non-executive board members, with the maximum length of appointment of three years, renewable up to three years. It also provided a recommendation for the Chair to have bilateral meetings with the key attendees, e.g. Accounting Officer, Finance Director, Head of Internal Audit and the External Auditor (see NAO 2013b).

Further, all ARAC members are subject to training requirements and required understanding of how the training will be provided. The Cabinet Office guidance on the recruitment, appointment and development of non-executive members of Civil Service boards is applicable²⁵. The interviewees assessed that the UK national government ARACs are now independent and the members' appointment process is high-profile, fair and transparent and done through the Centre for Public Appointments at the UK Cabinet Office. The Accounting Officers are also appointed in a transparent way, with their list updated and published regularly on the HM Treasury website (see HMT 2017b).

For principle 2, the new requirements are to have at least one member with the financial expertise, the need for members to undergo continuous skill development, and the Chair to ensure that all members have an appropriate program of engagement with the organization. The interviewees commented that while there are specific rules for at least one ARAC member to have financial qualifications, these provisions have not been fully

²⁵ Cabinet Office Centre for Public Appointments. "Public Appointments: Guidance to Departments", March 2015. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/411262/10032015_Departmental_Guidance_2015_PDF.pdf

tested yet. The ARAC members' qualifications must come from the chartered accounting, auditing and financial bodies, such as CIIA, CIPFA, ACCA, CIMA, etc. Otherwise, in the absence of candidates with these qualifications, the other members are drawn from the board.

For principles 3 and 4, the new expectations are for ARACs to help Accounting Officers and the Boards to establish optimal assurance arrangements, with extended guidance on ARAC's role and the value-added, including their advisory versus executive nature. The main areas of ARAC work and responsibilities are now clarified as governance, risk management, control environment, and integrity of financial statements. Further, the Terms of Reference of the audit committees should be publicly available, and the schedule of the delegations from the Board should be documented in the board operating framework.

Interviews indicated that ARACs now have fairly standard Terms of Reference (TORs), covering internal control, assurance, and governance frameworks, production of the IA reports, IA risk management, etc. The ARACs are not responsible for the content provided for their review, the board is. They are responsible for the ethical process and that there is an assurance plan. By this time, most of the senior government officials have heard about the IIA's "Three Lines of Defense" model in the effective governance, risk management and control, and they implement the 2nd and the 3rd lines most often in their organizations. Interviewees commented that at the minimum, the ARACs should advocate for the set-up of the Risk Management framework in the organization, including such major elements as the Risk Register. For principle 5, the handbook emphasized the importance

of effective relationships with stakeholders and the need to recognize the departmental perspectives and cross-boundary risks.

According to the interviews and analysis of the UK Cabinet Office online data sets for the remuneration of the government board members, the chairs of ARACs usually have an annual fee entitlement of up to \$25,000, while the non-executive members – up to \$20,000.

- ***IA Policy Advocacy Coalitions***

The main policy advocacy body for the IA profession in the UK and Ireland is the ***Chartered Institute of Internal Auditors (CIIA)***, established in 1948, with Royal Charter awarded in 2010, and with local chapters across the country and about 9,000 members (see CIAA web1). It provides a range of services to its members, including: 1) development of the international standards; 2) online provision of national and global guidance resources; 3) representation at the IIA Global Board of Directors; 4) AuditChannel.tv; 5) training, certification and continuous professional education provision and assessment; 6) annual national, regional and specialist conferences, seminars and networking forums for the auditors and the Heads of Internal Audit (HIAs); 7) research and insight products, including Audit & Risk Magazine and other publications; 8) external quality assessment services (EQAs); 9) representation at the various policy reviews and reform consultations via provision of position papers and participation in the discussions. Because CIIA has a chartered status, it carries an advanced designation CMIIA, in addition to the regular IIA Global Certifications Suite.

Interviews indicated that the independent external assurance assessment (EQAs) services for the UK national government are usually contracted out to the CIIA or the Big Four, as well as other smaller private-sector assurance providers.

Further, interviews showed the Big Four – PWC, EY, Deloitte and KPMG - are very much part of the UK IA landscape and are very influential. They provide outsourced assurance and consulting services to both public and private sector IA groups, and their leaders often are the independent members of ARACs. They provide experts, where the in-house IA teams lack either the necessary expertise or resource capacity to undertake the work. They also provide a wealth of information, training, research papers and data analytics products that internal auditors can simply download for free or a small fee. They are large, global, diversified, and have facilities and resources positioning them to offer various webinar and speakers to address current issues and to offer timely solutions. For example, one of the biggest issues in the UK right now is compliance with the EU GDPR in the current and post-BREXIT environment. The Big Four provide issue papers, webinars, and discussions on how IA groups can help their organizations.

The **PWC UK Audit** group provides assurance and risk services, and various insights products, sourced from its global platforms and resource pools (see PWC-UK web1). The **EY UK Assurance** group offers Audit, Financial Accounting Advisory Services (FAAS) and Fraud Investigation & Dispute Services (FIDS) (see EY-UK web1). The **Deloitte UK Audit & Assurance Division** provides assurance and consulting services, and a wealth of timely and regular online informational products on various current topics in audit, governance, risk, and standards development (Deloitte-UK web1). The **KPMG UK Audit & Assurance Division** offers such services as internal audit

strategic sourcing and thought leadership and training via its UK Audit Committee Institutes and Cornerstone publication (KPMG UK web1).

Finally, interviewees identified the financial services world as very influential in the UK IA environment. The banks are fortunate in terms of being able to contribute to the profession as they have large internal audit teams, which allows them the opportunity to innovate in their approaches to internal audit, such as the introduction of Agile auditing practices. The CIIA is working with the financial institutions on how to leverage their expertise to smaller organizations.

The “Governance Structures” area of IA-CM for the UK national government is at the level 5 “Optimized”, even though the key governance structures are not legislated.

6.2.2.2. Services and Role of IA

Prior to the establishment of GIAA in April 2015, and according to the 2015 IIA GIAPS-CBOK, the role and scope of IA and its services in the UK government was defined, but varied across organizations, with 46% to 95% of the IA functions having the IA charter, mission statement, IA operating manual, IA strategy, Code of Ethics, and description of the key process indicators. However, half (54%) of the government auditors have already noted a decrease in the budgets of the IA functions, where a third of the IA units (31%) reported a decrease in the staff levels. The survey also indicated that the majority of the IA government units (83.3%) spend their resources on assurance, and few on consulting. More than half of the IA services (55.2%) were provided by the private-sector assurance providers or other third parties, and they covered a third of the scope of the IA work, higher than the public-sector global average. The majority (61.1%) of the IA functions had only some responsibility for fraud prevention. The majority (70%) of internal

auditors reported that their units were not responsible for the ERM function, but coordinated and shared the knowledge. In two-thirds (62%) of the UK government organizations, IA was considered a third line of defense in alignment with the IIA “Three Lines of Defense” model.

Establishment of the GIAA in April 2015 marked the beginning of a strong and well-defined IA shared-services model in the UK government, where IA is recognized as a key agent of change and is given authority and resources to build the capacity to serve both as the third and the second lines of defense for the UK national government.

The GIAA work is guided by the 2015 GIAA Executive Agency Framework Document (EAFD). The GIAA EAFD defined the scope of accountability and reporting relationships of the GIAA with Ministers, Permanent Secretaries (Accounting Officers), HM Treasury, and the Parliament and its agents (see Annex 4), and the arrangements for governance, accountability, financial, staffing and operational matters. The list of latter arrangements includes: 1) status, aim and objectives; 2) accountability and relationships with Ministers and the Treasury; 3) sponsorship relationship with HM Treasury; 4) accountability to Parliament; 5) accountability to HM Treasury Permanent Secretary; 6) relationships with other Departmental Accounting Officers; 7) quality management; 8) responsibilities of Chief Executive; 9) management of the agency; 10) financial arrangements; 11) delegated authorities; 12) annual corporate plan; 13) annual report and accounts; 14) internal audit and risk management; 15) human resources management; 16) corporate functions; 17) recruitment and remuneration for the Chief Executive; and 18) review arrangements (see HMT 2015a).

The GIAA EAFD positioned the Agency as the “primary, trusted and expert provider of consistent, high quality audit and assurance services across government that are valued by its customers and recognized as a catalyst for improvement” (see HMT 2015a). The EAFD adopted the IIA definition of internal auditing in the framework of public services and defined the status, aim and objectives of the GIAA:

- GIAA’s vision is to be the primary, trusted and expert provider of consistent, high quality audit and assurance services across government that are valued by its customers and recognized as a catalyst for improvement.
- GIAA’s strategy for delivering this vision is to champion quality and continuous improvement by drawing upon the combined strength of all Internal Auditors in Government. The Agency’s Corporate Plan provides further information on the delivery strategy.
- GIAA carries out its function using a comprehensive quality assurance framework and within the Public Sector Internal Audit Standards. GIAA is also responsible, on behalf of HM Treasury, for Internal Audit policy and the profession across Government.
- In addition to providing individual departmental audit and assurance services, GIAA also provides assurance on common risks identified across Government and offers a clear framework for escalation of key departmental risks to the center of Government.
- At the discretion of the Accounting Officer and Audit Committee, the Agency performs other second line of defense roles and activities within government consistent with its core function of providing independent assurance.
- The GIAA supports HM Treasury’s wider objectives around spending control and efficient and effective delivery of public services, fiscal deficit control and economic growth. HM Treasury retains responsibility for internal audit policy across government, but delegates this function to the Agency.
- Each year the Treasury and the Chief Executive Officer (CEO) will agree a set of targets covering the priority elements of the GIAA’s task for the year ahead, which are published in successive annual Corporate Plans (HMT 2015a: 2-3).

According to its 2016-17 Annual Corporate Report, the GIAA has the purpose of providing “internal audit and assurance services across a wide range of central government customers”, with a vision “to deliver a flexible and responsive internal audit service which has a reputation among top management as making a real difference to the management of risk and delivery of positive outcomes, provides excellent value for money and that is regarded as a great place to work, learn and develop” (GIAA 2017a: 6). The GIAA has three core service lines: 1) assurance; 2) advisory; 3) counter fraud and investigation (see GIAA 2017a: 7). Other services include responding to in-year requests for changes to the audit

plans to reflect changing risk profiles and assurance needs, working with other assurance providers, serving as the Audit Authority for the EU structural fund schemes, IA policy development on behalf of sponsors at HM Treasury, outreach with the broader government and non-government IA communities, and development of the client assurance strategies due to BREXIT (see GIAA 2017a-b).

To reflect on these statements critically, it is necessary to take into account the fact that at the end of the research project the GIAA was only about 2-years old. It is still an experiment, but it is the first among the UK's IA functions to actually have its corporate reports and plans verified by the C&AG, provided to the Treasury and the Parliament, and published online. These reports are aspirational and already contain all of the elements of VAMP indicators tracked by the IIA, including value-added to the government. As GIAA matures, another independent evaluation would be necessary on how it delivers against the public-policy targets. Nevertheless, this experiment is unprecedented and it is monitored with curiosity by the IIA and the national IA reformers.

The “Services and Role of Internal Auditing” area of IA-CM for the UK national government is evaluated at maturity level 5 “Optimized”.

6.2.2.3. Organizational Relationships and Culture

The GIAA EAFD defined the scope of accountability and reporting relationships of the GIAA with Ministers, Permanent Secretaries (Accounting Officers), HM Treasury, and the Parliament and its agents, summarized in Annex 8. To reiterate, since the GIAA is an Executive Agency of HM Treasury, where the latter is its sponsor, the GIAA Chief Executive is also an Accounting Officer and the Head of the Internal Audit Profession for Government, accountable to the Permanent Secretary in the HM Treasury, with delegation

to the Director General of Public Finance & Spending, where the responsible Minister is the Economic Secretary. The GIAA Chief Executive is also a member of the Agency Board.

Creation of the GIAA in April 2015 resulted in the moving and consolidation of 75% of the government IA functions under one agency, leaving the departments with the ownership of their Audit and Risk Assurance Committees and the right to provide input for the appointment and evaluation of their respective Head of Internal Audit (HIA). The Accounting Officers of the participating departments are the clients. The organizational relationships between the GIAA and the client departments are specified in the GIAA EAFD as follows:

- s.27 stipulates that the GIAA provides services to the client Accounting Officers via individual Memoranda of Understanding (MoU), including arrangements for charging fees for services (see HMT 2015a: 7).
- s.28 stipulates that the Heads of Internal Audit (HIAs)²⁶ of the client departments report the results of their work and opinion to the relevant Accounting Officers, while their management reporting line, including the performance appraisal, is to the head of GIAA; the Accounting Officers and Audit Committee Chairs have input to performance appraisal of their HIA and have a final say who acts as their HIA; IA reports to the Accounting Officer and audit reports are not released to third parties without their authority; Accounting Officers, advised by their Audit & Risk Assurance Committees and HIA, determine the volume of IA activity and its direction; IA utilizes support from the private sector as appropriate for access to skills & resource flexibility (see HMT 2015a: 8).
- s.29 stipulates that the GIAA is charged with working across government in response to government-wide/cross-organizational risks, where the cross-cutting activity can only be conducted with the consent of the departmental Accounting Officers (see HMT 2015a: 8).

Further, s.35 of the GIAA EAFD mandates that the Chief Executive, the Group HIAs, and the Chief Operating Officer of the GIAA are responsible for the management and delivery of the Agency's objectives.

According to the interviews, before the advent of GIAA, when there were individual IA functions in each department/agency, the HIAs would report administratively

²⁶ Equivalent to Chief Audit Executive (CAE)

to the Finance function and to the Permanent Secretary. That was always an uncomfortable duality. Currently, the majority of internal auditors and HIAs are geographically located in their previous places, but under the GIAA management, where they are reporting to the Head of the GIAA, and can't be influenced by the departmental Finance executives. This was recognized by the interviewees as a significant achievement for the organizational independence of the HIAs, the internal auditors and the IA function across the UK national government, since it removed significant conflicts of interest. However, they have noted that the role of the HIAs was to protect the Accounting Officers. The increased independence of the IA function and assurance to the AOs was the intended result of the new agency, according to the HM Treasury:

The independence of GIAA's work is ensured by the requirement that Heads of Internal Audit are accountable to each Accounting Officer for their work and that they are line managed by the Agency's Chief Executive. Internal Auditors report the results of their work and opinions to respective Accounting Officers, and do not release their work to third parties without their authority (HMT 2016: 59).

Interviewees also pointed out that the main downside to the GIAA is the external perception of the lack of independence, because departments and agencies are considered clients. However, they also argued that the GIAA provides IA services for the public policy reasons; thus, any such perception could be mitigated by communications with the clients and the public.

Interviewees indicated that one of the other significant value-added of the GIAA was the breakdown of organizational boundaries. Now, the GIAA HIAs and auditors have the ability to work across departments and agencies on cross-boundary (horizontal) audits. However, this practice is still in the framework and pilot stage, due to the difficulty to persuade the Accounting Officers to agree on cross-boundary audits. There is also an issue

of how to report on that – to the Executive or to the Parliament, and what costing models to employ.

The GIAA EAFD gives the Chief Executive a full responsibility for the structure, staffing, remuneration, retention and motivation of the Agency staff according to the Civil Service Employee Policy (CSEP) and other HM Treasury HR policies.

The GIAA accounts are subject to annual review and certification by the Comptroller & Auditor General, as well as its performance audits, while the GIAA management and staff are obligated to provide access to any documentation required by C&AG. Currently, according to the interviews, the relationship between the GIAA and the C&AG currently extends beyond the statutory requirements. The GIAA CE regularly meets with the staff of the C&AG and is informed on how the organization is doing. C&AG provides advisory support on how to provide the IA services in the new shared-services environment. Most notably, according to the interviews, the Chief Executive of the GIAA has a very influential position and is known to be a ‘policy entrepreneur’, credited for the creation and growth of the Agency and building strong relationships within the HM Treasury, the Cabinet and the rest of the Civil Service, that assure the continuous visibility and alignment of the government IA profession with key stakeholders’ needs and expectations.

The “Organizational Relationships and Culture” area of IA-CM for the UK national government is assessed at the maturity level 4 “Managed”.

6.2.2.4. Performance Management and Accountability

Pursuant to the section 7 of the *Government Resources and Accounts Act 2000*, the UK national government reports publicly and to the House of Commons on the

effectiveness of the whole-of-government IA activity since 2016, a year after the GIAA was established, via the annual corporate reports. The GIAA Chief Executive is accountable to Parliament and relevant Parliamentary Committees for the agency operations and the state of the IA profession in the government.

The 2015-16 and 2016-17 GIAA corporate reports, published on its website, provide a comprehensive performance and accountability report, the latter consisting of the corporate governance report, the remuneration and staff report, and the parliamentary accountability and audit report with its annual accounts²⁷, certified by the Comptroller and Auditor General. In 2016-17, the GIAA performance measurement framework contained four objectives, with both the financial and non-financial targets and metrics, as well as evaluation of their achievement at the year-end (see GIAA 2017a: 25-31). For example, the latest annual performance highlights were: 100% audits conformed to PSIAS; staff productivity up 3% points; gender mix of Senior Civil Service improved by 25%; 1,546 audits completed; customer satisfaction up 8% points; 90% audit plan delivered in current year; 75% GIAA coverage across government; and 80% stakeholders felt the Agency met expectations.

Interestingly, the value-added indicators for 2016-17 under sub-objective “add value to customers and government as a whole” were qualitative, such as: 1) develop functional cross-government assurance strategies; 2) publish six or more assurance insight bulletins for Accounting Officers; 3) annual Accounting Officer and Audit Committee Chair satisfaction score, e.g. percentage of Accounting Officers rating GIAA as 7 or above, out of 10 – with 10 equaling “extremely satisfied” (see GIAA 2017a: 27). The future GIAA

²⁷ GIAA Annual Accounts include: 1) Statement of Comprehensive Net Expenditures, 2) Statement of Financial Position; 3) Statement of Cash Flows; 4) Statement of Changes in Taxpayer’s Equity; and 5) Notes to the Accounts.

reports and evaluations, that will be published online, are expected to provide an indication on how well the GIAA delivered on these indicators.

The GIAA prepares financial statements in accordance with the Government's Financial Reporting Manual under the direction of HM Treasury, where the accounting policies are based on the International Financial Reporting Standards (IFRS) in application to the UK public sector (see GIAA 2017a: 65). For the 2016-17 year, the GIAA reported its operating income in the amount of £30 million, arising from the fees for audit service to national government customers, and the administrative costs of £32.6 million. In terms of payments to external assurance service providers, the Agency paid £6,104K to the private firms and £841k to the contingent labor outside of the core framework for additional specialist and general audit services and to fill the temporary gaps (see GIAA 2017a: 23).

The agency collects financial data, staff utilization rates, assignment budgeted time/grade mix and use of the external resources and monitors its financial and non-financial indicators via the various government-wide and agency-specific IT systems²⁸. GIAA also publishes the results of the annual Civil Service People Survey, where both the agency and the Civil Service results are provided and compared. According to the interviews, the value-added of the Government Internal Audit Agency is considered to be its integrated, enhanced and cost-effective service delivery to 14 customers, i.e. federal departments with more than 100 associated agencies (ALBs).

This information allows the assessment of the "Performance Management and Accountability" area of IC-CM for the UK national government at the maturity level 5 "Optimized".

²⁸ Oracle, Kimble, Galileo and TeamMate

6.2.2.5. Professional Practices

Interviews and documentary research indicated that all of the IA units in the UK national government, both in GIAA and outside of it, follow PSIAS, which fully encompass the IIA IPPF, but recognize specific aspects of the UK public sector framework (see GIAA 2017b: 8). In 2016, 100% of the audits performed by the GIAA confirmed with PSIA (see GIAA 2017a:13).

In 2016, the GIAA launched a Professional Practices Directorate in order to integrate and improve the learning programs, IA methodology and the quality assurance arrangements, as well as to develop a program of Quality Assurance (QA), Internal Quality Assessment (IQA) and External Quality Assessment (EQA) (see GIAA 2017b: 12, 23).

It is evident from the documentation that the agency employs risk-based audit planning methods and links its activities to the government-wide priorities. The most current GIAA risk profile provides a set of risk-mitigation strategies. While the GIAA does not publish its overall risk-based IA plan (RBAP), it consolidates the negotiated annual audit programs and associated fees according to each of the customer's MOUs, and the document is provided to the Audit and Risk Assurance Committee and the board for review and approval. GIAA has also developed functional cross-government assurance strategies and delivered on them in 2016 (see GIAA 2017a: 27).

The 2017-18 GIAA Corporate Plan outlined four priorities: 1) development of specialisms; 2) a single audit methodology; 3) recruitment and people development; and 4) leadership and communications. To ensure that the GIAA delivers against its priorities and development of the effective operating model for the agency, it has established the following mechanisms: 1) a Single Audit Practice Programme under the governance of its

Executive Management Team, with regular monitoring of progress on corporate plan priorities and reporting to EMT/Board to agree on any further actions; 2) liaison with senior officials in Cabinet Office and the Department for Exiting the EU (DExEU); 3) regular monitoring of customer needs and the impact on audit services, including implications of resourcing and skills needs (see GIAA 2017b: 24).

Due to the unprecedented nature of the GIAA and its shared services, it poses unique challenges in terms of application of the IIA-prescribed audit methodologies. The 2017-18 GIAA Corporate Plan sets the goal for adoption of a single integrated audit methodology and supporting audit management system (AMS) based on the TeamMate software across the agency and 12 work streams.

According to the interviews, majority of the EQAs in the UK national government, including the GIAA, are conducted on the five-year periodicity basis by the CIIA and the private-sector assurance providers, most often the Big Four. Since 2015, the Agency has in place an IA Framework Contract, i.e. a single national government-wide contract for IA services, in which six private-sector firms, including the Big Four, are pre-qualified for service delivery when necessary to meet peaks in demand, manage vacancies, or deploy specialist skills (see GIAA 2017a: 11).

The maturity of the “Professional Practices” area of IA-CM for the UK national government can be assessed at level 3 “Integrated”.

6.2.2.6. People Management

The interviewees assessed the creation of the GIAA as a massive achievement for the government IA activity in the UK, expected to unlock the potential of the IA

professionals and improve the quality of services. Internal audit is now an independent public service, able to track and grow talent.

The Chartered Institute of Internal Auditors confirmed that at the 2016 year-end there were 1,060 members working in the national government of the UK (see CIIA 2017). Currently, there are more than 450 internal auditors working at the GIAA in 65 locations across the UK, representing 75% of the government IA workforce (see GIAA web1).

The documentary research and interviews indicated that the GIAA has been awarded by the HM Treasury a status of the Government Internal Audit Profession, with the Chief Executive Officer of the agency serving as the head of the profession. This is remarkable and is the first case known among the IA functions in the world.

In 2017, the GIAA was recognized by the CIPFA, CIMA and ACCA as an accredited employer (see GIAA 2017b:12). Since 2016, it has a People Strategy in place, with specific workforce planning and projection targets and several sub-strategies in development, and a People Committee overseeing its implementation, focused on recruitment and continuous development:

The People Strategy is not just about recruiting the brightest and the best. The GIAA is passionate about making the Agency “a great place to work” able to attract, retain, engage and motivate a diverse range of talented people. GIAA also want to create an Agency where customers will wish to engage with us, due to the strong reputation and services we are known for. Key to achieving both objectives is to ensure that the Agency has a professional, appropriately skilled and experienced workforce delivering quality audit, specialist advisory and consulting services to its customer and client organizations. The Agency is committed to creating and embedding a culture of continuous development for all our people, helping individuals and teams achieve their full potential through: professional qualifications suitable for their grade and role; continued professional development following qualification; membership of their professional body; participation in professional events, workshops and conferences; development programmes to enhance commercial awareness and to develop the skills, capability and performance of the Corporate Team; supporting the Civil Service fast-stream development scheme; and mentoring schemes, networking groups, team coaching programmes and individual career coaching (see GIAA 2017a: 15).

In terms of the dominant IA professional qualifications in the UK national government, interviews showed that internal auditors, both at the GIAA and outside of it, are normally expected to have at least one of the generic certifications offered by the IIA via the CIIA UK & Ireland, and other government group-membership partners, such as the Chartered Institute of Public Finance and Accountancy (CIPFA), the Chartered Institute of Management Accountants (CIMA), and the Association of Chartered Certified Accountants (ACCA) (see GIAA 2017a: 16).

The 2015 IIA GIAPS-CBOK shows a broader picture for the IA skill mix in the UK government, where the Heads of Internal Audit (HIAs) recruit internal auditors with a range of specific and common business skills, the highest of them being in the area of risk management assurance (58.3%), IT (58.3%), communications (41.7%), industry-specific knowledge (41.7%), and data mining and analytics (25%), and more on the consulting side than on the accounting and assurance side of internal auditing, as in the rest of the UK and globally. More than half (58.3%) of the IA functions have an equal mix of traditional auditing skills and industry knowledge.

In 2016, the newly-minted GIAA launched several HR initiatives, such as a Trainee Internal Auditor Scheme to allow the staff to undertake accountancy qualification, a professionalization initiative for the Fraud & Investigations Team, a Trainee Network across the Civil Service, a Corporate Service Team development, and the IA professional qualification development for the new auditors (see GIAA 2017a: 16). Most interestingly, the 2017-18 GIAA Corporate Plan showcases the plans to develop training programs, specifically tailored to the UK and EU environment, according to its 2017-18 Corporate Plan, called ‘specialisms’ in such areas as: 1) digital and IT audit; 2) cyber and information

security audit; 3) project & program management audit; 4) financial audit; 5) commercial audit; 6) property audit; 7) fraud, error, debt and grants audit; and 8) human resources audit. For each specialism, it is planned to have a government-wide specialist lead and an associated strategy to develop these specialist IA communities. For example, in 2016-17, the GIAA has developed two specialisms – European Audit and Counter Fraud & Investigation, which take into consideration preparations to BREXIT and remaining obligations with the EU (see GIAA 2017b).

Notwithstanding the fact that the GIAA is a new agency, it is subject to the annual Civil Service People Survey (administered by the Cabinet Office of HM Treasury), results of which are published on its website – a commendable commitment to transparency and continuous improvement. The 2016 survey, where 357 internal auditors participated, indicated that GIAA underperforms in the people management area in comparison to the rest of the Civil Service across all indicators of HR management.

The majority of internal auditors (72% to 75% on average) positively evaluated their engagement in work and the link to organizational objectives and purpose, and two-thirds of them felt included and treated fairly (67% on average). Further, two-thirds of internal auditors positively evaluated their immediate managers and the team (65% to 68% on average). However, learning and development came across as a weak area, where only one-third of the internal auditors (38%) felt that it was adequate in terms of access to learning and development opportunities, career development opportunities, and the usefulness of the available training (see GIAA 2016d). While the majority of staff (68%) felt they have acceptable levels of resources and workload, less than third (29%) believed that they had fair levels of pay and benefits. Moreover, the majority of internal auditors

(67%) assessed that the GIAA as a whole was not managed well, and only one-third of them (35%) were satisfied with the overall senior management leadership and management of change (see GIAA 2016d).

The majority of staff (81%) felt positive about their contribution and service to the customers, but half of them were still not sure whether the GIAA will increase effectiveness of IA across the government in the future. Only a third (37%) of internal auditors felt that they belonged to the organization. Internal auditors also reported or implied serious levels of harassment and discrimination (11%-17%), coming primarily from the management, and a third of them did not report it because they did not feel confident that it would be resolved. Consequently, only a third of internal auditors (34%-36%) admitted that they want to stay at the GIAA. Only two-thirds of internal auditors characterized their wellbeing as positive and half of them reported being anxious. Internal auditors did not give a vote of confidence to their managers in terms of adherence to the Civil Service Leadership Statement, pointing out that only 39% of the leadership qualify, which is lower than the Civil Service average. All GIAA staff are individually evaluated by their supervisors (see GIAA 2016d). This is in contrast to the 2015 IIA GIAPS-CBOK, where it was reported that the key methods of IA staff evaluations were a feedback from the auditees (75%) and supervisors (83.3%), which is significantly higher than the public-sector global average.

Despite the lackluster HR metrics for GIAA, the most remarkable fact is that GIAA published it online for all citizens to see, instead of covering it up or keeping it secret, like most of the governments do. In its 2017-18 Corporate Plan, the Agency has publicly committed to remedy the situation, with such targets as: 1) increase staff engagement by 5%; 2) reduce the scores of bullying, harassment and discrimination below Civil Service

levels; 3) reduce vacancy rate by 25%; 4) increase number of people participating in career development by 10%; 5) establish a baseline for the proportion of people who work on more than one department's or group's IA program; and 6) increase the workforce diversity through the recruitment (see GIAA 2017b: 14).

It is certain that the GIAA is not unique in terms of the political pressures experienced by the public-sector auditors worldwide. Unfortunately, the IIA does not yet track indicators of harassment in the IA functions around the world, although it is quite serious and systemic, as section 4.4 demonstrated. Without the baseline and global public-sector statistics on harassment of internal auditors and other deviations from a normal work environment, it is not possible to evaluate how bad this really is. It would be helpful to have these global and country statistics developed and collected in the next 2020 IIA GIAPS-CBOK.

The GIAA risk mitigation strategy under the risk "GIAA fails to develop a 'great place to work' for its people", also identified implementation of the pay strategy, identification and training of the perpetrators of bullying and harassment, launch of the performance management review, and completion of the talent management and succession discussions (see GIAA 2017b: 23).

The interviewees assessed that at this transitional stage, the national government IA leadership and activity involvement with the professional bodies, such as the CIIA, CIPFA, CIMA and ACCA is focused on standard-setting, networking, and involvement in the certification training, various thought leadership and informational workshops, events, forums, and conferences, both national and global. Specifically, the GIAA states:

- We also work closely with the heads of internal audit for the devolved Scottish, Northern Ireland and Welsh administrations to lead the profession across the whole of the UK and jointly maintain the Public Sector Internal Audit Standards and other functional standards (GIAA 2017b: 9).
- The Agency's work with the wider profession includes running the Internal Audit Leadership Group, sitting on the Internal Audit Standards Advisory Board and representing the profession on key functional leadership working groups. GIAA also worked with the Cabinet Office Civil Service Strategy team to support the central Government Departments' Audit and Risk Assurance Committee Network. The Agency represented HM Treasury at the EU Public Internal Control Network and further afield, we are working with the UK Commonwealth Parliamentary Association and the National Audit Office as part of a three-year Foreign and Commonwealth Office funded initiative to improve the capability and capacity of the UK Overseas' Territories (GIAA 2017a: 19).

The interviewees confirmed that the GIAA is indeed quite active in these areas. Further, in 2017, the GIAA organized networking events for the HIAs and audit committee chairs, the Government Finance and Internal Audit Conference, and “led and participated in a wide range of groups within government and beyond to support the profession”, leading to 80% policy and profession stakeholder satisfaction (see GIAA 2017b:12). Interviews also indicated that there are several prominent and internationally-recognized experts (HIAs and chairs of the audit committees) in the UK national government that systematically participate in the working groups between various public and private sector agencies and associations, and international committees of the standard-setting bodies.

The “People Management” area of IA-CM for the UK national government is assessed at maturity level 3 “Integrated”.

6.2.3. Evaluation of the VAMP Implementation in the IA Sector of the UK National Government

Since the advent of VAMP, the UK national government has conducted a number of experiments in its efforts to reform the IA sector, marked by three eras of IA governance: 1) decentralized IA services model up to 2011; 2) group IA services model 2012-2014; and 3) national shared-services fees-for-service model of IA governance with the creation of

GIAA in 2015. This latest development is unprecedented and demands a creative application of the IIA IPPF, as well as development of new structures and processes. The two years of GIAA experience illustrated a massive change management effort, with many successes and many problems.

In terms of *investments and resources* for the post-2015 IA reform, there are no published data in terms of special new funds provided by the HM Treasury because the GIAA was a consolidation exercise. However, it is clear that strategic human resources were allocated for the creation of the GIAA concept, development of the IA policy capacity at the center and at GIAA. Judging from the annual reports, the GIAA is not breaking even yet, and it probably will not be able to do it until the remaining departments become its clients and the agency is stabilized a few years after that.

The IA-CM analysis indicated that in terms of *activities*, the IA sector in the UK national government has reached the maturity level of 5 “Optimized” for such areas as Services and Roles of IA, Performance Management and Accountability, and Governance Structures. The Professional Practices is the weakest area with the maturity level of 3 “Integrated” since the generic IIA IPPF requires adaptation to develop single/common tools and systems for the whole of GIAA, followed by the “People Management” area currently at level 4 “Managed” due to significant and ongoing onboarding of staff from the participating client departments and the need to integrate them.

The IA received a very high level of recognition due to the status of the GIAA as the HM Treasury’s executive agency, according to the framework document. The GIAA now serves 14 out of 18 departments or 75% of the UK national government, according to the individual Memorandums of Understanding (MOUs). At the end of 2016, GIAA

achieved £30 million in revenues from the fees for services. This is considered to be the biggest achievement of the IA reform. However, the GIAA is not legislated yet by an act of Parliament.

There are currently 18 independent ARACs and more than 54 independent members in the UK national government, activities of which are governed by the MOUs between their department and GIAA and their departmental management board processes and procedures. There are also 18 departmental independent Heads of Internal Audit (HIAs) at the departments and several HIAs at GIAA, who report functionally to their ARACs, but administratively to their Accounting Officer and to the head of GIAA. However, neither ARACs nor HIAs are legislated. It appears that the HM Treasury arrangements are working in place of statutes.

It is unprecedented that the head of GIAA is officially appointed not just as the Chief Executive Officer and Accounting Officer, but also as a Head of Government Internal Audit Profession in the UK national government, with wide-ranging mandate and opportunities to develop IA policy in collaboration with HM Treasury and to convene and establish various internal and external policy consultations and development mechanisms, including with HM Treasury, C&AG, standard-setting bodies, and private-sector organizations. According to the 2015-16 GIAA stakeholder survey, 80% of felt that the government IA policy met expectations.

GIAA has a People Strategy with workforce planning and projection targets. The HR systems and processes, as well as professional and development programs have been centralized and common approaches to staff recruitment, remuneration and performance management are being rapidly developed, which increased productivity by 3% in 2015-16.

There are currently more than 450 auditors across 65 locations in the UK that have been integrated under the GIAA umbrella. The GIAA has subscribed to the general IIA Certifications Suite and the accounting certification programs from CIMA, ACCA and CIPFA, and is recognized as an accredited employer. It has also started the development of the GIAA “specialisms”, to reflect specifics of the UK government operations and the needs of client departments. Currently, 91% of staff hold or work towards certifications. It is also unprecedented to see the level of complete transparency about the current HR issues (published online in the results of Public Service People Survey), no matter how embarrassing, and the commitment to mitigate them, as well as aggregate HR statistics, allowing to conduct proper workforce planning and projections. The GIAA has established a Professional Practices directorate and commenced the work to develop a Single Audit Methodology and Audit Management System, based on TeamMate software.

The GIAA is required under the *Government Resources and Accounts Act 2000* to provide the annual report and accounts to the House of Commons, including the Accountability Report, with the certification from C&AG. The annual reports indicate that a set of strategic performance and accountability indicators has been developed and reported for the last two years.

The **output** of 2015 IA reform is a novel centralized shared-services model of IA governance, with fee-for-service arrangements between departments and the GIAA, currently covering 75% of the UK national government and operating on the ‘sovereign’ model of IIA IPPF – Public Sector Internal Audit Standards (PSIAS). The **immediate outcome** - independent IA activity - is achieved through the special executive agency status of the GIAA and its transparent governing framework arrangements, even though it is not

legislated. The IA sector of the UK national government has a high level of IA capacity, capability and professionalization, which positions it to provide most of the services in-house (87.8%). The level of assurance and advice to senior management is high, judging from the reported volume of IA activity (1,545 audits) and the coverage of the audit plan is high as well (90%). The 2015-16 GIAA Annual Report also lists the completion of 237 investigations and 21 prosecutions, resulting in 14 criminal convictions and 2 custodial sentences. The rate of outsourcing to the private sector is only 12.3%, and the procurement costs have decreased partly due to significant bargaining power of the GIAA. The *intermediate outcomes* have been achieved. There is a higher level of confidence in the IA regime based on certifications of the Comptroller & Auditor General provided in the annual reports and accounts of the GIAA that are submitted to the House of Commons according to requirements of GRAA 2000. It is clear that the IA regime is more effective and has high value-added of 76%, according to the GIAA stakeholder surveys. Further, senior management acts on IA recommendations by implemented 73.2% of them.

The conditions are established for the *long-term outcomes* to be fully achieved in a few years when GIAA is stabilized. Current ARACs provide regular advisory support and assurance to Accounting Officers within the framework of ministerial responsibilities on risk management, control, governance and overall stewardship of public resources. The annual departmental reports provide the financial and activity detail on the operations. The PAC and C&AG rely on the work of the GIAA as evidenced in the annual reports. In 2016, the head of GIAA was called for an inquiry hearing in Parliament, which was concluded with satisfactory results. In the GIAA framework document, the agency was positioned as both the 2nd and the 3rd line of defense. 100% of the audits and audit plans of the GIAA are

risk-based. However, the indicators for measuring the impact of GIAA on the government ability to meet objectives and deliver results are not yet available. The *ultimate impact* also can't be measured at this time both due to the absence of indicators and the newness of the GIAA. However, it is important to say that advent of the GIAA has generated great interest from the IIA and other countries, and is regarded both as an experiment and an IA policy innovation.

6.3. Case Study 2: IA Reform in the Australian National Government under VAMP Paradigm

6.3.1. Profile and Overview of IA Governance Regime in the Australian National Government

The key features and outcomes of the VAMP paradigm of the IA governance in the Australian Government at the end of 2017 are illustrated in Figure 40. The governance of the IA sector is embedded in the Westminster system of responsible government and is comprised of five elements: 1) authority and regulation under the modernized legislation and Westminster conventions; 2) parliamentary oversight of the public accounts and government IA activity via the Parliamentary committees, agents and instruments; 3) executive policy guidance of the government IA function; 4) IA-standard setting bodies and policy advocacy groups; and 5) international and national IA standards and certifications. The first three elements are internal to government, while the last two are representative of the external IA policy environment with close consultative and operational links to government over IA policy and activities.

Figure 40 Profile of the IA Governance Regime under the VAMP Paradigm in the Australian National Government: Key Features and Outcomes – 2017

Source: Author, December 2017

Legislatively, the IA governance regime is authorized by such key Westminster conventions as the doctrine of ministerial responsibility and the Australian variation of the British Accounting Officer sub-doctrine - *Accountable Authority* (devolution of ministerial responsibility from Ministers to heads of departments, other public servants and various boards), *Public Accounts and Audit Act 1951*, the *Auditor General Act 1997*, and the *Public Governance, Performance and Accountability Act (PGPAA) 2013*.

It establishes a basis for parliamentary oversight and external audit of the government IA function via the operations and instruments of the *Joint Committee of Public Accounts and Audit of the House of Representatives*, the *Auditor General*, and the various budgetary reviews, National Commissions of Audit (NCAs), and Royal Commissions and inquiries.

The PGPAA 2013 provides the authority for the executive branch via the Department of Finance to develop rules and regulations on all matters of resource management, including the internal audit, but no IA central policy coordination authority. It also mandates establishment of the audit committees in all commonwealth entities, but not the IA functions. Under the act, the heads of departments are autonomous in discharging their duties and responsibilities, but are accountable to the Ministers and the Parliament.

It is therefore not surprising that there is a significant presence and influence of such key IA PAC groups, as the international and national standard-setting bodies, e.g. the IIA, IIA-Australia, Australian National Audit Office (ANAO), Auditing and Assurance Standards Board (AUASB), Australian Institute of Company Directors (AICD), Accounting Professional and Ethical Standards Board (APESB), Chartered Accountants of

Australia and New Zealand (CAANZ), Committee of Sponsoring Organization (COSO), Business Continuity Institute (BCI), Information Systems Audit and Control Association (ISACA), and the Certified Public Accountant (CPA) Australia. The global assurance, accounting and management consulting firms, such as KPMG, PWC, EY, and Deloitte are also prominent.

The dominant standards are the IIA IPPF, COSO-ICIF, and COSO-ERMIF. The dominant qualifications for internal auditors are drawn from the IIA Certifications Suite where the Certified Internal Auditor (CIA) and the Certified Government Auditing Professional (CGAP) are most frequent, as well as the Chartered Public Accountant (CPA) and Certified Information Systems Auditor (CISA) certifications.

6.3.2. IA-CM Assessment of the IA Sector in the Australian National Government

The capability maturity assessment of the internal audit in the Australian Government is provided below by the Key Process Areas (KPA) under six major elements of the IIA Public Sector Internal Audit Capability Model (IA-CM).

6.3.2.1. Governance Structures

- ***Westminster Mechanisms of Parliamentary Oversight***

As in all Westminster systems of responsible government that exported British constitutional conventions and arrangements (Weight 2014), the Australian National Audit Office (ANAO), originally established by the Audit Act of 1901, has been in charge of the audit of public accounts, financial audit processes and the performance audits in the Commonwealth. After the new Auditor General Act of 1997, its mandate expended considerably to cover various types of audits, assessments and studies, including the

surveys and audits of the systems of government internal audit (see Drinkwater 2015; GOA 1997).

According to Drinkwater (2015), the 1997 legislation and consequential amendments to the Public Accounts Committee Act of 1951, marked a transfer from the executive to the Parliament - Joint Committee on Public Accounts and Audit (JCPAA)²⁹ and the Auditor General - of independent audit scrutiny of the Commonwealth governments and the Australian Public Service (APS). This resulted in the beginning of a new era for the ANAO, focused on the improvement of APS accountability, not just by the use of an integrated audit approach, but also “Better Practice Guides” initiatives, designed to adopt and transfer best practices from the private sector and other organizations to the public service (see Drinkwater 2015; GOA 1951, 1997a).

According to the interviews, the new interest by the Auditor General for the internal audit as an important part of governance for the whole of government had a positive impact on its evolution in the Australian Government. The ANAO was an active advocate for the expansion and improvement of IA practices, and the use of the international standards and best practices, especially the IIA standards, as evident in the ANAO Better Practice Guides on the Public Sector Internal Audit (2012) and the Audit Committees (2014) issued as guidance (see ANAO 2012, 2015). However, in June 2017, the ANAO announced a discontinuation of the practice of issuing a range of the Better Practice Guides, including for the IA, following the recommendations of the *“Review of Whole-of-Government Internal Regulation (Belcher Red Tape Review)”*, in order to prevent duplication and to

²⁹ Operating since 1913 as Public Accounts Committee

focus on the monitoring on the production of these resources by other authorized entities (see ANAO 2017a).

Nevertheless, the ANAO remains a key authority for the parliamentary scrutiny of government books and processes, via the conduct of audits of public accounts, performance audits, and other types of reviews and studies of any government function and entity, including the scrutiny of the IA functions (GOA 2013). As a result of the ANAO advocacy for the IA in the APS, at the end of the 1990s the federal organizations began to modernize professional practices of the IA functions.

In the early 2000s, Australia experienced growing fiscal imbalances, which were noted in the *IMF's World Economic Outlook 2013*, where the potential economic risks for the country were highlighted (see IMF 2013). Consequently, a ***National Commission of Audit (NCA)***, another long-standing instrument of the Westminster toolbox of responsible government since 1873³⁰, was created by the conservative Abbott Government on October 22nd 2013, with the broad mandate “to examine the scope for efficiency and productivity improvements across all areas of Commonwealth expenditure, and to make recommendations to achieve savings sufficient to deliver a surplus of 1 per cent of GDP prior to 2023-24”, which was the first such review in 20 years since the economic recession of 1990s and the last NCA in 1996 (see GOA-NCA 2013; Weight 2014).

The areas of review were the scope of government, efficiency and effectiveness of government expenditure, state of the Commonwealth's finances and medium-term risks to the integrity of the budget position, adequacy of existing budget controls and disciplines, Commonwealth infrastructure, and public sector performance and accountability, with the

³⁰ See Drinkwater (2015) for an overview

reports to the Prime Minister, Treasurer and Minister of Finance by the end of March 2014. The Commission received over 250 submissions from the organization and individuals on the broad range of issues, including from the IIAA and several management consulting firms and accounting institutes.

The NCA released its reports in 2014 with 86 recommendations, calling for drastic cuts in public spending, primarily via sweeping reduction in the Commonwealth entities, public services and jobs, privatization, outsourcing, fees-for-service and co-payments, abolition, scaling-back and consolidation of many meaningful government programs, and devolution of multiple federal responsibilities back to the states, based on the 'Principles of Good Governance' (see GOA-NCA 2014a-d). These recommendations were evaluated by the experts as a neo-conservative agenda for a 'leaner, meaner government model' and the market-based ideology to underpin the operations of the Australian Government, leading to the long-term false economy and increase in inequality and social disturbance (Sheen et al. 2014).

NCA resulted in a massive structural reform of the government departments and services in an effort to reduce the \$123-billion government deficit, announced in the 2014-15 Budget, which negatively impacted IA size and scope (see GOA-DOF 2014c). According to the interviews, at that time, federal organizations started to increase the scope of outsourcing by engaging the external IA service providers, as well as leveraging various internal non-audit functions. As a result, the IA has become broader and thinner, co-sourced and out-sourced.

Interviews also revealed that other types of public inquiries and Royal Commissions, normally established by the Parliamentary committees and the Senate via

the Governor General orders, sometimes bring to light the IA activities in the Australian Government, although the IA has never been the focus. For example, in 2013, a *Royal Commission into the Home Insulation Program (HIP)* in Australia was established as a result of multiple deaths reported due to HIP. One of the findings was that there was never a pre-program audit and compliance regime put in place, while the one that was established in the later phases of the program was seriously deficient, which contributed to the rise of fraud (see HIP Commission 2014: 220).

- *Audit Committees*

The interviews and analysis of the Australian Government legal instruments indicated that, historically, the audit committees were established legislatively as a consequence of the *1997 Financial Management and Accountability Act (FMAA)* (see GOA 1997b). Currently, there is an independent oversight of the IA activity in the Australian national government³¹, achieved via the statutory requirement for the accountable authorities of the Commonwealth entities to establish internal audit committees (ACs) in the Commonwealth entities (i.e. national government departments and agencies), including joint ACs, as per section 45 of the *Public Governance, Performance and Accountability Act 2013 (PGPAA)*³², in accordance with requirements prescribed by the rules set out by the Department of Finance (see GOA 2013). The PGPAA clarified the rules on independent membership of the ACs. It has also established the division of responsibilities and accountabilities between the Ministers, the departmental

³¹ Also referred to as Commonwealth government

³² The PGPAA replaced and integrated the Financial Management and Accountability Act 1997 and the Commonwealth Authorities and Companies Act 1997.

Secretaries and their accountable authorities, on the basis of Westminster doctrine of ministerial responsibility (see GOA 2013; GOA-DOF web4).

PGPAA transferred the responsibility for policy guidance and creation of the regulation and rules on matters related to the resource management, including the IA, to the Department of Finance. Further, Department of Finance as a central policy authority on the matters of financial and resource management, including the internal and external audit, authorized by the PGPA and *Legislative Instruments Act 2003*, developed a PGPA Rule 2014, a legal instrument in force after July 1st 2015, section 17 of which specifies the minimum mandatory requirements for the ACs as advisory bodies, such as: 1) provision of independent advice and assurance to the entity's accountable authority³³; 2) the functions of the AC must be specified by written charter and include review of the appropriateness of the accountable authority's financial reporting, performance reporting, system of risk oversight and management, and the system of internal control; 3) AC must consist of at least 3 persons who have appropriate qualifications, knowledge, skills or experience; 4) members of the AC should be persons who are not officials or employees of the Commonwealth entity; and 5) accountable authorities, Chief Financial Officers (CFOs) and Chief Executive Officers (CEOs) must not be the members of the AC (see GOA 2014a-b; GOA-DOF 2015).

The *Resource Management Guide 202* of the Department of Finance also provides detailed guidance for the Rule 2014 implementation and stresses the importance of AC independence, including selection of the members and their remuneration according to

³³ **Accountable authority** is a person or a group of persons prescribed by the Schedule 1 of PGPA to be the accountable authority of a particular listed entity, normally the Chief Executive Officer (CEO), the Commissioner, the Director-General, the Convenor, the Principal Member, the Council President, the Chair of the Board, the Ombudsman, the Director of Old Parliament House, the Chairperson, etc.

Commonwealth Procurement Rules (see GOA-DOF 2015, 2017b). The Department of Finance has also developed a Resource Management Guide 200 to guide the Secretaries, Chief Executives and Governing Boards (accountable authorities) on the implementation of the PGPA 2013 sections 15-19 (accountable authorities) and sections 25-29 (officials), including discarding their duties in reference to the ACs and external audits by the ANAO (see GOA-DOF 2016c).

PGPAA 2013 resulted in the establishment of ACs in all Commonwealth entities, with one AC per each large agency or shared-services/joint AC for few smaller organizations, or more than estimated 18 ACs with about 54 independent members; however, the search engine of the Australian Government Organization Register does not yield the complete list of ACs (GOA-DOF 2017a).

Section 17 of the PGPA Rule 2014 also specified that ACs should have a majority of the independent members, which, according to the guidance from the Department of Finance, can be sourced from the Australian Institute of Company Directors (AICD), Governance Institute of Australia (GIA), Institute of Internal Auditors-Australia (IIAA), Chartered Accountants of Australia and New Zealand (CAANZ), CPA Australia, ISACA Canberra Chapter, the Australian Computer Society (ACS), and the Risk Management Institution of Australasia (RMIA) (see GOA-DOF web2). The ACs usually have two sub-committees each working on financial statements and performance management. They report to the accountable authority of the Commonwealth entity, but not to the central agency. The Department of Finance develops regulations on the ACs, but does not provide central coordination. The Auditor General also issues some guidance, but because it is not a regulation, it is not enforced.

According to the interviews, the AC members are usually appointed by the CEO or the board via the advertisement or more often via the personal ‘good fit’ reference, for a period of 5 years. They do not receive formal training or the orientation, because there is an expectation that they are already qualified. The AC Chairs are regularly briefed by the Auditor General and the Department of Finance about twice a year. It is common for the Big Four firms to hold the training sessions for the AC members as one of their key services to the IA community. Usually, ACs hold about 4-5 meetings per year. For an active AC, with a range of sub-committees, there are about 8-10 meetings per year. Sub-committees may cover such aspects as financial reporting, IT auditing, risk management oversight, etc. The average pay for the AC member is about \$1,500 per meeting, and it could run up to the \$20,000 a year for a busy AC.

According to the 2015 IIA GIAPS-CBOK, all of the IA functions in the Australian Government have established an audit committee charter and the organizational ethics policy as key governance documents. Interviews showed that audit committees interact with the IA service providers, both from the government entity and the private-sector firms, and obtain their IA reports, which are not published but rather disseminated to the senior management. However, the reports could be obtained via the *Freedom of Information Act 2013*. Large entities with busy ACs may provide very restricted or highly summarized reports. Interviewees indicated that it could be difficult for the AC members to keep up with the entity activities and see the big picture, since they are often driven by the agenda that is put before them. However, there is a consensus among the IA field experts that establishment of the audit committees, as advisory bodies, was a significant accomplishment.

- ***IA Policy Advocacy Coalitions***

The key policy advocacy force for the IA profession on the Australian continent is the IIA-Australia (IIAA), established in 1952, with local chapters across the country and about 3,000 members (see IIAA web1). It provides such services as: 1) IIA standards, guidance and information on IA best practices, and technical resources; 2) professional development across activities and standard IIA certifications; 3) forums on IA; 4) external quality assurance services (EQAs); 5) advocacy programs with industry professionals, universities, government, public and private sectors; and 6) representation on international committees and the IIA Global Board (see IIAA 2017a; IIAA web1-7).

IIAA conducts an annual Public Sector Internal Audit Conference in Canberra, which attracts hundreds of delegates from public sector organizations at all levels of government, as well as other conferences. The IIAA has a robust Advocacy program, aimed to contribute to public policy through the IA policy development, position papers and written submissions, active engagement with policy-makers, and provision of available IIA guidance and policy documents for the practitioners (see IIAA web3). The IIAA Policy Agenda states:

Adoption of the IIA's policies allows for more effective self-regulation by all sectors and reduces the need for reactive or overly prescriptive legislation in the future. In turn, it also provides for stronger performance and effective risk management in all organizations and sectors. The IIA-Australia Policy Agenda sets out its five policy principles which are applicable to all organizations, irrespective of sector: 1) Internal audit is fundamental to good organizational governance; 2) Public entities should have a stronger and effective audit committee; 3) Reporting lines for the head of internal audit should be appropriate; 4) Organizations need clear accountability for risk management and internal control; 5) Internal audit should operate at a consistently high standard (IIAA 2012).

Interviews indicated that IIAA is recognized as a leader in IA standard-setting and best-practice guidance, and is often called upon, especially by the state governments, to review draft IA legislation and policies, provide seminars, etc. Further, the IIAA, on behalf

of its members, provides submissions as a matter of public record to a wide range of the government and standard-setting national and international bodies during the processes of draft exposures on various proposed standards, policy pronouncements, regulation or legislative instruments, typically on the matters of IA practices, corporate governance, risk management and internal control (see IIAA web6). Some of the most notable recent submissions were those on the Public Management Reform Agenda (February 2014) and the National Commission of Audit (November 2013), and Reform of Australian Government Administration (December 2009) (see IIAA web6).

The IIAA also monitors the development of the IA profession in Australia. For example, it has provided a history of IA in Australia since inception in 1948 to 2013 (IIAA 2014). In its most recent Fact Sheet “Evolution of Internal Audit”, the IIAA identified that the IA in Australia has been showing the traits of risk-based IA during 1990s-2010s, and then entered into the eras of partnership and value-based IA functions, which was also corroborated by the interviews (IIAA 2017f). Since 2009, the IIAA also conducts annual studies and surveys of the IA profession in Australia. The most recent 2015 report shows the characteristic VAMP language and indicators (see IIAA-Protivity 2015).

Interviews also revealed that the Big Four - the global management consulting, assurance and accounting firms KPMG, Deloitte, EY, PWC - are quite prominent in the IA policy advocacy, training, thought leadership and external professional services landscape. It was discovered during the interviews that since the Australian Government does not provide training to the members of the audit committees and the boards, it is the Big Four that provide that training. They also typically organize IA conferences, forums, seminars, conduct or participate in the country-wide and global IA surveys and studies, publish

reports and insights on various issues of IA at the national level, as well as provide access to global information. They also provide submissions to the key government and public policy reviews and development processes.

KPMG has an Internal Audit, Risk and Control Services practice in Australia with the aim to help the clients: “1) develop effective governance practices to enhance the work of boards, chair persons and individual directors; 2) manage enterprise-wide business risks and opportunities to enhance shareholder value; 3) create an effective audit and control environment to establish a wide-ranging assurance framework; 4) measure business performance and communicating it to the right people at the right time; and 5) instill a high-performance culture and ethical business practices” (see KPMG-AU web1). One of the most recent studies highlighted the way to enhance a value-added of the IA in organizations (see KPMG-AU 2016).

PWC Australia established an IA practice as well, providing such services as outsourcing, co-sourcing, staff augmentation and assignments, IA transformation, IA quality review and IA training, Lean and SIGMA IA tools, Risk and Controls Insights Reports, data analytics, benchmarking, social media mobile app, etc. (see PWC-AU web1). Most recently, PWC-Australia participated in the 2016 SOPAC conference organized by the IIAA and published reports on the 2017 State of the Internal Audit Profession Study and 2017 Risk in Review Study (see PWC-AU 2016, 2017a-b).

Deloitte Australia also has a long-established practice of Internal Audit and Assurance in the country, leveraging a “global network of specialists to provide a range of audit and advisory services” to assist the client in managing their risks (see Deloitte-AU web1). Deloitte is also active in the training of the audit committee and board members,

including on how to develop a high-quality and value-adding IA function, leading by example, as the most recent reports and training materials on board effectiveness and IA transparency illustrate (see Deloitte-AU 2016a-b).

EY Australia is also a leading provider of a wide range of the IA advisory, assurance, training and informational services to the management, audit committees and board of directors, and helps organizations deliver on their IA plan via co-sourcing and outsourcing arrangements (see EY-AU web1). As the EY Global conducted a 2013 global survey and the Chief Audit Executives interviews, the EY-Australia popularized the results for the country (see EY-AU 2013).

Of course, there are other players in the IA Policy Advocacy landscape. For example, for the consultations for the National Commission of Audit 2013-2014, several other influential organizations, including Accenture Australia and the Institute of Chartered Accountants Australia, provided input. Protivity was also highlighted as one of the prominent auditing companies, often appointed by the Australian Government to perform the program IA function (see HIP Commission 2014: 214).

Overall, the level of development of the “Governance Structures” in the IA sector in the Australian Government is assessed at the IA-CM level 3 “Integrated”.

6.3.2.2. Services and Role of IA

According to the interviews, in the middle of the 1980s, the Australian Government recognized that the IA functions were not effective – that was the result of the NPM-era downsizing and outsourcing. There was a significant move to strengthen the audit. In 1992, when the COSO Internal Controls Integrated Framework (IC-IF) was published, there was a general recognition that IA has to think about the risk management in a comprehensive

way. In the late 1990s, the IA functions received a new boost due to the activities of the ANAO and grew until early 2000s. However, the 2010s saw the downsizing, co-sourcing and outsourcing of IA in the Australian Government due to the major restructuring of the APS as a consequence of NCA and the budget restrictions that followed.

While the PGPA 2013 legislated the ACs, it did not legislate the establishment of the independent IA functions in the Commonwealth entities, which was highlighted as a major challenge by the interviewees, as well as a strange predicament that will need to be fixed in the future, perhaps via the upcoming review of the PGPA 2013 in 2018 by the Department of Finance. IA functions are also not mandated by any government policy. The consensus among interviewees was that the Commonwealth government is lagging behind the state governments in establishing effective IA regimes and providing policy guidance, while it is supposed to be a national leader.

Consequently, it is only implied in the *Department of Finance Resource Management Guide 206* that the accountable authorities may establish the IA function, in order to help the audit committee to discharge its duties in promoting the proper use and management of public resources, achievement of the purposes of the entity and its financial sustainability (see GOA-DOF 2017d). According to the interviews, it is believed, anecdotally, that one of the key reasons for the entities to have the IA function (formalistically) is the political one, i.e. the Australian National Audit Office (ANAO) would criticize the federal government entities if they did not.

Further, the Department of Finance has not yet developed a specific policy guidance for the IA, but rather an *Australian Government Assurance Reviews Framework (AGARF 2017)*, that provides a policy structure and guidance for the project-based and program-

based assurance activities, where both the public and the private-sector auditing professionals can be engaged (see GOA-DOF 2017c). It has also released a *Commonwealth Risk Management Policy 2014*, where audit and assurance programs, both internal and external, were considered important in influencing the design of the entity's control framework (see GOA-DOF 2014a, 2016d).

According to the interviews, there is no consistently held view across the management of the Commonwealth entities about the internal audit and no understanding about the IA profession. Moreover, in the *Resource Management Guide 210 "Clarification of the Terms 'Audit' and 'Assurance'"*, the Department of Finance referred only to the independent external services under the frameworks of the Australian Auditing and Assurance Standards Board (AUASB) and the Accounting Professional and Ethical Standards Boards (APESB), where the audit is regarded as a systematic criteria-based assurance process, while the assurance review is considered a limited assurance process (see GOA-DOF 2016a). Interviewees noted that this is probably to the fact that the role of IA is not legislated and the IA functions are not officially mandated in the government. Therefore, the bureaucrats do not pay attention to IA unless formally required. Further Hansard research is necessary to understand the nature of the debates on the role of IA in the Australian national government.

Interviewees commented that at present, every Commonwealth entity has some form of the IA function, but it varies. The estimated number of internal auditors is about 400. Major federal organizations in the Australian Government have the IA function of a good size, supplemented with external IA services, while smaller departments and agencies have IA services delivered by external assurance providers. Thus, the IA functions are both

co-sourced and out-sourced. The 2015 IIA GIAPS-CBOK indicated that the average size of the IA function in the Australian Government is about 8 people, where two-thirds of the IA units did not experience and did not anticipate any change in terms of staff or budget in the short term, and where only half of the respondents (55.6%) thought that these levels were sufficient.

As a result, interviewees explained, the external assurance providers, including the Big Four firms, take-up a significant part in the IA plan implementation of the Commonwealth entities. The 2015 IIA GIAPS-CBOK found that more than half or 69.8% of the Australian Government IA units employ third-party providers, either internal or external to the organization, which deliver about a third (36.7%) of the IA work plan. Further, the external assurance providers were paid, on average, \$351 thousand annually.

The *Australian Government Organizations Register* indicates existence of the official IA functions at the commonwealth government departments of Human Services, Defense, Employment, Immigration and Border Protection, Treasury, Environment and Energy, Prime Minister and Cabinet, Industry, Innovation and Science, and Agriculture and Water Resources. This is consistent with the results of the interviews, indicating that large entities in the Australian national government have established the IA functions, while this is not always the case in smaller entities (see GOA web1).

Moreover, the *Department of Finance Resource Management Guide 202* on the audit committees and its supplementary documentation do not specify a relationship between the AC and the IA function, but contain suggestive provisions for ACs within the framework of risk oversight and management: 1) to advise the accountable authority on the IA plans of the entity and the IA professional standards used in the conduct of the audits;

2) to coordinate the internal and external audit work programs; 3) to review the adequacy of the entity's response to IA and external audit reports; 4) to review the content of the internal and external audit reports to identify the material that is relevant to the entity, and advising on good practices (see GOA-DOF 2015, 2017b).

Interviews showed a consensus on the fact that the Commonwealth entities do not have a well-operating "Three Lines of Defense" model, advocated by the IIA, where internal audit should be a "third line of defense" to ensure effective organizational risk management and control (see IIA 2013a). The 2015 IIA GIAPS-CBOK found that only half of the IA units in the Australian Government are considered a "third line of defense" by the senior management of the organization, while in the rest of the organizations, the lines are blurred or the model is not followed at all. Nevertheless, majority of the IA functions (95.2%) have the IA charter, the IA operating manual (83%), formal IA strategy (59.5%), and description of key process indicators (62%), as prescribed by the IIA IPPF.

The 2015 IIA GIAPS-CBOK reports that only two-thirds of the IA units (69%) in the Australian Government have complete support from the board of directors or equivalent to review the organization's governance policies and procedures. However, in most cases, the IA activity is asked to participate in a range of organizational governance reviews, including due diligence audits for acquisition/divestiture (85%), executive compensation assessments (85.7%), environmental sustainability audits (71.3%), audits of the internal operations of the external providers of major services (40%), and ethics-related audits (25%).

Further, according to the 2015 IIA GIAPS-CBOK, in the majority (72.2%) of the IA functions in the Australian Government, the resources are spent on assurance activities

and the rest on consulting activities. Interviewees indicated that the division between the assurance and consulting focus of the IA varies greatly by entity. In some entities, the IA units are predominantly the advisory functions. This is due to the fact that IA functions are so trimmed that they can only afford to perform a basic assurance role. Some of the entities acquire the cheapest external assurance providers, and then the audits are only about compliance. There is a tendency for departments to go and buy the service provision as a commodity, but they don't really specify what they want, which is not a desirable practice. In the opinion of interviewees, if the departments want a level-five IA function (i.e. optimal IA-CM maturity), then they should specify the level of assurance services, as highlighted by the Auditor General specifically in the *2012 Better Practice Guide on Public Sector Internal Audit* (see ANAO 2012).

The 2015 IIA GIAPS-CBOK reports that the majority of the IA functions have only some responsibility for fraud detection and prevention (56.1% - 63.4%). The IA units are required to support the external government auditors and coordinate with them, which results in about 40% of them spending more than 4 and up to 8 weeks on these activities. It is recognized in the organizations that the IA and the ERM are separate functions (71%), but they still coordinate and share the knowledge, while the IA provides assurance on individual risks, risk management framework, and advice and consulting on risk management activities (60%-68%).

The available evidence positions the “Services and Role of IA” area of the IA sector in the Australian Government at the maturity level 3 “Integrated”.

6.3.2.3. Organizational Relationships and Culture

The interviews and analysis of the PGPA 2013 and the associated rules and Resource Management guidance of the Department of Finance showed that the Commonwealth entities are not mandated to institute Chief Audit Executive (CAE) positions, as would be normally prescribed by the IIA IPPF if it was followed. Those organizations that have the CAEs or Heads of Internal Audit (HIAs), usually draw them from the middle to senior management ranks, and often from the private-sector IA professional community. The head of the department or the CEO usually makes the appointment decision (81%). Many of these managers do not specialize in IA and do not have the appropriate qualifications, and have to perform other line management duties as well.

Normally, those managers that are charged with leading the IA files report functionally to the audit committee (69%) and administratively to the head of the organization/CEO (56.2%). However, in small organizations, they may report both functionally and administratively to someone more junior, such as the Director General or legal counsel, Chief Financial Officer, or Chief Risk Officer, and even have only one reporting line to the head of the department/CEO, according to the interviews and the 2015 IIA GIAPS-CBOK.

It was strongly indicated by the interviewees that the reporting lines for the IA officials are not clear, especially in the small Commonwealth entities, which impedes the independence of the CAEs and the IA function overall. While administrative reporting to the CEO and functional reporting to the AC or the board seems to be a convention, there is no policy document stipulating the formal reporting relationships between the AC, the

CAE and the accountable authority, aside from the IA activity charters, the latter not mandated by the law or policy, but rather IIA IPPF.

Further, neither the audit committees nor the CAEs have reporting arrangements with the central agencies, including the Department of Finance, because the heads of Commonwealth entities are considered autonomous in the way they meet requirements of the governance legislation.

Nevertheless, the interviews pointed to the positive developments in the growth in the CAE/HIA positions in the Australian Government. The CAE/HIA engagement in organizational governance is becoming more prominent and their role is more recognized by the senior management, even though they are not mandated. CAEs/HIAs usually provide independent assurance to the Departmental Secretary (i.e. permanent head of the department) through the AC on the efficiency, effectiveness and ethics of the internal controls through delivery of the IA program, as well as a liaison function with the ANAO.

Interviewees noted that the lack of legislative and policy definition of the IA function and its organizational relationships with internal and external stakeholders becomes challenging during the times of performance assessment of the CAEs/HIAs, which would normally be evaluated by the AC as IIA standards prescribe, but it is not always the case. According to the 2015 IIA GIAPS-CBOK, the audit committee evaluates the CAE/HIA only in 18.7% of the cases, while the head of the department or the CEO – in 56.2%, and other departmental official – in 18.75%. Not surprisingly, this does not promote the independence of the IA function, and may be an obstacle to its effectiveness.

The area “Organizational Relationships and Culture” in the IA sector of the Australian Government is assessed at the IA-CM maturity level 2 “Infrastructure”.

6.3.2.4. Performance Management and Accountability

The interviews and review of government documentation indicated that there is no requirement for the Australian Government IA functions or audit committees to report publicly on the effectiveness of IA activity, nor to publish the IA reports. It was noted that there is no government-wide performance management framework for the IA, and thus no common performance measurement indicators or IA metrics and statistics. The IA performance and accountability framework is determined individually by each entity, and it usually consists of the assessments of both internal and external audit activities. However, under the PGPA 2013, departments are required to table their annual reports to Parliament, and in these reports there is normally a brief section on internal audit. In one instance, the Department of Finance in its 2016-17 Annual Report included the following summary of the IA arrangements:

Primary responsibility for the department's internal audit activities rests with the head of Internal Audit, who provides to the Secretary—through the Audit Committee—independent assurance that internal controls designed to manage organizational risks and achieve the department's objectives are operating in an efficient, effective and ethical manner. The head of Internal Audit also implements the annual internal audit plan and manages liaison with the Australian National Audit Office. Internal audits are either commissioned by the Audit Committee under the annual internal audit plan or initiated by management. A management-initiated review can be conducted in response to a newly identified risk or another matter on which management requires additional assurance. The department currently contracts KPMG to provide its internal audit services. During 2016–17 the internal audit program was delivered in line with the annual internal audit plan endorsed by the Audit Committee and approved by the Executive Board. In addition, internal audit services supported the transfer and establishment of the Service Delivery Office from the Department of Employment and the Department of Education and Training to Finance (see GOA-DOF 2017e: 68).

The annual report also highlighted the departmental work under the Commonwealth Fraud Control Framework and the work of the government external auditors and oversight bodies relevant to the Department of Finance, such as the Australian National Audit Office, the Commonwealth Ombudsman, the Australian Information Commissioner, the Senate Standing Committee on Finance and Public Administration, the Joint Committee of Public

Accounts and Audit, and other various committees and courts (see GOA-DOF 2017e: 69-70).

Another example is the 2016-17 Annual Report of the Department of Employment, which stated that it has an independent audit committee with five members appointed by the Secretary, focused on “providing independent advice to the Secretary in order to support informed decision making in relation to the operation of the Department’s financial, performance and risk control systems” (see GOA-DOE 2017: 91). The report also stated that the department has an IA team, which it considers a central component of its governance framework, with the “aim to strengthen accountability and promote good governance and transparency through the provision of independent and objective assurance to add value and improve the Department’s operations” (see GOA-DOE 2017: 90). The IA team in this department collaborates with the internal and external stakeholders in developing the IA work program, making this program responsive to departmental needs and priorities, recommendations of the ANAO performance audit reports and the audits of annual financial statements, departmental governance committees, and the advisory needs of the business areas in implementation of the audit recommendations. The report provided information on the external performance evaluation of the departmental IA team according to the IIA IPPF as follows:

In 2016–17, the Department commissioned an independent external quality assurance review of the internal audit function against the standards of the Institute of Internal Auditors’ International Professional Practices Framework. The conclusion of the review was that the Department’s internal audit function has policies, processes and practices that are in accordance with the standards of that framework. In 2017–18, the internal audit team will continue to: encourage improved internal practices through a focus on continual review of processes and functions; assist the Department in being effective, strengthen accountability, and promote good governance and transparency; provide advice and guidance on better practice; and support the Audit Committee in fulfilling its roles and responsibilities (GOA-DOE 2017: 90-91).

Interviewees noted that the IA reports are normally provided to the ACs for the review and dissemination to the senior management, according to the Department of Finance Resource Management Guide 202, and the public may obtain the IA reports via the requests under the *Freedom of Information Act 2013* (see GOA-DOF 2015, 2017b).

The 2015 IIA GIAPS-CBOK showed that the top five IA activities that bring the most value to the organization in the Australian Government are: 1) assuring the adequacy and effectiveness of the internal control system (86.7%); 2) recommending business improvement (86.7%); 3) assuring the organization's risk management processes (53.3%); 4) Informing and advising management (46.7%); 5) testing management's assessment of controls (46.7%).

The survey also found that the most common measures for evaluation of the performance of IA activity are percentage of the audit plans completed (80%), achievement of the client satisfaction goals (66%), and the budget to actual audit hours (46.7%). Majority of the IA units or 86.7% use surveys of IA clients to assess their performance, 60% - surveys of key stakeholders, 47% - internal quality assessments, and 67% - external quality assessments. Nevertheless, the interviewees indicated that the CAEs/HIAs in large departments routinely monitor benchmarking indicators in other jurisdictions and communicate with their counterparts in other organizations.

This evidence positions the “Performance Management and Accountability” area of the IA sector in the Australian Government at the IA-CM maturity level 2 “Infrastructure”.

6.3.2.5. Professional Practices

Review of the government documentation and interviews indicated that there is no government-wide information or metrics on the maturity of the IA functions in the Australian Government. However, the majority (94.4%) of the organizations follow all or parts of the IIA IPPF standards and guidance on the professional practices, according to the 2015 IIA GIAPS-CBOK.

According to the interviews, all assessments on the quality and maturity of the professional IA practices are driven by the entities, which can perform self-assessments, or engage private-sector External Quality Assurance (EQA) providers, as well as independent reviewers from the IIA Australia. The 2015 IIA GIAPS-CBOK survey found that the majority of the IA functions (66.7%) in the Australian Government have a well-defined quality assurance and improvement program (QAIP). Two-thirds of the IA functions conduct annual ongoing/periodic internal assessments and external quality assessments (EQAs) every five years, and report on the IA program to the board at least annually.

The respondents have also rated the full conformance with the IIA IPPF in the IA functions as rather high but variable, ranging from 52% to 97% for the requirements for QAIP, communicating and accepting the risks, monitoring progress, managing the IA activity, nature of work, IA engagement processes, communicating results, proficiency and due professional care, purpose, authority and responsibility of the IA, and independence and objectivity. The key reasons for non-conformance with the standards were identified as supersession by the government standards and regulations, inadequate IA staff, inappropriateness for small organization, and lack of cost-benefit appeal.

As noted previously, the IA activities and plans are normally based on the management and stakeholder priorities and are aligned with the organizational strategic and risk profile, as corroborated by the 2015 IIA GIAPS-CBOK survey, according to which 100% of the IA plans apply risk-based methodology and 56.2% are aligned with the organization's strategic plan. IA plan development normally includes: 1) considerations of carry-overs from the previous year (83.3%); 2) consultations with divisional or business heads (100%); 3) analysis of the organization's strategy or business objectives (94.4%); 4) compliance and regulatory requirements (83.3%); 5) requests from management (94.4%); 6) requests from the audit committee (100%); 7) requests from external auditors (27.8%), and 8) consultations with external auditors (61.1%).

To reiterate, in the majority (72.2%) of the IA functions in the Australian Government, the resources are spent on assurance activities according to the annual IA plan that could be updated several times per year, and the rest on consulting activities. The majority of the IA functions (88.2%) reported that their procedures are documented in the IA manual and are monitored either manually or with software. About half (44.4%) of the IA functions develop the IA plans based on the comprehensive risk assessment provided by the management, but supplement it with their own risk assessments that could be done annually or continuously, and maintained in the automated system (75% of cases). The majority of internal auditors (88%) practice the use of electronic information technology tools in their work. Specifically, the spread of IT tools and techniques usage is on average about 1.8%-2.4% each for IA risk assessment, planning and scheduling, data mining, data analytics, computer-assisted audit technique (CAAT), continuous auditing, IA work papers, flowchart or process mapping, audit remediation and follow-up, IA databases, etc.

Further, 82% of data mining and analytics is done in-house and used for the identification of possible fraud (48.7%) and risk/control issues (56.4%), tests of the entire population rather than sampling (53.8%), tests for regulatory compliance (18%), and business improvement opportunities (30.8%).

In the majority (68.2%) of the IA functions in the Australian Government, both the IA and the audited entity have the primary responsibility for the implementation of the corrective actions recommended in the IA reports. However, the 2015 IIA GIAPS-CBOK found that 27.5% internal auditors were directed to suppress or significantly modify a valid IA finding, and this pressure came predominantly from the CEO, CFO, operations management, CAE/HIA himself, and other internal sources.

In summary, the evidence for the area “Professional Practices” suggests that the IA sector in the Australian Government is at the IA-CM maturity level 2 “Infrastructure”.

6.3.2.6. People Management

The interviews and documentary analysis indicated that there is no formal prerequisite for the Australian Government internal auditors to be members of the IIA Global or its Australian division and local chapters, but many of them are. According to the IIA-Australia, at the 2017 year-end, there were 386 members from the federal government (see IIAA 2017h).

The IA leadership and activity involvement with professional bodies in the Australian Government was assessed in the interviews as rather minimal and associated with attendance at the various courses, seminars, forums and conferences. However, the IIA-Australia is represented on the IIA Global committees, although primarily by its officers (IIAA web2). Analysis of the recipients of the IIA-Australia awards indicates that

majority are from the private sector and local governments, and only a few are from the federal government, indicating that this capability is only beginning to develop among the government CAEs/HIAs (see IIAA web4). The federal government has not yet become an active sponsor or partner of the IIAA (see IIAA web5).

In terms of building and maintaining IA staff competencies and their professional development, the interviewees indicated that there is a significant problem: there is no consistently held view across the management of the Australian Commonwealth entities about the internal audit and no understanding about the fact that it is a distinct profession with specific requirements for the standards of professional practice, skills and continuous professional education, as mandated by the IIA and other professional standard-setting bodies. This poses a challenge in advocating for the need for formal certifications and training programs, which is usually not sponsored centrally or by the entities, resulting in only 64.7% of the training formalization level according to the results of the 2015 IIA CBOK survey. Since most of the government internal auditors are hired from the private sector, there is an expectation that they are already trained and possess the required skills. Nevertheless, 61.1% of them are offered courses in IA skills, 55.6% - orientation courses, 50% - business knowledge, and 55.6% - leadership skills. In most cases, the internal auditors take the IIA courses or the private-sector training when necessary.

The IIA suite of certifications is prevalent among the government IA workforce, where the CIA and CGAP are most frequent. Certifications from ISACA and the accounting bodies are also in demand. Interviewees also commented that the standard IA and accounting certifications are not always relevant in the public-sector setting. The IIA IPPF is useful in terms of general standards and guidance, but for the IA engagements it is

also often supplemented with guidance and templates found in COSO ERM and Internal Control frameworks, Business Continuity Institute’s Good Practice Guidelines, and other models.

The 2015 IIA GIAPS-CBOK survey found that about half of the IA staff have a dominant skill background described as that of an equal mix of traditional auditing skills and industry knowledge. The most required skills during the hiring of new personnel are those associated with risk management assurance (72.2%) analytical/critical thinking (66.7%), business acumen (55.6%), communication (55.6%), and data mining and analytics (55.6%). While it is clear that there is a regular evaluation of the IA staff, as reported by the survey (72% by supervisor and 83% by auditees), there is no evidence at this time to suggest that there are comprehensive IA planning and forecasting practices in place. Government IA personnel do not receive bonuses. There are also no reports regarding the practice of rotating staff through the IA department as part of management training.

The above information for the area “People Management” indicates that the IA sector in the Australian Government is at the maturity level 2 “Infrastructure”.

6.3.3. Evaluation of the VAMP Implementation in the IA Sector of the Australian Government

Application of the **Generalized Logic Model for the IA Sector Reform under VAMP Paradigm** in the case of the Australian Government is difficult, since most of the data necessary to perform such assessments do not exist or are not published. However, it is clear that the Australian government had a gradual and conservative approach to the adoption of VAMP with a lack of consistent commitment to strengthening the IA function.

Since the advent of VAMP in 1999, the Australian Government has adopted the IIA standards and professional practices guidance as the new normative basis for the IA sector in principle, but was not consistent in their formal application due to the complex national political issues that dominated the government's agenda, such as dealing with the national fiscal imbalance. Despite of the advocacy efforts of the ANAO in the 1990s and early 2000s, the government did not consider IA as a key agent of change, thus strengthening the IA sector was not a priority at that time. In 2010s, a severe austerity regime was introduced by the Australian Government across APS, and the IA sector was significantly downsized and outsourced.

However, the views of politicians and senior bureaucrats towards IA started to gradually change after the new *Public Governance, Performance and Accountability Act 2013*, which introduced the Accountable Authority (AAs) concept as an Australian version of the traditional British Accounting Officer sub-doctrine of ministerial responsibility. This provided the impetus for a set of initiatives aimed at strengthening the IA function.

In terms of *investments and resources for the post-2013 IA reform*, there are no government-wide financial data, but there is evidence of the allocation of human resources at the Department of Finance for the development of select guidance materials and establishment of their own independent audit committee and the IA function.

The IA-CM analysis indicated that in terms of *activities*, the IA sector in the Australian Government has reached the maturity level of 3 “Integrated” for such defining elements of effective IA function, as Governance Structures and the Services and Role of IA, while the rest of the elements, i.e. People Management, Professional Practices, Performance Management and Accountability, and Organizational Relationships and

Culture, are at the level 2 “Infrastructure”. This indicates that the foundations for the VAMP implementation have taken the root, but there is room for improvement.

The most prominent feature of the IA reform activities is the mandatory statutory requirement to establish independent audit committees at the departments and associated agencies as advisory bodies, to support the AAs in their accountability duties to Parliament. Naturally, the independent ACs require an IA function in order to base their work on and be able to provide credible assurance and advice to the AAs. This led to the initiative by the Department of Finance to establish some form of central IA policy guidance for the departments, albeit within a larger framework and under the authority of the PGPAA 2013. Thus, while the ACs are legislated, the IA functions are not, which means that the role of the IA as a key agent of change in government management is only partially recognized. The appointment processes for the independent members of the ACs are driven by the departments, and the members are drawn largely from the various IA policy advocacy groups. Nevertheless, there are currently at least 18 ACs with more than 54 independent members.

As a consequence of the lack of the legal and policy definition of the IA function, the positions of the Chief Audit Executives (CAEs) are not mandated either, but are becoming more prominent due to the needs of the ACs for the strategic leadership and direction of the IA work. Remarkably, there are no official lists of CAEs or Heads of Internal Audit (HIAs) since the appointment process is the departmental prerogative.

Further, the Australian Government is relying quite extensively on the thought leadership, training, advice and assurance work of the IA standard-setting bodies and

private-sector assurance providers, and keeps the policy communication channels open. The rate of outsourcing is at 36.7%.

While the Australian Government has established basic infrastructure for IA hiring, the workforce is still largely drawn from the external IA community and co-sourced from other internal functions on the basis of individual qualifications. There is a need for a greater investment into IA human resources, especially formal training and certification programs. The current number of internal auditors is estimated above 400, where 386 people are the members of the IIAA, which means that they either hold or work towards certification.

The majority of the IA functions in the Australian Government made it their goal to follow the IIA IPPF (94.4%) and conform to it (74.5%), as well as to ground their work in the risk-based IA methodologies (100%). However, while there are some data that internal systems of IA performance management and reporting established at the minimum, there is no legislated or policy requirement to report these metrics to public or to Parliament.

These activities led to the expected *output* - a rise of ***decentralized IA governance model in the Australian Government, characterized by co-sourcing and out-sourcing of the IA activities, and lack of central IA policy establishment***. In this regime, there is no mandatory central IA policy design, implementation, and oversight, but only a few elements of specific guidance, where the individual departments have the full authority and responsibility for the implementation of the legislative requirements for ACs and are free to implement the IIA IPPF and run their IA functions at their discretion. However, they are

still subject to the scrutiny by the Auditor General and other external government review bodies and agents of Parliament.

The first expected *immediate outcome* of the VAMP implementation - an independent IA activity, is only partially achieved. It is not surprising that approximately a quarter of the IA workforce is often sometimes directed to suppress or modify a valid audit finding, even though there is no requirement to publish the IA reports. However, this is still better than the global average suppression rate of 33%. The IA sector in the Australian Government has an intermediate level of IA capacity, capability and professionalization, which positions it to provide only the basic level of assurance and advice to senior management (72.2% of assurance versus consulting services).

However, when it comes to the *intermediate outcomes*, it is not possible to make any conclusions, because there are no official government reports to assess whether ministers and accountable authorities have confidence in this IA regime, or whether it is effective and provides a high value-added so that the management can safely act on IA advice. Further, Auditor General has not yet conducted performance audits of the IA functions in the post-reform period.

The *long-term outcomes*, surprisingly, are more evident. Establishment of the independent audit committees has immediately provided a regular mechanism of support and protection for the ministers and their accountable authorities, through professional assurance and advice on the risk management, governance and control processes, and overall stewardship of the public resources in the departments. It is very clear that the Parliament is supported in ensuring oversight of public spending at the departments, since there are systematic data that the Auditor General and other agents of Parliament rely on

the work of the IA functions and receive support from them on request. There is no question that IA reform has improved government risk management, control and governance regime since the IA risk-based and internal control methodologies are routinely implemented and the IA seems to be fulfilling the role of the third line of defense. However, in terms of the correlation between the IA work and the improved government ability to meet objectives and deliver results, no data exist at this time to establish the link.

With respect to the *ultimate impact*, there are no data to determine whether the government management of public resources is accountable or appropriate.

6.4. Case Study 3: IA Reform in the Federal Government of Canada under VAMP Paradigm

6.4.1. Profile and Overview of IA Governance Regime in the Canadian Federal Government

In about two decades from 2001 to 2017, the Government of Canada established a fully-fledged VAMP model of the IA function, borrowed from the global IA industry and prescribed by the global internal auditing standards, and then incorporated it with modifications into the Westminster system of responsible government under the federalist arrangements. The current IA governance regime is a *decentralized model of the government IA activities with a strong central IA policy oversight and coordination* as illustrated in Figure 41. The key features and outcomes of the resulting IA governance regime can be described as a five-dimensional construct:

- 1) Westminster-type modernized legislation and doctrine of ministerial responsibility prescribing the roles and responsibilities of the Parliament, its agents, Ministers, and Deputy Heads in the IA governance regime;

Figure 41 Profile of the IA Governance Regime under the VAMP Paradigm in the Canadian Federal Government: Key Features and Outcomes - 2017

Source: Author, December 2017

- 2) Parliament and its agents responsible for parliamentary oversight and external audit of government accounts and IA functions;
- 3) executive branch responsible for the government-wide IA function oversight, policy, leadership, and accountability regime implementation;
- 4) IA standard-setting bodies and policy advocacy groups, including the Big Four auditing, accounting and management consulting firms; and
- 5) national and international IA standards and certifications.

The first three elements are internal to the government, while the last two are representative of the external IA policy environment with significant consultative and operational links to government over IA policy and activities.

Under the first dimension, the IA regime in the Government of Canada is legislated according to the 2006 amendments to the *Financial Administration Act (FAA)*, specifically legislating the role of the Deputy Ministers as Accounting Officers accountable for the IA regime to Parliament within the doctrine of ministerial responsibility, requiring the mandatory establishment of the independent Departmental Audit Committees (DACs) at the departments and agencies, and mandating the departments and agencies to establish an appropriately resourced IA function (see JC 2006). The *Auditor General Act (1977)* provides an authority for the Auditor General (AG) to conduct audits of the public accounts and performance of all of the government activities, including the IA functions. The *Inquiries Act 1985*, first introduced in 1846, gives the authority to the Privy Council (Governor in Council) to establish commissions of inquiry and various types of public inquiries to impartially investigate issues of national importance (see Makarenko 2007).

Under the second dimension, the *Standing Committee on Public Accounts of the House of Commons (PAC)* has the authority since 1867 to review the AG's audit reports and studies, hold hearings, and require the government to act on recommendations (see HC 2009). The AG is responsible for the audit of public accounts, the external audits and VFM audit of government operations, including the IA operations in the Government of Canada. Further, Canada has a long-standing and very active tradition, borrowed from British parliamentary law and conventions, to conduct Royal commissions, inquiries and independent reviews on any matters of importance, including those related to IA.

Under the third dimension, the *Office of the Comptroller General (OCG)*, re-established in 2004 at the *Treasury Board of Canada Secretariat (TBS)*, has the authority and responsibility for the whole-of-government IA function design, policy, leadership and accountability regime implementation and monitoring, carried out by a central unit – **OCG IA Sector**. The OCG has mandated a rigorous IA regime in the Treasury Board of Canada Secretariat (TBS) *Policy on Internal Audit Suite* since 2001, which has been updated several times since then in 2006, 2009, 2012 and 2017 (see TBS 2001a, 2009, 2012a, 2017a).

The fourth dimension – IA policy advocacy coalitions (IA PACs) - operates outside of the federal public administration, and has an enormous influence by defining the IA values, norms and practices, propagating their adoption and renewal, self-regulating the IA community on compliance with them, and providing thought leadership to government IA executives and decision-makers on various matters of IA policy. IA PACs ensure that sets of ideas are constantly being developed and disseminated, since the governments are always looking for guidance and best practices, especially at the times of crisis and political

change. The current IA PACs cluster in Canada is comprised of national and international IA standard-setting and policy advocacy bodies, and global management consulting, accounting and auditing firms. Since the GOC Policy on IA has fully adopted the IIA IPPF as mandatory and IIA Certifications Suite as required for the IA functional community, the IIA and the bodies involved in the oversight of standards and professional certification programs (i.e. IIA and IIA Canada, the OECD, the World Bank, ISACA, COSO, etc.) have an influence on the IA public-sector philosophies and practices, and interact with the government IA officials through various committees, training, membership and advocacy programs, and conferences. The IIA Canada (IIAC) and its chapters are instrumental in propagating the IIA IPPF and CBOK, providing thought leadership, training and certification services to the members.

The Big Four auditing, accounting and management consulting firms – PWC, KPMG, Deloitte and EY – have been constantly present on the Canadian auditing landscape through the centers of corporate, public and IA governance, and as major providers of external audit and professional practice consulting and quality assurance services. Other important PACs, listed by the OCG IA Sector, are the Association of Certified Fraud Examiners (ACFE), the Canadian Comprehensive Auditing Foundation (CCAF), the Canadian Institute of Chartered Accountants (CICA), the Financial Management Institute of Canada (FMI), the Certified Management Accountants (CMA), Certified General Accountants (CGA), the Canadian Evaluation Society, and the Project Management Institute (PMI).

Not surprisingly, every government auditor is required to use three key standards – the IIA IPPF, the COSO ERMIF and the ICIF. Further, government internal auditors are

required to have at least one designation from the IIA Certifications Suite or a comparable accounting certification, such as Chartered Public Accountant (CPA), administered by the Chartered Professional Accountants Canada (CPAC).

6.4.2. IA-CM Assessment of the IA Sector in the Canadian Federal Government

Capability maturity assessment of IA in the Canadian federal government is provided below by the Key Process Areas (KPA) under six major elements of the IIA Public Sector Internal Audit Capability Model (IA-CM).

6.4.2.1. Governance Structures

- **Westminster Mechanisms of Parliamentary Oversight**

- ***Modernized Doctrine of Ministerial Responsibility and Accounting Officers***

In 2006, under amendments to the Financial Administration Act (FAA), for the first time in its history, the Government of Canada has legislated the doctrine of ministerial responsibility in reference to the roles and responsibilities of the Deputy Ministers as Accounting Officers, under part I “Internal Audit and Accounting Officers” (see Annex 11 for details).

- ***Public Accounts Committee***

According to the *House of Commons Procedures and Practice*, all Public Accounts of Canada and the reports of the Auditor General are referred for the consideration and scrutiny of the Standing Committee on Public Accounts (PAC). “The Committee’s main functions are to ensure that public money is spent for the purposes authorized by Parliament that extravagance and waste are eliminated, and that sound financial practices are encouraged in estimating and contracting and in administration

generally. The Committee does not deliberate on the appropriateness of government policy; rather, it focuses on the economy and efficiency of its administration” (see HC web1).

Since the reports of the Gomery Commission in 2006, the stature of PAC has been elevated and it has become more active in considering IA matters. Search of Openparliament.ca under the PAC for the key word “internal audit” generated 4,500 instances of discussion. Of these, there were 126 records that referred to discussions between the members and the Auditor General, and 47 invoking Comptroller General; 54 records referred to the discussion on the internal audit function in the government of Canada; and 124 records referred to the discussions on the “internal audit committee”, while the rest referred to specific IA reports.

➤ ***Auditor General (AG)***

Historically, the Auditor General of Canada has been a very active advocate of the government internal audit with a view that IA is an important part of the accountability regime of the Westminster system of government. Traditionally, the OAG performs at least one study on the government-wide IA activity per decade. At the turn of the 21st century, the Auditor General discovered many issues with the government management of resources that were highly publicized. The most influential of them was the so-called Sponsorship Scandal. In 2002, the Auditor General Sheila Fraser conducted an investigation of several advertising contracts on request from the Minister of Public Works and Government Services Canada (PWGSC), which revealed significant shortcomings in the contract management process, and prompted her to refer the matter to RCMP and initiate a government-wide audit of all of the advertising and sponsorship activities of the Government of Canada since 1997 (see Gomery 2005a-b). Eventually, this work led to

establishment of the Royal Commission of Inquiry into the Sponsorship Program and Advertising Activities in 2004 (Gomery Commission).

In November 2004, the Auditor General issued a report on the audit of IA in the departments and agencies, based on the assessment of compliance in six IA groups with the professional standards and the TBS 2001 Policy on Internal Audit, as well as the goals of MCI (see OAG 2004b). The Auditor General acknowledged that the TBS made significant strides to fix the IA function and invested \$44 million over the four-year period 2002-2005 to help implement the *2001 TBS Policy on Internal Audit* and another \$11 million to fund the Centre of Excellence on IA (see OAG 2004b). The report contained the following key conclusions: 1) despite of the considerable investments, the effectiveness of IA varied considerably and was dependent upon the nature and extent of departmental senior management's understanding of the role of IA; 2) success of IA depends upon the professionalism of the IA activity and the value it adds to the department; 3) the TBS Centre of Excellence for IA must establish a clear strategic direction for government departments and the IA community, as well as to develop necessary capacity to meet expectations of the policy. The report also identified key success factors that need to be implemented, such as: 1) a consistent understanding on the part of senior management of the role that IA can and should play; 2) a departmental audit committee with external members who are independent of management; 3) a clear human resource strategy at the department, central agency, and government level that sets out the qualifications and appropriate number of staff for the IA community; 4) a focus on assurance services; and 5) a strategy to ensure appropriate IA coverage and capacity in small entities. Several interviewees noted that the

report basically indicated that the state of the IA has not changed since the 1990s, which was an era of outsourcing and downsizing in the Government of Canada.

The OAG reports in 2004 and the Gomery Commission reports in 2006 led to the deepening of IA governance reforms in the Government of Canada with amendments to the FAA and release of the new TBS Policy on Internal Audit in 2006.

In June 2011, the Auditor General released a *Status Report on Internal Audit in the Government of Canada*. The Auditor General studied the internal audit developments in 24 LDAs (representing about 95% of government's assets, liabilities, revenues, and expenses) on their compliance with the *2006 TBS Policy on Internal Audit*, which found that the government has shown satisfactory progress (see OAG 2011). The key findings were: 1) independent DACs have been established in 24 LDAs with the majority of members coming outside the federal public administration; 2) DAC charters were created in keeping with the policy on IA; 3) DAC members received appropriate training from the OCG; 4) DACs are at varying stages of development; 5) independent DACs have had a positive effect; 6) reporting relationships support the independence of IA; 7) annual audit plans focus on key risks; 8) the results of IA work need to be reported clearly; 9) few departments have had an external quality assessment review; and 10) the OCG provides leadership and guidance to the IA community. There was only one recommendation for departments that have not had an external quality assessment - to have it conducted as required by the *IIA IPPF* and the *2006 TBS Policy on Internal Audit* (see OAG 2011). However, since then, there were no other studies on the government-wide IA activity conducted by the OAG.

➤ *Royal Commissions and Inquiries*

Several Royal Commissions, inquiries and independent reviews had an impact on the development of the IA regime in the Government of Canada since 1931, most notable of which are the Glassco Commission (1962), the Wilson Committee (1975), the Lambert Commission (1979), the Bosclair Independent Review (1997), and the Gomery Commission (2004-2006).

Of relevance to the VAMP-era reforms of the IA sector of the GOC is the work of the Gomery Commission. During 2005 and 2006, the Gomery Commission issued its reports on the inquiry into the government sponsorship and advertising activities in reference to the “Sponsorship scandal”. In relation to the IA function within the PWGSC department, it noted that all audits “failed to produce the corrective measures that should have prevented the Sponsorship scandal” (see Gomery 2006a: 190), including the list of the following specific problems:

- evidence of audit officials changing findings in response to management pressure, explicit or implied (Gomery 2006a: 190);
- outside audit firms being subject to internal departmental direction (Gomery 2006a: 190);
- incomplete or poor explanation of audit findings being made to senior officials (Gomery 2006a: 190);
- unacceptably long delays occurring between the completion of audits and the reporting of findings to an audit review committee (Gomery 2006a: 190);
- managers of the program audited being made responsible for implementing the corrective measures (Gomery 2006a: 190);
- a complete lack of any follow-up (Gomery 2006a: 190);
- internal audit reports were never made public (Gomery 2006a: 191);
- the basic objective of internal audits as an oversight tool was placed at cross purposes with the natural tendency of departments to protect themselves and their Minister from public criticism. As a consequence, audit reports were written in vague and unspecific terms, with limited utility for the ultimate recipients (Gomery 2006a: 191);
- Some aspects of an internal audit may, to varying degrees, have an impact on the reliability of the process. These aspects include the classification and status of auditors within the bureaucracy; the perception by public servants being audited that auditors play an adversarial role, thereby undermining public service confidence and creativity; the professionalism and quality of the auditors; and the objectivity with which auditors approach their assignments (Gomery 2006a: 191).

The Gomery Commission also conducted a review of the suite of new government measures put in place since the establishment of the commission in February 2004, including the changes to the Financial Administration Act, re-establishment of the Office of the Comptroller General, review of the responsibilities and accountabilities of ministers and senior officials, proposals for new management reforms, investments into professionalization of IA and procurement functions, annual reporting to Parliament on the state of government-wide management, and reforms of the IA, e.g. new policy, establishment of the positions of Chief Audit Executive and independent audit committees, strengthening the independence of IA function, etc. (see Gomery 2006a: 191-192; Benoit and Franks 2006).

Overall, the Gomery Commission (Gomery 2006: 26, 192) positively assessed the proposed IA reforms and the introduction of the MAF assessments in the federal government, but warned with skepticism that it could also add more red tape, have little impact on the political and administrative culture, and may fail like the previous reforms: “The Commission commends the reform efforts in the package introduced by the President of the Treasury Board. It contains many elements that promise to become useful tools in public sector management. Indeed, the only question to ask is whether this package may be too much. As the Auditor General noted in reviewing the Sponsorship Program, rules were already in place at that time, but some people simply did not follow them.”

These remarks are in parallel with the IIA’s “Three Lines of Defense” model, where the IA function is only a third line of defense in the organization’s system of governance, risk management, and control, and where its effectiveness depends on whether the senior

management and oversight bodies support it, and every element of the system does what it is supposed to do.

The main analytical argument of the Gomery Commission was that for reforms to be successful in the Canadian federal government, they should take into account the principles of parliamentary democracy, accountability, and oversight, both for Ministers and public servants:

In brief, the Government's claim that Parliament has no authority to oversee compliance with the law fails to respect constitutional principles, the law governing the role of the Auditor General, the practices of the Public Accounts Committee, the practices and mandate of the Standing Joint Committee for the Scrutiny of Regulations, and principles established through many centuries of evolution of parliamentary control of the public purse (Gomery 2006a: 29).

A historic contribution of the Gomery Commission was a series of roundtables and research papers and studies on the Westminster institutions of parliamentary accountability and best practices in modern Westminster parliamentary democracies of UK, Australia and New Zealand (see Gomery 2006b-d). The traditional doctrines of ministerial responsibility, the role of the Public Service, the Public Accounts Committee (PAC), the Prime Minister, the Deputy Ministers, the Treasury Board, and the Office of the Auditor General in the Westminster parliamentary accountability framework were examined and clarified. Further, the long-standing debate on the responsibilities and accountabilities of the Deputy Ministers to Parliament in the modern accountability context was resolved by Gomery, who supported the view of the Auditor General and the PAC that the DMs should be accountable to Parliament as public servants, in their own right, or alternatively, in their role as Accounting Officers as in other Westminster parliamentary systems (see Gomery 2006a-d).

In the final report, the Gomery Commission provided nineteen recommendations, themed "Rebalancing the Relationship between Parliament and Government" and aimed

to suggest the “ways for both politicians and public servants to accept responsibility for their decisions and their activities” (Gomery 2006a: 29).

Crucial for the establishment of the IA governance regime were recommendations to: 1) “substantially increase funding for parliamentary committees”, especially the Public Accounts Committee; 2) “modify policies and publications to explicitly acknowledge and declare that Deputy Ministers and senior public servants who have statutory responsibility are accountable in their own right for their statutory and delegated responsibilities before the Public Accounts Committee”; 3) “establish a formal process by which a Minister is able to overrule a Deputy Minister’s objection to a proposed course of action in an area of jurisdiction over which the Deputy Minister possesses statutory or delegated powers. The decision of the Minister should be recorded in correspondence to be transmitted by the Deputy Minister concerned to the Comptroller General in the Treasury Board Secretariat, and be available there for examination by the Office of the Auditor General”; 4) “ensure that Deputy Ministers, other heads of agencies and senior officials are the witnesses called to testify” before Public Accounts Committee; 5) amend the Financial Administration Act “to add a new section stipulating that deliberate violation of section 34 of the Act by an employee of the federal government is grounds for dismissal without compensation” (see Gomery 2006a: 197-204).

➤ ***The Treasury Board of Canada Secretariat (TBS) and the Office of the Comptroller General (OCG) as a Central IA Policy Sector***

The Treasury Board of Canada Secretariat and the Office of the Comptroller General (OCG) are the principal owners and administrators of the overall accountability

regime in the executive branch of government, as well as the IA reforms and the whole-of-government IA policy sector specifically.

In 2000, according to Larson and Zussman (2010a), a crisis of accountability and public management in the federal government broke out with a series of highly publicized scandals: 1) HRDC's "billion-dollar boondoggle" associated with limited monitoring of the money going to funded projects [CBC 2004]; 2) reports of misspending at Indian and Northern Affairs; and 3) serious cost overruns with the Firearms Registry (see CBC 2002).

In 2000, to prevent the political fall-out for the Liberal Government and in attempt to fix the problems, the President of the Treasury Board tabled *Results for Canadians: A Management Framework for the Government of Canada*, where the government's Modern Comptrollership Initiative (MCI) was highlighted as a crucial part of a broader vision to modernize the Public Service of Canada (see Dupuis 2006). The document detailed the government's agenda to introduce a government-wide change in management, based on citizen-focused services, guided by a set of public values, focused on results for Canadians, and committed to responsible spending, where the internal audit was regarded as an agent of the board in monitoring the state of the internal control systems and ensuring their effectiveness (see TBS 2000a).

Further in 2000, the Treasury Board initiated a study on the IA functions in the federal public administration (see TBS 2000b), which resulted in the release of *2001 TBS Policy on Internal Audit*, as part of the measures for Modern Comptrollership Initiative and *Results for Canadians: A Management Framework for the Government of Canada* implementation, and which was regarded by the TBS as one of the key instruments in protecting the public interest and maintaining public trust (see TBS 2001a). It embraced

the IIA standards by referencing it as the basis for the Government of Canada IA standards, and directly transferring several general requirements on the independence of the IA function and the auditors into the public policy context: “Internal auditors in the Canadian Government are to utilize these standards in carrying out their internal auditing responsibilities, wherever these standards are not in conflict with this policy and any related guidelines or other guidance provided by TBS” (see TBS 2001a).

The policy made the deputy heads of departments and agencies responsible for implementation of the policy, establishing an appropriately resourced IA function and an active Departmental Internal Audit Committee (DIAC), chaired by a senior departmental executive, and encouraged development of the departmental IA policies. The *2001 TBS Policy on Internal Audit* marked the beginning of VAMP era in the federal government internal auditing by adopting the IIA standards as the reference standards of internal auditing in the Government of Canada and mandating establishment of the independent DIACs, but did not go far enough as to comply with them in the area of IA governance. While the policy still viewed the IA function as that of providing assurance services to the Deputy Head, it stipulated that it is an independent function and that the DIACs are the independent advisory bodies. However, the associated *Guidelines for Departmental Internal Audit Committees* required only that the members are selected by the Deputy Head within the departmental officials with “sufficient degree of independence”, at the Assistant Deputy Head level or equivalent. Further, the heads of the IA were required to have triple reporting obligations to the Deputy Head, to the DIAC, and to the Deputy Comptroller General. This defeated the objective of creating independent and objective IA functions.

However, the Sponsorship scandal that unraveled in 2002 after the reports of the Auditor General required bold measures to strengthen the government accountability regime. Under the 2004 Budget titled *“Strengthening Public Management”*, the government committed to re-establishing the Office of the Comptroller General, reorganizing and bolstering the IA function on a government-wide basis to ensure comprehensive audit programs, based on sound risk analyses of all departmental activities, with the authority to delve into every corner of every portfolio (see GOC 2004). Shortly after the release of Budget 2004, on June 1st 2004, the TBS re-established the Office of the Comptroller General (OCG) and created the position of the Comptroller General of Canada. It is important to note that OCG has a long history since its establishment in 1931, but has been often restructured, downsized and even abolished (see OCG web3).

A distinguished accounting and assurance practice executive and a global public sector practice leader from the multinational management consulting firm Ernst & Young Charles-Antoine St-Jean was appointed as the Comptroller General of Canada in June 2004 (see Free and Radcliffe 2009; TBS 2004; OCG web3). Taking into account the developments in the global IA profession and the 2004 OAG report, the Comptroller General made IA governance reform a priority. He created an IA Advisory Panel, comprised of the members of the private sector, Institute of Governance, the IIA president, accounting and auditing firms and associations (CA, CMA, CGA, etc.), OAG, management consulting firms (Sussex Strategy Group), etc. In the next few years, the Comptroller General focused on rapid design of IA policy instruments in line with the IIA international standards and best practices, building the IA Sector within the OCG as a central IA policy

unit for the government, and developing measures to create a professional and value-added IA capacity in departments and agencies, including development of the new Policy on IA.

On April 1st 2006, the government released a seminal *2006 TBS Policy on Internal Audit*, which mandated establishment of “...a strong, credible internal audit regime that has the confidence of the government, contributes directly to effective risk management, sound resource stewardship and good governance, and is repositioned as a key underpinning of governance within departments and agencies and across government” within a three-year period (see TBS 2006). The policy referred to the FAA paragraph 7, government Management Accountability Framework and the IIA Professional Practices Framework (PPF), amended in 2004, as the basis for requirements. The key policy requirements to be implemented by 2009 were:

- 1) Deputy heads are responsible for establishment of independent departmental audit committees (DACs) with three to five members that includes a majority of competent and qualified external members;
- 2) Deputy heads are responsible for establishment of the positions of Chief Audit Executives (CAEs) with organizational independence from management, reporting directly to Deputy Head;
- 3) Deputy Heads are responsible for the adequacy of internal audit coverage and establishment and monitoring of an appropriately resourced IA function in their departments, and evaluation of its performance, including an external review every five years;
- 4) Deputy Heads are required to ensure provision of approved IA reports to public and the Office of the Comptroller General on a timely basis, and that the respective Minister is briefed periodically on significant items arising from the work of IA and the DAC, via the provision of annual in-camera meetings with the DAC;
- 5) Deputy Heads are required to take into account the IA findings and recommendations and develop and implement Management Action Plans (MAPs);
- 6) Comptroller General is responsible for horizontal and sectoral audits and for focused, sustained functional leadership of IA across government in order to build and develop capacity; ensure adequate levels of professionally qualified resources; and ensure adherence to professional standards and rigorous methodology in the delivery of internal audits.
- 7) CAEs are required to provide annual holistic opinions to deputy heads and DACs on the effectiveness and adequacy of risk management, control, and governance processes in their departments, as well as reporting on individual risk-based audits.
- 8) CAEs are expected to have a Certified Internal Auditor (CIA) or a professional accounting designation (CA, CGA, or CMA), and if not, obtain the CIA as soon as possible.
- 9) Comptroller General is required to report annually to Treasury Board on the state of risk management, control and governance processes across government, addressing fundamental controls, including basic reporting controls for financial statements, thematic or sectoral controls, and the results of risk-based internal audit work carried out within departments, and for establishment of the framework for the policy evaluation on a five-year basis.
- 10) DACs are required to provide annual reports to the Deputy Heads and OCG on their activities, including assessments of the IA functions (see TBS 2006).

The policy also provided detailed guidelines on the *Responsibilities of the Comptroller General for IA*, and contained such additional instruments as *Directive on Departmental Audit Committees*, *Directive on Chief Audit Executives*, *Internal Audit Plans*, and *Support to the Comptroller General*, the *Guidelines on Responsibilities of CAEs*, and the *Guidelines on Expected Qualifications of CAEs*. These directives and guidelines clarified the roles and responsibilities of the Deputy Heads, the TBS, the OCG, the OAG, the CAEs, the CFOs, and the DACs in the policy implementation.

On April 11, 2006, the government released a ***Federal Accountability Action Plan***, that was passed as Bill C-2 at the first session of the 39th Canadian Parliament, with a commitment to “...strengthen auditing and accountability within departments by clarifying the managerial responsibilities of deputy heads within the framework of ministerial responsibility, and by bolstering the internal audit function within departments and Crown corporations” (see GOC 2006a: 2). The following measures were announced: designation of deputy ministers as accounting officers, a clear process to resolve disputes between ministers and deputy ministers, and a strengthened internal audit functions within departments via amendments to the ***Financial Administration Act (FAA)*** and commitment to implement a new Policy on IA; strengthened governance structures in Crown corporations; tougher penalties for fraudulent misuse of public funds; and a consistent approach to promote legal and policy compliance and enforce disciplinary measures (see GOC 2006a: 30-32). According to Larson and Zussman (2010a), the new government elected in 2006 with a promise to bring greater accountability to government, introduced

its flagship legislation as a symbolic and sweeping bill making changes to over 100 statutes and laws.

The 2006 amendments to the FAA represented historical legislative measures that determined the course of the IA governance regime in the Canadian federal government for the next decade - a set of mandatory requirements for the appropriately-resourced IA functions and independent audit committees in the federal public administration, as well as mandatory responsibilities for the deputy ministers within the framework of ministerial responsibility. These requirements were stipulated as follows: 1) deputy head is designated as an Accounting Officer of the department and is accountable before the appropriate committees of the Senate and the House of Commons and has an obligation to appear before them; 2) deputy head is responsible for ensuring an IA capacity appropriate to the needs of the department; 3) deputy head or CEO of a department should establish an audit committee; 4) person who does not occupy a position in the federal public administration but who meets TBS qualifications may be appointed to an audit committee by the TBS for a one-year term; 5) appointed members of the audit committee are to be paid the remuneration and expenses fixed by the TBS; 6) a mechanism to document and resolve disagreements between ministers and deputy ministers on the interpretation or application of a TBS policy, directive or standards, with a copy to the Auditor General (see JC 2006).

Since then, the TBS Policy on Internal Audit has been modified several times in 2009, 2012 and 2017. In 2011, the OCG released a report by a consultant on a five-year evaluation of the policy on IA. The report concluded that "...the Policy has achieved significant impacts and there exists widespread satisfaction with the Policy" (see Ference Weicker 2011).

On April 1st 2017, the TBS issued an updated **2017 TBS Policy on Internal Audit on Internal Audit**, as part of the 2014 TBS Policy Suite Reset (PSR) initiative to streamline and simplify all Treasury Board policy instruments (see TBS 2017a-d). The policy and associated directives and guidelines provided more detailed clarifications on the roles and responsibilities of Deputy heads, the Comptroller General, DAC members and CAEs, introduced a requirement for the CAE to have an acceptable certification, eliminated the OCG requirement for the CAE and DAC annual reports, increased transparency by requiring IA performance results and DAC remuneration and expenses be published on TBS prescribed platforms, indicated strong support for certification and professional development of internal auditors, and strengthened requirements for DAC diversity to reflect the Canadian public (see TBS 2017c: 2). The proposed PSR changes and draft instruments for the Policy on IA were announced by the OCG to IA community in 2016, followed by detailed discussions with the CAEs and heads of the Professional Practices Units (see TBS 2016a). In March 2017, Assistant Comptroller General established an Advisory Committee on the Implementation of the Policy on IA (ACIPIA), consisting of the Chief Audit Executives (CAEs), in order to assist with the implementation of the policy in a manner that is supportive to both the objectives of the policy and the goals of the internal audit community (see TBS 2017b).

By the end of 2017, the Internal Audit Sector of the OCG has become an effective central government IA policy unit with three lines of responsibility: 1) IA policy and liaison; 2) IA community development and guidance; and 3) operational audit services to large and small departments and agencies:

The Internal Audit Sector of the Office of the Comptroller General of Canada is responsible for the Policy on Internal Audit and the health of the federal government internal audit community. The mandate of the Internal Audit Sector is to provide independent assurance on governance, risk management and control processes. In performing this role, we support the commitment of the Comptroller General to strengthen public sector stewardship, accountability, risk management and internal control across government. Our mandate centers on leading audit community in the implementation of the Treasury Board *Policy on Internal Audit* and the associated Directives, Standards and Guidelines. The Policy strengthens and further professionalizes the internal audit function across government and is key component in supporting deputy heads in fulfilling their role as accounting officers (TBS web7).

According to the website description, the IA policy, liaison and community activities involve leading and championing the government-wide IA function, monitoring and assessing policy implementation and compliance, provision of oversight and support to departmental IA groups, development policy, professional advice, standards and technology enablers, as well as provision of the support to DACs and initiatives for IA capacity development. The operational activities include the development of the risk profiles for large and small departments, planning and coordinating horizontal audits and providing IA services and support to DACs in small departments and agencies.

- **Audit Committees**

Interviews and documentary research revealed that the audit committees existed in the Canadian federal governments since the 1980s, established under various policies of the Treasury Board, but they were rather the sub-committees of the executive management committees, and were comprised of the line managers and usually reporting to the chief of finance function, which prevented their independence. The IA reform that started in 2000s dramatically changed the federal government audit committees' landscape. First, the 2001 *TBS Policy on Internal Audit* mandated that the departments and agencies should establish independent audit committees, but this was met with resistance and did not take, according to the interviews. A series of scandals that occurred during that time, such as the Sponsorship scandal and a series of other apparent fraud and cost-overruns scandals,

created an impetus to establish a more effective IA governance regime. Consequently, the Canadian federal government legislated establishment of the independent Departmental Audit Committees in 2006 via the amendments to the Financial Administration Canada and incorporated the detailed requirements in the TBS Policy on Internal Audit since 2006 and its subsequent amendments (see JC 2006; TBS 2006). The FAA s. 16.2 stipulated mandatory requirements for the deputy head or chief executive officer of a department to establish an audit committee for the department, members of which should be outside of the federal public administration with qualifications established by the TBS directive and appointed by the Treasury Board on the recommendation of its President for a four-year term with remuneration and expenses fixed and paid by the Treasury Board.

The *2017 TBS Policy on Internal Audit* stipulates that the DACs are responsible for the following:

- 4.5.1. Providing objective advice and recommendations to the deputy head on the sufficiency, quality and results of internal audit engagements related to the adequacy and functioning of the department's frameworks and processes for risk management, control and governance;
- 4.5.2. Using a risk-based approach, reviewing all areas of responsibility for departmental audit committees related to departmental management, control and accountability processes as determined by the Comptroller General of Canada; and
- 4.5.3. Providing advice and recommendations on matters for which the deputy head, as accounting officer, is responsible and on other related matters as needed or requested by the deputy head (see TBS 2017a).

Further, the associated *2017 TBS Directive on Internal Audit, Appendix B*, describes the mandatory attributes of the DAC composition and operations, such as:

- 1) the membership should reflect Canada's diversity in terms of gender, official languages, Indigenous Canadians, minority groups and regional representation;
- 2) the IA committee should execute its duties according to s. 4 of the policy and its areas of focus are values and ethics, risk management, management control framework, internal

audit, function, external assurance providers, follow-up on management action plans, financial statements and public accounts reporting, and accountability reporting;

3) the IA committee should be familiar with financial reporting and at least one member should be a financial expert holding a professional accounting designation;

4) the deputy head is the only committee member allowed from the federal public administration;

5) the IA committee chair and members should be appointed from the outside federal public administration for a four-year term and can serve no more than two terms up to six years;

6) the departments are required to proactively disclose remuneration and expenses of the external committee members on instruction from OCG;

7) the IA committee members must disclose annually all new activities, interests or appointments in order for the department to assess whether this impairs or has a perception of impairment to their objectivity and independence (see TBS 2017d).

Interviewees assessed establishment of the independent DACs, as an advisory and accountability mechanism to the DMs supporting them in the execution of their role of Accounting Officers, as the greatest success of the IA reform in the GOC, since it immediately elevated the role of the IA, its independence and value-added to the senior management, especially the DMs.

Interviewees observed that many factors help shaping the practice and status of the DAC in the departments. DAC members bring to the table an external perspective independent of the Executive branch of government, which helps the DM to steer the department in the right direction. Diversity of the members forms a “package” of the expertise and allows both the DM and the IA function to form an effective partnership.

DMs are busy people and they need a multi-faceted and competent advice and support, which is provided by the DAC as an advisory and a sounding board. DMs want a succinct and relevant advice from its DAC on the range of issues – political, administrative, analytical, emerging, critical, etc. DAC members provide a great service to the DM due to their diverse expertise and independence, the ability to look at things differently and to provide a solid and candid advice accordingly. If the DM recognizes and values DAC's contribution, then the relationship will continue to be productive for all. Therefore, the DAC model should continue to include both assurance and advisory functions.

According to the *TBS Guidebook for a Departmental Audit Committee*, their accountability relationships are described as follows:

- The Departmental Audit Committee provides advice to the Deputy Head, functional oversight to the Chief Audit Executive and the Chief Financial Officer, and takes part in an annual briefing with the Minister;
- The Chief Audit executive and the Chief Financial Officer are accountable to the Deputy Head;
- The Deputy Head is accountable to the Minister;
- The Comptroller General provides functional direction to the Departmental Audit Committee, the Chief Audit Executive and the Chief Financial Officer;
- The Office of the Auditor General and the Departmental Audit Committee share information (see TBS 2016b).

By the end of 2017, there were 42 independent DACs established with 156 independent members appointed by the Treasury Board (see TBS web1). The independent DAC members undergo security clearance and training provided by the TBS, usually in the form of workshops and requirements to read the documentation on the role and functions of the DAC, i.e. the *TBS Guidebook for a Departmental Audit Committee* (see TBS 2016b). Moreover, according to the interviews, the TBS organizes an annual DAC Members Conference, preceded by the meeting of the DAC Chairs with the TBS officials and DMs.

Further, DAC operations are guided by the departmental DAC Charter or Terms of Reference (TOR) and are supported by the secretariats established by the IA functions, who take care of scheduling their meetings and setting the agenda and guiding administrative processes. Interviews indicated that there are usually 3-4 meetings per year and the additional in-camera meetings with DMs and CAEs, the latter reporting functionally to the DACs and representing the departmental IA function. In the majority of DAC operations, the presentations are done by the CAEs. According to the interviews, DAC members have a close and productive working relationship with the audit function and its head, where the recommendations of the DACs are taken very seriously. Interviewees also commented that in some departments, the IA function is putting more emphasis on engaging more junior audit staff in the work of the committee, which is a great development. Interviewees noted that it is very encouraging that both the DAC members and the CAE are able to meet in-camera with the DMs in order to discuss matters. Interviewees commented that in-camera sessions with the DM are the meetings where the informal and frank advice by the DAC members is most often provided. Further, the interviewees assessed the advisory role of the DACs as more important than the assurance role. Sometimes, the DMs organize lunches/dinners with the DAC members, and this is also considered an opportunity to provide informal advice.

The independent DAC members receive per diem remuneration in the amount of \$1,500 for the chair and \$1,200 for other members, plus the travel and other associated expenses (see TBS 2014a-b). According to OCG, the 2016-17 annual DAC expenditures were about \$2.6 million (TBS 2017e: 16). Interviewees noted that DAC members consider their work as public service and consider the remuneration model adequate.

Since 2006, the DACs were required to provide annual reports on their activities to the OCG, but then this requirement was dropped in 2017 due to the IA Policy Suite Reset. While all of the government functions undergo the annual assessments according to the Management Accountability Framework (MAF) since 2003, the IA was taken out of MAF in 2013 and placed in a separate government-wide IA evaluation framework - the Common Audit Metrics Tool (CAMT).

Interviews showed that having the DM on the committee is a bit strange and is different from the private-sector practice, where the CEO hears from the independent corporate board and its independent audit committee; however, this was not considered dysfunctional. Rather, interviewees noted that often the representatives from the external audit firms sit on the DAC, which is awkward.

Some interviewees commented that due to the fact that the deputy heads have a say in the selection and appointment of the DAC members (i.e. prospective candidates are interviewed by the departmental senior management before the appointment) and the Minister has a veto power in the appointment process, it may sometimes impair their independence. In some departments, DACs are not as interested in enforcing management accountability and are not action-oriented, but rather focus on editorial and procedural elements of the audit work. For example, when the Management Action Plans (MAPs) do not really address the audit recommendations, the DACs should be able to stand behind the IA function and to hold the management to account. Nevertheless, the 2015-16 CAMT results showed that across the government of Canada, the DACs challenged the MAPs effectively, where 96% of them challenged the MAPs, 93% challenged the way the

departments followed-up the MAP implementation, and 91% provided advice (see TBS 2017e: 20).

- **IA Policy Advocacy Coalitions**

The IIA Canada is the key player on the Canadian IA advocacy landscape. While the Canadian IIA chapters existed since the 1940s, it was only in 2006 that the IIA established a Canadian Council, which led to the development of the IIA Institute in Canada as an affiliate of the IIA, with a membership of over 7,400 auditors, including those in government. According to its vision statement, the IIA Canada is the authoritative Canadian voice and recognized advocate for the global profession of Internal Audit, fostering excellence, innovation, and the delivery of exceptional service (see IIAC web1-2). The mission states that contributing to public policy, regulation, and other areas of strategic interest to the profession is one way to promote and advocate for the IA profession in Canada. Establishment of IIAC ensured that Canadian internal auditors participate in the international IA policy design and standard-setting processes and are well represented on the IIA global boards and committees (see IIAC 2013).

Further, in the early 2000s, the top global management consulting firms with large auditing and public sector management advisory operations, began establishing advisory centers in Canada on governance issues, and marketing these services to corporate and audit boards, committees and executives in private and public sectors. They have also become the principal partners of the IIA in advocating for the new IA standards and the profession, and increased their presence on the IIA boards and committees (see IIA web 1-5).

For example, KPMG established a global *Audit Committee Institute (ACI)* and affiliates in Canada and other countries, providing information, resources and knowledge-

sharing opportunities through a variety of forums to help audit committee members, board directors and senior management enhance the governance and integrity regimes in their organizations (see KPMG-CA web1-2).

Deloitte Canada established a *Centre for Corporate Governance (CCG)*, “...designed to provide members of audit committees and board of directors with a single point of access to current developments, Deloitte perspectives, learning materials, best practices, technical resources, reference materials and other useful information related to corporate governance” (see Deloitte-CA web1-2).

EY Canada established a *Centre for Board Matters (CBM)*, in order to support “...boards, committees and directors in their oversight role by providing content, insights and education to help them address complex boardroom issues”, as well as to provide audit committee resources through the tools, guides and analytical reports, and support several Audit Committee Networks, etc. (see EY-CA web1).

PWC Canada established a *Governance Insights Center (GIC)* as a forum for the boards of directors, audit committees, institutional investors, and corporate executives to share and discuss corporate governance leading practices, through meetings, publications, access to the network of subject-matter experts and business leaders, seminars, and various forums and events, the Audit Committee Resources, etc. (see PWC-CA web 1-2).

This information allows positioning the “Governance Structure” dimension of the IA sector in the GOC at the IA-CM maturity level 4 “Managed”.

6.4.2.2. Services and Role of IA

The role of internal audit in the Canadian federal government is recognized in the legislative and policy documents as the function supporting the deputy head in carrying out

the duties of the Accounting Officer under the auspices of the doctrine of ministerial responsibility and accountability to Parliament. The IA functions in the Canadian federal government are legislated since the 2006 amendments to the *Financial Administration Act*, through the stipulation of s.16.1 that “...the deputy head or chief executive officer of a department is responsible for ensuring an internal audit capacity appropriate to the needs of the department” and accountable to Parliament as an Accounting Officer under s.16.4 (see JC 2006).

The objective of the TBS Policy on Internal Audit, that was released in 2006 and revised in 2009, 2012 and 2017, recognizes the role of the professional, objective and independent IA function as a key factor in the oversight regime of public resources through the federal public administration and provision of assurance that government activities demonstrate responsible stewardship to Canadians (see TBS 2017a). The expected results of the policy are:

- 3.2.1. Deputy heads are supported in their role as accounting officer, as defined in section 16.4 (1) and 16.4 (2) of the Financial Administration Act, by an internal audit function that contributes directly and proactively to improving risk management, control and governance;
- 3.2.2. Deputy heads receive assurance and advice from their departmental audit committees and internal audit function to inform decision making in their departments;
- 3.2.3. The Comptroller General of Canada receives assurance and advice from audit committees and internal audit functions to inform decision making in a broader government context; and
- 3.2.4. Internal audit in the federal public administration is supported and assessed by the Comptroller General of Canada in order to build and sustain the capacity of a professional and qualified internal audit community and to ensure adherence to professional standards and rigour in internal auditing (see TBS 2017).

The 2017 TBS Policy on Internal Audit under s. 4.1 mandates the deputy head to be responsible for ensuring that internal audit resources and capacity are appropriate to the needs of the department and that internal audit in the department is carried out in accordance with the IIA IPPF.

Currently, all departments and agencies in the Canadian federal government have an IA function that is led by the independent Chief Audit Executive (CAE) and guided by the independent Departmental Audit Committee (DAC). By the end of 2017, there were 56 appointed CAEs and 692 internal auditors (see TBS web3; TBS 2017e). During 2016-17, the total annual expenditure on the IA functions across the Canadian federal government was around \$73 million. The OCG reported that the IA functions experienced an average of 18% of budget increase in 2016-17 in comparison to the previous year's expenditures (see TBS 2017e-f).

The 2015 IIA GIAPS-CBOK showed that in the majority (75%) of the IA functions, the resources are spent on assurance activities, and the rest on advisory activities. The majority of IA services are performed in-house, while around \$11.4 million or 15.6% of the total IA finances are spent on professional services provided by the private-sector audit, accounting and consulting firms (see TBS 2017e: 4). The 2015-16 OCG analysis of the IA reports showed that: 1) “over half of the audits (53%) utilized only internal resources, while approximately 6% used only consultants; 2) 41% used a combination of both internal resources and consultants” (OCG 2017b: 7). Further, most audit engagements were focused on internal services with only a small number devoted to programs.

According to documentary research and interviews, in the Canadian federal government, the IA functions act as a third line of defense in the departmental ERM. All of them are required to have an audit committee charter, an IA function charter, an operational manual, where the roles, responsibilities, and procedures of the IA function, the CAE, the DAC, the Deputy Head and other stakeholders are defined, and majority of the IA units (between 75% to 90%) have this strategic documentation according to 2015

IIA GIAPS-CBOK. The 2016 Common Audit Metrics Tool (CAMT)³⁴ results indicated that the auditees rate the overall usefulness of the IA at 89%, and the value-added of audit recommendations and processes to improve controls, governance and risk management at 86%. (see OCG 2016: 11).

However, many interviewees pointed out that the IA functions in the federal government need to continue to modernize in order to be more strategic in their recommendations, to focus on the key risks, and to understand where they can add value. Currently, the IA practice is driven by the production of IA reports, i.e. assurance, which is good, but needs to be elevated to a higher level of strategic advisory service, and not just focus on the compliance. Communication of audit results to executives and management committees needs to incorporate the strategic insight and leverage the audit intelligence assets. This is the point of the evolution for the role of the CAE, i.e. to know where the IA can provide advice, what type of advice to provide, and at what venue.

The overall maturity of the “Services and Role of Internal Audit” area in the IA sector in the GOC is assessed at level 5 “Optimized”.

6.4.2.3. Organizational Relationships and Culture

Canadian federal government has instituted CAE positions, as heads of the IA functions, according to the IIA IPPF, by the *2006 TBS Policy on Internal Audit*, and it has kept these arrangements throughout the policy revisions in 2009, 2012 and 2017. The role, authorities, reporting lines, and the responsibilities of the CAEs are well defined in the policy, where the latest 2017 updates in the *2017 TBS Policy on Internal Audit* and *2017 TBS Directive on Internal Audit* can be summarized as follows:

³⁴ Introduced by TBS in 2013 as a replacement for the Management Area 5 – Internal Audit under the Management Accountability Framework (MAF)

- CAEs report directly to the Deputy Head; can't be assigned any departmental management or operational responsibilities that would impair objectivity or independence; have unrestricted access to the DAC and all departmental records, databases, workplaces and employees to carry the departmental risk-based audit plan (RBAP); has the authority to obtain related information and explanations from individuals employed by the department and contractors; has unimpaired ability to carry out responsibilities in reporting to the deputy head, the DAC and to the Comptroller General of Canada.
- CAEs must have a recognized IA certification (i.e. CIA, CGAP) or the equivalent combination of education, training and/or experience as determined the by the Comptroller General of Canada, to be appointed for a position.
- Applying the Institute of Internal Auditors' International Professional Practices Framework in the department, unless the framework is in conflict with the Treasury Board Policy on Internal Audit or this directive; if there is a conflict, the policy or directive will prevail;
- Establishing at least annually, and updating as required, a departmental risk-based audit plan that: spans multiple years; focuses primarily on providing assurance services; is recommended by the departmental audit committee and approved by the deputy head; and which considers the departmental areas of high risk and significance; horizontal audits led by the Comptroller General; planned audits led by external assurance providers and other departments as appropriate; and other oversight engagements, including, where the necessary expertise and capacity are in place, the option to provide consulting services to the organization, as a supplement to the assurance role and in accordance with the Institute of Internal Auditors' International Professional Practices Framework.
- Ensuring that the deputy head and the departmental audit committee are aware of the resource requirements for the internal audit function and the impact of resource decisions;
- Ensuring the timely completion of internal audit engagements;
- Reporting at least annually to the deputy head on whether the actions scheduled by management in response to audit recommendations, both internal and external, have been implemented; and
- Ensuring that internal auditors have the appropriate qualifications, skills, and opportunities to maintain and develop their internal auditing competencies.

By the end of 2017, there were 56 Chief Audit Executives (CAEs) registered by the TBS (see TBS web3). The interviews assessed the establishment of the CAE positions in the Canadian federal government as another important effect and success of the IA reform, because they are the key part of the IA governance regime and the best practice in ensuring independence and objectivity of the IA function in the GOC. It opened the door to innovation in the IA governance environment through the requirement of direct communication and reporting of the CAE to the DM (administratively, at the official meetings and in-camera) and the DAC (functionally according to the IIA IPPF, at the official meetings and in-camera). This forced the IA functions to be more professional, competent and independent from the line management due to higher levels of scrutiny, and

increased their credibility and accountability. Interviewees commented that implementing this element of the policy is sometimes a struggle, because the government is a bureaucracy and there are established hierarchies there. CAE position breaks the natural alignment and the rules of hierarchy, as a necessary condition for IA independence. CAE in this enhanced role provides a high visibility to the IA function. Moreover, there is a requirement for the CAEs to have a CIA designation – it increases the credibility and professionalism of these executives, and holds it to a higher standard – the standard of the global IA profession.

However, the policy does not allow the CAEs to provide advisory support freely, since this is the DAC's prerogative. Most frequently, the CAE is the official that makes the presentations to DAC on behalf of the IA function. Many interviewees think that while there is a requirement for the CAEs to have a CIA certification, there also needs to be training for them in terms of communications with the DM and senior management, because there are many challenges in the process. They have to become trusted advisors, and for that, certain competencies need to be developed in addition to the technical ones. It is important to train people in order to advise them of expectations on the regular basis and to position them for success.

Moreover, the policy is not clear on the evaluation of CAEs. Technically, according to the IIA standards, they should be evaluated by the DACs. In practice, in the Canadian case, deputy heads, DACs and the Office of the Comptroller General of Canada share this responsibility. Interviews revealed that despite of the significant improvements in the IA function independence, the CAEs still find themselves politically pressured sometimes. According to the 2015 IIA GIAPS-CBOK, around 28.7% of the internal auditors were directed to suppress or significantly modify valid internal audit findings or report on a

regular basis, while 10% preferred not to answer the question. While this is below the global public-sector IA average (33%), it is astonishing and unacceptable in a democracy like Canada. This indicates that there is a significant tension between the bureaucratic elites and the IA function, where the former still do not accept its role fully, as mandated by the legislation and the VAMP.

The maturity for the “Organizational Relationships and Culture” IA-CM area for the IA sector of the GOC is assessed at IC-CM level 3 “Integrated”.

6.4.2.4. Performance Management and Accountability

Since the 2006 TBS Policy on Internal Audit, the maturity and performance of the IA in departments and agencies was evaluated annually under the ‘Management Area 5’ of the government-wide Management Accountability Framework (MAF), specifically with respect to its effectiveness and efficiency in supporting the deputy head as the Accounting Officer, and the IA’s perceived value-added. For example, under the indicator “5.3 Internal Audit is contributing to improvements in risk, control, governance and organizational performance”, the measure was defined as “IA regime is value-added” (see TBS 2010). All departments and agencies that were selected for annual MAF assessments complied with the IA evaluation requirements, and MAF results were published on the TBS webpages for each department/agency, until the methodology change in 2013 and subsequent change in public reporting of the MAF results as government-wide aggregates. Since that time, the organizational MAF results can only be viewed by authorized department/agency personnel on the TBS portal.

In 2013, TBS reported that 94% of the organizations achieved a MAF rating of “acceptable” for the IA services, and 97% of the IA functions achieved the highest rating

of “generally conforms to the IIA standards” in practice inspections, the latter to be conducted every five years according to the IIA standards and the TBS Policy on Internal Audit (see TBS 2014c: 49). It is important to note that practice inspections can take the form of external assessment via private-sector provider, self-assessment with external validation, peer review, or could be part of OCG horizontal audit. This result allowed the TBS to declare that “practice inspections demonstrated the maturity and strength of the internal audit functions across the Government of Canada” and to place its MAF assessments on hold (see TBS 2015: 28). Notably, MAF evaluations of the government IA functions, which contained 9 indicators with 70 measures, were labor-intensive, based on small annual samples, and resulted in inconsistent data sets, characterized by the lack of time-series and benchmarking properties and an incomplete coverage of the annual IA cycle across departments and agencies (see OCG 2014a: 8).

Therefore, in 2013, the OCG developed a Common Audit Metrics Tool (CAMT) to replace MAF and deployed it in departments and agencies, as a planning and reporting tool. From that time on, the CAT assessments have been conducted on the annual basis, through the following 5 indicators and 10 measures: 1) Sustainability; 2) Professionalism; 3) Efficiency and quality; 4) Value-Added Contribution; and 5) Innovation and Continuous Improvement. The Value-Added Contribution indicator has three measures: 1) stakeholder views, measured via post engagement questionnaire responses and examples, where audit contributed to important improvements; 2) audit plan implementation, measured as percentage completion; and 3) Management Action Plan (MAP) implementation, measured as percentage of completed/in progress follow-up actions on recommendations from approved audit reports (see OCG 2014a: 9). According to the latest 2015 and 2016 CAMT

analysis, the auditee satisfaction surveys indicated that the majority of stakeholders evaluate the overall usefulness or the value-added of the IA functions as good or around 60% (see TBS 2017e: 17; OCG 2016).

In 2015, the OCG (OCG 2015a: 3-5) conducted a review of practice inspections in the departments and agencies in order to identify best practices and lessons learned, and to recommend future improvements in the implementation of this policy requirement, which found the following:

- 1) all of the federal government departments are in compliance with the policy;
- 2) the total estimated cost of practice inspections was \$1.3 million;
- 3) the most commonly cited impact of the practice inspection is the increased credibility, authority and reputation of the IA function;
- 4) CAEs have shown a slight preference for the self-assessment model;
- 5) the annual average cost of practice inspections was about 33 thousand;
- 6) cost considerations results in limited the options for engaging external consultants;
- 7) a single consulting firm has dominated contract awards;
- 8) the current situation presents a number of risks, such as perception of independence for both the assessors and the CAE where the CAE hires and remunerates the consultant, and the reputational risk for the OCG when implementing this policy requirement appears to rely heavily on a single external provider;
- 9) practice inspection reports do not consistently provide the information expected;
- 10) deputy heads are satisfied that the necessary assurance is provided because the review is external;

- 11) DAC members recognize the limited use of information provided only once every five years;
- 12) CAEs expressed confidence in the findings of their own practice inspection;
- 13) practitioners would like more guidance from the OCG; and
- 14) some best practices that were observed and that should be shared are the self-assessment with external validation for the 1st time, followed by the full EQA for the 2nd time; it is best to develop a comprehensive Quality Assurance and Improvement Program (QAIP); practice inspection needs to be based on compliance assessment according to the OCG guidance, etc.

Overall, the OCG's 2015-16 CAMT analysis indicated that 90% of the practice inspections during the 2013-2016 period showed conformance of the professional practices with the TBS Policy on Internal Audit (see TBS 2017e: 12).

In general, the OCG and the departments and agencies do not publish common government-wide IA performance data. Specifically, the organizational IA CAMT assessments are not published, while the government-wide assessments are disseminated to the CAEs during OCG meetings and selectively on IA GCpedia restricted to the government IA community members. This means that while the documentation is declassified to be viewed by the non-executive IA community, it is not available for public scrutiny. The TBS annual departmental performance reports usually discuss very briefly key developments in the departmental and government-wide IA activities without specific indicators or their tracking, and provide a list of the audits conducted. Similarly, the annual departmental performance reports may discuss the IA activities in brief. Thus, the federal government IA function remains closed to the public and to the rest of the public service.

However, this is expected to change due to the implementation of the 2017 TBS Directive on Internal Audit (in effect since April 1st 2017), because it requires the IA functions “to meet public reporting requirements as prescribed by the Comptroller General of Canada and using Treasury Board of Canada Secretariat prescribed platforms, including performance results for the internal audit function and a list of planned audit engagements for the coming fiscal year” (see TBS 2017a). This means that there are now new mandatory requirements for additional transparency measures. Records of the *Advisory Committee on the Implementation of the Policy on Internal Audit*, established by the Assistant Comptroller General in early 2017, indicate that the discussions are underway between the CAEs and the OCG on the appropriate set of performance management indicators for public reporting, including:

- **Do the auditors have the training required to perform the work?** Result to be published: Certification - % of staff with internal audit or accounting designation
- **Does the Internal Audit function operate in accordance with the IIA IPPF?** Result to be published: QAIP – Date of last comprehensive briefing to the Departmental Audit Committee on the nature, extent and results of the QAIP and actions in response to recommendations for improvement.
- **Are approved RBAP audits completed? Are audits completed in a reasonable timeframe? Are deficiencies identified through audits rectified in a reasonable timeframe?** Result to be published: Audit Plan – Plan vs Completed, Approval/Publishing Dates, Status of MAPs
- **Is the work of internal audit useful to DAC in fulfilling its advisory role on matters of risk, governance and internal control? Is the work of internal audit useful to senior management and the deputy head in discharging their managerial responsibilities?** Result to be published: Utility – Average overall usefulness rating from Departmental Audit Committee and/or Senior Management (of area audited) and/or deputy head (see OCG 2017c: 6).

However, the TBS Policy on Internal Audit requires the federal government IA functions to publish their audit reports on the TBS platforms since 2006, designed as a measure to increase transparency and accountability, despite of the fact that IIA standards do not have this requirement. At the end of 2017, the TBS Audit and Evaluation database contained 1,703 audit reports (see TBS web2). In 2017, the OCG conducted an analysis of

114 audit reports submitted during March 2015 and December 2016, and found the following:

- 1) most audit engagements were focused on internal services with only a small number devoted to programs;
- 2) external consulting resources were used in almost half of the audit engagements;
- 3) approximately 10% of audit engagements took more than two years to complete; and
- 4) there is a number of areas for improvement (see OCG 2017b: 4).

By the end of 2017, there were 1,703 published IA reports in the TBS Audit and Evaluation Database accessible to the public. Interviews indicated that on one hand, the requirement to publish IA reports makes the IA function more visible and forces it to be more effective and professional, because it is scrutinized at all levels. On the other hand, there are several downsides to the public exposure of the IA reports:

- 1) while the publication of IA reports was introduced as a measure of transparency, in practice, when the IA report is published, the doctrine of ministerial responsibility kicks in - the DM and the Treasury Board are subjected to the parliamentary scrutiny; this results in unhealthy dichotomy, leading to the politicization of the IA function and a push to cover-up the findings, away from enforcing accountability of the Executive branch of government;
- 2) the publication requirement forces the IA to be more diplomatic in presentation; as a result, the IA reports tend to be much shorter than optimal, focused on the high-level findings and have less detail than would normally be the case;
- 3) some reports cannot be published due to the limitations posed by the Access to Information and Privacy Act rules; this hinders the IA impact and ability to do its job.

Based on the evidence presented, the “Performance Management and Accountability” area of the IA sector in the GOC is assessed at maturity level 4 “Managed”.

6.4.2.5. Professional Practices

Since the *2006 TBS Policy on Internal Audit*, the federal government IA functions are required to comply with the IIA standards, which in turn require establishing a Quality Assurance and Improvement Program (QAIP). This led to the creation of the IA Professional Practices Units (IA PPU) across the federal government, although their presence has become visible to the non-executive IA community only since the advent of IA GCpedia in 2015. Since 2014, the OCG holds annual meetings for the heads of IA PPU and various forums, such as the IA PP Forum, the IA Innovation Forum, and the Risk Forum.

According to the interviews, the structures of PPU in the federal government IA sector vary. It is important that PPU are well adapted to the department specifics in order to meet the needs of the departmental IA activities and the DM.

Since 2014, the OCG conducts government-wide IA CAMT assessments with clearly defined metrics (5 indicators and 10 measures), as described previously, and analysis of the departmental risk-based audit plans. In the CAMT framework, there is an indicator “Innovation & Continuous Improvement”, where the two measures are use of automated audit tools and shareable practices & methodologies. The interviewees commented that this is an instrument to assure proper function of the PPU, since it provides a feedback. If the PPU is weak then it would show up in the assessment, then the DM will know and the department will be required to make improvements.

According to the interviews, while the CAMT replaced the MAF evaluation of the IA function, the PPU units still have to report on the value-added of the IA and whether the IA reports have been posted in a timely manner under the format of the new **2016 TBS Policy on Results** (see TBS 2016c). The interviewees also commented that the TBS policies on internal audit did not cover much of the performance management of the IA activity. The 2016 TBS Policy on Results is more instructive, but its application in the IA Policy world would require an alignment exercise, and, perhaps, development of scorecards and dashboards.

Analysis of the IA GCpedia content revealed that practically all of the departments introduced TeamMate as an IA software platform for the project and team management, since it was centrally sponsored by the OCG in partnership with Shared Services Canada (see OCG 2014b).

The OCG's 2016-17 RBAP analysis showed that 46.2% of the IA functions prepared their RBAPs based on documented risk assessments and 38% of them were definitely linked to the Corporate Risk Profile (CRP), while 63% of RBAPs overall had a clear link to the CRP (see OCG 2017a: 5-6). The majority (54%) of the planned audits were linked to the program strategic objectives, while the top five services to be audited were management and oversight, financial management, HR management, and IT and information management (see OCG 2017a: 7-8). In terms of the external government audit services, the OAG had more than half of the share (51%), OCG – 37%, and the Public Service Commission – 5% (see OCG 2017a: 9). The overall RBAP maturity and proficiency according to the IA-CM was assessed as high or 55% (see OCG 2017a:10-11).

However, the departments and agencies are lagging in the rates of implementation of recommendations of the internal auditors (61%), horizontal OCG audits (48%) and audits of other external assurance providers (61%), which are significantly lower than in the previous two years, constituting an overall backlog of recommendations of 67% (see TBS 2017e: 14,18).

During 2015-16, on average, the IA reports were posted within 90 work-days from the date of deputy head approval (see TBS 2017e: 15). In order to assist the departments and agencies with the Management Action Plans (MAPs), 7% of the audit resources were used to monitor MAP activities, including providing advice on development, challenging the proposed MAPs, providing support in implementation and follow-up on implementation (see TBS 2017e: 19). Interestingly enough, 96% of the DACs challenged the MAPs.

Several interviewees provided the view that the GOC IA practice is driven by the production of the IA reports, as required, but could be elevated to a higher level of strategic advisory service, and not just the focus on compliance. Communication of audit results to executives and management committees needs to incorporate the strategic insight and leverage the audit intelligence assets; thus, the CAEs need to be provided with a training on how to report to the DM and to the audit committee. The IA function needs to develop a more holistic approach to the IA analytics and the lessons learned exercises, and to go beyond the RBAPs. This is because IA gathers a lot of intelligence during the audits, and, therefore, the IA function needs to think about how this intelligence can be used for a continuous improvement of the overall departmental governance, risk and control

environment. Further, the systems for the internal control monitoring could be integrated with the systems of continuous auditing.

The area of “Professional Practices” in the IA sector of the GOC is assessed at a IA-CM maturity level of 4 “Managed”.

6.4.2.6. People Management

Interviews and documentary research revealed that IA reform in the Canadian federal government, which began in 2000s, put a strong emphasis on the professionalization of the IA workforce, recognizing it as a key driver of change. A seminal 2006 TBS Policy on Internal Audit and the 2006 amendments to the FAA provided the OCG and the departments and agencies with the legislative authority and funding to build the IA capacity, with such key requirements as achievement of adequate capacity, establishment of the CAE positions, acceptance of the IIA standards as GOC standards, professionalization of the Internal Audit Community (IAC), including introduction of the CIA certification, and reinstatement of the role of the OCG as a champion of IAC building and guidance across the GOC. Since then, the OCG established an online ***IA Reference Centre*** for internal auditors to access guidance on all issues of IA policy and processes.

In response to the direction by the Privy Council Office under the Public Service Renewal initiative³⁵, the Canada Public Service Agency created a Functional Communities Working Group (FCWG) in order to develop a Capability Maturity Model (CMM) for the federal government functional communities, including the IA, for the purpose of assessment of their state for further planning and development (see OCG 2008a: 2). An IA sub-group was tasked with the government-wide assessment of the state of IAC and

³⁵ See Stilborn (1998)

reporting by the end of 2008. The 2008 Report on IA CMM listed five dimensions of indicators: 1) community leadership, governance structure, and processes; 2) community human capital planning processes (integrated and business-driven); 3) enabling infrastructure; 4) collective staffing and recruitment programs; and 5) focused employee development strategies and outcomes, measured on a scale of Level 0 “Not Measurable” to Level 5 “Optimized at Enterprise Level”. The 2008 assessment was conducted via the survey of the OCG’s Capacity Building and Community Development (CBCD) Sector (central-agency level), the IA Network (over 100 non-executive internal auditors), and the CAEs (IA operational management level). The assessment showed that the 1st dimension was at the Level 1 “Ad Hoc”, 2nd – Level 2 “Experiential and Awareness”, 3rd – Level 2 “Experiential and Awareness”, 4th – Level 1 “Ad Hoc”, and 5th – Level 3 “Initial” (beginning program development). The OCG reported on the IA CMM assessment and the plans to advance the IAC development at the CAE Annual Conference and the IA Network Meeting in 2009.

During 2008 and 2009, the OCG also conducted the first census of the IA community, which showed that there were a total of 858 positions, 42% vacancy rate, over 90% of the internal auditors had a bachelor degree, 12 different classifications were employed, and the IA functions ranged in size from 1 to 110 people (see Sahagian 2010). At that time, the OCG also began implementing a new ***IA HR Management Framework***, focused on 1) business & HR planning; 2) organizational design and classification; 3) competency profiles; 4) resources; 5) learning and professional management/development and 6) performance management and community outreach. The key items in the implementation of the framework involved the development of the IA community Human

Capital Plan, defining the standardized organizational structures for the IA functions (small, medium, and large), generic work descriptions and competency profiles (based on AS classification), external recruitment and internal staffing programs, including Extreme Hiring, CAE leadership program, partnership with Canada School of Public Service for specialized IA courses, funding for auditors to obtain CIA certification, IAC Outreach Strategy (OCG website, IA Today newsletter, CAE quarterly and annual meetings, IA Network), periodic IA function self-assessments using IA-HR Maturity Model, etc. (see OCG 2009d).

Documentary research and interviews indicate that all of these action items were implemented during the next few years. Most notably, the IA community was brought together via the IA Network events and IA Today newsletter. To help alleviate the staggering vacancy rate, the TBS established an ***Internal Audit Recruitment and Development (IARD) Program*** as a major vehicle for attracting post-secondary education graduates for the IA trainee positions (see TBS web6). However, in terms of recruiting the post-secondary education (PSE) graduates, the IA functions across GOC were never enthusiastic, partly because the internal auditor job requires maturity and experience. Thus, the majority of internal auditors were and are still recruited from the ranks of public servants in the AS, EC, PM and other classifications, and from the private sector through the collective staffing and contracting processes.

Also during 2009-10, the Office of the Comptroller General and the TBS Office of the Chief Human Resources Officer mobilized the CAEs to design the IA functional models and generic job descriptions for the IA community, in order to support the development of much-desired single classification for the government internal auditors, to

be based on the AS classification. However, according to the interviews, the AS classification was never considered a good model among the IAC members, that were later posted on IA GCpedia (see OCG 2010). The talks between the IA community and the OCG on the prospective IA classification have been on and off for the last decade, but never materialized. This is considered by the leaders of the government IA profession as a key stumbling block for the IA HR recruitment, management and retention.

In 2015, the IA community moved into online space after the OCG created an IA GCPedia, still restricted to the IA community only, but allowing the non-executive auditors to see the materials of the executive group (selectively) and to have access to various strategic documents and frameworks. The content analysis of the IA GCpedia webpages, documentary research and the interviews indicated that since the release of the 2006 TBS Policy on Internal Audit, the OCG has established a practice of developing the IA community maturity assessments (with capability maturity indicators and workforce statistics and projections) and official programs for the IA community and capacity building, that are tracked and evaluated regularly, and to which the CAEs contribute by providing departmental information, HR plans, and coordinating the professionalization activities across the departments and agencies. OCG continuously invests into IA community development by organizing and supporting such regular informational and policy coordination networks, as CAE meetings and annual conferences, Heads of Professional Practices Unit (PPU) Meetings, Internal Audit Innovation Forum, Risk Forum, IA Professional Practices Forum, etc.

IA GCpedia currently contains a suite of IA HR Management tools, such as guides on organizational readiness assessment, implementation of the standardized functional

models and IA generic work descriptions (from AS-03 to AS-07 for the internal auditors and DAC secretariat positions, as well as EX work descriptions for the CAEs, Director of Practice Management and Director of Internal Audit Operations), Integrated HR Planning Guide, IA Collective Competency Assessment Tool, and guidance on classification standards.

The 2006 TBS Policy on Internal Audit and its subsequent updates in 2009, 2012, and 2017 officially requires CAEs to obtain the CIA designation or its close substitute (i.e. CGAP or financial/accounting designation). This is a metric that is constantly monitored by the OCG towards the compliance to the policy. At the end of 2016, 71% of CAEs had a CIA or a professional accounting designation (see TBS 2017e: 10). The most recent 2015-16 IA Community Capacity Assessment indicated that 28% of the auditors have a CIA certification, 11% - CGAP, and 33% - CPA, and 85% of the internal auditors had either a Bachelor or Master degree (see TBS 2017e: 7-8). The most recent 2017 TBS policy on Internal Audit requires the deputy heads of the departments to support the professional development and certification of internal auditors in their organization (TBS 2017a). In the 2015-16 fiscal year, the training expenses per FTE averaged \$1,925 with 51 average learning hours per FTE recorded (TBS 2017e: 11).

The 2015 IIA GIAPS-CBOK found that more than half (53.6%) of the IA staff have a dominant skill background evaluated as an equal mix of traditional auditing skills and industry knowledge. The top three required skills during the hiring of new staff are skills related to analytical/critical thinking (78.6%), communication skills (75%), and business acumen (57.1%). All staff are evaluated by supervisors, according to the standards of the

TBS Performance Management Policy Suite, and by the audited units via the mandatory Auditee Satisfaction Surveys.

Internal auditors in the Canadian federal government normally belong to the IIA Global and the IIA Canada, either individually or through the group memberships, due to the common expectation that they have to obtain at least one of the IIA certifications. According to IIA Canada, by the end of 2017, there were 110 federal government members registered. Interviews and documentary research indicated that the CAEs and senior auditors are usually supported and encouraged by the department/agency senior management to attend the IIA and IIA Canada international and national conferences and forums at least annually, in order to learn and share the best practices (see IIAC 2017). The GOC IA leadership involvement with professional bodies is voluntary. Several interviewees reported that they have volunteered for some of the IIA Canada projects and participated in the work of the international bodies, such as the World Bank's Ease of Doing Business. Analysis of the IIAC lists of the Canadians, serving on the IIA boards and committee, showed that there is only one federal government auditor serving in this domain.

The current count of the internal auditors in the GOC is 692 FTEs. Despite of all the efforts in building the IA community, there is still a 17% vacancy rate (see TBS 2017e: 3). Interviewees indicated strongly that there are many unresolved HR issues in the GOC, including lack of general recognition that IA is a distinct profession, absence of IA-specific single classification, inadequacy of compensation, lack of competency formulation, and specialized training needs. The lack of dedicated classification for internal auditors has been recognized as a serious problem since 1998. There is a perception in the IA

community that the TBS and senior management do not wish to deal with it, primarily because they do not feel compelled to ensure adequate financing of IA activities and the pay schemes. This resulted in the extreme HR hiring and retention problems, and inability for the IA units to compete with other functions. Many interviewees were perplexed as to why the OCG hesitates to apply the existing AU classification, currently in use by the Office of the Auditor General, for the design of the appropriate IA classification. The IA community is currently ‘frozen’ in the AS classification, which contributes to the loss of members, because, in reality, the internal auditors do not see themselves in it. Interviewees noted such common issues with AS classification as inappropriateness of the functional specification and pay scale, which puts the recruitment and retention at risk.

Many interviewees think that internal audit is a perfect training ground for future managers. The interviewees split on their assessment of the value of the CIA certification, currently required for the CAEs and promoted among the non-executive ranks. While some acknowledge that this is a US-centric private-sector model and is often too generic or not applicable in the public-sector setting in Canada, others are not concerned, because there is a wide range of more specialized training available through the recently launched *IIAC’s Canadian Centre for Public Sector Auditing* and the courses at the Canada School of Public Service (CSPC). There is a general understanding that the CIA is just a basic technical training, which needs to be supplemented by other skills, including people and relationships skills. Further, many of interviewees expressed concern for the rise in need for technology-related training for the auditors. The spread of data mining, data manipulation and database practices is one of the factors driving the change. Also, digital privacy and security issues are growing and IA should be prepared to address them. Having

skills and competencies to assess technologies and deal with associated issues will become critical for the IA functions. The challenge is how to encourage the auditors to be more tech-savvy and what would be the appropriate policy, for example, should the auditors be required to have technical certifications in IT controls and data analytics. Despite of the introduction of the TeamMate software government-wide and availability of courses in data analytics, the skill gap remains significant.

Interviewees noted that improving the IA professionalization framework would enhance the independence and credibility of internal auditors and contribute to the overall strengthening of the IA regime. However, in 2014, the federal government Public Service Employee Survey identified a rise in HR issues in the IA, compared to 2011, related to employee recognition, training and support for work-life balance, high staff turnover, managerial ethics, and harassment and discrimination, many of which were also significantly above the average public-service levels: 1) 21% of internal auditors did not feel that they receive meaningful recognition for work done; 2) 35% did not feel that they receive training they need; 3) 33% felt that senior managers in their department/agency to not lead by example in ethical behavior; 4) 64% believed that their quality of work suffers due to high staff turnover; 5) 14% believed that they do not have supports for work-life balance; 6) 18% reported harassment and 7% - discrimination from the individuals with authority over them, indicating excessive control, aggressive behavior and interference with work or withholding resources, and they did not believe that there is a way to resolve it in a formal way due to concerns over the complaint process; 7) 37% of internal auditors wanted to leave in the next two years, of which almost half wanted to pursue a position in

another department or agency and 5% outside of the public service, while 16% did not want to explain the reason (see OCG 2015b).

Thus, the “People Management” area in the IA sector is assessed at IA-CM maturity level 3 “Managed”.

6.4.3. Evaluation of the VAMP Implementation in the IA Sector of the Canadian Federal Government

Application of the **Generalized Logic Model for the IA Sector Reform under VAMP Paradigm** in the case of the Canadian Government is straightforward since there has always been a political commitment after 2001 to conduct a VAMP-inspired IA reform and a clear reform agenda. The 2001 experiment with the introduction of the TBS Policy on IA did not work because it was not legally mandatory and the government faced severe opposition from the bureaucracy. However, the 2005 Sponsorship scandal and the subsequent *Gomery Commission* have provided an impetus for a harder line and a change in 2006.

In terms of *investments and resources*, the IA reform was initiated, sponsored and financed by the Treasury Board of Canada, which poured \$33 million into the initial *2001 Policy on Internal Audit* implementation during 2001-05 and \$370 million into IA capacity and infrastructure building during 2005-2010, as well as created the Office of the Comptroller General for the whole-of-government IA policy design, implementation, and oversight (see OCG 2011: 26; OAG 2004: 3).

The IA-CM analysis indicated that in terms of *activities*, the IA sector in the Canadian federal government has reached the maturity level of 5 “Optimized” for the area Services and Role of IA, level 4 “Managed” for the areas of Professional Practices,

Performance Management And Accountability, and Governance Structures, and level 3 “Integrated” for the areas of People Management and Organizational Relationships and Culture.

The IA received the highest level of recognition and the impetus for strategic capacity and infrastructure building due to the FAA (2006) legislative requirement to mandate the Deputy Ministers as Accounting Officers responsible for the appropriately-resourced IA regime before Parliament, establish mandatory independent DACs with external members on government payroll, and an extensive TBS Policy on Internal Audit Suite, with requirements to establish independent CAE positions. There are currently 42 DACs with 156 independent members and 56 CAEs at the departments and agencies, and around 700 internal auditors. The IA functions have been established in all large departments.

Establishment of DACs and CAE positions is considered to be the biggest achievement of IA reform in the GOC. Treasury Board appoints DAC members (via transparent process) and CAEs jointly with departments, the latter exercising a veto power. DAC members receive formative training and guidance from the TBS and they are regularly convened by the OCG for various meetings, committees and conferences. DAC members pay is legislated and is on average \$1,500 per diem per member according to the policy. Further, as per policy, all of the CAEs report administratively to AOs and functionally to DACs and also receive extensive training from the OCG.

GOC achieved the highest level of government-wide central policy and professional practices coordination with the functional IA community (CAEs and non-executive members) and the standard-setting and professional bodies, especially the IIA

Canada. There are well-established IA community liaison activities conducted by the OCG through the various venues, such as: 1) constant development and update of the learning and professional resources and guidance for the auditors and CAEs (online member-access OCG IA Reference Centre); 2) government group membership in the IIA Canada for certifications and continuing professional education; 3) IA communities and professional practices networks with online presence at IA GCpedia, organizing the work of the committees, forums and policy coordination meetings, such as CAE Meetings (strategic, morning, and special), Assistant Comptroller General Committees, Heads of the Professional Practices Meetings, IA Innovation Forum, Risk Forum, IA Professional Practices Forum, Meetings on TeamMate, etc; 4) IIA Canada conferences, events, courses and participation in various committees; and 5) subscription to IIA Canada's Canadian Centre for Government Auditing.

Very early at the outset of the IA reform, the OCG has employed the capability maturity modeling technology for the development of government IA community capacity and human resource strategy, and the targets and specific measures to achieve them, to guide the departments and agencies. This was a remarkable and well-conceived initiative. To the credit of the OCG, the guidance on the IA HR planning for the CAEs has been developed and disseminated quickly and is constantly updated and discussed. Further, the GOC accepted the IIA Certification Suite and its flagship designation – the CIA – as the core requirement for the professionalization of the internal auditors and CAEs, where the latter are mandated to obtain the CIA before or after the appointment. There are currently 110 group/individual members of the IIAC, and certification rate is high (72%). However, there are issues that fall outside of VAMP, such as the need for a common federal

government IA classification with a higher pay scale, similar to the AU at the OAG, the development of which has been on the agenda of the TBS for several decades, but has not yet materialized. While the common job descriptions attached to the advocated common AS classification have been developed, those at the non-executive level do not seem to be right enough to recruit new workforce, and the current vacancy rate is 17%. Further, results of the 14 Public Service Survey indicate above public-service average levels of IA staff dissatisfaction with the turn-over rate, work-life imbalance, management ethics, harassment and discrimination.

The GOC has formally accepted the IIA IPPF in full since the *2001 TBS Policy on Internal Audit*. Specifically, there are well-established Professional Practice Units (PPUs) within the IA functions at the departments and agencies, responsible for the development and monitoring of the Quality Assurance and Improvement Programs, conduct of internal and external self-assessments, as well as IA performance management and reporting. The TeamMate as a standard GOC software suite has been centrally sponsored by the OCG for deployment in the IA functions of departments and agencies. The IA functions in GOC have a 90% conformance rate with the quality assurance standards, and all of them use risk-based audit planning. Moreover, from the very beginning of the IA reform, the OCG instituted horizontal risk-based audit planning in which all departments and agencies participate.

While the TBS Policy on Internal Audit requires the IA functions to publish IA reports, there is no requirement to publish performance indicators. However, the OCG has included IA as Management Area 5 in the government-wide Management Accountability Framework (MAF) assessments since 2006, specifically for the brief statement on the

measure of IA value-added. This was changed in 2013 with the introduction of a 10-indicator Common Audit Metrics Tool (CAMT), results of which were not published but rather provided to the management. While the OCG conducts government-wide assessments of the IA sector performance, these are not made available to public nor do they contain the results from a complete universe of the IA functions. As a result of the 2016 ATIP requests by the author to the OCG for the time-series of IA expenditures and number of auditors during 1931-2017, it was revealed that it is not yet possible to construct the full picture, since the OCG can't compel all of the departments to provide the data. Moreover, these data are not required for the annual budgeting processes either and are not presented by the IA activity, but rather aggregated with the internal services expenditures. Thus, even the Department of Finance does not know exactly how much is spent on IA in the entire Government of Canada. This illustrates the biggest weakness of the decentralized IA regime, where it is the legislated prerogative of the departments to finance and staff the IA functions, and where the secrecy still proliferates.

The *output* of the IA reforms in the GOC is a ***decentralized model of IA governance with IA functions established at the level of departments and agencies with a strong central policy oversight, guidance and monitoring***. This model costs \$73 million in annual expenditures on IA functions and \$2.5 million on DACs.

The *immediate outcome* - independent IA activity - is achieved through the legislated protection of IA independence for the audit committees as the advisory function for the Deputy Ministers as Accounting Officers, answerable before the Parliament. Other *immediate outcomes* are also achieved. The IA sector of the GOC has a high level of IA capacity, capability and professionalization, but the outsourcing rate is still almost a third

of the IA activity volume (26%). The level of assurance and advice to senior management is high with an approximate distribution of 75% of assurance s to 25% of consulting services, and a high number of IA reports submitted to the OCG Audit and Evaluation Database – over 1,700 government-wide since 2006.

The *intermediate outcomes* have been largely achieved. There is a higher level of confidence in the IA regime since the brief descriptions of IA activities in the annual Departmental Performance Repots (DPRs) are consistently included. It is clear that the IA regime is more effective and has high value-added (89%), according to the stakeholder surveys conducted by the OCG. However, while senior management acts on IA recommendations by implementing 59% of them, there is clearly a significant backlog. This means that the GOC has 41% “risk appetite”, which is higher than in other Westminster countries in this study. By not responding to the IA recommendations in a timely manner or not accepting them, the GOC is taking on a high-risk gamble of the major government failures in the future and the political fallouts as a result.

The expected *long-term outcomes* are mostly achieved, according to the legislative and policy requirements. There is an overwhelming evidence that DACs provide a valued regular advisory support and assurance to Deputy Ministers (3-4 meetings per year) within the framework of ministerial responsibilities on risk management, control, governance and overall stewardship of public resources, and are effective in discharging their duties on the IA function oversight. However, for about 10 years after the 2006 TBS Policy on Internal Audit, the DACs were required to provide annual reports on their activities to OCG, but the new 2017 policy has removed this requirement. The reports of the Auditor General routinely include references to the work of internal auditors, which means that the Auditor

General relies on their work. However, there were no new OAG studies or VFM audits on the IA since 2011.

The GOC IA functions follow the IIA's "Three Lines of Defense" model, where the IA is a third line of defense. This means that the IA functions do not participate in the design and implementation of the governance, risk and control frameworks, but rather provide assurance and advice on their adequacy and effectiveness. However, judging from the statistics on the backlog in addressing IA recommendations, indicating a rather unhealthy "risk appetite" on part of bureaucracy, it is clear that the central agencies and departmental senior management may not necessarily follow this model systematically.

Further, all of the departmental and OCG horizontal audits and audit plans are risk-based. However, the indicators for measuring the impact of the IA activity on the government ability to meet objectives and deliver results are not yet available.

The *ultimate impact* of the IA reforms in the GOC can't be measured due to the absence of indicators. However, in 2016, the government issued a new TBS Policy on Results, on the initiative from the Privy Council. There are high expectations that the central agencies and departments will develop new results measurement frameworks, which would lead to the formation of knowledge and evidence on the true impacts of government programs, initiatives and reforms. Overall, the experience of the Government of Canada with the IA reform, especially establishment of DACs, is regarded as a success by the Auditor General, the Parliament, and the bureaucracy. It has introduced important Canadian-made policy innovations, placing the GOC IA sector among the global public-sector leaders in this area.

Overall, the outcomes of the VAMP adoption in the GOC were assessed as positive by 91.6 percent of interviewees, primarily due to progressive strengthening of the independence and oversight of the IA function in the federal government since the **2006 TBS Policy on Internal Audit**. The greatest successes were identified as establishment of the legislated IA functions and DACs with external members and advisory capacity, institution of the CAE positions, increased investment into development of the IA community, professionalization of the auditors, IA reports made open to public, and increased rate of professionalization.

When asked about the failures of the VAMP paradigm or significant areas for improvement, more than 80 percent of the interviewees pointed out to the long-standing need to improve human resource management, starting with the development of a specialized IA classification and training supports. Despite all these efforts by the government, the IA field remains a highly complex, stressful and controversial work environment, riddled with policy and normative dilemmas and unresolved conflicts of interest, according to the majority of the interviewees, making staff recruitment and retention difficult. Not surprisingly, there is a 17 percent vacancy rate across the federal IA units.

Academic studies based on the interviews with the members of DACs by Shepherd (2011) and Larson and Zussman (2010) corroborated that there is a consensus that one of the key outcomes of the 21st century IA reforms in the GOC – establishment of the independent DACs in each department - is an important and positive policy innovation with long-lasting impact on the IA governance regime in the federal government.

From the public policy standpoint, the IA reform demonstrated that the Westminster institutions and conventions of responsible government are relevant, can be modernized and co-exist with the industry practices and professional paradigms, like the global VAMP paradigm of the IA industry. However, there are legitimate questions on whether the latest development is a desirable and stable symbiosis and whether it reflects public values, norms, and interests. The wisdom of the veterans of the government IA sector and IA PACs came through at the interviews, warning that although the TBS has proclaimed the victory and announced the IA function in the government as a mature sector, it must be remembered that it needs to be continuously nurtured and supported.

This cautious optimism is echoed in the fact that after more than a decade of IA reforms in the GOC, propelled by the necessity to fix the problems revealed by the Sponsorship scandal, a new scandal emerged in 2016 – the “Phoenix scandal”, covered in the OAG reports (OAG 2017, 2018), and Porter (2016), Ireton (2017), Nickols (2018), May (2018a-b), as well as the series of Canadian Broadcast Corporation (CBC) commentaries and interviews with academics and former watchdogs, like Donald Savoie and previous Parliamentary Budget Officer (PBO) Kevin Page. Phoenix is a government pay system for the federal employees, introduced in 2016 under the Conservative government as a large inter-departmental IA project, which never worked properly and resulted in a large-scale failure to correctly reflect and pay salaries and benefits to public servants, which continues to this day.

From the conceptual point of view, the major reason for the Phoenix fiasco was the incomprehensible “risk appetite” of the bureaucracy both at the departmental and central-agency levels, where it failed: 1) to establish a proper governance structure and

independent oversight for such major IT project or the “Three Line of Defense” model, as prescribed by the Enterprise Risk Management framework and the IIA described in the conceptual framework; and 2) to involve the internal auditors in independently assessing its merits and operations.

OAG (2018) specifically pointed out that IA function exists to provide independent assurance and advice to the Deputy Minister, but the Phoenix managers excluded it from the project management architecture and process, and therefore should ensure in the future that this is corrected, based on conclusions and recommendations of the OAG audit:

- The 2012 Treasury Board Policy on Internal Audit, which was in effect when Phoenix was implemented in February and April 2016, states that deputy ministers should receive independent assurance and advice from their internal audit groups to inform decision making. Internal auditing assesses and helps improve risk management, control, and governance processes. This helps ensure that a department achieves its objectives efficiently, using informed, ethical, and accountable decision making. A department’s internal audit function proposes audits based on each activity’s risk to the department (OAG 2018).
- 1.94 For information technology projects such as Phoenix, an internal audit is an independent assessment of whether the project is achieving its objectives. Furthermore, internal auditing in the early stages of an information technology project increases the chances that it will succeed. An internal audit of Phoenix would have been crucial, considering the risks posed by the number of transactions it had to process, its cost, its promise to rapidly save money, its government-wide nature, and its need to process about \$22 billion in annual payroll. Public Services and Procurement Canada’s internal audit function should therefore have audited the Phoenix project and reported its findings directly to the Deputy Minister (OAG 2018).
- 1.95 We found that the Department’s internal audit function considered the risks but did not audit the Phoenix project even though departmental files showed that four internal audits of Phoenix were intended. In our view, internal audits of the Phoenix project would have given the Deputy Minister an independent source of assurance as part of a review of the project’s management that could have resulted in a different implementation decision (OAG 2018).
- 1.104 Recommendation. For all government-wide information technology projects under its responsibility, Public Services and Procurement Canada should ensure that its internal audit function provides the Deputy Minister with assurances regarding the projects’ governance, oversight, and management (OAG 2018).

The other causes of the Phoenix failure, outlined by the Auditor General, Donald Savoie and Kevin Page, are related to the broader systematic issues in the Canadian Westminster system of responsible government, such as the “culture of obedience” of the bureaucracy in response to the political pressures from the Ministers, distortionary nature

of incentives for the executive performance evaluation and pay, and the bureaucratic non-compliance with the fundamental requirements of the governance mechanisms for government programs and projects to satisfy conditions of operational sustainability and independent oversight and reporting. All of these issues lead to the lack of transparency and accountability in the Canadian public service, and they severely undermine the proper use of the IA function. Theoretically, this analysis feeds back to the following proofs of hypotheses stated in the conceptual framework:

- If the politicians and government officials do not recognize IA function as a third line of defense, and if the “Three Line of Defense” model is not even established, like in the case of the Phoenix pay system, then the IA can’t fulfill its role, and the probability of failure and political fallout is very high;
- The bureaucratic incrementalism and resistance to the implementation of IA reforms, even those based on the international best-practice blueprints like the VAMP, can be a serious long-term issue, often rooted in the accountability structures and conventions of the broader national political system.

6.5. Comparative Analysis and Evaluation: Summary and Conclusions

The paradigm shift in the global IA industry to VAMP at the turn of the 21st century reflected the inter-sectoral and intra-sectoral restructuring trends during the NPM era in the OECD countries. IA advocacy groups have presented the VAMP as a best-practice solution for the modernization of government IA sectors, which led to its recognition in the public policy domain and adoption in the public sectors of OECD countries and worldwide.

In the dominant public management ideology and beliefs of politicians and government officials, a transfer of the private-sector IA governance model into the public-

sector setting should be relatively straightforward and lead to improved IA independence and effectiveness, which in turn should result in improved government accountability. In reality, absence of the public-sector theoretical and normative foundation of VAMP presents a conundrum for the public-sector IA policy makers and IA functional community on many levels:

- Private-sector IIA standards and professional guidance are designed for the firms, not public-sector organizations, in terms of values, concepts, strategy, operations and processes – i.e. most of them are not directly transferable;
- VAMP does not account for the political and hierarchical issues for IA in the government, which often renders the assumptions on the effectiveness of prescribed governance regime and IA independence unrealistic;
- There are many normative and practical conflicts between the conventions of government operations and the requirements of the IA profession;
- The IA reform is a long game, rendering its inputs/costs, outputs and impacts difficult to estimate.

Further, due to the absence of VAMP's public policy foundations, it is difficult to analyze, test and predict its impact on government accountability. In this study, a comparative analysis and evaluation of the VAMP implementation in the governments of UK, Canada and Canada since 1999 has been undertaken using the VAMP artifact – the *IIA Public-Sector IA Capability Maturity Model (IA-CM)*, and the author's *Generalized Public Sector IA Reform Logic Model*, drawn from the theory of public policy and program evaluation. The comparative evaluation of the IA Capability Maturity in the national governments of the UK, Australia, and Canada based on the IA-CM, is illustrated

in Figure 42. Overall, the UK central government achieved the highest maturity of its IA regime, followed by Canada, and then Australia.

Under the *Services and Role of IA* dimension of the IA-CM, the recognition of IA as a key agent of change and the “third line of defense” in the effective risk management of the organization is at the highest level 5 “Optimized” in the central governments of Canada and the UK and the medium level 3 “Integrated” in Australia, from the system stand point, although there is some evidence of failures in separate cases. All countries have modernized their Westminster-type public-sector legislation to strengthen the enforcement of the doctrine of ministerial responsibility through the inclusion of the Accounting Officer/Accountable Authority clauses. Canada and Australia went further by legislating the establishment of independent audit committees in departments and agencies with the requirement for external members, while the UK modernized the Corporate Governance Code (see FRC-UK 2016) and associated policy guidance (see HMT-IAP 2013b), applicable to both private and public sectors, for the same requirement. In Canada, the independent IA functions were also legislated and the comprehensive IA policy suite developed since 2001 with periodic reviews and updates every 3-5 years. The UK and Australia did not amend the law to make it mandatory for the departments and agencies to have independent IA function, but rather left it to the flexible IA policy or broader government management regulation, which leaves it open for interpretation.

Figure 42 Comparative Evaluation of the IA Sector Capability Maturity under VAMP Paradigm: UK, Australia, and Canada

Source: Author, December 2017

This resulted in the grand experiment in the UK with the centralized shared-services IA governance model, embodied in the Government Internal Audit Agency (GIAA), established in 2015 as an executive agency of the HM Treasury. However, in the Australian Commonwealth Government, the lack of legislative and policy provisions for the establishment of IA functions led to significant variation in the ways these units are operating.

Nevertheless, since 2000, the audit workforce has steadily grown in all national governments, constituting around 700 auditors in Canada, 450 in the UK, and more than 400 in Australia. Canadian auditors published 1,703 IA reports, the UK auditors completed 1,546 reports in the 2016-17 fiscal year, and the Australian IA functions report a higher volume of work as well. However, differences in the financing of the IA functions also make it difficult to assess what represents an adequate level of IA funding and resources. The Canadian IA functions have matured since the IA reforms began in 2001 and their annual expenditures constitute around \$73 million, with the annual expenditures on audit committees around \$2.6 million. Interestingly, the three-year-old GIAA's 2016/17 expenditures have been posted at £32 million, while the revenues at £32 million; for the 18 government departments the estimated audit committee expenditures are £1 million.

Australia does not report IA expenditures. Further, the split between the assurance and advisory services of the IA is 75/25 in Canada, 83/17 in the UK, and 72/28 in Australia. It appears that the legislative or central policy definition of the IA function and its governance regime is the most significant determinant of its effectiveness, as evidenced in the higher number of IA reports produced and lower rates of outsourcing to the private sector (i.e. the UK – 12.3%, Canada-26%, Australia – 36.7%).

Under the ***Governance Structures*** dimension of the IA-CM, all countries have established independent audit committees in the national government departments and agencies, which positions them well in securing independent oversight of the IA function with the maturity level 5 for the UK, 4 for Canada, and 3 for Australia. There are now 42 DACs in Canada with 135 independent members, 18 ARACs in the UK with more than 54 independent members, and more than 18 ACs in Australia with more than 54 independent members. However, the appointment processes for independent members vary. In the UK, independent committee members are appointed through the Cabinet Office - Centre for Public Appointments, where the process is guided by a panel and Permanent Secretaries have a say. In Canada, they are appointed by the Treasury Board from a diverse population of private-sector leaders, academics and civil society, and the Deputy Ministers have a veto power. In Australia, the appointment process is controlled by the heads of the departments and is not necessarily transparent. Further, Canada and the UK have a strong central government IA function oversight (Office of the Comptroller General at the Treasury Board Secretariat in the Government of Canada and the Public Spending Group at the HM Treasury at the UK Government), policy design and monitoring mechanisms, while Australia has a weak capability since the Department of Finance does a very minimal IA policy guidance at the ad-hoc level. In the UK, the activities and costs of the audit committees are published in the annual reports to Parliament. Canada has recently instituted the reporting requirement for audit committees in the revised 2017 Policy on Internal Audit, while there is no such requirement in Australia.

Under the ***People Management*** dimension of IA-CM, the governments in the UK and Canada were able to develop common central HR strategies, including: 1) certification

of the auditors and CAEs based on the IIA Certification Suite and other commonly accepted IA certifications; 2) processes for training, hiring, and remuneration of auditors; and 3) coordination of policy implementation through various central forums and committees. This allowed them to conduct effective workforce coordination and team building, to and attract professionally qualified staff, bringing them to maturity level 3 “Integrated”. However, Australia is still at the level 2 “Infrastructure”, without official training programs and certification requirements, struggling to attract qualified internal auditors and managers. Further, in all countries, the majority of internal auditors are the members of the local IIA affiliates, where there are 110 members of the IIA Canada, 1,060 of the CIIA in the UK, and 386 members in Australia, and more than 70% of staff and heads of IA hold or work towards the IA certification. However, the rates of IA staff turnover, lack of work-life balance, and harassment and discrimination are high and above the public-service average in the UK and Canada, while the data for Australia are not published. The IA vacancy rates exceed 15% in all countries in the study. Further, in the national governments of the UK and Canada, the rates of internal auditors wanting to leave their departments or public service are high and above average in the public service. Australia does not track these indicators for IA community.

Under the *Professional Practices* dimension of the IA-CM, all governments have accepted the international IIA standards and prescribed IA governance model and follow them. However, significant variations exist in their interpretation and implementation. Both Canada and Australia adopted the IIA IPPF as is; however, Canada has done it formally through the *TBS Policy on Internal Audit*, while in Australia it is an implied recognition, embedded in the practices of the IA functions. In the UK, a ‘sovereign’

adaptation of the IIA IPPF occurred, where the Public Service IA Standards (PSIAS) represent a compilation of IA standards with the detailed interpretations of their application in the public sector. Canada and the UK IA functions adhere to the IIA IPPF by 100%, while Australia's score is about 95%. While Canada has mandated establishment of the Professional Practices Units (PPUs) and the Quality Assurance and Improvement Programs (QAIPs) in each department and agency with 90% rate of conformance of IA practices to the standards, and the UK's GIAA established a central PP Directorate with 100% conformance rate, Australia is lagging behind with only 74.5% conformance rate. The UK is also experimenting now with the development of single IA methodologies aiming to achieve a complete standardization of its processes across all client departments for a higher level of efficiency and effectiveness. Further, Canada and UK have adopted standard IA project and process management and data analytics software like TeamMate. Nevertheless, the IA planning and operations in all central governments are 100-percent based on the risk methodology.

Under the *Performance Management and Accountability* dimension of the IA-CM, the UK national government achieved the highest maturity level on IA accountability by mandating the GIAA to provide annual accounts and reports to Parliament and by adopting systematic performance indicators, also published in the reports. The Canadian government is at the level 4, since it has developed a 10-indicator IA Common Audit Metrics Tool (CAMT) that has been deployed for several years with reports to management, but it is not yet publicly reporting these results. Previously, during 2006-2013, the Government of Canada published very brief Management Accountability Framework (MAF) assessments of the IA sector in the departmental reports, the overall

statements on IA maturity and value-added in the Treasury Board Secretariat annual reports, and in several occasional reports of the Office of the Comptroller General. Australian government has not yet developed a common IA performance measurement framework and the metrics and statistics are not available at the whole-of-government level, nor are they published for individual departments. While in the UK and Australia the public can request IA reports to be released via the access to information legislation, in Canada they are available to the public. Stakeholders of the national government IA functions assess their value-added above 70% across all countries, while the average rate of implementation of audit recommendations by senior management is more than 50%. This indicates that there is still a gap in management acceptance of the work of internal auditors. However, these statistics have only recently become available in the last few years, and it will be interesting to see their levels in the future. Finally, while none of the governments collect statistics on the rates of pressure to suppress the valid audit findings, the 2015 IIA GIAPS-CBOK indicates that they are rather high - 38.6% for Canada, 26.5% for the UK, and 27.5% for Australia.

Under the *Organizational Relationships and Culture* dimension of the IA-CM, there are significant variations in terms of the influence that the IA function exerts on senior management and the Accounting Officer/Accountable Authority through the relationships of the CAE. Canada specifically mandated establishment of the independent CAE positions via the Policy on IA and provided a comprehensive definition of their roles and responsibilities. In the UK, while there are some elements of definition of the mandate for the Heads of Internal Audit (HIAs) in the GIAA framework document, the MOUs between the GIAA and the client departments, and the policy guidance for the audit committees,

their roles are largely defined by the IIA standards. However, the Chief Executive & Accounting Officer of the GIAA is officially recognized as the Head of Government Internal Audit Profession and has a high advisory stature at the Cabinet Office and HM Treasury, and has been called to answer before the Parliamentary committees. In Australia, there is a lack of clarity on the role of CAEs and it is up to departmental senior management to appoint them. There are currently 56 CAEs in the Government of Canada, while the CAEs/HIAs lists are not published in the UK and Australia, however, for the former it is assumed that each of the 18 departments has an HIA. In Canada and the UK, CAEs are 100-percent reporting administratively to the Accounting Officers and functionally to the audit committees, while in Australia the reporting relationships are not always up to the standard (56%/69%). Nevertheless, the levels of advisory support and influence of the CAEs provided to the top management are growing across all countries.

During the course of the IA-CM analysis it was found that none of the governments has established IA metrics and scoreboards that IIA is using in its Global Internal Audit Practitioners Survey – Common Body of Knowledge (GIAPS-CBOK) studies, which made it very difficult to reconcile the data coming from both the independent IIA studies and the government sources.

Summary of the findings according to the logic model for the ***Generalized Evaluation of the IA Sector Reforms*** implementation in the national governments of the UK, Canada and Australia are presented in Table 2 below. The evaluation incorporates the input from the IA-CM assessment.

Table 2 Comparative Evaluation of the IA Sector Reform Implementation under VAMP Paradigm in the National Governments of the UK, Australia, and Canada: 1999-2017

DIMENSIONS	United Kingdom	Canada	Australia
Investments & resources			
<ul style="list-style-type: none"> Funds for establishment of new IA institutions, structures, and processes 	Data for the whole-of-government investments into IA activity not published prior to 2015; initial seed funding of £1 mln provided by HM Treasury for the central shared-services Government Internal Audit Agency (GIAA) in 2015	Whole-of-government IA reform implementation funding of \$33 mln during 2001-05 and \$370 mln during 2005-2010 provided by the Treasury Board of Canada	Government-wide or departmental expenditures data for new IA initiatives not published
<ul style="list-style-type: none"> New IA policy development resources 	Significant evidence in the annual reports of HM Treasury on allocation of human resources specifically for government-wide IA policy framework and infrastructure development at the level of HM Treasury, Cabinet Office, and the GIAA	Significant evidence in TBS of allocation of human resources specifically for federal government IA policy framework and infrastructure development at the Office of the Comptroller General of Canada (OCG)	Some evidence of allocation of strategic human resources at the Department of Finance for the development of select guidance materials for audit committees and assurance processes in the larger Public Governance & Resource Management Framework (GRMF)
Activities			
<ul style="list-style-type: none"> IA recognized as key agent of change via legislation and/or government policy 	High level of recognition of the role of the Permanent Secretaries as Accounting Officers, independent Audit & Risk Assurance Committees (ARACs) and establishment of central shared-services Government Internal Audit Agency (GIAA) as an executive agency of HM Treasury via framework document 2015	Highest level of recognition of the role of Deputy Ministers as Accounting Officers, independent departmental audit committees (DACs) and independent and appropriately resources IA functions via legislative amendments (FAA 2006) and TBS Policy on IA since 2011, & mandatory CAE positions	Some recognition provided via legislation of the Accountable Authority concept & independent audit committees in PGPA Act 2013; IA functions and CAE positions not mandated and not defined
<ul style="list-style-type: none"> Establishment of independent audit committees and Chief Audit Executive (CAEs) positions 	Independent departmental ARACs and Heads of Internal Audit (HIAs) are mandatory by HM Treasury policy and have been established – 18 ARACs with 54+ members and 18+ HIAs; central shared-services GIAA; Cabinet Office appoints ARAC members via transparent process & departments have a say; GIAA appoints HIAs & departments have a say; ARAC members annual pay is on average £15 thousand annually per member; 100% of CAEs report administratively to AOs and functionally to ARACs; training for ARAC members sourced from IA PACs	Independent departmental DACs (mandatory by law) & CAE positions (mandatory by policy) have been established – 42 DACs with 135 members and 56 CAEs; Treasury Board appoints DAC members (via transparent process) and CAEs jointly with departments the latter exercising veto power; DAC members pay is legislated and is on average \$1,500 per diem per member; 100% of CAEs report administratively to AOs and functionally to DACs; training of DAC members provided by TBS	Independent departmental audit committees are mandatory by law and have been established – 18 + ACs with 54+ members; heads of departments (Secretaries) appoint AC members and CAEs/HIAs; AC members receive up to \$20,000 annually per member; more than 50% of CAEs report administratively to AAs and functionally to ACs; training of AC members sourced from IA PACs
<ul style="list-style-type: none"> Establishment of IA internal/external policy & professional practices design, coordination & feedback mechanisms 	Highest level of government-wide central policy & professional practices coordination due to shared-services IA model; coordination with relevant IA standard-setting and professional bodies	Highest level of government-wide central policy & professional practices coordination with departmental IA functions and IIA Canada via OCG- online member-access IA Reference Centre, IA GCPedia network, Canadian Centre for Government Auditing, Assistant Comptroller General (ACG) advisory committees	Some policy guidance developed for the ACs; some coordination exists for the departmental ACs conducted periodically by the Department of Finance

Source: Author, December 2017

DIMENSIONS	United Kingdom	Canada	Australia
<ul style="list-style-type: none"> Establishment of IA HR systems & processes, and professional training & development programs 	Acceptance of the IIA Certification suite and other relevant designations as common qualifications; central training and hiring programs; high rates of IIA membership and certification	Acceptance of the IIA Certification suite and other relevant designations as common qualifications; central training and hiring programs; high rates of IIA membership and certification	Acceptance of the IIA Certification suite and other relevant designations as common qualifications; central training and hiring programs; high rates of IIA membership and certification
<ul style="list-style-type: none"> Establishment of IA professional practices frameworks, processes and structures 	“Sovereign” adaptation of the IIA IPPF in the UK Public Sector IA Standards (PSIAS) but full acceptance and adherence; central Professional Practices Directorate, central Quality Assurance and Improvement Program (QAIP), Single Audit Methodology; common IA software TeamMate; 5-year EQAs with high rates of conformance to standards; all activities are risk-based	Formal and full adoption of IIA IPPF via TBS Policy on IA; departmental Professional Practices Units (PPUs); IA function documentation and manuals; departmental Quality Assurance and Improvement Programs (QAIPs); common IA software TeamMate; 5-year EQAs with high rates of conformance to standards; all activities are risk-based	Partial and informal adoption of IIA IPPF in the IA practices; departmental IA function documentation and manuals; departmental Quality Assurance and Improvement Programs (QAIPs); 5-year EQAs with high rates of conformance to standards; all activities are risk-based
<ul style="list-style-type: none"> Establishment of systems of IA performance management & accountability reporting 	GIAA provides annual reports and accounts to Parliament and citizens online; GIAA established government-wide system of IA performance management and stakeholder surveys, with indicators published in the annual report to Parliament and website; IA reports can be obtained via access to information law	OCG established government-wide Common Audit Metrics Tool (CAMT) with 10 indicators – not available publicly; MAF reporting on IA value-added; IA reports are published	No government-wide IA performance measurement framework or metrics; IA reports can be obtained via access to information law
Outputs			
<ul style="list-style-type: none"> Mechanisms, processes and structures resulting from the adoption of the IIA IPPF mandatory and recommended guidance 	Centralized shared-services model of IA activity and governance (GIAA) – 75% coverage of government operations; ‘sovereign’ adaptation but full adoption and 100% adherence to IIA IPPF; cost of the model - £32 mln annually and about £1 mln on ARACs	Decentralized model of IA activity at the departments & agencies with strong central IA governance and policy coordination structures/mechanisms at the OCG and mature departmental IA functions; 100% acceptance adoption and adherence to IIA IPPF; cost of the model - \$72 million annually on departmental IA functions and \$2.6 mln on DACs	Decentralized model of IA activity at departments & agencies, characterized by co-sourcing and out-sourcing, with no central IA governance structures and mechanisms and weak IA policy guidance but with the departmental IA functions of varying maturity levels; expenditure data not available
Immediate outcomes:			
<ul style="list-style-type: none"> Independent IA activity 	Achieved at the senior management level; internal auditors experience high levels of harassment, discrimination and pressure to suppress audit findings	Achieved at the senior management level; internal auditors experience high levels of harassment, discrimination and pressure to suppress audit findings	Partially achieved at the high level; internal auditors experience high levels of pressure to suppress audit findings; public survey results for IA not available
<ul style="list-style-type: none"> Appropriate IA capacity, capability & professionalization 	Achieved high level	Achieved high level	Achieved intermediate level
<ul style="list-style-type: none"> Appropriate level of assurance and advice to senior management 	Achieved high levels (83% assurance/17% advisory); high number of IA reports	Achieved high levels (75% assurance/25% advisory); high number of IA reports	Achieved intermediate level

Source: Author, December 2017

DIMENSIONS	United Kingdom	Canada	Australia
Intermediate outcomes:			
<ul style="list-style-type: none"> Ministers and their deputies have confidence in IA regime 	<u>Achieved</u> : Ministers and Permanent Secretaries rely on the advice of ARACs and GIAA reporting process as the brief summaries on IA activity are included in the annual reports to Parliament	Achieved: Ministers and Deputy Ministers rely on the work of DACs and trust the IA reporting process as brief summaries on IA activity are included in the annual reports to Parliament; high level of oversight over IA reports publication process	Achieved: Ministers and Secretaries rely on the work of ACs and trust the IA reporting process as the brief summaries on IA activity are included in the annual reports to Parliament
<ul style="list-style-type: none"> IA regime is effective and has high value-added 	<ul style="list-style-type: none"> <u>Achieved</u>: evidence from the senior management/stakeholder surveys (76%) No VFM audits conducted by the C&AG in post-reform period 	<ul style="list-style-type: none"> <u>Achieved</u>: evidence from the senior management/stakeholder surveys (89%) No VFM audits conducted by the AG in post-reform period 	<ul style="list-style-type: none"> <u>Inconclusive</u>: no official government-wide reports published, but IIA GIAS-CBOK indicates high-level of stakeholder satisfaction (87%) No VFM audits conducted by the AG in post-reform period
<ul style="list-style-type: none"> Senior management acts on IA advice 	<u>Achieved</u> : Average rate of implementation of IA recommendations is high (73.2%)	<u>Achieved</u> : Average rate of implementation of IA recommendations is high (59%) but with a backlog	<u>Inconclusive</u> : No official data available
Long-term outcomes:			
<ul style="list-style-type: none"> Ministers & their deputies are supported in their Parliamentary accountability roles 	<u>Achieved</u> : independent audit committees provide regular advisory support and assurance to Accounting Officers within the framework of ministerial responsibility on risk management, control, governance and overall stewardship of public resources, and an oversight of the IA function	<u>Achieved</u> : independent audit committees provide regular advisory support and assurance to Accounting Officers within framework of ministerial responsibility on risk management, control, governance and overall stewardship of public resources, and an oversight of the IA function	<u>Achieved</u> : independent audit committees provide regular advisory support and assurance to Accountable Authorities within framework of ministerial responsibility on risk management, control, governance and overall stewardship of public resources, and an oversight of the IA function
<ul style="list-style-type: none"> Parliament is supported in effective oversight of public spending and IA activity 	<u>Achieved</u> : PAC, C&AG rely on the work of IA; IA cooperates by providing access to materials and resources and answering before Parliamentary committees	<u>Achieved</u> : PAC, Auditor General and other federal external assurance agencies rely on the work of IA; IA cooperates by providing access to materials and resources and participating in horizontal audits	<u>Achieved</u> : PAC, Auditor General rely on the work of IA; IA cooperates by providing access to materials and resources and participating in horizontal audits
<ul style="list-style-type: none"> Improved government risk management, control and governance regime; 	<u>Achieved</u> : IA risk-based and internal control methodologies are implemented; IA fulfills the role of 2 nd and 3 rd line of defense	<u>Achieved</u> : IA risk-based and internal control methodologies are introduced and implemented; IA fulfills the role of 3 rd line of defense	<u>Achieved</u> : IA risk-based and internal control methodologies are implemented; IA fulfills the role of 3 rd line of defense
<ul style="list-style-type: none"> Improved government ability to meet objectives & deliver results 	No impact indicators or data available	No impact indicators or data available	No impact indicators or data available
Ultimate impact			
<ul style="list-style-type: none"> Accountable & appropriate government management of public resources 	No impact indicators or data available	No impact indicators or data available	No impact indicators or data available

Source: Author, December 2017

Overall, since the advent of VAMP, the governments in these countries have been cautious with its adoption and have conducted several rounds of experiments with gradual introduction of its elements before committing to it fully or partially.

In terms of *investments and resources* allocated for the VAMP-inspired IA reforms, countries varied in their approach. First, it is important to note that comprehensive government expenditures data are not available and those that exist are not comparable across the jurisdictions.

The Australian Commonwealth Government did not publish the expenditure for the IA initiatives during the period of study. However, some evidence is available for the allocation of strategic human resources at the Department of Finance for the development of select guidance materials for audit committees and assurance processes in the larger Public Governance & Resource Management Framework (GRMF). In the UK national government, the expenditures on IA prior to 2015 were not reflected in the HM Treasury annual reports and accounts, except that it was mentioned that £1 million was allocated to create the GIAA. However, description of the IA initiatives in the annual reports during 2006-2017 indicates that significant strategic HR resources were allocated for their design and implementation at the central-agency level, i.e. Cabinet Office, HM Treasury and GIAA (see HMT AR 2006-2010). In Canada, the IA reform was financed by the Treasury Board of Canada, which poured \$33 million into the initial *2001 Policy on Internal Audit* implementation during 2001-05 and \$37 million into IA capacity and infrastructure building during 2005-2010, as well as created the Office of the Comptroller General for the whole-of-government IA policy design, implementation and coordination (see OCG 2011: 26; OAG 2004: 3]

The IA reform *activities* across six expected groups of IA capability across countries varied as well. First, in terms of the recognition of the IA as key agent of change in government management, in the UK, the IA received the highest level of recognition through policy documents, bolstering the role of the Permanent Secretaries as Accounting Officers, independent Audit & Risk Assurance Committees (ARACs) and establishment of central shared-services Government Internal Audit Agency (GIAA) as an executive agency of HM Treasury. In Canada, the IA also received the highest level of recognition by instituting the Deputy Ministers to serve as Accounting Officers, independent departmental audit committees (DACs), independent and appropriately resourced IA functions and CAE positions via legislative amendments (FAA 2006) and TBS Policy on IA since 2011. In Australia, some recognition for the role of IA was provided via legislation of the Accountable Authority concept and independent audit committees in PGPA Act 2013, however the IA functions and CAE positions are not mandated and not defined.

Second, in terms of the establishment of independent audit committees and Chief Audit Executive (CAEs) positions, as mandated by VAMP, national government IA reforms in all countries resulted in the implementation of the mandatory legislative requirements for the audit committees in departments and agencies, but the processes for the selection, appointment and remuneration of the audit committee members vary, whereas the UK and Canada have achieved transparency. Only Canada has mandated the establishment of CAE positions by the central-agency policy requirement. The CAE roles and responsibilities remain under-defined in the UK and Australia.

Third, in terms of the establishment of IA internal/external policy and professional practices design, coordination and feedback mechanisms, the national governments of the

UK and Canada were able to build government-wide and centralized infrastructure and processes. In the UK, 75% of the government departments are collected under the central shared-services GIAA umbrella, where the common IA policy design, coordination and implementation is ensured, including the activities with the relevant standard-setting and professional bodies. The Government of Canada conducts policy coordination with departmental IA functions and the IIA Canada through the OCG activities on IA policy and community development, including the online member-access IA Reference Centre, IA GCPedia network, Canadian Centre for Government Auditing, Assistant Comptroller General (ACG) advisory committees, etc. In Australia, the central IA policy capacity is minimal at best, where the Department of Finance has developed some central policy guidance for the audit committees and conducts periodic briefing activities for their members.

Fourth, in terms of the establishment of IA HR systems and processes, as well as professional training and development programs, all governments have accepted the IIA Certification Suite as the basis for IA qualifications, with the CIA and CGAP designations recognized as the main requirements. The majority of internal auditors belong to the local IIA affiliates as part of the government membership groups. The rates of certification are above 70% across the governments. Canada and the UK have also established central IA training and hiring programs.

Fifth, in terms of the establishment of IA professional practices frameworks, processes and structures, all governments have adopted the IIA IPPF as is, but the UK has also provided the interpretation of standards in the context of the UK public-sector environment. Further, Canada and the UK established devoted Professional Practice Units

(PPUs) at the departments and agencies in Canada and centrally in the UK. IA functions across all governments have established the Quality Assurance and Improvement Programs (QAIPs) with five-year External Quality Assessments (EQAs) with high rates of conformance with the IIA standards. The IA functions across all governments have the charter documentation and process manuals. Canada and the UK have also adopted a common IA software TeamMate.

Sixth, in terms of the establishment of systems of IA performance management & accountability reporting, the national governments in the UK and Canada have established government-wide performance measurement frameworks, where UK publishes these indicators annually and Canada provides reports to senior management. Australia has not yet developed these frameworks and the metrics are not available. While in Canada the IA functions are required to publish the IA reports, in Australia and the UK the reports can be obtained via the access to information requests. There is a consensus in Canada that the requirement to publish IA reports contributes to the politicization of IA activity and reduces independence of internal auditors, paradoxically, due to the conflict with the doctrine of ministerial responsibility.

The *outputs* for the IA reforms, described as the mechanisms, processes and structures stemming from the adoption of the IIA IPPF mandatory and recommended guidance and as evidence from activities are defined as a resulting model of IA activity. The UK established a **centralized shared-services model of IA activity and governance** (embodied in GIAA) with a 75% coverage of government operations (14 out of 18 national government departments under the GIAA umbrella) and a ‘sovereign’ adaptation but full adoption of the IIA IPPF. The cost of the model is £32 million annually and about £1

million for ARACs, but it is expected to break-even considering that its revenues after two years of operation are £30 million. Canada established a **decentralized model of IA activity at the departments and agencies with strong central IA governance and policy coordination structures/mechanisms** at the OCG and mature departmental IA functions, with a 100% acceptance and adherence to IIA IPPF. The cost of the model is \$72 million annually on departmental IA functions and \$2.6 million on DACs. Australia established a **decentralized model of IA activity at the departments & agencies, characterized by co-sourcing and out-sourcing of IA activity, with no central IA governance structures and mechanisms and weak IA policy guidance**, but with the departmental IA functions of varying maturity levels, and where expenditure data are not available.

Immediate outcomes for the VAMP-inspired IA reforms have been achieved across all countries in the study, specifically:

- IA activity is more independent at the senior management level. However, internal auditors experience high levels of harassment, discrimination and pressure to suppress audit findings. This is unacceptable, even though these instances are lower than the global public-sector IA average reported in the 2015 IIA GIAPS-CBOK.
- IA activity has achieved higher level of capacity, capability and professionalization than before the reforms.
- IA activity shows higher levels of assurance and advisory services and outputs.

It can also be said with confidence that the *intermediate outcomes* of the IA reforms in the national governments of the UK, Australia, and Canada have been predominantly achieved due to the following evidence:

- Ministers and their deputies have higher confidence in the national IA regimes since they seem to rely on the advice of audit committees and the IA reporting process as the brief summaries of the IA activity are included in the annual reports to Parliament; in the case of Canada, IA reports go through additional scrutiny due to the publication requirement.
- IA regime appears to be more effective and has higher value-added than before the reforms, judging from the high rates of senior management/stakeholder satisfaction surveys. However, the Auditors General in all three cases have not yet implemented the VFM studies in the post-reform period.
- Senior management seems to act on IA advice, evidenced in the high rate of implementation of the IA recommendations in Canada and the UK, but it is inconclusive for Australia due to lack of data.

In terms of the *long-term outcomes* of the IA reforms, the key indicators have been achieved, but some cannot be measured at this time, specifically:

- Ministers and their deputies are better supported in their Parliamentary accountability roles by the virtue of the existence of the independent audit committees, that provide regular advisory support and assurance to the Accounting Officers/Accountable Authorities within the framework of ministerial responsibility on risk management, control, governance, and overall stewardship of public resources, as well as an oversight of the IA activity;
- Parliament is better supported in effective oversight of public spending and IA activity because the legislative and policy-framework conditions have been created to allow the Auditor Generals and the Public Accounts Committees of Parliament to rely on the

work of IA, the IA cooperates with the agents of Parliament by providing access to materials and resources, as well as answering before Parliament (the UK case).

- There is a marked improvement in the government risk management, control and governance regime, since the IA risk-based and internal control methodologies are implemented and the IA function does everything possible to fulfill its prescribed role as the third line of defense in the ERM. However, there is also evidence in all three countries that the bureaucratic elites, in separate cases, have not yet implemented the “Three Lines of Defense” model, as recommended by the IIA.
- However, there are no impact indicators or data to suggest that the government ability to meet its objectives and deliver results has been improved as a result of the IA reforms.

Therefore, it is not surprising that the expected *ultimate impact* of the IA reforms – accountable and appropriate government management of public resources - cannot be evaluated at this time, since the impact indicators and data are not tracked across the governments under study. In the post-reform period, the signs have emerged that there is evidence of a rather strong bureaucratic incrementalism and political resistance to the IA policy change, manifested in all three countries by:

- 1) the high rates of harassment of internal auditors and political pressures to suppress the findings of the IA reports (even though they are lower than the global public-sector IA average – it is unacceptable in the democracies); and
- 2) the cases of a high “risk appetite” in the bureaucracy due to the reluctance of the senior managers to implement recommendations in the IA reports and the apparent lack of incentives to establish the proper “Three Lines of Defense” model in their organizations.

The most notorious evidence of this is a “Phoenix scandal” that erupted in Canada in 2016, which is still dragging on with no end in sight. This shows that political buy-in of the bureaucracy is key in the success of the IA reforms, even if they are based on the best intentions and best-practice design of the international blueprints like the VAMP.

Nevertheless, the case studies reveal that VAMP has taken a firm ground in the IA sectors of the Westminster governments of the UK, Australia, and Canada. However, despite the existence of common basic elements in VAMP implementation over almost two decades during 1999-2017, the countries vary with respect to the established legislative and normative base and design of the IA governance models, as well as public policy and procedural specifications of its elements. This includes differences in the design of central IA oversight structures and mechanisms within the executive branch, audit committees’ processes, IA functional community architecture and operations, relationships between the IA functions and central oversight, relationships between the CAEs and audit committees, design of professional practice management, etc.

The VAMP-inspired IA reforms are still work-in-progress and their outcomes are difficult to assess due to the lack of the public-policy foundations of VAMP and the consistent government data on public-sector IA reforms. The case studies demonstrated that a significant long-term public-sector adaptation and modification is required in order to achieve desirable outcomes for the IA reforms under the private-sector (industry) VAMP paradigm, with the priorities in appropriate IA public policy legislative and normative base development, institutional and organizational restructuring within the pre-set Westminster institutions of responsible government, IA capacity building, and availability of financial and human resources.

7. Chapter 7: Conclusion

This research presented the first account, explanation, and evaluation of the four major public policy phenomena that completely changed the field of public-sector IA worldwide: 1) international recognition of effective internal audit as a vital element of good governance in the new millennium; 2) “internal audit explosion” in the public sectors worldwide at the turn of the 21st century; 3) emergence of a global paradigm of internal audit activity in the 21st century – Value-Added Management Partner Paradigm (VAMP); and 4) early adoption of VAMP paradigm by a set of national Westminster governments, such as the UK, Australia, and Canada. This final chapter presents a summary of the key research findings, overarching policy propositions, and perspectives on future research.

7.1. Summary of Key Research Findings

The public policy phenomena were investigated in the four empirical studies using the author’s conceptual framework for the analysis of IA policy dynamics and variation, based on the adaptation of Howlett et al. (2009) meta-theory of policy making as an overarching research philosophy, and incorporating a range of mid-level theories, frameworks, and concepts from three fields of knowledge: public policy and administration, business administration, and the IA profession. The key findings from the four empirical studies are: 1) VAMP paradigm is an effective response of the modern IA profession to a global change in management practices and regulatory environment; 2) global adoption of VAMP in the public sectors worldwide shows moderate implementation effort with mixed results; 3) supra-national institutions are the key force behind the global public-sector VAMP advocacy; and 4) post-2000 VAMP-inspired public-sector IA reforms in the Westminster

country cluster are work in progress and difficult to assess. These findings are explained in the sections below.

7.1.1. VAMP is an Effective Response of the Modern IA Profession to a Global

Change in Management Practices and Regulatory Environment

The first empirical study presented the first historical account of the evolution of the modern internal auditing industry over the last eight decades (1941-1917) and the first scientific conceptualization of its professional paradigms, from the public policy perspective. It was found that the IA industry has gone through three professional paradigms, with distinct ideational frameworks (disciplinary matrixes) and conceptual paradigm models (with a set of measurable indicators).

The first paradigm – Attest & Operational - that spanned for 45 years from 1941 to mid-1980s – focused on building the modern IA profession by satisfying the first-order professionalization conditions, which were consistent with the patterns of normal or incremental change. While the key exogenous factor for the paradigm stability was the growing demand for internal auditors, the majority of the mechanisms supporting the stability of the IA professional regime were endogenous, i.e. mechanisms of internal governance, profession-building and private-regulation, established by the Institute of Internal Auditors as a single regulatory and professional body of the global IA industry.

The shift to the second paradigm – Control Frameworks - that lasted for about 15 years from the mid-1980s to the late 1990s – was caused by: 1) major exogenous drivers of change, such as developments in theory and state regulation on internal control systems in multiple English-speaking jurisdictions around the world (US, Canada, UK, South Africa, etc.), where the IIA took part as well; and 2) endogenous drivers of change, based

on strategic research of the IIA and its partners on corporate trends, and their consensus on the need for regulatory intervention to strengthen the internal control regime in organizations. The IA profession, together with the partners in the policy advocacy coalitions, made a conscious choice to modify the knowledge and normative base accordingly.

The third paradigm – Value-Added Management Partner (VAMP) - that began in 1999 and is presently in effect - emerged as a response of the global IA industry to the following:

- 1) endogenous drivers of change, such as the internal IIA strategic research and growing calls of the global IA community for modernization of the profession and its knowledge and normative apparatus in order to capitalize on increasing globalization and resulting changes in management practices; and
- 2) exogenous drivers of change, such as the need to respond to a sudden increase in regulatory oversight of the profession due to multiple failures of accountability in the public and private sectors, that put the auditors in the spotlight.

VAMP, as a universal international blueprint and a package of new prescriptions for IA governance in any type of the organization, was rolled out as a promising solution to the crises of accountability. The key means are strengthening the IA functions through the introduction of a new IA operational model based on value-added services to management and independent IA governance regime, appealing to all stakeholders.

The other major finding is that over the course of three paradigms, the modern IA profession grew from a mere extension of the accounting field to an all-encompassing meta-field of management. Internal auditors became the trusted advisors of the boards and

senior management, also corroborated by Sawyer et al. (2003). Moreover, the IA profession gained international recognition, status and influence in the global IA policy-making due to the work of the IIA as its professional and private-regulation body.

Another important outcome of the research process was a realization that the modern IA profession was born in the United States, and that its development was greatly influenced by the various conventions and breakthroughs in the views of the US political, regulatory, legislative, and judicial institutions. Further, the VAMP paradigm carries largely Anglo-American perspectives on the design of the IA function and its governance, and it propagates them at the global level, which is both its virtue and vice. The positive side of VAMP as an international blueprint is that it promotes a strong IA governance regime in every organization, based on international standards and professional practices framework, and it seems to work in the Anglo-American countries. The negative side is that the implementation theory predicts that diffusion and adoption of VAMP as a global blueprint would inevitably encounter problems outside of the Anglo-American world, because its pronouncements and requirements would most probably fall outside of the statutes and political systems of many jurisdictions. This would mean the need for a top-down implementation approach in the national IA reforms, supported by the legislative and policy adjustments at the very beginning of the planned policy regime change.

7.1.2. Global Adoption of VAMP in the Public Sectors Worldwide Shows Moderate Implementation with Mixed Results

The second empirical study focused on assessing the patterns and scale of VAMP adoption in the public sectors worldwide in the 21st century, as part of the government IA reforms. VAMP was recognized as a private-sector international blueprint for the IA

function and its governance, prescribed by the International Professional Practices Framework for Internal Auditing (IPPF) and devised by the global Institute of Internal Auditors (IIA), and deemed suitable for the transfer into the public-sector setting.

Analysis and assessment of VAMP adoption in the public sectors globally and across the World Bank regions, based on key indicators of IA independence and status, IA effectiveness, and IA professionalization, drawn from the 2015 IIA Global Survey of Internal Audit Practitioners, shows moderate global rates of VAMP implementation (65% on average) and significant convergence in IA governance regimes and practices worldwide. It is a commendable success story because it is indisputable that VAMP implementation led to a significant increase in the IA independence and status, effectiveness and professionalization in the public sectors worldwide during the first two decades of the 21st century.

This outcome is consistent with the predictions of the meta-theory and a hypothesis that adoption of the international best practices and standards occurs because they are validated internationally, especially in the absence of strong domestic practices, and because their adoption ensures high policy problem tractability.

However, the additional statistics outside of the key VAMP indicators framework and literature also show that VAMP implementation is not complete (only 65%) and that the variation in reaching the key targets across the World Bank regions is significant (34%). Despite the progressive nature of the VAMP paradigm, significant barriers remain to an optimal realization of the value-adding potential of the public-sector IA. Analysis and assessment indicated that significant barriers and problems of VAMP adoption emerged as well, such as: 1) partial country conformance with the IIA standards due to a variety of

reasons, including national and organizational policy environment and various resource constraints on the state; 2) inadequate funding for the IA modernization; 3) politicization of public-sector IA and pressures to politically suppress IA leadership and staff; 4) suppression of the IA findings; 5) loss of the IA workforce; and 6) low rates of recognition of the public-sector IA as the third line of defense in the organizational risk management framework.

The first and second groups of problems are consistent with the hypothesis that the practice of implementation of international best-practice varies across jurisdictions, depending on the level of constraints on the state and bureaucratic incrementalism and resistance to the policy change. It is a fair expectation that national governments need the time, resources, and political buy-in, including that of the bureaucracy, to implement the new paradigm and make it work in the national setting.

The rest of the identified problems in the VAMP implementation around the world lie in the political and conceptual duality of the VAMP paradigm, creating untenable conflicts of interest, the breakdown of ethics and objectives for the public-sector IA.

7.1.3. Supra-National Institutions are the Key Force behind the Global Public-Sector VAMP Advocacy

The third empirical study, based on three case studies of VAMP advocacy by the World Bank, the OECD and the European Commission, showed that VAMP diffusion and adoption was powered by the work of the Global IA Policy Advocacy Coalition, led by the IIA, as the supplier of VAMP, and the above-mentioned key SNIs as the “buyers”, the “adjudicators”, and the “brokers” of VAMP, from the public-interest perspective. This ensured its rapid diffusion and adoption in public sectors around the world.

The 2000 IIA Professional Practice Framework for Internal Auditing, a package of standards and guidance embodying VAMP, was identified by the key SNIs, involved in the IIA boards and projects, as a readily available and promising universal solution to fix government accountability problems that can be applied on the global scale. This “fix” would occur through the introduction of the new IA operational model, based on the value-added services to management and independent IA governance regime, appealing to the broad stakeholder groups. By that time, the IIA as a global IA professional body was viewed as being able to support this policy diffusion due to its developed infrastructure of institutes in practically every country of the world.

The SNIs were comfortable with VAMP and overall delegation of standard-setting to the IIA as a private-governance institution, because of their long-standing participation in the IIA committees, oversight bodies, and strategic partnerships, helping to build trust and confidence in the standard-setting process and the underlying knowledge and expertise. While the global IA profession is privately regulated by the IIA, its international standards and guidance are constantly subjected to the multi-lateral processes of validation via inter-professional and regulatory scrutiny of the other accounting and auditing associations, SNIs and various types of regulators. These processes allowed supra-national public-interest IA policy actors to ensure consideration of the positions and circumstances of the member governments, as well as alignment with the higher-order international regimes and agendas.

The case studies also showed that VAMP was accepted by the SNIs because they viewed it as a micro-paradigm in a system of their shared higher-order or nested paradigms (i.e. Good Governance, New Public Management, New Public Governance, etc.) and a

good fit for their international regimes. While all of the SNIs have distinct profiles of VAMP advocacy, the common feature is that they lead by example in terms of having established a model IA function in their organizations, based on the IIA standards, and directly leveraging their expertise, authority, and technical and financial resources to advocate for VAMP.

This research also uncovered that SNIs are connected in the complex web of the auditing, accounting, financial and public policy networks and advocacy coalitions, along with various types of regulators, which are in turn linked to a myriad of their higher-order networks. This allows them to understand how the IA policy and international standards fit in the global scheme of things, to position themselves among the international actors, and to stimulate a dialogue and consensus-generation. This illustrates that VAMP advocacy is a case of a truly global IA policy agenda-setting and diffusion, which is executed through the shared governance mechanisms, promoting collective responsibility and a higher “power of persuasion”. Under these arrangements, the influence on the IA policy subsystems of the nation states is indirect.

Another important finding of this research is that the SNIs under study have recently embraced the call from the United Nations Joint Inspection Unit (JIU) to deviate from the practice of secrecy in the global IA profession by making the annual IA activity reports, as well as individual IA reports, available to the public, despite of the observed bureaucratic resistance. This development in international IA reporting transparency introduced a new global trend in opening up public-sector IA functions to the scrutiny of citizens, civil society, think tanks, and media. The expectation is that this would eventually drive public-sector IA functions out of their long-standing obscurity. At present, the

alternative sources of commentary and assessment of the activity and performance of IA functions in the governments and SNIs are scarce and characterized by paucity and irrelevance to the problems of a rapidly emerging field of the global IA policy.

Finally, a significant limitation in the IA policy work of SNIs across all case studies became apparent due to this research - the fact that they have not yet established initiatives to create consistent, timely, reliable, and open public-sector IA data, both survey-based and administrative, to support evidence-based policy analysis, development, and implementation. The SNIs could direct their expertise and funding to establish this facility to support global IA policy development and assist nation-states in the IA policy learning and evaluation. Having these datasets would provide a necessary alternative to the industry survey data generated by the IIA and the Big Four.

7.1.4. Post-2000 VAMP-Inspired Public-Sector IA Reforms in the Westminster

Country Cluster Are Work in Progress and Difficult to Assess

The fourth empirical study presented the comprehensive comparative analysis and evaluation of the implementation of the VAMP paradigm during the post-2000 public-sector IA reforms in the cluster of Westminster countries, identified as its early adopters - the cases of the national governments of the UK, Australia, and Canada - using a hybrid methodology, incorporating both the IA industry and public policy evaluation perspectives.

From the IA industry perspective, the comparative evaluation of the IA Capability Maturity in the national governments of the UK, Australia, and Canada was based on the IIA Capability Maturity Model for Public Sector (IA-CM), which has six dimensions (i.e. Services and Role of IA, People Management, Professional Practices, Performance Management and Accountability, Organizational Relationships and Culture, and

Governance Structures) and five levels of maturity (i.e. 1-Initial, 2-Infrastructure, 3-Integrated, 4-Managed, and 5-Optimized).

In brief, the IA-CM evaluation showed that, overall, all countries have built the necessary infrastructure for the VAMP implementation, but are still working on achieving the necessary capability. The UK national government achieved the highest maturity of its public-sector IA regime assessed at level 4, followed by Canada – level 3, and then Australia – level 2.

Under the *Services and Role of IA* dimension, the recognition of IA as a key agent of change and the “third line of defense” in the effective risk management of the organization is at the highest level 5 “Optimized” in the national governments of the UK and Canada and the medium level 3 “Integrated” in Australia.

Under the *Governance Structures* dimension, all countries have established independent audit committees in the national government departments and agencies, which positions them well in securing independent oversight of the IA function with the maturity level 5 for the UK, 4 for Canada, and 3 for Australia.

Under the *People Management* dimension of IA-CM, the governments in the UK and Canada were able to develop common central HR strategies, which allowed them to conduct effective workforce coordination and team building, and attract professionally qualified staff, bringing them to maturity level 3 “Integrated”. However, Australia is still at the level 2 “Infrastructure”, without official training programs and certification requirements, struggling to attract qualified internal auditors and managers. The rates of IIA membership and certification of auditors in these governments is substantial. However, the rates of IA staff turnover, lack of work-life balance, and harassment and discrimination

are high and above the public-service average. The IA vacancy rates exceed 15% in all countries.

Under the *Professional Practices* dimension, Canada tops the chart at level 4, followed by the UK (3), and then Australia (2), where all governments have accepted the international IIA standards and prescribed IA governance model and follow them. However, significant variations exist in their interpretation and implementation.

Under the *Performance Management and Accountability* dimension, the UK national government achieved the highest maturity level on IA accountability by mandating its IA establishment to publish annual accounts and reports to Parliament and by adopting systematic performance indicators. The Canadian federal government is at the level 4, since it has developed a 10-indicator Common Internal Audit Metrics Tool (CAMT) that has been deployed for several years with reports to management. Stakeholders of the national government IA functions assess their value-added above 70% across all countries, while the average rate of implementation of audit recommendations by senior management is more than 50%. Finally, the 2015 IIA GIAPS-CBOK indicates that the rates of suppression of IA findings are rather high - 38.6% for Canada, 26.5% for the UK, and 27.5% for Australia.

Under the *Organizational Relationships and Culture* dimension, there are significant variations in terms of the influence that the IA function exerts on senior management and the Accounting Officer/Accountable Authority through the relationships of the CAE. In the UK and Canada, CAEs are 100-percent reporting administratively to the Accounting Officers and functionally to the audit committees, while in Australia the reporting relationships are not always up to the standard (56%/69%). Nevertheless, the

levels of advisory support and influence of the CAEs provided to the top management are growing across all countries.

From the public policy perspective, the evaluation, based on the logic model for IA reform implementation in the countries under study, indicated that since the advent of VAMP, the governments have been cautious with its adoption and have conducted several rounds of experiments with gradual introduction of its elements before committing to it fully or partially.

The **outputs** for the IA reforms, expressed through a summative resulting model of IA activity, vary significantly across the countries. The UK established a centralized shared-services model of IA activity and governance and a ‘sovereign’ adaptation of the IIA IPPF. Canada established a strong decentralized model of IA activity at the departments and agencies with strong central IA governance and policy coordination structures/mechanisms and mature departmental IA functions, with a 100% acceptance and adherence to IIA IPPF. Australia established a weak decentralized model of IA activity at the departments & agencies, characterized by co-sourcing and out-sourcing of IA activity, with no central IA governance structures and mechanisms and weak IA policy guidance.

Immediate outcomes for the VAMP-inspired IA reforms have been achieved across all countries in the study, specifically:

- IA activity is more independent at the senior management level. However, internal auditors experience high levels of harassment, discrimination and pressure to suppress audit findings.
- IA activity has achieved higher level of capacity, capability and professionalization than before the reforms.

- IA activity shows higher levels of assurance and advisory services and outputs.

It can also be said with confidence that the *intermediate outcomes* of the IA reforms in the national governments of the UK, Australia, and Canada have been predominantly achieved due to the following evidence:

- Ministers and their deputies have higher confidence in the national IA regimes since they seem to rely on the advice of audit committees and the IA reporting process as the brief summaries of IA activity are included in the annual reports to Parliament; in the case of Canada, IA reports go through additional scrutiny due to the publication requirement.
- IA regime appears to be more effective and has higher value-added than before the reforms, judging from the high rates of senior management/stakeholder satisfaction surveys. However, the Auditors General in all three cases have not yet implemented the VFM studies in the post-reform period.
- Senior management seems to act on IA advice, evidenced in the relatively high rate of implementation of IA recommendations in Canada and the UK, but it is inconclusive for Australia due to lack of data.

In terms of the *long-term outcomes* of the IA reforms, the key indicators have been achieved, but some cannot be measured at this time, specifically:

- Ministers and their deputies are better supported in their Parliamentary accountability roles by the virtue of the existence of the independent audit committees, that provide regular advisory support and assurance to the Accounting Officers/Accountable Authorities within the framework of ministerial responsibility on risk management,

control, governance, and overall stewardship of public resources, as well as an oversight of the IA activity;

- Parliament is better supported in effective oversight of public spending and IA activity because the legislative and policy-framework conditions have been created to allow the Auditor Generals and the Public Accounts Committees of Parliament to rely on the work of IA. The IA cooperates with the agents of Parliament by providing access to materials and resources, as well as answering before Parliament (the UK case).
- There is a marked improvement in the government risk management, control and governance regime, since the IA risk-based and internal control methodologies are implemented and the IA function does everything possible to fulfill its prescribed role as the third line of defense in the ERM. However, there is also evidence in all three countries that the bureaucratic elites, in separate cases, have not yet implemented the “Three Lines of Defense” model, as recommended by the IIA.
- However, there are no impact indicators or data to suggest that the government ability to meet its objectives and deliver results has been improved as a result of the IA reforms.

Therefore, it is not surprising that the expected *ultimate impact* of the IA reforms, i.e. accountable and appropriate government management of public resources, cannot be evaluated at this time, since the impact indicators and data are not tracked across the governments under study. In the post-reform period, the signs have emerged that there is evidence of a rather strong bureaucratic incrementalism and political resistance to the IA policy change, manifested in all three countries by:

1) the high rates of harassment of internal auditors and political pressures to suppress the findings of the IA reports (even though they are lower than the global public-sector IA average – it is unacceptable in the democracies); and

2) the cases of a high risk appetite in the bureaucracy due to the reluctance of the senior managers to implement recommendations in the IA reports and the apparent lack of incentives to establish the proper Three Lines of Defense model in their organizations. The most notorious evidence of this is a “Phoenix scandal” that erupted in Canada in 2016, which is still dragging on with no end in sight. This shows that political buy-in of the bureaucracy is key in the success of the IA reforms, even if they are based on the best intentions and best-practice design of the international blueprints like the VAMP.

In summary, the case studies revealed that VAMP has taken a firm ground in the IA sectors of the Westminster governments of the UK, Australia, and Canada. However, despite existence of common basic elements in VAMP implementation over almost two decades during 1999-2017, the countries vary with respect to the established legislative and normative base and design of the IA governance models, as well as public policy and procedural specifications of its elements. This includes differences in the design of central IA oversight structures and mechanisms within the executive branch, audit committees’ processes, IA functional community architecture and operations, relationships between the IA functions and central oversight, relationships between the CAEs and audit committees, design of professional practice management, etc.

The VAMP-inspired IA reforms are still work-in-progress and their outcomes are difficult to assess due to the lack of the public-policy foundations of VAMP and the consistent government data on public-sector IA reforms. The case studies demonstrated

that a significant long-term public-sector adaptation and modification is required in order to achieve desirable outcomes for the IA reforms under the private-sector (industry) VAMP paradigm, with the priorities in appropriate IA public policy legislative and normative base development, institutional and organizational restructuring within the pre-set Westminster institutions of responsible government, IA capacity building, and availability of financial and human resources.

7.2. Overarching Policy Propositions

The findings allow developing several over-arching policy propositions for the national and international policies on public-sector IA governance, outlined below.

7.2.1. National-Level Policy Propositions

- ***Ensuring greater representation of the country government internal auditors in the global IA standard-setting and professional bodies and their national affiliates could help promote national public policy positions and interests.*** The doctoral research showed that the IIA has become the most influential global IA standard-setter and a supra-national “rule-maker”, shaping both the corporate and the public policies on internal auditing. Many countries have been in the position of “rule-takers” by adopting the IIA IPPF and the VAMP apparatus, with some evidence of customization to the specifics of their government systems. Moreover, it was also found that national government IA sectors do not have consistent representation at the IIA Global committees. It is rather the corporate IA firms, operating in specific countries that fill the gap from the private-sector perspective. It is therefore paramount to bring the national government perspectives to the international IA policy advocacy forums to ensure that national specifics and interests are well-served.

- ***Bringing the national policy initiative in the work of the OECD Public Governance Committee could encourage the international work on public-sector IA policy guidance.*** The research identified that the area of public-sector IA policy is under-explored at the OECD, in comparison to that of the SAI policies. There is an opportunity to fill this gap by suggesting formation of the new ***Working Party on Public-Sector Internal Auditing***, where governments could send their representatives. National government internal and external audit institutions can help in setting the foundations for this work due to their experience in the field at the national level.
- ***Establishing a mandatory system of reliable IA administrative data, collected from all of the nationally-regulated organizations, is a necessary condition for monitoring of the national IA governance regime and ensuring continuous improvement.*** The analysis found that some governments, like those in the UK and Canada, have established a framework for the collection of IA data from the departments and agencies. However, often the data are submitted on a voluntary basis and may not necessarily represent the entire national government universe, not to mention the issues of continuity and consistency of the datasets. This may impede the analysis of the current state of affairs and the conduct of appropriate planning for the whole-of-government. Considering that the Westminster countries are the early adopters of VAMP, it is logical to hypothesize that the situation in other countries is quite similar. Therefore, there is an opportunity for the national governments to adopt the policies that mandate the establishment of the IA administrative data and databases.

7.2.2. International Policy Propositions

The study on the role of SNIs in the international IA policy design and transfer led to the discovery of several opportunities to expand the international knowledge base on the IA governance regimes around the world and to advance international IA policy development, such as:

- *Establishing a new series of country studies on public-sector IA governance regimes under the umbrella of the OECD Public Governance Reviews is necessary in order to provide evidence-based guidance to the country policy communities and to develop further the OECD-wide recommendations and toolkits to aid decision-makers.* The research found that while the evidence is building for the practices of the SAIs in the OECD countries, there is not much available to understand IA activities in the governments of the member countries.
- *Including indicators on the national public-sector IA activities in the Worldwide Governance Indicators (WGI) would help to provide a meaningful benchmarking mechanism for the country policy communities and aid them in developing national IA policy recommendations and strategies.* The analysis showed that the current WGI methodology does not envisage inclusion of the indicators that measure national public-sector IA activity. Developing a sub-index on public-sector IA would help identify global trends in public-sector IA and guide the national IA policy communities and decision-makers in setting the agenda for moving forward. This would provide a public-sector perspective and alternative to the private-sector benchmarks, such as those coming from the IIA and the “Big Four” surveys.

7.3. Perspectives on Future Research

The research also led to such discoveries as IA-specific research challenges, barriers, risks, lack of useful public-sector IA data, and lack of theoretical foundations for the public-sector IA function and its governance. This allows to outline priorities in their mitigation and to provide perspectives on future research in this domain.

7.3.1. Awareness about Inherent Research Challenges, Barriers and Risks

- ***Secrecy of the IA Profession***

One of the most illuminating experiences during the doctoral research process was the finding that the research efforts can be severely impeded by the secretive nature of the IA industry. This is perpetuated by the major operating condition of confidentiality of the work of internal auditors and a general practice of having all of the IA working papers classified for several decades. In the public sector, this is amplified by the requirement for internal auditors to sign some form of Oath of Secrecy and comply with the various security and non-disclosure policies of the government. Violation of any of these conditions may result in the loss of position, revoking of the security license, and other sanctions against the internal auditor. The secrecy conditions prevent internal auditors from engaging in academic research, despite of all of the safeguards offered by the ethics protocols of the universities (e.g. anonymity, records safe-keeping, etc.), and it is very difficult to recruit them for the interviews. Further, those who agree to participate in the interviews need to carefully evaluate their risks of speaking candidly, as well as to have the authority to provide an opinion. This eliminates the whole non-executive level of the IA industry, and it is only the leadership who is able to provide meaningful interview input without

jeopardizing their status. Therefore, the researchers have to understand and respect the particularities of this operational environment and consider it in their research strategy.

- ***Historical Research on Public-Sector IA***

Another discovery during the doctoral research process was the fact that the IA working papers, reports and related materials, irrespective of before or after the Digital Government era, are not necessarily stored in the public archives (textual or digital), resulting in the paucity and gaps in the historical records. Further, since the majority of internal auditors are hired from the private sector, the “institutional memory” may simply not be available. Creating a history of the IA sector in any government would require a special effort on the part of the central IA governance and oversight bodies, starting with the practice of creation, maintenance and update of the key documentation. Due to this problem, it was found that the probability of the requests for information turning up nil or insufficient information is very high.

7.3.2. Need to Develop Better Data on Public-Sector IA

- ***Survey Data***

The analysis of the most recent IIA 2015 Global Internal Audit Practitioners Survey revealed that it contains more than 3,000 responses from the public-sector internal auditors worldwide. However, when decomposed on the country basis, it often yields less than 50 responses per country and it is still aggregated at the overall public-sector levels. This does not allow to understand the differences or commonalities between the various levels of government and different types of government organizations, which would be informative. Therefore, it is important that national governments encourage their internal auditors to

participate in the IIA surveys, which guarantee anonymity and objectivity, as well as privacy protection.

- ***Administrative Data and Metrics***

This doctoral research revealed that the formation of the administrative datasets on public-sector IA is in its early stages. Case studies of the UK, Australia, and Canada showed that countries vary in terms of the IA performance measurement frameworks, as well as the relevance, availability, cohesion, comparability, timeliness, and time-series properties of the associated metrics. Another finding is that the available statistics for the IA functions is not linked to the indicators used by the IIA in its global surveys, which makes it very difficult to reconcile the administrative versus survey data, and complicates the attempt to conduct evaluations of the IA activity. The research also showed that, as a rule, the governments do not develop and do not track the indicators associated with the IA reforms. This suggests the need for a more strategic data-driven approach to the design and evaluation of IA initiatives in order to understand their impact, to identify their issues and lessons-learned, and to move forward.

- ***Open Data***

In most cases, even the available scarce IA data are not reachable outside of the public-sector networks, and the access is almost always restricted to the members of the government IA sectors. Thus, the public or even the rest of the government community can't assess whether the government IA is performing well in its role as the management accountability function. However, case studies showed some promising initiatives. For example, in the last two years, the UK Government Internal Audit Agency (GIAA) has pioneered publication of the annual reports about its activities, which had a great resonance

with parliamentarians and stakeholders. The World Bank also supports transparency in the IA function reporting by regularly publishing reports on its IA activity, in line with the other United Nations organizations.

The advent of the Open Government and Open Data portals in the OECD countries, as part of the Digital Government initiatives, presents a great opportunity to start publishing government IA statistics, as well as the statistics on IA expenditures and IA human resource levels. During the course of this doctoral research, a suggestion has been made to the Government of Canada Open Data portal to include these datasets in its offerings. However, discussions with government officials revealed that these data are not available, which was further confirmed during the discussions with the Government of Canada Office of the Comptroller General. Moreover, discussions with the OECD revealed that non-availability or poor quality of the budget and expenditure data at the level of activity is a persistent problem across the OECD countries that needs to be resolved.

- ***National and Sub-National Case Studies on the Public-Sector IA Reforms***

The case studies in this thesis demonstrated that interviews can be a very useful data collection tool, providing insights that would not be possible under the umbrella of surveys or administrative databases. It is important to continue using this research method, especially when the task is an independent evaluation of the IA initiatives and reforms. While this research presented the case studies only for the cluster of Westminster countries, the research from other types of political systems and public administrations would enrich the understanding of the IA policy and paradigm dynamics, their commonalities and variation.

- ***Studies on the Role of Regulators and Courts in Public-Sector IA***

This thesis covered only the most prominent legislative frameworks and actions of the regulators and courts in relevance to IA in select Westminster countries and internationally that were referenced in the IA professional literature and documentation. However, there is an opportunity to conduct more research in this area in order to entangle the complex web of regulatory systems, judicial institutions, laws, and decisions that influence IA policy at all levels of government in various jurisdictions. This will lead to formation of a more complete knowledge about the origins and evolving nature of the legislative and regulatory base for IA governance at the global, national, and sub-national levels.

- ***Studies on the Role of the United States Institutions in Public-Sector IA Policy***

The study of the role of the U.S. institutions in the public-sector IA policy was outside of the scope of this research. However, one of the outcomes of the research process was a realization that the modern IA profession was born in the United States, and that its development was greatly influenced by the various conventions and breakthroughs in the views of the US political, regulatory, legislative and judicial institutions, based on the Anglo-American law. Further, the VAMP paradigm carries largely Anglo-American perspectives on the design of the IA function and its governance, and it propagates them at the global level. Moreover, American firms and internal auditors are the largest constituent groups of the IIA and they are shaping the direction of this professional body.

Further, it is important to note that, historically, the United States was behind the establishment of the post-World War II order of international cooperation and development, marked by the emergence of supra-national institutions to design and

implement various elements of that order, including those covered in this research, i.e. the United Nations, the World Bank, the OECD, etc. According to McArthur and Rasmussen (2018) from the Brookings Institution, the US is the largest contributor to the funding of the SNIs by contributing \$14.1 billion annually or 22% of the total funding. With this role and investment comes American dominance on the matters of global policy.

Therefore, the studies on the role of the United States institutions and actors in the modern IA profession and the public-sector IA, including at the international level, would help to provide a more complete understanding of the processes and factors involved in the development of the IA ideas and governance regimes, and dynamics of the IA policy advocacy coalitions.

- ***Mapping of the Domestic and International IA Policy Networks and Advocacy Coalitions***

One of the findings of this research is the fact that the 21st century is marked with the emergence and proliferation of a myriad of policy networks and policy advocacy coalitions (PACs) in various fields of policy, including public-sector IA, due to the rise of digital technologies and the subsequent development of the Digital Government and Digital Society platforms and paradigms that enable these structures. This thesis touched only the “tip of the iceberg” in mapping the most important or visible networks and PACs in the IA field. More mapping research is necessary, as it will aid in the understanding of the importance of the public-sector IA policy actors and interests.

7.3.3. Need for a Theory of Public-Sector Internal Audit

Review of both academic and professional IA literature indicated that the epistemological and ontological origins of the global VAMP paradigm in relation to the

public-sector IA are unclear. Because of it, the IA remains an unstable function in the public sector, with an under-defined role and value as a public good and a policy sector. This fact points to the need to undertake further academic research from the public policy perspective, with the following key research objectives:

1. Is VAMP consistent with the public policy objectives and the purpose of public sector in general? Should it be supported, replaced or redesigned for the needs of the public sectors of the nation states?
2. What is the best theoretical design for the IA function and IA governance in the public sector?

To build on Rodrik's (1999) argument that generally-accepted or "universal" best-practice solutions should be customized to the "particularism" of the nation-states in order for them to work, it is argued in this paper that any private-sector international blueprint, including VAMP as a global blueprint for IA function and governance, has to be carefully evaluated on its suitability for adoption in the public sector.

Internal audit falls in the range of "institutions that matter" according to Rodrik (1999), a type of necessary national regulatory institutions. It is important to design it right. When it functions properly, internal audit can be an integral part of the financial and non-financial regulation of government activities; it serves to detect and control attempts of waste, abuse, corruption, and fraud; and it can be used to "speak the truth to power", and to serve as an agent of policy change.

How to design an adaptive and effective public-sector IA function? One of the key questions is how to achieve the appropriate mix of domestic versus international and industry versus public-sector components of the IA policy ideas, governance regimes,

institutional structures, and policy processes, without negative or unintended consequences. This research facilitated the identification of at least three distinctive theoretical and methodological dilemmas that are relevant in designing a new model for the IA function and governance in the public sector, revolving around the choices between: 1) national (sovereign) model of IA function and governance versus convergence to the international IIA model (i.e. current VAMP paradigm and its subsequent iterations); 2) public versus private-sector ideas of IA; and 3) IA as a complex public policy sub-system as part of the national and global policy systems versus IA as part of the global privately-regulated IA profession.

First, it is important to emphasize that there is no formal academic theory of public-sector IA. Analysis of the academic works of Wallace (1980), Watts and Zimmerman (1983), Mills (1990), Adams (1994), Spraakman (1997), Ittonen (2010), Sarens and Abdolmohammadi (2011), Grzesiak and Kabalski (2016), Marsh (1991), Swinkles (2009, 2012), Al-Twaijry et al. (2003), Karagiorgos (2006), and Desai et al. (2005) allowed identification of the following persistent theoretical and methodological issues:

- There are no theoretical publications on IA in application to the public sector.
- IA models or theories that come from academic publications are designed for the private-sector and are inadequate for the public-sector; further, because they deal with narrow operational or technical issues, they do not define public-sector IA as a discipline, field, or a function.
- Public-sector IA academic publications are mostly empirical; they either describe or test the existing IA concepts/issues/problems years after they have been adopted

in the global IA professional practice and defined by the professional standard-setting bodies.

- Public-sector IA practices are not based on academic theories, but rather on the standards and professional guidance of the IIA, COSO, and other professional and standard-setting bodies.
- Existing academic IA models or theories do not guide the practice of public-sector IA, but rather provide empirical or experimental account for the practices.
- There is a general lack of consensus in the literature on theoretical applications in the public-sector IA practice, as well as heterogeneity of explanations of the various trends, practices and phenomena in the empirical literature on public-sector IA practices.

Overall, the available literature on public-sector IA does not provide an appropriate theoretical basis for the public-sector IA function and governance and does not have the theoretical capacity to explain and predict the dynamics of the public-sector IA function. As demonstrated in this doctoral research, the long-standing theoretical vacuum in the field of public-sector IA led to the direct application of the general-purpose IA normative standards and professional practices. Further, the IIA Global openly acknowledges that there is a theoretical gap in the IA application to the government setting. To mitigate it, in the last decade, the IIA started to draw on various academic partnerships and programs to attempt to define public-sector IA norms and practices, with a strong IA professional advocacy focus, such as:

- 1) development of the professional practice guides and position papers on public-sector IA, published in the series “Global Public Sector Insights”, coordinated by the IIA Public Sector Guidance Committee (PSGC);
- 2) conduct of annual IA conferences with invitation of academics and public-sector auditors to participate;
- 3) launch of the Internal Auditing Educational Academic Partnership (IAEP) program with universities, coordinated by the IIA Academic Relations Committee (ARC) and the local IIA chapters;
- 4) sponsorship of the academic research by the IIA Research Foundation (now IA Foundation); and
- 5) establishment of the Public Sector Audit Center.

Second, there is a need for a theoretical critique of VAMP and the prescribed IA governance regime with respect to its applicability and compatibility with the principles and ethos of the public sector, in application to the different models of democracies (i.e. presidential versus parliamentary model) and other types of governments and public administrations around the world (i.e. Western vs. Chinese vs. Ottoman, etc.).

It is necessary to understand the limitations of VAMP for ensuring the effectiveness of government IA sectors specifically and government accountability regimes in general, in order to open the debate. It is also necessary to understand its theoretical conflicts with the various systems of government and the academic theories that validate their conceptual foundations.

For example, the case studies of VAMP adoption in the national government IA sectors in three Westminster countries of the UK, Australia, and Canada, presented in this

research paper, allowed identification of at least three theoretical conflicts or clashes between the VAMP and the Westminster system of responsible government:

- Independence of government internal auditors, as stipulated by the VAMP, is undermined by the traditional bureaucratic hierarchy;
- Doctrines of ministerial responsibility and “responsive” public service politicise IA operations and contradict VAMP requirements for IA independence, objectivity, and effectiveness;
- Conventions of secrecy of government operations often undermine the role of internal auditors in “speaking the truth to power” and guaranteeing effective oversight and accountability of government officials.

These conflicts stem from the general paradoxes of accountability in the Westminster system of responsible government, covered in Harmon (1995), Stanbury (2003), Kernaghan (1990), Savoie (2003, 2008), Malcolmson and Myers (2002), Aucoin (2012), Malloy (2002), Windsor and Warming-Rasmussen (2009), and Dunn (2010). It is necessary to extend these debates and analyses to specifics of public-sector IA in Westminster and other political systems, in order to understand how to solve them.

Third, there is a need in the public administration sciences to develop an academic theory of IA specifically for the public sector, based on the ideas of the *public value of IA* and the ideas of *IA as a public service and a policy subsystem within larger policy system*. It is necessary to break away from the “inward-looking” focus of IA governance under the VAMP paradigm. For the public-sector IA profession it means that it has to “get outside of the box” of the VAMP philosophy. The new IA policy and governance model should take into account the need for participative identification of problems and solutions,

governance model design, testing, and implementation at all levels of the IA policy sector and the IA functional community. The complex relationships between all of the actors in the IA policy environment and IA stakeholders need to be better defined. The stakeholders – IA functional community, audit committees, central executive and IA oversight bodies, the IA industry, the external assessors, and, ultimately, the taxpayers – all have an important role to play in making sure that IA function and its governance are enabled to provide a reasonable assurance on the state of government accountability. The public-sector IA theory should be explanatory, predictive, and empirically grounded, as well as based on multiple theoretical perspectives. Guiding its development could be Moore's (1995) Public Value Theory, systems theory, and Mutchler's (2003) Framework for Management of Threats to IA Independence and Objectivity.

The new public-sector IA theory would also help defining the next-generation paradigm that would address the anomalies of VAMP and the changes in the environment and policy sub-systems. After all, this research also indicated that, historically, major economic and political crises are the key leading indicators of change in government accountability regimes with significant implications for the public-sector IA. At present, a consensus is emerging among various types of experts that the world is on the brink of a new World Order (see Ferguson 2016; Maas 2018; Wolf 2018), characterised by the rise in trade wars and military actions around the world, which may lead to a global economic recession and widespread political turmoil (see BN 2018; Ghilarducci 2018). These ominous signs lead to the conclusion that the global IA profession and the government IA sectors need to prepare for the higher-order paradigm shifts in the near future.

Annexes

Annex 1 Typology of IA Institutional Governance Arrangements in the National Governments of the OECD Countries

Characteristics	IA Governance Models		
	Centralized IA governance (France, Portugal)	Decentralized IA governance (Canada, Australia, Netherlands)	Mixed IA governance (US, UK, Germany, Sweden)
Policy development and coordination, IA central representation at entity level, presence of IA at entity level	<ul style="list-style-type: none"> -central IA policy unit within executive branch (Treasury, Ministry of Finance) -central IA inspector/controller at entity level -central audit committee -each Line Minister (LM) has its own IA function but not each entity 	<ul style="list-style-type: none"> -central IA policy unit within executive branch (Treasury, Ministry of Finance) -no central IA inspector/controller at entity level -each entity has its own IA with most having its own or group audit committee 	<ul style="list-style-type: none"> -each entity has its own IA with own audit committee or IA is part of central administration
IA standard setting	central IA policy unit within executive branch (Treasury, Ministry of Finance)	central IA policy unit within executive branch (Treasury, Ministry of Finance)	SAI
Relationship with national Supreme Audit Institution (SAI), external assurance providers, and legislative branch	<ul style="list-style-type: none"> -no direct relationship -SAI and external assurance providers rely on IA during external audits -no relationship with legislative branch 	<ul style="list-style-type: none"> -no direct relationship -SAI and external assurance providers rely on IA during external audits -no relationship with legislative branch 	<ul style="list-style-type: none"> -direct subordination -Reporting to SAI -SAI regulates professional practice -SAI provides link to legislative branch
Reporting	within executive branch to management of LM, Minister of Finance	within executive branch to DM, audit committee and central government policy unit	dual reporting to executive and legislative branches of government
Operations	set and coordinated by LM and Ministry of Finance	<ul style="list-style-type: none"> -complete management autonomy -responsibility of IA executives, senior management and audit committee 	complete autonomy within executive branch
Professional practice management & technical guidance	set and coordinated by LM and Ministry of Finance	<ul style="list-style-type: none"> - completely decentralized and self-regulated - responsibility of IA function 	subject to SAI and independent IA Commission/Court regulation

Source: Author, December 2017

Annex 2 COSO Cubes

The management-science theory of internal control has been operationalized in 1992 by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO)* with the issue of *Integrated Control-Integrated Framework (ICIF)*, the latest revised concept of which is illustrated below, with the following purpose: “The Framework assists management, boards of directors, external stakeholders, and others interacting with the entity in their respective duties regarding internal control without being overly prescriptive. It does so by providing both understanding of what constitutes a system of internal control and insight into when internal control is being applied effectively” (COSO 2013: 1). COSO ICIF defines internal control as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance” (COSO 2013: 3). It postulates that each organization should have an internal control system consisting of five integrated components, such as control environment, risk assessment, control activities, information and communication activities, and monitoring activities, which have a direct relationship between the objectives of the organizations (e.g. operations, reporting, and compliance) and its organizational structure (see COSO 2013: 4-6). The role of the IA function and the audit committee is defined within the monitoring dimension of the ICIF.

Figure 43 COSO Internal Control-Integrated Framework (2013) Concept³⁶

In 2004, the COSO operationalized the risk management theory into the *Enterprise Risk Management-Integrated Framework (ERMIF)* with the purpose of providing a tool to the organizations on the key principles and concepts in the risk management, common language, and clear dire key principles and concepts. [COSO (2004a), p. v] COSO ERMIF defined enterprise risk management as “a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives” (COSO 2004a:2).

³⁶ Image copied from the COSO website <https://www.coso.org/Documents/COSO-ICIF-11x17-Cube-Graphic.pdf>

Figure 44 COSO Enterprise Risk Management – Integrated Framework (2004) Concept³⁷

The COSO ERMIF concept, illustrated in the graphic cube, provides the following logic: “The four objectives categories – strategic, operations, reporting, and compliance – are represented by the vertical columns, the eight components by horizontal rows, and an entity’s units by the third dimension. This depiction portrays the ability to focus on the entirety of an entity’s enterprise risk management, or by objectives category, component, entity unit, or any subset thereof” (COSO 2004a: 5). The eight components of the enterprise risk management framework are internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. The responsibilities of internal auditors in the ERMIF were defined as an obligation to provide input to the board of directors on the adequacy and effectiveness of the framework. ERMIF was last updated in 2017 (see COSO web1).

³⁷ Graphics copied from COSO (2004a:5)

Annex 3 Mapping of the Questions from 2015 IIA Global Internal Audit Practitioners Survey (GIAPS – CBOK) to the Conceptual Model of VAMP Paradigm

Pillars of the VAMP Paradigm Model	Questions from CBOK 2015 Global Internal Audit Practitioner Survey (2015 CBOK IIA GIAPS)	IIA IPPF (Standards)
IA independence and status	<p>Q68: Is the existence of an internal audit department mandated by law for your organization?</p> <p>Q510: Age of Internal Audit Department (from Q23) Approximately how many years has the internal audit department been in place in at your organization?</p> <p>Q78: Is there an audit committee or equivalent in your organization?</p> <p>Q29: Which of the following internal audit policies or documents exist in your organization?</p> <p>Q73: What is the primary administrative reporting line for the chief audit executive (CAE) or equivalent in your organization?</p> <p>Q74: What is the primary functional reporting line for the chief audit executive (CAE) or equivalent in your organization?</p>	<p>1100 – Independence and Objectivity; definition of IA</p> <p>1000 – Purpose, Authority, and Responsibility</p> <p>1100 – Independence and Objectivity</p> <p>1000 – Purpose, Authority, and Responsibility</p> <p>1100 – Independence and Objectivity</p> <p>1100 – Independence and Objectivity</p>
IA effectiveness	<p>Q98: Does your organization use the International Standards for the Professional Practice of Internal Auditing (Standards)?</p> <p>Q37: How are internal audit resources at your organization divided between assurance and consulting?</p> <p>Q48: What resources do you use to establish your audit plan?</p> <p>Q47: How developed is the quality assurance and improvement program (QAIP) at your organization?</p> <p>Q90: What specific measures does your organization use to evaluate the performance of its internal audit activity?</p> <p>Q89: Which are the five internal audit activities that bring the most value to your organization?</p>	<p>2000 – Managing the Internal Audit Activity</p> <p>Definition of IA</p> <p>2100 – Nature of Work</p> <p>1300 – Quality Assurance and Improvement Program</p> <p>2000 – Managing the Internal Audit Activity</p>
IA professionalization	<p>Q1: Are you registered as a member of The Institute of Internal Auditors (IIA) or a national IIA organization (whether an individual membership or as an employee of an IIA corporate member)</p> <p>Q12: Which professional certifications and/or qualifications do you have related to internal auditing?</p>	<p>1200 – Proficiency and Due Professional Care</p> <p>1200 – Proficiency and Due Professional Care</p>

Source: Author, December 2017

Annex 4 Key IIA Standards Tracked by the IIA Global IA Surveys for Compliance

1000 – Purpose, Authority, and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100 – Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels. Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels. The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.
1130 – Impairment to Independence or Objectivity	If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
1200 – Proficiency and Due Professional Care	Engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1300 – Quality Assurance and Improvement Program	The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement program. The quality assurance and improvement program must include both internal and external assessments. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.
2000 – Managing the Internal Audit Activity	The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization. The internal audit activity is effectively managed when: It achieves the purpose and responsibility included in the internal audit charter. It conforms with the Standards. Its individual members conform with the Code of Ethics and the Standards. It considers trends and emerging issues that could impact the organization. The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.
2100 – Nature of Work	The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.
2200 – Engagement Planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.
2300 – Performing the Engagement	Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.
2400 – Communicating Results	Internal auditors must communicate the results of engagements.
2500 – Monitoring Progress	The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.
2600 – Communicating the Acceptance of Risks	When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Source: Author, December 2017.

Annex 5 Considerations for the Common Elements of Internal IA Policy Environment in Westminster Parliamentary Systems

This annex is a supplement to section 2.2.4. It outlines common elements of the internal IA policy environment in the Westminster Parliamentary Systems, on the national level, in relation to the national governments of the UK, Australia and Canada.

- **Statutes and Conventions of Responsible Government in Westminster Democracies**

It is important to emphasize that the internal (country) IA policy environment in the Westminster governments is shaped by the statutes and conventions of the Westminster parliamentary system, which would be invoked or modernized for the purposes of IA reforms. According to Smith (2006), the United Kingdom, Canada and Australia share and virtually replicate a common constitutional, legal and linguistic inheritance of the *Westminster principles of responsible government*, despite of the fact that Canada and Australia are federations, while the United Kingdom has a unitary parliamentary system. Responsible government is a foundation of the Westminster system of parliamentary democracy based on the principle of accountability of government (i.e. executive branch) to the Parliament (i.e. legislative branch). The parliamentary accountability is exercised via the *constitutional convention of ministerial responsibility*. According to Franks (1997), "...the doctrine of ministerial responsibility has three components: the collective responsibility of the cabinet; the individual responsibility of the ministers; and the anonymity of the public servants" (Franks 1997: 626).

Under *collective responsibility*, the Cabinet of ministers takes the ultimate responsibility for the actions of ministries/departments, while under *individual responsibility* the minister bears personal responsibility for the actions of the associated ministry/department or personal conduct. As Smith (2006) puts it:

Hang together or hang separately. The group protects the individual, but only if the individual acquiesces or is forced to agree. Here is the rational and the requirement for discipline; and here the motive power for parliamentary politics. Collective responsibility regulates the lives of ministers, individual responsibility the lives of officials.... The choice of collective ministerial responsibility is simple: resign or seek dissolution when defeated on a matter of confidence.... Individual ministerial responsibility is a very different matter, beginning with the question of resignation (Smith 2006: 106-107).

Under the doctrine of individual ministerial accountability, the Minister is answerable and accountable to the Parliament in Question Period and to the Parliamentary Committees. Thus, the minister is individually responsible, answerable and accountable for all actions and decisions within his/her jurisdiction, even without the knowledge of the misbehavior or misadministration by the public servants, and is expected to resign and/or be subject to criminal charges. The reverse of ministerial responsibility is the doctrine of *anonymity of public servants*, often referred to as the "public service bargain":

The doctrine of anonymity has important and necessary functions in parliamentary systems of government. It focuses responsibility on elected politicians and on their accountability in public forums, especially parliament. It helps ensure the existence of a professional, career public service prepared to serve whatever government the electorate chooses. It allows public servants, especially at the senior levels, to give advice freely and honestly to ministers (Franks 1997: 628).

However, the anonymity of public servants can be violated due to exceptions of plausible deniability and formal re-assignment of parliamentary responsibility to the public servants currently practiced in Westminster democracies:

Exceptions to the doctrine of anonymity can be of two sorts: first, those implied in the above British sources, where a public servant has either acted wrongly or without the knowledge of the minister and where the minister can plausibly disclaim responsibility; and, second, where formal, structural arrangements clearly assign responsibility and accountability to the public servant instead of the minister (Franks 1997: 627).

In the first case, the ministers can claim ignorance of misbehavior or misadministration of public servants to escape responsibility. In the second case, senior public servants may be assigned personal Parliamentary responsibility by the statutes, limiting the exposure of their Minister. The extent to which these exceptions undermine or enhance the traditional doctrine of ministerial responsibility have become a renewed subject of the debates and accountability reforms in the Westminster parliamentary democracies in the 21st century.

The clear separation between the roles and responsibilities of the Ministers and heads of the departments to improve accountability is at the heart of introduction or modification of the sub-doctrines of ministerial responsibility, such as the **Accounting Officer (AO) concept** in case of UK and Canada, and most recently, **Accountable Authority (AA) concept** in case of Australia.

According to Gilmore (2006), the Accounting Officer sub-doctrine was pioneered in the UK during Gladstonian reforms in 1866-1872 due to the Exchequer and Audit Act of 1866 as a response to the need to establish a control for the public purse:

The British Accounting Officer was born after a long battle for Parliamentary control over the public purse in the United Kingdom. The first major steps towards establishing government financial accountability to Parliament were taken in the 1860s. William Gladstone, Chancellor of the Exchequer from 1859-1866, led the reform movement. His 1866 Exchequer and Audit Departments Act established a "circle of financial control" for public funds: the House of Commons would authorize expenditure, accounts would be produced by departments and audited by the UK Comptroller and Auditor General and the results of the audits would be reviewed by a dedicated Parliamentary committee, the Committee of Public Accounts (PAC), which Gladstone also established in 1861. From the 1870s, senior officials, usually permanent departmental secretaries, testified at PAC meetings. In 1920, the Treasury Department recommended and the PAC adopted the procedure of designating permanent secretaries as Accounting Officers (Gilmore 2006: 20).

- **Parliament and its Agents**

Traditionally, in the Westminster systems, the oversight and enforcement of the ministerial responsibility for the government expenditures and management of public resources, and ensuring that public funds are well spent, is conducted by the **Public Accounts Committee (PAC)** of Parliament and the **Auditor General**, as well as other agents of Parliament, since 1857 in UK, 1867 in Canada, and 1901 in Australia. Common to all countries under study, the Auditor General conducts the external audits of the public accounts, since the establishment of the office, and the Value-For Money (VFM) or performance audits (e.g. audits on economy, efficiency and effectiveness) of all of the government programs and operations, including the IA functions, since 1983 in the UK (National Audit Act 1983), 1977 in Canada (Auditor General Act 1977), and 1997 (Auditor General Act 1997) in Australia. The standard procedure is that the Auditor General releases the audit reports to the PAC, which in turn holds hearings on the public accounts of central government departments, reviews evidence in the audit reports, provides recommendations to the government and conducts follow-ups of the resulting government action plans.

- **Royal Commissions and Independent Inquiries**

Further, there are such traditional Westminster institutions of external scrutiny and special investigation, as Royal commissions and various types of independent inquiries, which the Parliament normally appoints to investigate the government scandals or complex issues of government management and reform.

- **Executive and its Relationship with the IA**

The executive government, in turn, is expected to establish effective systems of management of public resources, and to be accountable for it before the Parliament. The internal audit is recognized as part of such an accountability regime. However, in the centuries-old statutory and conventional apparatus of the Westminster systems of government, internal audit is a recent sector, for which there are no common formal Westminster conventions or statutes. The first antecedents of the internal audit functions in the central governments in Canada, UK and Australia were formed after the 1930s.

Annex 6 Mapping of IA-CM Groups and KPAs to the 2015 IIA GIAPS-CBOK

Key Groups and Key Process Areas (KPAs)	Select 2015 IIA GIAPS-CBOK questions
Services and Role of IA	<p>Q510: Approximately how many years has the internal audit department been in place at your organization?</p> <p>Q511: Approximately how many fulltime equivalent employees make up your internal audit department?</p> <p>Q28: In your opinion, how sufficient is the funding for your internal audit department relative to the extent of its audit responsibilities?</p> <p>Q37: How are internal audit resources at your organization divided between assurance and consulting?</p> <p>Q31: In the previous calendar year, were some of your organizations' internal audit activities provided by a third party (either internal or external to your organization)?</p> <p>Q31a: What percentage of your organizations' internal audit activities were performed by a third party in the past calendar year?</p> <p>Q22a: What were last year's approximate fees paid to external auditors to support or perform internal audit work?</p> <p>Q63: Does your organization follow the three lines of defense model as articulated by The IIA?</p> <p>Q29: Which of the following internal audit policies or documents exist in your organization?</p> <p>Q67: In your opinion, how much support does internal audit have from the board of directors (or equivalent) to review the organization's governance policies and procedures?</p> <p>Q72: What is the extent of activity for your internal audit department related to governance reviews?</p> <p>Q55: What degree of responsibility does internal audit have for detecting fraud in your organization?</p> <p>Q51: Approximately how many work weeks did the internal audit department at your organization spend last year on activities that supported external audit? (CAEs only)</p> <p>Q59: What is the relationship between internal audit and enterprise risk management (ERM) at your organization?</p>
People Management	<p>Q30: What skills are you recruiting or building the most in your internal audit department?</p> <p>Q40: Which skill background is most dominant within the internal audit staff of your organization?</p> <p>Q33: What method of evaluation do you use for individual staff members?</p> <p>Q45: What is the level of formalization for the training program for internal audit at your organization?</p> <p>Q46: What is included in the training program for internal audit?</p>
Professional Practices	<p>Q98: Does your organization use the International Standards for the Professional Practice of Internal Auditing (Standards)?</p> <p>Q99: Is your organization in conformance with the Standards?</p> <p>Q99a: What are the reasons for not conforming with all of the Standards?</p>

	<p>Q47: How developed is the quality assurance and improvement program (QAIP) at your organization?</p> <p>Q100: What components of a Quality Assurance and Improvement Program (QAIP) have been implemented in your internal audit department?</p> <p>Q48: What resources do you use to establish your audit plan?</p> <p>Q39: How would you describe internal audit operating procedures at your organization? (CAEs only)</p> <p>Q57: To what extent do you believe your internal audit department is aligned with the strategic plan of your organization?</p> <p>Q41: What kind of risk assessment does internal audit rely upon at your organization?</p> <p>Q44: How would you describe the use of technology to support internal audit processes at your organization?</p> <p>Q95: What is the extent of activity for your internal audit department related to the use of the following information technology (IT) tools and techniques?</p> <p>Q96: Does your internal audit department use data mining or data analytics for the following activities?</p> <p>Q52: If an audit report has findings that need corrective action, who has the primary responsibility to monitor that corrective action has been taken?</p> <p>Q77a: Would you say you have been directed to suppress, or significantly modify, a valid internal audit finding or report on a regular basis (at least once a year)?</p> <p>Q77b: What was the source of the pressure when you were directed to suppress, or significantly modify, a valid internal audit finding or report?</p>
Performance Management and Accountability	<p>Q89: In your opinion, which are the five internal audit activities that bring the most value to your organization?</p> <p>Q90: What specific measures does your organization use to evaluate the performance of its internal audit activity?</p> <p>Q91: Which of the following methodologies and tools do you use to support your quality and performance processes?</p>
Organizational Relationships and Culture	<p>Q73: What is the primary administrative reporting line for the chief audit executive (CAE) or equivalent in your organization? (CAEs only) by Q501: Global Region. (from Q6a to Q6h, grouped into World Bank regions) In what region are you based or primarily work?</p> <p>Q74: What is the primary functional reporting line for the chief audit executive (CAE) or equivalent in your organization? (CAEs only) by Q501: Global Region.</p> <p>Q75: Who makes the final decision for the appointment of the chief audit executive (CAE) or equivalent?</p> <p>Q76: Who is ultimately responsible for the performance evaluation of the chief audit executive (CAE), or head of internal audit, at your organization?</p> <p>Q76a: Who is ultimately responsible for the performance evaluation of the internal audit service provider at your organization?</p>
Governance Structures	<p>Q68: Is the existence of an internal audit department mandated by law for your organization?</p> <p>Q78: Is there an audit committee or equivalent in your organization?</p> <p>Q29: Which of the following internal audit policies or documents exist in your organization?</p>

Source: Author, December 2017, based on description of the 2015 IIA GIAPS-CBOK

Annex 7 List of Anonymous In-Person/Telephone Semi-Structured Interviews

United Kingdom

1. Interview 1 (2017). Government Executive, Government Internal Audit Agency (GIAA), UK Government, September 29, 2017.
2. Interview 2 (2017). Independent Member of ARAC, National Health Service, October 12, 2017.
3. Interview 3 (2017). Executive, Chartered Institute of Internal Auditors, November 9, 2017.
4. Interview 4 (2017). Senior Government Official, Government Internal Audit Agency (GIAA), UK Government, November 29, 2017.

Canada

1. Interview 1 (2014). Senior Government Official, Internal Audit Function, Department of Finance Canada, June 13, 2014.
2. Interview 2 (2014). Former Senior Government Official, Office of the Comptroller General, Treasury Board Secretariat of Canada, July 23, 2014.
3. Interview 3 (2014). Former Senior Government Official, Parliamentary Budget Office, November 26, 2014.
4. Interview 4 (2015). Senior Government Official, Internal Audit Function, Shared Services Canada, January 5, 2015.
5. Interview 5 (2016). Partner, Assurance, Ernst & Young Canada LLP, February 12, 2016.
6. Interview 6 (2016). Senior Government Official, Office of the Deputy Minister, Environment and Climate Change Canada, February 19, 2016.
7. Interview 7 (2016). Partner, Management Consulting, PricewaterhouseCoopers Canada, March 31, 2016.
8. Interview 8 (2016). Former Executive of the IIA Canada, Interview 8, April 1, 2016.
9. Interview 9 (2016). Former Senior Government Official, Office of the Auditor General, April 23, 2016.
10. Interview 10 (2016). Member of the Departmental Audit Committee, Department of Indian Affairs and Northern Development Canada, July 1, 2016.
11. Interview 11 (2016). Member of the Departmental Audit Committee, Office of the Superintendent of the Financial Institutions Canada, October 28, 2016.
12. Interview 12 (2016). Senior Government Official, Internal Audit Function, Innovation, Science and Economic Development Canada, December 14, 2016.

Australia

1. Interview 1 (2017). Executive, Institute of Internal Auditors Australia (IIAA), September 11, 2017.
2. Interview 2 (2017). Independent Member of the Audit Committee, Commonwealth Government of Australia, October 10, 2017.
3. Interview 3 (2017). Senior Government Official, Internal Audit, Australian Commonwealth Government, November 13, 2017.

Annex 8 Interview Protocol and Consent Form

Interview Protocol and Consent Form

Title: "Governance in the Internal Audit Sector of the Canadian Federal Government: Three Essays"

Date of ethics clearance: xxx

Ethics Clearance for the Collection of Data Expires: xxx

Brief description of the research project

In-person/telephone voluntary and anonymous semi-structured interviews are being conducted as part of the data collection processes for a PhD thesis research project, conducted by Nataliya Rylska (the Researcher) under the supervision of Dr. Ian Lee (Assistant Professor, Sprott School of Business) and Dr. Susan Phillips (Professor, Director, School of Public Policy and Administration) at Carleton University, Ottawa. The topic of the thesis is "Governance in the Internal Audit Sector of the Canadian Federal Government: Three Essays". The subject of the research is the past, the present and the future of the internal audit governance arrangements in the Canadian federal government and internationally.

Brief description of the process for the in-person semi-structured interviews

- This study involves one 60 minute anonymous in-person/telephone interview that will be personalized by the Researcher, depending on the Participant's background and choice of a theme for discussion. However, the length of the interview is flexible depending on the interest and availability of the Participants. It is anticipated that the interview will not take more than 1 hour.
- Participants' answers will be recorded either in the paper form and then digitized, or typed during the interview. Participants may choose to follow-up in order to review, edit and confirm their answers.
- Participants may decline to answer any of the questions, but are free to comment on any issues they consider important.
- Participants can withdraw from study at any time, at the interview or by phoning or emailing the Researcher, up to one month after the interview. Participants will be asked to indicate whether the Researcher may use the information collected during the interview or destroy it.
- Anonymity and data confidentiality of Participants is guaranteed. All research data and any notes will be encrypted and password-protected. Any hard copies of data (including any handwritten notes or USB keys) will be kept in a locked cabinet. The interview records are safeguarded by the Researcher and remain at Researcher's sole custody at all times. Research data will only be accessible by the Researcher.
- Once the project is completed, all research data will be kept for five years and potentially used for other research projects on the same topic. At the end of five years, all research data will be securely destroyed. Electronic data will be erased and hard copies will be shredded.

- The intention of the research is to present aggregate information collected from the interview.
- Participants will be briefed, if desired, on how the information from the interview was used upon the completion of the research project.

Ethics Review and Contact

This project was reviewed by the Carleton University Research Ethics Board, which provided clearance to carry out the research. Should you have questions or concerns related to your involvement in this research, please contact:

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Interview Consent Form

I _____, have read the description of the research being conducted by the Researcher and I choose to participate in a study ***“Governance in the Internal Audit Sector of the Canadian Federal Government: Three Essays”***. I request that my response and information about my participation be treated in the manner indicated below.

Please indicate your preference for each of the following pairs of statements:

- ☐ I wish to review, edit, and confirm my answers after they are digitized
- ☐ I do not wish to review, edit and confirm my answers after they are digitized

- ☐ I agree to be briefed on how the information from the interview was used upon the completion of the research project
- ☐ I do not agree to be briefed on how the information from the interview was used upon the completion of the research project

Name of Participant

Date

Signature of Participant

Date

Signature of Researcher

Date

Annex 9 Interview Guide

INTERVIEW GUIDE

For In-Person/Telephone Anonymous Semi-Structured Interviews

Doctoral Thesis Project

“Governance in the Internal Audit Sector of the Canadian Federal Government:

A Dynamic Comparative Perspective”

(NOT FOR DISTRIBUTION TO PARTICIPANTS)

Interview Structure and Intent

The Interview Guide is not distributed to participants. This is a flexible data-collection instrument that lists potential questions by themes of interest to the doctoral research. It reflects the range of experience of the target participant groups and their willingness to share the information. It is planned that the interviews will not last longer than 1 hour. At the beginning of the interview, the Researcher, an expert in the subject-matter, will personalize the process by asking background questions in order to make a selection of the most applicable themes and questions. Although the questions appear detailed, some of them might be summarized or grouped, and some will not be necessary. Thus the actual interview guide may be shorter than appears here. The interview questions are organized around three themes in order to provide a general framework for the interviews conducted as part of the research project:

- Factors of evolution of the internal audit (IA) policy and governance arrangements.
- Current paradigm of IA governance in the central government.
- Future perspectives on IA governance.

There are 3 target populations of participants:

1. Retired public-sector officials and public servants (key informants).
2. Current public-sector officials and public servants (key informants).
3. Members of the private-sector internal audit community, professional associations and international governance institutions (key informants).

The interviews are intended to obtain participants' opinions, recollections of experience and perspectives on IA public policy with a focus on IA governance issues in the context of central governments in Canada, UK and Australia. It is expected that the participant's degree of experience, relevance, familiarity and comfort level with the interview themes and the questions posed by the Researcher will vary. The participants are given a choice to select the theme or to provide a general discussion covering selection of questions of their liking. It is anticipated that only 1 theme or a combination of carefully selected questions will be covered by each participant, and not the entire list. It is also expected that the participants may choose to provide additional comments.

PARTICIPANT BACKGROUND

- What is your professional background?
- Did you have any experience with the policy and operations of the Internal Audit sector and during what period?
- What was your role?
- What themes among the three (the Researcher will list the themes) are you most interested and comfortable discussing?

1. *THEME 1: Factors of evolution of the internal audit (IA) policy and governance arrangements in the national government*

1.1. Role of public institutions

- 1.1.1. What role did country political system and public sector management conventions (such as Westminster system of “responsible government”, doctrines of ministerial and collective responsibility, etc.) play in the formation of IA policy and governance regimes?
- 1.1.2. What role did the country policy-making instruments (such as acts, Royal commissions, independent reviews and panels, policies, regulations, directives, etc.) play in the formation of IA policy and governance regimes?
- 1.1.3. What role did the country policy-making units in IA sector (such as external supreme audit institutions, internal audit central policy units, parliamentary committees, inter-departmental IA committees and working groups, etc.) play in the formation of IA policy and governance regimes?

1.2. Role of policy networks and epistemic communities

- 1.2.1. What role did international governance organizations (i.e. OECD, IMF, World Bank, etc.) play in the formation of IA policy and governance regimes?
- 1.2.2. What role did international and local professional organizations, standard-setting bodies and epistemic communities (e.g. IIA and partners, INTOSAI, their local associations and chapters, government IA functional communities, epistemic communities of international governance bodies – OECD, World Bank, IMF, etc.) play in the formation of IA policy and governance regimes?

1.3. Role of macro-political and socio-economic context

- 1.3.1. What role did country socio-economic conditions (e.g. austerity, recession, etc.) play in the formation of IA policy and governance regimes?
- 1.3.2. What role did significant macro-political events (e.g. accountability scandals, reforms, etc.) play in the formation of IA policy and governance regimes?
- 1.3.3. What role did international policy initiatives on government modernization, accountability and governance play in the formation of IA policy and governance regimes?

1.4. Role of ideas, values, and norms

- 1.4.1. What role did international and national government and corporate accountability and governance norms (e.g. OECD, IMF, etc.) play in the formation of IA policy and governance regimes?
- 1.4.2. What role did international auditing norms and standards (IIA IPPF, COSO’s ERMIF and ICIF, INTOSAI’s ISSAIs, IFAC’s ISAs, etc.) play in the formation of IA policy and governance regimes?
- 1.4.3. What role did various public administration, economic and management theories play in the formation of IA policy and governance regimes?

1.5. Role of organized interests, individuals, choices

- 1.5.1. Did you observe any coalitions forming among various players on IA policy and governance (e.g. auditing, accounting and management firms, their respective associations, standard-setting bodies, IA sectors of international governance organizations, politicians, bureaucrats, external audit companies and assurance providers, practice inspection providers and evaluators, etc.)? What were the key players and their objectives, agendas or narratives?
- 1.5.2. Did you observe the influence of the work of any policy leaders or policy entrepreneurs (MPs, industry officials, bureaucrats, etc.) and what were the circumstances?

1.6. IA policy and governance trends and shifts

- 1.6.1. Did you observe or are aware of any long-term trends or shifts in IA policy and governance regimes?

Additional questions or comments

2. THEME 2: Current regime of IA governance in the national government

- 2.1. Effects of IA Policy and Governance change on independence and effectiveness of IA sector and the government accountability**
 - 2.1.1. What do you think about the IA policy change and its effect on IA governance?
 - 2.1.2. Was the policy change necessary and what was the rationale?
 - 2.1.3. What do you think about the acceptance of the international auditing standards and the resulting effect?
 - 2.1.4. What do you think about establishment of CAE positions and the resulting effect?
 - 2.1.5. What do you think about establishment of audit committees and the resulting effect?
 - 2.1.6. What do you think about establishment of the professional practices in the IA sector and the resulting effect?
 - 2.1.7. What do you think about the mandatory certification (CIA and other certification) requirements and overall “professionalization” initiatives for the auditors and the resulting effect?
 - 2.1.8. What do you think about relationship between IA and the executive branch?
 - 2.1.9. What is the impact of these changes on IA independence?
 - 2.1.10. What is the impact of these changes on IA effectiveness?
 - 2.1.11. What is the impact of these changes on government accountability?
- 2.2. Can you identify any successes of the IA policy and governance change with respect to its intended outcomes? How do you explain these results?**
- 2.3. Can you identify any problems, failures and limitations of the current IA policy and governance regime and their causes?**

Additional questions or comments

3. THEME 3: Future perspectives on IA governance

- 3.1. IA policy regime, standard-setting, value-setting, organizational architecture and oversight**
 - 3.1.1. How should the IA policy objectives be set and by what body/set of bodies?
 - 3.1.2. How should the value of the IA services be defined?
 - 3.1.3. How should the government IA standard-setting practice be organized?
 - 3.1.4. How should the government IA services be managed?
 - 3.1.5. What should be the optimal architecture of the IA policy sector?
 - 3.1.6. What should be the optimal architecture of the IA functional community?
 - 3.1.7. What should be the oversight/watchdog architecture for the IA sector?
 - 3.1.8. How should the appointment and management of IA human resources be organized and managed?
 - 3.1.9. How the IA function and IA policy sector should be financed?
- 3.2. IA independence, effectiveness and performance measurement**
 - 3.2.1. Are there any risks to independence and objectivity of the internal auditors and IA sector in the government and how to mitigate them?
 - 3.2.2. To whom should the IA function in the departments and agencies be accountable?
 - 3.2.3. To whom should the IA function report?
 - 3.2.4. What body should be responsible for the IA professional practice management, quality assessment, inspection and evaluation? How to organize its activities?
- 3.3. IA functional relationships with stakeholders**
 - 3.3.1. In your view, who are the stakeholders of the government IA function, in broad sense?
 - 3.3.2. What should be the relationship between the government IA function and senior management of the departments/agencies?
 - 3.3.3. What should be the relationship between the government IA function and central policy units?

- 3.3.4. What should be the relationship between the government IA function and Supreme Audit Institution (SAI)?
- 3.3.5. What should be the relationship between IA function and Parliament, including the agents of Parliament and various committees?
- 3.3.6. What should be the relationship between the government IA function and other government assurance providers and oversight bodies?
- 3.3.7. What should be the relationship between the government IA function and private-sector IA services providers – i.e. IA, accounting and management consulting industry?
- 3.3.8. What should be the relationship between the government IA function and external quality assurance providers and inspectors?
- 3.3.9. What should be the relationship between the government IA function and various IA standard-setting bodies?
- 3.3.10. What should be the relationship between the government IA function and international governance organizations?
- 3.3.11. What should be the relationship between the government IA function and taxpayers?
- 3.3.12. What should be the relationship between the government IA function and other stakeholders?

Additional questions or comments

Annex 10 UK Government Internal Audit Agency (GIAA): Summary of Relationships, Governance and Accountability Arrangements

The GIAA Executive Agency Framework Document (EAFD) defined the scope of accountability and reporting relationships of the GIAA with Ministers, Permanent Secretaries (Accounting Officers), HM Treasury, and the Parliament and its agents, summarized below:

- Treasury Ministers determine the policy and financial framework of the GIAA with delegation of strategic decisions to the Chief Executives and exercise their responsibility by agreeing to the GIAA framework document, approving the annual CIA UK & Ireland Corporate Plan, setting key performance targets, monitoring GIAA performance, and presenting the GIAA annual reports and accounts to relevant Parliamentary committees.
- HM Treasury provides the GIAA with the endorsement of its work across government, requirements on the development and management of the IA policy function, strategic direction on reform of the government IA profession and agency development, and access to back-office corporate functions and services.
- HM Treasury Director General for Public Spending is assigned by the Permanent Secretary of HM Treasury to be responsible to sponsor the GIAA, by advising the Ministers on GIAA strategic direction and their response to strategic performance information, advising the Chief Executive on steering the GIAA activities to ensure they support delivery of departmental objectives, ensuring the GIAA has the delegations and authority necessary for effective delivery and continuous improvement, and agreeing on the framework for strategic performance management.
- Public Spending Group (PSG) at HM Treasury is a sponsor team for GIAA, led by the Deputy Head of Government Finance, and is responsible for the oversight of the GIAA.
- GIAA reports to HM Treasury and HM Treasury Finance. For statutory reporting purposes, GIAA Accounting Officer provides a statement of assurance to the HM Treasury Principal Accounting Officer. For the operational risk reporting, GIAA is reporting to the Operational Risk Group (ORG) at the HM Treasury and may be requested to provide evidence to the HMT Audit Committee and Executive Management Board (EMB). The PSG is responsible for the review of the GIAA's financial and non-financial performance against plans and expenditures against budgets.
- Treasury Ministers are accountable to Parliament for the GIAA work, including policy framework, strategic aims and performance targets.
- The Permanent Secretary of the Treasury is a Principal Accounting Officer for the HM Treasury Group, and is responsible for advice to Treasury Ministers on Treasury policy towards GIAA.
- The Chief Executive of the GIAA is the Accounting Officer of the GIAA and is personally responsible for: safeguarding public funds of the GIAA and ensuring their propriety, regularity, value for money and feasibility in handling, as well as operational and strategic management of the GIAA, and is responsible to the Principal Accounting Officer for the financial management of GIAA.
- The Comptroller and Auditor General (C&AG) carries out the accounts and VFM audits of the GIAA according to the National Audit Act of 1983, and the GIAA will provide access to any required documentation.
- The GIAA is subject to the jurisdiction of the Parliamentary Commissioner for Administration.
- The GIAA delivers an IA service to HM Treasury.
- The GIAA provides services to client Accounting Officers across government via MOUs, establishing the terms and fees for these services. The resolution of disagreements and complaints is ensured by the sponsor at HMT and the Chief Executive.
- Heads of Internal Audit (HIAs) report their work and opinions to the relevant Accounting Officers, while their management reporting and performance appraisal line is to the head of the shared service (i.e. head of the GIAA).
- Accounting Officers and the Audit & Risk Assurance Committee Chairs have input to performance appraisal of their HIA and have a final say who acts as their HIA.
- Internal audit reports to the Accounting Officers and audit reports can't be released to third parties without their approval.
- IA can use private-sector providers.

- GIAA is charged with working across the government in response to government-wide/cross-organizational risks with the consent of the respective Accounting Officers.
- GIAA is subject to External Quality Assessments (EQAs) every five years according to PSIAS.
- Chief Executive of the GIAA is its Accounting Officer, appointed by HMT and is accountable to the Economic Secretary of HMT and Principle Accounting Officer. GIAA is managed internally by the CE, senior group HIAs and the Chief Operating Officer.
- GIAA Chief Executive has an Agency Board, chaired by a non-executive Director from outside the GIAA, to act as an advisory body, with attendance by the HMT Sponsor Official. GIAA also has a Strategy Board responsible for setting the long-term direction. GIAA has its own Audit Committee.
- GIAA is required to operate within the framework of HMT's "Managing Public Money".
- GIAA is required to maintain an IA function consistent with PSIAS, independent from all IA services to clients and reporting directly to CE.

Annex 11 Government of Canada Financial Administration Act (2006) - Amendments for IA Function

- **Definition of accounting officer**
 - **16.3** In sections 16.4 and 16.5, accounting officer (a) with respect to a department named in Part I of Schedule VI, means its deputy minister; and (b) with respect to a department named in Part II or III of Schedule VI, means the person occupying the position set out opposite that name.
- **Accountability of accounting officers within framework of ministerial accountability**
 - **16.4 (1)** Within the framework of the appropriate minister's responsibilities and his or her accountability to Parliament, and subject to the appropriate minister's management and direction of his or her department, the accounting officer of a department named in Part I of Schedule VI is accountable before the appropriate committees of the Senate and the House of Commons for (a) the measures taken to organize the resources of the department to deliver departmental programs in compliance with government policies and procedures; (b) the measures taken to maintain effective systems of internal control in the department; (c) the signing of the accounts that are required to be kept for the preparation of the Public Accounts pursuant to section 64; and (d) the performance of other specific duties assigned to him or her by or under this or any other Act in relation to the administration of the department.
 - **(2)** Within the framework of the appropriate minister's responsibilities under the Act or order constituting the department and his or her accountability to Parliament, the accounting officer of a department named in Part II or III of Schedule VI is accountable before the appropriate committees of the Senate and the House of Commons for (a) the measures taken to organize the resources of the department to deliver departmental programs in compliance with government policies and procedures; (b) the measures taken to maintain effective systems of internal control in the department; (c) the signing of the accounts that are required to be kept for the preparation of the Public Accounts pursuant to section 64; and (d) the performance of other specific duties assigned to him or her by or under this or any other Act in relation to the administration of the department.
- **Appearance before committee**
 - **(3)** The obligation of an accounting officer under this section is to appear before the appropriate committee of the Senate or the House of Commons and answer questions put to him or her by members of the committee in respect of the carrying out of the responsibilities and the performance of the duties referred to in subsection (1) or (2), as the case may be.
- **Written guidance from Secretary**
 - **16.5 (1)** Where the appropriate minister and the accounting officer for a department named in Part I or II of Schedule VI are unable to agree on the interpretation or application of a policy, directive or standard issued by the Treasury Board, the accounting officer shall seek guidance in writing on the matter from the Secretary of the Treasury Board.
- **Referral to Treasury Board**
 - **(2)** Where guidance is provided under subsection (1) and the matter remains unresolved, the appropriate minister shall refer the matter to the Treasury Board for a decision.
- **Copy to Auditor General**
 - **(3)** A decision by the Treasury Board shall be in writing and a copy shall be provided to the Auditor General of Canada.
- **Cabinet confidence**
 - **(4)** The copy of a decision provided to the Auditor General of Canada is a confidence of the Queen's Privy Council for Canada for the purposes of any Act of Parliament."

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