An Investigation of the Governance within a Shared Internal Audit Service in Local Government

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LIST OF ABBREVIATIONS

ALMO -   Arms-Length Management Organisation

CAAT -   Computer Aided Audit Techniques

CIPFA -   Chartered Institute of Public Finance and Accountancy

CSR -   Comprehensive Spending Review

CAE -   Chief Audit Executive (also see HIA)

DCLG -   Department for Communities and Local Government

DWP -   Department of Work and Pensions

EQA -   External Quality Assessment

HIA -   Head of Internal Audit

ICT -   Information Communication Technology

IIA -   Chartered Institute of Internal Auditors (UK & Ireland)

LGA -   Local Government Association

NAO -   National Audit Office

PSIAS -   Public Sector Internal Audit Standards

SIAS -   Shared Internal Audit Service

STOI -   Strategic, Tactical, Operational and Individual (levels of the shared service)

ACKNOWLEDGEMENTS

action research required their direct input and willingness to try new ideas. I am truly honoured that they laid bare their shared service for my scrutiny, challenge and development, which based on the literature review, is a rare thing for any organisation to do. Working with them I feel I have grown as a person and gained more respect for organisations operating shared services. I also know that this has impacted on many others, and in a positive way based on the feedback I have received. I feel lucky and privileged to have had such an opportunity.

It should almost be without saying that I thank my family, particularly as my studies were undertaken alongside full time employment too. They have endured many years of my absence to write assignments, conduct research and finally write this thesis. Many a sunny Sunday was spent away from the family and locked in the office/study working, even time away from home in hotels to enable me to conduct my action research on site. I absolutely must thank my wife, Stephanie, for her seemingly unending patience and support. She helped make what can be a lonely journey almost fun, regularly offering another coffee or biscuit. I do think that it was a joint effort, I did the research and writing, my lovely wife, kept me fed and watered.

DEDICATION

There is one member of the family that gave her support to me for as long as she could, my wonderful Mum. Without her support throughout my life, in particular my education, I would have surely never have gone so far. This one is for you Mum…

18th May 1938 - 4th April 2016

ABSTRACT

In 2005/6 circa 20% of English Local Authorities were sharing services (Tomkinson 2007), by 2017 this had risen to 98% (LGA 2017) saving £657m. Macdonald-Wallace (2016 p3) stated "It is likely that from 2017, collaborative working will move from "nice to be doing" to "essential for the survival of our organisation"". A shared service was defined by the Department of Communities and Local Government as, at its widest, "…*a shared service arrangement might be defined as one where two or more authorities work together to commission and/or deliver a service or function for the purposes of improving that service or function*" (DCLG 2007 p.7).

Aldag and Warner (2018) indicate that a longitudinal study of shared services merits research and Johnson (2017) summarised the need to study shared services further, in particular the challenges and the way these challenges can be addressed. Tomkinson (2007 p.2) defines a shared service as: "*the shared provision by more than one local council of a specified service in which service aims and objectives are mutually shared and for which local people are the end customers*". The specific shared service studied in this research is that of an internal audit service. This service was chosen due to the dual reporting lines required in the internal audit standards (Audit Committee and Senior Management) and the requirement for internal audit to align with the organisation; these two elements were considered to be particularly challenging for a "service model" (Tomkinson 2007) shared service model of delivery. This research has contributed to the knowledge base in this field by studying a shared internal audit partnership over a full year and identified what challenges it encountered and what actions were needed to address these challenges.

The methodology is derived from a pragmatist perspective and considered the impact on the shared internal audit service under review. Therefore this research looks to address in part gap in knowledge indicated by Aldag and Warner (2018) and Johnson (2017) through the action research of a shared internal audit service. A series of three action research cycles was

undertaken to initially identify the challenges then test actions to remedy them. The data was gathered regarding the challenges and the tools were constructed using semi-structured interviews and focus groups with the participants. The Public Sector Internal Audit Standards (2017) was used to assess the effectiveness of the shared internal audit service at the end of each cycle. This provided a check that positive changes were being introduced. A preintervention and post-intervention review was also conducted to initially establish the relevant background information generated by a running records review; then after the cycles to ascertain what had been completed in the longitudinal time frame of 1 year and also assess what elements could potentially be generalised.

There were 13 thematic governance challenges identified that required a range of actions to remedy. These challenges also resulted in the governance of the research site evolving to address the move from a two-partner to a six partner shared service. Additionally, further powers were devolved through the governance framework to enable more efficient and effective control. This devolutionary aspect highlighted that although there are a range of models of shared service delivery, there is still opportunity to improve the model. The development of the Collaborative Business Management Framework highlighted that the governance of a shared internal audit service requires wider governance consideration than simple conformance testing of the Public Sector Internal Audit Standards 2017. Other findings came through from the requirement for information flow to be managed more effectively between the dual reporting lines at each partner and the internal audit team, this was identified as the hourglass effect.

The pragmatist philosophical position and the action research strategy of this research has resulted in the Collaborative Business Management Framework already making impact in the real world and being used to underpin: An Institute of Leadership and Management (UK) 'Approved' professional training programme; also a new Collaborative Accreditation Review scheme supported by the Local Government Association (LGA) UK.

Chapter 1

Introduction

"It is likely that from 2017, collaborative working will move from 'nice to be doing' to 'essential for the survival of our organisation'."

Macdonald-Wallace (2016 p.3)

1 INTRODUCTION

1.1 INTRODUCTION

This chapter sets out the background, context and rationale for this action research. It introduces the emerging shared services context in local government, the development of shared internal audit services and the inherent pressures of their environment. The clear knowledge gap that this research has identified and the expected contribution to knowledge that will help to bridge this gap. Plus this chapter states the key aims and objectives, definitions and the questions the research is to address

1.2 BACKGROUND

1.2.1 Shared Services

In 2007 Tomkinson identified that shared services in Local Government have been growing and he reported that nearly 20% of councils were sharing services in 2005/06 (Tomkinson 2007). He also predicted that by 2007/08 the number of shared services would have doubled. This was supported by the 2011 Local Government Association survey that identified 62% of councils were engaged in shared services in England (LGA 2012). By 2017 the LGA Shared Service Map (LGA 2017) reported that 98% of Councils in England were sharing services saving £657m. Macdonald-Wallace (2016 p3) stated "It *is likely that from 2017, collaborative working will move from "nice to be doing" to "essential for the survival of our organisation*"".

Thompson (2007) identifies that it is difficult to pin point when exactly shared services started, but he recognised that since 1997 local government has been developing shared services as a means of service delivery. The Department of Communities and Local Government (DCLG) (2007.p7) defines the shared service as:

"At its widest, a shared services arrangement might be defined as one where two or more authorities work together to commission and/or deliver a service or function for the purposes of improving that service or function. This implies a very broad range of possible collaborative scenarios. At one of the spectrum, strategic alliances between local authorities and NHS bodies to commission integrated health and social care. At the other end of the spectrum, explicitly integrated delivery arrangements such as consortia arrangements for the delivery of support services, where staff from several authorities are transferred into a single organisational structure, with a single management team and a single budget, providing services to the participant authorities through a contractual or quasi-contractual (for example, service level agreements) arrangement."

This particular model of delivery can be traced back to the aspirations set out in the Gershon Report of 2004, where increased pressures for efficiency were placed on Local Government (Tomkinson 2007). This efficiency imperative was reflected in subsequent resource allocation processes, like the Comprehensive Spending Review (CSR). As Flynn (2007) points out, under the CSR scheme, 'doing nothing' in pursuing efficiencies was not an option for local government, the least that could be done was internal restructuring. Shared services represent another, but more active efficiency-oriented option with the underlying principal that was highlighted by Eric Pickles in 2012 in his "50 ways to save" paper issued from the Department for Communities and Local Government (2012). His number 1 option was for local authorities to share back office services which included a shared internal audit service as one of his examples (Pickles 2012 p4). From the LGA shared services map (2012) data it has been identified that internal audit is a service being shared. This research has arisen as a direct result of this growth in shared services and the potential impact shared services has had on local authority internal audit services.

1.2.2 Shared Internal Audit Services

The focus of this research is on the possible challenges within the shared internal audit services. This is related to the singular focus of the Public Sector Internal Audit Standards (2017) (See Appendix 12.1 for the full standards). The overarching definition of Internal Audit in these standards is as follows:

> "*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve <u>an</u> organisation's operations. It helps <u>an</u> organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*" (Public Sector Internal Audit Standards 2017 Appendix 12.1)

Furthermore, within the PSIAS (2017) it is noted that the purpose of these standards is to, inter alia, establish the basis for the evaluation of internal audit effectiveness and to drive its improvement. This links to the definition of a shared service from Tomkinson (2007) that highlights the shared service must deliver to an agreed service level and demonstrate service effectiveness so that value for money can be determined (Dollery et al 2012).

Moreover, as Chambers (2014) indicates the internal audit scope is beyond policy and procedural review but should also address such aspects as culture, ethics and behaviour. In order to do these elements it highlights the need for the shared internal audit service to understand the organisation it is supporting beyond that which is gleamed from documentary review. As IIA (2017) indicates internal audit needs to be able to assess both hard and soft controls, where the soft controls are intangible aspects such as high ethical standards of honesty, equality and fairness. Pickett (2007) suggests that internal audit should also include value for money in their scope in terms of assessing the organisations ability to secure value for money. He also highlights that internal audit should operate a risk-based strategic plan that aligns internal audit with the organisational objectives (Pickett 2007).

Furthermore, the standards indicate that internal audit, as the third line of defence, must report functionally to two parts of the organisation, as Figure 1.1 below shows in the three lines of defence model which remains best practice (IIA 2013 p.2):

Figure 1.1 – IIA 2013 Three Lines of Defence Model
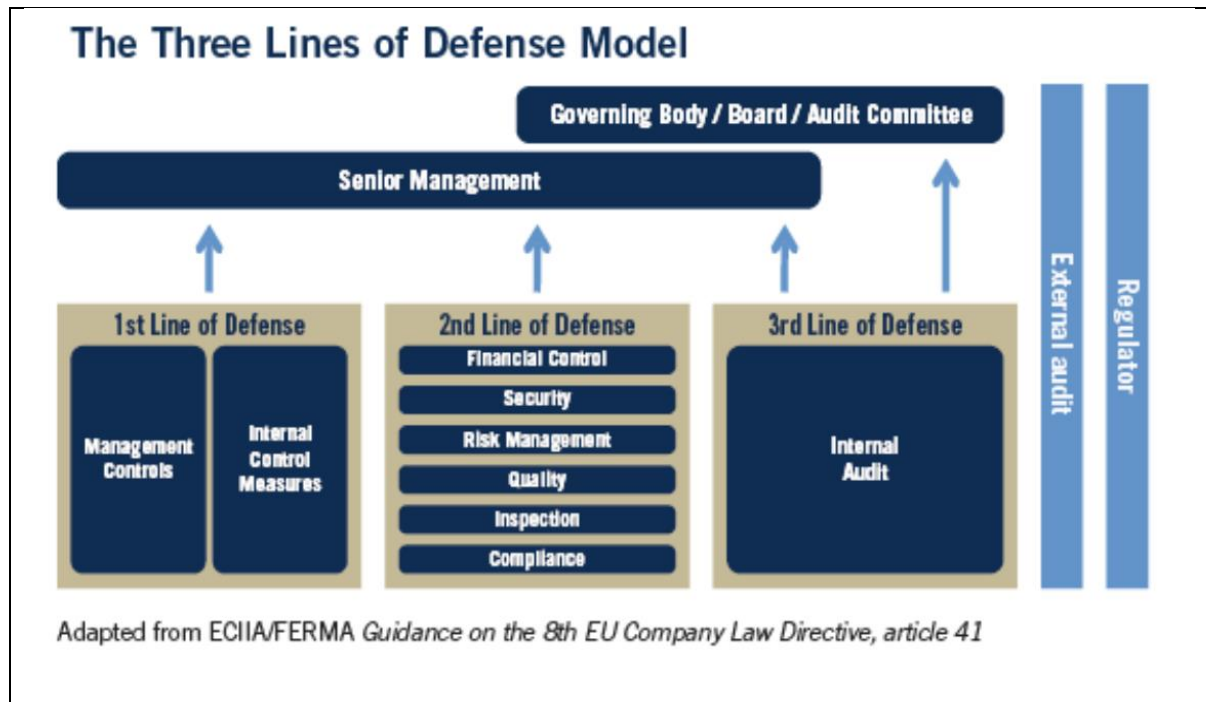
This research is therefore focused on this dichotomy of challenges that face the shared internal audit service, namely;

1) the challenge to deliver internal audit in line with standards and

2) the challenge of sustainably operating across more than one site.

For example, the dual reporting requirement alone means that for each additional partner in a shared internal audit service there will be an additional two reporting lines, so for a two-way shared internal audit service there will be four reporting lines; for six partners there will be twelve lines. Each of which require formal reporting tailored to the risks of the organisations.

1.3 THE RESEARCH AIMS AND OBJECTIVES

1.3.1 Aim

The key aim of this action research was to explore in-depth the challenges facing a shared internal audit service in UK local government and what actions could be used to help address these challenges.

In particular, the research was concerned with how the governance of the shared internal audit service adapts to emerging challenges of shared service environment in order that it can continue to deliver to the PSIAS (2017) and how it can continue to remain a sustainable shared service (Dollery et al 2012) . Additionally, to ascertain if the shared internal audit service could benefit from more control devolved through the governance from the partners to help manage this environment.

There were three output aims which followed this key aim. This research has simultaneously satisfied the knowledge requirements of three parties:

- The primary aim was for the researcher as a doctoral student, to deliver a thesis that contributes to the body of knowledge in the field of business and management;

- The secondary aim was to develop relevant governance models that can potentially positively influence the shared internal audit service at the chosen research site;

- The third aim was to have a wider impact on the management and leadership of shared services from the perspective of those managing and leading the shared service vehicles.

1.3.2 Objectives

Enabling this research to meet these aims detailed above the following objectives were established:

1) Examine and analyse historic records to identify the creation point and changes of the shared internal audit service.

2) Assess a shared internal audit service against the PSIAS 2017 to identify the level of conformance prior to any intervention.

3) Conduct action research with a shared internal audit service over 1 year (1st December 2016 to 1st December 2017) to identify governance challenges and to help manage the challenges with appropriate governance actions for the shared internal audit service

4) Re-assess the shared internal audit service's conformance with PSIAS 2017 to assess if the governance changes have helped to manage the challenges of shared internal audit services and ensure it is sustainable.

The objectives were set out in a broadly phased approach i.e. the first objective led to information necessary for the secondary objective and so on.

1.4 THE RESEARCH QUESTIONS

The research asked the following questions in order to meet the research aims and objectives set out above:

1) What are the governance challenges that a shared internal audit service has to address?

2) What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

3) How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?

1.5 Research Rationale – Gap in Knowledge

There is a clear gap in the body of knowledge that this research helped to address. There has been no in-depth action research into the challenges that face a shared internal audit service, or what possible actions could help meet these challenges. In particular, the governance challenges that emerge as a shared service grows to include more partners.

There has been academic research into shared services and collaborative working. These forms of service delivery have continued to grow since their emergence in 1997, to the stage that in 2017 98% of English Local Authorities were sharing services (LGA 2017). There has been research undertaken for over 50 years relating to collaborative working, which is sometimes referred to as inter-organisational working (Macdonald-Wallace 2017) or organising between organisations (Lindberg and Czarniawska 2006) or other such terms. However, such theory is from the organisation's collaborating perspective and not from the perspective of the shared service entity. Beyond the UK shared services have been researched academically, including work on collaborative working in Australia by Dollery and Akimov (2008), where they considered, if shared services was the panacea for local government in Australia, but again from the perspective of the collaborating organisations. In the USA, Aldag and Warner (2017) considered the duration of the shared service agreement and the relationship of the duration of the agreement in terms of cost and quality. This recent research did influence this research from the perspective that internal audit services are reviewed for their effectiveness as required by the (PSIAS 2017). However, Tomkinson (2007) and Dollery et al (2012) have considered the shared service entity itself. It is from this perspective that this research is focused.

Furthermore, Lloyd (2015) discussed the vulnerability of the shared service model to such issues as austerity measures, which this research to a limited extent recognised in the assessment of the challenges facing the shared internal audit service. This vulnerability is

considered in light of the third research question and that of a shared service's sustainability. Given the historic austerity measures, and indeed the 2020 coronavirus lockdown and economic impact, there is a possibility (at the time of writing this thesis) that there will be another round of austerity measures. Therefore placing an even higher burden on the shared service delivery model solution.

Internal Audit has also been academically researched for many years with, for example, Pickett's first edition of the Internal Auditing Handbook being published in 1997 (Pickett 2010). The role of internal audit has also been discussed by many professional bodies and authors. These include CIPFA in their publications that include "The Role of the Head of Internal Audit 2010" and the new PSIAS 2017. However, it is the effectiveness of internal audit that was of greater interest for this research, as it can be argued that the inability to meet a challenge could be deemed as an indicator of ineffective internal audit. The effectiveness of internal audit has been researched by various authors including Soh and Martinov-Bennie (2016) who highlight the expanded role of internal audit but identify that the performance measures have not developed in line with the expanded role. This disjoint of performance assessment is again present in this research, when considering the challenges, and if the shared internal audit service has adapted sufficiently to meet the challenge. When coupled with the Aldag and Warner (2017) consideration of longevity of a shared service is related to quality then ineffective internal audit services may be short lived, therefore compliance with PSIAS (2017) is paramount to demonstrate at a minimum the quality of internal audit.

However, there has been no research into the two subjects when combined. There has been research into some specific service types such as procurement in England by Murray et al (2008). However, their research did not consider in depth the challenges facing the service or the possible actions that could be developed from action research to help manage the shared service. There has been no research into the specific challenges facing a shared internal audit service and what actions could be used to help meet these challenges. This research has contributed to the reduction in this clear gap in knowledge.

1.5.1 Contribution to knowledge

There is a clear gap in the body of knowledge that this research helps to address, namely the in-depth review of a shared internal audit service. There has been no "action research" methodology applied to a shared internal audit service to assess the governance challenges that face a shared internal audit service, or what possible actions could help meet these challenges. In particular, the evolutionary and devolutionary movement of the governance as a shared internal audit service emerges and grows to include more partners. As the Local Government Association (2017) mapping identifies local authorities are still showing emerging shared services including internal audit services. Therefore this research both helps to bridge the gap in academic literature and provides useful actions for shared internal audit services (both existing and emerging).

Therefore from a methodological perspective this research makes an original contribution to knowledge by applying action research methodology for the first time to a shared internal audit service, therefore enabling this methodology to be used in other shared service investigations.

Additionally, the exploration of the existing governance frameworks, such as, Tomkinson's (2007) 'service/corporate model' and Dollery et al (2012) 'horizontal shared service' and the theoretical 'Common Service Model' (Dollery et al 2016), has allowed for refinement and model development to assess the challenges facing these models; along with consideration of theoretical statements from Bergeron (2002) and Huxham and Vangen (2005). This resulted in the development of the Collaborative Business Management Framework, the Four Pillars and the Hourglass Effect models. All of which highlight the governance is wider ranging than the simple conformance with the Public Sector Internal Audit Standards 2017 to ensure a sustainable shared internal audit service. Indeed the shared service itself requires management consideration as individuals are required to manage and lead these service models once built.

Furthermore, this research has actually impacted on the participative shared internal audit service and also has potential to impact on national and international policy. It makes a contribution from the policy and practices perspective with the mapping of the challenges through the Collaborative Business Management Framework and the introduction of actions to manage these challenges at the research site.

Additionally, the actions designed to assess and support the sustainability aspects of the shared internal audit service governance have already merited publication (Milford 2016), (Milford, Macdonald-Wallace and Gatt 2017), (Milford 2019) and (Milford, Cooke and Cox 2020).

1.6 METHODOLOGY AND METHODS

This section sets out the anticipated form of the research as indicated through reference to the following methodological flow from the philosophy to the time horizons, developed and justified in line with categories set out by Saunders et al (2016).

Pragmatist Philosophy

Abduction approach

Multi-methods qualitative methodological choice

Action research strategy

Longitudinal time horison

1.6.1   Pragmatist Philosophy

The research will take the philosophical stance of pragmatist as, inter alia, the results need to be applied to the practices in the workplace.

The key methodology adopted is that of Czarniawska's (2008) 'follow-the-object'. The follow the object approach can be used to follow something forwards and backwards through a time period. In order to review the challenges facing a shared internal audit service it is necessary to 'follow' the service from its initial emergence to the point of intervention by this research and then review post intervention. This helped to map the evolution of shared internal audit services at the research site to assess how it has already adapted to the challenges. It also enabled the researcher to capture the changes brought about through the action research and the impact. The modelling of the evolution then helped inform the impact of any changes, generated by the different models of governance introduced, within the shared internal audit service. Recognising that the aim of this research was to introduce actions that positively impact in the real world of a shared internal audit service and manage the challenges identified.

1.6.2   Abduction approach

To identify the majority of the issues relating to the research topic, due to the lack of literature on local government shared internal audit services, from the perspective of the shared internal audit service itself, it is necessary for the researcher to observe and participate in the game and ultimately change the game. This would indicate an inductive approach (Saunders et al 2007).

The position of the researcher as wanting to observe and influence the research subjects may require a degree of methodological innovation. It is plausible, for instance, that unorthodox approaches like those associated with auto-ethnography may be required in order to tap the Researcher's own fund of understandings (having worked in the professional field of shared

internal audit services for many years). However, in the latter part of the research it is anticipated that actions will be tested thus moving to a more deductive approach. Therefore when considering the overall approach the abductive approach is most appropriate (Saunders et al 2016).

1.6.3   Multi-methods Qualitative Methodological Choice

The multi-methods qualitative methodology is linked to the aims and objectives of the research, in particular, to the exploratory and in-depth nature of the questions. The research required multiple cycles of study, planning, action, analysis and reflection (Saunders et al 2016), between December 2016 and December 2017 during the on-site intervention period, to occur as the researcher investigated the shared internal audit service challenges and action were deployed to address the challenges. Therefore series of 27 interviews and 31 focus groups, including validation forums, will be completed through cycles of the action research. Some of these interviews and forums are anticipated to be developmental and educational in nature order to equip the participants with actions necessary to deliver on the third objective of the research.

This was supported by running records (Gray 2009: p.428) from the research site such as committee/cabinet papers, budget reports and change programme documentation for use in time-sensitive (kairotic and chronological) analysis (Czarniawska 2004). From the running records review key stakeholders, including 'double subordinates' (Wescott 2003) can be identified for interview, forum or assessment consideration; this included non-human stakeholders i.e. machines where necessary such as the Audit Management Software. Furthermore, it was anticipated that these records would be necessary to instigate change in the local government environment i.e. seeking formal authorisation to make changes.

As Drake and Heath (2011), Coghlan and Brannick (2005) and Costley et al (2010) all recognise, the nature of the research in these circumstances is the 'insider researcher' and is required to balance the political and power related issues within the organisation being studied

(or in this case up to 6 organisations from the chosen shared internal audit service and the service itself). This is due to, inter alia, the power of the researcher in the organisation(s) which is derived from two perspectives: firstly the power to instigate change in the partnership which may directly affect individuals and; secondly as an expert in the field of internal audit and previous experience of leading a shared internal audit service.

However, Drake and Heath (2011) offer a possible solution to this dilemma in the form of 'Grounded Methodology'. This utilises the knowledge of the researcher regarding the organisation being studied thus enabling the application of the appropriate methods to gain and process the relevant data for the research. When considering these factors Coghlan and Brannick (2005 p. 79) identifies that the researcher needs to "*consider the impact of the process of enquiry, who the major players are, and how you can engage them in the process*". Costley et al (2010) goes on to consider methodology 'Bricolage' that moves away from 'textbook' approaches and enables the development of appropriate methods to fit and essentially grow out of the situation in hand. Hence, in this action research, there is the use of 'analytic autoenthnographical' interview (Anderson 2006) methodology enabling the researcher's own understanding of previous shared services and in particular shared internal audit services to be reflected upon. The researcher's interview was then coded and assessed against the other coded interviews to identify similarities or other options for governance changes. The substantive aspect of the researchers own interview helped to inform the generalisation of the challenges in chapter 8. However, aspects of the researcher's reflections are included within the chapters 5-7 where there is a link to the researchers own findings in his professional work history, Drake and Heath (2011) recognise this as the reflexivity of the researcher which is required in action research.

1.6.4 Action Research Strategy

In order to answer the research questions, and meet the objectives of this research, it is necessary to undertake action research (Saunders et al 2016). It was anticipated that this

would be delivered in three broad cycles as modelled on Piggott-Irvines Action Research Model (Mertler 2009):

Cycle 1 – Initial and opening interviews and focus group and results of first assessment against the public sector internal audit standards (December 16 to March 17)

Cycle 2 – Focus groups and development of a change programme and second assessment against the standards (March 17 to Sept 17)

Cycle 3 – Final focus groups and assessment of the standards (Sept 17 to December 17)

This is shown in figure 1.2 below:

PIGGOT-IRVINE'S ACTION RESEARCH MODEL
MERTLER (2009)
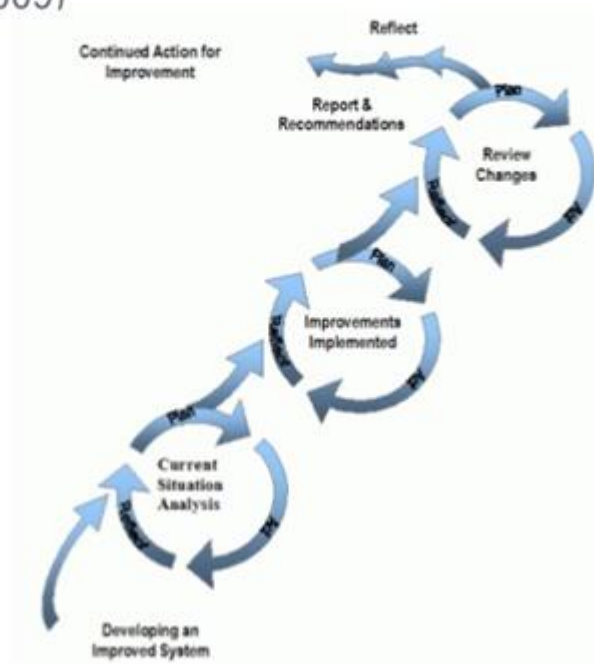
The ability to scope the range of actual services provided by the shared internal audit service was subject to the first phase of the data collection and analysis as there is such a wide range of potential services that can exist under a banner of a shared internal audit service. From this the shared internal audit service was assessed against the PSIAS 2017 and challenges identified. Following this assessment, actions were developed and implemented. Finally, the changes were reviewed and a secondary assessment against the PSIAS 2017 was

undertaken to identify if the actions introduced help manage the challenges identified. At each stage the organisations involved received reports and were informed of emerging challenges and changes to be made.

1.6.5   Longitudinal time horizon

A longitudinal study lasted for 1 year on site, but the review of running records commenced from 2012, the creation point of the shared internal audit service. This longitudinal study was be informed by the running record review from 2012 to 2016 to assess the shared internal audit services' evolution and boundaries. This was then followed by the onsite action research from December 2016 to December 2017, both parts were used to help identify causation (Gray 2009) and map the evolutionary aspects. This also included assessments against the PSIAS 2016/2017 to assess the conformance with the standards. Following the mapping of the evolutionary aspects, reflection on the position, from the final cycle of the action research, informed possible devolutionary governance changes that could be introduced through actions that help the shared internal audit service to meet the challenges of service delivery.

1.6.6   Data Collection

The methodological choice of data collection at this stage is a multi-method qualitative approach (Saunders et al 2016). Running records were used to capture a chronological evolutionary path for the shared internal audit service 'object'. The use of standardised qualitative assessments delivered the initial assessment of the shared internal audit service conformance with PSIAS 2017. From these two methods the 'objects' were then further analysed using 24 semi-structured interviews, 31 focus groups and additional running records review. The 24 interviews were, in particular, used to capture the non-linear kairotic time (Czarniawska 2004) for determining crisis and calm within the organising of the object being followed which helped indicate the challenges for the shared internal audit service.

In order to review the 'evolution' of governance (though it is recognised that this term itself carries problematical linear connotations) the research was required to reflect on the growth/shrinkage of the shared internal audit service at the site. The modelling of the evolution then helped inform the potential action changes required for the governance and even the greater impact of the challenges of governance within the shared internal audit service. These elements were then considered in light of the sustainability of the shared service.

These methods were pursued with a 'participative observer' focus as the researcher is contracted by the research site host organisation and has a contributory role in the development of the shared internal audit services. Furthermore, through the participation the researcher is able to monitor and access data on the organising within/between the objects, for example, identify minutes of meetings.

1.6.7 Ethics

There are potential ethical difficulties with these aims and objectives as indicated below:

- Business/confidential information

- Interviewee availability and cooperation

- Sensitive topic – loss of power and control

- Personal bias – an insider researcher and participative observer

- Time required to prepare, undertake and process interviews and focus groups and implement the actions or changes in a local government setting.

However, it was envisaged that these problems would be managed within the methodology with additional actions including the development of an ethical framework in line with University of Worcester requirements and gaining relevant organisational informed consent.

1.6.8 The Research Organisation

The shared internal audit service chosen for this action research was selected from the researcher's own professional network and meets the criteria of a "service/corporate model" (Tomkinson 2007). The shared internal audit service was established in 2012 between two English councils (one unitary council and one district council) as a shared internal audit service; expanded in 2013 to include an Arms-Length Management Organisation (ALMO) responsible for managing housing stock; and again in 2016 to include two more district councils and a Fire and Rescue authority. The governance model used at present was the 'service/corporate model' (Tomkinson 2007), principal 'partner-led' model (CIPFA 2010) and 'Horizontal shared service model' (Dollery et al 2012), .

Recent review of committee reports had identified that this partnership may be demonstrating symptoms of the challenges faced by a shared internal audit service. The committee reports from September 2016 included an adverse comment from the external auditor that highlighted that they disagreed with the head of internal audit opinion.

Following an initial discussion with the Senior Management Team, and the Director responsible for the oversight of the shared internal audit service, the informed consent was given for the researcher to carry out the action research that informed this thesis.

1.7 THE STRUCTURE OF THIS THESIS

Chapter 1 is the introduction

Chapter 2 sets out the key literature and critically evaluates it in relation to the field of interest. Furthermore, the chapter draws in any relevant information regarding the specific situations of the shared internal audit service and the services within the partner organisations.

Chapter 3 sets out the methodology, covering the pragmatic philosophical stance for this research, the action research design and the multiple methods applied in the collection and

processing of the qualitative data, in particular, how the 'object' followed is identified and analysed, and including the auto-ethnographical considerations.

Chapters 4 to 8 cover the pre-intervention; three cycles of action research and post intervention. In particular the fifth, sixth and seventh chapters discuss in depth the three dominant cycles of the action research:

Cycle 1 - (December 16 to March 17)

Cycle 2 - (March 17 to Sept 17)

Cycle 3 - (Sept 17 to December 17)

These chapters identify the shared internal audit service to be followed, meeting the first objective; makes initial commentary on the service challenges, for example, assessing conformance of the shared internal audit service with professional standards, honing the definition of shared internal audit services and applying the CIPFA models. The sixth and seventh chapters detail the actions developed, implemented and reflected upon with the shared internal audit service to improve their performance.

Chapter 9 enables further discussion and other interesting points that have emerged from the action research including debate over the key characteristics of governance over time and the sustainability aspects, which enabled the third objective to be delivered; namely the actions delivered.

Chapter 10 draws conclusions from the research and identifies future research and critically evaluates the limitations of this research.

1.8 CONCLUSION

This chapter has provided a brief overview of the research project; has explained the background behind the research and the rationale action research with a shared internal audit service. It has also set out the aims and objectives of the research including the dual

requirement to meet both academic thesis and professional needs. Furthermore, this chapter has provided an outline of the expected contribution to knowledge.

Chapter 2

Literature Review

Collaboration is all about working with others to achieve outcomes that you can't achieve on your own. If you can achieve the outcome on your own don't collaborate.

Huxham and Vangen (2005)

2 LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews in depth the literature relating to the core of this research. This is contained broadly within two key aspects; internal audit and shared services. As recognised by Quinlan (2011), the purpose of the literature review is to create the theoretical framework relating to the research topic. This research is based in the context of local government and focuses on the internal audit function which is being shared between one or more organisations.

This literature review provides clarity over such terms as; shared service, internal audit, local government and other key terms. Furthermore, this section looks at other research contributions that influences this research, for example, research into shared services and their theoretical governance models.

This review also considers the context in which this research is being undertaken insofar that it recognises significant professional influence rather than just academic influence, by this it is recognised that such bodies as the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (UK and Ireland)(IIA) have a significant impact on the research.

The review sets out the definitions of the terms governance evolution and devolution in the context of this research. Furthermore, it provides theoretical understanding and interpretation of the terms used within the research questions:

- What are the governance challenges that a shared internal audit service has to address?

- What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

- How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?

The final part of this chapter draws together a definition of a shared internal audit service in the local government context and the associated governance. This definition is then applied throughout this research.

2.2 SHARED SERVICES

2.2.1 History

In 2007 Tomkinson identified that shared services in Local Government have been growing and he reported that nearly 20% of councils were sharing services in 2005/06 (Tomkinson 2007). He also predicted that by 2007/08 the number of shared services would have doubled. However, if we look at the opening description used by Tomkinson (2007) where he discusses the content of his book titled "*Shared Services in Local Government Improving Service Delivery*," we find the following terms are used; shared service centres, formal partnership, collaborative ventures and special purpose vehicles. This broad spectrum of terminology needs to be addressed for clarity in this research. Indeed Murray, Rentell and Geere (2008 p.544) identified that *shared services are a form of collaboration*.

Tomkinson (2007) discusses the origin of shared services in local government and considers that it can be traced back to the Gershon initiative in local government in 2003. He also comments that it is difficult to pin point when exactly shared services started, but he recognised that since 1997 local government has been developing shared services as a

means of service delivery. However, given the broad terms used above by Tomkinson, it is possible to trace this shared service concept back over many decades to the point where any joint operation between two or more organisations could fall into Tomkinson's range of shared service descriptions. Using this terminology other authors, such as, Huxham (1996) "*Creating Collaborative Advantage*", and Kanter (1994) "*Collaborative Advantage: the Art of Alliances*", both comment on aspects of shared services that may well be relevant to this research and indicate organisations working together dating back well before Tomkinson's work in 2007.

For the purposes of this research, the history of shared services and their emergence in local government is the area of particular interest. This research recognises Tomkinson (2007) is a leading text that provides a foundation for understanding the origins of shared services local government. Tomkinson (2007) also provides some case study literature and other informative comments that influences this research, for example, the case study on the Welland Partnership identified the initiative behind the creation of the Welland Internal Audit Consortium (WIAC). WIAC is discussed later in this section in relation to the evolution of shared services and the current status of WIAC.

2.2.2   Defining a shared service

Tomkinson (2007 p.2) defines a shared service as:

   "*the shared provision by more than one local council of a specified service in which service aims and objectives are mutually shared and for which local people are the end customers*".

This definition from Tomkinson (2007) indicates that a shared service should have alignment of the shared services aims and objectives with that of the partner organisations. Furthermore, it indicates that there should be some benefit for the community i.e. local people, that is clearly demonstrated by the shared service. Given the back-office nature of a shared internal audit service this link to the community is unlikely to be clearly visible by the local community. It is

considered more likely that the community will identify the benefit through the reduction in cost of the back-office service which results in more funding being available for the front office services of a local council. This cost saving is identified from Tomkinson's (2007) reference to the Gershon on savings initiative. The Gershon (2004) savings initiative required local government to demonstrate savings in both cashable and non-cashable forms. In the Gershon (2004) report there is a recognition of back office functions which include finance, human resources, legal, et cetera and although internal audit is not specifically mentioned it is considered that internal audit would fit within the definition of the back-office function. Moreover, Gershon (2004 p.43) identifies shared services as a contributor to the efficiency savings agenda.

The Department of Communities and Local Government (DCLG) (2007 p.7) defined the shared service as:

> *"At its widest, a shared services arrangement might be defined as one where two or more authorities work together to commission and/or deliver a service or function for the purposes of improving that service or function. This implies a very broad range of possible collaborative scenarios. At one end of the spectrum, strategic alliances between local authorities and NHS bodies to commission integrated health and social care. At the other end of the spectrum, explicitly integrated delivery arrangements such as consortia arrangements for the delivery of support services, where staff from several authorities are transferred into a single organisational structure, with a single management team and a single budget, providing services to the participant authorities through a contractual or quasi-contractual (for example, service level agreements) arrangement."*

With the DCLG 2007 definition there is a clear indication of the wide scope of possible shared service forms that could be explored by local authorities. Furthermore, this definition provides scope for the shared service to have a defined (via contract or service level agreement)

relationship with other parts of their origin organisation. This is a different relationship to which the service would have had prior to becoming a shared service.

Bergeron (2002 p.3) defines a shared service as:

> "*A collaborative strategy which a subset of existing business functions are concentrated into a new, semiautonomous business unit that has a management structure designed to promote efficiency, value generation, cost savings, and improved service for the internal customers of the parent corporation, like a business competing in the open market.*"

The Bergeron (2002) definition considers that a shared service has a level of autonomy which is recognised as a critical factor within this research. This concept of a service that was originally under full control of a single organisation moving to a position of semi or even full autonomy presents one of the possible challenges considered by this research that may face a shared internal audit service.

Huxham and Vangen (2005 p.13) offer a definition with a warning:

> "*Collaboration is all about working with others to achieve outcomes that you can't achieve on your own… If you can achieve the outcome on your own don't collaborate*."

This definition by Huxham and Vangen (2005) does suggest a more last resort approach to the consideration of a shared service which is not necessarily indicated by the previous definitions. Huxham and Vangen (2005) suggests that there may well be challenges beyond those normally faced by a service operating within a single organisation. This is a significant element of this research specifically under the first research question that asks about the challenges facing a shared internal audit service.

The National Audit Office report (2007) indicates that far more can be done to make savings in the public sector through the use of shared services but also recognises that there are other non-financial benefits arising from shared services including such things as fast transaction processing and robustness of process.

The Institute of Internal Auditors (UK and Ireland) (2010 p.3) identifies that there are several benefits arising from shared services these include: access to a broader talent pool and wider skills and experiences; reduction/sharing of costs/overheads, staff numbers and locations economy of scale; *standardisation and consistency of service and process* (this aspect is significant for this research when considered in light of a shared internal audit service); ability to attract and retain higher quality staff; better performance and reduction in the risk of non-performance. This concept of standardisation is also considered in the definition of shared services within the Niehaves and Krause (2010) article where they recognise the shared service is a concentration of company resources that perform activities to service multiple internal partners.

The Chartered Institute of Public Finance and Accountancy (2008), recognised in this research as the lead professional body for guidance relating to finance in local government, identified that the success of the shared service approach was being based around a series of strategic principles and in particular public sector organisations must look to develop their capability in the following: management and governance, people and organisation, infrastructure and technology, and organisational structures. CIPFA (2010c p.9) in their report "sharing the gain", they defined a shared service as:

> "*collaboration in its broadest sense: working together across organisational boundaries to achieve together what would be more difficult alone. But is also about the idea of 'shared services' in a specific technical sense - where two or more organisations work together to deliver services through new, joint delivery restructures*."

These definitions all reflect a historic understanding of the shared service concept. More recent definitions have been provided by multiple authors including Aldag and Warner (2018), where they recognise in their conclusions on the theory of shared services, that shared service agreements that exhibit a greater longevity are built on cooperation and reciprocity rather than cost savings and competitiveness.

CIPFA (2016 p.8) comments that shared services:

> *"incorporates a wide range of models but the commonality is that direct control is shared between a number of parties, rather than being under the sole ownership of a single local authority."*

Other definitions include:

At its simplest, it is

'a service or function that is shared between different organisations or departments' (Shared Services Architects, 2017, homepage)

'when two or more bodies with a statutory responsibility choose to deliver that responsibility through collaborative action' (Griffiths, 2013 p.7)

This shows that there is a broad range of possible definitions and therefore later in this chapter the shared internal audit service is defined. However, the basic concepts are that it involves two or more organisations and it delivers a service improvement, that could be as simple as a cost saving, to far wider benefits, such as specialist services that would be otherwise undeliverable by the in-house service.

2.2.3 Basic governance models of Shared Services in Local Government

CIPFA's (2010) guidance indicated a range of possible models available to the organisation in relation to shared services as shown below in figure 1.3 below, where the partner-led (Lead Authority) model is also shown:

Models of Shared Services
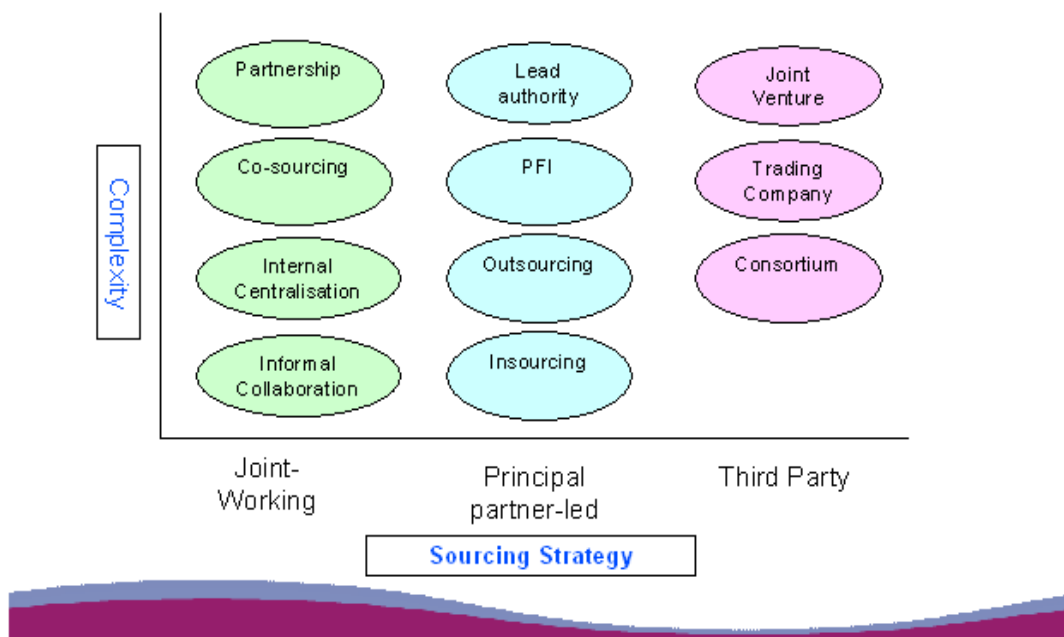
Figure 1.3 CIPFA Models of Shared Services (2010 p.2)

The Local Government Group (2011) provided guidance to local government to aid in the establishment of such governance models as trading companies that use the Powers of General Competence as derived in the Localism Act 2011. O'Donnell (2012) published "Collaboration in Local Government" for the Local Government Research Series that identified further governance models from across the world. Stanford (2016) briefing paper to the House of Commons also identified various models and that legislation such as the Localism Act 2011 was helping local government to adopt these shared service governance models.

Furthermore, CIPFA (2016) published local government guidance "*alternative service delivery models*" that expanded the range of governance models details to those published in 2010. However, this list of different models available does not indicate the ability to change models used. There is little written on the migration from one model to another.

It is, however, the definitions provided by Tomkinson (2007) of a "service model" typology; CIPFA's (2010) "lead authority" and Dollery et al (2012) "horizontal shared service model" that

is the type of shared service under exploration by this research. Dollery et al (2012) comments that this model is the most commonly used model, therefore this research can have a substantial impact in the real world application.

2.2.4 Evolution

The above definitions all present the theory of shared services in a single form context, giving the impression that once the model is formed this is the form it will take forever more. However the following four articles indicate that there is not necessarily a static form for shared services, indeed, these articles indicate shared services can evolve from one form to another, including the closure of the shared service model.

- Kensington and Chelsea and Westminster announced in March 2017 that they "*reluctantly agreed to serve notice on Hammersmith & Fulham of their intention to withdraw from service sharing arrangements in the areas of Adult Social Care, Children's Services and Public Health.*" (RBKC 2017)
- LGSS adopts audit services for five councils from the Welland Partnership. The Welland Internal Audit Consortium, in a partnership agreement worth approximately £320,000, all five councils unanimously chose to delegate their internal audit function to LGSS from 1st April 2017 (LGSS 2017).
- Veritau was originally established in 2009 as a local authority shared service company. The group expanded with the creation of Veritau North Yorkshire in 2012 but continues to operate as a single trading entity (Veritau 2017)
- The South West Audit Partnership was originally hosted by South Somerset District Council. In September 2012 it was incorporated into a company (Companies House 2018).

From this series of articles the literature review identifies that there is the possibility of movement by the shared service from one governance model to another. Therefore this

research is considering the possibility that the potential challenges facing a shared internal audit service may result in a change of model or other governance aspects. This is a fundamental rationale behind the second question relating to how the shared internal audit service continues to deliver against the public sector internal audit standards and also permits the researcher to consider actions that may fundamentally change the governance framework and model of the shared service. This is considered within the third question of this research regarding the sustainability of the shared internal audit service.

2.2.5   Shared Service Governance Devolution

As indicated by the Bergeron (2002) definition of shared services and supported by the CIPFA (2016) guidance there is a clear recognition that a shared service is not under the direct control of any one partner. It is clear from the above definitions that there is an expectation for a loss of some control by the original service organisations. This movement of control from the original organisation to the new shared service is recognised as "Governance Devolution" in this research.

The Bergeron (2002 p.3)   definition uses the expression "semi-autonomous" and "like a business competing in the open market", which suggest for a shared service to be effective it may well need to operate as a business. This is reinforced within the local government arena as the Localism Act 2011 gave further powers to local authorities to act in more commercialised ways and enabled this with the General Powers of Competence concept (LGA 2012).

It is clear from a legislative perspective that central government in the UK is providing powers through such legislation as the localism act 2011 to enable shared services to be empowered and operate in a more commercial manner. Sandford (2016) in his Local Government: *Alternative models of service delivery, House of Commons Briefing Paper, No. 05950,* reinforces this move for commercialism.

There is a change in the governance arrangements used in shared services, which indicates the shared service has often developed its own accountability relations (through the delegation of powers to the shared services). Brown-Jacobson (2011p.1) identifies that accountability is a key risk in the shared service:

> *"Accountability and public reputation: High on the agenda for all local authorities is their public reputation. So there is an ever greater need for those involved in shared services projects to clearly understand the nature of each project and the sensitivities involved. It will be critical to establish who is accountable for different aspects of delivery and what the reporting lines are for approvals and decisions. Whether delivered in house, outsourced or as part of a joint venture arrangement the public will not make a distinction if service delivery is adversely affected. Ultimately the local authority will be accountable and will see the impact on its public reputation if delivery falls short."*

This movement of decision making and accountability potentially reduces the opportunity for the individual authority's centres of calculation or policy centres to control the service delivered by the shared service. This is recognised as 'governance devolution', and challenges the position of Weber's legitimate authority and its position-related power concept in a bureaucratic organisation such as local government. Moreover, the movement of power impacts on the accountability, and control networks in the local authority. Therefore the concepts of inter-organisational working and organising between organisations would not reflect the appropriate perspective of the shared internal audit service itself. It is fundamental to this research to investigate from the shared internal audit service perspective and ascertain what challenges it faces and how to ensure it is sustainable.

Tricker (1984) identified that Corporate Governance has four key components shown below:

- Direction: Formulating the strategic direction for the future of the enterprise in the long term

- Executive Action: Involvement in crucial executive decisions

- Supervision: Monitoring and oversight of management performance

- Accountability: Recognising responsibilities to those making legitimate demand for accountability

Tricker (1984) sets this out in the diagram below (Chambers 2014 p.360:

Governance

Accountability

Supervision

Strategic Management

Executive Management

Decision & Control

Operational Management
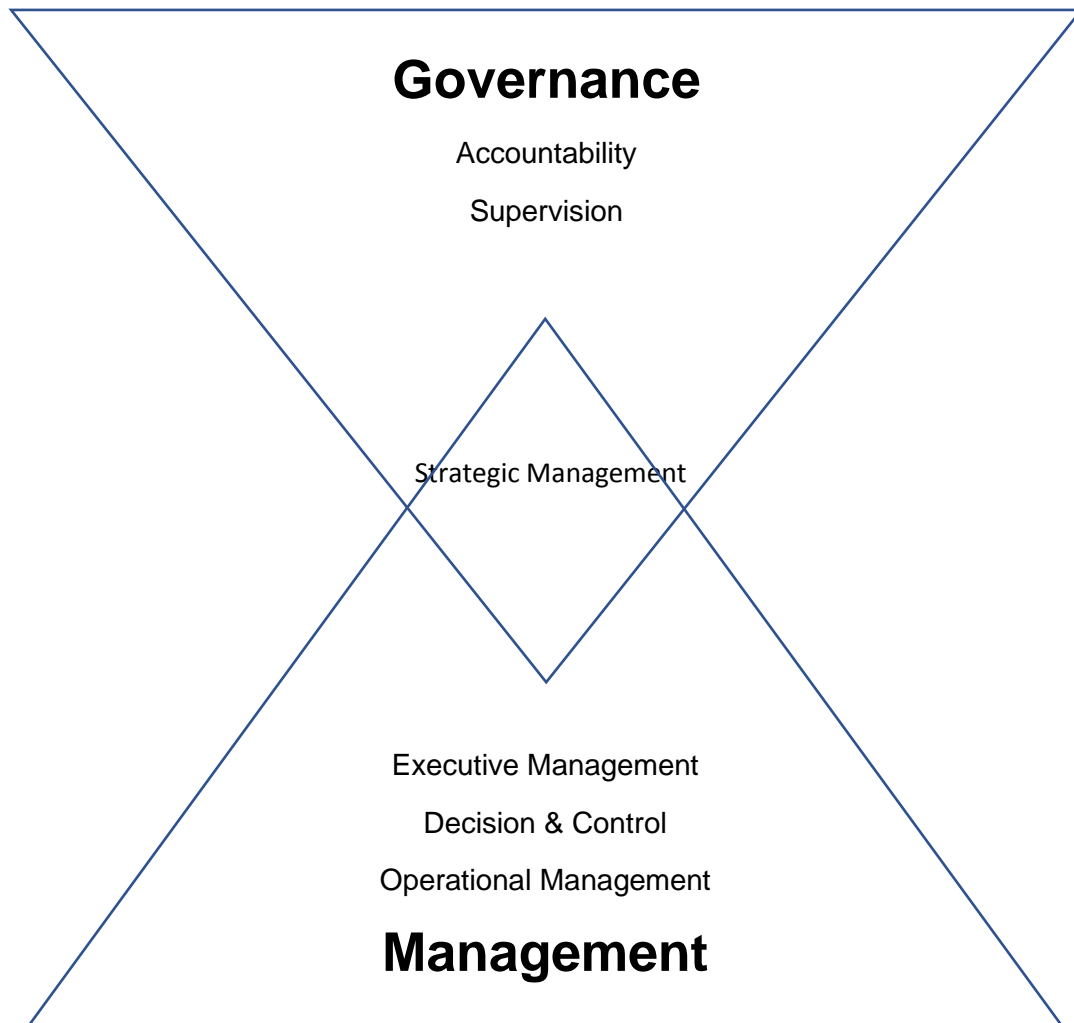
Management

Chambers (2014 p.361) highlights that the focus of Tricker (1984 & 1994) is on the issues facing boards of directors, such as the interaction with top management and relationships with the owners and others interested in the affairs of the company. When looking at the relationship and interaction of 'partners' in the shared services structures it can be seen that there is a complementary alignment with the structure as set out by Tricker and that of the shared service model. The key element is that at the highest level there is the interaction with the shareholders; in terms of a shared service this would be the partner organisational

representatives through to the lower level operational management and the individuals performing the tasks. Consideration of this corporate governance model is paramount for due to the linkage with Bergeron's (2002) suggestions of the semi-autonomous shared service. Therefore how is the shared internal audit service governance framework impacted by the shared service model.

Chambers (2014 p.358) gives the meaning of corporate governance as:

> *"Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."*

Chambers (2014p. 363-364) also highlights an array of governance definitions that he tables. These include the IIA (2001) definition:

> *"The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organisation towards its objectives."*

This definition is mirrored in the PSIAS (2017 see appendix 12.1) and therefore is considered the primary definition by this research. However to reflect the shared internal audit service perspective the definition is as follows:

> *"The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the Shared Internal Audit Service towards its objectives."*

2.2.6   UK and wider impact

These forms of shared service delivery have grown in popularity and use across the public sector since 2003. For example in 2007 Tomkinson reported that approximately 20% of local

authorities in England were collaborating, this figure has risen to 98% based on the Local Government Association shared service map and generates more than £640m of savings (LGA 2017).

Government is also continuing to drive these shared services through the introduction of various drivers. For example in 2003 the Gershon savings agenda applied pressure to the sector to make savings, in 2007 the Department of Communities and Local Government (2007) offered a definition of a shared service as that which sought to drive improvements in the shared service. This was then reinforced four years later by the introduction of the Localism Act 2011 that gave further powers to local authorities to act in more commercialised ways and enabled this with the General Powers of Competence concept (LGA 2012). This enabled more forms of collaboration to be used to aid in local authorities trading and the establishment of trading companies.

This research recognises that shared services are not just restricted to Local Government; Health and Social care is also impacted by the requirement for collaboration as shown, for example, in the Children and Families Act 2014 section 25 which includes specific reference to collaboration requirements for children with disabilities "*Education, health and care provision: integration and joint commissioning*" to be delivered. The Blue light services are also sharing services and new legislation is also reinforcing this through such Acts as Police and Crime Act 2017 part 1 that places a duty on police, fire and rescue and ambulance services to collaborate.

The above definitions and discussions on the evolution and devolution are predominantly UK centric, however, the research does recognise through such works as: Aldag and Warner (2017) in the USA: and Dollery and Akimov (2008) for local government in Australia, that shared services are not UK specific. Therefore this research has potential to impact globally. Dollery et al (2016) in the typology analysis also identified the range of shared service models.

There continues to be many drivers to collaborate and share services, but there are some key reasons why organisations adopt this approach and it is often linked to finance as the £640m savings shown by Local Government Association above highlight. Almost all collaborative arrangements have an underpinning of a financial saving either immediately (outsourcing), during the collaborative programme (at a key stage, such as re-structuring to reduce head count) or in the longer term (efficiency gains from new processes) CIPFA 2016). Other reasons include service resilience or managing specialist skills shortages or enhancement of existing services or more effective delivery to a service user such as the Multi-Agency Safeguarding Hubs (MASH). The fundamental aspect is that each collaboration will have a different reason for its creation, even if it is just the amount of savings they make. Sandford's 2016 briefing paper outlined various models of collaborations and some of the rationales including the recognition that some collaborations arise from opportunities.

The general aims of shared service can be extensive and to illustrate this the O'Donnell report (2007) summary has been used to list these aims:

- Capture and share knowledge and innovation
- Connect councils in maximising service delivery opportunities to meet common community needs
- Reduce costs through elimination of duplication
- Access economies of scale
- Develop an effective local platform to work with other levels of government to achieve better whole of government outcomes for the community

The benefits of shared services include:

- The provision of more comprehensive services at the local and regional level
- Promotion of joint cultural and economic development
- Strengthened relationships between councils and other government entities
- Improved local governance through modelling, information exchange and joint problem solving

- Opportunities for integrated planning across local government

- Increased access to a wider range of skills, knowledge and specialist services

- Better use of and access to available technology

- Better utilisation of capital and other assets, including improved investment strategy options

- Improved economies of scale resulting in better products at a cheaper price, freeing up resources for other uses

(O'Donnell, 2007 p.6)

These aims and benefits are clearly reflected in the CIPFA (2016) guidance. This further reinforces the possibility of this research having a global impact.

Furthermore, these listed benefits go beyond cost savings and possibly indicate some of the 'quality' aspects discussed by Aldag and Warner (2018) in their research where they identify that short term shared services focus to cost savings and longer term look to quality. Given this now wider range of benefits, it justifies the research question from the minimum expectation provision of cost saving drivers, to the possible enhanced benefits of a longer termed shared service. Given the evolutionary concept in this research there may be benefits beyond cash savings identified.

However it is Johnson (2017 p.22) that summarises the need to study shared services further, in particular the challenges and the way these challenges can be addressed, when he comments that :

"*The literature on shared services is extensive, both in the academic context and via reports commissioned by governments or private research organisations. However, there is a lack of evidence about how to address common failures that arise during shared service implementation and overcome difficulties while services are being delivered. While reviews of shared services highlight failures, there is less evidence on how to address them. Part of this problem may be that once organisations have initiated shared services, they are disinclined to highlight their own failures, but to understand the reasons behind these and the potential to overcome them is crucial for*

the long term successful delivery of shared services. There is also an evidence gap on the long-term impact of shared services on local government finances, the quality of the services it provides, and on user satisfaction and staff morale."

This research was designed to, in part, help address this knowledge gap by identifying challenges in an established shared service and develop actions to help it remain successful and sustainable.

2.2.7   Theoretical Framework – The Common Service Model

As stated by Valle de Souza and Dollery (2011 p.16) in their paper on the Brighton Common Service Model:

> "*Shared services have become increasingly common in Australian local government and, as we have seen, with some exceptions scholars have failed to keep abreast of these real-world developments. Given the potentially important role accorded to shared service provision in the spate of recent state and national public inquiries into local government sustainability, this neglect has been most unfortunate.*"

However, their development of a basic governance model to help address the sustainability requirements of the local government services and the concepts of baseline governance requirements for shared services provides a theoretical foundation.

Dollery et al (2016) developed the Valle de Souza and Dollery (2011) model further with their work on the theoretical "Common Service Model". This model outlined the need for the shared service governance to address four key challenges: Cost, Flexibility, Independent Oversight and Voluntarism. This being that in terms of 'Costs'; shared service arrangements must be designed to minimise the administrative and overhead costs involved. For 'Flexibility' the shared service governance must allow for the discrete types of shared services. With regards to the ' Independent oversight', a key point raised by Chambers (2014) in governance terms for monitoring the shared service delivery to objectives, independent scrutiny and oversight of

shared service arrangements between provider and recipient councils are thus paramount, necessitating an 'independent arbiter' and sound record-keeping. This will also serve to provide certainty to provider and recipient councils (Dollery et al (2016). Finally, the fourth aspect is that of 'voluntarism', in which they highlight, flexible low-cost shared service measures, designed to facilitate single-service provision between a single provider council and a single recipient council, can be adopted by groups of councils which wish to participate in shared service arrangements on a voluntary basis, in contrast to regional groupings of councils obliged by law to belong to shared service bodies. This final point goes some way to challenge some of the UK policy and law namely the Police and Crime Act 2017 part 1 that places a duty on police, fire and rescue and ambulance services to collaborate.

The common service model sets out its two key governance elements (Dollery et al 2016 p.235) that are especially important in the design of shared service entities: voluntary engagement and organisational structures.

> *(1) **Voluntary engagement**. Dollery et al (2012) demonstrate that historically the conditions for membership of shared service entities have been problematic. This has been especially marked in cases where members of a shared service alliance consist of local authorities in a specific area. In these circumstances this frequently results in the alliance moving at the pace of the least enthusiastic member council, sometimes termed the 'convoy problem', in reference to maritime convoys which can only proceed at the speed of the slowest ship. Several steps can be taken in the institutional design of shared service entities to avoid this problem: (i) ensuring membership is voluntary, (ii) enabling councils to 'pick and choose' which shared services they can use, and (iii) allowing participation and non-participation by local councils at the sole discretion of those municipalities.*
>
> *(2) Organisational structures. Structural factors in the design of shared service entities can make a substantial difference not only to their operations, but also to their long-term performance (Dollery et al., 2012). Several important factors must be addressed:*

(i) the ownership structure of the shared service entity, inclusive of asset ownership and voting rights; (ii) distribution of the establishment costs of the entity and its ongoing running costs; and (iii) the distribution of surpluses and losses among member municipalities.

Thus, a Common Service Model suited to regional, rural and remote councils in Australia and elsewhere must be carefully designed to accommodate all these factors and their associated conditions. Some existing shared service models, notably the Brighton Model mentioned above (Valle De Souza and Dollery, 2011), meet some of these requirements.

However, the Common Service Model (Dollery et al 2016) enables the minimisation establishment and transaction costs, the maximisation of flexibility and stimulates shared service activity. These characteristics mean that the Common Service Model avoids the problems associated with other shared service models, especially rigid membership requirements, burdensome governance provisions and communal risk-sharing provisions (Dollery *et al.*, 2012). As a consequence of its 'minimalist' organisational arrangements, which hinge on individual shared service agreements, monitored by a Committee with an independent Chair, and representatives of participating councils, overseen by a Chief Administrator, and fully funded by participating councils, the Common Service Model provides the most cost effective and flexible method of facilitating shared service provision in local government (Dollery et al 2016).

Furthermore, Dollery et al (2016 p238) state that "*The Common Service Model allows… voluntarily participating local authorities to reap not only the benefits of scale and scope in local services where economies of these kinds apply, thereby securing gains normally attendant upon council size, but also to acquire administrative, managerial and technical skills not otherwise available to regional, rural and remote local authorities. In contrast to forced amalgamation, these advantages do not come at a heavy cost in terms of community divisiveness, dismantled small councils merged into larger entities, and attenuated local democracy.*"

Within this research we look to investigate if the "Common Service Model" is sufficient in theoretical governance terms to ensure the research questions are answered, in so far that:

1) The Common Service Model sets out a comprehensive listing of the governance challenges that a shared internal audit service has to address?

2) The Common Service Model governance principles could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

3) The Common Service Model helps to ensure that a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?

However, recognising that this research is UK local government orientated further adaptation of the 'Common Service Model' may be required to ensure it fits within this UK governance environment.

2.2.8   The research strategies used to study shared services

The research into shared services to date has predominately used the case study strategy, for example, (Murray et al 2008) with their research into a shared procurement services. Dollery and Akimov (2008) considered, if shared services was the panacea for local government in Australia, through review of empirical evidence. From their research it can be identified that out of 23 shared service studies 15 had used case study strategies. Additionally, they were able to comment that shared services, "*can make a modest contribution to cost savings and improved local service provision.*" (Dollery and Akimov 2008 p.97). Aldag and Warner (2018) in the USA looked at case studies and the longevity of the shared service in relation to savings and quality.

However, Aldag and Warner (2018) identify that a longitudinal study of shared services would be a useful area for further research. Blair and Janousek (2013) conducted a longitudinal study using surveys and case studies to review shared service models. However, this study did not review the evolution of governance from one model to another (or variations), devolutionary

changes with power moving between layers of the governance, challenges facing the shared services or develop tools to help address these challenges and ensure sustainability. It is Tricker's 1984 diagram and definition of governance that helps this research investigate the different layering of governance processes:

Tricker (1984) sets this out in the diagram below:

Governance

Accountability

Supervision

Strategic Management

Executive Management

Decision & Control

Operational Management

Management
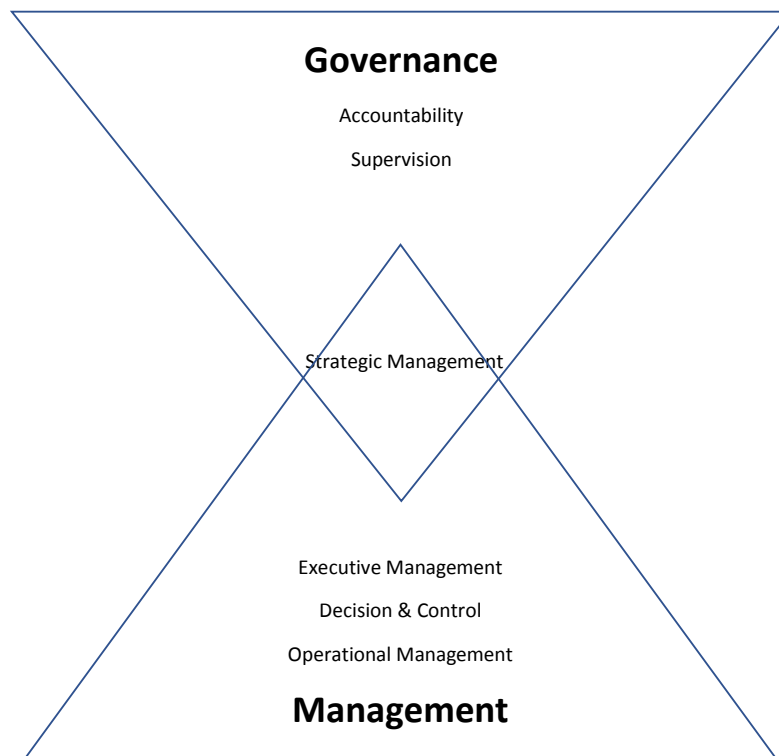
2.3 INTERNAL AUDIT

2.3.1 A brief history of internal audit

The establishment, growth, and evolution of the contemporary internal auditing profession is closely intertwined with the history of the Institute of Internal Auditors (IIA), an organization founded in the United States in 1941 (Ramamoorti 2003). It is suggested that the roots of internal auditing can be traced back over 4000 years (Brown 1905). Chambers (2014) does show that there are multiple definitions of internal audit. In the context of the research the time

frame is relating to the modern definition of internal audit as recognised in local government and set out in the public sector internal audit standards:

> "*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve <u>an</u> organisation's operations. It helps <u>an</u> organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*" (Public Sector Internal Audit Standards 2017 see appendix 12.1)

2.3.2   Standards for internal audit

The Department of Communities and Local Government (DCLG) is one of the core influencing bodies for this study as this central government department is responsible for moving '*decision-making power from central government to local councils'* (GOV.UK 2013). Thus they act as a translator of central government directives through to local council objectives and apply the constraints to the local government in the form of law, regulations and statutory responsibilities.

Internal Audit is a service now mandated in law for the public sector and is explicitly defined under the Accounts and Audit Regulations 2015 (Legislation.gov 2015) Part 2 Section 5:

> *"(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account **public sector internal auditing standards** or guidance..."*

Within this legislation is the reference to the Public Sector Internal Audit Standards (2017) which were originally developed by the Institute of Internal Auditors (IIA) and adapted for public sector by the Chartered Institute of Public Finance and Accountancy (CIPFA). This research has adopted the PSIAS from 2016 to inform the action research at the test site initially, but also recognises the 2017 version issued in March 2017.

These new standards highlight a more significant focus on the definition of internal audit as stated above. Historically the standards were not detailed in legislation in relation to the governance, risk management and control aspects of the internal audit service and non-specific in relation to the standards. In the Accounts and Audit Regulations (England) (2011) Part 6 states the following:

> *Internal audit (1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.*

In the Accounts and Audit Regulations 2003 (which were amended in 2006) the following was stated regarding internal audit in part 6*:*

> *"Internal Audit - A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices…"*

The key problem relating to this action research investigation is the standards now in place, when considering a shared service model of delivery, with the overarching definition of Internal Audit:

> "*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"* (PSIAS 2017 see appendix 12.1)

The above definition has been in place with the IIA since 1999 (Ramamoorti 2003). However, within the Local Government community in which this research occurs the key standard until April 2013 was the CIPFA Code of Practice for Internal Audit 2006 (CIPFA 2006). Although as identified above the standards were not quoted in legislation until April 2015. The CIPFA Code of Practice for Internal Audit in Local Government (2006) defines Internal Audit as:

"*Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources*" (CIPFA 2006 p4).

Therefore it is clear that with the historic standards in place prior to 2015 there was not a legal requirement for conformance. However, with the PSIAS 2017 now in place, there may be additional challenges for a shared internal audit service. Moreover, the PSIAS 2015/2016/2017 all indicate a requirement under standard 1312 that the internal audit service must undertake an external review to assess their conformance with the standards. This is again another new requirement on internal audit services.

2.3.3   PSIAS Standard 2050

In addition, under the PSIAS (2017) there is also standard 2050 which brings a requirement to coordinate the other assurance providers in the organisation. This is yet another reporting requirement that the shared internal audit service now needs to manage. This moves the challenge from two reporting requirements to three reporting requirements per organisation. The most regularly identified assurance provider is the external auditor. They are responsible for providing an opinion on the final accounts for the organisation, but also in local government comment on the Value for Money (VFM) aspects (EY 2017).

2.3.4   Risk awareness and organisational focus

The definition from PSIAS 2017 for internal audit clearly indicates that the internal audit service must align itself with the organisation subject to internal audit. This is based on the expression "...an organisation...". Therefore within the context of the shared internal audit service with

multiple partners it is reasonable to assume that the internal audit service must align itself with each of the partners. Moreover, should the shared service trade then it is reasonable to assume that this service must also align with that of its clients contracting the service.

Direction emerging from the Institute of internal auditors over the last 10 years clearly indicates the need for the internal audit service to fully understand and help an organisation improve its operations in relation to risk management, governance and control. Also that it should be able to comment on a wide topic area in relation to these three key aspects as indicated below:

- Neate (IIA 2011) stated that "internal audits unique ability to understand an organisation makes it an ideal critical friend…"

- Peacock (IIA 2013) comments that internal audit coverage goes beyond standard finance and corporate governance assurance can go on to cover a range of other factors such as project risks, security, safety and environmental risks.

- Pritchard (IIA 2013) recognised that the audit universe (the range of work that could potentially be undertaken by internal audit in order to meet its definition) needs to focus on the strategic and operational aspects of the organisation. He goes on to comment that the internal audit service should consider "… everything that organisation encompasses and interacts with."

- Hodge (IIA 2015) identifies that risk-based internal auditing is not a new concept but that some organisations are still struggling with the concept. He goes on to indicate that the appeal of risk-based internal audit approach is that management assumes more responsibility for prioritising, managing and controlling risks while internal audit liaises with other assurance providers within the organisation in order to get a better idea of the range and seriousness of the risks to the business. Furthermore, he indicates in his article that some internal audit teams align their work based on the risk registers of the organisation they are servicing.

- Mirhet et al (2010 p250) comments on effectiveness of internal audit and concludes that *"internal audit is aimed to assist organisations to achieve*

objectives…organisational performance could serve as an additional approach to assess IA effectiveness"

- Görener (2016) indicates that a risk-based audit approach focusing on uncovering the risks of business and how to manage these risks has developed beyond the issue of benefiting from the previous period data envisaged by the traditional audit approach.

Chambers (2014) indicates the internal audit scope is beyond policy and procedural review but should also address such aspects as culture, ethics and behaviour. Furthermore, Chambers (2014) comments upon the three lines of defence model that identifies internal audit as the third line of defence in this model shown below:

Figure 2.1 – IIA 2013 Three Lines of Defence Model
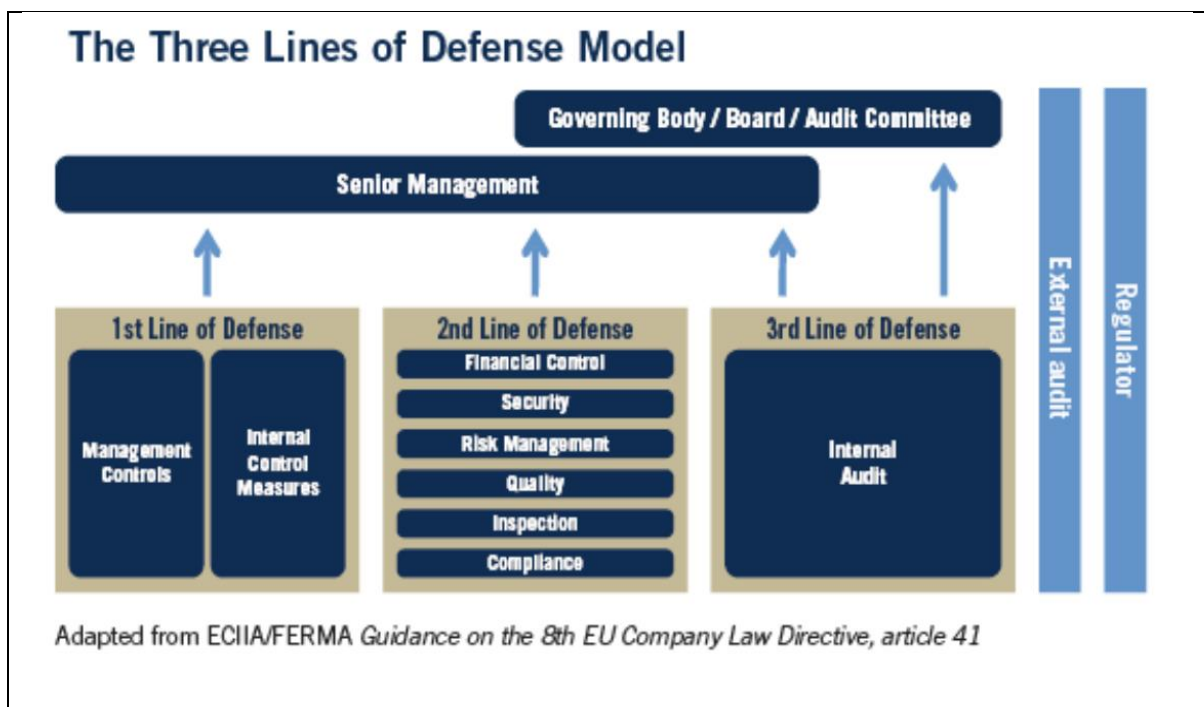
This research is therefore focused on this dichotomy of challenges that face the shared internal audit service, namely;

1) the challenge to deliver internal audit in line with standards, and;

2) the challenge of operating across more than one site for cost savings.

For example, the dual reporting requirement alone means that for each additional partner in a shared internal audit service there will be an additional two reporting lines, so for a two-way shared internal audit service there will be four reporting lines; for six partners there will be twelve lines. Each of which require formal reporting tailored to the risks of the organisations.

2.3.5 Agile Audit

Prickett (IIA 2015) first identifies the concept of agile auditing within the Institute of internal auditors journals. This literature suggests that internal audit is adopting practices and techniques from project management in particular "Agile" auditing (Prickett 2018). As indicated by Prickett (2018) the way in which audits were conducted over the past 20 years has not changed much however from 2016 onwards some organisations are moving to this new agile technique. She reports that the results of agile auditing for one organisation under review has shown that audits were completed faster and more efficiently on average between 10 and 20 percent faster. Scott (2018) comments that organisations and their risk profiles are evolving rapidly and so too must internal audit service to stay relevant and deliver changing assurance requirements. He goes on to suggest that historic compliance-based auditing may be phased out altogether as these can be automated with today's technology (Scott IIA 2018).

2.3.6 Assessing the effectiveness of internal audit

As the Public Sector Internal Audit Standards (2017) indicates, internal audit adds value when it contributes to the effectiveness and efficiency of the governance, risk management and control processes. Furthermore, they are required to align with the strategy, objectives, and risks of the organisation; promote organisational improvement; be insightful, proactive and future-focused; plus enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The public sector internal audit standards (2017) identify a range of 10 principles that demonstrate effectiveness of an internal audit service. These broad principles are further

broken down into attribute and performance standards, including a code of ethics. These standards require an internal audit service to review its conformance with the standards every five years under standard 1312 through external independent review, otherwise report on a periodic basis under standard 1311. The public sector internal audit standards (2016 2017) include interpretation for local government implementation of the standards.

The institute of internal auditors international professional practices framework for internal audit (2016) includes all of the aspects in the public sector internal audit standards as these formed their original foundation. The Institute of internal auditors provides an external quality assurance assessment framework (IIA 2016) which considers circa 56 areas for measuring conformance with standards. Prickett (IIA 2017) identifies that there are two compelling reasons to put an internal audit function through external quality assessment; firstly it is required in the standards as indicated above secondly it demonstrates best practice and provides external verification about the internal audit's competence for their stakeholders. Therefore the EQA framework provides a reasonable assessment tool to use within this research.

Dollery et al (2012 p5) expands on Tomkinson (2007) and the reference to the quality of the shared service and that it must deliver to the required standard. Furthermore, for the shared service to be considered sustainable it must continue to meet the minimum set standards. With internal audit the key standard is that of conforming to the PSIAS (2017) in this research. Therefore commentary on the sustainability of the shared internal audit service will initially focus to this minimum criteria before any other options. This links to the cycle assessments that highlight if the shared internal audit service is conforming to the PSIAS (2017) or not at the end of each cycle. Beyond conformance is considered in relation to the shared service itself in this research as it is recognised that the service must conform to be sustainable, but ascertaining what measures help with this are also considered.

2.4 SPECIFIC SERVICES

It is clear from this literature research that there has been some research undertaken in relation to a specific service which falls under the definition of a shared service, for example, Murray, Rentell and Geere (2008) and their review of a shared procurement service. However this review has not identified specific research undertaken of a single shared internal audit service, the challenges it faces and its possible solutions. It is also clear from this literature review that a comprehensive definition of shared services has yet to be realised and as such this research has considered the following definitions as appropriate for this research.

2.4.1   Moving towards a definition of a shared internal audit service

Using the Tomkinson (2007 p.2) definition of a shared service:

> "*the shared provision by more than one local council of a **specified** service in which service aims and objectives are mutually shared and for which local people are the end customers*".

It is possible to isolate a specific service, such as, internal audit. Therefore this makes a reasonable basis on which to start selection of a shared internal audit service. Furthermore, Tomkinson's work is most closely linked to the local government context of this research. This is also the definition that Dollery et al (2012) adopts for their work, but further restricts it to only public sector organisations to remove the quality reducing profit aspects of the private sector.

Furthermore, as the public sector internal audit standards 2017 are required conformance aspects for the internal audit service, it is reasonable to take the definition as set out within the standards:

> "*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined*

approach to evaluate and improve the effectiveness of risk management, control

and governance processes" (PSIAS 2017 see appendix 12.1)

These two definitions brought together provide a framework from which a suitable shared internal audit service can be identified, defined and selected. The shared internal audit service selected for this research must:

- be a shared provision between more than one council

- have aims and objectives that are mutually shared

- be a link to the local community

- provide an independent, objective assurance and consulting activity

- help improve each partner councils' operations

- evaluate and improve the effectiveness of risk management, governance and control

2.4.2 Identifying the shared internal audit service

Given the local government context of this research, an internal audit service, can be clearly identified in legislative boundaries i.e. a local authority is required to report internal audit matters publicly, usually via the Audit Committee as indicated by the 'three lines of defence' model shown above. Therefore making it possible to identify through public record where an internal audit service has been shared as this will be publicly reported.

It is from the guidance and direction discussion referred to above that there are multiple forms/models of shared services, which presents a limitation to the possibility of researching different shared internal audit services as it will be difficult to determine if the shared internal audit services are comparable.

It is considered reasonable in this research that the selection of a shared internal audit service for review will be linked to both a service that meets the definition of a shared service as set out above and the definition of an internal audit service. The literature review identifies there

are many models of shared services therefore this research is selecting one of these models that can be identified through public record as a clear fit to one of the descriptors, for example, a "lead authority" as shown in figure 1.3 from the CIPFA 2010 range of models. Further research beyond the scope of this research may wish to consider other models.

Additionally, the research is focused to the singular governance typology of a shared service model as identified by Tomkinson (2007) "service/corporate model"; CIPFA (2010) "lead authority" and Dollery et al (2012) "horizontal shared service model", commonly stated as a S101 type agreement in UK Local Government terminology.

2.5 CONCLUSION

2.5.1 Contribution to knowledge

Aldag and Warner (2018) indicate that a longitudinal study of shared services merits research and Johnson (2017) summarised the need to study shared services further, in particular the challenges and the way these challenges can be addressed. Therefore this research looks to address, in part, a gap in knowledge indicated by Aldag and Warner (2018) and Johnson (2017) through the action research of a shared internal audit service. It will also contribute to the understanding of how a specific shared internal audit service addresses, or otherwise, conforms with the public sector internal audit standards (2017) and simultaneously delivers the benefits that a shared service should deliver. One of the benefits indicated by literature is the standardisation aspect. This does not readily align with the internal audit standards requirement for the service to link specifically to each organisation.

Research into the "service model" Tomkinson (2007) will help inform the most common form of shared service model in the UK (LGA 2017) and Australia as identified by Dollery et al (2012) and will therefore have a significant impact element for the research. This research looks in depth into these models and provides a new perspective from the managers of the

shared internal audit service perspective that highlights the challenges of leading and managing a shared service.

Moreover, this literature review has identified that there is limited research in relation to the governance elements within the shared service arena as highlighted by Valle De Souza and Dollery (2011). It is clear based on the articles listed under evolution that shared services do change over time and therefore merits research to understand possible challenges that relate to this evolution effect.

The questions asked by this research delivered answers that can contribute to this knowledge gap. As discussed in this literature review there have been studies undertaken across both shared services and internal audit subject areas, however, there has not been a specific review of a shared internal audit service.

Furthermore, there have not been any studies of a specific shared service over a period of time to research the possible governance evolutionary aspects relating to shared services. Neither has there been a review of the devolutionary governance impact on a specific shared service model.

Additionally, with reference to the LGA (2012) and Bergeron (2002) recognition that shared services can operate with a commercial ethos and semi-autonomously, this research has considered within the actions required (as identified in question three of the research), the possible commercial aspects. These are reflected latterly in the research in part by the reference to; financial management, human resource management, operations management and marketing management functions within the shared service.

Finally with reference to the theoretical framework being explored, the 'Common Service Model' (Dollery et al 2016) forms a foundation to test the governance of the shared internal audit service and ascertain if the model is sufficient to frame the governance challenges, conformance with PSIAS requirements and the sustainability of the shared internal audit service in the long term.

This chapter has set out the key literature and critically evaluated it in relation to the field of interest. Furthermore, the chapter has drawn in any relevant information regarding the specific situations of the shared internal audit service and the relationship with the partner organisations.

The next chapter will detail the research methodology.

Chapter 3
Methodology

The pragmatist philosophy is not only concerned with the 'how to' but also the 'why to'.

Morgan (2014)

3 METHODOLOGY

3.1 INTRODUCTION

This chapter restates the research questions, sets out the philosophical stance for the research and the related approach, methodological choice, strategy, time horizons and data collection (Saunders et al 2016) required to answer these questions. It introduces the necessity of the pragmatist philosophy in relation to the perception of the real world. Arguing the case based on epistemology, ontology and axiology reference. Why the research approach is abductive in nature and how the methodological choice enables this oscillation between the inductive and deductive approach. Why an action based research strategy is appropriate to answer the questions posed by this research and the time horizon is justified. It finally considers some of the initial data collection and analysis tools but allows for the emergence of new actions that facilitate the research, answers the questions, delivers on the objectives but remains realistic and atoned to the situational context.

Moreover, this methodology is designed to specifically deliver on the knowledge gap identified in the literature review (Chapter 2). This identified that there was a gap in knowledge regarding the study of shared services in a given time period. Literature identified how to create a shared service, but provided nothing on how to manage the challenges it may face once created. Furthermore, what actions could help to ensure the ongoing success of the shared service. Finally there was no literature on the specific shared internal audit service type that was listed under the recommendations from Pickles (2004 p.4) for Local Government top 50 savings ideas. This methodology includes the assessment of the internal audit function under the standards as defined in Chapter 2.

3.1.1 The Research Questions

The research is asking the following questions in order to meet the research aims and objectives:

1) What are the governance challenges that a shared internal audit service has to address?

2) What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

3) How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?

In order to answer these questions the following methodological flow from the philosophy to the time horizons in this chapter has been developed and justified in line with categories set out by Saunders et al (2016).

Pragmatist Philosophy

Abduction approach

Multi-methods qualitative methodological choice

Action research strategy

Longitudinal time horison

3.2 THE PHILOSOPHY

3.2.1 Philosophical Positions

Saunders et al (2016 p143) identifies that it is important to understand the different philosophical positions in research and therefore not treat pragmatism as an 'escape route' from the challenges of the other philosophies. Saunders et al (2016) identifies five major philosophies: Positivism, Critical Realism, Interpretivism, Postmodernism and Pragmatism, each in turn is considered below

3.2.1.1 Positivism

This philosophical stance has a key axiological grounding that would discount this position as suitable for this research. This is the requirement for the researcher to be detached and independent from the research target in a positivist stance (Saunders et al 2016 p136). In order to answer the question relating to the in-depth assessment of the challenges facing a shared internal audit service the researcher is required to have a close relationship to the research target. This is then coupled with the fact that actions are to be developed and implemented with the shared internal audit service which also requires an intimate relationship. Furthermore, this philosophy would prevent the possibility of the researcher introducing his own knowledge from an auto-ethnographical interview. The research itself has been driven by the experiences of the researcher and therefore there is a constraining parameter that requires the research to challenge the researchers' own understanding of the situation. However, there are elements of this philosophy that hold value for the research, such as, the requirement to be independent of the subject to assess if challenges exist or not. Only by being external from the subject and applying an appropriate test could a 'challenge' be determined or not. Although the pragmatist philosophy would permit this too.

3.2.1.2 Critical realism

Bryman and Bell (2015) identify that the critical realist shares two key features with positivism which designates the researcher to an external role and makes effort to minimise the researchers bias. Bryman and Bell (2015) argue that the critical realist draw a distinction between the objects being reviewed and the terms used to understand them. Bhasker (1989) highlights that this philosophy strives to contain the background and experiences of the researcher and minimise its influence on the research. This philosophy would not confer the value the researcher draws from this research. As per the positivist approach above there is limited value in the constraining of bias and other influences in parts of this research.

3.2.1.3 Interpretivism

This is a contrary epistemological position to that of the positivist's philosophy as it argues the human is different from the physical phenomena as they create meanings (Bryman and Bell 2015). The interpretivist looks to draw out the richness of the differing work place realities from the individuals in their various roles. How this philosophy may be valid for this research rests with the evolutionary discovery aspect. To fully understand the development of a shared internal audit service it would be useful to perceive the journey through the experiences of all involved. For example, the view of the new partners and the view of the Head of the Partnership may prove very different. CIPFA (2010) highlight some shared services are considered outsourced arrangements by partners and yet expectations exist for growth and development within the partnership, which would not be found within typical contractually bound outsourced arrangements. As with the other philosophies discussed so far, there are elements of this philosophy that could also be useful to this research but does not fully reflect the ideal position.

3.2.1.4 Postmodernism

Saunders et al (2016) identify that the postmodernist view focuses on the role of language and power relations. It seeks to challenge the status quo and permit the emergence of alternative views. Saunders et al (2016) go on to say that the postmodernist researcher would seek to challenge organisational concepts and theories. This would be a philosophical position that would enable change. As Paton and McCalman (2008) (cited in Senior and Swailes (2010) indicate challenging the organisational norms is a key step in the cycle of change management. Within this research there is an expectation of change both with the researcher and the research subject. However, this philosophical stance would not enable the required use of observable facts that this research requires to measure the impact of the devolutionary aspects of the research. For example, where a negative result on the PSIAS (2016) is found does the solution identify a measurable reversal of this position. The research is also not looking to challenge the norms of the organisation or that of its language or silences. It requires a tangible output that will impact on the reality of the shared internal audit services.

3.2.1.5 Pragmatist

The key aspect of the pragmatist philosophy is that it has a focus on making a difference to the organisational practice (Saunders et al 2016). The overarching question behind this research is intrinsically linked to the outcomes of the shared internal audit service and that of one or more organisations. Their involvement is paramount to the ability of this research to answer the question. The research questions are focused to the evolution of the shared service 'entity' and that of the devolution of powers to these emerging entities and what the effect is on the entity. The research has yet to determine what the challenges are and if there then could be suitable tools or techniques that help manage the challenges. Either situation will still exist within the realm of practical actions and outcomes which as Hurang (2010) suggests this rests within the philosophical position of a pragmatist's foundation.

The balanced pragmatic view (Saunders et al 2007) recognises the need of research to consider the question as the key. In this research the question is considering context, problems and models assessed through multi-method qualitative methods delivered through an abductive approach.

As Morgan (2014) discusses the pragmatist philosophy is not only concerned with the 'how to' but also the 'why to'. This research is reflecting on both of these positions and ensuring the impact on the research site is well managed and sustainable, including the use of such models as Kotter's (2005) 8-step change methodology. Ihuah and Eaton (2013) highlights the pragmatism philosophy as a practical viewpoint for aims, objectives and questions in real-life situations. They go on to argue that this pragmatism philosophy enables the development of a more effective research framework of multi-methods.

Finally, Saunders et al (2007 p122) state that '*pragmatism holds that the most important determinant of research philosophy adopted is the research question*', which ultimately drives this research, delivers on the research aims and objectives, meets the expectations of the researcher and the research subjects.

3.2.1.6 The Shared Internal Audit Service

The research is set within the context of the real world and constitutes the opportunity to impact on the work place for several organisations directly, namely the six partners involved in the partnership engaged in this research, but interest has been identified internationally through professional institutes and collaborative transformation training providers. Dollery et al (2012) and the LGA (2017) highlight that the particular shared service model being researched is the most commonly used model in the UK and Australia.

The research has reviewed the context of the formative stage of the work and the problematic issues facing the specific site under review. Therefore, the shared internal audit service has experienced a positive impact from the research on the service. The shared internal audit service has already shown symptoms of possible challenges and the need for some form of

change to be introduced. However, the nature of the challenges was explored in depth and solutions crafted to manage these challenges.

3.3 APPROACH

Saunders et al (2016) consider there to be three core approaches to research; the deductive that seeks to start with a theory and test it; inductive that builds theory from the data collected; and the abductive that collects data to explore phenomena to generate new or modify theory which is then tested with additional collected data.

3.3.1 Deductive

The deductive option is not appropriate to initiate the research as discovery of the challenges in the shared internal audit service is the first broad objective. It is not until later in the research that theories may present themselves for testing. As Bryman and Bell (2015) indicate the restriction of a deductive approach is where it is unclear what theory should be tested. The Shared internal audit service will need assessment before any form of hypothesis could be formed.

3.3.2 Inductive

Furthermore, inductive approach users critique the deductive approach as too rigid in the methodology and therefore does not allow alternative suggestions to be considered (Saunders et al 2007). Given the exploratory nature of the research the inductive approach could be more attractive. Although the inductive approach does allow for the context and the generation of theory (Bryman and Bell 2015) it does generate criticism that no amount of empirical data will necessarily enable theory-building.

3.3.3 Abductive

As a result of this conflicted position where neither deductive nor inductive approaches would wholly satisfy the research requirements the third approach suggested by Saunders et al

(2016) of an abductive approach is therefore the solution. Bryman and Bell (2015) identify that an abductive approach enables the researcher to oscillate between the social world as a source of theoretical ideas and that of relevant literature. As this research is looking to firstly identify the challenges encountered by the shared internal audit service and then look to identify if there are tools or techniques to help manage these challenges and that it is also applicable to more than one context the approach is that of abductive. Philstrom (2008) also highlights that this approach is clearly linked to that of the pragmatist philosophy.

Initially the observations from the researcher's own historic environment are being tested to see if it is a more generalised problem and is measurable using a newly developed 'problem' model utilising an inductive approach. From there a deductive approach is used to apply a hypothesised solution to the problem initially taking existing theoretical models and applying them to aspects of the problem. This movement from one to another is anticipated to be repeated as more data is collected and analysed, with newly developed models being redefined and suitable theory being introduced and adapted.

The 'best explanation' abductive position is that the problem exists in more than one specific situation and therefore has potential to be generalisable; and that a solution is also available with existing models that can be applied to resolve the problem to a more attractive position (Bryman and Bell 2015). The expectation of this approach is that a series of variables will be identified through initial enquiry that will require a localised adaptation but key principles will remain sound. As Dubois and Gadde (2002) discuss the emerging model from the research is repeatedly revisited and modified in part due to new empirical data, but also as new theoretical insights emerge.

3.4 Multi-Methods Qualitative Methodological Choices

Multi-method approach to data collection is being used in this research to exploit the advantages of a range of qualitative methods while minimising the weaknesses. Each stage

of the action research is using a range of qualitative methods to aid with various factors or elements of each research cycle . As Saunders et al (2016) identifies an abductive approach is supported by the use of multi-method qualitative data collection due to the oscillation between subject and theory. Other considerations for the multi-method approach include the initiation, facilitation, generalisation, problem solving and possible triangulation.

The *initiation* element is paramount when considering there is a possibility of change to individuals or organisations from a current norm. As Kotter (1995) indicates in the 8-step change management model there is a requirement for an urgency to be established. An initial assessment through qualitative methods could drive out appropriate aspects of urgency, which would be beneficial to any subsequent changes being required in the individual or organisation. This links to the research objective of introducing actions that address the challenges. These actions may come in the form of structural changes or other disruptive actions. Therefore change management principles will need to be considered.

Facilitation is envisaged as necessary to secure a robust data interpretation from which an action plan can be built as required in the cycle of action research. It may also aid decisions of any financial investment required into the research by the organisation to deliver the changes.

Generalisability is recognised as a potential weakness of action research as the context and actions are possibly unique to the research. The use of PSIAS (2016) as a key standardised qualitative assessment tool is recognised as a requirement for all public sector bodies and therefore there is the potential to generalise findings from the research to the public sector in totality. Although it is necessary to assess the influences on the data and if they themselves are unique as it could limit the generalisability if they are specific to the site.

Problem solving is an anticipated requirement of this research. In order to develop actions that can help the shared internal audit service with any challenges identified then problem-solving enabling data collection would be beneficial. From the multi-methods approach the opportunity to develop insight to help identify possible solutions is greatly enhanced.

Triangulation is useful to aid in the ascertainment of the answer to the 'why' question from either method (Saunders et al 2016). For example should the survey of the conformance with PSIAS (2016) highlight aspects of non-conformance then interviews or focus groups may identify why. Equally the use of forums may drive out a theme that can be rectified and through survey confirmation that the theme is resolved.

Finally the most critical aspect of the multi-method is that of the *confidence* it brings to both the researcher and the subjects. This confidence is critical where there is a possibility of material impact on individuals and organisations. Recognising that the partnership employs 20 staff and covers 6 organisations.

Although it is recognised that the main methods for gathering data resides in the realm of qualitative interviews and focus groups, one of the key elements derived from secondary sources is the quantitative performance data proffered by the shared internal audit service's own reporting. This data may be useful in support of the PSIAS assessments. The PSIAS assessment data will also be utilised to assess performance changes over the intervention period, in particular, the closure review of the action research. This gives a rapid assessment of improvement or otherwise. This speed of assessment is also useful to inform the cycles of the action research. As Saunders et al (2016) emphasise the action research occurs in cycles and each cycle involves a moment of evaluation; the cycle being broadly study, planning, action and evaluating (Saunders et al 2016). The PSIAS survey of 56 indicators is assessed in three colour based ratings "Red, Amber and Green"(RAG). This RAG rating enables a quick visual check on the status.

3.5 RESEARCH STRATEGY

Initially the researcher considered the option of a case study(s) to deliver the answer to the research question. However, when considering the totality of the question it was unlikely that the case study would yield a solution to the problem identified. As Bryman and Bell (2015)

comment the case study is designed to enable analysis of a particular situation but not to formulate and test any emerging theory or solution. This was the particular gap highlighted in the literature review (Chapter 2).

(Coghlan 2011) and (Coghlan and Brannick 2014) identify that action research is an emergent and iterative process of inquiry that is designed to identify solutions to real-life organisational problems through collaboration, using different forms of knowledge, and impacts beyond the boundaries of the research project to include organisation and individual changes.

Therefore the strategy chosen for this research is that of 'action research' as defined further by Checkland and Holwell (1998) who identify that in the action research process the researcher is engaged in the real-world and simultaneously acquires knowledge and improves the situation. Reason and Bradbury (2001) as cited in Brydon-Miller et al (2003) further suggest that action research combines action and reflection, theory and practice, in collaboration with others, in seeking practical solutions to issues of concern to individuals.

Brydon-Miller (2003) highlight that one of the key aspects of action research is that it must be done in collaboration with relevant stakeholders or risk being regarded as incompetent. Given the collaborative nature of the shared service world it is paramount that the action research ethos mirrors the very nature of the world it is existing within. Hurang (2010) suggested that quality of action research:

1)   proceeds from a praxis of participation,

2)   is guided by practitioners' concerns for practicality,

3)   is inclusive of stakeholders' ways of knowing and,

4)   helps to build capacity for ongoing change efforts.

Moreover, Saunders et al (2016) highlights that action research also enables the researcher to pass on his knowledge and skills to the participants, enabling them to become co-researchers. This aligns to the axiology of the researcher where he seeks to enable his knowledge and skills to be influential in the research. Furthermore, this concept aligns with

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the change management requirements of the research as 'buy-in' can be gleamed from this cooperative and collaborative approach.

However, the nature of the action research is that it directly impacts on individuals and organisations. Some of the quantitative data may be derived from prior and post intervention statistics including Full Time Employee (FTE) equivalents and budgetary information. As Checkland and Holwell (1998) indicate the intervention will provide information to generate knowledge, but improving the situational element may result in structural changes and possibly redundancies. Therefore to mitigate the possibility of personnel matters impacting adversely on the research the researcher is engaged through management above the possible 'casualty line' (McDonald-Wallace 2014). This also aligns with the ethical considerations and plan.

As mentioned above, one of the weaknesses of action research is that it is site / situation specific and may not readily lend itself to a wider audience. The final part of this research was to interview a participant operating another shared internal audit service to identify if any of the challenges and tools or techniques they would consider could apply to other shared internal audit services utilising their knowledge of shared internal audit services. Also in recognition of the commonly cited weakness with action based research (Saunders et al 2007) of generalisability the challenges and actions will be converted to models that can be considered by others outside of the immediate research participants.

A series of 15 interview questions and discursive desktop exercises are planned to ascertain if the challenges are recognisable and experienced by another shared internal audit service, and could lend itself to further research in the normalisation of these challenges. It is not part of the scope of this research to assess the normalisation levels of these challenges merely establish if they are present elsewhere. Furthermore, if the actions developed are applied would the other sites be able to recognise the benefits. It is considered highly unlikely that both challenge and actions would be exact matches in other sites, but the concepts and models may be workable when applied with some limited localised adjustments. However,

again the real in-depth testing at other sites of these actions in practice is outside of the scope of this research.

Additionally, Toledano and Anderson (2017) highlight the need for a narrative to accompany the action research. They argue that the narrative is an important part of the writing up of the action research and that it offers a fundamental form required for the communication practices. They help to make sense of experiences and help to provide context to particular actions and analysis.

3.6 LONGITUDINAL TIME HORIZON

The key methodology adopted is that of Czarniawska's (2008) 'follow-the-object'. The follow the object approach can be used to follow something forwards and backwards through a time period. In order to review the challenges facing a shared internal audit service it is necessary to 'follow' the service from its initial emergence to the point of intervention by this research and then review post intervention. This links to the knowledge gap and suggested areas for additional research identified by Johnson (2017) and Aldag and Warner (2018)

The shared internal audit service participating in this review first formed in 2012. The partnership expanded in 2013 and again in 2016, both of these events were identified through records review at the host site. These events may be significant in the emergence of symptoms of challenges encountered by the shared internal audit service that relate to the number of partners. As noted from the September 2015 Audit and Accounts Committee reports at the host site, there was a challenge relating to the opinion of the Head of Internal Audit. This could be symptomatic of some form of challenge which this research is endeavouring to identify.

The ability to consider changes over the period from formation of the shared internal audit service to the point where the on-site action research commences is justified by the requirement to answer the first question of this research. There may be challenges that have

yet to be overcome or resolved that directly impact on the research but arose in the earlier time period and not in the period of on-site intervention. The ability to track the evolution prior to the commencement of the action research intervention is crucial to understand any significant events that forced a change on the research subject.

The longitudinal time line is the period from December 2016 to December 2017. This is the period of on-site interaction and intervention. During this time period three cycles of action research were delivered:

3.6.1 Cycle 1

Conclusion of the initial time horizon (2012 to 2016) of running records review and the pre-intervention focus group is used to inform this first cycle. The initial assessment against the PSIAS 2016 to assess conformance was conducted. Initial investigatory interviews/focus groups to help populate the PSIAS assessment and to identify initial challenges were undertaken. Also to confirm understanding of any challenges emerging from the April 2012 to December 2016 time period as identified through records review. Finally, to formally report results from the PSIAS assessment and identify the emergent challenges, as required to answer the first research question, thus ensuring validity of the findings This also helped create the first stage narrative to answer the second research question. The time period for this cycle was December 16 to March 17

3.6.2 Cycle 2

Reflection on the first cycle, initially capturing if the shared internal audit service is conforming with the PSIAS, and where this part answers the second research question. Considering any areas of the PSIAS where non-conformance or partial conformance are identified also part answers the second question. Beyond the initial interviews and focus groups, additional focus groups identify further challenges emerging that to a degree do not directly impact on the PSIAS but are still relevant to the first research question. From both sets of data a change

programme was developed and appropriate training programmes developed for the participants. This change programme provided further opportunity for validation of the 'truth' (McNiff 2016). Through these additional focus groups / workshops some of the actions were developed and trialled. The time period for this cycle is March 17 to Sept 17.

3.6.3 Cycle 3

Following analysis of the results from both the first time period (2012 to 2016) and the two cycles from December 2016 to September 2017 an implementation programme was created to aid in the implementation of any changes occurring with the shared internal audit service within the host organisation's bureaucratic processes. It was anticipated that some of the emerging actions may lead to longer term actions or strategies being required that exceed the time frame of this research. Therefore part of the closure review of this cycle included an assessment of any outstanding actions still to implement. The time line for the final cycle was expected to be from September 17 to December 17.

Each cycle is conducted in the following process:

- Study – sets out what the particular cycle is looking to address

- Plan – a summary plan of interactions for this cycle

- Narrative – sets out the sequence of actions

- Analysis – results of the data analysis including the coding of key challenge themes

- Refection – reviewing how this cycle impacts on the literature

Finally a closure set of interviews and focus groups was undertaken to assess the research generalisability and what temporary actions were now permanent and what remained outstanding for longer term consideration. This was delivered between January 2018 and March 2018.

3.7 RESEARCH DATA COLLECTION

One of the key theoretical models that influences the initial stages of data collection, namely the running records review, is that of Boundary Objects (Star and Greisemer 1989). These Boundary Objects provide an invaluable insight into the challenges of the shared internal audit environment by their utilisation. Some of the documents expected to be found through running records review would include, the Internal Audit Charter. The Internal Audit Charter is a document that sets out the 'Purpose, Authority and Responsibility' of the internal audit service (PSIAS 2017 standard 1000) and would be considered as Boundary Objects (Star and Greisemer 1989) as they relay information to multiple social groups.

Star & Griesemer (1989 p393) define a BO as:

> "*analytic concepts of those scientific objects which both inhabit several intersecting social worlds and satisfy informational requirements of each of them.*"

The social worlds are those of the partner organisations, external auditors and the partnership entity itself. Each of these groups potentially hold different organisational aims and objectives along with different cultures and language (Handy 1993). Therefore the internal audit charter is a useful BO to aid the assessment of challenges facing the shared internal audit service if these were not consistent at each partner this would indicate non-standardised services at each site. The charter under the PSIAS (2017) 'must' set out the roles and responsibilities of the internal audit service and therefore must reflect the role to be delivered in that organisation. An assessment of such BO's help to frame the shared internal audit service at each partner site. This also highlights the reporting lines in each partner and therefore should confirm the anticipated three key service engagement elements (Senior Management, Audit Committee and External Audit) from the three lines of defence model (IIA 2013). The BO's also highlight key governance aspects such as the constitution of the shared internal audit service which

can be used to assess any evolution of the governance as a result of challenges, for example, entrance of new partners. Finally and most critically these BO's place a boundary around the shared internal audit service and can therefore enable the shared internal audit service to be considered as its own organisation, if these BO's are sufficiently robust, based on Czarniawska's (2008) concept of stabilising the action nets.

In addition, another rationale for assessing BO's as part of the data collection resides in the abductive nature of this research. Based on the researcher's own auto-ethnographical reflection on the challenges initially encountered, broad characteristics were identified to assist in structuring the topics of qualitative inquiry:

- Number of partners

- Type of service – internal audit, ICT audit, Counter fraud

- Typology of partners – range from unitary(urban) council to arms-length-management-organisation (ALMO) for housing stock management.

- The site participants has circa 20 staff at the start of the intervention.

The running records (Creswell 2009) for this research were devices that captured regular snapshots in time of the research subject and other shared internal audit services but did not define the scope of the service. These were public records that were recorded in each organisation and were often, but not exclusively, found in the Audit Committee repository. They identified key aspects of the partnership and its operations, output, services and other useful data. This also helped highlight areas for consideration in terms reported challenges. This was also a source for reporting the impact of this research through Audit Committee reporting.

3.7.1 Qualitative tools

In line with the pragmatist philosophical stance and the abductive approach the qualitative tools were deployed, sequenced and analysed throughout the onsite research as deemed

appropriate by the researcher to answer the research questions and delivered on the research aim and objectives.

Initially, a fact finding focus group (Cohen and Crabtree 2006) was used to challenge and confirm the researcher's understanding of the shared internal audit service, as originally derived from the running records and boundary object review. This focus group consisted of the head of the audit partnership, the audit manager, the two assistant audit managers, CEO, CFO and the host site Director (Line manager of the service). From this group a comprehensive list of interviewees was identified and scheduled (See Appendix 12.4). This forum also confirmed the understanding with the group as to the overall research plan and approach and addressed any initial questions from these participants.

3.7.1.1 *Interviews*

As mentioned above, semi structured and in-depth interviews were used to gain the in-depth understanding of the challenges facing the shared internal audit service and they were utilised to inform context, clarify challenges and given the detail benefits of interview led to the formulation of possible solutions. These were also used to inform the generalisability of the solutions identified through the research. An interview with a head of a similar shared internal audit service provided some elements of validity to the generalisability of the emerging models at the intervention site and these are set out in Chapter 8.

27 Semi-structured interviews were used to ensure the interviews covered the required topics of discussion as necessary for each research stage. Furthermore, they enabled an element of flexibility of answer to the interviewee and also an opportunity for secondary questions with the interviewer (Saunders et al 2016). Moreover, the structure of these interviews was aligned and adapted to the emerging findings. For example, the focus of one set of interviews was set to the 10 principles as set out in the PSIAS (2016) and how the interviewee believed the shared internal audit service delivered on those aspects. Another set of interviews considered if an understanding of the four dominant functions of a business could help inform actions taken by the shared internal audit service to manage emerging challenges.

The use of the *in-depth* interviews was useful to identify the critical points in the evolution of the shared service due to the ability of this type of interview to capture kairotic narrative (Czarniawska 2004). Czarniwaska (2004) identifies that events in the 'real' world rarely run in a strict chronological time and are more likely to ebb and flow between chaos and calm. These events were important to capture to help reflect upon the evolutionary reaction that the partnership underwent to adapt to the challenges it faced. They also allowed for the exploratory nature of the action research first cycle. Toledano and Anderson (2017) highlight the need for action research to capture and communicate the narrative.

These two types of interviews were combined into a single interview session with the interviewees. The opening and final 'questions' were open for exploration and free for the interviewee to discuss any matter they so wished that was linked to the research. As Burgess (1982) identifies the purpose of in-depth interviews is to open up new dimensions of problem which aligns with the action research strategy of the opening cycles.

However, all of the above interview types were delivered face to face and on site at the host of the shared internal audit service. This was to maximise the depth of information gathered through interview. This provided further understanding of the interviewee's perspective on the challenges facing a shared internal audit service. Furthermore, this was in line with the practical elements of this research where there was the need to source supporting evidence (running records) and other information from the site at the time, maximising the time available on site. Additionally, as the research intervention was planned for only two days per week on site, there was an opportunity for action to occur while the researcher is off site. This included gathering of evidence to support statements made in the interviews or test ideas derived from the interviews.

The data from the 27 interviews was captured by notation by the researcher. The request to audio record the interviews was not approved by the site. This does present limitations on the data gathered as it is limited to the recording and reconstructing abilities of the researcher (Easterby- Smith et al 2008). However, to help mitigate this risk there was a range of validation

focus groups used to ensure the themes derived from the interviews were challenged and checked, including the presentation of the findings to the full complement of interviewees and offering opportunity for individuals to approach the researcher outside of the scheduled meetings. This 'open door' opportunity to individuals was enabled by the researcher being on site two days per week for one year. Although, again, there were limitations to the 'open door' due to possible perceived 'power' and position of influence issues as recognised by Herr and Anderson (2015) in their discussion of an outsider change agent.

3.7.1.2   Focus Groups

As Cohen and Crabtree (2006) identify the use of a focus group can gather information in a short time space. This is a critical factor when considering the breadth of the research questions and the time available.

31 Focus groups as defined by Bryman and Bell (2015) were used for three elements of the research. The first was the discovery of 'findings' emerging from the research and were exploratory in nature (Saunders et al 2016). For example, the initial focus group with the host gains further understanding of the context and situational data, a necessity as indicated by Saunders et al (2016). These focus groups were stratified by the recognised legitimate power within the partnership in Strategic, Tactical and Operational layers. For example, the partnership board that comprised of elected councillors and trustees hold the ultimate decision making power and would receive the initial findings and approve any investment in changes emerging. Another group was the shared internal audit service management team that was responsible for the day to day operations. Secondly, the focus groups were used for challenging and discussing the emerging findings. These were in effect triangulating the results and also enhancing confidence levels. Finally, the focus groups were used for 'validation' (McNiff 2014) purposes at each Strategic, Tactical and Operational level in accordance with the hierarchy of the shared internal audit service.

Other types of focus groups were used; namely forums, training groups and workshops. Each of these engagements with the participants allowed for data collection, knowledge transfer, confirmation of the researcher's understanding and access to consensus and diversity of experience in a short space of time (Cohen and Crabtree 2006). For example, as per any exchange of skills the trainer and the trainee exchange knowledge and understanding which aligns with the abductive approach of this research. This was a key requirement when developing the actions to help the shared internal audit service meet the emerging challenges. These groups were used as part of the action research cycles and processing of change management aspects. The forums were constituted of project members,(those with the responsibility of leading a workstream of the change programme). The training groups were formed by subject matter relating to workstreams, for example, several training workshops were held to cover aspects of programme documentation, such as, how to build a business case. Finally, the workshops were held to manage the workstreams of the change programme. A full schedule of the focus groups is at appendix 12.3, however, chapter 4 to 8 discuss the details of the findings emerging from the focus groups.

Kolbs Learning Cycle (1984) identifies the manner through which learning can occur and indeed how the individual can go on to apply the learning. This approach was critical for this research to ensure the sustainability of changes made and the buy-in at the site to new methods of working. It also enabled the challenge and reflection on the learning following application. This helped to develop the emerging model from this research and inform generalisation developments of the model.

The researcher used selected groups based on Weber's (1947) theory of organisational authority, due to the bureaucratic environment that is the local government arena. Only certain levels of officer have authority to enact certain actions within the research programme. Chief Officer and Director levels were required to instigate structural changes and head(s) of internal audit implemented new internal audit processes and practices.

Data from the focus groups was captured in two primary forms; photographed white boards or flip charts, that summarised the focus group discussion, and programme documentation that set out the agreed actions. The photographs also time indexed the focus groups. The programme documentation was time indexed through the programme agenda process as they were used primarily for discussion implements at the different focus group levels.

3.7.1.3   Coding, Categorising and Layering for Theme Generation

From the Interviews and Focus Groups, the data gathered was initially transcribed into text to then be initially coded (Saunders et al 2007) for initial themes or phrases. Following each successive cycle of data gathering through the action research cycles, these data sets were reviewed and layered for emerging themes. An example list of the themes emerging from all 27 interviews is shown in Appendix 12:13. Chapter 5-8 introduced as part of the reflection, the themes emerging from that cycle and ultimately the complete 13 themes in the form of the collaborative business management framework.

It was recognised that coding can be subjective (Saunders et al 2007) and there was a need to provide some validity over the themes emerging. This task was undertaken as part of the validation stages within each cycle, whereby the various oversight focus groups would challenge the emerging theses and also the actions to manage these themes.

3.7.1.4   Standardised Qualitative tools - PSIAS 2017

The External Quality Assessment tool from the Chartered Institute of Internal Auditors (UK and Ireland)(2016) provided a template for the assessment of internal audit services and their conformance to the standards that translates readily to the PSIAS 2016 or 2017. This template included a RAG rating design (red, amber, green) that this research used for monitoring the impact of the performance of the shared internal audit service against these standards. This qualitative method also aided in the generalisation of the model by enabling actions and changes to be linked to generalised standards. Scores on the matrix are reviewed using a

suitable forum of appropriately qualified individuals. Both the before and after assessments were validated by the same groups. A copy of the template is held in appendix 12.2

3.7.1.5   Action based research tools

As Burns and Stalker (1961) identify that the typical public sector body is not ideal for the application of organisational development, which is required to make action research viable (Saunders et al 2016). Given this constraint, and the bureaucratic nature of the organisations in the partnership, any form of action research would require sufficient process to manage the changes. Programme management documentation chosen to frame the processes was drawn from the method Managing Successful Programmes (MSP) taken from Axelos.com (2014)

The use of MSP links to the bureaucratic nature of the site host organisation as they hold two specific methodologies for use in change management; Hybrid PRINCE2 model or the MSP model. The MSP version was the most aligned system to the research ideals. It also provided suitable data capture and reflection aspects in the templates. This programme methodology was required to aid in the response to the third question of the research; ensuring the actions were implemented to enable verification that they do help manage the sustainability challenges faced by a shared internal audit service. These documents were also time bound to the reporting cycles within the host and partner organisations to ensure appropriate change authorisation was given in a timely manner.

3.7.1.6   Further coding and layering for cross reference and thematic analysis

The use of '*coding*' (Bryman and Bell 2015) of the data captured through 27 interviews, 31 focus groups, researcher notes, meeting notes, reports and other tools was completed at each stage of the data gathering. This started at chapter 4 with the running records and focus groups data. This was then layered and filtered with each cycle and a final broad thematic framework was created at the end of each cycle. This also used reflective recycling of the data from each previous data gathering point, for example, the interviews undertaken in chapter 5 were

revisited on three further occasions, to build the final thematic framework representation of the challenges facing the shared internal audit service. See Appendix 12:12 for an example of coding. Finally, all interviews were mapped to the collaborative business management framework and helped to demonstrate the comprehensiveness of the framework and its generalisability.

3.7.2   Independent reviews and other external checks

The research recognised that it was operating in real time and in the real world and sought to take opportunity to independently verify elements of the action research. In particular the use of reporting from the external auditors. The external auditor is often required to comment on the internal audit service or elements that the internal audit service would also review, for example, the annual governance statement of the body. These reviews were free from any direct influence of the researcher but as they exist within the same social world they were potentially influenced indirectly. Their reviews at the host site did identify significant issues relating to the head of the share internal audit service and helped to focus elements of the research. For example their opinion that the annual audit opinion was unsound. Other external reviews were also used to help manage the change processes for example Gateway Reviews (Milford, Gantt and McDonald-Wallace 2017).

3.7.3   Scheduling and scale of intervention

The researcher delivered the action research two days per week on site, using these interventions to facilitate focus groups and conduct interviews as well as co-construct actions. This schedule enabled the individuals and the organisation to conduct elements of the day to day requirements without interference of the researcher.

In terms of scheduling, at key points in the cycles of the action research there were opportunities to reflect on the actions taken so far and the performance change. It is in these cycles that reflection points were considered by the organisations, for the ability of that organisation to deliver the recommendations emerging from that cycle. With the local authority

governance some of these review points did have to fall in line with the relevant committee for consideration. This was a requirement due, in part, to the cost of the impact of the intervention. The changes required spend authorisation from other layers of the governance in the partners, for example, cabinet decisions were required rather that the officers involved. The organisations were required to fund additional staff remuneration due to non-standard working requirements, new equipment and that of any structural changes, for example, redundancy or recruitment costs.

During the course of the research it was anticipated that there would be an opportunity to develop new actions. One of the aims of the research is to present solutions for emerging problems, but also to develop more generalisable models for use in the wider world. This reflects the nature of the abductive approach and the pragmatist philosophy. Some of these tools/actions may be simple questionnaires or other data gathering tools for the shared internal audit service to use. However, it was anticipated that there will be opportunity to develop more radical techniques including agile auditing, which was indeed the case see chapter 7.

The development of these actions in the methodology alone helped to demonstrate the original contribution to knowledge that this research achieved as they have adapted tools from another field and applied to this situation. For example, during the course of the research one aspect that has been trialled for rapid knowledge share and information flow, which has been implemented, was 'Agile Auditing' which is a derivative of a project technique and a new emerging audit technique. This technique was adapted and tested in a feasibility workstream with the shared internal audit service and was found to be successful. It has since been published by the shared internal audit service as one of their new working practices (Cox 2018).

3.7.4   Change Management techniques

Organisational Development in Local Government is a potentially problematic situation (Senior and Swailes 2010). With this research there was a high likelihood that the organisations involved would require development. The research strategy was action based and was also

aligned to key change management models. In this context, the research considered the application of Kotters's (1995) 8 Step change management model for any significant change. The definition of a significant change was defined as any change that directly changes the organisations' governance, risk or control elements including the potential increase/decrease of staff.

The training of participant staff on site was necessary (Saunders et al 2016) to help deliver any emerging change programme. This was built into the research plan and sought appropriate formal approval from the host authority prior to the commencement of any such activity. For example, the programme documentation design is co-owned by the staff based on the researcher's guidance (See appendix 12.10 and 12.11). It was recognised that not all training was provided within the confines of the researcher or subjects skills sets and therefore did require external tuition and support. The budgetary implications of externally sourced training was also to be subject to the appropriate formal approvals of the partners.

3.7.5   The Insider/Outsider Positionality – researcher vs change manager

As Kerr and Anderson (2015) highlight it is important for the researcher to consider their positionality. They particularly note that action research holds a unique central dilemma of the relationship between the researcher and the participants. Furthermore, they raise the case for the confusing implications of the action researcher in terms of insider or outsider or somewhere on the continuum. Thompson and Gunter (2011) also note that the notions of insider and outsider may be multi-layered and changing.

Milligan (2016) considers the insider-outsider-inbetweener as relational to the power of the researcher and their positioning, which is significant in this research due to the requirement of the researcher to also be the change manager. How power relations relate to the insider-outsider debate is highlighted by McNess, Arthur, and Crossley (2013), who acknowledge that it is an area that needs greater attention. This particularly relates to how relationships of power between researchers and participants influence the way in which knowledge is constructed and what becomes 'known'. A key aspect is that there is a need for researchers to consider

both the ways in which participants view them in the field (change manager or researcher) and how active choices in research design and positioning can contribute shifting relationships (Milligan 2016). For example, within this research the decision to not have any direct authority within the organisations to effect change pushes the researcher positionality to a more outsider placement on the continuum, although there remains power due to the control of the change programme.

As Kelly (2014) notes in his use of Crossley and Vulliamy (2006), *that it challenges comparativists to account for the relation of researchers as inside or outside the cultures being researched. Each position can be seen both positively and negatively. Insiders bring potential insights into nuanced cultural signifiers, but their familiarity may lead to the recycling of dominant assumptions; outsiders bring a freshness of perspective, but may impose their own worldviews uncritically* (Kelly 2014 p.2). For Crossley (2002) collaborative research and partnerships between insiders and outsiders can help research to be more sensitive to local, social constructions of reality. This is a key concept in this research as there is real impact on the shared internal audit service and its staff.

Hayfield and Huxley (2014) concluded that in reality insider/outsider boundaries may be more blurred than the terms imply and highlighted some of the ethical considerations that need to be taken into consideration during qualitative research. They concluded that to see oneself as purely an insider or an outsider is to over-simplify the complexities of researchers' relationships with their participants. Boundaries between researcher and participants are often more nuanced than they may first seem. Breen (2007) argues that the insider/outsider dichotomy is simplistic, and the distinction is unlikely to adequately capture the role of all researchers and their relationship throughout their research. Therefore, positionality is stated throughout the cycles of this research and ethical implications were considered and controls applied.

3.7.6   Ethical considerations

As a participative researcher (Costley et al 2010) there were clear risks to the organisations and individuals that the researcher would acquire business sensitive data or other information. Also that the researcher could be influenced by the nature of the action research and would also influence the research subjects.

To mitigate these risks clear contracts of engagement were agreed between the organisation and the researcher. Furthermore, informed consent had been given by the research subjects to conduct the research and their agreement to be part of the study. The consent forms specify the agreement of what, how, when, why, where and who in terms of data security and information management. In addition, due to the partnership aspects of this work, agreement was also in place between the partners for the research and the emerging change programme. Data was held securely and retained in line with the University of Worcester policy. Appendix 12.20 and 12.21 show examples of ethical forms used.

3.8   CONCLUSION

The pragmatist philosophy enabled the use of a variety of methods and enabled the practical real world aspects to be considered in the research. The abductive approach allowed for the fluid emergence of shared internal audit service challenges and possible actions to help manage the challenges. The methodological choice of multi-methods allowed for the range and depth of information to be sourced to answer the research questions. The action research strategy provided for the appropriate development and reflection on the challenges and actions used to mitigate the challenges. The longitudinal time horizons were appropriate to capture emerging challenges and historic challenges since the creation of the shared internal audit service that helped to ensure any residual challenges prior to the commencement of on-site activity were captured. The qualitative data collection tools deployed were appropriate to gather the in-depth and ranging data necessary to answer the research questions. Finally, the philosophy also allowed for the engagement with the organisations and staff to assess the

success or failure of changes introduced in the real world that aligns with the objectives of the research.

3.8.1   Original contribution to knowledge

From a methodological perspective this research makes an original contribution to knowledge by applying action research methodology to a shared internal audit service

This chapter has discussed a methodology that answers the questions of the research and delivers the research aims and objectives. It has also indicated how the research directly impacts on the shared internal audit service. Indeed, the methodology used in this research enabled the gap in knowledge, as identified by Johnson (2017) and Aldag and Warner (2018), to be bridged.

The next chapter will set out the pre-intervention data collection and analysis, including the methods used.

Chapter 4

Pre-Intervention

"At its widest, a shared services arrangement might be defined as one where two or more authorities work together to commission and/or deliver a service or function for the purposes of improving that service or function…"

Department of Communities and Local Government (2007 p.7)

4 PRE-INTERVENTION

4.1 INTRODUCTION

This chapter sets out the research conducted to; source a shared internal audit service for the action research; review the background details of that shared service using running records review; analyse data from the review and prepare for an initial focus group with key stakeholders; discuss the findings from these two research activities and inform the materials for the first cycle of the action research on site.

4.2 SELECTION PROCESS

4.2.1 Identification of shared internal audit services across England.

Use of internet search engines, the researchers own network of contacts and the Local Government Association "Shared Services Map" (LGA 2016) created the starting information necessary to begin a selection process. Running records review of public information was also used to identify a shared internal audit service that had indicators of challenges.

In order to identify a suitable shared internal audit service for this research it was originally considering just using the LGA map. However, having reviewed the data behind the LGA map (LGA 2016a) it was clear that additional search tools were going to be required. The LGA map contains broad details that could be linked to internal audit however the detail only states that there is a shared finance related service. It does not give sufficient information to identify directly from this data if there is a shared internal audit service. However this source does provide sufficient starting information for other search mechanisms to be used.

Having conducted a review on the LGA map it was clear there are several shared financial services that could include internal audit within a 100 mile/hundred mile radius from the University of Worcester. This geographical analysis was used as a practical aspect of the

research and acted as a limitation. The limitation was identified as the ability of the researcher to travel on a regular basis to conduct action-based research on the site with the chosen shared service. As the methodology shows the researcher would be on site two days per week in order to conduct this research.

The LGA map clearly identified several counties within the hundred mile radius that contained shared services that could be suitable for this research. The use of a search engine on the Internet for example Google, was the next level of search used to find a suitable shared service. The use of this tool was made available due to the transparency and public reporting requirements of a shared internal audit service. In local government the majority internal audit formal activity is discussed in the public domain usually through the audit committee. These audit committees are a matter of public record and once a particular report has been identified where there is an indication of a suitable shared service it is possible to mine further audit committee minutes reports and agendas to determine if there is a suitable shared service.

Finally, a check to the definitions for "service/corporate Model" (Tomkinson 2007), "lead Authority (CIPFA 2010) and "horizontal Shared Service Model" (Dollery et al 2012) was also undertaken to ensure there was a match between the selected site governance model and these models.

4.2.2   Selection criteria

The key criteria being used to assess the suitability for this research of the shared internal audit service is derived from the literature review and the practicalities of the action research requirements. These are listed as follows:

1. there needs to be a shared provision between more than one council (Chapter 2)
2. There needs to be aims and objectives that are mutually shared (Chapter 2)
3. There needs to be a link to the local community and geography (Dollery et al (2012) (Chapter 2)

4. There needs to be evidence of the provision of an independent, objective assurance and consulting activity (Chapter 2)

5. There needs to be an aim to help improve each partner councils' operations (Chapter 2)

6. A target to evaluate and improve the effectiveness of risk management, governance and control (Chapter 2)

7. There needs to be evidence of change within the shared service (possible evolution)

    a. There needs to be indication of governance changes

8. There needs to be indication of possible challenges

9. There needs to be indication of differences between partners/clients (Non-standardisation risk)

10. There needs to be an indication of willingness to engage in the research

11. The shared service is UK based and in a local government context (Chapter 2)

12. There needs to be a 'lead authority' (CIPFA 2010) and delegation of service (Tomkinson (2007) (Chapter 2)

This criteria was put together with the research question in mind and the objectives of this research.

Initially six shared internal audit services were identified that met with the criteria above. Contact was made, using the researcher's contact database, with the six organisations and a brief discussion was held that outlined the research, its methodology and possible contribution to the site and academic research. The key element that resulted in four of the six not being able to participate was the possible resource impact and that they had already received an EQA (or had already arranged one). This left two possible shared internal audit services, both of which were used in this research. The primary site was used for the main research, with the second site being able to participate in the generalisation interview shown in chapter 8.

Ultimately the selection of the primary shared internal audit service used for this action research fell to an agreement between the researcher and the shared internal audit service.

They had agreed that it would be useful to conduct the EQA and also to see how the service could be improved, as they recognised there were challenges already emerging. As Johnson (2017) indicates, there has been limited literature generated about the running of a shared service, possibly because of the sensitivity.

4.3 RESEARCHER ROLE DEFINED

The researchers positionality (McNiff 2014) has been identified as an outsider working collaboratively with insiders. This positionality is crucial to the understanding of the relationship between the researcher and those within the shared internal audit service and other relevant stakeholders.

4.3.1 Self-reflection

As the researcher, I bring approximately 18 years of internal audit professional provision and practice into the research. I have also operated as the head of internal audit and indeed as a head of a shared internal audit service. I have created a shared internal audit service from the initial concept through to the initial partner joining the shared service and upward towards the final point at which I left the shared internal audit service which operated across seven different entities. I have also taken this shared internal audit service through three types of shared service governance frameworks; memorandum of understanding, reciprocal contracts, section 101 delegation of service to name the three.

Furthermore, I have supported through consulting activity the creation of approximately eight other shared service vehicles. These included very basic skills swap situations through to more complex creations of trusts and companies. The last shared service I helped to establish was that of a counter fraud across two counties and involved circa 20 organisations.

This background has provided me with a range of practical skills and knowledge that have been used to inform various aspects of this action research. As an example I reflected

periodically throughout the action research on what I had done in the past with other shared services and considered whether the actions taken in those situations could also positively influence current actions within the shared internal audit service under review. One of these key insights, relates to the stress, pressure and ultimately stretch effect that happens to the head of internal audit when managing across more than one organisation.

I was also able to reflect upon my business management theory and knowledge acquired through my academic study at postgraduate level including a Masters degree in management studies. This access to theoretical knowledge from myself helped (or hindered) my ability to find theoretical solutions to some of the problems being encountered by the shared internal audit service.

It was also apparent from the early stages of my running records review that my knowledge relating to local government, the audit committee, the role of the head of internal audit and other governance factors was also useful. As an example I found it relatively easy to locate documentation relating to the internal audit service under review at each of their respective audit committees held usually within committee records that were publicly available. I was able to source relatively quickly documentation relating to the audit plan, audit charter and audit opinion reports. Additionally, I am able to interpret the terminology used within these documents due to my experience, for example, I was able to ascertain differences between assurance work and consultancy work.

Another aspect that I was able to bring to the action research was my knowledge of my own failures, problems, challenges and solutions. The rationale for me personally behind this research includes that of discovery of other solutions that may have helped with my own historic job role. I do recognise that even though I am highly qualified and experienced in this practitioner/professional role I am not infallible and as such this research has been conducted in manner to allow for the participants to challenge, inform, assist and help me to understand alternative solutions and actions.

4.3.2 Ethics

At the outset of this research I have been clear with the participants that their perspectives were highly valued and would be reflected, anonymously, within each phase or cycle of the action research. As the researcher I am responsible for determining the cycles within the research however I am also recognising the constraints within the shared internal audit service governance that my research may well be influenced by their own decision-making frameworks. For example, approval of a change to a job role or responsibility may well involve the formal approval being sought not only within the shared internal audit service governance framework such as the shared internal audit service board, operations board et cetera but also within the host employment constraints that is controlled by the human resource function at the host.

As an outsider I made it clear to the participants, the shared internal audit service and other stakeholders that I had no direct decision capability or direct influence into decisions made by any of the shared internal audit service stakeholders, partners, clients or other interested parties. My responsibilities were spelled-out within three key documents; one outlining the initial phase of the action research, the second identifying the second cycle, the third identifying the third cycle. I am governed by these documents and therefore I am unable even if I were to wish to do so to take direct action or conduct activity that may be perceived as a direct action within any of the stakeholder groups. For example, I would not be able to offer a head of audit opinion at an audit committee or approve a new structure to the shared internal audit service. These types of constraints helped to keep me focused on the research and give a level of assurance that my analysis and interpretation of the situation remains truthful and valid (McNiff 2016). It is also through this inability to take direct action that enables a more in-depth negotiation process to happen around any change or suggested change, which further enhances the validity of the final action as it occurs.

I am also governed through the control of this research to report as a researcher at each stage or cycle of the action research to different groups (for example shared internal audit service board, operational board, internal audit team management). My reporting of my findings and proposed actions at each of these stages enables the stakeholder groups to challenge, amend or even remove possible actions. It also enables them to validate or provide additional evidence or information regarding the findings of the research.

For example in chapter 5 I identify through interview that the head of internal audit (head of the shared internal audit service) is only available for this role to 5% of his full-time equivalent. Under the public sector internal audit standards 1112 there is a recognition that the head of internal audit may have other responsibilities, for example risk management, but I found it's excessive for the head of internal audit to be managing the shared internal audit service for only 5% of his full-time equivalency. This was a reported challenge that the three reporting groups made different decisions, initially a short term solution, then a more permanent long term solution.

4.3.3   Other roles for the researcher

One of the other roles I undertook as a researcher was also in effect to become the project/programme manager. This role fitted within the action research researcher position quite nicely as it required the provision of key documentation that controlled the change management process within the shared internal audit service and its host/partners.

This documentation provided a good opportunity to capture problems and proposed solutions. I make extensive use of these devices to also translate change and proposals into forms that all stakeholder groups understand. These project documents, when coupled with other outputs from my research that were also captured in report form, left a permanent record for reference by the participants when I was not present/on-site. This enabled action to continue occurring

when I was not on site, as outlined in my methodology, I was only available two days per week, whereas operations within the shared service happened on a five-day week basis. Therefore this documentation allowed those other three days to be, if necessary, used for action in this research. I did recognise the risk of actions occurring without my oversight and this indeed is considered a limitation of this research however I believe through the use of this documentation for the project/programme I was able to capture sufficient information regarding actions that occurred without my direct oversight to ensure my research remained 'valid' (Whitehead and McNiff 2006).

4.3.4 Facilities

I also negotiated with the host organisation for facilities that are suitable to capture discussion proposals and other activity undertaken during the course of this research. For example this included the use of flipcharts, whiteboards and report records e.g. minutes that captured discussions and actions occurring on a day-to-day basis (see appendix 12.6). I also used notation to capture discussion as it occurred during all forms of my engagement with participants, this included, capturing comments as they arose during any of my presentations.

4.3.5 Other tools

I made use of PowerPoint presentations on a regular basis throughout the action research to concisely and simplistically report findings and actions. This included the stage closure or cycle closure reporting, for example at the end of March and beginning of April 2017 I used PowerPoint presentations to articulate my findings of the initial cycle of the action research to all relevant stakeholder groups (shared internal audit service board, operation board, internal audit team).

The use of PowerPoint was chosen over the use of formal reports as it provided a format that did not require the participants to conduct any in-depth reading prior to the meetings where the information was presented to them. This helped to alleviate the possibility of inflammatory

interpretation i.e. individuals reading the report may find it threatening, alarming, potentially even insulting when reviewing the contents of the report out of context (Pace and Argona 1991).

The appropriateness of tools and reporting styles was apparent and the research had to recognise this. Some of the findings in the early stages were highlighting individuals and problems arising from actions taken by those individuals. It was therefore necessary to present these in a manner to which I could control the terminology used and interpretation could be checked directly with the individual concerned, and anonymity and confidentiality safeguarded. For example the running records identified that an audit opinion was challenged in the public audit committee; this finding could be interpreted as a professional failing of the head of internal audit if taken out of context and therefore a risk could arise of them becoming angry that the research had identified this possible failing.

4.4 RUNNING RECORDS REVIEW

4.4.1 Archive records from the Audit Committee

The audit committee records at most public sector bodies, in particular local government, are available online through the Internet. This is often through committee services portals within the local authorities specific website (the council's own website). Having determined the shared internal audit service that this research would be reviewing, a data mining activity was conducted to review minutes, agendas, reports and other documentation available through the audit committee links on each of the partners' own websites. It was identified relatively quickly that, of the partners, only four of the bodies had their records publicly available for any member of the public to be able to view and two of the bodies had their audit committee information only available through direct enquiry with that organisation.

My running records review went back to the commencement of the audit shared internal audit service in 2012, it was identified that two bodies were involved in the initial creation of the shared internal audit service. Further running records review at these audit committees of the partner sites identified numerous useful reports highlighting key stakeholders and key events for the shared internal audit service. For example, authors of the reports were often identified as members of the shared internal audit service management team.

The level of reporting at each of the partners varied considerably at each site. Some of this I initially interpreted as linked to the size of the organisation concerned. There is a considerable difference in auditable scale between the host authority and the smallest partner. The range of services and numbers of employees is at least 10 times more at the host authority when compared to the smallest partner authority in this shared internal audit service scope. Presenting this in numbers of employees demonstrates this clearly the host authority had circa 6000 employees the smallest partner had less than 300. This range in service requirement that was placed on the shared internal audit service also presented a difficulty in standardisation of working practices as the risk profile of these two organisations alone was very different. Standardisation is recognised (chapter 2) as one of the key economies of scale brought about through the sharing of service. If however the shared service is unable to standardise it is in effect still operating individualised processes and systems, which can be detrimental to the efficiencies and effectiveness of the shared service (chapter 2).

The running records review also identified the range of services provided appeared to vary. At the host site which was determined as the largest partner it could be seen that there was a fuller range of services from assurance and consulting work through counter fraud activity, IT audit activity and other advisory works. There was also clear evidence of cyclical financial audits being undertaken for this organisation. The host audit plan was identified as the widest range of services available from the shared internal audit service. This range of services is a key question to ask in interview particularly with operational group members to determine if

they are aware of this range of services or if indeed these were predetermined by the shared internal audit management team.

4.4.2   Website for the Shared Internal Audit Service

Further review online of records relating to the shared internal audit service identified that they had their own dedicated website. This website was identified as something the shared internal audit service team had determined could be useful to them as an organisation in their own right (see chapter 2 and Bergeron's definition). This recognition of the shared internal audit service as a possible entity or organisation in its own right is something that this research is significantly interested in as it is from this position that decisions about the operation of the shared internal audit service can be derived. By this I mean, if the shared internal audit service is now acting as an organisation in its own right it will therefore most likely be attempting to operate as any other business organisation would indeed do. This is a fundamental question for this research to understand and potentially answer it links directly to the problems that this research is looking to investigate that could occur in a shared internal audit service but also links directly to the nature of some of the solutions recommended to address any of these problems. For example, the website identifies the full range of services offered by the shared internal audit service and this did not align with the reported service offerings at all partner audit committees. I would argue that the website reflected more of what the shared internal audit service was doing in terms of service provision at the host authority and not necessarily what was available to all partners.

The website also identified shared internal audit service vision, objectives and the associated plans to achieve those objectives. These aspects again reflect a more business-like approach to this shared internal audit service as the vision articulated on this website did not directly link or indeed paraphrase the vision of any one or group of partners. The vision however was shown within all audit reports that were published to the audit committees therefore it could be argued that the vision was being presented to the audit committees and therefore the

partner organisations, but I could find no evidence within the running records review of all partners recognising and adopting this vision and these objectives.

It was also noted on the website that the shared internal audit service was available on a client basis i.e. the shared internal audit service was prepared to sell its services to other organisations in the form of some type of contractual delivery mechanism. This recognition of clients also indicates a possible business-like or commercialised perspective to this shared internal audit service. However the website did not identify any distinction between the services available to clients or partners therefore the assumption automatically would be that all of the services listed on the website could be available to all partners and clients.

The website information also included a team page. This team page listed all personnel and their professional backgrounds for the public or clients to see. This included reference to their professional memberships and academic achievements. It was noted that the head of the audit shared internal audit service held accounting qualifications and also stated nonrelevant qualifications. This presented a question to me as the researcher, as to the nature and potential audience for this team page. The question I asked, "*was this intended for clients and partners to view and therefore potentially be scrutinised to assess their professional skills, or was this simply to create a sense of belonging for the team to the shared internal audit service*". This sense of belonging links to Maslow's hierarchy of needs (Maslow 1945) and could reflect the lack of belonging to any one particular partner or client, therefore forcing the team to belong to a shared internal audit service. Again this research questions these indicators as possible signs that the shared internal audit service is no longer a service it is in fact now it's own separate organisation. The running records clearly indicate both psychological and actual business-like actions, activities, plans and reports that show the shared internal audit service behaving like a business in its own right.

The website did have information available to all members of the public in relation to the broad governance arrangements in place for the shared internal audit service. This included, inter alia, terms of reference for the different levels of the shared internal audit service governance

framework e.g. shared internal audit service board, operation board, management team, internal audit team. There was also indication within these papers of the relationship between the internal audit team, management, and the audit committee and senior management. It was clear from these papers that the chair of the audit committee was indeed the representative at the shared internal audit service board for that partner. This for me raises the concern of perspective and potentially a conflict between the role of the head of the audit committee for the partner and the role of somebody responsible for running the shared internal audit service at the strategic level, indeed, is the person able to fulfil both roles adequately. The Companies Act (2006) identifies that a director of a company has a responsibility to act in the interests of that company. The shared internal audit service could be considered a 'company' if applying the Bergeron 2002 definition and therefore its governing board should act in its own interest and not necessarily therefore directly in the interest of the partner. This can be a conflict if this role is delivered by the same person who also is the chair of the audit committee for that partner. I have investigated as part of this action research the role of these two stakeholders under the governance workstream (see chapter 6) and indeed one of the changes introduced was the separation of the chair of the audit committee from the role of the strategic shared internal audit service board member.

Finally the website acted as a validity check on my audit committee data mining activity as it was able to confirm the historic backgrounds behind the shared internal audit service. By this I mean the website included an "about us" page that listed dates and organisations through the timeline of the shared service from its commencement and conception through to the current day. This also enabled me to validate my understanding of the partners involved in the shared service.

4.4.3 Other relevant records

Other relevant reports were also reviewed as part of this running records review. These Included cabinet, scrutiny, governance, finance, oversight and full council or board meetings.

Within some of these repositories it was identified where the shared internal audit service had potentially provided information, engagement or other form of interaction with these groups. There was minimal information about the actual governance structures of the shared service available in the public domain, by this I mean there was no publicly available copy on the websites of the full section 101 of the Local Government Act 1972 delegation agreement which was formally sealed by each of the partners.

4.4.4 The Strategic, Tactical, Operational and Individual (STOI) Levels

The following diagram (figure 4.1) shows the STOI levels identified from the running records review and are used in the planning sections of chapter 4 to chapter 9

Strategic — Councillors and Trustees

Tactical — Senior Officer Group

Operational — Management Team

Individual — Team officers
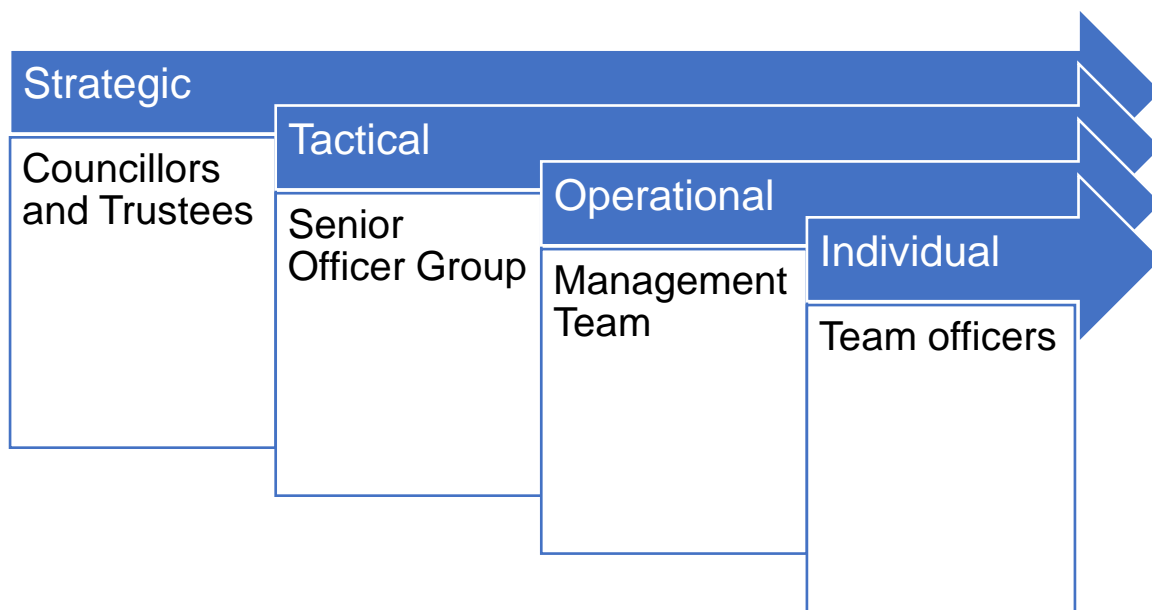
Figure 4.1 the STOI levels of the shared internal audit service

Understanding the relationship and hierarchy of the shared internal audit service was paramount in order to affect changes to the service. Under the organisations' schemes of change there was a need to make recommendations for change to each level and seek approvals for these changes. With most of the changes made there was a recorded recommendation made to each level. This was subject to the 'delegated authority' held by

each level. Some minor changes, such as report graphs and tables were not required to go through to tactical or strategic levels, however, permanent structure changes were required to go through all layers.

4.5 PRE-INTERVENTION FOCUS GROUP

A pre-intervention focus group was conducted to initially enable introductions, set up the facilities and start the scheduling, identify individuals required to be participants, and also then to discuss the findings of the running records review and seek validation of these. This was conducted as shown below:

FOCUS GROUPS	
Group and STOI level	**Date**
Tactical	
Host	12th December 2016

Key stakeholders involved as identified from the running records review: S151 Officer, Director of Governance/Monitoring Officer (Line manager), Head of the shared internal audit service, Audit Manager, 2x Assistant Audit Managers

4.5.1 Results of the focus group

The focus group was conducted on 12th December 2016 on site for the shared internal audit service. This focus group had a primary function of establishing and reconfirming relevant facts, structures and other key information to help inform the cycles of the action research. The focus group started at 10 AM and finished at 11:45 AM.

4.5.1.1 Ethics

The opening task for all participants was to check their understanding as to why I was there and gain informed consent. They all confirmed that they understood I was there to conduct a review of the shared internal audit service and look to help make improvements to that service through action research.

4.5.1.2 Confirmation of running records results

The participants of the focus group set out to describe the shared internal audit service arrangement as they saw it. It was explained to me that the shared internal audit service consisted of a host unitary authority, two district councils, one fire authority and one arm's-length management organisation (ALMO). The shared internal audit service governance structure contained a shared internal audit service board at Councillor/member level that had representation from each partner and their associated audit committees. This represented a six person board that it is understood was there to oversee the high level strategic direction of the shared internal audit service. Reporting to this board was the operations board and this group was made up of section 151 officers or equivalents from each partner. This operations board was there to review all documentation arising from the shared internal audit service before passing through to the shared internal audit service board for relevant approvals or acknowledgement. This oversight structure demonstrates an element of the 'Common Service Model' requirements in the form of independent oversight (Dollery et al 2016).

It is understood from the focus group that

> "*Since the service expanded in 2016 to the current six way shared service the board has not had a fully quorate meeting.*" – Coded as Governance/Model

From my perspective for a year to have gone past without high-level oversight being conducted was a point of concern. I was provided with a series of board meeting papers from

which I was able to determine the individuals necessary for any interviews or future focus groups in relation to both of these boards.

> *"The shared internal audit service board had been presented with an updated audit charter for their review and approval. However as they were not quorate this charter could not be approved."* – Coded as Governance/Model

This inability to approve core documentation for the shared internal audit service was also recorded as a concern. Within the documentation for the shared internal audit service board meeting there was also approval sought for a self-assessment against the public sector internal audit standards. I noted at this point that I would be conducting a public sector internal audit standards review as part of my research. Failure of the independent oversight (Dollery et al 2016) already demonstrates a positive alignment of the Common Service Model requirements to have this element functioning appropriately. However, this may relate to the political elements in local government that this research does not explore to any depth other than noting the effect i.e. the cause is an area considered for further research. It does highlight though that the concept of '*voluntarism*' (Dollery et al 2016) is insufficient to ensure the governance is effective.

It was understood that the shared internal audit service board had been presented with other shared internal audit service documentation that included shared internal audit service plans for possible future works (copies were provided). This organisational plan identified a series of actions for the shared internal audit service to undertake in order to comply with public sector internal audit standards. It was noted that within this organisational plan was an increase in the number of days provided to the host to the equivalent of 2.3 full-time employees. With this increase in days the host accounted for circa 56% of the overall days provided by the shared service. When questioned the focus group responded that

> "*no additional management time was allocated to this growth, it was all just absorbed*".
> – coded as Operational

This presented a possible problem in the stretch of senior management within the shared internal audit service.

The relationship with the external auditor was also discussed within the focus group and it was identified that there had been *"recent problems"* presenting at the audit committee. These problems included the

> *"outright disagreement between our annual opinion and that of the external auditors opinion" – coded as governance and internal audit*

This particular disagreement is understood to be rare within the local government remit and clearly represents a significant communication problem between the two auditing groups (based on the running record review in the search for the shared internal audit service which found no other such commentary). The public sector internal audit standards section 2050 (PSIAS 2017) identified that the head of internal audit should coordinate assurance providers to ensure there is no duplication or conflict of opinion. This example raised by the focus group identifies at least one aspect of the public sector internal audit standards where the shared internal audit service cannot demonstrate conformance.

A further aspect of possible nonconformance with the public sector internal audit standards was also identified, when within the focus group, the role of the head of internal audit was discussed. It was identified that the head of the audit shared internal audit service was delivering the role of head of internal audit alongside:

> "*several other senior management responsibilities*". Coded as governance / model and internal audit (PSIAS 2017 -1112)

When the focus group was questioned about the level of engagement in the role of head of internal audit, I was informed that '*minimal*' time was actually given to this role by the head of the audit shared internal audit service. This was latterly quantified in interview in Chapter 5.

The focus group clearly identified a range of challenges regarding the current delivery of the internal audit service and highlighted that there may well be a range of problems at different strategic levels of the shared internal audit service. By this I recognise there are at least four levels to this shared internal audit service from a strategic perspective; I have considered these in the following manner: strategic, tactical, operational and individual.

Based on the running records review, and confirmed by the focus group, the strategic level is identified as the shared internal audit service '*board*' level. This gives the overall strategic direction of the shared internal audit service which sets out the shared internal audit service objectives and vision and is regarded as the final decision making group. At the strategic level such things as business plans, charters, budgets and services which are delivered are determined.

The tactical level is identified as the '*operational board*' consisting of the section 151 officers and at this level the expectation is for the vision and objectives set at strategic level to be converted into policy and procedure, including performance indicators and measures, for the shared internal audit service to deliver. This tactical level operates as a bridge between the operational head of internal audit and a visionary strategic level of the member led shared internal audit service board. It is also anticipated by the focus group that this tactical level would ultimately be required to request approval from the strategic level (board) any decisions regarding significant expenditure, resourcing and staff structures, although they commented that they would '*have to check the governance*' *– coded as governance/model*.

The operational level is led by the head of internal audit (head of the shared internal audit service) and supported by a management staff consisting of (currently) one audit manager and two assistant audit managers. This operational level was identified by the focus group to deliver the day-to-day service requirements. This includes, inter alia, production of audit reports, production of audit plans, recruitment of relevant staff, training and development of those staff, managing the day-to-day relationship with senior management of each partner and servicing their relevant audit committees.

The individual level has been identified as an aspect considered by the research as necessary to understand how individuals are mapped and matched to the requirements of the shared internal audit service. The individuals range from the head of internal audit through to trainees or graduate placements.

4.5.1.3   Additional questions

From the running records review a range of further questions were asked of the focus group and linked to the four pillars of business. One of the questions asked was how the current financial arrangements for the shared internal audit service were formed, as it was understood there was a daily rate of circa £300 per day stated within the running record documentation. It was identified at this point that the shared internal audit service grew in 2016 to include four partners that were originally clients. The £300 figure was '*purely an average'* over the days provided to each client, converted to partner, plus the original partners, as a combined average across the new shared service.

It is understood from this focus group that

> "*the reason we had to convert clients to partners related to the legal president of TEKKAL legislation*". Coded as governance/model

This legislation identified that the local government body is not permitted to trade to any greater extent than 20% of the overall activity. The shared internal audit service was at risk of breaching this level and therefore invited these clients to become partners.

I have noted therefore there could be a concern regarding the partners commitment to the shared internal audit service itself, as they have not gone through the same development opportunities as original partners would have been able to go through. This possible lack of commitment may be a reason why there has not yet been a full member representation at a shared internal audit service board as mentioned above.

Further questioning around the engagement with each partner identified that the head of the audit shared internal audit service and the audit manager were

'*both involved in discussions at partner director level*' – coded as Service and quality.

However, it was identified that there was not a consistent way of engaging with the partners. Indeed it was identified that the head of the audit shared internal audit service would present at three of the partners' audit committees and the audit manager would present at the other three. Additionally, when questioned about the manner in which the audit plans were created at each partner site it was identified again that there were inconsistencies in process.

This line of questioning also highlighted through focus group XX feedback that there was an:

"issue with risk management at the host authority". – Coded as risk management

The issue with risk management at the host authority was articulated as an 'immature' risk management framework. The maturity level of risk management in an organisation is critical to determining the level of reliance the head of internal audit can place on the framework at that organisation (IIA 2003). If the framework is immature the audit planning process will require the head of internal audit to identify the risks to the organisation themselves and therefore what areas the internal audit service needs to review. This presents an additional challenge to the shared internal audit service management team.

One of the questions asked of the focus group in this stage was in relation to change management and/or consultancy work. It was identified that each organisation has its own *'unique change management process'* and as such the shared internal audit service would have had to align their consulting activities to these differing processes. However, it was identified to some extent in the focus group that there may be only limited consulting activity undertaken by the shared internal audit service. This consulting aspect of the service was also to be included and discussed as part of the later interviews in chapter 5.

Counter fraud activity is often regarded as an internal audit role and therefore the focus group was initially asked if the shared internal audit service provided any such counter fraud activity support. It was identified by the focus group that there was indeed some level of counter fraud activity provided although this was unclear and possibly varying in levels provided at each partner. This line of questioning, regarding counter fraud activity, prompted the focus group to raise the rationale behind the increase in days at the host site '*related to probity work*'.- coded as counter fraud

In relation to staffing within the shared internal audit service I initially asked the focus group how staffing levels were managed and maintained. It was noted at this point that the host had engaged two work-placement individuals from a local university to assist in the provision of information technology auditing (IT auditing). This identified yet another more specialised service that was being provided by the shared internal audit service. Further questioning highlighted that there may well be other services provided but not clearly defined. The focus group was concluded and the next steps outlined.

4.5.1.4 Coding and initial analysis

Coding of this information was undertaken to serve the primary aim of establishing an understanding of the shared internal audit service, to inform the start of the first cycle. It was noted through this first layer of coding that there were some broad themes emerging, however, there was insufficient data at this stage to form any formal analysis of the themes.

4.6 DISCUSSION

Key elements arising from this discussion includes the identification of various challenges potentially facing the shared internal audit service. It is clear from the running records review and indeed from the initial focus group that there are several challenges already facing this

shared internal audit service. This in some way answers the first question raised by this research:

- **What are the governance challenges that a shared internal audit service has to address?**

The research so far suggests that some of the challenges facing the shared internal audit service includes: standardisation, range of services, organisational identity, governance framework including hierarchical structure, compliance with standards including conformance with the public sector internal audit standards, roles and responsibilities within the shared internal audit service, motivation for partners and the subsequent commitment to the shared internal audit service, engagement with other relevant stakeholders e.g. external audit, service engagement with clients and partners and the differences between them, potential conflicts of roles and responsibilities in the existing governance framework and understanding of management requirements with the expansion of operational staff levels.

- **What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?**

At this juncture in this research it is unclear as to whether this shared internal audit service can at this stage state it is in conformance with the public sector internal audit standards. For example as discussed in the focus group there was evidence to suggest an excessive dilution of the role of the head of internal audit. Further examples include the possible nonconformance with standard 2050 regarding the coordination of other assurance providers.

Based on discussion with the focus group it is also unclear as to the motive of the partners joining the shared internal audit service as to how much links to cost saving versus the requirement to comply with Tekkal legislation. This may also link to the lack of clarity over the cost per day of this shared internal audit service.

- **How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?**

At this stage there are several possible actions that may be useful to aid in the conformance to the standards and generally in the provision of the shared internal audit service. These include conducting external and internal environment assessments of the shared internal audit service for example the use of PESTEL and SWOT analysis (Example of the PESTEL tool is at Appendix 12.8). These tools could be used to inform the management teams/layers regarding the environment in which the shared service operates and the strengths and weaknesses within the service that can help or hinder the service delivery. Furthermore, analysis of the strategic positioning of the shared internal audit service may also be useful, for example, analysis of the role of the shared internal audit service board in providing a clear vision, mission, objectives and goals for the shared service.

However at this moment in time the research has not sufficient data to progress these options with any certainty or indeed if they would aid in the sustainability.

Other elements that have arisen from this initial part of the action research includes the illustration of the various governance frameworks already identified. Figure 4.2 below shows the four layers to the shared internal audit service which including the roles and officers at the strategic tactical operational and individual layers.

4.7 INFORMING THE NEXT STAGE

Having now completed the initial running records review and pre-intervention focus group the research can move to the next phase and commence the first action research cycle. This first action research cycle is detailed in chapter 5, in which I conducted initial 1-2-1 interviews with all shared internal audit service team members from the head of the audit shared internal audit service down through to the work placement individuals. The rationale for these interviews was to gain further insight into the shared internal audit service and are discussed in more detail in the next chapter. It was agreed in the above focus group that I would be provided with a room to conduct the interviews and that each member of the team would be invited and would have the opportunity to agree to interview and when the interview would take place. The timing of the interviews was to allow for minimal disruption to the individuals own workloads. The interviews themselves were to be conducted between January and February 2017.

The output from these interviews also triggered some initial actions to rectify problems and aid in managing the challenges identified in this chapter.

4.8 CONCLUSION

This chapter has detailed the initial shared internal audit service selection process, running records review, researcher positionality, initial fact-finding focus group/focus group and initial discussion in relation to the research questions. The next chapter will commence the first cycle of action research beginning with the initial shared internal audit service team interviews.

Chapter 5
First Cycle

A shared service is…

"the shared provision by more than one local council of a specified service in which service aims and objectives are mutually shared and for which local people are the end customers"

Tomkinson (2007 p.2)

5 FIRST CYCLE

5.1 INTRODUCTION

This chapter sets out the first cycles of action research conducted on site within the December 2016 to December 2017 planned intervention period. The cycle builds on the information discussed in Chapter 4.
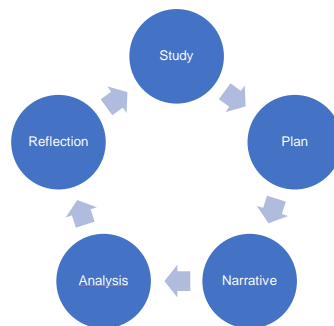
Wheel of each stage in the cycle -

Chapter 5, 6 and 7 all follow the wheel shown above and are set out in the order: study, plan, narrative, analysis and reflection. Each of these sections provides some structure and helps to articulate the various stages that this action research has gone through.

5.2 Study

Based on the information provided in chapter 4, in particular the running records review and pre-intervention focus group, the initial phase of this cycle is to build further understanding of the shared internal audit service from the perspective of the relevant STOI groups and individuals within the team itself. In order to do this the research has undertaken a series of 24 one-to-one semi-structured interviews(Quinlan 2011) ,and 4 information gathering and data validation focus groups (Eriksson and Kovalainen 2008). Additionally, as Quinlan (2011) suggests the focus group can generate insight, which is useful for the analysis of challenges and solutions.

Moreover, from this cycle the first PSIAS (2017) review will be conducted and the base line of the service conformance will be assessed. This is crucial to the key theoretical underpinning of this research as Tomkinson (2007) and Dollery et al (2012) both highlight the need for the shared service to deliver to a specified quality, which in this instance is the PSIAS (2017). Therefore to ensure that this shared internal audit service does meet this theoretical position the service is assessed across the 56 standards and the 10 principles. The first cycle provided the benchmark for the other cycles to ascertain if any improvement is being made.

5.3 Plan

The following semi-structured interviews and focus groups were delivered in this cycle of the action research:

Interviews	
Group and STOI level	**Date**
Tactical	
Senior Officer Group	5th February 2017 – 14th February 2017
Operational	
Management Team	9th January 2017 – 10th January 2017
Individual	
Team officers	16th January 2017 – 31st January 2017

Focus groups	
Group and STOI level	**Date**
Strategic	
Members Group	23rd January 2017
	27th March 2017
Tactical	
Host	21st February 2017
Senior Officer Group	27th March 2017

5.3.1   Researcher role defined

My role in this cycle of the action research is that of an outsider collaborating with the insiders to develop further knowledge (McNiff 2014) regarding the shared internal audit service but also to develop 'outsider collaborating with insider' relationships with all levels of the STOI.

5.4 NARRATIVE

The semi-structured interviews contained a series of topics to discuss with each individual. The initial topic was to gain an understanding of their background and knowledge that they brought into the partnership, this included basic background information regarding the length of time within the shared internal audit service. Following this basic background assessment the interview followed 10 basic principles set out within the public sector internal audit standards. These basic principles were used to understand how the shared internal audit service from that individual's perspective is able or unable to deliver internal audit services in conformance with the standards. Following these 10 basic principles a further set of topics was discussed to understand more about the partnership itself. These topics included reference to information gleamed from the running records review, website review, the initial focus group and the literature review Bergeron (2002) reference to 'business-like'. For

example I asked each individual to broadly define what the vision of the partnership was. Additionally, I also thought to understand the individual's motives and objectives within the shared internal audit service.

(In total 15 topic areas were discussed as set out in appendix 12.5)

The interviews were held in the meeting room on site at the host organisation. For the four officers that were members of the shared internal audit service management team up to 2 hours were made available for the interview per person. For the other members of the team one hour was provided for the interview. In addition each participant was provided with details about the research, contact information, how data is to be recorded, et cetera. Furthermore, contact information of my self was made available to them should they wish to raise any questions after the interview.

The interviews were not to be recorded on tape or other recording media this was at the request of the organisation concerned. Therefore I had to make use of notation and sought to confirm interview content as part of the process. It was agreed that the interviews would be anonymized and how information relating to the results/findings of these interviews fed into the research would be checked by me to ensure individuals were not identified.

The interviews commenced with the head of the audit partnership. This interview lasted just over the two-hour window however this was agreed during the course of the interview and participant was content to go over the two-hour window. This was the only interview that went beyond the time constraint. All other interviews were concluded by the end of February 2017.

5.5 ANALYSIS

In line with Eriksson and Kovalainen (2008), Mcniff (2014) and, Herr and Anderson (2015) the analysis of the interviews for the action research is thematic and narrative in nature. The analysis narrative below tells the story of the interviews that then informs interaction between the researcher and the participants. Following coding the interview transcripts were subject to

thematic analysis that was combined with abstraction processes to analyse the interview and focus group data (Quinlan 2011). An example of the coding and layered thematic analysis is shown in appendix (12.15) An example of the thematic analysis is shown in appendix 12.12 that was also used to populate the EQA assessment.

5.5.1 Internal Audit Team Interviews

Semi-structured interviews with the audit team narrative:

Background information

In relation to the opening topic it was clear that all staff interviewed had relevant background and indeed appropriate skills for the level at which they were operating. Some of the staff had been with the host organisation for over 20 years others had indeed only started within the last six months. This presented a range of perspectives from the concept of institutionalisation through to new entrants to the organisation. Those who were newer to the shared internal audit service offered up perspectives based on operating practices in their previous employments. Furthermore, these new starters were able to comment upon the induction process into the shared internal audit service, notably, that there was not a comprehensive induction process for new starters into the shared internal audit service. It was identified that the only induction received was that of the host partner followed then in sequence based on the individual's attendance at subsequent partner sites. There was a considerable lag in time taken by new starters to become familiar with the shared internal audit service practices. Additionally, it was identified that some of the participants had allowed their professional membership subscriptions to lapse. Additional checks were undertaken with various institutes, to which the participants claimed to be members, as to the impact of no longer subscribing. It was clear from discussion with the institutes that where memberships have lapsed the individuals were no longer allowed to use their designatory letters and could also be challenged in relation to the public sector internal audit standards that of the requirement to maintain continual professional development under the attribute standards. Indeed in relation

to training it was identified that none of the participants had had any specific tailored training made available to them; the only training undertaken had been a general risk based internal audit training package. This did not align with the fact that several of the participants held specialist qualifications, for example, counter fraud qualifications. These qualifications required the individuals to maintain a level of regular training in that particular specialism. This could present a risk to the shared internal audit service that should they undertake counter fraud activity that the staff undertaking this activity are no longer aware of the laws or regulations associated with this activity therefore jeopardising potential investigations. From this opening question there are two new challenges that have emerged: induction processes and training requirements.

How the shared internal audit service demonstrates integrity

The second question looked at the topic of integrity within the shared internal audit service. In principle the service should be altered demonstrated that the officers conducting the audit activity were able to maintain a level of integrity both within the shared service itself and that of partners and clients. During the course of the interview it became clear as to why the head of internal audit's opinion was challenged by the external auditor. Participants made it clear that the level of involvement by the head of the audit partnership/head of internal audit within the shared internal audit service was so restricted that it would be impossible for them to be fully aware of all issues relating to governance at all partners and clients. Participants offered a range of percentages of involvement from 0% to 10% (See appendix 12.12 for an example).

Participants identified that there was a process that generated all the reports that went through to audit committees. Participants also identified that this process included a quality review check by the assistant audit manager and by the audit manager. However there was no formal review undertaken by the head of internal audit, based on the interview, it is understood that

the head of internal audit would only read the report prior to the audit committee and did not have an active review element.

How the shared internal audit service demonstrates competence and due professional care. This includes continual professional development

Participant three and four identified that although there was a quality review process that included the assistant audit managers neither of these managers had in fact been to any audit committee. This presents the risk of this element in the review process not being able to relate the auditors work with the risk environment/culture of the partner client to which that audit report relates. This lack of exposure for these two positions presents a challenge for the shared internal audit service in terms of integrity as the head of internal audit and the audit manager were the only individuals with knowledge and exposure to those audit committees. It must be noted in this research that according to Pickett (2007) the audit report is the shop window of internal audit. Therefore it is conceivable that the audit committee as the final receiver of these reports can be regarded as the customer. With this in mind there is a considerable risk that feedback from the customer is not reaching the staff responsible for the creation of the product that sits in the shop window.

Analysis across several participants interview scripts has identified that continual professional development training and other aspects of competency are not actively monitored or pursued by the shared internal audit service. I looked to confirm these comments against information held within the shared service and based on those records it is clear that there has been no specific targeted training for any staff within the shared internal audit service for over two years. This is a particular challenge when the website clearly shows the shared internal audit service has a large range of specialist services available. Failure to keep staff trained in these specialist areas can present the risk of inappropriate advice and recommendations being

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made. This could have a detrimental impact on not only the reputation of the shared internal audit service but also a potential impact on the organisation to which this advice was given.

How the shared internal audit service is objective and free from undue influence (independent). And areas where there may be conflict of interest

Interviews with two of the participants identified possible conflicts of interest within the shared internal audit service. It was noted that there was a relationship between one of the operational group members and one of the team. However this particular potential conflict was well-known by the team and was being managed through avoidance style conflict management. From my perspective this conflict was limiting the potential that this individual could bring to the shared internal audit service. Some restructuring and reallocation of duties could have helped manage conflict more proactively and thus make the individual concerned far more effective. This particular conflict and resolution is discussed in chapter 7. The other conflict of interest was clearly demonstrated in relation to the other services being managed by the head of the audit partnership. The interviews identified and were later confirmed in running records review that areas of responsibility were receiving poor audit reports this in itself could potentially challenge the competency and indeed integrity of the head of the audit partnership. This is based on the concept of leading by example, whereby, if the head of the audit partnership is unable to deliver other services to a standard where a good or excellent level of assurance can be given why then should other heads of service across the partner organisations worry about their own services.

How the shared internal audit service aligns with the strategies, objectives, and risks of each partner and client organisation

The next topic that was reviewed across all participants was that of how does the shared internal audit service ensure it aligns with the strategies and objectives of its partners and

clients. It was clear from the majority of interviews that there was no activity undertaken by the audit service management to ensure it did align with the strategies and objectives of the partners clients. This was demonstrated by evidence that showed the audit plans were developed in isolation of senior management and audit committee input until the plan itself was complete. There was minimal engagement across partners and clients at director level or head of service level, it was a minimal proactive effort and the participants identified this by explaining that on occasions they would commence an audit and meet the manager of the department to be reviewed and the manager be unaware or in some cases already be under review by another member of the team. Two of the participants interviewed identified that they themselves had to resolve the conflict of two audit areas that was covering the same topic and they both felt that this had been an embarrassment for them. Some explanation as to why this was happening was gleaned from interviews with members of the shared internal audit service management team they identified that the risk maturity at some of the partner sites was so low that they had to develop the audit plans themselves in isolation based on their own knowledge of the organisation. However it suggests there is a risk with this strategy in terms of alignment of the internal audit activity with that of the partner and clients and is indicative of a challenge for a shared internal audit service. Other aspects of the shared internal audit service did align with some partner objectives by this it was clear within some interviews that there was a desire for the shared internal audit service to provide counter fraud and ICT audit activity to support the organisations. Ultimately, it was identified through these interviews, that the shared internal audit service itself, through its cost savings and through the benefits of a wider skills base, was itself bringing benefits recognised by the organisation within their own organisational objectives.

How the shared internal audit service Is appropriately positioned and adequately resourced. Including where the individual interviewed sits within the structure and what expertise that individual brings

The next area/topic that was discussed looked at the positioning of the shared internal audit service and that of the individuals within the service. It was identified through interview that there was a variance in the positioning of the shared internal audit service within the individual partner organisation structures. At the host organisation for example the position of the head of internal audit was fourth tier down in the hierarchy of that organisation, which meant that the head of internal audit was not at a senior management position and could therefore struggle to have legitimate authority to enforce internal audit recommendations. However at other partners this head of internal audit position reported at second-tier or third-tier levels, which resulted in a better position for the head of internal audit to negotiate and enforce audit recommendations. In addition to the position of head of internal audit in relation to senior management the interviews also looked at reporting to the audit committee itself. It was identified that in one particular organisation (partner) the head of internal audit was not attending the audit committee, indeed the reports were being presented by the section 151 officer. This presents a clear risk that the head of internal audit recommendations, opinion, plans are being presented in a manner that is favourable for the section 151 officer rather than necessarily a true picture. This again would challenge conformance with public sector internal audit standards and as such was put forward as part of the changes brought about by this research.

In terms of resources, the shared internal audit service interviews highlighted that several staff had recently been recruited. It is understood from these interviews that the staff recruited were part of the increase requested by the host partner (as identified in chapter 4). Moreover, the work placement staff from the local university who had been taken on to supplement the IT audit resource as a member of the IT audit team had left the organisation. Discussion around this resource impact highlighted that the IT auditor who left the organisation was the designer of the audit management software on which all the audit processed data and report generation was created. It was also identified that this individual had left to go to an organisation which had actually bought a version of this audit management software. Further questioning along

this line identified that although the individual had left the organisation they were still maintaining the audit management software from their own home. This challenge to the shared internal audit services supply chain was significant from both integrity, availability and confidentiality aspects of the service.

The interviews did identify there were a range of specialist skills held by individuals within the team. Most notably was the counter fraud and IT audit skills, but also there were clear demonstrations of skills relating to; risk management, contract management and procurement, shared services, project management, et cetera. It was unclear from interview as to how the shared internal audit service was planning to use the skills (if indeed it was) and indeed how it would maintain the skills. It was identified through the interview that there was a finite budget for training which had not been varied in line with the growth of the partnership. This raised further questions in relation to financial management and human resource management of the shared internal audit service (these questions were asked post interview).

How the shared internal audit service demonstrates quality and continuous improvement. How the quality assurance program works within the partnership and how the partnership assists organisational change

The topic relating to continuous improvement and quality, highlighted a strong process orientated method which was deployed to ensure a quality report was produced that was supported by relevant evidence. This process was built into audit management software and all staff were required to conduct all audit work through the system. However, interviews identified that there was a bottleneck within the quality assurance process. It was identified that all audit reports went through a single manager and also allocation of audit activity was also controlled by the same single manager. This was demonstrated through conversation and interview by staff identifying that if this manager had leave for one or two weeks then all output would cease for one or two weeks until that manager returned. It was recognised that

this audit manager did bring some good experience and skill to the review part of the report some of this experience being derived directly from their engagement with the audit committee. However it was also identified that the head of internal audit was not part of this quality control process. In line with the concept of continuous improvement I also asked the question about how the shared internal audit service maintained customer satisfaction levels and asked if any activity was taken to gain feedback from the partners and clients. The interviews identified that, for every audit report issued, an independent questionnaire would be sent out from the administration for the client to complete to say if they were satisfied or otherwise with that particular audit. However there was no activity in relation to the overall satisfaction of partners and clients with the overall provision of the shared internal audit services. It was apparent that there was no direct or indirect marketing activity being undertaken.

How the shared internal audit service communicates effectively. How information moves between individuals in particular how the individual being interviewed at that moment in time fits within communication framework

The topic of communication highlighted what was to be one of the most significant findings of this research. In the course of asking around this topic in interview it was identified that there was a considerable blockage in information flow both between auditors and up and down through the hierarchy of the shared internal audit service. The most significant aspect reported through interview was that of the information flow from senior management and audit committees down through the head of internal audit/audit partnership manager, audit manager and through into the rest of the team. It was also highlighted that this lack of communication flow had resulted in embarrassment for some of the participants during the course of the audit activity for example attempting to start a piece of audit work where senior management had asked specifically for it not to be undertaken at this time. Also through discussion around communication and the shared internal audit service it was identified that the head of the audit

partnership was determining what should be reported to the operations group and then onto the partnership board for the shared internal audit service. This in my opinion did not allow for the partnership board or the operations board to take ownership of the shared internal audit service indeed it enabled them play lip service to the concept of partnership working. There was equally no challenge coming from the partnership board or the operations board to the information being provided by the audit management team. However what was being reported by the audit management team did highlight a service orientated perspective rather than a business or organisational perspective being presented. By this I mean the information reported mirrored the type of information that would be provided within a single organisation. There was very little presented in terms of the shared internal audit service as an organisation and yet information identified in chapter 4 and in other parts of this interview process highlighted a level of autonomy and boundary enforcement around the shared internal audit service. Financial information presented was understood from the interview to be purely budget outturn figures.

Furthermore, the topic of communication highlighted some of the difficulties/challenges that the shared internal audit service is facing when communicating with senior management and or the audit committees. An example of this was disclosed by participant seven was highlighted a series of IT audit failings had been reported through the IT department and saved considerable reputational damage loss of data and potential fines from the information Commissioner's office (ICO). The reporting of these findings was not disclosed to the audit committee as a positive result from the internal audit activity indeed it passed almost unnoticed. Running records review of the audit committee effectiveness identifies weaknesses within some of the audit committee practices that also weakened the effectiveness of the shared internal audit service. In particular, it has already highlighted some reports were not even presented by the head of internal audit, other reports were presented with minimal background information for the head of internal audit, some reports were so heavy in

information that the audit committee chairman was unable to manage the meeting effectively to draw out the key risk elements being reported by internal audit.

How the shared internal audit service provides risk-based assurance. How the shared internal audit service ensures that their activity is linked to the risks faced by the organisations they are auditing

The next topic discussed is risk-based assurance. As Pickett (2007) and Chambers (2014) both indicate modern internal audit practice requires a focus of the service to the key risks affecting the organisation. Indeed the definition of internal audit requires the service to focus on helping organisations achieve their objectives and they achieve this by bringing about a systematic review of the governance risk management and control processes. However when questioned in interview it was clear that one of the organisations was very immature in their risk management process and therefore presented a difficulty for the shared internal audit service in focusing on a risk-based practice. However, interviews identified that even though there was no maturity at organisations relating to risk management there was also immaturity relating to risk-based internal audit within the shared internal audit service. Examples were cited whereby perceptions of high-risk medium risk or no risk were not tallying with the perspectives of senior management or audit committees at the partners in relation to these levels of risk. The audit plan itself when discussed in interview highlighted a significant level of cyclical type audits which featured in the audit plan purely because they had not been revisited for a period of time (up to 3 years) or they actually sat on the plan every year regardless of the risk because of a perception that there is an expectation of the internal audit service to assess these areas for example payroll, creditors, debtors, and other financial systems. This practice does not reflect the expectation of the public sector internal audit standards however it is indicative of many local government internal audit service plans as identified during running records review.

How the shared internal audit service is insightful, proactive, and future-focused. This includes engagement within partner and client change programmes and how the shared internal audit service itself remains up-to-date and is alert to organisational change

The ability for a shared internal audit service to be insightful, innovative and future focused was challenging as a discussion topic with the participants. Most of the participants struggled to articulate any aspects where they felt they had been insightful innovative and future focused in relation to the audit reports. Two participants were able to indicate areas where they felt they had indeed been insightful by bringing to management attention changes in things relating to contract management and procurement and also in relation to ICT. The innovation and future focused aspect of these principles came with an expectation that the shared internal audit service would provide consultancy, however, interviews identified that there was a significant reluctance to undertake any form of consultancy, indeed it was only possible to identify two occasions in the last two years where an auditor had been engaged in some form of consultancy. It is understood through interview with the management team that this has come about due to 2 factors; factor I is the ability to manage consultancy activity and report on it, factor 2 relates to the potential objectivity challenge that could arise later on should the service be required to audit an area that they had provided consultancy for. This is not in line with the public sector internal audit standards, indeed, it provides a significant challenge for the shared internal audit service to continue to provide value to the partners/customers.

How the shared internal audit service promotes organisational improvement. This includes discussions on the consultancy role of the shared internal audit service, in particular, the individual being interviewed has undertaken any consultancy

This topic led onto the topic of promotes organisational improvement. It was clear from interview that all audit reports provide some form of recommendation to management that

would enhance the control framework for the organisation. The expectancy set out by the participants was that these recommendations would promote organisational improvement. I challenged these expectations and asked how the shared internal audit service itself could also promote organisational improvement by demonstrating improvement within itself. Some of the partners had other shared services in operation others were considering shared services as a possible delivery model. Therefore the shared internal audit service has an opportunity to lead by example and demonstrate to the partners how a shared service can be operated effectively, efficiently and economically. Recognising that austerity measures would continue within the local government and public sector generally, should have prompted the shared internal audit service to demonstrate how they could help, mentor, coach or develop expertise across the organisations that they partner with a view to building more shared services.

Is the governance framework enabling the shared internal audit service; is there an indication of semi-autonomy or full autonomy, and how the individual fits within this framework

The topic of governance in relation to the shared internal audit service was mainly for understanding of how the shared internal audit service actually operated compared to the processes and governance set down in the documentation identified through the running records review. It was clear from the interviews with the management team that there was difficulty in member/councillor commitment to the partnership board. It was understood from interview that they had yet to have full attendance at any partnership board meeting. Furthermore, when questioned about decision-making in relation to the finances of the shared internal audit service and who would have authority to approve various steps, there was uncertainty as to the authorisation levels and indeed who had authority to make key financial decisions. Interviews across the board in this round identified a lack of understanding of expectation at both partnership board level and operational board level. Those who are able to give a perspective of expectation was based on what they believed the boards wanted but

they had not actually asked what was wanted by the boards. The vision objectives missions et cetera that are detailed on the website could not be articulated by any of the participants including the management team. At best their expressions were vague and a general understanding of an expectation around growth and quality '*for a good price'*. Alongside the shared internal audit service governance framework is also the public sector internal audit standards requirements of reporting from an internal audit service by the head of internal audit. Therefore questions were asked of the participants in relation to reporting to senior management, coordination of external auditor and other assurance providers reporting to the board and reporting to audit committee. The basic processes were identified as would be expected of a normal internal audit service within a single organisation, the challenge based on interview appears to come from the nature of the actual report content and presentation this seemed to vary from partner to partner and reinforced the issue of standardisation already identified. One expression that came through from the audit management team that was relatively alarming was the reluctance to engage with the external auditor and indeed citing that it was the external auditor's responsibility to engage with them and therefore as they had not engaged with them they had chosen to ignore the external auditor. This reinforced my understanding that standard 2050 could not be demonstrated as compliant. This also highlighted the possible risk of isolating practices within the shared internal audit service management team by this I mean the reluctance to go out and engage with key stakeholders instead of sitting back and awaiting the stakeholders to come to them. This could result in a lack of understanding of organisational risk and requirements of the service.

Are there any specialisms and other services that would not fall under the definition of internal audit for example IT auditing, counter fraud activity, risk management consultancy, et cetera

The topic of specialisms has already been discussed to some extent above however, this particular topic was discussed with all participants and highlighted that there were other skills

within the team that could potentially be exploited or beneficial. Several of the team spoke additional languages, some have enjoyed working in other countries, several had been within other audit firms in the private sector, and other such skills that would normally appear only through one-to-one conversations with the individual. The critical specialisms have already been indicated above, these included counter fraud, ICT audit, risk management and contract procurement management. This line of questioning though did raise the issue of standardisation and levels of service provision across partners and clients. The interviews identified that the shared internal audit service had schools as clients and they had certain specialist requirements (at least understanding of the school's remit) and these had not been captured in any of the shared internal audit service management systems. There was a general recognition by participants of who these specialists were, in relation to the listed skills above. In pursuing this topic area I asked the questions in relation to succession planning and how the shared internal audit service would ensure continuity of service provision should any of these specialists leave the organisation, indeed I also asked the question in relation to the head of internal audit and other management team members. There was no clear succession plan in place. Furthermore, it is understood that the specialists and the generalists would not work together but each auditor operated independently. It was identified that some audits could take several months to complete as the individual undertaking the audit was the only person able to work on that particular audit at that particular time and therefore if they took leave or were sick or absent no one was able to cover. This also presented a challenge for the shared internal audit service in terms of knowledge share, with a lack of crossover or teamwork being undertaken the understanding of what knowledge is held by individuals could also potentially diminish.

Does the shared internal audit service demonstrate commercialism or business-like activity including understanding how the shared internal audit service addresses; marketing, financial management, human resource management and operational management, as indicators of a business or organisation in its own right in operation

This next topic was derived from running records review and the focus group conducted as part of chapter 4. Here I asked questions that could indicate the shared internal audit service could or should be operating as a business or separate organisation in its own right. My line of questioning covered financial management, human resource management, marketing and operations management (including supply chain).

In relation to financial management it was clear from interview that all of this activity was controlled by the head of the audit partnership with some consultation with the audit manager. No financial information was shared to the rest of the team. However when questioned further about financial management the shared internal audit service management were only able to relate to this topic in terms of budgetary management. The shared internal audit service clearly continue to operate as per any other service within the host organisation. This presents significant difficulties when attempting to manage income coming from partners and clients and expenditure in relation to resources. There was no indication of rationales behind the level of reserves held by the partnership only that it had occurred over a number of years, there was no expectancy to spend any of this reserve on internal investment for the shared internal audit service. Indeed when questioned there is no indication of funds set aside for internal investment. Furthermore, the cost per day of the internal audit service was based on an average cost of the whole partnership contribution divided by the total number of days provided. This does not reflect the true cost per partner or client. Furthermore, there was no cost variation in relation to specialist services (it would be expected an ICT auditor to cost more per day than the general auditor). Additionally, from interview it was not clear if there was any potential to increase contribution levels from partners, the expectation being, that the costs of staff will increase over time therefore contribution may increase. If contributions do

not increase then there is expectation of further savings to be made from the shared internal audit service.

Questions relating to human resource management within the shared internal audit service also highlighted some areas where improvements could potentially be made. These were around the induction processes but also in relation to expenses claims, mileage claims and recruitment processes. It is understood that all policies relating to the host HR processes had to be complied with by the shared internal audit service. This placed restriction on the evaluation of value associated with each job role (job evaluation process). In reviewing job descriptions and personal specifications post interview it was confirmed that the qualification level for a principal auditor was that of 5GCSE's. This qualification level was considerably below expectation. From interview it was understood that this was historic in relation to members of the team that did not hold professional qualifications and therefore in order to place them in job roles the specifications were toned down. This is not best practice.

The marketing aspect of the shared internal audit service presented some more surprising results from interview. This was as a result of clear marketing type activity being identified in the running records review (for example the website) that seemed to indicate the marketing activity was part of the shared service arrangements. However interview identified that no active marketing was being undertaken. Clients and partners had approached the shared internal audit service and therefore the marketing strategy could only be determined as opportunistic. In terms of activity to proactively seek other partners or clients there had been no positive activity from the shared internal audit service. However there were indicators that some marketing activity was happening inadvertently. This was demonstrated by the sale of the audit management software to another organisation and also by the provision of IT auditor provision to other organisations. Furthermore, there was limited understanding from the Tactical level interviews of what services could be provided and indeed there was a significant variance in what was thought to be available. However, the service did undertake customer satisfaction surveys but only in relation to each audit not the shared service.

The final element of these four pillars of business is that of operations management (including supply chain management). It was clear from interview there was a robust audit management system in place to capture data, evidence and create audit reports. This included the quality review processes. However when questioned about other support services required by the shared internal audit service to function, such as IT, it was identified that there were no service level agreements or similar documents between the shared internal audit service and the host partner and its own support services. This presented a significant challenge for the shared internal audit service when considering expansion or development of other specialist services that may require equipment or systems from these support services. In particular, it was identified that IT services from the host was continually disrupting the shared internal audit service provision. It was identified that the hardware provided was inadequate for the shared internal audit service requirements and the network/software sitting behind some of the shared internal audit service systems was also inadequate. In interview it was identified that all of the audit team had suffered considerable lack of availability of ICT systems over the last two years. At the time of these interviews no action had been taken by either the audit management team or the operations board or the partnership board to address the lack of availability by the host partner in terms of IT provision. It was noted that there was a general acceptance that the shared internal audit service would bear the cost of this downtime. There were various stories told during the course of the interviews about how data was being lost temporarily as the shared internal audit service was moved from one network point to another and its supporting systems and linkages between them were also being broken. This particularly had a knock-on effect with the audit management software and evidence trails. Furthermore, the host HR requirements coupled with the shared internal audit service systems had resulted in some team members recording their time and activity a total of four times (in four separate systems). This time and attendance recording data was used by the shared internal audit service to show how the service had delivered on the days bought by partners or clients, but the host had not accepted this system as an equivalence to their own systems. This recording of time at the end of each day or week or month (depending upon the person completing the information)

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was wasteful in terms of administration time. This type of inefficiency when coupled with lack of systems supporting the service presents considerable challenge should the service wish to expand. It was also clear from interview, that no one had shared with the IT or HR services the shared internal audit service business plan and expectations.

This final topic is an open question for any additional comment the participant may wish to make

The final general open question identified that there were several opportunities available to the shared internal audit service that as yet had not been exploited. One such area of opportunity was the expansion of the IT auditor provision to all partners and two new clients. This was raised by two of the participants. It was also highlighted through the interview with the two work placement participants who demonstrated their ambition to help the shared internal audit service develop this specialism. Another area that was identified for possible expansion was the counter fraud service. This was identified by several participants as an activity that internal audit regularly engaged with but as yet had not formally been acknowledged as a provider. It is understood from interview that a counter fraud team was being developed by another department within the host that was looking to partner up with the shared internal audit service to provide a complete counter fraud arrangement at the host site. There was clear ambition from some of the participants to develop this into a full provision that could also be made available to other clients.

There were some other general comments that were made by the team in relation to possible effects of institutionalisation. These included for example clear indication of resolution that regardless of how or what changes this research makes within the shared internal audit service ultimately it would revert to historic practices. This was raised as general concerns that some of those in management positions were adverse to change. Indeed some of the participants raised concern that they have already made innovative suggestions to help the

shared internal audit service and these had simply been rebuked. This particular commentary is regarded as a risk to this action research insofar that the research is time bound to one year and at the end of this time period there would be a review to measure the impact. However it is not anticipated to return to this shared internal audit service to see if the changes have been sustained. This is regarded as an indicator of potential limitations to this research and as such has been recorded in chapter 10.

5.5.2   Senior Officer Group

The interviews with Senior Officer Group undertaken in the period 5th February to 14th February 2017. The interviews followed the same semi-structured topics as presented to the audit team. The methods of recording the information was also the same.

Each of the participants were able to provide a brief background to themselves but also the background to their own organisation and their organisation's involvement in the shared internal audit service. For example one of the participants was able to say that they were a founding member with the host organisation and had been "*there from the start*". Others also identified the tekkal legal issue that had prompted their engagements in the shared internal audit service as a partner rather than a client.

Each of the partners identified that overall they were satisfied with the service provided. However each in turn raised questions in relation to partnership governance, services provided, expectation vision, cost of services, and performance information. In particular two of the partners were interested in pursuing the counter fraud services and indeed reported that money was available to purchase the services from the shared internal audit service. They were however unaware that this was a service that the shared internal audit service could provide.

Furthermore, it was evidenced from interviews that only one out of five of the partners received the full IT audit provision. All of the partners were interested in developing this particular

service further and indeed introducing it where it was not yet present. They also recognised that this was an area of service delivery that had potential to make further savings for the partnership either through income generation from clients or through wider marketing of the shared service.

One of the interesting points raised through the interviews with the stakeholders was that there had been limited development given to them or their partnership board representatives. There had been limited opportunity for them to build relationships with their peers within the shared internal audit service and indeed several asked for clarity over their role and responsibilities.

This group also identified that there was a lack of clarity and indeed challenged the suitability of the governance framework currently in operation. This was in relation to their ability as an operational group to make decisions relating to the partnership and indeed influence such things within the partnership as team structures, products and services, quality, and other aspects of the service.

Only one of the participants was able to identify where the shared internal audit service had provided consultancy, others (two) were able to describe situations where the internal auditors had provided some advice but this had not been captured in any formal form. Therefore making it difficult to identify if this was true consultancy or merely some ad hoc advice. Regardless of this it was clear from the interviews that all partners were interested in the possibility of the shared internal audit service providing more innovative insightful and future focused consultancy activity.

Throughout the interviews it was apparent that the host organisation was receiving the greatest breadth and benefit of the range of services available from the shared internal audit service. Indeed it was identified that several partners did not know of the full range of services. This raised the question over who authorised the website creation and approved the content displayed. This may be indicative of the failure in marketing within the shared internal audit service.

Of the participants two were able to identify that there was a limitation in the level of service provided from the hosts IT department. The other partners were unaware of the IT reduced service.

5.5.3   Validation

Based on the study and analysis of the interviews and focus groups undertaken above, a plan of validation (Herr and Anderson 2015), (McNiff 2014) was developed and is summarised in table 5.1 below. This validation framework dovetailed with the formal approval processes for the shared internal audit service.

Strategic Focus Group

Councillor and Trustee perspective and validation

Tactical Focus Group

Senior officer and host level perspective and validation

Operational Focus Group

Audit management and team perspective and validation
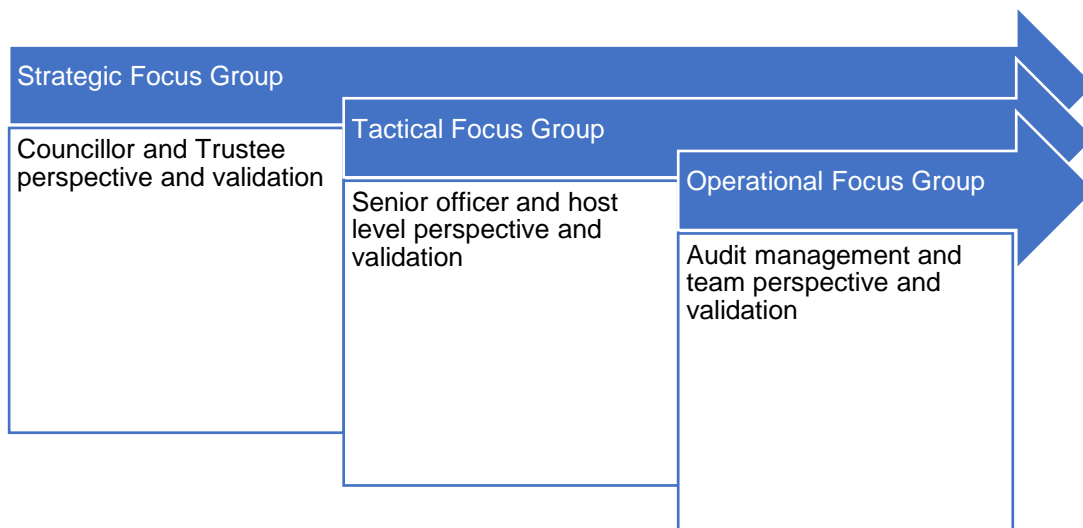
Table 5.1 Validation Framework

It was designed to serve three purposes:

1)   to capture the challenges identified so far and report to the appropriate groups to aid '*validity*' from the group feedback (McNiff 2014),

2)   to prepare possible actions to address the challenges within this cycle,

3)   to '*inform*' the next cycle of potential activity from the action research (Eriksson and Kovalainen p.197).

5.5.4 PSIAS Assessment

As part of the analysis the complete assessment against the public sector internal audit standards was undertaken. A summary of the public sector internal audit standards was included as part of the presentation constructed by myself to deliver my findings to the audit team operations board and partnership board groups (27th March 2017). The presentation consisted of four sections the first section outlined the scope of this cycle of research and the relevant standards to which this research was referring. The second section provided an overall opinion and findings set out at strategic tactical operational and individual (STOI) levels. The third section included a full colour coded summary table (RAG rated) against the public sector internal audit standards. And the final section included some recommendations to those receiving the presentation (for example actions linked to the operation board).

The presentation included the following recommendations:

- That the partnership board and operational management board take ownership of the partnership as a whole;
- provide vision direction and support-including change programme support once developed;
- structure/time meetings to enable communication flow and decisions to occur in a timely manner linked with audit committee schedules;
- take ownership of any decisions that require local approval i.e. approval at one partner or another;
- develop with the shared internal audit service any missing strategies that may help with challenges identified.
- The management team was to convert to a leadership team, draft and implement a program to address the identified problems and ensure the partnership evolves to meet the needs of its new environment;

- Address the critical risks immediately for example the single point of failure risk and non-conformance with the public sector internal audit standards;

- Seek appropriate support and training from host or other organisations as relevant. The management team should also look to develop a new management framework of controls and structures to address such issues as missing induction processes, preparation of reports and allocation of work, et cetera. The individuals within the shared internal audit service should identify personal needs and omissions;

- update CPD and review training requirements;

- contribute to the change programme arising from this work.

The presentation report was presented through the audit team to the operational management team and the partnership board. Outcomes arising from these presentations were captured and informed the validity requirements and fed into the next cycle of this action research. A copy of a presentation is held in appendix 12.14

An extract of the public sector internal audit standards review is attached in appendix 12.17. However set out below is a summary of the conformance with the standards reported and validated at the focus group held on the 27th March 2017.

Cycle 1				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	12	5	2
Performance Standards	33	28	4	1

The completion of this assessment identified that there were three areas of non-conformance (standard 1112, standard 1230 and standard 2050) and nine areas of partial conformance but the majority of areas were fully conformant. Therefore the priority of actions planned was to address the three areas of nonconformance first. The actions taken to remedy the standards are set out below:

5.5.4.1 Standard 1112:

This is a relatively new standard within the public sector internal audit standards and sets out the expectation that the head of internal audit may have other responsibilities other than just managing an internal audit service. However as identified in chapter 4 and again in the interviews, the level of resource allocation to the role of the head of internal audit was estimated to be at circa 5% FTE. This is regarded as too little to manage a single service let alone a shared internal service across six other organisations. The host organisation reacted to this problem by transferring responsibilities for these other services to other parts of the organisation and supported the focal concept that the audit partnership manager needed to be 100% involved in the operation of the shared internal audit service and the delivery of the role of the head of internal audit.

5.5.4.2 Standard 1230

This standard requires internal auditors to maintain a level of continual professional development (CPD). As identified several team members had allowed their professional body subscriptions to lapse and there was a global lack of CPD for the shared internal audit service as a whole. Remedial action taken at this point partially resolved the issue. The resolution was to pay for the reinstatement of subscriptions to the individuals relevant professional bodies. However the CPD aspect remained outstanding.

5.5.4.3 Standard 2050

This standard is concerned with the coordination of other assurance providers and in particular this research had found that the external auditor was openly challenging the head of internal audit's opinion and had to date not engaged in communication with the internal auditors. It was noted however that this was not across all partners. However, this was occurring at the host partner and having a knock-on reputational effect at other partners. Therefore the action

taken at this stage was to create a schedule of meetings to be held between the head of internal audit and the external auditor and that these meetings would be agenda led and minuted.

5.6 REFLECTION

5.6.1 Coding and themes arising

The 24 interviews were initially coded with reference to the PSIAS and then to the governance theme of the research. The initial coding was to ascertain if the shared internal audit service conformed with the PSIAS based on the 10 core principles for a professional internal audit service as set out by CIFPA PSIAS (2017) (see appendix 12.1). The secondary coding was used to identify emerging themes from across the initial 24 interviews that were relevant to the governance of the shared service. For example:

5.6.1.1 Services and Quality

Of the 24 semi-structured interviews it was clear that services and quality was the highest recurrence of coding through the interviews (See table 5.2). This was in fact second only to internal audit as a code. A full coding record across all interviews is shown at appendix 12.13.

Interview Coding/Categories Layered & Cross Referenced to CBMF

Collaborative Business Management Framework

Participant reference number	Service and Quality	Internal Audit	Counter Fraud	ICT Audit	Specialist Services
1	✓	✓	✓	✓	
2	✓	✓			
3	✓	✓			
4	✓	✓	✓		✓
5	✓	✓			✓
6	✓	✓			✓
7		✓			
8	✓	✓	✓		
9		✓			
10	✓	✓	✓		✓
11	✓	✓			
12	✓	✓			
13		✓			
14	✓	✓		✓	✓
15		✓			
16	✓	✓			
17	✓	✓	✓		
18	✓	✓		✓	
19	✓	✓		✓	
20		✓		✓	
21	✓	✓	✓	✓	✓
22	✓	✓			
23		✓			
24	✓	✓		✓	

Table 5.2 - Coding

There was a mix of other services that arose in interview – Counter Fraud, ICT Audit and other specialist services e.g. procurement consultancy. These were captured in an initial framework for further consideration. Set out below is the first framework elements emerging that present challenges to the shared internal audit service, namely through the Tomkinson (2007) aspect of service quality and standardisation.
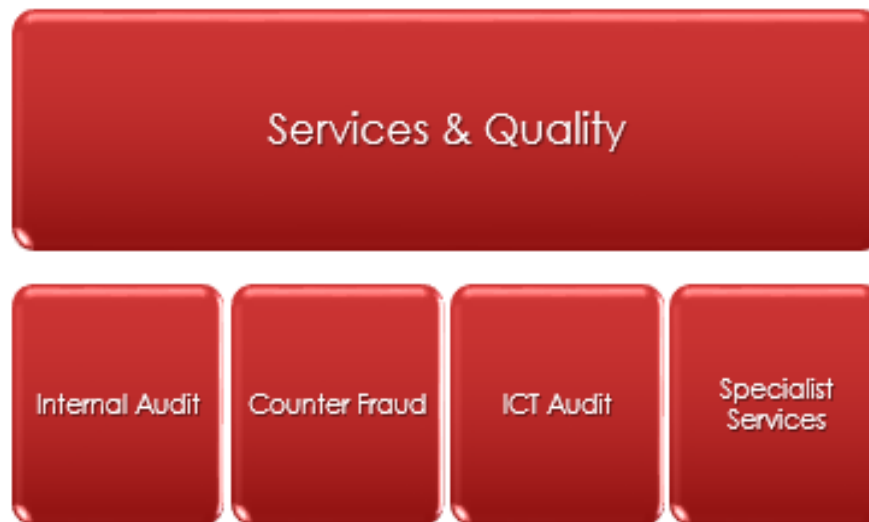
5.6.2 Key elements arising from this cycle

On reflection this chapter when coupled with the fourth chapter identifies that there was a general issue in the services and quality control aspects, vision and objectives and other aspects of the service provision.

Expectation was that all interviews were to be conducted face-to-face however due to circumstances beyond the control of this researcher two of the interviews had to be conducted over the phone. And although this is recognised as potentially reducing quality of information gained from the interview, I do not consider it to be a sufficient impact on the overall findings of this research. This is due to the range of validating processes and coding/layering of data which is undertaken through the course of this research.

In my opinion at this stage there still remains information to be gathered to continue to inform this action research. Based on the interviews it is necessary for me to conduct further data gathering with the groups and seek their perspective on the development potential for the shared internal audit service.

Reflection also raises concerns regarding the governance and model of service delivery being described by the participants versus those identified within the running records review. For example there is frequent mention that this is a partnership and yet there seems to be limited demonstration of commitment by members and senior officers at the two uppermost levels of the governance framework. This may suggest that this in effect is an outsourced arrangement to the host partner rather than a partnership. This links to the Common Service Model element of voluntarism (Dollery et al 2016), and the governance principle of a Shared Service Agreement, at this time appears to fall short in ensuring the oversight requirements and the ability of the service to deliver on the key quality element as highlighted by Tomkinson (2007) and Dollery et al (2012).

However the red RAG rated standards were addressed within this cycle to the satisfaction of all of the STOI levels. It also created a sense of urgency which helped motivate the whole shared internal audit service to continue with this action research.

At this stage there were no tools or techniques developed and introduced to address these three areas of nonconformance. However it was recognised that there would need to be actions introduced to ensure these three areas did not re-occur. Therefore these three areas continued to be under scrutiny in the next cycles of the action research.

5.7 CONCLUSION

In conclusion this cycle has shown that the shared internal audit service had only really considered the thematic categories shown in the figure 5.1 below.
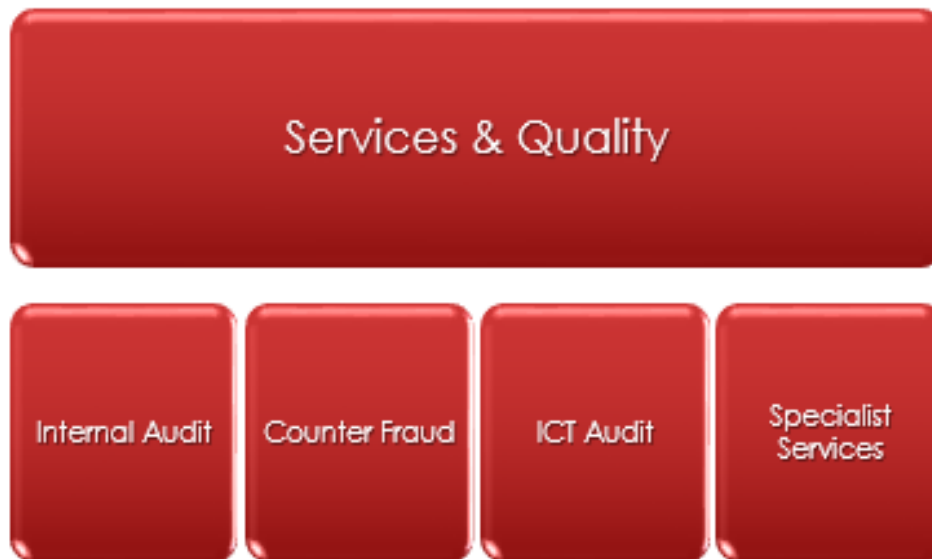
Figure 5.1 Challenges in chapter 5 – range of services and standardisation

5.7.1 Research question results

Research question 1   What are the governance challenges that a shared internal audit service has to address?

This chapter has identified that there are several challenges facing this particular shared internal audit service. It has in-part highlighted and captured some of these challenges and given priority assessment in relation to the public sector internal audit standards. It is recognised that there may yet be more challenges to identify in the next cycles. However, it is the Tomkinson (2007) aspect of standardisation and quality that is dominant as a challenge.

Research question 2   What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

From this cycle it has been identified that the shared internal audit service is making a positive cost saving for the partners, hence aiding the 'voluntarism' (Dollery et al 2016), but at this stage it is not meeting the public sector internal audit standards. Therefore this research presents an opportunity to have significant positive impact results for the shared internal audit service if it can introduce measures that result in a conforming service.

Research question 3:   How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?

At this stage minimal actual actions have been used to improve the service, only urgent actions have been taken so far. In chapter 6 the action research launches its second cycle and we continue to gather data and start to develop more actions. Therefore, the answer to this question is still to be found.

This chapter has detailed the first full cycle of this action research. It is analysed the data arising from multiple interviews and focus groups. It is built on data from chapter 4 and will now form the foundation of data for chapter 6.

Chapter 6
Second Cycle

"Establishing validity is to do with showing the authenticity of the evidence base, explaining the standards of judgement used and demonstrating the reasonableness of the claim"

Whitehead and McNiff (2006 p.98)

6 SECOND CYCLE

6.1 INTRODUCTION

This chapter sets out the second cycle of action research conducted on site within the December 2016 to December 2017 planned intervention period. The cycle builds on the information discussed in Chapter 4 and 5.
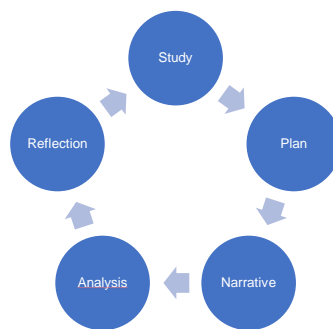
Wheel of each stage in the cycle -

Each of these sections provides some structure and helps to articulate the various stages that this action research has gone through

6.2 STUDY

Based on the information provided and analysed in chapter 5, in particular the outcomes of the two focus groups and the feedback from the 27th March 2017, this study phase of this cycle is to further develop understanding of the shared internal audit service from the perspective of the relevant STOI groups and commence the development of a change programme. In order to do this I am undertaking a series of co-learning focus groups (McNiff 2014) with the STOI levels.

I recognised at this stage there is a requirement for the action research to start and incorporate the change management documentation and approval aspects of the host organisation. This is supported by Herr and Anderson (2015 p.68) when they state: "*Action researchers must be competent at both research procedures and moving participants toward successful action outcomes.*" . This is a necessity as formal decisions may be required and effect individuals within any STOI level of the shared internal audit service. Already identified in chapter 5 were three red rated indicators of non-conformance with the public sector internal audit standards 2016, which resulted in the host authority taking direct action and start addressing these three indicators. Recognising that there were eight other indicators showing amber, plus indication of shared service related challenges that may require longer term actions and investment, it was felt that a formal record for the shared internal audit service should be kept and appropriate authority sought for relevant actions.

The host authority had a project management framework but did not have all the necessary documentation required to record both the research and change aspects. Therefore part of this cycle was allocated to the development and co-creation of appropriate programme management documentation.

In order to allow for the appropriate approvals, within the shared internal audit service governance framework as already identified in chapter 4, a series of focus groups were timetabled with the strategic members group and the tactical senior officer group both of which were required for approval for any change directly affecting the shared internal audit service.

Also as highlighted in Cycle 2 (Chapter 5) there remains concerns regarding the Tomkinson (2007) issues of standardisations and minimal quality standards. The first cycle demonstrated that the shared internal audit service is not yet conformant to the PSIAS (2017). This in some degree argues that the Tomkinson (2007) requirements may not be absolute in the sense of there may be a period of time where lower quality is tolerated. However, it was clear from the focus group in Chapter 4 that the tolerance time period is limited and that problems with the shared internal audit service need addressing.

This tolerance was replicated in the tactical and strategic groups where they prioritised the approach to remedy the non-conformance. This also feeds into the debate on the Dollery et al (2012) commentary on the hosted model and the need to satisfy the partners. Here is a demonstration that the totality of partners including the host are seeking the conformance with standards. This therefore is indicative of moving towards the Tomkinson (2007) requirements.

6.3 PLAN

The following semi-structured interviews and focus groups were delivered in this cycle of the action research:

FOCUS GROUPS	
Group and STOI level	**Date**
Strategic	
Members Group	24th April 2017
	17th July 2017
Tactical	
Host	6th July 2017
Senior Officer Group	24th April 2017
	8th May 2017
	12th June 2017
Operational	
Team	4th April 2017
	10th April 2017
	11th April 2017
	18th April 2017

	25th April 2017
	8th May 2017
	11th May 2017
	10th July 2017
	11th July 2017

6.3.1 Researcher role defined

My role in this cycle of the action research is that of an outsider collaborating with the insiders to develop further knowledge (McNiff 2014) regarding the shared internal audit service but also to develop and operate a change programme.

As mentioned above there is a recognition of potential formal authorisation and approvals required to make changes in the shared internal audit service and therefore part of my ethical recognition I have clearly stated to the host that I have no decision-making capabilities within the change programme or as a result of any conceptual actions being implemented.

Based on chapter 4 and chapter 5 outcomes I anticipated that there was variance in expectation of services provided by the shared internal audit service. I would also suggest that internal audit is not necessarily a fully familiar subject for all involved therefore part of my role may also be providing explanation for terms used by this profession.

Furthermore, my expectation is to test any new tools or techniques, and test concepts and aspirations, developed to resolve the challenges identified in the previous two chapters. For example, I am expecting to raise the range of services to ascertain if those services were made available to particular partners would they be interested in using those services.

Also within this particular cycle having identified in the previous cycle that there are actions required to develop and improve the shared internal audit service to help it conform with public sector internal audit standards and develop as a partnership in its own right I expect to become

a facilitator, trainer, mentor and coach. These roles would help me to bring my knowledge as identified in chapter 4 into discussions relating to the development of this shared internal audit service.

The focus groups with board members were to be controlled to no more than two hours per session. This was an imposed constraint by the organisations concerned. Focus groups with other STOI groups varied in time to allow exhaustive discussion.

Finally, in this cycle I conduct an auto-ethnographical interview (Anderson 2006) to capture my experiences in running a shared internal audit service and identify if the challenges identified so far were encountered and if so, did I have a tool or techniques to help address these challenges.

6.4 NARRATIVE

On 4 April 2017 the first focus group with the operational team was held. In this focus group the operational team discussed with me the findings arising from the first cycle and the feedback from the tactical and strategic groups. It was clear in this focus group that in order to address all of the challenges so far identified there would be a wide range of possible actions required. Within this focus group it was agreed that picture records would be held from each of these focus groups to help maintain a record (Easterby- Smith, Thorpe and Jackson 2008). Minutes were also taken for a formal record, for use by the shared internal audit service to aid in their formal records. Also a shared service governance tool was used to test the understanding of the officers in the group on their knowledge of collaboration viewpoints (Milford, McDonald-Wallace and Gatt 2017 tool GRM&C 1.03 p31)

On 10 April 2017 the next focus group with the operational team was held. In this focus group we considered what would be necessary to take to the tactical and strategic focus groups that were scheduled for 24 April 2017. One of the actions arising in this focus group was the requirement for a formal program mandate to be created and supportive authorisation received

from both tactical and strategic levels. It was agreed that this could be done outside of this focus group and be prepared for the next scheduled focus group on 18 April 2017. We also took time to develop reporting and escalation methodology within the shared internal audit service that could exist within the real workplace. Consideration was also given to the possibility that this emerging change programme could require risk management aspects that would dovetail in with the existing risk registers held by both the host and the shared internal audit service.

On 11 April 2017 another focus group was held with the operational team. In this focus group we considered whether actions taken within the shared internal audit service could have knock on effects to other services either in the host or partner organisations. Also work commenced on the development of terms of reference for possible change activities required by the shared internal audit service to address the challenges identified in chapter 5.

On 18 April 2017 another focus group with the operational team was held, which was the last focus group prior to going to the tactical and strategic focus groups scheduled on 24 April 2017. In this focus group we prepared the agenda for both the tactical and strategic focus groups scheduled 24 April 2017. Within these agendas we looked to isolate matters of day-to-day activity from actions arising from this research. Within this focus group we also looked to develop a plan of all the areas where challenges were occurring within the shared internal audit service and attempt to create a series of work streams that can investigate these further. We also considered the potential costs that could arise from changes being made and therefore considered how to capture and report these costs and authorise appropriate spend. Within this focus group it was suggested that a teambuilding type exercise for the strategic members group was facilitated by myself. Within this focus group we considered that a risk-based exercise would be most appropriate and I was tasked with developing this for 24 April 2017. The final action taken within this focus group was that of the adoption by the group of the change programme mandate that would be going to the tactical and strategic groups on 24 April 2017.

The tactical focus group took place on 24 April 2017 and within this focus group the program mandate was presented for the senior officer group to authorise and make comment on as necessary. There were no significant amendments made to the program mandate. This focus group showed positive support for the program and provided validation to the tools being considered.

The strategic focus group took place on 24 April 2017 and within this focus group the program mandate was presented by the senior officer group for approval by the strategic members group. Also conducted in this focus group was a risk management exercise that I facilitated. The strategic focus group approved the program mandate.

On 25 April 2017 the operational team met again with me to discuss the outcomes from 24 April 2017 decision. In this focus group terms of reference were finalised and agreed. Building on these terms of reference, and using the host based project management templates, a series of project initiation documents were created. It's worth noting here that all of the documentation used within the program were co-developed between the operational team and myself. Also in this focus group we conducted a brainstorming activity to capture benefits arising from this shared internal audit service the outcomes of which are discussed below in the analysis. Within this focus group the concept of using Agile auditing techniques was put forward by myself. Finally a framework or matrix of the areas needing consideration as part of this research started to take shape.

On 8 May a focus group with the tactical senior officer group and the operational team was undertaken. This mixed focus group sought to validate some of the shared internal audit service partners requirements, for example, the number of operational days per site. We also considered how time could be created for the officers, already involved in the research, to commit to a more significant time level so as to be able to develop and test possible actions to address the challenges already identified. Furthermore, this focus group considered the financial management requirements and backfill of officers time. Additionally, within this focus

group we also considered the governance, staff structures and services relating to the shared internal audit service.

On 11 May 2017 an operational team focus group was held and discussed the program. It looked to consider prioritisation of actions and potential governance changes. Within this focus group recommendations were also created for the host, tactical senior officer group and strategic members group to consider at their next scheduled focus groups.

On 12 June 2017 a tactical senior officer focus group was held and discussed proposed interim staff structures. These structures were approved by this focus group.

On 6 July 2017 the host focus group was held where the formal host-based approval for the interim structure was considered and any change made prior to going to the strategic members group on 17 July 2017. As part of this focus group further discussion was held in relation to timeframes, with regard to, the length of duration anticipated for the interim structure.

In addition to the above mentioned focus groups that took place, additional information was also sought from records held by the shared internal audit service. These records were used to help inform potential actions that were being developed and provide supportive evidence against statements made.

On the 20th July 2017 I conducted my own auto-ethnographical interview and captured my experiences.

The final actions to occur in this cycle was that of another assessment against the public sector internal audit standards 2017, which had now replaced the public sector internal audit standards 2016, but had remained unchanged when compared against the earlier standards.

6.5 ANALYSIS

Building on the coding (Bryman and Bell 2015) processes used in chapter 4 and 5, this chapter continues to consider arising themes from the focus groups and ongoing cycles. The *italic*

headers reflect this coded theme for this chapter. See appendix 12.12 and 12.13 for coding examples.

Governance

From the above focus groups one of the key elements that was noted was that for the strategic members focus groups, where councillors and trustees were required, there was not enough members present to be regarded as quorate based on existing governance framework. This theme had been identified in chapter 5 as well. This therefore identified for the four occurrences that had taken place during this research so far, only one was formally quorate. Discussion with the other focus groups about this particular issue identified that this was a recurring theme and a cause of some frustration as the governance required this strategic member level to approve a substantial range of actions, for example financial reserve spending. Given this indication of member attendance issues further consideration was given to adapting the governance of the shared internal audit service.

During these focus groups there was another re-occurring theme relating to the governance of the shared internal audit service. This related to the decision-making abilities at each of the STOI levels, for example, the tactical senior officer group were frustrated that as directors and chief officers they were unable to authorise financial reserve spending on any matter relating to the shared internal audit service. Feedback from the tactical senior officer focus groups identified that they were unable to make decisions that would be appropriate to their level. The governance indicated that the only decision-making groups were the strategic members group and the operational management group. Given the difficulty in ensuring a quorate strategic members group this became a significant challenge for the shared internal audit service.

Other services

Was also identified through these focus groups that although the fundamental internal audit service was operating to the satisfaction of the partners there was scope to improve this service and further develop other services more formally. For example IT audit and counter

fraud were both recognised as areas that could be provided across all partners and clients but required formal development and specifications for example price structures.

This range of counter fraud service issues had been encountered by myself in my own shared internal audit service. I opted at the time to develop a separate service with funding from DCLG.

The Vision and Mission

The vision of the shared internal audit service identified in chapter 4 was being shown on the website. In chapter 5 interviews identified that this vision was not well-known by all levels. In this chapter the vision was reconsidered and developed to reflect emerging expectations. In particular linked to the vision was a series of objectives for the shared internal audit service. Within these focus groups these objectives were revisited and found to be a blend of true objectives and performance indicators. Analysis therefore around vision and objectives finds that this is an ongoing challenge for the shared internal audit service, due to the differing expectations of each partner that was identified through interviews in chapter 5 and reinforced in the focus groups in this chapter. The lack of a clear vision and objectives is not conducive to helping the shared internal audit service standardise its activities was the conclusion drawn by the groups. Recognising that standardisation was one of the benefits of shared services identified in the chapter 2 literature review. Running records review also reinforced this issue of standardisation, as it was found that the reporting format from the shared internal audit service to its partners and clients varied considerably.

Conflicts

It was also noted during these focus groups that there was a conflict between the host and the partners that was derived from the governance framework. It was identified that any matter relating to human resources for example, advertising for new staff was dictated by the host

systems. The discussions from the focus groups found that there was potential to use the partners to widen advertising options. This conflict provided further reinforcement that consideration of human resource management within the shared internal audit service was necessary.

The most significant conflicts I had encountered in my own shared internal audit service was with the multiple other shared services in operation and that my 'board' was constructed with officers that held 'board' positions in a competitive shared service (another shared internal audit service). I had not been able to resolve this to my satisfaction.

Range of services

Given the discussion in chapter 5 about the range of services available, for example, assurance work or consultancy, counter fraud and ICT audit, and other specialist areas; and given the commentary within the focus groups that there was potential to develop these for all partners and clients; it identified the need for a marketing strategy. This would help ensure that customers were aware of all services available and help maintain their custom.

Model of shared service

Within the 8 May 2017 focus group discussions the nature of the model of the shared service was raised. The literature review in chapter 2 identifies that there were many shared service models available particularly since the localism act 2011. Therefore this research considered the possibility of moving the shared internal audit service from a lead authority model to a wholly-owned company model. The focus groups agreed that for this to occur there would require a substantial lead time that would be beyond the timeframe of this research. However it was discussed that roles, responsibilities and actions could be introduced in a revised lead

authority governance model. To achieve this it was agreed that the schedules within the governance documentation would be reviewed.

I operated a similar shared service model to the one under review here. There was not the motivation to move to a company model at the time. However, this was one of the future options I held in my business plan.

Information Flow

Analysis of these focus groups and the theme of reporting lines and information exchange identified that the existing staff structure contained a significant bottleneck, with the head of the partnership and audit manager creating a single individual line of information flow from the members group tactical host and tactical senior officer group down through and into the operational team. It also highlighted that this single line of information flow also related to information from the audit committees and external auditors for all partners and clients. The 'hourglass effect' represents the six senior officers, six audit committees, six external auditors and host line manager all feeding information down through the head of the partnership and the audit manager. It also represents the information flow coming back up from the operational team and individuals (see 9.4 for further information). It was the flow of information and the requirement as identified in chapter 2 for the internal audit service to be fully aware and able to contribute to each organisation, the concept of agile auditing (Curle and Spedding 2018) was introduced by myself to the operational focus group as a potential tool to help with information flow. Recognising that within the scrum (Curle and Spedding 2018) the audit manager, auditee, service manager and audit team members, would all be present, it appeared conducive to helping information flow by using this technique. It was agreed during the focus groups that a series of five audit areas would be tested using agile audit techniques. It was identified within this cycle that of the five audit areas tested four of the five saw reductions in time spent on audits ranging from 5% to 10%, but also feedback from the service area (customer) being audited was also more positive, as the feedback identified that the

shared internal audit service (to the customer) appeared more aware of their risks. The fifth area tested that did not show the reductions in time was identified as not receiving the instructions and briefing as per the other four areas. This failure to brief and prepare the customer appears to indicate that this aspect is a necessary part of the process of agile auditing. A more detailed information about the agile audit technique can be found in Chapter 2. The added benefit of the customer reporting is that the shared internal audit service appeared more aware of their risks and reinforces the view, as identified in chapter 2, that for an internal audit service to be effective it must recognise the risks to the organisation it is servicing.

It was also raised in these focus groups that the shared internal audit service was becoming more 'attractive' to competition. The focus group was unable to quantify the level or nature of the competition in the region. They did voice that other shared services were showing signs of expansion into the region.

Continuing along this theme of information flow from organisations into the shared internal audit service the focus groups also discussed potential structural changes to aid in this flow. From the interviews in chapter 5 it was clear that the assistant audit manager positions did not have a very effective way to ensure their awareness of the risks of all partners and clients, however, they were expected to do quality reviews of the audit teams reports. Therefore one of the techniques introduced at this stage was for the assistant audit managers to "buddy up" with the audit manager and the head of the audit partnership. This technique was designed to ensure information coming in from audit committee, senior management or the external auditors was received by two people rather than one. This initially gave an opportunity for knowledge share to occur between the assistant audit managers and the audit manager/head of the audit partnership. Progressing this action forward the next step introduced was for these four positions to be equally recognised as heads of internal audit as defined by CIPFA (2010b) guidance on the role of the head of internal audit. Given the timeframes of this particular cycle

and the occurrences of senior management, audit committee, and external audit meetings the results of this action is discussed in chapter 7.

However in 6 July 2017 tactical (host) and 17 July 2017 strategic focus groups the concept of restructuring the shared internal audit service management team to reflect the trial concept of four heads of internal audit being available to cover the six partners was discussed, and an interim "managing change" document drafted by the host organisation, to enable this activity to be tested over a longer period. At this stage it had already been recognised by some in the focus group's that this technique of widening the audit management team appeared to be beneficial.

Risk Management

Discussions relating to risk management and performance management also started to materialise within this cycle of activity. At this stage it was considered that the risk management framework within shared internal audit service and the host was sufficient. However given the change to objectives and the range of other challenges both risk and performance management were considered for debate in the next cycle.

New Partners and clients

Additionally, it emerged in one of these focus groups that there was an opportunity for the shared internal audit service to potentially seek additional partners and clients. This discussion also raised the challenge of managing the entry and exit of new and existing partners or clients.

Report output style

During the final July focus groups the operational team was given the opportunity to seek guidance from both the tactical and strategic levels, in terms of the final style of output from the service. It was intended that this activity would help towards the standardisation of the service provision. In particular the output discussion also enabled the reinforcement of the

need for the head of internal audit to report directly to the audit committee under public sector internal audit standard 1111.

6.5.1 PSIAS assessment 2

Also at the July focus group the second public sector internal audit standards (2017) assessment was undertaken. These results are shown below

Cycle 1				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	12	5	2
Performance Standards	33	28	4	1

Cycle 2				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	15	4	0
Performance Standards	33	29	4	0

As can be seen from these results the actions taken at the end of cycle one had addressed all of the non-conforming standards and one of the partial conformance. The July 2017 members group validated this result. However there still remained a more permanent resolution to the nonconformance in relation to standard 1230 and that of maintaining professional qualifications and CPD. The discussions from the focus group around this subject recognised that CPD was necessary to prevent the team from becoming outdated in their knowledge of techniques, but also raised the issue of training requirements for other levels within the shared internal audit service. This prompted a further discussion about the senior officer group and member group membership insofar that the existing officers were all finance professionals and did not hold knowledge of all the professional advisory aspects the shared internal audit now recognised it needed.

The following public sector internal audit standards remained amber:

1000 - purpose, responsibility and authority - the audit charter enables these elements to be clearly articulated to all stakeholders however the shared internal audit service charter had not been updated to reflect its full purpose.

1111 - direct interaction with the board - It was recognised that the head of internal audit did not report to the audit committee of one of the partners

1120 - individual objectivity - was identified that there were conflicts of interest arising with the head of internal audit and also with the assistant audit manager

1210 – proficiency - training had been exceedingly restricted, CPD not undertaken, also the job description (personal specifications) had set qualification levels too low

2030 - resource management - the assistant audit managers were restricted to working solely at the host site and also there was no provision for succession planning

2040 - policies and procedures - there was an absence of policy relating to induction processes for new starters

2120 - risk management - this was particularly in relation to the host site and that the shared internal audit service had to create its audit universe without reference to the host risk registers

2450 - overall opinions - this related to the challenge brought by the external auditor and senior management team in relation to opinions given and their validity.

However, as mentioned above, there was evidence in the focus group's that although there was clear understanding of certain professions, for example finance, legal, et cetera, there was evidence that there was not a comprehensive knowledge base of all business functions within these focus groups. This presented itself when discussing with the technical senior officer group the concept of marketing and they referred to this as a non-priority area as they didn't feel they needed to advertise the service elsewhere, as there were enough partners at the moment. I raised the suggestion at this point that marketing was not just advertising but

encompassed a far wider concept and it was not present fully within the shared internal audit service, as partners had identified that they did not know what services were provided by the shared internal audit service. I had started to implement a marketing strategy in my own shared internal audit service which included attendance at university employability days and conference stands.

Further discussion on this aspect reinforced the validity of the point that the shared internal audit service was not the same as a standard service within one organisation, as this focus group identified it required its own specific functional aspects such as marketing, human resource management, operations and financial management. This focus group reinforced the suggestion that a shared internal audit service required a level of devolved powers in order for it to have a level of autonomy. This links to the Bergeron (2006) definition of shared services that identifies a level of autonomy.

A further discussion within the focus group reinforced the responsibilities that the host organisation has in this particular model of governance, whereby, it was recognised that the five other partners had delegated their internal audit service function to the host organisation under a local government act section 101 agreement, and it was felt that there were constraints in this arrangement for the five partners to influence the service received to the extent to which they would regard themselves as equal partners rather than the outsourced (CIPFA 2010a) relationship they were currently experiencing even if not as outlined in the governance documentation. This was a significant finding within this particular cycle of the action research and presented a clear challenge that would not readily be reflected within the public sector internal audit standards (2017) testing. This aspect presents a challenge to the methodology of this action research and heightens the requirements for validation beyond that of the public sector internal audit standards (2017) assessment and as such focus groups were created, and planned to act as closing review points for the action research, and therefore aiding validation of the findings within.

6.5.2   Change programme documentation

Examples of the programme mandate, terms of reference, project initiation template documents, and other programme management documentation is held in appendix 12.10 and 12.11. These documents were co-developed by the operational team and myself and they included various techniques derived from Gatt and MacDonald-Wallace (2015) business case development actions. It was identified by both the operational team and the senior officer group that there were benefits arising from these documents. An example benefits was the individualisation of each document to a member of the senior officer group thus creating a level of buy-in, which previously did not exist in reports or other documents presented to this focus group.

6.6   REFLECTION

6.6.1   Coding and themes arising

The 24 interviews were re-coded/analysed with reference to the PSIAS and then to the governance theme of the research, along with the emergent information from this cycle. The re-coding and layering was to ascertain if the shared internal audit service now conformed with the PSIAS based on the 10 core principles for a professional internal audit service as set out by CIFPA PSIAS (2017) (see appendix 12.1). The secondary coding was used to identify emerging themes from across the 24 interviews that were relevant to the developing governance of the shared service. This was also considered from the STOI perspective levels.

Furthermore, the focus groups were used to inform the emerging issues but also to develop and test actions to manage the challenges.

6.6.1.1 Vision and Objectives

Of the 24 semi-structured interviews 10 identified a need for clarity of vision and overall objectives before the shared internal audit service could make a decision as to where to focus the improvement efforts. Other challenge areas also arose:

- Governance and Model

- Finances and Financial Management

- Operations, Processes and Supporting Systems

- Human Resource Processes, Job Descriptions and Development

- Marketing, internal and external to the partnership

- Quality required from the service(s) and range (standardisation)

- defining the services and consistency of usage by partners

Interview Coding/Categories Layered & Cross Referenced to CBMF

Collaborative Business Management Framework

Participant reference number	Vision and Objectives	Governance and Model	Service and Quality	Internal Audit	Counter Fraud	ICT Audit	Specialist Services	Marketing	Operations	Financial Management	HRM
1	✓	✓	✓	✓	✓	✓				✓	
2			✓	✓						✓	
3			✓				✓				
4	✓	✓	✓	✓	✓		✓	✓	✓	✓	
5			✓	✓			✓	✓			✓
6	✓	✓	✓	✓			✓		✓		✓
7		✓		✓				✓	✓		
8			✓	✓	✓						✓
9		✓		✓				✓	✓	✓	✓
10	✓	✓	✓	✓	✓		✓			✓	✓
11	✓		✓	✓							✓
12	✓	✓	✓	✓					✓		✓
13				✓					✓		
14	✓		✓	✓		✓	✓		✓		
15		✓		✓					✓		
16		✓	✓	✓							
17			✓	✓	✓				✓		✓
18			✓	✓		✓					
19			✓	✓		✓					✓
20			✓	✓		✓			✓		✓
21	✓		✓	✓	✓	✓	✓				
22		✓	✓	✓					✓	✓	
23	✓	✓		✓						✓	
24	✓		✓	✓		✓				✓	

Table 6.1 Coding

The above table 6.1 areas were all identified as key themes or 'challenges' for the shared internal audit service to some degree, based on the thematic analysis (Quinlan 2008) Appendix 12.13 shows the coding across the themes and interviews.

Reflecting on the key theoretical influences for this research, it was interesting that the interviews and focus groups looked to the overall vision and objectives as the primary challenge, which links to the Dollery et al (2012 p 4) comments that there should be agreement over the specified function delivered as a priority. Therefore to establish if this is just internal audit or is it a range of services e.g. counter fraud, etc that delivers to a wider vision of service provision.

Therefore coupled with the challenges identified in the previous chapter the following framework of challenges emerges:

The blocks of challenges are set out in order of the priority so far determined, with Vision and Mission as the overarching concern, followed by the quality and governance aspects, before reaching the services themselves and the support systems to deliver the shared internal audit service.

This framework of challenges is now adding further detail and even new elements to the Dollery et al (2016) Common Service Model. The Common Service Model highlights the steps that can be taken in the institutional design of shared service entities to avoid the problem of 'convoyism' by: (i) ensuring membership is voluntary, (ii) enabling councils to 'pick and choose'

which shared services they can use, and (iii) allowing participation and non-participation by local councils at the sole discretion of those municipalities. Additionally, Dollery et al (2016) through organisational structures; structural factors in the design of shared service entities, can make a substantial difference not only to their operations, but also to their long-term performance (Dollery *et al.*, 2012). Dollery et al (2016) goes on to state several important factors must be addressed: (i) the ownership structure of the shared service entity, inclusive of asset ownership and voting rights; (ii) distribution of the establishment costs of the entity and its ongoing running costs; and (iii) the distribution of surpluses and losses among member municipalities. However, already the remedies to convoyism i.e. voluntarism, and organisational structures in terms of the long term performance of the shared service is challenged here. The emerging challenges this research framework introduces is the need to market the service to ensure that those partners joining are continually engaged to ensure they remain 'voluntary' due to their perceptions of benefits being maintained and the vision is aligning with their needs. Also that the financial management of the shared internal audit service is conducted in a manner that aligns to the partners and is not left to the 'host' systems to address and that the skills in the shared internal audit service full governance framework are developed through appropriate HRM to deliver the overall shared provision.

However, the 'flexibility' element of the common service model (Dollery et al 2016) is perhaps best reflected in the emerging challenges to the governance model as identified in this chapter. The need for the governance of the shared internal audit service itself to be reviewed regularly to ensure it remains fit for purpose is in itself a demonstration of flexibility.

6.6.2   Validation

'Validation' (McNiff 2014) of the findings from this cycle were taken through the same process as the previous cycle and is set out below:
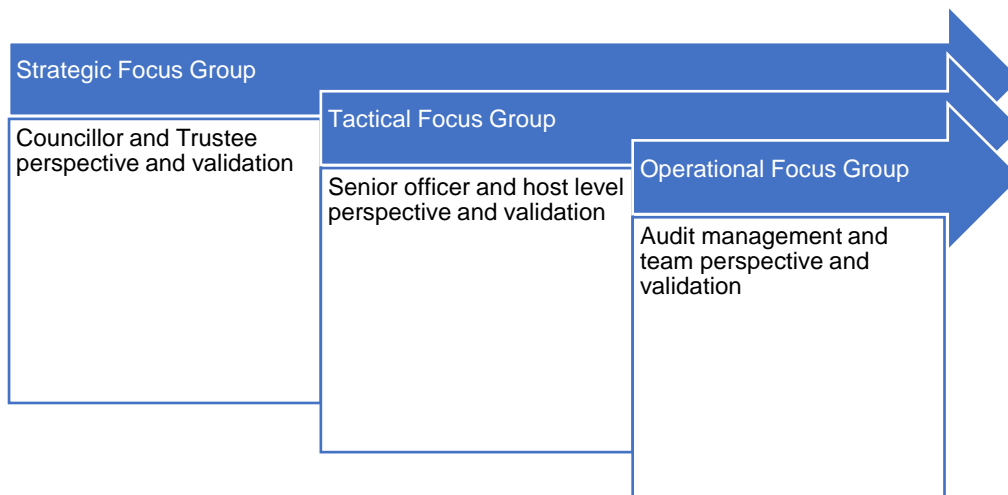
This chapter has identified further challenges faced by the shared internal audit service and interestingly it has highlighted that the public sector internal audit standards (2016, 2017) do not necessarily capture all of the challenges facing the shared internal audit service. By this I recognise that resolution of nonconformance or partial conformance does not necessarily resolve all of the challenges. Chapter 7 shows the third cycle of this action research and includes further actions necessary to address challenges identified so far.

Furthermore, the expectation of full attendance at each of the focus groups undertaken in this cycle, in particular the strategic members group, was not delivered. It is not a reflection of the voluntary element of attendance, as I understand it, it is a reflection of a genuine challenge. The non-attendance may have reduced the overall benefit derived from contributions made within these focus groups, but due to the number of focus groups actually undertaken this impact has been minimised and in terms of answering the research questions is regarded as negligible. However, the non-attendance by councillors and trustees may reflect another issue that links to the second research question and was raised by other participants. The second question looks at the cost saving aspect, which Aldag and Warner (2018) identified in their research relating to the longevity of shared services, with short term models being cost saving driven and the longer term being quality driven. This also links to the Tomkinson (2007) definition that suggests that the impact of a shared service should be identified by the local people. Given that Councillors are elected to serve the local community (GOV 2018) it could

be an indication of the translation gap from the savings in a back office function impacting on front line services that impact on the local people. To recognise and address this political translation gap, the governance was reviewed to include a Cabinet member rather than an Audit Committee member (noting that Cabinet members are the lead members for Council policy) at the strategic group level.

At this stage the focus groups had also started to permanently implement actions and identify benefits associated with some of the chapter 5 actions. It was noted that the non-conformance with standard 1112 resulted in the host taking immediate action and reallocated some of the responsibilities of the Head of the Audit Partnership to other management staff outside of the shared internal audit service. This prompted a further review of the risk management service in the host. This could have a knock-on effect to the shared internal audit service by, through the fullness of time, reducing the time taken to generate the annual audit plan for this partner. This could therefore be regarded as an additional impact of this research, but the outcome and evidence of a beneficial impact is beyond the time and scope of this research.

6.7 CONCLUSION

In conclusion, this cycle, following further coding and layering, has shown that the shared internal audit service now needed to consider the challenges shown below, in addition to the challenges set out in chapter 5:

Vision and mission							
Services & Quality				Governance & Model			
Internal Audit	ICT Audit	Counter Fraud	Other services	Marketing	Operations	Financial Management	HRM

Challenges – unclear vision, disabling governance model, unable to demonstrate control of the four business functions (4Pillars)

6.7.1 Research question results

Research question 1: What are the governance challenges that a shared internal audit service has to address?

This chapter has identified that there are several more challenges facing this particular shared internal audit service than originally identified in chapter 5. It has highlighted and captured these challenges. It is recognised that there may yet be more challenges to identify in the next cycles. Furthermore, challenges were identified that were directly related to the shared service aspect and not necessarily in relation to internal audit and associated public sector internal audit standards (2016/2017) conformance.

Research question 2: What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

From this cycle a total of 11 governance challenges have been identified. Additionally, there remain 8 areas within the PSIAS (2017) that require addressing for partial conformance. By reviewing both of these elements the Tomkinson (2007) and Dollery et al (2012) key theoretical requirements of service range and standards can be delivered.

Research question 3: How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?

At this stage limited actual actions have been used and fully tested to improve the service sustainability, only urgent actions have been completed so far. In chapter 7 the action research launches its third cycle and in this cycle we develop more actions and monitor the results of actions used in this cycle.

Overall, it is clear at this stage that there are elements of governance that are not reflected in the common service model (Dollery et al 2016) but are still required to deliver to the Tomkinson (2007) and Dollery et al (2012) expectations of what a shared service must deliver, for example, quality and sustainability in terms of the performance.

This chapter has detailed the second full cycle of this action research. It has analysed the data arising from multiple focus groups. It has built on data from chapter 4 and 5. It has also introduced a range of actions and activities that will continue into chapter 7 and 8.

Chapter 7

Third Cycle

"Agile" is becoming a fashionable phrase in internal audit.

Prickett 2018 p.18

7 THIRD CYCLE

7.1 INTRODUCTION

This chapter sets out the third cycle of action research conducted on site within the December 2016 to December 2017 planned intervention period. The cycle builds on the information discussed in Chapter 4, 5 and 6.
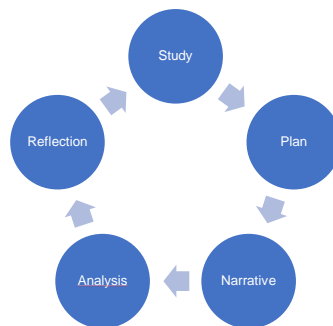
Wheel of each stage in the cycle -

Chapter 7 is the last chapter to follow the wheel shown above and is set out in the order: study, plan, narrative, analysis and reflection. Each of these sections provides some structure and helps to articulate the various stages that this action research has gone through.

7.2 STUDY

From the information provided and analysed in chapter 6, in particular the outcomes of the agile auditing and structural changes and the feedback from the 17th July 2017 focus groups, this phase of the cycle is to further develop the changes introduced in chapter 6. This includes further changes to the structure of the shared internal audit service and further testing of the agile auditing techniques.

Furthermore, in this particular cycle the various work streams that were introduced in cycle 2 were starting to achieve results. Therefore this cycle also looked to assess, through various validation focus groups and the public sector internal audit service standards 2017, what difference either positively or negatively was being made as a result of the changes introduced

in cycle one and two. Plus within this cycle we looked to identify if there were any other challenges In order to do this I am continuing with co-learning focus groups (McNiff 2014) with the STOI levels.

Additionally, this cycle looks to ascertain any further elements to support or disprove the theoretical framework of Tomkinson (2007) and Dollery et al (2012). In particular, it looks at any remaining challenges to the shared internal audit service that link to the quality requirements of Tomkinson (2007) and any elements that link to the sustainability highlighted by Dollery et al (2012).

7.3 PLAN

The following semi-structured interviews and focus groups were delivered in this cycle of the action research:

FOCUS GROUPS	
Group and STOI level	**Date**
Strategic	
Members Group	13th November 2017
Tactical	
Host	29th August 2017
	22nd November 2017
	20th December 2017
Senior Officer Group	4th September 2017
	17th October 2017
Operational	
Team	31st July 2017
	22nd August 2017
	9th January 2018

7.3.1 Researcher role defined

My role in this cycle of the action research is that of an outsider collaborating with the insiders to develop further knowledge (McNiff 2014) regarding the shared internal audit service but also to develop and operate the change programme including assessing impact of the change.

There is an ongoing requirement for formal authorisation and approvals relating to change programme actions, tool development and other personnel structure changes. Again I have no decision-making capabilities within the change programme. However, I do still focus on the need to move participants towards successful action outcomes (Herr and Anderson 2015).

Based on chapter 4, 5 and 6 outcomes I am anticipating that there will continue to be the need to validate findings (McNiff 2014), in particular, challenges and outcomes of new actions. Therefore I will be required to continue the role of facilitator or group leader (Collis and Hussey 2009) within the focus groups. Noting that documentation and presentation materials are used to aid the discussion.

The other significant role I expect to play within this particular cycle relates to the further development of the senior officer group and member group at tactical and strategic levels respectively. Therefore I have built into the plan, shown above, further focus groups that will feature learning and development opportunities and the opportunity for me to introduce new knowledge, which the focus groups can develop for the shared internal audit service.

Also within this cycle having identified in the previous cycles that there are actions required to develop and improve the shared internal audit service to help it conform with public sector internal audit standards, and develop as a partnership in its own right, I expect to become a facilitator, trainer, mentor and coach. These roles would help me to bring my knowledge as identified in chapter 4 into discussions relating to the development of this shared internal audit service.

As with the previous chapter the focus groups with board members were to be controlled to no more than two hours per session as they included some 'live day to day activities' delivered for the shared internal audit service e.g. reporting of output from the service to the Members. Focus groups with other STOI groups varied in time to allow exhaustive discussion.

Finally I will be using the public sector internal audit standards (2017) assessment to ascertain if actions have moved the shared internal audit service to a more conformant position.

7.4 NARRATIVE

On 31 July 2017 an operational focus group was delivered and this particular focus group was used as an opportunity to validate conformance issues relating to the definition of internal audit. The definition as set out in the public sector internal audit standards (2017) (shown in chapter 2 literature review) was dissected by the group and compared with activities that were derived from the change programme. In particular we looked at how the shared internal audit service now insured its awareness of each partner organisation. Also within this focus group we considered the range of services provided by the shared internal audit service.

On 22 August 2017 an operational team focus group took place and within this focus group consideration was given to timescales in relation to actions triggered in previous focus groups (referring to chapter 4, 5 and 6 actions). Of particular note within this meeting was final suggestions to the management team structure and also to succession planning from trainee auditor up to management positions. Job descriptions and personal specifications were also reviewed and adapted in this session. It was recognised in this particular focus group that consultation with the host would be required in relation to these actions scheduled for 29th of August 2017.

On 29 August 2017 a focus group was held with the tactical host and this included discussion in relation to the interim structure currently in place and possible further adaptations.

On 4 September 2017 a tactical senior officer focus group was held to test the impact of agile auditing for validity and positivity of impact. Also within this focus group consideration was given to the four pillars concept in particular the financial management aspects of the shared internal audit service (significant focus was given to the reserves). Additionally, discussion was held in relation to the governance framework and potential amendments to the schedules held within the section 101 agreement. This meeting adjourned after the scheduled two hours and a further meeting was scheduled for 17 October 2017 to continue the discussion, as it was accepted that changes to the governance framework schedules within the section 101 agreement would require legal services input and also required members level approval. It was discussed within this focus group that a clear entry and exit strategy for potential and future partners and clients was a requirement. Additionally, consideration was given in this focus group the need for a shared internal audit service specific performance and risk management arrangement or process. Furthermore, within this focus group a formal gate review was undertaken. A gate review is a formal procedural action as set out in local government project management procedures (see appendix 12.18). It provided an opportunity for the participants in this focus group to agree formally decisions in relation to the approval of the change management documentation, in particular, requirements of each of the participants in a focus group with regards to the change programme. This research accepts that this is part of the local government procedures and is accepted as contextually required and the results of this gate review informed this research.

On 13 November 2017 a strategic members focus group was held where validation was sorted regarding the changes, actions that had been introduced in the previous cycles and this cycle. This included discussion in relation to: agile auditing, operational level management team (structure roles and responsibilities), governance framework and changes relating to the role of the audit committee and the councillors/trustees on the members group, final confirmation of all challenges identified and validation, feedback in relation to changes occurring at each partner site, for example, impact of agile auditing. Feedback from this focus group fed into the

agenda for the next host focus group scheduled for 22 November 2017. Within this focus group formal recognition was given to the project initiation documents (PID) for some of the longer term planned actions that fall outside of the timeframe of this action research, for example, the full development of a counter fraud service.

On 22 November 2017 a focus group with the host was held and changes to roles and responsibilities within the shared internal audit service team, in particular, in relation to job descriptions and personal specifications, was discussed.

On 20 December 2017 a tactical host focus group took place and within this focus group a review of the public sector internal audit standards (2017) was undertaken. It should be noted here that this was the final assessment against the public sector internal audit standards undertaken and this focus group concluded that the shared internal audit service was now fully conformant with the standards.

7.5 ANALYSIS

Coding, layering and thematic analysis was combined with abstraction processes to analyse the focus group data (Quinlan 2011).

Management structure

The most significant aspect of this particular cycle was regarded as the positive change in the management team structure within the shared internal audit service as shown below (Fig 7.1)
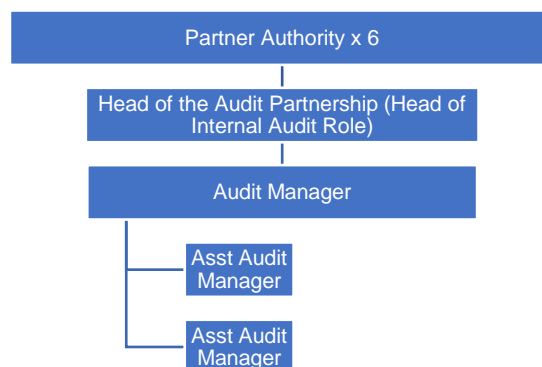
Moving to:
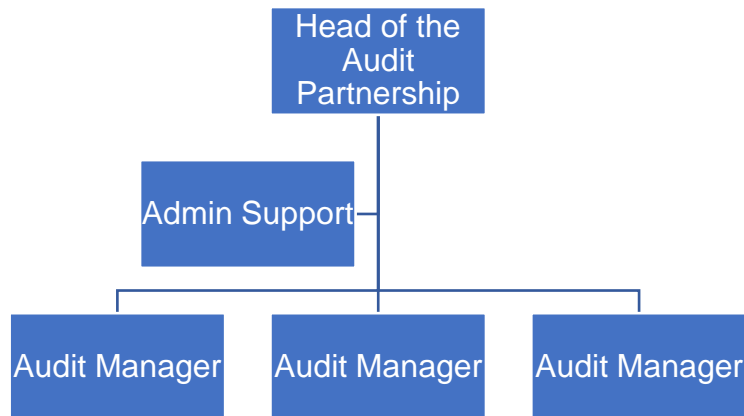
The resulting structure enabled the following allocation of partner sites:
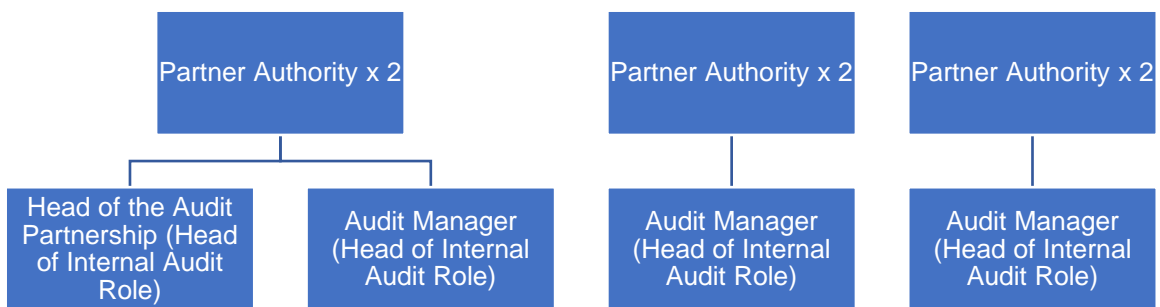
Figure 7.1 Management Structure Changes

The move of the assistant audit managers into audit manager positions and the enablement of all four management positions to act as a head of internal audit found that the team was better able to move information from the six partners through the team and back again thus identifying more closely with the risks of each organisation as required under the audit standards. Noting that the Head of the shared internal audit service had the host partner to report to which helped with some of the host challenges. This change required significant amendments to job descriptions and personal specifications. As such within this cycle some time was allocated to the development of these new posts and associated documentation.

Individual needs

Moving beyond the management positions and into the individual team positions this cycle also reviewed a scheme for succession planning, enabling a potential new trainee arriving in the team to progress cleanly through to management level positions.

Thematic analysis and challenges

Analysis within this particular cycle identified that there were now 13 broad themes (Quinlan 2011) of challenge identified as agreed through the validation processes. A complete table of the challenges identified is shown below (Table 7.1):

Table 7.1 Challenges

Theme	Challenge
Internal Audit	Development of service and reflective learning - how they intend to keep on "top of the game" and in particular ensure future IIA external assessments are positive, how they will develop the agile auditing approach and any new planning approaches, delivering consistently on the consultancy aspects of internal audit, keeping the risk focus unique to each organisation
Counter Fraud & ICT Audit	Developing these services and ensuring the alignment of resources and standards e.g. ICT audit to cover ISO 27001 and other codes, Counter Fraud provided in a CPIA level of investigation and prosecution - how they will protect these workstreams from internal or external competition (they are significant income generators)

Specialist Services	Risk Management and other services - ensuring that the Shared internal audit service continues to support the development of organisations' Risk Management and other governance related specialist services
Finance Management	Financial Management Strategy and what level of reserves they expect to maintain, where they plan to make investment, what level of income growth are they expecting and when, costs emerging over the next three to five years, who is picking up these costs, how will increased costs or income be distributed across partners, other funding streams, etc
Human Resource Management	Human resource management strategy in particular how they are planning to address the recruitment difficulties and growing their own approach - how will this be managed and by what layer in the structure, approach to training and professional subscriptions, agency and other sources of temporary resources, the alignment of the HRM strategy and any growth objectives - providing a structure that does not view any larger than existing partners would be a backward step, developing the business management and leadership skills required to run the partnership should also be addressed, etc
Operations (Including ICT)	Operations strategy, in particular the supply chain management e.g. SLAs with ICT to support the partnership ICT audit objectives and new forensics kit, initial business case development for the counter fraud unit and any temporary SLA to manage this

	relationship until the business case is delivered and formal decisions are made regarding the inclusion of the Counter Fraud unit in the shared internal audit service, audit committee engagement and management to ensure that the shared internal audit service is aware of what is on the agenda and has time to respond, relationship management between external audit/senior management/audit committee and the board, Operations Group and Leadership Team
Marketing	Marketing strategy - where they anticipate their market growth e.g. client or partner, % of growth per year, pricing for fraud and ICT audit work vs standard audit work, developing new products/services or expanding existing provisions, how they are planning to promote this, sourcing new clients and partners, etc
Performance & Risk Management	Risk and performance management of the shared internal audit service - development of meaningful Risk Management and Performance Management frameworks across the partners is essential to help develop the partners understanding to the whole partnership and not just the data reported individually to each audit committee. Developing the necessary frameworks to enable positive discussion and engagement at the four levels of the shared internal audit service is necessary.
Services & Quality	Quality control - how they will capture and assess quality data and adapt the services accordingly, ensure the quality is not excessive in terms of exceeding client/partner expectations and then being unable to sustain this.

Governance & Model	Governance - how is this going to be monitored and developed going forward, what are the governance plans considering the disproportionate impact the host has had on the shared internal audit service over the last 2 years, how are they going to continue to develop the four levels of the governance framework (Board, Operations Group, CLT/ECLT and the Team) to ensure they align to the strategies outlined above, aspirations of full partnership and future company models, etc
Entry & Exit	Entry and Exit of Partners and Clients - although there is considerable indication of growth, the shared internal audit service needs to consider exit of partners too - learning from the last 12 months and the interference factors at the host, should the shared internal audit service review the host arrangements and possibly source a new host or alternative model e.g. company.
Vision & Objectives	Vision and objectives: - Vison adoption and commitment from members and officers. Emerging issues from the 2016/17 and 2017/18 financial years to be picked up and reflected in the objectives and that they have reflected on and considered / proposed changes for 2018/19.

The above 13 challenge themes were generating a large range of actions to resolve them. This included several longer term actions that would continue beyond the time scales of this research.

Member commitment

The most significant longer term actions related to the aspiration of the shared internal audit service to change its overarching model of governance from the hosted model to a wholly-owned company model. This was reflected in discussion at both operational and tactical levels however this aspiration was not voiced formally at the strategic level. One of the reasons this action was withheld from this group related to councillor elections that were due in May 2018. Discussion at tactical levels did forecast an evolving governance model over a five-year timeframe. The governance changes that were made to the existing schedules (legal agreement appendices) did look to introduce roles and responsibilities that would reflect a more business-like (company like) arrangement. In particular the tactical level focus group removed some of the powers that were held by the host only to that of the shared internal audit service tactical group as a whole. This was demonstrated by a new requirement being set out in the schedule that all partners have an equal vote on any structural changes made to the internal audit service team. Furthermore, they moved to remove audit committee representatives from the strategic members group and introduce the portfolio holders or equivalents instead. It was recognised however that one of the partners (the smallest) only had one individual available with the skill set that this shared internal audit service required. This person also happened to be serving on the audit committee. Therefore this particular individual proved an exception to the new rule.

Change management

Another area that was highlighted within discussions within the operational focus group was the potential need for change management to be embedded within the service. With the idea that this would set out how the shared internal audit service would manage change throughout its ongoing change programme from this research and beyond into standard operational practices. This particular discussion had arisen in the 22 August 2017 operational team focus group as it was now apparent that there was a wider range of challenges facing the shared internal audit service than originally conceived by the management team. The impact on the

overall service output had been noticeable although it was recognised as a necessity for the benefit of the shared internal audit service in the long run. Given this level of impact on the service other potential actions that had a longer term implementation period would now be staggered through till March 2018. The new job descriptions that were drafted for the management team positions would also now include change management as a required skill. From the research point of view these longer term actions, for example, developing and ICT audit service strategy, would be checked through a final running record review in August 2018 for any visible progress.

Purpose of the Shared Internal Audit Service Programme Mandate is:

1. To provide structure for decisions in the change programme using existing

   hierarchical decision frameworks of the shared internal audit service

2. To ensure a robust process has been applied to the review, business case

   development and final rationalisation of the Shared Internal Audit Service and

   Governance Package, including appropriate authority being sought for:

   a)   Vision and objectives
   b)   Entry and Exit Strategy
   c)   Risk Management and Performance Management
   d)   Services provided and quality levels
   e)   General Audit,
   f)   Counter Fraud,
   g)   ICT Audit and
   h)   Specialist Services
   i)   Governance frameworks and model of service delivery
   j)   Marketing,
   k)   Financial Management,
   l)   Operations and
   m)   Human Resource Management

 Benefit Realisation is also to be monitored

Figure 7.2 Programme Mandate

The programme mandate formed a summary document that captured all the areas identified through this research and where actions in the form of actions were to be implemented. A copy of this is set out above in Figure 7.2.

The programme mandate also introduces the recognition that the changes made must be of benefit. These benefits were to be monitored and measured for impact. It also maps to the collaborative business management framework of thematic challenges.

In discussion within the operational focus group it was identified that the provision of general audit is a fundamental core of the shared Internal Audit service, providing assurance to partner organisations in achieving their objectives.

"We establish that by aiming to improve our internal audit service, it is possible to become more insightful through proper engagement and consultation with Partners and Clients.

Furthermore, it was considered that being proactive and future focussed was an advantage to the partners and clients. Finally adapting to change in a responsive and timely manner, fully supported by an appropriately qualified audit team with extensive experience and local knowledge also was of benefit.

In terms of operational management, an appropriately resourced and properly timetabled operation would provide an enhanced audit planning process. With additional resources focussing on audit planning, the process could commence earlier and allow for wider consultation with Senior Management and Audit Committee Members at both partner and client sites, thereby consulting on and obtaining information on the organisations strategies, key business objectives, associated risks and risk management processes. This process would ensure adherence to public sector internal audit standards (2017) performance number 2010 – Planning.

It was also discussed that there is "*the potential to explore alternative methods of audit planning which further embrace a risk based approach".* However, this was something that was to be explored as this change programme progresses, but falls outside of the research timeframe.

Commentary was also provided in both the operational and tactical focus groups that by having a tiered organisational structure, audit work can be allocated based on the complexity of the work involved. The introduction of alternative methods means easier tasks can be allocated to junior members of the team whilst senior officers can act in a supervisory capacity allowing them to focus on work which may be more complex in nature. This would allow for a more cost effective and efficient working regime to be put in place as it would divert more expensive senior officer time away from easier, standard audits and associated tasks, but allowing junior members of the team to develop their skills with a view to their career development and expectations. This also would help with succession planning and ensuring retention of audit staff was maximised.

The concept of 'Agile Auditing' has already been trialled in chapter 6 and has been deemed to be a success. This concept involved a small team of auditors undertaking the audit, with the auditee engaged from the outset and a quick turnaround time to a final report being published. The concept focussed on the areas of risk identified jointly by the auditee and the audit team, promoted team work and ensured the engagement of the auditee as the process progressed. The result was "*a positive experience for all involved*" and as such was to continue through this cycle and be formally adopted as a process within the shared internal audit service.

CPD and succession planning

As established in chapter 5 CPD professional development was a challenge and indeed resulted in a non-conformant conclusion. Within this cycle the operational focus group concluded that establishing the shared internal audit service team's

'*core competency requirements and identifying skills gaps meant that training development opportunities can be identified and addressed*'.

This would provide the team with the appropriate training, particularly where new regulations have come into force, and would ensure that the team is equipped with the appropriate skills

to deliver a continuous, efficient and effective audit service with full consideration given to successful succession planning. Further embedding succession planning within the team would make sure "*an established process has been developed for identifying key officer roles and that those plans are adopted to ensure key officers can be replaced when this becomes necessary*", again ultimately ensuring the continuity of the service is not affected.

Buddy scheme

Additionally, as part of the human resource management aspect, a formal process for inducting new officers to the shared internal audit team was established, this now ensures an existing shared internal audit service officer is signed up and committed to being a "Buddy" to the new team member. Noting that the "Buddy" concept was introduced within the management team was considered sufficiently beneficial to adopt as part of the induction process. This ensured that new staff members were informed of existing procedures and practices. This new documented induction procedure was considered to provide a robust, organised, focussed approach which allows the new team member to become familiar with SIAS processes in a structured way, allowing them to establish themselves and contribute to the team effort quickly and effectively.

Financial Management

It was identified through the Financial Management work that the shared internal audit service needed to improve the approach to the costing and charging process. Also there was the need to identify income streams and maximise the potential to earn income through offering specialist services e.g. counter fraud and IT Audit.

Governance Model

This group also identified the possible benefits of standing away from the host authority possibly in the form of a wholly-owned company . This conclusion was voiced by the operational focus group when reflecting on the reasons behind the inclusion of the four partners in 2016 and that this was driven by legal constraints under the Tekkal legal ruling in

relation to the percentage of trading a local authority can undertake. The situation at the beginning of 2016 was that the shared internal audit service was made up of two partners and four large clients, and other smaller income generating clients. This would have breached the indicative 20% level of trading. Therefore the four large clients were converted to partners through the delegation of their services under a section 101 local government act 1972 agreement. However given the development of the four service based areas and the recognition now of price variance, and income generation opportunities within these service areas, this 20% level could be breached again unless the model is changed. During the final operational team focus group, discussion was held over forecast timing and legislative requirements for a company model.

It was considered that this option for a company needs to be "*underpinned by a sound financial management strategy that will support the medium to long term goals/objectives*". The shared internal audit service was "*committed to exploring the benefits of moving from a hosted service towards an independent business*" at the last point of this research. The focus group considered this move would allow for a more "*flexible approach and service offer, with fewer restrictions placed on the partnership by the governance limitations of the host and other partner organisations*".

However, in order to do this, it was agreed by the focus group that the shared internal audit service "*must be fit for purpose*" and be "*underpinned by a robust financial management strategy that supports its business operations*". By reviewing, revising or changing shared internal audit service's out of date financial practices and the way in which the shared internal audit service is currently governed by the Host Organisation's financial procedures, the aim was to develop a financial model which will enable a move to a more business-like approach in line with Central Government direction (Chapter 2). Both the operational and tactical focus groups recognised financial management as one of the four pillars of business and as such is fundamental in supporting the operations of the shared internal audit service.

By addressing some of the issues immediately and having a long term plan to address all necessary financial management requirements, it was felt by the focus group that the '*business' can develop, grow and ultimately lead the field*'. Critical aspects such as the costing and charging methodology were found to be key to the financial prosperity of the partnership by the operational focus group and tactical focus group.

Interestingly the strategic focus group was not as clear on their aspirations in relation to the finances of the shared internal audit service. There was a greater concern about "*delivery of service for the right price*". How this was achieved was left with the tactical and operational levels to consider.

It was identified that the main purpose of the financial management strategy was to ensure '*transparent and appropriate financial management*' of the shared internal audit service. The focus group considered that "*operating revenues in a particular year should be equal to or greater than its operating expenses and ensure its sustainable financial viability*". Therefore the shared internal audit service was committed to exploring the benefits of moving from a hosted service towards an independent business, therefore there was the need to have a medium to long term funding plan that supported this objective, further enhancing the shared internal audit service business-like approach and catering for the desired levels of service required by the partners and potential clients/customers.

Operational long term plans

As a result of these longer five-year term aspirations it was identified by the operational focus group that the shared internal audit service may face many challenges that will require strong financial leadership and creative solutions to meet its aspirations. The key financial challenges expected to be faced over this five-year period included:

- *Addressing the shared internal audit service's medium to long term deficits in funding the delivery of services.*

- *Delivering organisational change to improve efficiency of service delivery in a financially sustainable manner.*

- *Meeting expectations from all partners and stakeholders by ensuring standards across our services keep pace with demand and in balance with the capacity to fund these operations*

Counter fraud

As mentioned in chapter 5 counter fraud activity was largely an ad hoc activity that several partners were unaware of its availability in a more formal and scheduled arrangement. Through the Counter Fraud research, the operational focus group identified that they were seeking to create a service provision to battle the existence of fraud within partner organisations. They were aiming to achieve this through combining the skills of Internal Audit and Counter Fraud specialists.

By combining these two areas they considered that this would create a central resource of trained and experienced specialists who can work together to provide reactive and preventative Counter Fraud activity. By having a central resource this would allow for greater information sharing and improved systems for detecting, recording and combatting fraud.

By identifying this counter fraud service as a potential offering to partners and a wider group, the operational team focus group looked to create an efficient and effective Counter Fraud service that would help to "*improve anti-fraud cultures at partner organisations*" and generate "*increased income*" for the shared internal audit service.

As mentioned above the shared internal audit service has a long term goal to move from a hosted service and become an independent entity (possibly a company). This would allow for a more flexible service, with fewer restrictions placed on the partnership by the governance limitations of the host and other partner organisations. In order to do this, it was agreed by the operational focus group that the partnership needs to be "*strong, income generating and*

offer a range of quality services". By aiming to develop a Counter Fraud arm to the partnership, it was considered that this would contribute to the long term goal

However it was identified, through tactical and strategic focus groups that partners defined Counter Fraud in differing ways. It was therefore considered that by bringing together a centralised service this would "*facilitate a collective definition and understanding of Counter Fraud*" as well as inform a "*universal language to facilitate discussions and actions*".

The operational focus group recognised that the expertise held within both the shared internal audit service and existing counter fraud provisions at partner organisations was not fully utilised. By not fully exploiting this expertise, this limits the effectiveness of Counter Fraud activities of each partner organisation. It also recognised that operating Fraud services independently of an Internal Audit service can result in duplication of work, thereby resulting in inefficiencies. By bringing these services together, this would ensure a combined approach to tackling fraud and undertaking investigations. A centralised Counter Fraud function would ensure each partner had "*access to a properly resourced service*" which offers a range of preventative and reactive activities. This would help to ensure the protection of assets and ensure a continuous, efficient and effective Counter Fraud service is always available.

The tactical focus group also felt that it would help partner organisations to develop Annual Fraud Plans which link the work of Internal Audit and Fraud to ensure resources can be mapped to risks and arrangements for reporting outcomes. Given the requirement of internal audit to align with organisational risks (as discussed in chapter 2), and recognising that fraud is a risk to all partners and clients, it was considered that this activity of counter fraud service would help meet the alignment requirements.

Additionally, it was felt that bringing together Internal Audit and Counter Fraud teams could allow for sharing of skills and knowledge, thereby helping to develop and strengthen techniques essential to effective working to tackle fraud. A unified Counter Fraud function would also allow for sharing of information across the partners, thereby improving the

identification and response to instances of fraud. This would also facilitate the creation of a data hub that could extend beyond the partners and encompass public service organisations across the county and beyond. However this research recognises that development of a counter fraud service and data hub is beyond its scope.

Other benefits

The operational focus group, as validated by the tactical focus group, considered that a joint service would result in "*economies of scale when purchasing*". This could be realised, for example, when procuring new IT equipment and software, training courses and tools and independent legal advice.

IT Audit

In relation to the IT Audit service concept the operational focus group discussed the ability to "*promote, improve and develop*" the shared internal audit services approach to IT Auditing for all existing partners and external clients, to ensure it could offer an effective and current IT Audit service that adapts to changes in information technology and therefore the assurance requirements of its customers. Therefore helping to align with organisational objectives.

It was considered by the operational focus group that a review of the methods for delivering the IT audit services was needed to assist all partners with IT audit and assurance, consultancy and early involvement (right first time principles), continuous auditing (CAATTS – Computer Aided Audit Actions), fraud detection and digital forensics.

The group identified that given the fast changing pace of technology within business, it was necessary to strive to ensure the IT Audit service can provide accurate and current control advice and review services, which addresses all emerging threats and trends, to help partners protect the integrity, availability and confidentiality (ISO 27001) of their information assets and services.

It was validated through the tactical focus group that: "*a well-defined, documented and implemented IT Audit service offering, which is adequately staffed, certified and equipped in relation to access, compliance, software and hardware, provides the shared service with a highly sought and sellable asset, which not only assists partners in securing their information assets and aligning their service management processes in line with recognised best practices, but where marketed and promoted effectively could provide a significant income stream from new clients*".

Furthermore, through the utilisation of continuous auditing approaches to auditing and fraud detection, coupled with the introduction of digital forensics techniques for investigation support, the shared internal audit service can help drive and support the partner's anti-fraud and compliance initiatives, as well as provide continued assurances into compliance of key processes, controls and transactions.

Additionally, the operational focus group identified that: "*by promoting consultancy and early involvement approaches to IT auditing, the team can help partners to build quality and best practices into new developments and changes to existing infrastructure and applications, which may be more cost-effective than trying to add to such projects after the fact. Through identifying smarter ways of working, including streamlining and de-duplication of administration duties and time recording, as well as utilising existing remote access and remote working facilities already in operation at partner organisations, the team can reduce administration, travel times and expenses, allowing them to focus on productive work and therefore service delivery.*"

Ultimately the group considered that a well-defined, documented and implemented IT Audit service offering, which remains current and effectively adapts to changes in technology and the needs of its customers, would contribute to achieving the shared internal audit services vision and objectives and aligned with its mission statement

7.5.1 PSIAS assessment 3

This cycle also reviewed the public sector internal audit standards and the date of conformance or otherwise, of the shared internal audit service after a range of actions had taken place as set out in cycle 1, 2 and now 3. The results of this assessment are set out below (Figure 7.3) and identify that the actions taken by the end of this cycle have enabled the shared internal audit service to demonstrate full conformance with public sector internal audit standards 2017.

Figure 7.3 PSIAS Assessment Final Results

Cycle 1				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	12	5	2
Performance Standards	33	28	4	1

Cycle 2				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	15	4	0
Performance Standards	33	29	4	0

Cycle 3				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	19	0	0
Performance Standards	33	33	0	0

7.6 REFLECTION

7.6.1 Coding and themes arising

As with chapter 6, the 24 interviews were re-coded with reference to the PSIAS and then to the governance theme of the research. With each subsequent cycle there was a re-coding

exercise undertaken. The re-coding was to ascertain if the shared internal audit service now conformed with the PSIAS based on the 10 core principles for a professional internal audit service as set out by CIFPA PSIAS (2017) (see appendix 12.1). The secondary coding was again used to identify emerging themes from across the 24 interviews that were relevant to the governance of the shared service. This was also considered from the STOI perspective levels. For example the following areas were added to the previous thematic areas, noting that the information flow covered movement of information through the framework.,

- Entry of partners, loss of clients, expansion and growth
- Risk management for the shared service and performance management
- Information flow and the hour glass effect

Table 7.2 - coding

Interview Coding/Categories Layered & Cross Referenced to CBMF

Collaborative Business Management Framework

Participant reference number	Vision and Objectives	Governance and Model	Service and Quality	Exit and Entry Strategy	Risk and Performance Management	Internal Audit	Counter Fraud	ICT Audit	Specialist Services	Marketing	Operations	Financial Management	HRM
1	✓	✓	✓			✓	✓	✓				✓	
2			✓	✓		✓						✓	
3			✓		✓	✓				✓			
4	✓	✓	✓			✓	✓		✓	✓	✓	✓	
5			✓			✓			✓	✓			✓
6	✓	✓	✓	✓		✓			✓		✓		✓
7		✓			✓	✓				✓	✓		
8			✓			✓	✓						✓
9		✓			✓	✓				✓	✓	✓	✓
10	✓	✓	✓			✓	✓		✓			✓	✓
11	✓		✓	✓	✓	✓							✓
12	✓	✓	✓			✓					✓		✓
13				✓		✓					✓		
14	✓		✓			✓		✓	✓		✓		
15		✓			✓	✓					✓		
16		✓	✓			✓							
17			✓			✓	✓				✓		✓
18			✓			✓		✓					
19			✓			✓		✓				✓	
20						✓		✓				✓	✓
21	✓		✓			✓	✓	✓	✓				
22		✓	✓			✓					✓	✓	
23	✓	✓				✓						✓	
24	✓		✓	✓		✓		✓				✓	

The above areas were all identified as key themes or 'challenges' for the shared internal audit

service to some degree, based on the thematic analysis (Quinlan 2008), set out below is the complete framework of challenges:

'Validation' (McNiff 2014) of the findings from this cycle were taken through the same process as the previous cycle and is set out below:
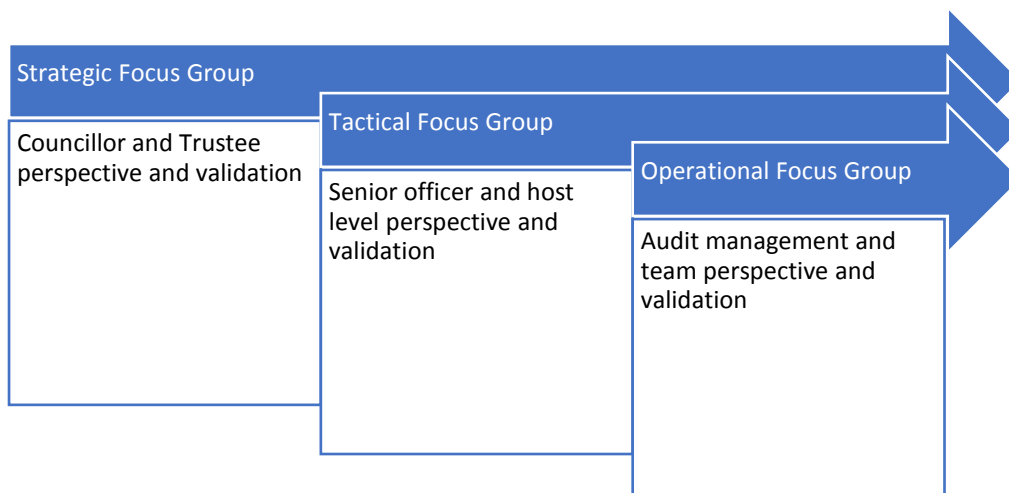
Reflecting back over this cycle identifies that there is a clear difference between measuring and effective internal audit service and an effective *shared i*nternal audit service. This cycle identified a range of challenges and resolutions that remained outstanding and yet the shared internal audit service was able to demonstrate conformance with the public sector internal audit standards.

At all three of the validating levels shown above there was recognition that the conformance aspect was resolved but other challenges were left outstanding and could take up to 5 years or more before they were resolved with the application of appropriate actions.

A point to consider as part of this research in particular its methodology is the range of measures to assess a shared internal audit service and it is reasonable to suggest that the public sector internal audit standards only partially indicates the effectiveness but the use of the 'Collaborative Business Management Framework' shown below (figure 7.4) could provide a framework for the development of a shared internal audit service effectiveness review system.

These three validation groups did clearly articulate that the shared internal audit service had evolved from the position it was in when originally assessed at the beginning of cycle one and where it now resides at the end of cycle three.

Furthermore, in this cycle the benefits of agile auditing had progressed to formal reporting in the public domain. Also at the end of this cycle a formal proposal had been put to consultation with the host regarding the formal restructuring.

Figure 7.4 – Collaborative Business Management Framework

The cycle did manage to conclude that the changes in the operational management team had enabled a greater level of information flow between partners and the shared internal audit service team. This challenge is recognised in this research as the hourglass effect and the

solution comes in the form of recognition that the hierarchical tier position in local government does not automatically dictate the role performed by the individual. It is necessary, based on the findings of this research, to consider officers from a lower tier to fulfil the role of the head of internal audit (CIPFA 2010).

A final point to recognise at this stage, relates to the methodology of action research and the three cycles delivered in this research. By now it was evident that there were difficulties in identifying clear boundaries between each cycle and its activities. For example in cycle one actions were taken to address the nonconformance identified in that cycle that were not fully completed until the conclusion of this cycle. Furthermore, of the 13 thematically identified challenges facing the shared internal audit service there remained 4 of these challenges awaiting final resolution, for example, the counter fraud service. This issue of blurring of the boundaries of each cycle enhanced the necessity to 'tell the story' (McNiff 2014) in the manner set down in this document. Only by telling a story could all of the research questions be thoroughly addressed, and enable the reader to see the journey, therefore providing a final validation of this research.

7.7 CONCLUSION

In conclusion this cycle has shown that the shared internal audit service now needed to consider the challenges shown below:

Challenges – Entry and exit of partners; Risk and Performance and the information flow.

It is clear from this new framework that the 'Common Service Model' identified by Dollery et al (2016) does only in part address the full range of governance issues identified in this research so far.

Although, the Common Service Model (Dollery et al 2016) enables the minimisation of establishment and transaction costs, the maximisation of flexibility and the stimulation of shared service activity of even the most modest kind; it avoids the problems such as rigid membership requirements, burdensome governance provisions and communal risk-sharing provisions (Dollery et al 2012). As a consequence of its 'minimalist' organisational arrangements, which hinge on individual shared service agreements, monitored by a Committee, and representatives of participating councils, overseen by a Chief Administrator, and fully funded by participating councils, the Common Service Model provides a cost effective and flexible method of facilitating shared service provision in local government. However, it is clear that the extent of the challenges facing this shared internal audit service demand a greater range of governance aspects than the 'common service model' currently provides for. Therefore this 'Collaborative Business Management Framework' builds on the theoretical 'Common Service Model' to provide a greater understanding of the governance issues facing a shared internal audit service.

7.7.1 Research question results

Research question 1: What are the governance challenges that a shared internal audit service has to address?

This chapter has identified that there are 13 thematic challenges facing this particular shared internal audit service. It has highlighted and captured these additional challenges. It is recognised that there may yet be more challenges to identify but there is now clear indication

that the shared internal audit service is in conformance with public sector internal audit standards. (2016/2017).

Research question 2: What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

From this cycle it has been identified that the shared internal audit service is now able to conform with the public sector internal audit standards. This is due to the evolution of various governance elements of the shared internal audit service. It has introduced various new measures, processes and actions to ensure it is able to meet the standards for the foreseeable future. However, it did identify that there are different governance models on the horizon and that it is likely to evolve to one of these forms. This could ensure the sustained delivery of standards and meet the various drivers for the shared service. It was noted in particular, that discussions had moved from cost savings to quality which could be considered a bridging point for the Aldag and Warner (2018) research which found short-term shared services focused on cost and longer term arrangements looked towards quality. Given that this shared service was created in 2012 as a cost saving exercise and then introduced new partners in 2016 and is now looking five years further down the line with service expansion including counter fraud services, indicative of improving service offerings (this could be deemed quality improvements).

Research question 3: How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?

In this cycle it was concluded that the agile auditing was a beneficial technique and has now been adopted by the shared internal audit service as a permanent procedure.

The restructuring of the management team to help address the hourglass effect by the end of this cycle was being consulted upon for formal adoption. However, positive feedback and authorisation had been gained from the STOI levels.

Counter fraud and ICT audit services were being analysed for development into formal services. These services would introduce a range of new actions that were identified as being beneficial to partners clients and the shared service itself.

Revision of the governance framework as it exists demonstrated a move in both evolutionary terms and devolution as further powers were given to tactical and operational levels. Furthermore, the governance was enhanced to reflect a more business-like approach including measures relating to the 4 pillars. It was also stated that there was the aspiration to move governance models over the next five years.

An Entry and Exit checklist was created to help manage both new and existing partners and clients into or out of the shared internal audit service.

A new Risk Register was created for the shared internal audit service and introduced risks relating to the shared service aspects and not just the internal audit function elements that existed previously. Also new performance measures were introduced and realigned to the reviewed and updated shared internal audit service objectives.

The short term measures to address the red PSIAS on CPD was resolved permanently within the reworking of the job descriptions within the service. However, these were still in preparation stages at the end of this cycle.

Finally, the 'Collaborative Business Management Framework' builds on the theoretical 'Common Service Model' (Dollery et al 2016) to provide a greater understanding of the governance issues facing a shared internal audit service

This chapter has detailed the final full cycle of this action research. It has analysed the data arising from multiple focus groups. It has built on data from chapter 4 5 and 6. It has also introduced a range of actions and activities that will continue into chapter 8.

Chapter 8

Post Intervention

Shared Services: "The challenges are greater the more organisations are involved."

Local Government Association (2018 p.17)

8 POST INTERVENTION

8.1 INTRODUCTION

This chapter sets out the final phase of validation of the action research and reflection on the results. It also provides confirmation that no further cycles are needed.

Additionally, this chapter introduces a summary of challenges that are reviewed since leaving the site and generalisation interviews undertaken.

8.2 STUDY

With the longitudinal time line now completed a final round of focus groups was undertaken with the STOI levels. The purpose of these sessions was to provide a final opportunity for challenges to emerge or to confirm that all challenges were now identified. It also provided an opportunity to assess where the change programme was in relation to actions to help manage these challenges.

The second element of this stage in the research was the requirement to look at the generalisation of the challenges and tools identified in this research. This helps to address the weaknesses in action research as discussed in chapter 3.

8.3 PLAN

The following semi-structured interviews and focus groups were delivered in this final section of the action research:

FOCUS GROUPS	
Group and STOI level	**Date**
Strategic	
Members Group	24th January 2018
Tactical	
Senior Officer Group	10th January 2018
Operational	
Team	9th January 2018

INTERVIEWS	
SITE TYPE	**Date**
6-way shared internal audit service	21st March 2018
Single site internal audit service	7th March 2018

8.3.1 Researcher role defined

My role in this cycle of the action research is that of an outsider collaborating with the insiders to develop further knowledge (McNiff 2014) regarding the shared internal audit service but also to conclude the change programme as it relates to this research. I recognise that there remain change programme actions that still have to be completed, but these fall outside of the time line of this research (noting that some actions have a five year delivery time).

I also provide confirmation of findings and challenge to the STOI levels in this final round. The idea being that I would ensure that all challenges had been identified; that the PSIAS assessments were concluded and validated; that actions were either in place or formed part of the longer term programme that fell outside of this research timeline. Finally seek

assurances from these STOI levels that the research outcomes are valid from their perspectives.

Lastly, in this chapter I also conduct two semi-structured interviews with other organisational representatives. In these interviews I seek to establish if the research is potentially generalisable.

8.4 NARRATIVE

On 9th January 2018 I held a final focus group with the shared internal audit service team. In this session we discussed the results of the latest PSIAS (2017) assessment and that it showed conformance across all the standards. We also discussed the challenges and actions, and identified that of the 13 thematic challenges, 4 remained outstanding:

- Counter Fraud Service – definition and creation

- Marketing – strategy and supporting materials for the external clients

- Governance (Models) – road map for transition to a company

- HRM – new structure / job descriptions

8.4.1 Summary of Governance Challenges and Actions

A total of circa 30 actions were introduced to manage the 13 thematic challenges. These are set out below in Table 8.1:

Table 8.1 – Governance Challenges with the Actions arising from this particular action research

Vision and Objectives	• Reviewed the vision – including formal approval by STOI levels • Reviewed and updated the objectives

Entry and Exit	• Created checklists for both new and existing partners and clients
Quality and Standards	• Recognised PSIAS deficiency and rectified. • Plus recognised additional standards applied to the other services e.g. ISO27001 for ICT Audit and ISO31000 for Risk Management and CPIA/PACE/RIPA for Counter Fraud, etc • Created a new PSIAS assessment for the service
Governance and Model	• Modified the schedules within the legal governance agreements to enable further devolution of powers within the STOI levels and changed the member level involvement (removing the Audit Committee members and introducing the cabinet lead / portfolio holder members) – removal of the conflict and securing the independence of the Audit Committee members. • Introduced the longer term concept of the Company model
Internal Audit	• Ensured PSIAS was conformant • Updated the reporting format at each partner for a more standardised version. • Introduced an external audit and senior management briefing schedule • Introduced relevant CPD aspects for internal auditors

	• Introduced agile auditing techniques – to aid with speed of audit report turn-a-round and also manage the hour glass effect • Introduced a defined consultancy provision and recognised this within the audit plans
ICT Audit	• Created a defined IT audit provision and introduced new software/hardware. This also enabled a new pricing scheme to be considered
Counter Fraud	• Commenced the development of a dedicated counter fraud service, but as yet this is to be implemented.
Specialist Services	• Risk management, contract audit and corporate governance were recognised as specialist services. • Appropriate hours of training and development were introduced and audit planning and website updated
Marketing	• A full strategy was under development but was as yet not complete. However, new pricing structures were developed and promotional material created. • Also dedicated time was now within the operational leadership team's remit to manage the expectation of clients and partners.
Operations	• A full review of the Audit Management System was conducted and training given to other operational leadership team officers to remove the single point of

	failure risk. Now four officers can work the system, allocate work and sign off reports. • Longer term review of the system was to be conducted at a later date. • SLAs were developed between the host and the shared service to help manage expectations of support services
Human Resource Management	• An induction process for the shared internal audit service new team members was created and tested with two new starters. • New job descriptions and person specifications had been created for the new structure but were awaiting the host formal procedures at the end of this research. • Succession planning had been introduced complete with a formal framework of progression and the ability to 'grow their own' staff. • Mileage and Time sheet issues had also been resolved with the adoption of a new system
Financial Management	• The finances of the shared internal audit service had been reviewed. This included the introduction of CPI inflationary measures and new cost per day calculations to enable a better pricing structure for the service charges. • Changed in the governance also enabled lower levels of the STOI to manage the finances within new

	parameters including the ability of the Tactical level now being able to manage the reserves.
Risk and Performance Management	• A new risk register and criteria for assessment was created and implemented. This includes new risks that linked specifically to the shared service aspects. • A new performance management system was also introduced that linked to the new objectives of the shared internal audit service.

On the 10th January 2018 a focus group with the tactical Group was held. This group reviewed the results of the final PSIAS assessment, the change programme and the outstanding actions. It also reviewed the 13 thematic challenges and 30+ actions that had been introduced. It was satisfied that no further work was necessary for the PSIAS conformance requirements, but agreed that there were actions outstanding for the shared service elements. For example, it recommended the new structure be permanently introduced by the host site, following their positive feedback on the changes in representatives at their respective sites.

On the 24th January 2018 a focus group with the strategic group was held to receive the recommendations from the tactical group and also receive the output of the research. Also consider the cost implications for the new structure (see appendix 12.9).

They were satisfied that the changes introduced had made a positive impact on the shared internal audit service. They were also able to confirm that no further challenges had been identified. They also voiced their opinion that the governance changes were better aligned to their requirements as a 'partnership' and less like an 'outsourced' arrangement.

8.4.2 Generalisation interviews

On the 7th March 2018 a semi-structured interview was undertaken with an audit manager from a single non-shared internal audit service. This interview was primarily to test the hypothesis that the challenges identified in this research were related to challenges of a shared internal audit service and that the tools had limited value to a single site service. The format and questions used in the interview was the same as those undertaken in chapter 5 with the addition of the following questions:

- Of the 13 challenges identified in this research can you identify with any of them in your single site service?
- Of the 30+ tools associated with the challenges can you identify with them and would they be of use in your service?

On the 21st March 2018 a semi-structured interview was undertaken with an audit manager from a 6-way shared internal audit service. This interview was primarily to test the hypothesis that the challenges identified in this research were related to challenges of a shared internal audit service and that the tools had value to other multiple site shared internal audit services. The format and questions of the interview were the same as those undertaken in chapter 5 with the addition of the following questions:

- Of the 13 challenges identified in this research can you identify with any of them?
- Of the 30+ tools associated with the challenges can you identify with them and would they be of use in your shared internal audit service?

8.5 ANALYSIS

As set out in the previous chapters the data from these focus groups and interviews was coded (Bryman and Bell 2015) and layered with the previous chapters' thematic data.

8.5.1 Focus groups

From the three focus groups it was clear that no further challenges were identified and that the research had reached a point where closure was appropriate for the action research cycles. All of the STOI levels had been given opportunity to raise further challenges and to consider further tools or techniques. However, all groups were satisfied that '*no further challenges were apparent*' and that although there were actions outstanding the responsibility for implementing these was now with the ongoing shared internal audit service.

They concluded that the following remained outstanding:

- Full engagement of the Members – creating the partnership strategic narrative with the newly appointed portfolio holders (having removed the conflicted Audit Committee members

- Completion and imbedding of the new shared internal audit service management and staff structure

- Full enabling of a Counter Fraud service to be created and established

- Strategy development to deliver the new vision and objectives of the Shared Internal Audit Service

- Embedding of a '*business-like ethos*' and understanding of key business elements such as HRM, Financial Management, Operations and Marketing.

It was recognised by the focus groups that there had been a '*positive change*' in the service. In particular they recognised the '*greater interaction we are having now with our own head of internal audit representative*'. They felt that this was enabling them to have a better level of service and also '*helped to ensure it was a partnership*' and '*not just buying in a service'* from the host.

They found that some of the tools were for long term use and needed to be regularly reviewed. They noted that the new governance arrangements enabled the officers to focus on the tactical

and operational aspects and left the strategic narrative to the top members level. This they felt was a far more effective and efficient use of their time and skills.

They also thanked the researcher for the effort delivered over the year of the intervention.

8.5.2   Generalisation Interviews

Analysis of the interview narrative is set out below.

Background information

Both interviewees held formal qualifications and had been in their respective services for over 10 years each.

Within the shared internal audit service there was a range of new and established staff (16 in total). The service had been broadly established in a shared service model since 2002/3 with a more formal S101 governance arrangement being established in 2008/9. It had also added two clients since its creation in 2008/9.

Within the single site there were 4 part-time staff and only one had been there less than five years. They did not have any clients.

Both sites were still awaiting a PSIAS external review (not part of this research).

How the shared internal audit service / single site demonstrates integrity.

It was recognised by the shared internal audit service that there was independence gained through reporting to the Audit Committee, and that the officer board '*supported*' the head of the shared internal audit service in these committees regarding the findings of their audit work. The shared internal audit service recognised that they had to be fully aware of the issues at each site and that this was difficult to '*keep on top of*'. There was the recognition that the phrase '*I will have to get back to you on that one*' was used quite frequently in committee if

the information was not in the report. This was identified as a challenge in this shared internal audit service that mirrors the challenge found in the hour-glass effect of this research.

The single site felt able to demonstrate integrity through the quality of their reports and that they are fully aware of the organisational issues. It was considered a positive thing to ask the single site service to attend all sorts of organisational meetings as they valued their independence and input, particularly the change programme aspects for consultancy. The interviewee commented '*there is little change that happens without our comment'*. However, it was noted that the single site did require support from an external organisation for '*specialist audits like IT and so on*'

How the shared internal audit service / single site demonstrates competence and due professional care. This includes continual professional development

The shared internal audit service commented that they had a '*wide range of skills within the team*' and that they '*rarely needed to buy-in any skills'*, although they do use '*agency staff and contractors from time to time to cover absenteeism*'. All of the staff have CPD built into their appraisal requirements, however, '*budgets are stretched*' at the moment and training is limited to those who need it. '*We do help the development of individuals through attendance at various regional conferences and in-house training when possible*'.

The single site demonstrated their competence and professional care through their reporting and the qualifications they held. They were constrained by their '*corporate training pot'* regarding any formal training. Each time the service had to request funding for training there was the requirement for a needs assessment. The budget constraint was significant and the '*staff had already gone part time to make savings'*.

How the shared internal audit service / single site is objective and free from undue influence (independent). And areas where there may be conflict of interest

The shared internal audit service was considered objective and free from undue influence due to the shared service arrangement. '*There is limited influence each partner can have on the service which helps us demonstrate independence and objectivity*'. '*As the head of the partnership I have no other responsibilities therefore I am clear to be objective, there are no conflicts'*. It was clear here that there were no additional duties delivered by the head of the partnership unlike the research site.

The single site commented that there '*are some conflicts as the role of the head of internal audit is not that senior in the organisation'*. Also the service reports to the S151 Officer who can have an influence, for example, '*limit our budget and what we can spend the budget on'*. We do have to rely on the Audit Committee to secure our independence.

How the shared internal audit service / single site aligns with the strategies, objectives, and risks of each partner and client organisation.

The shared internal audit service holds 1-2-1 meetings with the senior management officers at each site during the audit planning process, which '*takes some considerable time'* to go around each director or equivalent. '*I do find I am always in meetings'* in an attempt to ensure the audit plan aligns with the risks. The shared internal audit site also identified that the audit plan contains '*substantial contingency time*' to help it to adapt to emerging risks. However, it was identified that the audit plan was the easier aspect, aligning the shared internal audit service objectives with the organisational objectives was more difficult, for example, there is a current change in the direction of HR policy that if rolled out to all parts of the organisation could '*seriously hamper*' the shared internal audit service. It was clear that the partner organisations did not really understand the nature of the shared internal audit service.

The single site identified that there was very clear alignment with the organisational strategy and as mentioned above they had made savings through staff time reduction. The audit plan was fully consulted on each year and indeed had full change options throughout the year. It

was identified that the '*audit plan could change almost monthly'*. They had no clients or partners to worry about.

How the shared internal audit service / single site is appropriately positioned and adequately resourced. Including where the individual interviewed sits within the structure and what expertise that individual brings

The shared internal audit site considered that they were appropriately positioned and this was demonstrated by the reporting lines to the S151 officer and Audit Committee at each site. However, resources was a very different challenge, as there was always a shortage of the right skilled auditor for the roles that became vacant. '*Unlike a single site I have to make sure I deliver on the agreed audit days I don't have the choice to drop days due to staffing issues'* was the comment made. '*I have made use of agency staff and contractors, but also I have used work-placement students from the local university'* and found the work-placements '*very useful'*. The shared internal audit site did identify a problem with ensuring that the staff were able to attend Audit Committees and/or senior management meetings to help in succession planning and development, but as the staff were spread across all six sites it was difficult to do this.

The single site identified that the critical weakness was in their resources as there was only part-time staff. There was no budget for contractors or agency so absenteeism or other staffing issues resulted in a reduced number of audit days delivered. The structure is dominated by three very experienced and well qualified individuals that were all able to '*hold their own in meetings at any level'*. It was also identified in the reporting to the S151 officer that there was not really a formally titled head of internal audit in the structure and this did present problems in that the S151 officer had a potentially '*high level of influence'*.

How the shared internal audit service / single site demonstrates quality and continuous improvement. How the quality assurance program works within the partnership / single site and how the partnership / single site assists organisational change

The shared internal audit site commented that they had a formal business plan with a quality improvement programme held within. One of the ways identified as an improvement to the service was the introduction of new audit management software. This only became affordable when the shared service went 'live' in 2008/9. The shared service was currently awaiting the results of a tendering exercise for their EQA and subject to this there would probably be recommendations for changes in the service.

In terms of quality assurance: '*The audit terms of reference and the reports are all signed off by either me or my deputy*. It was noted that the reports were also adapted for presentation to the Audit Committee by the officer presenting at the committee, which was identified as '*normally*' the head of the shared internal audit service.

Regarding the organisational change, it was recognised that the audit plan included an allocation of time for consultancy work.

The single site identified that they were awaiting an EQA as required by the standards but to date they have completed a self-assessment that was supported by a survey of the relevant department heads. All of the reports go to the head of internal audit for sign off, but '*this takes time as she is only part-time like me and we can miss each other'* some time the reports can take months to go through the process.

The single site commented that '*We get involved in most of the change programme work at the site'* and that they were regularly asked to support management with their '*independent opinions*'. However, it was mentioned that there was little opportunity for them to see other organisations and how they worked, which was considered a benefit of shared service working.

How the shared internal audit service / single site communicates effectively. How information moves between individuals in particular how the individual being interviewed at that moment in time fits within the communication framework

The shared internal audit site commented that they had many 1-2-1 meetings and regular meetings with management and the Audit Committee, including an Audit Committee chairs briefing. However, it was mentioned that this is an onerous task and takes up a considerable amount of time and energy. Furthermore, it is difficult to disseminate the information to the team as they are dispersed across multiple sites. There is little information that is fed back from the team to the head of the shared internal audit service, which was '*frustrating*'.

The single site commented that their '*door was always open*' and people often popped their head around the door. We also had regular meetings with management and even the Chair of the Audit Committee would come in from time to time. It was considered that the whole team knew most of what was happening at the site.

How the shared internal audit service / single site provides risk-based assurance. How the shared internal audit service / single site ensures that their activity is linked to the risks faced by the organisations they are auditing

The shared internal audit site relied on the audit annual plan and the meetings used to develop this. It was noted that these plans are also performance measures for the shared internal audit service, whereby the delivery of the stated plan must be 90% delivered or be regarded as underperforming. Also, each audit report linked the recommendations to the risks of the organisation. There was some 10% contingency time in the plan to allow for emerging risks.

The single site identified that they were relatively 'flexible' in the audit plan and that they would often replace audits on the plan with new risk related audits as they emerged. All of the reports included some commentary on risks relating to the organisation.

How the shared internal audit service / single site is insightful, proactive, and future-focused. This includes engagement within partner and client change programmes and how the shared internal audit service / single site itself remains up-to-date and is alert to organisational change

The shared internal audit site commented that they had been leading the way in shared service having been the first service to go down this route. This was remarked as a positive 'lead by example' approach. The ability to operate at multiple sites also helped with providing insight as they could bring the solutions from one partner and introduce to another, therefore not having to reinvent the wheel. There is limited involvement in change programmes with clients as this is usually not in the contract, but for partners, if given enough warning, it is possible to allocate a member of the team. It was also mentioned that the whole team have opportunities through the year to attend networking events and training seminars and therefore able to bring back new ideas.

The single site found it difficult to demonstrate the insightful and future-focused aspects due to their limited access to networking events. They were also limited in their ability to fund change in their own service, so they did not have CAATTS or an Audit Management System. However, they commented that the pro-active approach they took made up for some of this.

How the shared internal audit service / single site promotes organisational improvement. This includes discussions on the consultancy role of the shared internal audit service / single site, in particular, whether the individual being interviewed has undertaken any consultancy

The shared service site held circa 15% of their audit plan for consultancy type work. It was mentioned that if coupled with the 10% contingency it could be a quarter of the plan on consultancy work.

The single site commented that about 40% of their work was consultancy type work. Most of the work was regarded as adding value and '*appreciated*' by the organisation. However, there

was sometimes the risk of being asked to audit something which we have consulted on previously and this creates a problem.

Is the governance framework enabling of the shared internal audit service / single site; is there an indication of semi-autonomy or full autonomy, and how the individual fits within this framework

The shared service site commented that the governance was generally not a problem and most activity fell within its framework. However, the host policy aspects were more of a challenge and sometimes contradicted the shared service governance requirements. There is evidence of a level of autonomy as the head of internal audit was relatively free to explore options for new clients or partners, new software or staff, but always had to deliver within the budget. If anything was wanted that was outside of the budget, then there was a rather lengthy governance process that went to members.

The single site commented that the audit charter sets out their governance and that was pretty much it. There were a few other policies in the service but otherwise the site policies were all enforced.

Are there any specialisms and other services that would not fall under the definition of internal audit for example IT auditing, counter fraud activity, risk management consultancy, et cetera

The shared internal audit service has IT auditors and some fraud auditors and was largely self-sufficient in skills requirement. One of the reasons they are able to have clients is that they can sell this expertise. There were a few in the team that have different backgrounds that also helped, for example, there was a qualified benefits assessor in the team and this helped with benefits audits due to their understanding of the legislation.

The single site commented that one of them has counter fraud qualifications. However, it was mentioned that they had to buy-in certain skills if they needed them for example IT audit.

Does the shared internal audit service / single site demonstrate commercialism or business-like activity including understanding how the shared internal audit service addresses; marketing, financial management, human resource management and operational management, as indicators of a business or organisation in its own right in operation

The shared service site identified that they were '*trying to develop commercialism*' and that it was one of the shared service objectives. They had done very little in the way of marketing, but felt it was '*something they should do'*. The financial management came down to managing the budget across the partnership, this included a little reserve fund annually. It was noted that the reserve was reabsorbed by the partners each year. In terms of HRM they identified that they were constrained by the host site, but they had been successful with work-placements. Operations were largely governed by the software and the ICT support provided by the host. The single site had no commercialism agenda and really did not need to consider these four areas as they were reliant on the organisations' own systems.

For the single site

- *Of the 13 challenges identified in this research can you identify with any of them in your single site service?*
- *Of the 30+ tools associated with the challenges can you identify with them and would they be of use in your service?*

There was recognition of the following challenges as relevant to the single site: Vision and Objectives; Quality and Standards; Internal Audit; IT Audit; Counter Fraud; and to some extent the governance via the audit charter, but not the model aspect.

Of the tools mentioned there was particular interest in the agile auditing, and the other tools associated with the 6 challenges they related to. However, there was little interest in the other tools or techniques for the other challenges.

For the shared internal audit service

- *Of the 13 challenges identified in this research can you identify with any of them?*

- *Of the 30+ tools associated with the challenges can you identify with them and would they be of use in your shared internal audit service?*

The shared service site was able to relate to all 13 of the challenges.

All 30+ tools were also considered and the comment was made that '*with some adaptation to our situation these could all work or help with our understanding and development'*.

8.6 REFLECTION

8.6.1 Coding and themes arising

A total of 2 generalisation interviews have now been coded with reference to the Collaborative Business Management Framework and the governance theme of the research. Furthermore, an auto-enthnographical interview was undertaken by the researcher to ascertain if any of the challenges presented in this research mapped to his own past experiences. The initial coding of the generalisation interviews was to ascertain if their internal audit service conformed with the PSIAS based on the 10 core principles for a professional internal audit service as set out by CIFPA PSIAS (2017) (see appendix 12.1). The secondary coding was then used to identify emerging themes from across the 3 interviews that were relevant to the governance of the shared service. This was also considered from the STOI perspective levels.

Table 8.2 coding

Participant reference number	Vision and Objectives	Governance and Model	Service and Quality	Exit and Entry Strategy	Risk and Performance Management	Internal Audit	Counter Fraud	ICT Audit	Specialist Services	Marketing	Operations	Financial Management	HRM
25	✓		✓	✓	✓	✓		✓		✓			
26	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
27	✓		✓			✓	✓	✓					

Interview Coding/Categories Layered & Cross Referenced to CBMF — Collaborative Business Management Framework

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The above (table 8.2) areas were all identified as key themes or 'challenges' for the shared internal audit service to some degree, based on the thematic analysis (Quinlan 2008):

Validation (McNiff 2014) of the findings from the action research were taken through a final round of focus groups. This occurred as planned in January 2018 as scheduled in the methodology. Generalisation interviews were conducted in March 2018.

It was clear from the final focus groups that there was no need for further research at this site. The 13 thematic challenges was exhaustive from the STOI perspectives and the actions had made an improvement to the shared internal audit service. It was clear that there remained some outstanding action but the principle had been accepted.

From the generalisation interviews it was clear that the shared internal audit site was able to readily identify with the action research site challenges and actions. Therefore it is conceivable that the challenges and tools would work at other shared internal audit services. The single site was able to relate to some of the challenges and tools but largely did not need the full framework. This reinforces the hypothesis that there are challenges specific to internal audit as a function but there are also challenges that only apply when the internal audit service is shared.

From the auto-ethnographical interview it was interesting that not all of the areas were considered. This may well reflect the reason why some shared internal audit services are struggling to be sustainable. Where areas of the challenges are not considered this may provide the weakness in sustainability.

8.7 CONCLUSION

This chapter has identified that there was no need for any further cycles of action research and that the 13 challenges was exhaustive.

The generalisation interviews confirmed that the thematic challenges identified through the three cycles were relevant to other shared internal audit services. Furthermore, the actions could be adapted to suit the situation of the shared internal audit service.

This chapter has concluded the on-site action research and commented on the generalisability of the findings. The next chapter will discuss further the implications of this research.

Chapter 9

Discussion

"Structural factors in the design of shared service entities can make a substantial difference not only to their operations, but also to their long-term performance"

Dollery et al (2016 p.235)

9 DISCUSSION

9.1 INTRODUCTION

This discussion chapter reviews the outcomes of the previous chapters 4 to 8; to enable discussion of the key points arising from the research and provides answers to the research questions. It also provides an opportunity for the follow-up review to be discussed. This chapter also considers the original contribution to knowledge.

This chapter also identifies that the research has addressed the research gap as identified in Chapter 2 and that the methodology used to answer the research questions as discussed in Chapter 3 was valid.

9.2 RESEARCH QUESTIONS ANSWERED:

The research was able to answer the research questions, as summarised below, and therefore able to contribute to the bridging of the knowledge gap identified in the literature review.

Research question 1: What are the governance challenges that a shared internal audit service has to address?

This research identified a total of 13 thematic challenges in this shared internal audit service. Those challenges were set out in chapter 7 and are discussed further in this section. It was identified that only five were directly linked to the internal audit function the remainder were predominately shared service challenges. This research recognises that these 13 themes form the basis of a new theoretical framework for the operation of a shared internal audit service; this is called the '**Collaborative Business Management Framework'** and builds on the 'Common Service Model' developed by Dollery et al (2016). The following figure 9.1 shows the 13 themes of the Collaborative Business Management Framework:

Figure 9.1 Collaborative Business Management Framework.

9.2.1 Vision and Objectives

As recognised by Johnson et al (2018) organisations need to have a clear vision and mission, supported by appropriate objectives. From this research is was apparent that the vision had not been reviewed since the commencement of the shared service in 2012. However, the shared internal audit service had gone through a growth in 2016 from 2 to 6 partners, with the 4 new partners simply importing the vision and objectives without review. It was identified in the early interviews (Chapter 5) that there was limited ability of the individuals to provide any detail on the vision or objectives of the shared internal audit service.

In Chapter 6 actions were taken to review the vision and objectives. There was no change to the wording of the vision, but having now reviewed the vision it became apparent to all STOI levels that there was a mis-alignment of the objectives, including the recognition that some of the objectives were in fact performance indicators. A new set of objectives were created in a focus group and approved by the STOI levels.

Tomkinson (2007) is clear in his remarks that there is a need for an overarching vision and a clearly defined quality. This is highlighted in the overall vision and objectives at a strategic level in the Collaborative Business Management Framework. Dollery et al (2012) considers that there are economies of scale and economies of scope. Given that the collaborative

business management framework offers the governance challenges of defining the range of services and also the support mechanisms to enable this within the predetermined vision and objectives, it goes some way to fulfil the Dollery et al (2012) concepts. Additionally, the need for 'voluntarism' (Dollery et al 2016) is reinforced by the alignment of vision and objectives by the partners.

9.2.2 Entry and Exit Strategy

Milford et al (2017) identified the need for there to be consideration given to the risk of partners entering and exiting a shared service project. This was also identified in the ongoing delivery of the shared service. In chapter 7 the final challenges discussed were relating to the loss of a partner. The impact varied depending on which partner left, given that there was a large variance in the 'demand' at each partner site. Chapter 2 identified that shared services can collapse when partners exit, as per the 'Tri-Borough' example, or they can radically change the service as shown in the LGSS takeover of the WIAC partnership. However, the governance of the shared internal audit service held limited information in terms of exiting a partner. Furthermore, there was limited information in the management of clients entry and exit. Therefore a checklist was developed to help assess entry of new partners or clients and also to aid in the exit of a partner or client. Additionally, the governance documentation was amended to include arbitration services.

Tomkinson (2007) comments on the quality as a key aspect in shared services. The interruption factor of new partners/clients or the exit of partners/clients highlights the need to consider these aspects carefully. Dollery et al (2012) considers the economies of size as a factor, the entry and exit of partners and clients will impact on this factor. Dollery et al (2016 in the 'common service model' highlights the 'voluntarism' requirement and this links directly to the need for careful selection of new 'volunteers' and the managing of the exit of those who no longer wish to volunteer.

9.2.3 Service Range and Quality Standards

Chapter 5 highlights that there was a clear variance in the range of services and therefore what standards would also apply. For the internal audit function the PSIAS (2017) clearly applied, but other services partially being offered, for example IT Audit, had not recognised the need to assess against such standards as ISO27001 or similar. This also resulted in a variance of expectation of support services provided by the host ICT service. As Huczynski and Buchanan (2001) identify an organisation can benefit from total quality management systems. Therefore one of the tools developed included the identification of relevant standards relating to the service range offered.

Furthermore, as shown below in Figure 9.2 the quality of the service was found to be initially non-conformant with the PSIAS (2017) but through the introduction of a series of actions the service was able to transition to fully conformant.

Cycle 1				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	12	5	2
Performance Standards	33	28	4	1

Cycle 2				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	15	4	0
Performance Standards	33	29	4	0

Cycle 3				
	Number of Standards	Generally Conforms	Partially Conforms	Does Not Conform
Code of Ethics	4	4	0	0
Attribute Standards	19	19	0	0
Performance Standards	33	33	0	0

Figure 9.2 The transition to conformant

Observations from this research regarding Shared Service vs Internal Audit are interesting from the point of view that full conformance is possible but there may well remain issues for the shared service. This is not covered to any great degree by either Tomkinson (2007) or Dollery et al (2012) but is perhaps encapsulated in the requirement for the shared service to deliver on the quality standard set. It is also not clearly apparent in the 'common service model' (Dollery et al 2016) unless their comment on the acquisition of new technical skills incorporates the skills required to lead and manage a shared service, which is not apparent from their paper.

9.2.4   Governance and Model

The governance model used by this shared internal audit service was the 'Lead Partner' or 'Hosted Model' (CIPFA 2010a). This was established through a S101 of the Local Government Act 1972 Agreement. However, although this agreement established the shared service it was found to be disabling in terms of the devolvement of powers through the governance structure (STOI levels). Inefficient and ineffective roles and powers were given to the different STOI levels, in particular the inability of the Tactical group to be able to spend reserves from the shared service budget. Furthermore, the officers and members appointed to the strategic and tactical levels resulted in conflicts of interest and a narrow skills base,

The LGA (2016) recognises that '*flexibility is key*' in the successful delivery of a shared service. Therefore the governance agreement was revised to remove conflicts of interest and devolve the powers more effectively within the STOI levels. The changes to the governance agreement was also used to reinforce the aims and ownership of the shared service (Radford 2009). This was done through the use of formal gateway reviews (see appendix 12.18).

The use of Boundary Objects (Star and Griesemer 1989) was apparent in the governance documentation, such as, the S101 agreement, the relating schedules and the audit charter and audit plan. These documents acted as devices to translate different information to the different groups, for example, the charter defined access to the service users and range of

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services to the partners. They also highlighted the limits of the shared internal audit service powers and interaction with the partner and client organisations.

Finally, Dollery et al (2016) recognises that organisational structure factors in the design of shared service entities can make a substantial difference not only to their operations, but also to their long-term performance in the 'common service model'. It was established in this research that the restructuring of the service enabled an improved work load balance, reduced risk of single point of failure and enabled individual development opportunity.

9.2.5 Risk and Performance Management

As CIPFA (2016) indicates there is a need for the shared internal audit service to manage its risks and performance. This was recognised by the CIPFA (2010c) with the commentary that identifies the shared service must be able to monitor its delivery of it benefits. This links with the Aldag and Warner (2018) analysis of the longevity of shared service and that they move from cost savings to quality subject to their duration (see chapter 2). It was therefore crucial to this shared internal audit service that it was able to 'prove' its benefits to each partner, thus increasing its longevity potential. Had the shared internal audit service not been able to reach the PSIAS (2017) standards then there would have been adverse effects. It was noted that partners were looking to move to a different governance arrangement that they were prepared to document and manage the service in line with this direction, thus embracing some new risks that had not been considered before. The approach adopted by LGSS reflects the importance of risk management when setting up shared services. The business models, such as joint arrangements, limited companies and Teckal companies, are all ways of balancing the risk of the ventures with the growth strategy and desired governance arrangements (LGA 2012).

This aspect appears to almost disagree with the concept of the 'common service model' (Dollery et al 2016) where they state that the model avoids the problems associated with rigid membership requirements, burdensome governance provisions and communal risk-sharing

provisions, however, from this research it was clear that membership 'attendance' was important to move forward on risks identified and that the risks identified in one partner could infect another or all partners. For example, in Chapter 5 the research identifies a series of non-conformance with PSIAS (2017) and this presents a risk to all partners relying on an effective internal audit service. Difficulties in remedying some of this non-conformance was in part due to failure of attendance by partners to approve the resolutions and actions. This could be considered an example of 'burdensome governance provisions', but as Dollery et al (2016) highlight themselves there is a requirement for accountability and oversight. However, it is clear from this research that risk and performance management are governance challenges that need to be addressed for a shared internal audit service to deliver in line with the quality and sustainability elements.

9.2.6   Service A to D

This element of the collaborative business management framework provides for a range of services to be considered. In this shared internal audit service four services were identifiable, however, in the generalisation interview this was only three. It is conceivable that this aspect of the framework could be unlimited in terms of the number of different identifiable services, however, this would require additional research that is outside of the scope of this research.

The need to identify the services does link to the PSIAS (2017) in the reference to standard in terms of defining the purpose of the internal audit function, extrapolating to consider the purpose of the shared service. However, the LGA (2016) considers that the success of one shared service can lead to the success of others. The LGA (2012) also mentions that growth of shared services can lead to economies of scale, which could be achieved by bringing more services into the governance model of delivery. LGSS for example has 17 services listed in its governance structure (LGSS 2018)

It also builds on the 'common service model' (Dollery et al 2016) in terms of the need for enabling councils to *pick and choose'* which shared services they can use but adds to the

need for the marketing element to highlight what services are available within each shared service.

9.2.7 The Four Pillars

The marketing, operations, financial and human resource management aspects were recognised in the research as the four pillars of business and linked to the commercial acumen or business-like approach mentioned by PWC (2018).

There was a positive result in the application of the Dibb et al (2001 p.1) definition:

> *"marketing consists of individual and organisational activities that facilitate and expedite satisfying exchange relationships in a dynamic environment through the creation, distribution, promotion and pricing of goods, services and ideas."*

The Marketing Mix (Booms and Bitner 1981) highlighted 7P's of marketing and by applying these to the shared internal audit service there was a clear recognition of developmental benefit, for example, pricing the service appropriately for the market and not just averaging the day rate.

The operations element helped to generate the need for service level agreements between the host and the shared internal audit service. It also highlighted the audit management software and single point of failure issues. Using such tools as the 4'V's of operations (Slack et al 2010) it helped to analyse the service requirements, in particular, the variety issues that were identified. The need for standardisation was highlighted by the NAO (2016) as a key means for shared services to generate cost efficiencies, however, the research found that this shared internal audit service had a wide variety range. By addressing this and introducing some more standardisation of practices the service improved.

Financial management was a key challenge that resulted in the evolution of the governance framework for the shared internal audit service. The inability for the service to spend reserve due to in-quoracy of the members board, effectively disabled the service in terms of internal

investment. Furthermore, when coupled with the marketing aspect the financial management need to monitor the cost and pricing structures also became apparent. As CIPFA (2010c) highlights the realisation of benefits is paramount to the demonstration of a successful shared service.

The final element of the 4 pillars is the human resource management aspect. The research highlighted just how important it was to address the balance of the Head of the Shared Service role with the other duties as the impact of only 5-10% availability resulted in a failure in the PSIAS (2017) assessment. The NAO (2016) also highlights the need for the right people to be in the right roles to ensure successful operations. This is supported by Farnham (2002) who identifies that a human resource strategy is critical in ensuring organisational success and effectiveness. This linked to the need to develop succession planning and appropriate career pathways, including new job descriptions.

Research question 2:   What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

It was recognised within this action research that the move by the shared internal audit service to a six-way partnership arrangement presented a level of challenges that although enabled them to deliver cost savings it did result in initial nonconformance to the standards thus risking sustainability. By the end of this third cycle of this action research (chapter 7) sufficient changes had been made to ensure conformance with the standards. Therefore as a result of these changes, and in conjunction with existing measures already in place within the shared internal audit service, it can be shown how the shared internal audit service can meet the public sector internal audit standards. However, the research did identify that the cost saving driver would not have been the dominant driver for this shared service as the quality of service and political motivators also influenced the drivers for the shared internal audit service. This

aligns more closely to the Dollery et al (2012) theoretical expectations and the key success criteria. It also builds on the 'common service model' and its 'organisational structures' (Dollery et al 2016) in terms of the need for appropriate financial management, but also Operations, Marketing and HRM aspects.

Research* question *3: ***How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?***

Given the level of nonconformance identified in chapter 5, there are a range of actions required by this particular shared internal audit service, to deliver conformance with the standards. These included, inter alia, agile auditing, structural changes, governance revision and the introduction of the 'four pillars' of business as defined in chapter 2 and used in chapter 6. However, it is clear from the literature that the sustainability is a prerequisite of the quality of service factors.

9.3 STRATIFIED REVIEW

This section looks at the different challenges at each layer of governance (STOI levels) and the issues arising from these layers.

9.3.1 Strategic

At the strategic level of the partnership it was identified that the whole partnership needs to be given direction and be clear about where is it going as a whole 'entity' – the business vision (Radford 2009). The shared internal audit service website gave some indication of the original direction to inform the semi-structured interviews. However, it became clear that the vision on the website was obsolete, or even unknown to some of the officers and members at each level, and needed realigning to the wider 6-way partnership. The strategic position should be

clearly set out in a vision and supported by the top Board of the shared service (Edwards 2008) as it also helps to bring the political groups together (Radford 2009). The tactical level should then be assisting the operational to meet the directional expectations of the Board

Furthermore, the shared internal audit service Board that provides the strategic steer to the partnership had only met once in over a year and was not quorate on that occasion. Subsequent Board meetings also fell short on quoracy and in effect paralysed the partnership due to inability for strategic decisions to be made. The governance also did not permit the Operations Board (made up of senior management representatives from each partner) to make any decisions that committed spend from reserves or other actions that would help to deliver the vision of the partnership. The ability to make available the appropriate powers to each level is necessary for an effective and efficient shared service (Audit Commission 2005).

At this level in a shared internal audit service, and in a public sector theatre of operations, it would be reasonable to have an analysis of the external environment of the partnership. The use of such tools as PESTEL (Political, Economic, Societal, Technological, Environmental and Legal)(Johnson et al 2018) would be useful here as identified in chapter 4 the lack of political commitment was apparent and could have been discovered sooner had this tool been used. There were no documented assessments of this type to help the board or the team navigate the external influences on the partnership.

It is recognised that as a partnership moves beyond 1 or 2 partners the 'entity' created, regardless of the governance vehicle used, will start to move towards a Business-like approach (Bergeron 2002) to manage partner expectations. This therefore presents the basic expectations of a business; growth, survival, profit (although in public sector terms). This approach is recognised by Audit Commission (2005) and CIPFA (2013) as the shared service grows, which is also supported by the LGA (2012) who commented that challenges increase with the increase in the number of partners. The research found that there was a longer term aspiration to move to a company model of governance. The LGA (2012) comments that the business models, such as joint arrangements, limited companies and Teckal companies, are

all ways of balancing the risk of the ventures with the growth strategy and desired governance arrangements.

Dollery et al (2012) in their comments on organisational structure recognise that structural factors in the design of shared service entities can make a substantial difference not only to their operations, but also to their long-term performance. They go on to highlight that several important factors must be addressed:

> (i) the ownership structure of the shared service entity, inclusive of asset ownership and voting rights;

> (ii) distribution of the establishment costs of the entity and its ongoing running costs; and

> (iii) the distribution of surpluses and losses among member municipalities (Dollery et al 2016).

These strategic issues were identified in this research and were resolved through the re-working of the governance framework..

The shared internal audit service, particularly the internal audit aspect, should have clearly defined mission for the partnership as a whole at this level (PSIAS 2017). From this specific aims and objectives can be crafted, as completed in chapter 7. This can form the basis of the 'operations management' (Slack et al 2001) business function aspect of the partnership. This aspect looks at the 'Volume', 'Variety', 'Variation of demand' and 'Visibility' aspects of the service (Slack et al 2001). The interviews identified that the variety of services offered varied by partner and not all services were defined or even visible. The consultancy aspects of internal audit were not defined and were found to be actively limited. Other service offers such as ICT audit and Counter Fraud were very understated and not recognised as a specialist service. Some of the partners were not aware of the shared internal audit service's full service range. It would also be anticipated that this function would oversee the supply chain management aspects of the service, in particular, the agreements between the host and SIAS

i.e. SLAs with ICT to ensure availability, integrity and confidentiality of systems meets with SIAS expectations and requirements and in line with the required ISO 27001 standards needed in an IT audit.

The engagement of new partners or clients is an expectation of this particular shared internal audit service as derived from the vision. However, the shared service does need to establish a marketing strategy (Dibb et al 2001; Niehaves and Krause 2010) to ensure it is making an informed choice as to the approach and efforts given to securing further partners or clients. Moreover, it is paramount that the marketing strategy incorporates the approaches to keep current partners and clients satisfied. This reflects the requirements as set out in the PSIAS (2017) definition of internal audit and its requirement to focus on each organisations objectives and risks.

The research found that there was limited evidence of strategic view or policy on the Financial Management of the shared internal audit service (Chapter 5 to 7). The accounting at the host site did not readily reconcile with the figures held in the shared service repository. However, the shared service held figures were traceable to the agreed income from partners and the expenditure for staff and other basic direct costs. The management of expenditure was controlled in two parts; low level spend by the Head of the Audit Partnership and high level spend by the Board. However, the Board was found to be repeatedly inquorate and in effect paralysed the partnership investment spends e.g. use of reserves. It was also noted that knowledge of the reserve levels and purposes were undefined. Furthermore, the shared internal audit service had no plans in place for the review and increase of partner funding in line with such systems as CPI or RPI. Therefore the increase in costs of staff salary or other incremental increases in base costs were not being acknowledged. The staff turnover effect had been used on an unplanned basis to maintain partner contribution levels. It is recognised that the shared service had built a reserve through this manner of operation but it was not planned. In the future to be more 'commercially focused' (Audit Commission 2005) the shared service will need to develop a Financial Management Strategy (Doherty and Horne 2002;

Jones and Pendlebury 2001; Clark 2009) that outlines the use of funds over a period of 3 to 5 years. This includes expected reserve levels, percentage of use for internal investment, etc. The LGA (2012) highlights that shared services can grow by providing services to third parties. Income from third parties is an integral part of the business plans for some shared services. Furthermore, the LGA (2012) identify that shared services can be used to build an income stream which can be distributed to front-line services or to limit price increases.

It was identified that there was no human resource management strategy aspects in place within the shared internal audit service. A key indicator of this was the very limited training given to the staff and the lack of knowledge that some staff had allowed their professional memberships to expire. The structure and behaviours was also constraining development of staff or allowing for succession planning. For example, the Assistant Audit Managers had not attended any Audit Committees. There was a positive indication of some possible future staffing planning with the two work-placement students supporting the ICT audit work. However, this was not maximising the possibility of retention of these two students and relationships with the university was informal. The structure itself had little development opportunity and had remained static even after the increase in partners and number of audit days from the host. Although there was knowledge of some specialisms in the team there was limited evidence of how this was to be deployed or maintained. The ability to plan the use of human resources is necessary to ensure that SIAS can deploy appropriate skilled resources when necessary to meet the partner or client needs. NAO (2016) identifies that having the right person with the right skills is important to the success of a shared service.

9.3.2 Tactical

This layer in the stratified governance of the shared internal audit service looked at the mechanisms by which shared services could deliver the strategic position set out above. It exists between the strategic vision setting layer and the layer that manages the day to day delivery. In order to manage this aspect it was identified that the shared internal audit service

needed to consider the capabilities and competency within this layer as the group was dominated by finance professionals. A more balanced group in terms of skills would enable a more rounded range of options being discussed and identified as an issue by Audit Commission (2005). PWC (2018) highlight the need to address particular gaps in supply chain management and commercial acumen. Also PWC (2018) highlight that '*developing commercial skills and business acumen, being prepared to work outside council organisational boundaries and seamlessly across the public and private sectors in order to achieve better returns on investments and better value from public/private sector arrangements*' is now crucial for local government.

Regional and national networking should be undertaken to help identify emerging changes in the market (KPMG 2017) and in the nature of service provided by competitors. This should include engagement with the professional events to help with the demonstration and satisfaction of quality improvement processes and future standards based assessments, supported by the requirements of the PSIAS (2017).

Linking with the HRM strategic view building relationships with local universities and colleges will help secure future staff needs and also enable SIAS to develop a 'grow your own' approach to the succession planning and development of staff, a key factor considered by the Operational Focus Groups in Chapter 8. Review of the host policy and processes was also needed to ascertain how the shared internal audit service could best utilise the host arrangements for permanent staff. It was noted from the generalisability interviews in chapter 8 that the HRM policy of the host can be disabling if it does not align with the shared service objectives. New HRM policies for the shared service was also highlighted in chapter 7 as the shared service did find the host policy disabling.

The shared internal audit service management direction and development was a key aspect to this layer in the structure. The leadership abilities of the leadership team need to grow to aid in the delivery of such aspects as change management and evolution of the partnership. As the strategic direction moves year on year due to Political, Economic, Social,

Technological, Environmental and Legal elements so the model of delivery of the partnership services also needs to change and evolve (Grant Thornton 2014).

Use of basic assessment tools were helpful at this level, for example, SWOT analysis (Johnson et al 2018). Chapter 6 identified a range of SWOT topics as highlighted below:

- (**Strengths**) Capabilities – core competencies – unique selling points – competitive advantage that allow for the assessment of tactical decisions. For example, timing of seeking new clients and how to secure them against competition.
- (**Weaknesses**) Restrictions / constraints – boundaries   what aspects of the partnership, hosting or other SIAS issues would prevent the delivery of the strategic objectives.
- (**Opportunity**) (**Threat**) Capacity – what can be done – proactive / reactive How to assess the challenges in the market place; both the internal market of existing partners and clients and the external market of new partners and clients and the competition.

Overall, this level should provide clarity of internal direction which includes goals for the team and tools to aid in this and include the new Shared Internal Audit Services Business Plan that was developed and agreed on a partnership-wide basis.

However, it is at this layer that the Hourglass Effect becomes a key challenge. Noting that Tricker (1984) highlights the governance i.e. application of direction and monitoring feeds down through the tactical layer from the strategic and in to the operational layer. The information flow as highlighted by this research impacts on a pinch point where there may only be one individual taking all the information through from the governance layer and into the operational and vice versa. As the Hourglass Effect shows there is a significant risk of information related challenges where it is restricted by the capacity of the individual. Fulfilling the role of Head of Internal Audit and Head of the Partnership in this instance was excessive

and resulted in concerns being raised by the participants. Therefore, when considering Dollery et al (2012) policy implications there is the 'optimal size' concern for a shared internal audit service to be implicated. The need to modify the structure is apparent from this research but also adds to the argument of optimisation of size.

9.3.3 Operational

At this layer, the focus moves to the day to day delivery of the required services.

Within the internal audit service provision there are clearly defined annual requirements that steer the day to day delivery, for example the Annual Audit Plan (PSIAS 2017). Within this plan the expectations of internal audit assurance activities are set out for the start of the year. However, as internal audit is risk based this plan should flex to accommodate the changing risks at each partner or client (see chapter 2). This presents one of the most challenging aspects for a shared internal audit service to manage as part of the rationale for shared services is the financial savings generated through standardisation and reduction in management. Within the annual audit plan there is also an opportunity to outline the other work such as consultancy and where appropriate broader service options such as counter fraud or ICT audit, noting that PWC (2018) highlighted cyber and AI as current risks for organisations. It was identified that the range of services was varying across the partners, but the partners were unaware of the options. Also the consultancy requirement of internal audit was actively discouraged by audit management. The annual audit plan should be built with full engagement of senior management and the Audit Committee (Pickett 2007), not all sites felt that they had the required engagement. At one site the Head of Internal Audit did not attend an audit committee to present his opinion or plan. Finally, there should be engagement and interaction with other assurance providers to ensure there are no gaps in the assurance plan or duplication. SIAS had not engaged at all with the external audit provider since their arrival at the site.

The shared internal audit service had developed its own audit management software (AMS) which gives an indication of the skills within the team. The system provided a comprehensive data capture and analysis arrangement. This system did have potential to provide a sound information system for the partnership. However, the original designer of the software had left the organisation. Also there was no sharing of how to operate the data analysis/manipulation by the audit manager which resulted in the risk of his absence causing the service to stop effective or efficient output through the AMS. The ICT audit staff still within SIAS did not have sufficient knowledge of the system to effect any development work and only limited maintenance work. The LGA (2016) highlights that partner organisations have different cultures, structures and processes and for a shared service to operate effectively as one organisation these have to be changed in ways that support the new organisation. The use of Service Level Agreements were developed to help the relationship between the host and the shared service.

As with most organisations there exists some type of system to monitor performance and development of staff (Pilbeam and Corbridge 2002). The shared internal audit service host had a system for appraisals, which should help link the individual expectation to those of the organisation. However, the team had stopped using the system and used an expanded report review to discuss individual needs throughout the year. However, this was not coordinated and was disjointed in its ability to link individual development and performance to that of the strategic aspirations. This may also account for the lack of focused training for staff.

Time recording and analysis is useful to monitor the value for money aspects of the Shared Internal Audit Service (Economy, Effectiveness and Efficiency – EY 2017). It was identified that there were 4 different systems in use of which there was no consistency of use with staff. There are advantages to having this type of data to generate information to inform decision, but this was excessive and costly in the time taken to complete the data entry. The systems were streamlined down to just 2 systems; one for the host requirements as the employer and the other for the AMS.

Key Performance Indicators and other such tools were developed to monitor and aid decision making in the delivery of the strategic plans. These would cover the four layers of the partnership governance from strategic to individual. Where appropriate they would be used to help demonstrate conformance with standards. The initial KPIs were focused to the internal audit service and little was in place for shared service targets. New performance and risk measures were established. The establishment of performance measures links directly to the need to measure the benefits of sharing the service (CIPFA 2010c).

Quality control is a key element for any shared service organisation (CIPFA 2010b). For an internal audit based provider relationship quality control is as important as the audit reports and helps demonstrate conformance with PSIAS (2017). Furthermore, failure to have quality relationships with key stakeholders e.g. Senior management, Audit Committee, External Audit etc, will make the risk focusing of audit activity to the organisational risks more challenging. The quality control should also link to partner/client predetermined expectations and that of the relevant standards e.g. link to PSIAS + other relevant standards for the services provided. Quality control was heavily focused on the audit report and included several review stages. It was noted from interviews that some reports had gone through 20+ iterations before being released. Also the physical location of the Assistant Audit Managers was constrained to the host site. This limited the knowledge available to this review point on the 5 other partner requirements. Finally the audit report was only released when approved by the Audit Manager (not the Head of Audit Partnership). His absence resulted in reports not being released and also limitation in the knowledge shared with the Head of the Audit Partnership. This single point of failure risk and the knowledge sharing requirement reinforced the need to change the structure of the service as shown in chapter 7.

Operational policy and procedures in the 'hosted model' (CIPFA 2010a) of this shared internal audit service was found to enable or constrain the partnership. Aspects such as recruitment and sourcing of temporary staff found that the host policy was not conducive to the delivery of the shared service requirements. Other policy applications were also found to be challenging

the nature of the shared service work, such as travel expenses. Other policies that were reviewed included the induction process. It was found that there was no induction process for new staff into the shared service only for the host 'employer' site, therefore introducing an immediate lag in development of the new employee in their orientation with partners.

Within local government there is significant reliance on the legitimate power structures (Weber 1947; CIPFA 2016) whereby only certain levels can conduct certain activities. Within the shared internal audit service considerable authorisation and reporting responsibilities rested with the Head of the Audit Partnership and yet this role was only 5% of the officers total remit. Also the status of the Assistant Audit Managers or Principal Auditors was not deemed sufficient to attend Audit Committee or have a voice at senior levels. This type of structure limits the flexibility of the shared service which the LGA (2012) highlights is a key requirement for a growing shared service.

Tomkinson (2007) and Dollery et al (2012) both relate to the quality aspect of the shared service model. It is paramount that the shared service delivers to the quality as determined at the strategic partner level. Within this layer of this research this became apparent and actions had to be taken to ensure that the fundamental role of the head of internal audit was delivered to the satisfaction of all partners. Failure to deliver prior to the intervention of this research was highlighted by the external auditor and was stated as a concern in the first focus group. Therefore it is fully justified that the quality aspect stated by Tomkinson (2007) and Dollery et al (2012) is featured within the governance challenges of a shared internal audit service.

9.3.4   Individual

Finally we look at the individual level within the shared internal audit service. This level has a focus to all of the staff from junior to board member and how their needs are aligned to the shared service needs.

One of the first questions is about why an individual would choose to be part of the shared internal audit service, given that there is choice for all individuals even the elected representatives on the Board. Each individual needs to know where they fit in and what they get in return for their efforts, recognising that the Audit Commission (2005) and the NAO (2016) highlight the need for individuals to 'belong'. In Chapter 6 there is the recognition of the need to develop the individual.

It was also identified in the interviews in chapter 5 that there was a wide range of skills and experience within the team. However, all 4 of the management team had been 'employed' by the host for 10+ years, which presented the risk of the host products (report style) being set for all partners. This linked to the standardisation benefits identified by DCLG (2007) but did not recognise the emerging focus from the LGA (2016) where the shared service needs 'flexibility' to accommodate the different partners' requirements as a shared service grows.

There was the need to have knowledge and skills with individuals to deliver on their roles but also have opportunity to develop and gain reward. These can be in a range of forms from financial incentives to benefits to the community to enhanced knowledge or formal qualification. The structure of the shared internal audit service and the linkage to the strategic narrative did not readily translate to the individual needs and aspirations. There was no development or training given to the Board or Tactical Group levels.

Career pathways are often seen as a benefit of joining a shared service arrangement as there is likely to be opportunity for promotion including lateral movement (CIPFA 2013). There is often a greater chance to develop specialisms. Opportunity to experience multiple organisational cultures is also beneficial, particularly for internal audit where successful practices from one partner can be recommended to others (CIPFA 2010c). However the opportunity for development was impeded in this shared internal audit service by the flatness of the structure and that expectation from management was that auditors would operate individually and not in teams. Knowledge share was minimised and resilience (a normally beneficial aspect of a larger team) was also minimised. Audits would be delivered by

individuals and in the event that individual was absent the audit would be stalled. Experience of the other sites and cultures therefore was also minimised. To remedy this situation 'agile auditing' (Prickett 2018) was introduced and the management structure reshaped.

One of the other benefits to a partnership is that it can build on this partner platform and encompass more services LGA (2012). This also helps the individual's development opportunities. The shared internal audit service staff were found to have a wealth of under promoted service offerings, such as ICT audit, Counter Fraud and Contract Auditing. Most of these avenues were '*stifled*' by management and it is likely that is was the capacity at management level that was the cause. When the full range of services was discussed with the Tactical Group several requested that these service were developed for their organisation too. At the close of this research, ICT audit had generated additional clients and also supported data matching exercises for counter fraud linking to the LGA (2012) benefits.

Professional development is a requirement for most professional bodies. The PSIAS (2017) also requires continual professional development. The research found that the staff had allowed CPD requirements to go unmet and also for some to lose professional membership altogether.

Staff succession planning should be in place for the shared internal audit service to allow for the nature of staff turnover. It should also help with managing long term sick, maternity and other periods where staff are unavailable e.g. secondments. Initially there was no capability to grow their own staff and help manage staff turnover. New succession planning arrangements and updated structure with new job descriptions was implemented.

Tomkinson (2007) and Dollery et al (2012) is relatively quiet on the individuals within a shared service. However, CIPFA (2016) and NAO (2016) both highlight the need for particular skills to be within the shared service. In this research the 13 thematic challenges highlight the range of skills needed to manage the delivery of a shared internal audit service to the quality standards set at the strategic level. Furthermore, the need to link through the individual needs

to those of the shared service reflect the meaning of corporate governance as discussed by Chambers (2014).

Additionally, the 'common service model' (Dollery et al 2016) highlights voluntarily participating local authorities reap not only the benefits of scale and scope in local services where economies of these kinds apply, thereby securing gains normally attendant upon council size, but also acquire administrative, managerial and technical skills not otherwise available, which links to the development of the individual within the shared internal audit service.

9.4 MAPPING THE KEY ISSUES WITH THE GOVERNANCE STRUCTURES

Chapter 2 considered the Tricker (1984) model for organisational governance (see below) Tricker (1984) sets this out in the diagram below:

Governance

Accountability

Supervision

Strategic Management

Executive Management

Decision & Control

Operational Management

Management
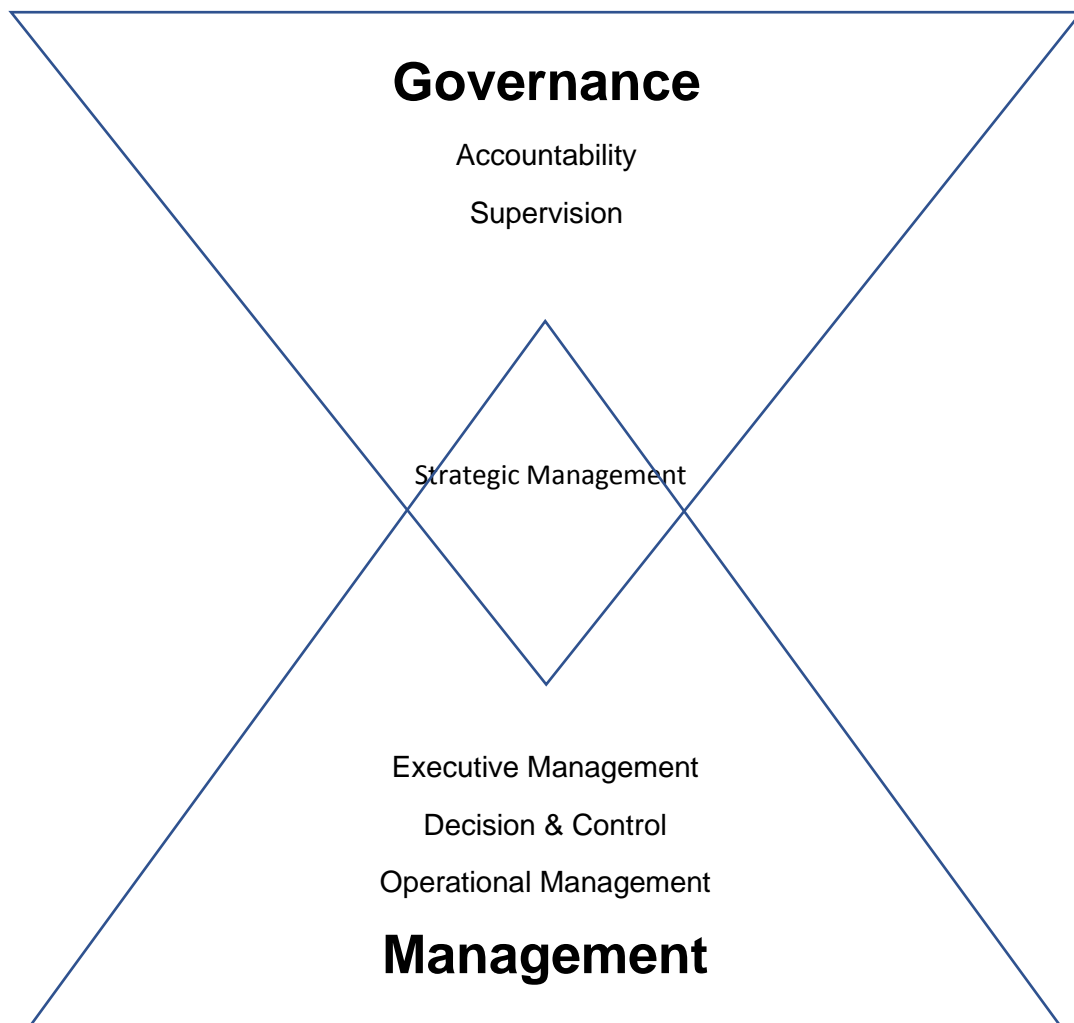
The following diagrams show how the focus of the initial partnership creation, and its subsequent evolution, map to the Tricker (1984) model, but highlights a challenge in the shared internal audit service information flow through the governance.
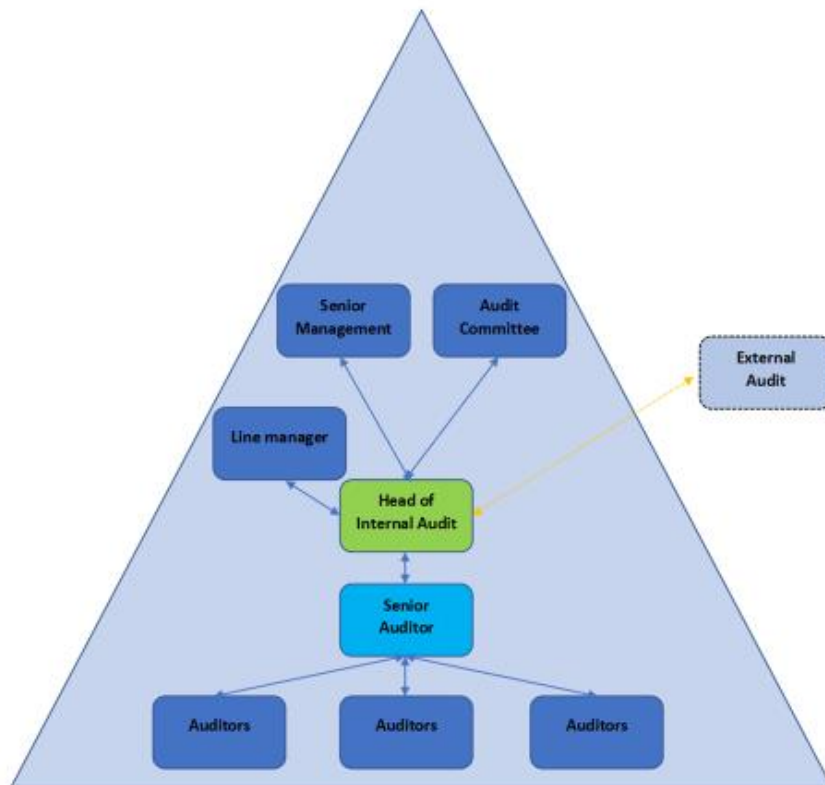
Figure 9.3 Basic internal audit service

The above Figure 9.3 structure represents the single site internal audit service with the dual reporting lines plus the internal line manager link and the link to the external audit as required in standard 2050.
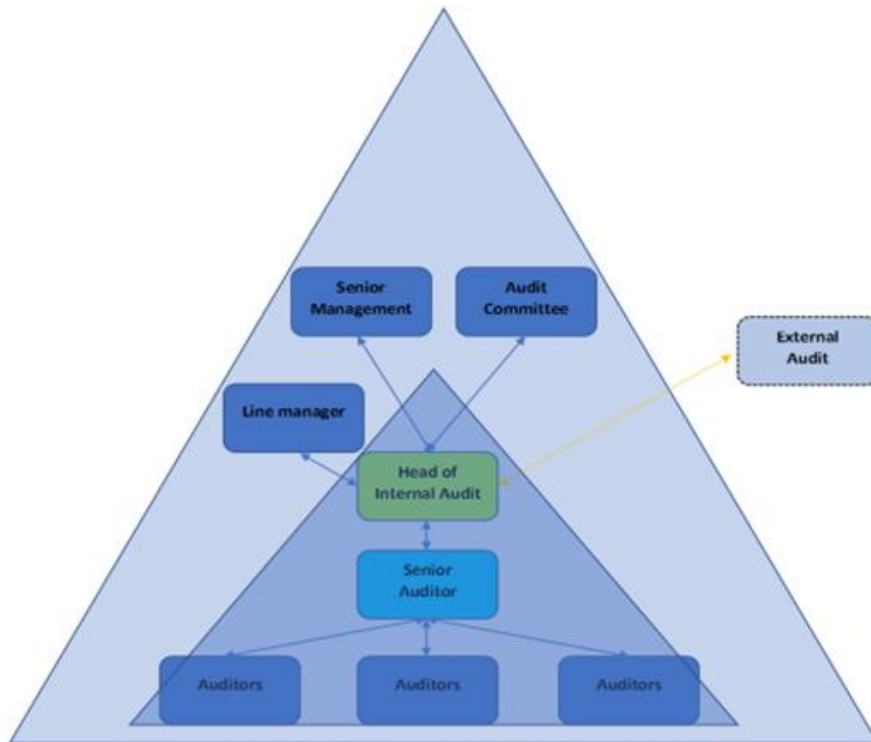
Figure 9.4 Business case focus

Following a review of running records the business cases (EMSSP 2009; Crellin 2010; Cummins 2010) presented for the initial creation of SIAS focusses on the area highlighted by the smaller triangle (shown in Figure 9.4) that incorporated the Head of Internal Audit down through the team. This also reflects the governance aspect of the Tricker model). The reduction of a Head of Internal Audit and merging of staff in this triangle are the common points for monetary savings.

Figure 9.5 Weight above the service

There is limited discussion regarding the area highlighted by the inverted triangle above the HIA in Figure 9.5. The discussion indicates this is usually in the establishment of a board or client officer group to monitor the partnership (Governance area of the Tricker model 1984). However, the definition of internal audit requires each partner to be considered independently and the service aligned to their specific risk profile. There was no commentary on the impact of the external auditor.This external assurance provider does have an influence on the work of internal audit and the control framework in the organisation. The extent of the influence is not as great as that of the partner senior management and that of the audit committee but it is not negligable either. Also there is limited mention of the competition highlighted by this research.
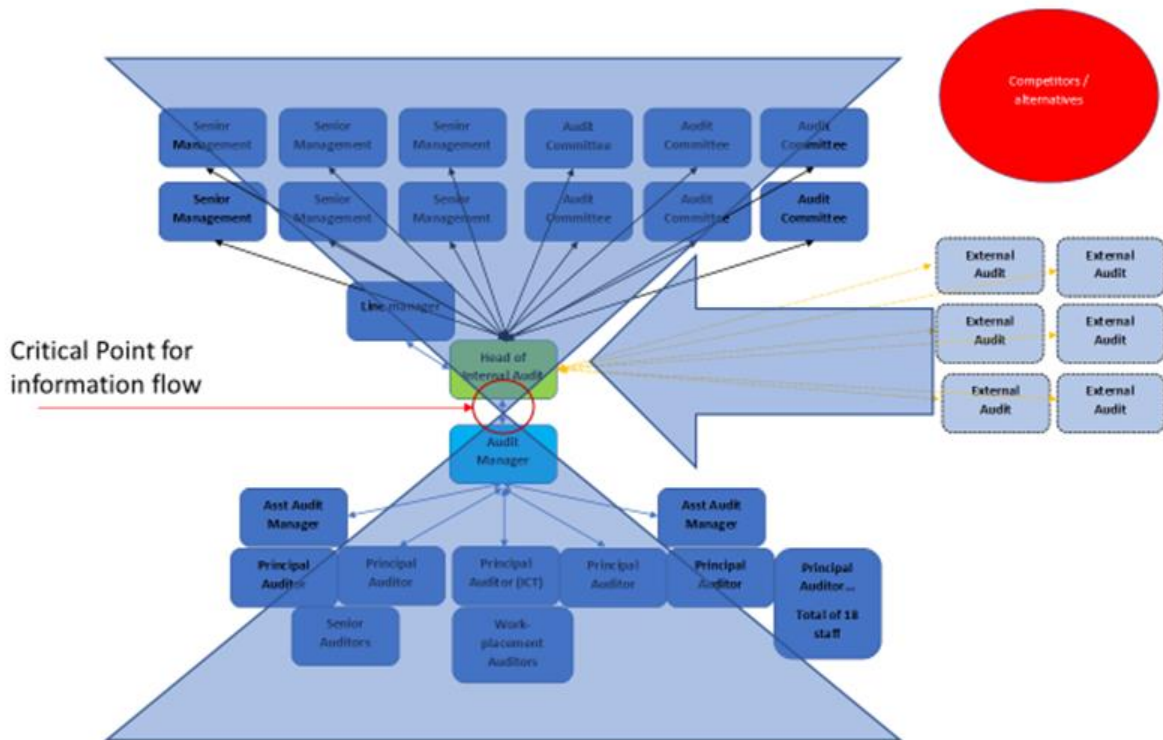
Figure 9.6 critical point of information flow

When this model is applied to the 'six-way' shared internal audit service the stresses on the HIA are clearly visible (taken from site analysis). This model helps to identify the hour-glass challenge this research has identified. The exact nature and impact of this 'hourglass' was analysed to ascertain possible models to provide solutions to this problem. This is where the Governance information moves through to the Management section, and back, in the Tricker 1984 model.
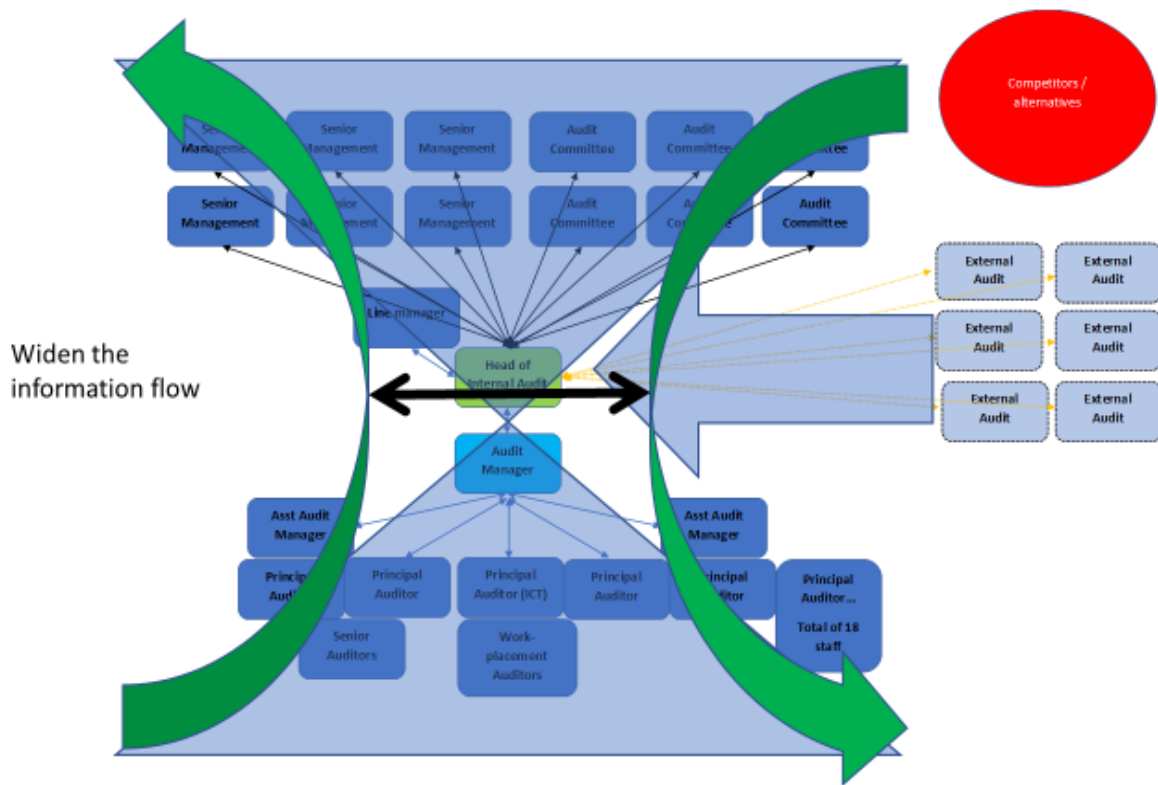
Figure 9.7 Hourglass Effect

The SIAS change programme is widening the information flows and ensuring that the structures work economically, effectively and efficiently to deliver on the SIAS vision and objectives. The concept of communication is recognised by the ILM (2018) as a critical success factor for shared services. This is supported by the LGA (2016) that indicates effective communication is absolutely vital.

Reflecting on Tricker's (1984) model and the governance challenges of the shared internal audit service, it is important to recognise the information flow through the governance framework. In this instance, the framework is the collaborative business management framework and how information flows through from those setting the vision to those delivering and the monitoring the service.

9.4.1 Collaborative business managers

It is clear from the research that, although there has been training available in the creation of shared services, as identified by Hobley (2010), and there is substantial guidance on their creation (Chapter 2), there is a clear need for service managers that find their services becoming shared will need to become 'collaborative business managers' to ensure the shared service is sustainable. They will need to develop skills across the shared service or individually that can accommodate the collaborative business management skills framework. This also is reflected in the 'common service model' (Dollery et al 2016) in their reflections on the gains from the successful shared service that can acquire administrative, managerial and technical skills not otherwise available.

9.5 CONCLUSION

This chapter has discussed the key findings of this research and demonstrated that the research has answered the research questions. It has highlighted that there are 13 thematic challenges facing a shared internal audit service and that circa 30+ actions were needed to ensure the service addressed these challenges. It also highlighted that assessment against the PSIAS (2017) although valid for the internal audit function it fell short on the assessment of the shared service as a whole. Therefore the creation of the collaborative business management framework became necessary to assess the entire shared service. The hourglass effect demonstrated the need for evolutionary change to the governance; and the financial management aspect of the 4 pillars triggered the devolution of powers in the governance. New actions used included Agile Auditing (Prickett 2018) which helped the service to align with the organisational risks and share knowledge.

Furthermore, it has built on and enhanced the theoretical 'common service model' (Dollery et al 2016), through the enhancement of details in the governance challenges and the remedial actions. In particular, it has pushed the boundary on both the Voluntary Engagement and the

Organisational Structure aspects. It has also challenged some elements, such as, the commentary that the 'Common Service Model' avoids the problems associated with rigid membership requirements, burdensome governance provisions and communal risk-sharing provisions (Dollery *et al.*, 2012). However, the challenges and actions found in this research highlight the key wording is perhaps that the 'common service model' needs to ensure 'appropriate' membership requirements, 'appropriate' governance and 'appropriate' communal risk-sharing rather than the implied elimination of these things. This is due to the nature of governance and oversight in that membership requirements need to have some core / inflexible aspects such as attendance or substitution needs (otherwise voting cannot take place and decisions cannot be made). Governance provisions that become 'burdensome' should therefore be reviewed to ensure they align with the vision of the shared service and the constitutional/legal requirements of local government. Finally, that communal risk-sharing needs to be recognised and managed in line with each partners appetite but in the event there should not be an opportunity to assert that the risks in a shared service do not impact on one or more partners, risks should be managed and this must flow into and out of the shared service and its partners appropriately.

The next chapter highlights the original contribution to knowledge and the limitation of this research, along with areas where further research may be of interest.

Chapter 10
Conclusion

"Service managers that find their services becoming shared services will need to become 'collaborative business managers' to ensure the shared service is sustainable."

Milford (2020 p.270)

10 CONCLUSION

10.1 INTRODUCTION

This final chapter considers the limitations of the research, in methodology and interpretation; suggests further areas for research and provides an overall conclusion for this research.

10.2 ANSWERING THE RESEARCH QUESTIONS

The research was able to answer the research questions as set out below:

Research question 1: What are the governance challenges that a shared internal audit service has to address?

It is clear from the findings of this research that there is an original contribution to knowledge just through the capturing of the thematic challenges, as this addresses the gap identified by Johnson (2017). This research identified a total of 13 thematic challenges in this shared internal audit service. Those challenges were set out in chapter 7 and discussed further in chapter 9. It was identified that only five were directly linked to the internal audit function the remainder were predominately shared service challenges. These thematic challenges highlight the broad theoretical requirements of successful shared services as outlined by Tomkinson (2007) and Dollery et al (2012).

Furthermore, it is clear that there is an order to the establishment of the shared internal audit service and the challenges it faces. Namely that the partners must establish the Vision and Objectives first as this sets the service boundary as required by Dollery et al (2012). Next comes the Services and Quality along with the Governance and Model of delivery, which links to Tomkinson's (2007) quality and boundary connotations, which includes the consideration of entry and exit of a partner and the likely impact on the quality and governance. Lastly, the

four pillars, risk and performance management and the range of services that links to the governance requirements indicated by Chambers (2014).

Moreover, it has built on the theoretical framework of the 'Common Service Model' from Dollery et al 2016). It has taken the two key elements of 'Voluntary Engagement' and 'Organisational Structure' and provided more detail on these in terms of challenges to the governance and also built on these to include new elements such as marketing.

The full range of challenges identified by this research are mapped in the stratified hierarchy below in the Collaborative Business Management Framework and the summary table of how these were identified in the research:

Table 10.1 Collaborative Business Management Framework - Stratified
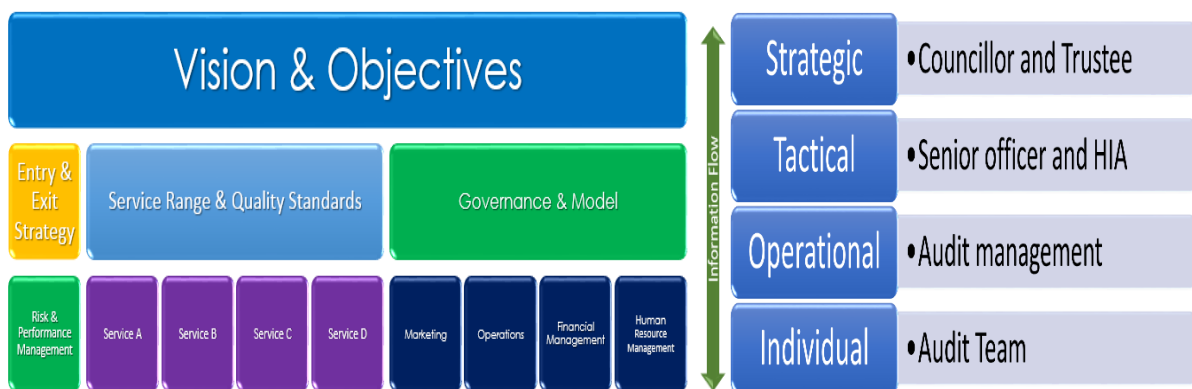
Table 10.2 Governance Challenges and Summary Identification

Governance Challenges
• **_Internal Audit_** development of service and reflective learning - how they intend to keep on "top of the game" and in particular ensure future IIA external assessments are positive, how they will develop the agile auditing approach and any new planning approaches, delivering consistently on the consultancy aspects of internal audit, keeping the risk focus unique to each organisation

- *Counter Fraud and ICT Audit* - developing these services and ensuring the alignment of resources and standards e.g. ICT audit to cover ISO 27001 and other codes, Counter Fraud provided in a CPIA level of investigation and prosecution - how they will protect these workstreams from internal or external competition (they are significant income generators)

- *Risk Management and other services* - ensuring that SIAS continues to support the development of organisations' Risk Management and other governance related specialist services

- *Financial Management Strategy* and what level of reserves they expect to maintain, where they plan to make investment, what level of income growth are they expecting and when, costs emerging over the next three to five years, who is picking up these costs, how will increased costs or income be distributed across partners, other funding streams, etc

- *Human resource management* strategy in particular how they are planning to address the recruitment difficulties and the growing their own approach - how will this be managed and by what layer in the structure, approach to training and professional subscriptions, agency and other sources of temporary resources, the alignment of the HRM strategy and any growth objectives - providing a structure that does not view any larger than existing partners would be a backward step, developing the business management and leadership skills required to run the partnership should also be addressed, etc

- *Operations strategy,* in particular the supply chain management e.g. SLAs with ICT to support the partnership ICT audit objectives and new forensics kit, initial

business case development for the counter fraud unit and any temporary SLA to manage this relationship until the business case is delivered and formal decisions are made regarding the inclusion of the Counter Fraud unit in SIAS, audit committee engagement and management to ensure that SIAS is aware of what is on the agenda and has time to respond, relationship management between external audit/senior management/audit committee and the SIAS board, Operations Group and SIAS Leadership Team

- *Marketing strategy -* where they anticipate their market growth e.g. client or partner, % of growth per year, pricing for fraud and ICT audit work vs standard audit work, developing new products/services or expanding existing provisions, how they are planning to promote this, sourcing new clients and partners, etc

- *Risk and performance management -* development of meaningful RM and PM frameworks across the partners is essential to help develop the partners understanding to the whole partnership and not just the data reported individually to each audit committee, developing the necessary frameworks to enable positive discussion and engagement at the four levels of SIAS is necessary.

- *Quality control* - how they will capture and assess quality data and adapt the services accordingly, ensure the quality is not excessive in terms of exceeding client/partner expectations and then being unable to sustain this, etc

- *Governance -* how is this going to be monitored and developed going forward, what are the governance plans considering the disproportionate impact the host has had on SIAS over the last 2 years, how are they going to continue to develop the four levels of the governance framework (SIAS Board, Operations Group, CLT/ECLT

and the SIAS Team) to ensure they align to the strategies outlined above, aspirations of full partnership and future company models, etc

- *Entry and Exit of Partners and Clients* - although there is considerable indication of growth above SIAS needs to consider exit of partners too - learning from the last 12 months and the interference factors at the host site should SIAS review the host arrangements and possibly source a new host?

- *Vision and objectives*: - Emerging issues from the 2016/17 and 2017/18 financial years; the SIAS Board have reflected on and the considered / proposed changes for 2018/19.

Research question 2:   What governance actions could be introduced to help manage the delivery of conformance to the Public Sector Internal Audit Standards in a shared internal audit service?

It was recognised within this action research that the move by the shared internal audit service to a six-way partnership arrangement presented a level of challenges that although enabled them to deliver cost savings it did result in initial nonconformance to the standards. By the end of this third cycle of this action research (chapter 7) sufficient changes had been made to ensure conformance with the standards. Therefore as a result of these changes, and in conjunction with existing measures already in place within the shared internal audit service, it can be shown how the shared internal audit service can meet the Public sector internal audit standards and deliver cost savings. However, the research did identify that the cost saving driver was not the only driver for this shared service as the quality of service and political motivators also influenced the drivers for the shared internal audit service. This recognition of the cost driver element links to the findings of Aldag and Warner (2018) that show the longevity

reflects the rationale for the shared service for example, cost saving shared services are likely to be financial saving driven. However, the overarching requirement for a quality service maps to the expectations of Tomkinson (2007) and Dollery et al (2012) and reviewing Aldag and Warner's (2018) work are likely to be long lasting i.e. sustainable.

Moreover, the Dollery et al (2016) 'Common Service Model' identifies constraints on shared services: 'cost', 'flexibility', 'independent oversight' and 'voluntarism'. This research found that a service in itself can be 'effective' (conforming to standards) but that the 'shared service' may remain under-performing in the delivery of the full benefits that sharing services brings as shown in chapter 7. For example the table below highlights the challenge areas that impacted on the conformance with PSIAS 2017 and actions to address these (Table 10.3). These challenges and actions address research question 2 but do not yet address research question 3 on the sustainability.

Table 10.3 PSIAS 2017 Conformance - Challenges and Actions

Governance Challenge	Actions for PSIAS conformance
• *Internal Audit*	Risk based planning Induction process New Head of Internal Audit roles
• *Counter Fraud and ICT Audit*	Contribute to the development and maintenance of an effective counter fraud culture within each organisation. Contribute to the development and maintenance of an effective cyber security risk management culture within each organisation.

• *Human resource management*	Induction process for new staff in the shared internal audit service Career progression recognition and pathway Succession planning CPD and professional membership including re-instatement Training programmes for all levels in the shared internal audit service
• *Operations strategy*	Scheduling and planning for all reporting lines. Including access and influence over the agenda for the Audit Committee Reporting to be monitored and balanced for standardisation and customer satisfaction requirements.
• *Marketing strategy*	Engagement with the Chair of the Audit Committee at each site
• *Risk and performance management*	New risk management framework Documented risks for the shared service and the internal audit function Embedding of the risk management into all levels of the shared internal audit service
• *Quality control*	Agile auditing – enabling audit manager engagement early in the scoping process and early in the reporting
• *Vision and objectives*:	Only to the extent of delivering the PSIAS 2017 mission and principles

Research question 3:   ***How does a shared internal audit service continue to meet the Public Sector Internal Audit Standards and remain a sustainable shared service?***

Given the level of nonconformance identified in chapter 5, there are a range of 30+ actions required by this particular shared internal audit service, to deliver conformance with the standards, and ensure the shared service related challenges are also remedied. These included, inter alia, agile auditing, structural changes, governance revision and the introduction of the 'four pillars' of business as defined in chapter 2. Table 10.3 above had highlighted the challenges and actions to address the non-conformance, the table 10.4 below highlights the additional challenges and actions that were required to ensure the shared internal audit service remained sustainable into the future.

Table 10.4 The challenges that remained regardless of the PSIAS (2017) conformance and the actions to address these to ensure sustainability of the shared service

Governance Challenge	Actions
• ***Internal Audit***	Agile Auditing – to help mitigate the Hourglass effect
• ***Counter Fraud and ICT Audit***	Scoping and developing new services as set out in new objectives for the Shared Internal Audit Service:
• ***Risk Management and other services***	Scoping and developing new services • Data Matching / Analysis • Contract / Procurement Audits • Certification of Grant Claims • Governance Audits • Value for Money work • Schools Financial Value Standard (SFVS)

	• Project Audits
• *Financial Management Strategy*	Responsibilities built into new job description for the Head of Audit Partnership Cost increase monitoring and adaptation methods built into the governance for example CPI inflationary increase mechanism Purpose and use of reserves set out and enabled in governance Financial Management Strategy Income generation through clients and the sale of additional services e.g. ICT Audit and Counter Fraud
• *Human resource management*	Responsibilities built into the job description of the audit manager Development of HRM strategy
• *Operations strategy*	Service level agreements with key support services for example host ICT support Temporary SLAs within each partner organisation to reduce the chance of duplication of works by other departments, in particular, counter fraud. Noting that these could be overwritten by new services (see above) New equipment and replacement programme – noting the need for new forensic ICT equipment

	Reporting to be monitored and balanced for standardisation and customer satisfactions requirements.
• *Marketing strategy*	Development of a marketing strategy Identification of marketable services Agreement on the level of growth identified each year and monitored Governance adapted to enable growth and responsiveness to opportunity growth Internal *and* external marketing activities
• *Risk and performance management*	New performance management system
• *Governance -*	Changes made to the existing governance to remove disabling elements Longer term plans for possible move to a different model of governance (company)
• *Entry and Exit of Partners and Clients*	Checklist and strategy to review the entry of new partners Monitoring of partners to identify interference factors Decision criterion for exiting a partner and the consideration of shared service viability Arbitration processes in the governance framework
• *Vision and objectives:*	Clarity and ownership of the vision Clarity and ownership of the objectives

The table 10.5 below sets out the full range of challenges found and the actions to resolve those challenges. As mentioned above it has been found that there is a sequence to the management of the challenges and the actions in this research are linked to the specific needs of the shared internal audit service reviewed.

The significance of the extent of the challenges and actions, and that the conformance with PSIAS (2017) is not the basis for evaluating a shared internal audit service, further enhances the Tomkinson (2007) quality of service argument and also pushes the 'Common Service Model' (Dollery et a 2016) further in terms of what aspects need to be monitored by the oversight provision. Only then can the possibility of giving opinion over the sustainability or otherwise of the shared internal audit service be considered. In this research it was found that all of the challenges and actions listed in table 10.5 below were necessary to ensure sustainability and conformance with PSIAS (2017).

However, it must be noted that the research was based on a single site and that only the challenges are considered for the wider generalisability. The actions to address the challenges identified in the research were generated within the confines of the specific shared internal audit service and therefore other actions may be necessary in other sites to address the 13 thematic challenges.

Table 10.5 – Full range of challenges from this research and actions introduced during this research to address the challenges, ensure conformance and sustainability.

Governance Challenges	Actions
• ***Internal Audit* development of service and reflective learning - how they intend to keep on "top of the game" and in particular ensure future IIA external assessments are positive, how they will develop the**	• Agile Auditing • Risk based planning • Induction process • New Head of Internal Audit roles

agile auditing approach and any new planning approaches, delivering consistently on the consultancy aspects of internal audit, keeping the risk focus unique to each organisation	
• *Counter Fraud and ICT Audit* **- developing these services and ensuring the alignment of resources and standards e.g. ICT audit to cover ISO 27001 and other codes, Counter Fraud provided in a CPIA level of investigation and prosecution - how they will protect these workstreams from internal or external competition (they are significant income generators)**	• Scoping and developing new services as set out in new objectives for the Shared Internal Audit Service: • Contribute to the development and maintenance of an effective counter fraud culture within each organisation. • Contribute to the development and maintenance of an effective cyber security risk management culture within each organisation.
• *Risk Management and other services* **- ensuring that SIAS continues to support the development of organisations' Risk Management and other governance related specialist services**	Scoping and developing new services • Data Matching / Analysis • Contract / Procurement Audits • Certification of Grant Claims • Governance Audits • Value for Money work

	• Schools Financial Value Standard (SFVS) • Project Audits
• **_Financial Management Strategy_ and what level of reserves they expect to maintain, where they plan to make investment, what level of income growth are they expecting and when, costs emerging over the next three to five years, who is picking up these costs, how will increased costs or income be distributed across partners, other funding streams, etc**	• Responsibilities built into new job description for the Head of Audit Partnership • Cost increase monitoring and adaptation methods built into the governance for example CPI inflationary increase mechanism • Purpose and use of reserves set out and enabled in governance • Financial Management Strategy • Income generation through clients and the sale of additional services e.g. ICT Audit and Counter Fraud
• **_Human resource management_ strategy in particular how they are planning to address the recruitment difficulties and the growing their own approach - how will this be managed and by what layer in the structure, approach to training and professional subscriptions, agency**	• Responsibilities built into the job description of the audit manager • Development of HRM strategy • Induction process for new staff in the shared internal audit service • Career progression recognition and pathway • Succession planning

and other sources of temporary resources, the alignment of the HRM strategy and any growth objectives - providing a structure that does not view any larger than existing partners would be a backward step, developing the business management and leadership skills required to run the partnership should also be addressed, etc	• CPD and professional membership including re-instatement • Training programmes for all levels in the shared internal audit service
• ***Operations strategy*, in particular the supply chain management e.g. SLAs with ICT to support the partnership ICT audit objectives and new forensics kit, initial business case development for the counter fraud unit and any temporary SLA to manage this relationship until the business case is delivered and formal decisions are made regarding the inclusion of the Counter Fraud unit in SIAS, audit committee engagement and management to ensure that SIAS is aware of what is on the agenda and has time to respond, relationship management**	• Service level agreements with key support services for example host ICT support • Temporary SLAs within each partner organisation to reduce the chance of duplication of works by other departments, in particular, counter fraud. Noting that these could be overwritten by new services (see above) • New equipment and replacement programme – noting the need for new forensic ICT equipment • Scheduling and planning for all reporting lines. Including access and influence over the agenda for the Audit Committee

between external audit/senior management/audit committee and the SIAS board, Operations Group and SIAS Leadership Team	• Reporting to be monitored and balanced for standardisation and customer satisfactions requirements.
• *Marketing strategy* **- where they anticipate their market growth e.g. client or partner, % of growth per year, pricing for fraud and ICT audit work vs standard audit work, developing new products/services or expanding existing provisions, how they are planning to promote this, sourcing new clients and partners, etc**	• Development of a marketing strategy • Identification of marketable services • Agreement on the level of growth identified each year and monitored • Governance adapted to enable growth and responsiveness to opportunity growth • Internal and external marketing activities • Engagement with the Chair of the Audit Committee at each site
• *Risk and performance management* **of SIAS - development of meaningful RM and PM frameworks across the partners is essential to help develop the partners understanding to the whole partnership and not just the data reported individually to each audit committee, developing the necessary**	• New risk management framework • Documented risks for the shared service and the internal audit function • Embedding of the risk management into all levels of the shared internal audit service • New performance management system

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frameworks to enable positive discussion and engagement at the four levels of SIAS is necessary.	
• *Quality control* - **how they will capture and assess quality data and adapt the services accordingly, ensure the quality is not excessive in terms of exceeding client/partner expectations and then being unable to sustain this, etc**	• Agile auditing – enabling audit manager engagement early in the scoping process and early in the reporting
• *Governance* - **how is this going to be monitored and developed going forward, what are the governance plans considering the disproportionate impact the host has had on SIAS over the last 2 years, how are they going to continue to develop the four levels of the governance framework (SIAS Board, Operations Group, CLT/ECLT and the SIAS Team) to ensure they align to the strategies outlined above, aspirations of full partnership and future company models, etc**	• Changes made to the existing governance to remove disabling elements • Longer term plans for possible move to a different model of governance (company)

• ***Entry and Exit of Partners and Clients* - although there is considerable indication of growth above SIAS needs to consider exit of partners too - learning from the last 12 months and the interference factors at the host site should SIAS review the host arrangements and possibly source a new host?**	• Checklist and strategy to review the entry of new partners • Monitoring of partners to identify interference factors • Decision criterion for exiting a partner and the consideration of shared service viability • Arbitration processes in the governance framework
• ***Vision and objectives*: - Emerging issues from the 2016/17 and 2017/18 financial years; the SIAS Board have reflected on and the considered proposed changes for 2018/19.**	• Clarity and ownership of the vision • Clarity and ownership of the objectives

10.3 ORIGINAL CONTRIBUTIONS TO KNOWLEDGE

The research has made original contributions to knowledge in three key aspects: theoretical, methodological and policy and practice. These contributions are also firsts in some instances and warrant further use in new situations and research projects.

10.3.1 Theoretical contribution

The research was underpinned with the exploration of the existing theoretical governance frameworks, such as, Tomkinson's (2007) 'service/corporate model' and Dollery et al (2012) 'horizontal shared service', and the 'common service model' (Dollery et al 2016) which has

allowed for refinement, expansion and development of these models to assess the challenges facing shared internal audit services in a generalised form: the Collaborative Business Management Framework (CBMF).

This CBMF is now in place to underpin further research into the shared service world; specifically from the perspective of the shared service itself, rather than the perspective of the partnering organisations which has been the case until now.

Along with consideration of theoretical statements from Bergeron (2002), Tricker (1984) and Huxham and Vangen (2005); this research highlights that governance is wider ranging than the simple conformance with the Public Sector Internal Audit Standards 2017, if it is to ensure the sustainability of the shared internal audit service. Indeed the shared service itself requires management consideration as individuals are required to manage and lead these models once built.

In addition to the CBMF, the research has identified a key phenomena in the information flow within the governance frameworks of shared services. This phenomena was identified as the Hourglass Effect and highlights the need to consider the flow of information from the shareholder, or strategic partner level through the hierarchical structures and into the service, and back again. The head of the shared service position was found to be a risk of single point of failure or at a minimum a bottleneck, which directly impacted on the quality aspect of the service and therefore the sustainability.

10.3.2 Methodological contribution

From a methodological perspective this research makes an original contribution to knowledge by successfully applying action research methodology to a shared internal audit service. Until this research was undertaken surveys and case studies formed the key methodological approach for the generation of knowledge in the field of shared services. This methodology was the only route to assess the challenges and actions to address these challenges within a

live shared internal audit service. It has enabled the gap in knowledge identified by Johnson (2017) to be addressed. (REF Chapter 2)

Use of the action research methodology also enabled the research to address the requirements of a longitudinal study of a shared service as suggested by Aldag and Warner (2018).(REF Chapter 3 and 5-7)

Additionally, the methodology enabled the research to find that, had either a shared service, or internal audit, been studied in isolation then a complete range of challenges would not have been identified. This was demonstrated by the conformance with the public sector internal audit standards (2017) being achieved with challenges still active and unresolved, for example, the governance framework. (REF Chapter 8).

10.3.3 Policy and Practice contribution

This research has actually impacted on the participative shared internal audit service but also has potential to impact on national and international policy and practice. The Collaborative Business Management Framework has been used to generate an assessment scheme, professionally accredited training programme and supporting tools, in the UK, to aid the leadership, management and sustainability aspects of shared services (Milford 2016), (Milford, Macdonald-Wallace and Gatt 2017), (Milford 2019) and (Milford, Cooke and Cox 2020).

It has completed a review of a shared internal audit service and identified 13 thematic challenges and recorded the effect of circa 30 actions to manage these challenges. Recognising that the circa 30 actions are of a site specific nature and may not readily transfer to other shared internal audit services. However, it has made a positive change to the site and enhanced its sustainability.

Finally, it introduced, adapted and tested 'Agile Auditing' (Prickett 2018) in a live situation. This technique was used to address the hourglass effect and therefore is an adaptation of the initial intended use of agile methodology in internal audit practices. (REF Chapter 6-8)

10.4 LIMITATIONS

10.4.1 Methodological issues

It has been identified in earlier chapters that the focus groups, in particular at members level, were not consistently populated by the same participants. The regular attendance of members in these focus groups was consistent with the challenge identified by other focus groups, insofar that for this research and for day-to-day activities of the shared internal audit service, members attendance was sporadic at best. The purpose of the members focus group was to consider the strategic level of the shared internal audit service identified as challenges and consider possible solutions to those challenges, it also considered the perspective of the members of that group. However, in terms of the validity of the research this methodological issue actually serves as a 'credibility' check of the methods used (Herr and Anderson 2015). Given that six focus groups with members were held during the course of the research and that running records, for example, minutes and agendas, reports and presentations, were available to all participants of this focus group it is a reasonable assumption that had there been any significant challenges or alternative solutions (actions), then these would have materialised at some point. However this research does recognise that the impact of changes made through the course of this research, since the research completed formally with this group on 24 January 2018, may yet remain incomplete.

It was also noted within the focus groups at all levels the researcher was facilitating discussion around the research matters, but also recognised that day-to-day activities also impacted on the discussion. It is not possible for this research to have captured all actions and activities that influenced the focus groups, particularly during the testing of various tools such as agile auditing. However, it is considered in terms of answering the research questions that the methodology held sufficient detail to achieve this. Furthermore, given the three stage validity checking that occurred during each cycle, the 'truth' identified within this research can be considered valid (McNiff 2014).

It is clear from chapters 4 to 8 that interviews were used only in cycle one (chapter 5). The rationale behind this is that this first cycle required the researcher to gather as much data as possible but also consider the individual perspective. It may have been useful to undertake further interviews in cycles two and three (chapter 6 and 7) however, the main reason for using interviews in the first cycle was to flush out the themes and in particular the challenges faced by the shared internal audit service. Once this was achieved and through multiple focus groups, no other challenges were identified, it was considered not necessary to burden the participants with secondary interviews. However it may have been useful to have gained the individual perspectives on the change that had occurred as a result of this research.

One significant issue in relation to the methodology identified within this research is that a shared internal audit service can conform with the public sector internal audit standards 2017 and yet still hold unresolved challenges within the shared service aspects. Therefore a critical limitation of this research is that public sector internal audit standards (2017) is not a thorough means of testing the effectiveness of a shared internal audit service.

Another area of limitation for this research is in the form of the collective knowledge of the researcher and participants. It is accepted that there could be alternative interpretations of the data gathered and suggested actions. However this research did endeavour to exhaust the knowledge of the participants and researcher through the use of multiple focus groups and interviews.

Additionally, the action research created a 'false' environment that would not normally have occurred for this partnership. The direct intervention by the researcher may have increased the speed of evolution within the shared internal audit service and may have triggered change that would not have otherwise have happened. This is similar to the critique of Taylorism (Huczynski and Buchanan 2001) where the participants react differently when observed and form part of the interaction. Therefore, although this research provides answers to the research question, there must be a challenge to the evolutionary timeframe as it is unlikely

that the changes that occurred in this research did so within the same timeframe as the shared internal audit service would have done if it had not been subject to this research.

Finally the analysis of data from 24 interviews and 31 focus groups resulted in the identification of key 'challenge' themes which were then subject to a range of 'resolutions' in-line with the research questions. However, given the level of data there is the possibility that some challenges and resolutions were lost in the translation, thematic analysis and abstraction (Quinlan 2011). Also this 'lost in translation' could be indicative of researcher and / or participant bias as recognised by Herr and Anderson (2015). In particular this research recognises that there was a direct impact on individual roles and responsibilities in the actions undertaken as part of the cycles and some degree of 'self-preservation' may have impacted on the validity of some of the findings. Furthermore, there is the risk that coercion of participants (Herr and Anderson 2015) occurred as the researcher may have had a perceived position of power through influence at the operational, tactical and strategic levels and therefore some participants may have tried to raise issues in the hope that I would voice their concerns. However, the layering of the approval routes through the governance framework should have eliminated this perceived risk..

10.4.2 Generalisability

One limitation of this research methodology is that it only considers one single shared internal audit service. Although this shared internal service met the selection criteria as identified from the literature review, the shared internal audit service may not reflect the generalised challenges faced by all shared internal audit services, and therefore the actions introduced also may not be suitable for all shared internal audit services. However the issue of generalisability (McNiff 2014) is regarded as a common potential problem for action-based research. In order to address the question of generalisability two interviews were conducted with individuals outside of this shared internal audit service under review. They consisted of a

head of a similar sized shared internal audit service and a senior auditor operating in a single site only internal audit service. Analysis of these interviews was conducted in the same manner as used in the chapter five interviews. The challenge themes arising from the head of the other shared internal audit service were similar to that of this shared internal audit service. However, it was identified that there were specific actions that were only valid for the shared internal audit service under review, for example, remedies associated with CPD requirements. However, the hourglass effect, four pillars concept, and the collaborative business management framework were all considered relevant for this other shared internal audit service. The interview with the single site officer highlighted that some of the challenges faced by the shared internal audit service were not considered a challenge for this single site service. For example, reports and other service outputs did not require changing as it was only one recipient. Indeed standardisation was only considered in terms of practices within the team not in output requirements. It is clear from the output of this research and these additional interviews that adaptation would be required for the majority of actions introduced in this particular research, however, they are adaptable.

10.4.3 Local Government approval and meeting schedules

It is recognised within this research that actions and the testing of actions took a considerable time to pass through all validation layers (strategic, tactical, operational and individual), furthermore, some of the suggested actions remained open beyond the closure of this research due to the timeframes within local government (in particular the host) for formal review, consultation, approval and action. An example of one action that remains outstanding is that of the development of the counter fraud service into a formally recognised service provided by the shared internal audit service. Therefore although this research has created a matrix that includes counter fraud as a service this research has been unable to test this aspect exhaustively.

In addition to the above limitations in relation to local government it is also appropriate to recognise that this research was undertaken in the live environment and influence may well have been introduced by participants outside of this research. For example, external auditors, audit committee members, service heads and other officers within the partner councils all may have made suggestions, raised concerns or otherwise influenced the participants of this research but were not recognised within this research.

10.4.4 Actions

It is recognised within this research that, due to the methodology of the researchers data gathering, processing and site attendance that not all actions taken by the participants in relation to this research have been captured. For example, of the five agile audits that were undertaken the researcher was present in the 'scrums' for only one demonstration version. The researcher was not present in the five agile audits that were undertaken in the live environment. The researcher is therefore reliant on the participant feedback that was received within various focus groups. Furthermore, in relation to agile auditing, the 5% to 10% reductions in time were voiced by participants based on their analysis of the day is available versus the day is delivered. However McNiff (2014) identifies the need for the researcher undertaking action research to validate actions to demonstrate the 'truth'. Participants at no point challenged the findings of this research during the course of the validation framework.

The actions that were used in this research, although validated, have not been tested to the extent that this research can say categorically that these actions are the only actions to aid in the resolution of the challenges. Indeed this research recognises that the actions may indeed be excessive in their own right and the tools used may not be exhaustive. In particular, the structural changes that were introduced to remedy the hourglass effect could potentially be replicated with other structural changes that had not been considered within this research. The level of detail within the job descriptions and personal specifications for the structurally

changed positions could also contain elements that are either not necessary to achieve the same result or excessive. However in an effort to ensure the actions were valid the research used the three validation layers (strategic, tactical and operational).

10.4.5 Political perspective

Murray, Rentell and Geere (2008) conducted case studies for six shared procurement services spanning 15 councils. They also used semi-structured interviews to gather their data. However their research identified that they did not identify a political perspective. This research was able to identify a political perspective, however, this perspective is limited by the attendance impact at the members focus group level. Further, research is warranted into the political drivers for shared services in the UK.

10.4.6 Time

Czarniawaska (2006) identifies the concept of Kairotic time and Chronological time. Czarniawaska (2006) highlights the ebbing and flowing, wave effect of activity between decision points Kairotic time. This was apparent when preparing to move from an operational focus group to a tactical focus group, and then a strategic focus group, as the participants all showed the sense of urgency as the dates of these events came closer. This finding supports the need for the narrative within the cycle chapters.

However, the most significant limitation to this research was in the form of time. This research was constrained to a single year (December 2016 to December 2017) and therefore the full impact of some of the actions may yet materialise in time to come. This provides limitation to the evolutionary element of this research. Although the governance framework was changed this was not sufficient to move the shared internal audit service from a 'lead authority' model to a different model as defined by CIPFA (2010b) or Tomkinson (2007) or Dollery et al (2012). However the research did identify that the shared internal audit service was considering moving to a wholly-owned company model, future review may identify if this did occur.

10.5 SUGGESTED AREAS FOR FURTHER RESEARCH

This research specifically targeted the shared internal audit service for the rationales as outlined in chapters 1, 2 and 3. In particular it looked at the challenges relating to the internal audit service. There may be other services that have the dual reporting line as shown in the three lines of defence model (Chambers 2014), for example, the planning department of a local authority in its reporting to the planning committee and cabinet within the local government organisation. It would be invaluable to continue studying different services that operate in a shared service model.

Further analysis of some of the actions deployed would also be useful but also fall outside of the scope of this research. For example agile auditing served a purpose within this shared internal audit service, but as yet this has not been reviewed in depth, only 5 instances were undertaken for review. It was not possible due to the breadth of the work contained within this action research for in-depth reviews of any one particular tool to be undertaken, only sufficient testing was undertaken to show a positive impact and therefore aid in addressing the challenge identified in the shared internal audit service.

There are clear indications within the literature (see chapter 2) that would indicate the challenges faced by shared services is very poorly represented in academic literature. A key reason for this is cited by Johnson (2017) is the sensitivity issues of organisations not being willing to see if their shared service creations are, in fact, delivering on the forecast benefits. This research is a singular stepping stone to the exploration of this gap in academic literature.

Further work can be undertaken to build on this foundation stone of research to study other challenges facing different services and models that fall under the category of shared services (see chapter 2 for the definition). The models of governance are vast as indicated by the models shown in chapter 2. Exploration of the different models would also aid in the analysis of the effectiveness of each type of governance model. There may be clear rationale

discovered as to why particular models are more suited for certain shared services, or that the model is dependent on the number of partners or the complexity of the service.

Additionally, there is some merit in the exploration of specific tools used in this research. Internal Audit as a subject is changing its definition and range of topics which are now expected. Literature (see chapter 2) clearly shows (Pickett 2018) that the risk focus and the need to be 'Agile' is becoming more important for a service. Although this research has focused on a shared internal audit service, there is merit in the further explorations of the agile methodology used to remedy the hourglass effect and explore to a more robust and reliable level the impact of agile auditing on the internal audit service.

10.6 PUBLICATIONS AND RESEARCHER BIOGRAPHY

The Collaborative Business Management Framework (CBMF) has been used to underpin an Institute of Leadership and Management professional training programme for collaborative business managers. Also the CBMF has been used to underpin a Collaboration Accreditation Review assessment scheme for the UK as supported by the Local Government Association.

Also see Appendix 12.19

10.7 CONCLUSION

The key aim of this action research was to explore in-depth the challenges facing a shared internal audit service in local government and what actions could be used to help address these challenges.

In particular the research was concerned with how the shared internal audit service changes through time (evolution) to adapt to emerging challenges of a shared service environment in order that it can continue to deliver to the PSIAS 2017 and how it continues to deliver on the sustainability of a shared service . Additionally, to ascertain if the shared internal audit service

could benefit from more control (devolution) from the partners to help manage this environment.

This research has delivered on these aims and has identified the evolutionary and devolutionary governance challenges and changes required, with the introduction of a range of actions to manage the challenges identified and ensure sustainability.

The research has made an original contribution to knowledge in several ways including through the development of the collaborative business management framework that builds on the theoretical 'Common Service Model' (Dollery et al2016); the use of action research as a methodological approach to review a shared service; the development of multiple actions and the assessment of a shared internal audit service.

This is the final chapter.

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12 APPENDICES

12.1 PUBLIC SECTOR INTERNAL AUDIT STANDARDS 2017

Applying the IIA International Standards to the UK Public Sector (CIPFA Publications)

Updated March 2017

Contents

SECTION 1

Introduction

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to accounting officers, accountable officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

Framework overview

The Relevant Internal Audit Standard Setters (RIASS)1 have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2017. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

•   Definition of Internal Auditing

•   Code of Ethics, and

•   International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

•   where interpretation is required in order to achieve consistent application in the UK public sector

•   where the issue is not addressed or not addressed adequately by the current IIA Standards, or

•   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).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

•   materiality

•   relevance

•   necessity, and

•   integrity (the additional commentary does not cause inconsistency elsewhere).

1   The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

Purpose of the PSIAS

The objectives of the PSIAS are to:

•   define the nature of internal auditing within the UK public sector

•   set basic principles for carrying out internal audit in the UK public sector

•   establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and

•   establish the basis for the evaluation of internal audit performance and to drive improvement planning. Additional guidance is a matter for the RIASS.

Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

Consulting services are advisory in nature and are generally performed at the specific request of the

organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The Code of Ethics promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

• Assurance (A) and

• Consulting (C) activities.

The Standards employ terms that have been given specific meanings that are included in the Glossary.

Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the accounting or accountable officer, chief financial officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.

SECTION 2

Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER

Central Government

NHS

Local Government

CIPFA

UK Local authorities.

England and Wales only

The Office of the Police and Crime Commissioner, constabularies, fire authorities, fire and rescue services, National Park authorities, joint committees and joint boards in the UK.

Scotland only

Integration joint boards and Strathclyde

Partnership for Transport.

HM Treasury   UK*

Government departments and their executive agencies and non-departmental public bodies.

Department of Health England

Clinical Commissioning Groups.

NHS Trusts.

SECTOR / RELEVANT INTERNAL AUDIT STANDARD SETTER

Central Government

NHS

Local Government

Scottish Government Scotland

The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non- ministerial departments, non-departmental public bodies, public corporations, the Scottish Parliament Corporate Body and bodies sponsored /

supported by the Scottish Government and the Scottish Parliament Corporate Body. Scotland

NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries.

Welsh Government   Wales

The Welsh Government, executive agencies

and non-ministerial departments, Welsh Government sponsored bodies, public corporations,

the National Assembly for Wales and bodies sponsored/supported by the Welsh Government and the National Assembly for Wales. Wales

Health Boards and Trusts.

Northern Ireland   Government

Executive: departments, executive

Department of agencies, non-ministerial

Finance (NI)   departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.

* Unless the body falls under the jurisdiction of the devolved governments.

SECTION 3

Mission of Internal Audit

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

SECTION 4

Definition of Internal Auditing

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

SECTION 5

Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission

(see Mission of Internal Audit).

- Demonstrates integrity.

- Demonstrates competence and due professional care.

- Is objective and free from undue influence (independent).

- Aligns with the strategies, objectives, and risks of the organisation.

- Is appropriately positioned and adequately resourced.

- Demonstrates quality and continuous improvement.

- Communicates effectively.

- Provides risk-based assurance.

- Is insightful, proactive, and future-focused.

- Promotes organisational improvement.

SECTION 6

Code of Ethics

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of internal auditing to include two essential components:

Components

1   Principles that are relevant to the profession and practice of internal auditing.

2   Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

1 Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

1.1   Shall perform their work with honesty, diligence and responsibility.

1.2   Shall observe the law and make disclosures expected by the law and the profession.

1.3   Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.

1.4   Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2 Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

2.1   Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.

2.2   Shall not accept anything that may impair or be presumed to impair their professional judgement.

2.3   Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3   Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

3.1   Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2   Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4   Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

4.1   Shall engage only in those services for which they have the necessary knowledge, skills and experience.

4.2   Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.

4.3   Shall continually improve their proficiency and effectiveness and quality of their services.

SECTION 7

Standards

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.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with

the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

2   These requirements should be read in conjunction with Standards 2030 Resource Management and 1112 Chief Audit Executive Roles Beyond Internal Auditing.

1010 Recognising Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing must be recognised in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory

elements of the International Professional Practices Framework with senior management and the board.

1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation:

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 organisational 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 organisational levels.

1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

Interpretation:

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

•   approving the internal audit charter

•   approving the risk based internal audit plan

•   approving the internal audit budget and resource plan

•   receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters

•   approving decisions regarding the appointment and removal of the chief audit executive

•   approving the remuneration of the chief audit executive, and

•   making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1112 Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit

activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

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.

Interpretation:

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.A3

The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

1130.C1

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting

the engagement.

1200 Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 Proficiency

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.

Interpretation:

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 organisations.

1210.A1

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1

Internal auditors must exercise due professional care by considering the:

• Extent of work needed to achieve the engagement's objectives

• Relative complexity, materiality or significance of matters to which assurance procedures are applied

• Adequacy and effectiveness of governance, risk management and control processes

• Probability of significant errors, fraud, or non-compliance, and

• Cost of assurance in relation to potential benefits.

1220.A2

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3

Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1

Internal auditors must exercise due professional care during a consulting engagement by considering the:

• Needs and expectations of clients, including the nature, timing and communication of engagement results

• Relative complexity and extent of work needed to achieve the engagement's objectives, and

• Cost of the consulting engagement in relation to potential benefits.

1230 Continuing Professional Development

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement programme 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 programme 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 programme.

1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 Internal Assessments

Internal assessments must include:

•   Ongoing monitoring of the performance of the internal audit activity.

•   Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

•   The form of external assessments.

•   The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as

to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through

a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board. Disclosure should include:

•   The scope and frequency of both the internal and external assessments.

•   The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.

•   Conclusions of assessors.

•   Corrective action plans.

Interpretation:

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

Indicating that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing is appropriate only if supported by the results of the quality assurance and improvement programme.

Interpretation:

The internal audit activity conforms with the Code of Ethics and the Standards when it achieves the outcomes described therein. The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 Disclosure of Non-conformance

When non-conformance with the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

Performance Standards

2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

Interpretation:

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 organisation.

The internal audit activity adds value to the organisation 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.

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems,

and controls.

2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

2040 Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 Coordination and Reliance

The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Interpretation:

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear

understanding of the scope, objectives and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.

- Independence of the internal audit activity.

- The audit plan and progress against the plan.

- Resource requirements.

- Results of audit activities.

- Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues.

• Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

These and other chief audit executive communication requirements are referenced throughout the Standards.

2070 External Service Provider and Organisational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the Code of Ethics and the Standards.

2100 Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organisation'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.

2110 Governance

The internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes for:

• making strategic and operational decisions

• overseeing risk management and control

• promoting appropriate ethics and values within the organisation

• ensuring effective organisational performance management and accountability

• communicating risk and control information to appropriate areas of the organisation, and

• coordinating the activities of and communicating information among the board, external and internal auditors other assurance providers and management.

2110.A1

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

2110.A2

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

2120 Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

•   organisational objectives support and align with the organisation's mission

•   significant risks are identified and assessed

•   appropriate risk responses are selected that align risks with the organisation's risk appetite, and

•   relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

•   achievement of the organisation's strategic objectives

•   reliability and integrity of financial and operational information

•   effectiveness and efficiency of operations and programmes

•   safeguarding of assets, and

•   compliance with laws, regulations, policies, procedures and contracts.

2120.A2

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

2120.C1

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

2120.C3

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 Control

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives

- reliability and integrity of financial and operational information

- effectiveness and efficiency of operations and programmes

- safeguarding of assets, and

- compliance with laws, regulations, policies, procedures and contracts.

2130.C1

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

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 organisation's strategies, objectives and risks relevant to the engagement.

2201 Planning Considerations

In planning the engagement, internal auditors must consider:

• The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.

• The significant risks to the activity's objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level.

• The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model.

• The opportunities for making significant improvements to the activity's governance, risk management and control processes.

2201.A1

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

2210 Engagement Objectives

Objectives must be established for each engagement.

2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If

inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Interpretation:

Types of criteria may include:

- Internal (eg policies and procedures of the organisation).

- External (eg laws and regulations imposed by statutory bodies).

- Leading practices (eg industry and professional guidance).

2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.

2240 Engagement Work Programme

Internal auditors must develop and document work programmes that achieve the engagement objectives.

2240.A1

Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

2240.C1

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 Performing the Engagement

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

2310 Identifying Information

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

Interpretation:

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information

supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

2320 Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 Documenting Information

Internal auditors must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions

2330.A1

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2330.C1

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

2340 Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 Communicating Results

Internal auditors must communicate the results of engagements.

2410 Criteria for Communicating

Communications must include the engagement's objectives, scope and results.

2410.A1

Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

2410.C1

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the

result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily

understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that

is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"

Indicating that engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing" is appropriate only if supported by the results of the quality assurance and improvement programme.

2431 Engagement Disclosure of Non-conformance

When nonconformance with the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:

•   Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.

•   Reason(s) for non-conformance.

•   Impact of non-conformance on the engagement and the communicated engagement results.

2440 Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated.

When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

• assess the potential risk to the organisation

• consult with senior management and/ or legal counsel as appropriate, and

• control dissemination by restricting the use of the results.

2440.C1

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will include:

• the scope including the time period to which the opinion pertains

• scope limitations

• consideration of all related projects including the reliance on other assurance providers

• a summary of the information that supports the opinion

- the risk or control framework or other criteria used as a basis for the overall opinion, and

- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

2500 Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

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 organisation, 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.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Glossary

Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Board

The highest level governing body (eg a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organisation. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (eg an audit committee).

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate

professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organisations.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services.

The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs

the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.

- Management's philosophy and operating style.

- Organisational structure.

- Assignment of authority and responsibility.

- Human resource policies and practices.

- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept.

Core Principles for the Professional Practice of Internal Auditing

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self- assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion

The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

Fraud

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Impairment

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

Information Technology Governance

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations.

The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

Must

The Standards use the word "must" to specify an unconditional requirement.

Objectivity

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.

Overall Opinion

The rating, conclusion and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organisation is willing to accept.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

Should

The Standards use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).

12.2 CHARTERED INSTITUTE OF INTERNAL AUDITORS EQA FORM 2016

Name of the organisation:			
Name of the internal audit function:			
Date of the internal audit evaluation:		**Date of the previous internal audit evaluation:**	
Title of the designated Chief Audit Executive:		**Name of the designated Chief Audit Executive:**	
Name of the committee that is responsible for audit matters and to whom the Chief Audit Executive reports: (When the standards say "board", who does that mean in the organisation)		**Reporting line of the Chief Audit Executive:** (When the standards say senior management, who does that mean)	
Review team:			

Generally Conforms means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual *Standards* or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.

Partially Conforms means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

Does Not Conform means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board. Often, the most difficult evaluation is the distinction between general and partial. It is a judgment call keeping in mind the definition of general conformance above. Carefully read the *Standard* to determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices do not reduce a generally conforms rating.

		Generally Conforms	Partially Conforms	Does Not Conform
	Definition of Internal Auditing			
Reference	**Code of Ethics**			
1	Integrity			
2	Objectivity			
3	Confidentiality			
4	Competence			
Reference	**Attribute Standards**			
1000	Purpose, Authority and Responsibility			
1010	Recognising Mandatory Guidance in the Internal Audit Charter			
1100	Independence and Objectivity			
1110	Organisational Independence			

		Generally Conforms	Partially Conforms	Does Not Conform
1111	Direct Interaction with the Board			
1112	Chief Audit Executive Roles Beyond Internal Auditing			
1120	Individual Objectivity			
1130	Impairments to Independence or Objectivity			
1200	Proficiency and Due Professional Care (The sum of *Standards* 1210-1230)			
1210	Proficiency			
1220	Due Professional Care			
1230	Continuing Professional Development			
1300	Quality Assurance and Improvement Programme (The sum of *Standards* 1310-1320)			
1310	Requirements of the Quality Assurance and Improvement Programme			
1311	Internal Assessments			
1312	External Assessments			
1320	Reporting on the Quality Assurance and Improvement Programme			
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing			
1322	Disclosure of Non-conformance			
Reference	**Performance Standards**			
2000	Managing the Internal Audit Activity (Sum total of *Standards* 2010 – 2060)			
2010	Planning			
2020	Communication and Approval			

		Generally Conforms	Partially Conforms	Does Not Conform
2030	Resource Management			
2040	Policies and Procedures			
2050	Coordination and Reliance			
2060	Reporting to Senior Management and the Board			
2070	External Service Provider and Organisational Responsibility for Internal Audit			
2100	Nature of Work (Sum of *Standards* 2110 – 2130)			
2110	Governance			
2120	Risk Management			
2130	Control			
2200	Engagement Planning (Sum of *Standards* 2201-2240)			
2201	Planning Considerations			
2210	Engagement Objectives			
2220	Engagement Scope			
2230	Engagement Resource Allocation			
2240	Engagement Work Programme			
2300	Performing the Engagement (The sum of *Standards* 2300-2340)			
2310	Identifying Information			
2320	Analysis and Evaluation			
2330	Documenting Information			
2340	Engagement Supervision			

		Generally Conforms	Partially Conforms	Does Not Conform
2400	Communicating Results (Sum of *Standards* 2410-2440)			
2410	Criteria for Communicating			
2420	Quality of Communications			
2421	Errors and Omissions			
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'			
2431	Engagement Disclosure of Non-conformance			
2440	Disseminating Results			
2450	Overall Opinions			
2500	Monitoring Progress			
2600	Resolution of Senior Management s Acceptance of Risks			

Definition of Internal Auditing & Code of Ethics	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
Definition of internal auditing			
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation	There are key areas with the International Standards that will help to decide whether or not internal audit meets the definition of internal auditing. These are: Attribute Standards 1010, 1100, 1110 and 1130		

Definition of Internal Auditing & Code of Ethics	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.	Performance Standards 2010 and the 2100 series. However, an important aspect is the extent to which internal audit helps the organisation to achieve its objective and improve: • The internal audit plan and the work of internal audit must focus on the things that matter to the organisation. • The opinions and recommendations that internal audit provide must help the organisation and be valued by stakeholders		
Definition of internal auditing **IIA Conformance Assessment**		Choose an item.	
1. Integrity			
The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. **Rules of Conduct - Internal auditors:** 1.1 Shall perform their work with honesty, diligence and responsibility. 1.2 Shall observe the law and make disclosures expected by the	Internal audit has: • A high profile within the organisation. • A reputation for honesty, fair dealing and truthfulness – behaves with integrity. • Resilience and determination – is persistent when required. • High standards for doing their job and maintains these in practice. • Involvement in reviewing and		

Definition of Internal Auditing & Code of Ethics	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
law and the profession. 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation. 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.	developing ethical behaviour in the organisation.		
Integrity IIA Conformance Assessment		Choose an item.	
2. Objectivity			
Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements. **Rules of Conduct - Internal auditors**:	Individual objectivity, which includes an interpretation of 'conflict of interest', is set out within Attribute Standards 1120 and 1130. Compliance with these Attribute Standards will generally result in compliance with the Rules of Conduct.

Internal audit is free from any bias or conflict of interest that would undermine or question their judgement – either in reality or perception | | |

Definition of Internal Auditing & Code of Ethics	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation. 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement. 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.			
Objectivity **IIA Conformance Assessment**		Choose an item.	
3. Confidentiality			
Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or	Confidentiality relating to internal audit work is set out within Performance Standard 2330 and compliance with this will generally result in compliance with the Rules of Conduct.		

Definition of Internal Auditing & Code of Ethics	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
professional obligation to do so. **Rules of Conduct - Internal auditors:** 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties. 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.	Security and protection of information should be subject to daily routine and safeguards. Potential and actual breaches in confidentiality should be taken seriously and acted upon accordingly.		
Confidentiality IIA Conformance Assessment		Choose an item.	
4. Competency			
Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services. **Rules of Conduct - Internal auditors**: 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.	Competency is covered by the 1200 series of the Attribute Standards and compliance with these will generally result in compliance with the Rules of Conduct. Overall there should be a culture of continuous improvement, a commitment to staff retention and development, an appreciation of the IPPF among staff and assignment of work		

Definition of Internal Auditing & Code of Ethics	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing. 4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.	based on competency.		
Competency **IIA Conformance Assessment**		Choose an item.	

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
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. **Interpretation:** The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature	The internal audit (IA) activity has a formal definition of its purpose, authority and responsibility, which recognises the IIA definition of IA. Whatever document provides the formal definition will be the "internal audit charter" for the purposes of the standards - no matter what the document is actually called. The charter: • Establishes the position and reporting lines of IA within the organisation - both functional and administrative reporting lines. • Provides IA with unrestricted access to records, personnel, and physical properties relevant to the performance of engagements. • Sets the tone for IA activities and interaction with the board. • Defines the nature and scope of activities to be performed by IA – assurance, and consultancy engagements. • Sets out the nature and scope of IA		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000. A1 The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000. C1 The nature of consulting services must be defined in the internal audit charter. | assurance provided to parties outside the organisation.
• Is approved by the board. The charter is kept up to date by:
• Periodic review, which involves consultation with the senior management and the board.
• Incorporating changes in the International Professional Practice Framework (IPPF) as and when they occur. | | |
1000 - IIA Conformance Assessment		Choose an item.	
1010 Recognising Mandatory Guidance in the Internal Audit Charter			
The mandatory nature of the Core Principles for the	The charter includes reference to the mandatory nature of *the*		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing, must be recognised in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.	*Core Principles for the Professional Practice of Internal Auditing,* the *Code of Ethics*, *and the International Standards.* The charter makes a formal commitment to the Core Principles for the Professional Practice of Internal Auditing, Code of Ethics, and the International Standards. There is a record of discussions with senior management and the board regarding the mandatory aspects of the IPPF and the extent of the commitment to them e.g. within minutes of the board or other formal record		
1010 - IIA Conformance Assessment		Choose an item.	
1100 Independence and Objectivity			
The internal audit activity must be independent, and internal auditors must be objective in performing their work. **Interpretation:** Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an	The board review and approve the: • Internal audit charter • Risk based internal audit plan • Performance against the plan • The appointment and removal of CAE • Any restrictions on scope and or resources. The internal audit charter and planning		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
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 organisational 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 organisational levels.	documents – such as IA strategy, annual IA plan and business plans- do not contain major restrictions upon IA activity. IA plans are consistent with the scope, authority and responsibility of the IA activity set out in the internal audit charter. IA plans account for all of the resources and time available to IA. IA does not have responsibility for the management of operations within the organisation. IA role and relationship with regard to other assurance providers, inside and outside the organisation is established and documented. The justification for the use of internal audit contingency time is recorded and reported to the board.		
1100 - IIA Conformance Assessment	Choose an item.		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
1110 Organisational Independence			
The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity. **Interpretation:** Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board: • approving the internal audit charter, • approving the risk based internal audit plan, • approving the internal audit budget and resource plan, • receiving communications from the chief audit executive on the internal	The chief audit executive reports to a level in the organisation that is adequate to discharge his or her responsibilities – to the board functionally and the CEO administratively. To apply functional reporting the board typically: • Approves the IA Charter, IA risk assessment and related IA plan. • Receives the results of IA activities, performance and other matters that the CAE determines are necessary, • Hold private meetings with the CAE. • Receives annual confirmation of IA's organisational independence. • Approves decisions regarding the performance evaluation, appointment, or removal of the CAE. • Approve the IA strategy, plan and budget. • Makes appropriate inquiries of senior management and the CAE to		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
audit activity's performance relative to its plan and other matters, • approving decisions regarding the appointment and removal of the chief audit executive, • approving the remuneration of the chief audit executive, and • making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations. 1110.A1 The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications	determine whether there is audit scope or budgetary limitations that impede the ability of the IA activity to execute its responsibilities. To apply administrative reporting the CEO ensures: • The preparation on an annual budget and appropriate budgetary control. • Human resource administration, including personnel evaluations and compensation. • Internal communications and information flows.		
1110 - IIA Conformance Assessment		Choose an item.	

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
1111 Direct Interaction with the Board			
The chief audit executive must communicate and interact directly with the board.	CAE regularly attends board meetings, reporting upon IA plans and activities. CAE is given the opportunity to understand the way the board conducts its oversight of governance, risk management and control. One to one sessions between the CAE and the board are planned into the annual timetable, either as part of the annual schedule of meetings or through the agreed working relationship between CAE and chair of the board. This occurs at least annually.		
1111 - IIA Conformance Assessment	Choose an item.		
1112 Chief Audit Executive Roles Beyond Internal Auditing			
Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to	Full disclosure in the IA Charter of any management responsibilities that the Chief Audit Executive holds. Conflicts of interest are identified and recorded in the terms of reference		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
independence or objectivity. Interpretation: The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.	for audit assignments and referenced in the report. The CAE has relinquished some of their audit direct line management for specific audits with regard to reviewing files and reports, other team members leading on reviews where the CAE has operational responsibility. The Senior Auditor/Audit Manager reports directly to a party external to the CAE for audits that are under the control or direct influence of the CAE. Contracted, third-party entity or external auditors are used to complete audits of those areas reporting to the CAE.		
1120 - IIA Conformance Assessment		**Choose an item.**	

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
1120 Individual Objectivity			
Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.\n\n**Interpretation:**\n\nConflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.	Information relating to internal auditors includes responsibilities held prior to appointment.\n\nThe organisational chart and IA plans showing placement of internal auditors is compared to the information on the previous positions and responsibilities of internal auditors to ensure individual independence and objectivity.\n\nThere is regular review of the placement/location of IA team members to ensure independence. This takes into account the consultancy work individual internal auditors have performed when assigning assurance engagement. Internal auditors do not provide assurance in areas where they have been involved in advising management.		
1120 - IIA Conformance Assessment	Choose an item.		
1130 Impairment to Independence or Objectivity			

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
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. **Interpretation:** Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding. The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter,	CAE has established rules of conduct that clearly set out expected behaviour and defines the nature of conflict of interest and impairment of objectivity. This may include recognition or adoption of the organisation's Code of Practice provided this contains sufficient detail – including the acceptance of gift and hospitality. Where these do not exist or they lack clarity IA should formulate separate policies. Internal auditors are required to register hospitality and gifts, which is reviewed on a regular basis. Policies make auditors aware they must report any real or perceived conflict of interest as soon as such conflict arises. Procedures exist to support the policy and there is information to illustrate application – conflict of interest statements. Policy exists to ensure that assurance engagements of areas that are under the control or direct influence of the CAE are		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
as well as the nature of the impairment. 1130. A1 Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year. 1130. A2 Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity. **1130 A3 –** The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement	overseen by a party external to the CAE. IA engagements are rotated ensuring that activities and entities are not audited by the same auditor or where they have performed consulting services which may impair objectivity. The assignment of internal engagements are rotated to ensure that internal auditors involved in the development of systems and procedures do not review the management of risks and application of risk responses in these areas.		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
1130. C1 Internal auditors may provide consulting services relating to operations for which they had previous responsibilities. 1130.C2 If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement			
1130 - IIA Conformance Assessment		Choose an item.	
1200 Proficiency and Due Professional Care			
Engagements must be performed with proficiency and due professional care.	The sum of Standards 1210-1230		
1200 - IIA Conformance Assessment		Choose an item.	
1210 Proficiency			
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	There is a job description or person specification for each post with the IA organisation structure that defines appropriate knowledge, skills and experience. The job descriptions/person specifications are reviewed periodically or		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
needed to perform its responsibilities. **Interpretation:** 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 organisations. 1210.A1 The chief audit executive must obtain competent advice and assistance if the internal auditors lack	when positions become available. The knowledge, skills and competencies referred to might include: • Applying internal audit standards, procedures, and techniques in performing engagements. • Accounting principles and techniques if internal auditors work extensively with financial records and reports. • Knowledge to identify the indicators of fraud. • Knowledge of key information technology risks and controls and available technology-based audit techniques. • Communication and networking skills. • Managing people. A process exists that identifies individual internal auditor training and development needs with support for qualification programmes and other training and development activities. Internal auditor performance is reviewed on a regular basis, the		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
the knowledge, skills, or other competencies needed to perform all or part of the engagement. 1210.A2 Internal Auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. 1210.A3 Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing. 1210.C1 The chief audit executive must decline the consulting engagement or	results of which feed back into the needs assessment and CPD process. Internal auditors who perform specialised audit and consulting work such as information technology, tax, actuarial, or systems design undertake specific training and development. The CAE identifies gaps in knowledge and skills in the formulation of internal audit plans and engages capable assistance with approval of senior management and the audit committee. Capable assistance includes co-sourcing arrangements, use of internal experts and other assurance provides and specialist service provider's external to the organisation. The CAE assesses the competency and objectivity of external service providers prior to their appointment.		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.			
1210 - IIA Conformance Assessment		Choose an item.	
1220 Due Professional Care			
Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 Internal auditors must exercise due professional care by considering the:

• Extent of work needed to achieve the engagement's objectives;
• Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
• Adequacy and effectiveness of | The IA activity formally defines how it operates in a series of policies and procedures. For some the collection of documents may take the form of an Internal Audit Manual.

The policies and procedures specify the way audit files and working papers need to be kept to record the information gathered and analysis performed during the audit engagement.

Policies and procedure recognise the elements and requirements of the IPPF.

Internal auditors research and gather background information to help them prioritise objectives and set boundaries for each audit engagement – | | |

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
governance, risk management, and control processes; • Probability of significant errors, fraud, or non-compliance; and • Cost of assurance in relation to potential benefits. 1220.A2 In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques. 1220.A3 Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified. 1220.C1 Internal auditors must exercise due professional care during a consulting engagement by considering the: • Needs and expectations of	assurance and consulting. The objectives and priorities for audit engagements are discussed with senior management and stakeholders where appropriate. Audit engagements focus upon management's assessment of risk responses. Taking into consideration residual risk and management assurance upon the effectiveness of the risk response. Where this is not available internal auditors perform their own assessment of risks. Where appropriate audit engagements are supported by appropriate tools, including reporting within information systems, interrogation techniques and other CAATTs. The communication of conclusions and audit opinions are based on appropriate information such as observations, tests, analyses and other documentation. This is indexed and classified in working papers linked to the engagement work programme, schedule of		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
clients, including the nature, timing, and communication of engagement results; • Relative complexity and extent of work needed to achieve the engagement's objectives; and • Cost of the consulting engagement in relation to potential benefits.	testing and audit objectives.		
1220 - IIA Conformance Assessment		Choose an item.	
1230 Continuing Professional Development			
Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.	There is a process to assess the training and development needs of internal auditors that provides input to the continuous professional development (CPD) programme required by the Institute. The process may be based upon the organisation's staff appraisal procedure but centres upon the development of professional proficiency and the changing demands upon the profession.		
1230 - IIA Conformance Assessment		Choose an item.	

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
1300 Quality Assurance and Improvement Programme (QAIP)	The sum of Standards 1310-1320.		
The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. **Interpretation:** 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 QAIP is about establishing a culture of continuous improvement to prevent problems and to underpin day-to-day delivery of a reliable assurance and consulting service. This is led by the CAE who sets a vision, a strategy and service expectations through policies, procedures, review and oversight arrangements based upon stakeholder requirements and consultation with the internal audit team. Stakeholder expectations and the results of consultations with staff are documented. The establishment of QAIP and its purpose is reflected in the internal audit charter. This refers to the arrangements for supervision and review of the work that staff do		
1300 - IIA Conformance Assessment	Choose an item.		
1310 Requirements of the Quality Assurance and			

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
Improvement Program			
The quality assurance and improvement program must include both internal and external assessments.	There is a plan or schedule agreed with senior management and the board that sets out the type, nature and timing of future assessments – both internal and external.		
1310 - IA Conformance Assessment		Choose an item.	
1311 Internal Assessments			
• Ongoing monitoring of the performance of the internal audit activity. • Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices. **Interpretation:** Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes,	There is evidence of ongoing internal reviews of the performance of the internal audit activity. There are a variety of options for this depending on the size and structure of the service including self-assessment by the internal audit activity, peer reviews, benchmarking exercises, post audit and/or annual client questionnaires, monitoring by the audit committee and other reviews initiated internally by the organisation. The ISO quality standard, EFQM and other models can be used to establish and maintain the QAIP. The precise nature and mix of the internal assessments will be		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
tools, and information considered necessary to evaluate conformance with the Code of Ethics, and the Standards. Periodic assessments are conducted to evaluate conformance with the Code of Ethics, and the Standards. Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.	decided by the organisation to best suit circumstances but all should evaluate internal audit activity in accordance with: • The professional requirements in the IPPF. • The vision and policies set by the CAE. • The Internal Audit Charter. • Internal audit procedures that set out to achieve quality on a daily basis – including the recognition and prevention of 'defects'.		
1311 - IIA Conformance Assessment	Choose an item.		
1312 External Assessments			
External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board: • The form and frequency of	The CAE consults with the board when deciding the frequency of the external assessment and the qualifications and independence of the external reviewer or review team. The assessor or assessment team is from outside the organisation and is free from any obligations to or interests in the organisation – in		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
external assessments. • The qualifications and independence of the assessor or assessment team, including any potential conflict of interest. **Interpretation**: External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments. A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and	particular consulting services. Assessors are qualified, with appropriate competence and experience of IA – at least three years at manager level - and knowledge of leading practices in IA, as well as current, in-depth knowledge of the IPPF. There is evidence of comprehensive external assessments at least every 5 years (This is includes peer assessment where there is an element of independence in the process). For some organisations external quality assessments may be carried out more regularly based upon regulatory or funding requirements – particularly the public sector. External audit assessments may also be appropriate where significant change has occurred within the organisation of internal audit activity. The external assessor concludes as to the conformance with the Code of Ethics and the Standards (as well as		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified. An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived	operational or strategic comments).		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
or potential conflicts of interest.			
1312 - IIA Conformance Assessment		Choose an item.	
1320 Reporting on the Quality Assurance and Improvement Programme			
The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include: • The scope and frequency of both the internal and external assessments. • The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest. • Conclusions of assessors. • Corrective action plans **Interpretation**: The form, content, and frequency of communicating the results of the quality assurance and improvement	The results of the QAIP are reported to the stakeholders of IA. Where the IA activity cannot conform with one aspect or other of the IPPF the details of the non-conformance and its implications are reported to the board. All aspects of the QAIP generate improvements in what is done and in how it is done. This is done using agreed and assigned action plans with target dates Follow-up and reporting of the implementation of actions to senior management and the board.		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.			
1320 - IIA Conformance Assessment		Choose an item.	
1321 Use of Conforms with the International Standards for the Professional Practice of Internal Auditing			
Indicating that the internal audit activity conforms with the International Standards for the Professional Practice	The wording that the IA activity uses in reports regarding conformance with the IPPF is consistent with the results of the quality		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
of Internal Auditing is appropriate only if supported by the results of the quality assurance and improvement program. **Interpretation**: The internal audit activity conforms with the Code of Ethics and the Standards when it achieves the outcomes described therein. The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.	assessments – internal and external. The IA activity conforms to the IPPF when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and International Standards.		
1321 - IIA Conformance Assessment		Choose an item.	
1322 Disclosure of Non-conformance			
When non-conformance with the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, the chief	There is evidence of appropriate disclosure linked to 1321		

Attribute Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
audit executive must disclose the non-conformance and the impact to senior management and the board.			
1322 - IIA Conformance Assessment		Choose an item.	

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2000 Managing the Internal Audit Activity	The sum of Standards 2010 - 2060		
The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation **Interpretation**: 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 organisation The internal audit activity adds value to the organisation (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 assurances..	The internal audit activity adds value to the organisation (and its stakeholders) when it provides: • Objective and relevant assurance, and • Contributes to the effectiveness and efficiency of governance, risk management and control processes and objectively provides relevant assurance. Delivery of the internal audit service to the organisation involves planning, communication and approval, resource management, policies and procedures, coordination and reporting to senior management and the board. As well as functional management the CAE may be required to comply with organisational administrative and personnel management requirements. This might include: business planning, budget forecasting and management, staff appraisal, succession planning etc.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2000 - IIA Conformance Assessment		Choose an item.	
2010 Planning			
The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. **Interpretation**: To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls. 2010.A1 The internal audit activity plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be	The CAE has established risk-based internal audit plans (RBIA) in consultation with the board and senior management that identifies where assurance and consultancy is required on risk management processes, management assurances and risk responses. The audit plan establishes a link between the proposed audit topics and the priorities and risks of the organisation taking into account: • Stakeholder expectations, and feedback from senior and operational managers. • Objectives set in the strategic plan and business plans, including major projects and financial forecasts. • Risk maturity in the organisation to provide an indication of the reliability of risk registers. • Management's identification and response to risk,		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
considered in this process 2010.A2 The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions. 2010.C1 The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organisation's operations. Accepted engagements must be included in the plan.	including risk mitigation strategies and levels of residual risk. • Legal and regulatory requirements. • The audit universe – all the audits that could be performed within the scope of the IA Charter. • Previous IA plans and the results of audit engagements. The CAE determines stakeholder expectations for IA opinions including the levels of assurance required, scope and the way assurance is given such as narrative or rating by discussion with senior management and the board. Where the organisation's risk maturity is at formative level – defined as 'naïve' or 'aware' - IA may perform consulting engagements to support the improvement of risk management. In this situation IA performs its own risk assessment in formulating risk based IA plans.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
	There is a degree of flexibility and contingency within IA plans to cater for the changing risk environment. There is formal approval of the plan by the board – in some cases internal audit is required to formulate a plan for approval that enables them to provide an annual opinion. This is understood and reflected in discussions and approval of the plan with senior management and the board.		
2010 - IIA Conformance Assessment		Choose an item.	
2020 Communication and Approval			
The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.	The CAE communicates progress against the annual plan, including significant changes, to senior management and the board. The board monitor progress against plans. IA explains and justifies deviations from the plan and the use of contingency time.		
2020 - IIA Conformance Assessment		Choose an item.	

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2030 Resource Management			
The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. **Interpretation**: Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.	The level of resources included in the plan is determined by the management assurances and risks on which the board require objective assurance and consultancy – a needs assessment. The CAE has communicated to senior management and the board the impact of resource limitations Staffing plans and financial budgets are determined from annual IA plans and activities. The CAE allocates internal engagements according to the competency levels and training plans of staff – refer back to the section of proficiency.		
2030 - IIA Conformance Assessment		Choose an item.	
2040 Policies and Procedures			
The chief audit executive must establish policies and procedures to guide the internal audit activity. **Interpretation**: The form and content of policies and procedures	There are appropriate policies and procedures, which are communicated to and understood by the staff of the internal audit activity. Internal auditors understand what is		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
are dependent upon the size and structure of the internal audit activity and the complexity of its work	expected of them and the procedures recognise and apply the requirements of the IPPF Managers and the QAIP examine the application of policies and procedures – there is evidence to support supervision and quality management. Internal auditors meet to discuss the application of policies and procedures – with agreed actions.		
2040 - IIA Conformance Assessment		Choose an item.	
2050 Coordination and Reliance			
The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts. Interpretation: In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance	IA work is coordinated with that of the external auditors and with other internal providers of assurance and consulting services. This might include regular meetings, documented agreements, coordinated plans, sharing resources, training arrangements. In some cases IA may be required to assess the reliability of the work of other assurance providers. This is established in the IA Charter and factored into the IA plans.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.			
2050 - IIA Conformance Assessment		Choose an item.	
2060 Reporting to Senior Management and the Board			
The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and	There is evidence that the CAE reports appropriately to the board and senior management on internal audit activities, performance and conformance with the Code of Ethics and the		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention senior management and/or the board. **Interpretation**: The frequency and content of reporting are determined collaboratively by the chief audit executive, with senior management, and the board, The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board. The chief audit executive's reporting and communication to senior management and the board must include information about: • The audit charter. • Independence of the internal audit activity. • The audit plan and progress against the plan.	Standards. This might include: • Board minutes. • CAE presentation to board. • Activity reports. • Interviews, management reports, reports on meetings. • Senior management's responses to internal audit reports. • Tangible evidence (e-mail records, internal memos, reports on meetings, etc.) demonstrating that the board had been informed. • Status of action plans.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
• Resource requirements. • Results of audit activities. • Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues. • Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation. These and other chief audit executive communication requirements are referenced throughout the Standards.			
2060 - IIA Conformance Assessment		Choose an item.	
2070 External Service Provider and Organisational Responsibility for Internal Audit			
When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity. **Interpretation**:	While IA may be outsourced to a provider of internal audit the organisation retains responsibility for its effectiveness. Responsibility for IA will be assigned to a suitably experience manager who takes ownership for the performance and effectiveness of IA.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the Code of Ethics, and the International Standards.	Quality control will be demonstrated through the QA&IP with both internal and external assessments.		
2070 - IIA Conformance Assessment		Choose an item.	
2100 Nature of Work	Sum of Standards 2110 – 2130		
The internal audit activity must evaluate and contribute to the improvement of the organisation'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.	A significant part of internal audit's assurance role in relation to governance relates to the effectiveness of risk management – refer to the next section 2120		
2100 - IIA Conformance Assessment		Choose an item.	
2110 Governance			
The internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes for: • Making strategic and operational decisions.	IA reviews the activities in place that manage and monitor the effective implementation of the organisation's; • Ethics and values. • Codes of conduct. • Levels of authority and responsibility.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
• Overseeing risk management and control • Promoting appropriate ethics and values within the organisation. • Ensuring effective organisational performance management and accountability. • Communicating risk and control information to appropriate areas of the organisation. • Coordinating the activities of and communicating information among the board, external and internal auditors, other assurance providers and management. 2110.A1 The internal audit activity must evaluate the design, implementation, and effectiveness of the organisation's ethics-related objectives, programmes, and activities. 2110.A2 The internal audit activity must assess whether the information technology governance of the organisation supports the organisations strategies and objectives.	• Strategic and operational objectives. • Compliance with laws and regulations. • Communication with stakeholders. • Risk management and control processes • Social and ethical objectives, including validation of reported results. • IT governance, including information security. Internal audit's consultancy engagements support the improvement of the organisations governance framework, including the board's self-assessment of performance, benchmarking and development of best practice based upon published reports such as the Combined Code.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2110 - IIA Conformance Assessment		Choose an item.	
2120 Risk Management			
The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. Interpretation: Determining whether risk management processes are effective is a judgment resulting from the internal auditors assessment that: • Organisational objectives support and align with the organisation's mission; • Significant risks are identified and assessed; • Appropriate risk responses are selected that align risks with the organisation's risk appetite; and • Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management, and the board to carry out their responsibilities.	Internal audit's role with regard to risk management is set out in the internal audit charter. IA's role with regard to risk management will vary according to the level of risk maturity within the organisation. Where risk management is well established (risk managed or risk enabled) internal audit provide assurance upon: • The effective implementation of risk management processes in relation to strategic and operational objectives. • Reliable identification and assessment of risks with appropriate response. • The reporting of risk and control status by management. • The level of residual risk in relation to the organisations' risk appetite. • The effectiveness of the controls and		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness. Risk management processes are monitored through ongoing management activities, separate evaluations, or both. 2120.A1 The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations, and information systems regarding the: • Achievement of the organisation's strategic objectives, • Reliability and integrity of financial and operational information. • Effectiveness and efficiency of operations and programmes. • Safeguarding of assets; and • Compliance with laws, regulations,	other responses to risks. The IA activity gathers the information to support an assessment of risk management during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management and its effectiveness. Alternatively, IA may assess risk management processes as one single engagement Where risk management is less developed (risk naïve, aware or defined) internal audit operate in a more advisory capacity to: • Report upon the level of risk maturity and scope for improvement. • Support development of risk management framework. • Facilitate identification and assessment of risks. • Coach management in responding to risks.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
policies procedures and contracts. 2120.A2 The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk. 2120.C1 During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks. 2120.C2 Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes. 2120.C3 When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks	Coordinate and consolidate reporting: IA refrains from taking full responsibility for risk management, including risk responses. IA carry out individual risk based engagements to provide assurance on part of the risk management framework, including on the mitigation of individual or groups of risks. IA evaluates the potential occurrence for fraud as part of audit engagements – included within objectives and referred to in communications at the end of the audit engagement.		
2120 - IIA Conformance Assessment		Choose an item.	
2130 Control			

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. 2130.A1 The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations, and information systems regarding the: • Achievement of the organisation's strategic objectives, • Reliability and integrity of financial and operational information; • Effectiveness and efficiency of operations; • Safeguarding of assets; and • Compliance with laws, regulations, and contracts 2130.C1 Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.	IA engagements consider the efficiency of controls used to mitigate risks - whether there are too many or too few controls, which evaluates the cost of control in relation to the impact and likelihood of the risk. IA work programmes focus on high priority risks and adequately tests controls to ensure their effectiveness – there is a recognised approach to ensure sufficient sample sizes are taken and tested. IA verify, where appropriate: • The application and effectiveness of risk management procedures. • Management assurances on controls, including the results of self-assessments. • KPIs are accurate, timely, relevant and reliable. • Reporting requirement are operating as planned Internal auditors support management upon the design of controls at appropriate points in the development of major change programmes – examples would		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
	include implementation of new computer systems, building and supply contracts.		
2130 - IIA Conformance Assessment		Choose an item.	
2200 Engagement Planning	Sum of Standards 2201-2240		
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 organisation's strategies, objectives and risks relevant to the engagement.			
2200 - IIA Conformance Assessment		Choose an item.	
2201 Planning Considerations			
In planning the engagement, internal auditors must consider: • The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance. • The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact	Procedure exists within the IA activity that requires internal auditors to research, scope and plan internal audit engagements – assurance and consultancy. Internal auditors document the following as part of their research and discussions with managers • The nature of the area under review and key areas of		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
of risk is kept to an acceptable level. • The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model. • The opportunities for making significant improvements to the activity's governance, risk management, and control processes. 2201.A1 When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records. 2201.C1 Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For	change and development • The activities that occur and the way performance is monitored. • Strategic objectives and the way the area contributes to the organisation's strategy or purpose. • The risks involved and the organisation's chosen responses to those risks. • How managers know the responses are effective. • Assurances managers give to whom and how often. The preparation for audit engagements leads to the documentation of objectives that are agreed with senior management and where appropriate clients outside the organisation. Options include: • Assurance that management assurance is effective and, therefore, reliable. • Assurance that specific responses, including controls, are effective in		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
significant engagements, this understanding must be documented.	managing given risks. • Consultancy to help managers improve the design or implementation of governance processes, risk processes and risk responses, including controls. Documentation of the objectives and scope of consultancy engagements. This could include engagement letters, terms of reference and any other form of agreement that documents the responsibilities of the internal audit activity in a consultancy engagement		
2201 - IIA Conformance Assessment		Choose an item.	
2210 Engagement Objectives			
Objectives must be established for each engagement. 2210.A1 Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment. 2210.A2 Internal auditors must consider the probability of	In establishing objectives for assurance engagements the internal auditor considers: • The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
significant errors, fraud, non-compliance, and other exposures when developing the engagement objectives. 2210.A3 Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board. Interpretation: Types of criteria may include: • Internal (e.g., policies and procedures of the organization). • External (e.g., laws and regulations imposed by statutory bodies). • Leading practices (e.g., industry and professional guidance).	• The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model. • The opportunities for making significant improvements to the activity's risk management and control systems. For consultancy engagements the objectives reflect the expectation of managers and relate to aspects of governance, risk management and control		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2210.C1 Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client. 2210.C2 Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives			
2210 - IIA Conformance Assessment		Choose an item.	
2220 Engagement Scope			
The established scope must be sufficient to achieve the objectives of the engagement. 2220.A1 The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties. 2220.A2 If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the	The engagement scope is consistent with the audit objectives. In practice this means agreeing and documenting: • The extent of the audit - understanding what will and won't be looked at. • The nature of assurance to be provided or focus of the consulting work to be done, including timing and key stages. • Defining the people, systems, procedures, files and records that will form the audit engagement. • Defining the depth of the review, such		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
consulting engagement communicated in accordance with consulting standards. 2220.C1 In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement. 2220.C2 During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.	as the period under review or any special conditions. The scope of consultancy engagements has reference to aspects of governance, risk management and control as per the definition of IA.		
2220 - IIA Conformance Assessment		Choose an item.	
2230 Engagement Resource Allocation			
Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.	Evidence of appropriate evaluation of how audit engagements are resourced based on the nature and complexity of the engagement, time constraints, and available resources.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
Interpretation: Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.	This would include the rational for using resources outside the IA activity based on the levels of competency required.		
2230 - IIA Conformance Assessment		Choose an item.	
2240 Engagement Work Programme			
Internal auditors must develop and document work programmes that achieve the engagement objectives. 2240.A1 Work programme must include the procedures for identifying, analysing, evaluating, and documenting information during the engagement. The work programme must be approved prior to its implementation, and any adjustments approved promptly. 2240.C1 Work programme for consulting engagements may vary in form and content depending upon the nature of the engagement.	The internal auditor has developed a programme of work outlining the resources and procedures needed to achieve the audit objectives. This might include: • Timetables and project plans. • Preparation of audit programmes and checklists. • Interview and testing schedules. For consultation work the planning and, documentation of activities is tailored according to the nature of the engagement. The one-off nature of such engagement may require detailed project plans and timetables.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
	The engagement programme of work and any subsequent programme adjustments are approved by the CAE or designee		
2240 - IIA Conformance Assessment		Choose an item.	
2300 Performing the Engagement	Sum of Standards 2300-2340		
Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Information can be data or documents that internal auditors use, document or create to support and fulfil their audit engagements. Information is retained in some form of filing or storage system to support conclusions and opinions – hardcopy or electronic versions are acceptable		
2300 - IIA Conformance Assessment		Choose an item.	
2310 Identifying Information			
Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives. **Interpretation**: Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the	The internal auditor plans what information they may need, where that information could be obtained from and whether that information is sufficient, reliable, relevant, and timely. The working files/papers for the audit engagement contain information that shows how activities		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals	and processes are designed and how they are meant to work. Information is obtained from information systems about the way processing operates – options include reporting tools, exception reports and CAATs. Information also includes observations, interviews and results of audit testing.		
2310 - IIA Conformance Assessment		Choose an item.	
2320 Analysis and Evaluation			
Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.	Audit conclusions and engagement results are based on the information that has been gathered during the audit engagement. There is evidence that the information has been analysed and evaluations discussed with managers.		
2320 - IIA Conformance Assessment		Choose an item.	
2330 Documenting Information			
Internal auditors must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions.	Sufficient, reliable, relevant and useful information is documented to support the conclusions and audit opinions.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2330.A1 The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate. 2330.A2 The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements. 2330.C1 The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.	Work files/papers have controlled access according to the policy of the organisation A policy and procedure exists relating to information archiving and retrieval. There is evidence that CAE obtains appropriate approvals prior to releasing records.		
2330 - IIA Conformance Assessment		Choose an item.	
2340 Engagement Supervision			

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. **Interpretation**: The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.	There is an organisational and reporting structure within the internal audit activity that provides the basis for supervision. Job descriptions document supervisory requirements. Policies and procedures describe how supervision is supposed to be applied – this incorporates review of work in progress, amendment or corrective actions, follow-up and approval. IA files/working papers and reports illustrate how supervision works in practice. The results of supervision are incorporated into the QAIP and staff appraisal assessments – and where appropriate training and development plans		
2340 - IIA Conformance Assessment		Choose an item.	
2400 Communicating Results	Sum of Standards 2410-2440		
Internal auditors must communicate results of engagements.			
2400 - IIA Conformance Assessment		Choose an item.	

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2410 Criteria for Communicating			
Communications must include the engagement's objectives scope and results.

2410.A1 Final communication of engagement results must, include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance. | There is evidence of appropriate, timely communication with management throughout the audit engagement.

This begins with discussions to research and scope an audit, leading to agreement upon objectives. Communication with managers also occurs as the audit engagement proceeds - discussing and analysing information.

Close –out meetings that provide the basis for exchange views about conclusions, opinions and possible recommendations for improvement.

An overall opinion or conclusion is included within audit communications in line with the stakeholder expectations and the original objectives of the audit engagement.

Opinions are given according to the level, scope and detail agreed with senior management

Opinions at the engagement level may be ratings, conclusions | | |

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2410.A2 Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications. 2410.A3 When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results. 2410.C1 Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.	or other descriptions of the results. Satisfactory performance is acknowledged in engagement communications. Communications outside the organisation are limited in distribution and use of results. There is evidence of progress and results on consulting engagements that is reasonable to the engagement.		
2410 - IIA Conformance Assessment		Choose an item.	
2420 Quality of Communications			
Communications must be accurate, objective, clear, concise, constructive, complete, and timely. **Interpretation:** Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective	There is a record of the timeline for the communication of results that spans the completion of the audit engagement through to communication with the board. There is a procedure that ensures discussions with managers between the close of the audit		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.	engagement and the delivery of communications are performed promptly. There is evidence to show IA communications are delivered in a timely manner and within the timeframe and level of resource set at the start of the audit engagement. Communications cover the full scope of the audit engagement. The form and style of communications has been discussed and agreed with senior management and the board including the method of communications, format, and any grading of opinions and recommendations. There is evidence of review and approval of communications prior to their release t Communications are clear and concise.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2420 - IIA Conformance Assessment		Choose an item.	
2421 Errors and Omissions			
If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.	Where appropriate, there is communication of corrected information to all parties.		
2421 - IIA Conformance Assessment		Choose an item.	
2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'			
Indicating that engagements are "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing," is appropriate only if supported by the results of the quality assurance and improvement program.	Internal and external assessments support any statements that are made inside and outside the organisation. Senior management and the board are aware of and agree such statements		
2430 - IIA Conformance Assessment		Choose an item.	
2431 Engagement Disclosure of Non-conformance			
When non-conformance with the Code of Ethics or the Standards impacts a specific engagement,	Where appropriate, communication of results discloses non-conformance with the IPPF.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
communication of the results must disclose the: • Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved. • Reason(s) for non-conformance. • Impact of non-conformance on the engagement and the communicated engagement results.	The nature of the non-conformance is discussed and reviewed with senior management and the board with a record of any agreed action		
2431 - IIA Conformance Assessment		Choose an item.	
2440 Disseminating Results			
The chief audit executive must communicate results to the appropriate parties. **Interpretation**: The chief audit executive is responsible for approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.	All audit communications are reviewed and approved by the CAE. Audit communications are provided to an appropriate level of senior management and distributed according to the agreed protocol of the organisation. When an overall opinion is issued (perhaps in support of a statement on internal control), it covers an appropriate time period and addresses the		

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Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2440.A1 The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration. 2440.A2 If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must: • Assess the potential risk to the organisation; • Consult with senior management and/or legal counsel as appropriate; and • Control dissemination by restricting the use of the results. 2440.C1 The chief audit executive is responsible for communicating the final results of consulting engagements to clients. 2440.C2 During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organisation, they must	expectations as agreed with the board, senior management and other stakeholders. The opinion is supported by sufficient, reliable, relevant and accurate information. If applicable, the CAE is properly consulted and has considered the risks of disclosure outside the organisation. Consulting engagement reports are distributed appropriately, as established at the start of the audit engagement		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
be communicated to senior management and the board.			
2440 - IIA Conformance Assessment		Choose an item.	
2450 Overall Opinions			
When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organisation; and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information. **Interpretation**: The communication will include: • The scope including the time period to which the opinion pertains. • Scope limitations. • Consideration of all related projects including the reliance on other assurance providers. • A summary of the information that supports the opinion. • The risk or control framework or other criteria used as a	The annual opinion is delivered on time, taking account of the strategies, objectives, and risks of the organisation and in accordance with the expectations of senior management and the audit committee. The work completed in the annual internal audit plan is consistent with the opinion requirements. The overall opinion where appropriate takes into account the reliability of other assurance providers. There is a methodology and process in place to evaluate the cumulative results of audit assignments and audit findings to express such an opinion.		

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
basis for the overall opinion. • The overall opinion, judgment or conclusion reached. The reasons for an unfavourable overall opinion must be stated			
2450 - IIA Conformance Assessment		Choose an item.	
2500 Monitoring Progress			
The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management. 2500.A1 The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. 2500.C1 The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.	The CAE has established a follow-up process to monitor and ensure that management actions have been effectively implemented or risk accepted. Records of follow-up meeting and discussions. There is a process that require internal audit to confirm the implementation of actions by management in relation to high priority, high importance areas.		
2500 - IIA Conformance Assessment		Choose an item.	

Performance Standard	Key conformance criteria	EQA reviewer assessment, referenced to evidence	Suggestions for further development
2600 Communicating the Acceptance of Risks			
When the chief audit executive concludes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive concludes that the matter has not been resolved, the chief audit executive must communicate the matter to the board for resolution.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk. | Decisions regarding residual risk that are not resolved are reported by the CAE to the board for resolution.

The subsequent resolution/disposition of such residual risk issues is appropriately documented.

IIA Conformance Assessment | | |
| **2600 - IIA Conformance Assessment** | Choose an item. | | |

Focus Groups and Interview Dates

12.3 FOCUS GROUPS AND INTERVIEW DATES + CHAPTER REFERENCE

Strategic – Members Group:

23rd January 2017		Chapter 5
27th March 2017	- initial validation	Chapter 5
24th April 2017		Chapter 6
17th July 2017		Chapter 6
13th November 2017		Chapter 7
24th January 2018	- final validation	Chapter 8

Tactical (Host):

12th December 2016	- initial focus group	Chapter 4
21st February 2017		Chapter 5
6th July 2017		Chapter 6
29th August 2017		Chapter 7
22nd November 2017		Chapter 7
20th December 2017		Chapter 7

Tactical Interviews:

5th to 14th February 2017	Chapter 5

Tactical – Senior Officer Group – Focus group Dates:

27th March 2017		Chapter 5
24th April 2017		Chapter 6
8th May 2017		Chapter 6
12th June 2017		Chapter 6
4th September 2017		Chapter 7
17th October 2017		Chapter 7
10th January 2018	- final validation	Chapter 8

Operational Interviews:

9th to 10th January 2017	Chapter 5

Operational focus groups:

4th April 2017   Chapter 6

10th April 2017   Chapter 6

11th April 2017   Chapter 6

18th April 2017   Chapter 6

25th April 2017   Chapter 6

8th May 2017   Chapter 6

11th May 2017   Chapter 6

10th July 2017   Chapter 6

11th July 2017   Chapter 6

31st July 2017   Chapter 7

22nd August 2017   Chapter 7

9th January 2018   - final validation   Chapter 7

Individual Interviews

16th to 31st January 2017   Chapter 5

12.4 SEMI-STRUCTURED INTERVIEWS DATES AND PARTICIPANT REFERENCE

Date	Participant Reference
9th Jan 2017	1
9th Jan 2017	2
10th Jan 2017	3
10th Jan 2017	4
16th Jan 2017	5
16th Jan 2017	6
16th Jan 2017	7
16th Jan 2017	8
16th Jan 2017	9
17th Jan 2017	10
17th Jan 2017	11
17th Jan 2017	12
17th Jan 2017	13
17th Jan 2017	14
30th Jan 2017	15
30th Jan 2017	16
31st Jan 2017	17
31st Jan 2017	18
31st Jan 2017	19
5th Feb 2017	20
5th Feb 2017	21
6th Feb 2017	22
7th Feb 2017	23
14th Feb 2017	24
14th Feb 2017	25
21st Mar 2018	26*
7th Mar 2018	27*

* generalisation interviews

12.5 INTERVIEW TOPICS – SEMI-STRUCTURED INTERVIEWS – CHAPTER 5

Start each interview with introduction and gained informed consent and concluding with thanking the candidate for their time.

1. Background information

2. How the shared internal audit service demonstrates integrity.

3. How the shared internal audit service demonstrates competence and due professional care. This includes continual professional development

4. How the shared internal audit service is objective and free from undue influence (independent). And areas where there may be conflict of interest

5. How the shared internal audit service aligns with the strategies, objectives, and risks of each partner and client organisation.

6. How the shared internal audit service Is appropriately positioned and adequately resourced. Including where the individual interviewed sits within the structure and what expertise that individual brings

7. How the shared internal audit service demonstrates quality and continuous improvement. How the quality assurance program works within the partnership and how the partnership assists organisational change

8. How the shared internal audit service communicates effectively. How information moves between individuals in particular how the individual being interviewed at that moment in time fits within communication framework

9. How the shared internal audit service provides risk-based assurance. How the shared internal audit service ensures that their activity is linked to the risks faced by the organisations they are auditing

10. How the shared internal audit service is insightful, proactive, and future-focused. This includes engagement within partner and client change programmes and how the shared internal audit service itself remains up-to-date and is alert to organisational change

11. How the shared internal audit service promotes organisational improvement. This includes discussions on the consultancy role of the shared internal audit service, in particular, the individual being interviewed has undertaken any consultancy

12. Is the governance framework enabling of the shared internal audit service; is there an indication of semi-autonomy or full autonomy, and how the individual fits within this framework

13. Are there any specialisms and other services that would not fall under the definition of internal audit for example IT auditing, counter fraud activity, risk management consultancy, et cetera

14. Does the shared internal audit service demonstrate commercialism or business-like activity including understanding how the shared internal audit service addresses; marketing, financial management, human resource management and operational management, as indicators of a business or organisation in its own right in operation

15. This final topic is an open question for any additional comment the interviewee may wish to make.
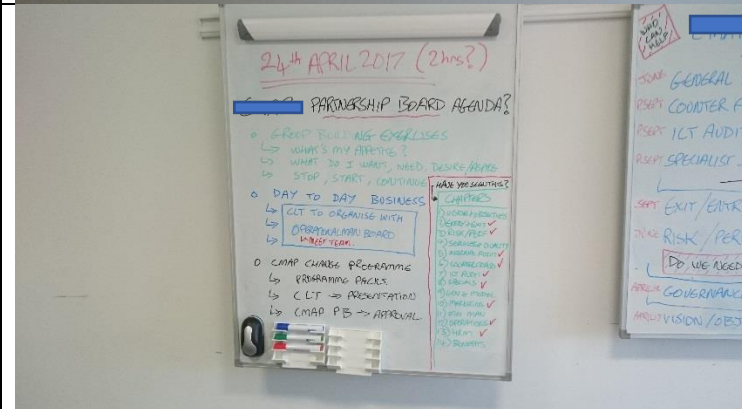
12.6 FOCUS GROUP PICTURE RECORDS

Picture	Date
	4th April 2017
	4th April 2017
	10th April 2017
	10th April 2017

	11th April 2017
	18th April 2017
	18th April 2017
	25th April 2017

	25th April 2017
	25th April 2017
	8th May 2017
	8th May 2017
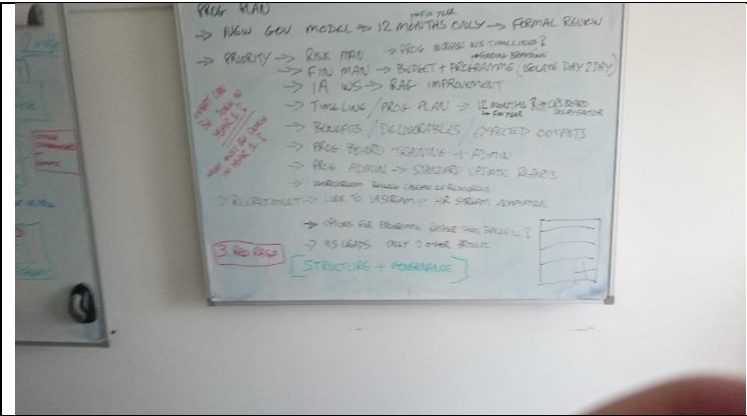
	11th May 2017
	11th May 2017
	10th July 2017
	10th July 2017
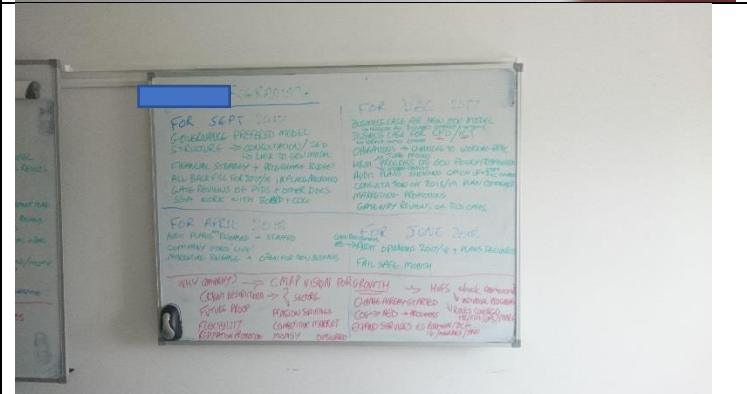
	11th July 2017
	31st July 2017
	31st July 2017
	22nd August 2017

12.7 PARTICIPANTS IN TOOL DEVELOPMENT, TESTING AND REPORTING

1. Vision and Objectives — Strategic and Tactical Focus Groups

2. Entry and Exit Strategy – GR (TL)*, CC, MJM

3. Risk & Perf Management – RG (TL) SL, LP

4. Services & Quality – AM (TL),

5. General Audit – LP (TL), HM, RG, CC

6. Counter Fraud – HM (TL), MC, MM, AS

7. ICT Audit – PN (TL), JP, AS, JF

8. Specialist Services – MS (TL), MA, AH, HM

9. Governance & Model – RB (TL), GR, MA, JP

10. Marketing – JF (TL), PN, LP, NG, RG

11. Financial Management - RB (TL), GR, MA, JP

12. Operational – AM (TL) , MC, MS, AH

13. HRM – MM (TL), MJM, MA, NG

14. Benefits realisation - CLT

*TL = Team Leader

12.8 EXAMPLE TOOL INSTRUCTIONS - PESTEL

The PESTEL framework (Johnson, Scholes and Whittington 2009) is a tool that can be used to assess the environment in which the shared service operates. The tool looks at the environment external from the shared service and breaks it into six topic areas. This tool is designed to consider the environment from a macro perspective.

The PESTEL framework can be used to identify how future trends in the political, economic, social, technological, environmental, and legal environments might impact on the shared service. This PESTEL analysis can be used to construct scenarios of possible futures, situations or other significant factors that may need or require some form of change.

P. Stands for POLITICAL. This perspective is used to consider not only political issues arising from central government but also from regional or local political groups. For example, a review of the shared service in local government may wish to consider the political leadership of each council involved. Where there are differences in political orientation, for example, conservative, labour, et cetera, there may also be associated with these differences differing opinion and motivation for the existence of the shared service. By considering the political environment controls can be introduced into the shared service to help manage and stabilise political perspectives. However, to identify these it is necessary to assess what the political situation and environment is in which the shared service operates. By understanding these different political perspectives there is a greater chance of successful implementation of the shared service strategy and decisions.

E. Stands for economic. This perspective again looks outside of the organisation and considers financial and other monetary orientated factors that could impact on the shared service. For example when operating internationally there may be the need to consider such factors as exchange rates, but also locally, the financial constraints, budgets and other monetary aspects regionally can also be considered. For example, where a local authority has joined the partnership to save an amount of cashable savings year on year it is necessary the shared service to capture data and report on the success of the savings made by the shared service.

S. Stands for social. This perspective looks at such factors as culture, demographics and community impact. Assessing the macro environment in this topic area can help to target not only the shared service product or service but also where the shared service can contribute to the partner organisations impact in the local community. An example of this could be the use of local schools colleges and universities to resource the shared service trainee capacity. (E.g. graduate programs)

T. Stands for technological. This aspect can be used to consider how technology can help the shared service, but also review where technological advancement by the shared service can impact. For example innovations such as the Internet can be used to help market the shared service. Furthermore, new software and hardware may help efficiency of the shared service. By assessing technology available to the shared service it is possible to ensure that processes and operations are running as effectively as technologically possible.

E. Stands for environmental. This is a growing area of concern for most businesses and is often recognised in the corporate social responsibility statement. By assessing the environmental situation it is possible to highlight further benefits of the shared service to the community, region and country (potentially global). It is important when considering environmental aspects that exercises are undertaken to see where environmental impact can be made for example reduction in waste or even preventative measures such as paperless office.

L. Stands for legal. Often it is the legal environments that places significant constraints on the shared service for example if using a hosted model of governance the shared service may be constrained to the processes and governance of the host. Reviewing the legal aspects of a shared service may help to prompt movement from one governance model to another for example moving from an informal arrangement to a formal arrangement under contract or from a hosted model to a company model.

USING THE TOOL.

Set out on the opposite page is an example of the PESTEL framework being used.

Equipment required:

- Flipchart
- pens
- imagination
- time
- workspace
- a team

Start in the top left corner of the flipchart's first sheet and write the word political. Use the entire page of the flipchart to jot down all political aspects that impact on the shared service as identified by the team. At this stage only record aspects that impact do not attempt to address these with controls at this time. Once the team have exhausted all aspects that could be considered political and impacting on the shared service, finish this topic.

Once the political aspect is completed move on to the next topic (economic) and repeat the process.

Once the whole pastel framework has been captured on flipchart paper consider transferring these two more mobile documents for use later in the process.

Now that you have identified all the aspects from the PESTEL framework that could impact on the shared service you may wish to use the same headers to review what can be done to control or manage these aspects. For example, you may have identified under political that there is an election arising in the near future, therefore you may wish to revise your project timeline to allow for decisions to be made outside of the purdah period.

12.9 EXAMPLE PRESENTATION FOR STRUCTURE CHANGES

Structure Choices

INCLUSIVE OF COSTS

Why a new structure is required?

- ▶ The change programme provided a few short term remedies to address the non-conformance with standards and enhance service delivery efficiency
  - ▶ Agile Auditing
  - ▶ Reinstatement of professional memberships
  - ▶ Widening of the management layers to enhance information flow and resilience
- ▶ However it also set out longer term workstreams to **take the service forward** and **address the future proofing of the shared internal audit service.**
- ▶ **The new structure must align with the future ambitions of SIAS Partners - partnership-led approach, co-owned by all partners, all working towards a common purpose, with equal rights and responsibilities**
- ▶ The new structure needs to recognise the workstreams within the ongoing roles…until such time as the partnership is in the new form (company or fully functional partnership) when the workstreams can be reviewed.
- ▶ The new structure also must enhance, empower and enable the roles to deliver day to day alongside continual development.
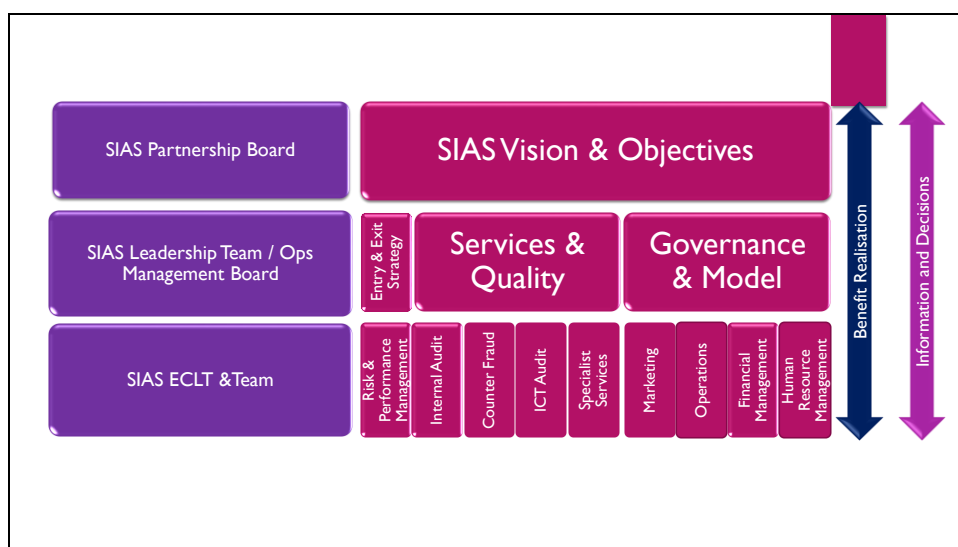
The services

- **Internal Audit** development of service and reflective learning - how they intend to keep on top of the game and in particular ensure future IIA external assessments are positive, how they will develop the agile auditing approach and any new planning approaches, delivering consistently on the consultancy aspects of internal audit, keeping the risk focus unique to each organisation

- **Counter Fraud and ICT Audit** - developing these services and ensuring the alignment of resources and standards e.g. ICT audit to cover ISO 27001 and other codes, Counter Fraud provided in a CPIA level of investigation and prosecution - how they will protect these workstreams from internal or external competition (they are significant income generators)

- **Risk Management and other services** - ensuring that SIAS continues to support the development of organisations' RM and other governance related specialist services

- **Quality control** - how they will capture and assess quality data and adapt the services accordingly, ensure the quality is not excessive in terms of exceeding client/partner expectations and then being unable to sustain this, etc

The business functions

- **Financial Management Strategy** and what level of reserves they expect to maintain, where they plan to make investment, what level of income growth are they expecting and when, costs emerging over the next three to five years, who is picking up these costs, how will increased costs or income be distributed across partners, other funding streams, etc

- **Marketing strategy** - where they anticipate their market growth e.g. client or partner, % of growth per year, pricing for fraud and ICT audit work vs standard audit work, developing new products/services or expanding existing provisions, how they are planning to promote this, sourcing new clients and partners, etc

- **Human resource management strategy** in particular how they are planning to address the recruitment difficulties and the growing their own approach - how will this be managed and by what layer in the structure, approach to training and professional subscriptions, agency and other sources of temporary resources, the alignment of the HRM strategy and any growth objectives - providing a structure that does not view any larger than existing partners would be a backward step, developing the business management and leadership skills required to run the partnership should also be addressed, etc

- **Operations strategy**, in particular the supply chain management e.g. SLAs with ICT to support the partnership ICT audit objectives and new forensics kit, initial business case development for the counter fraud unit and any temporary SLA to manage this relationship until the business case is delivered and formal decisions are made regarding the inclusion of the Counter Fraud unit in SIAS, audit committee engagement and management to ensure that SIAS is aware of what is on the agenda and has time to respond, relationship management between external audit/senior management/audit committee and the SIAS board, Operations Group and SIAS Leadership Team.

The Governance

- **Governance** - how is this going to be monitored and developed going forward, what are the governance plans considering the disproportionate impact the host has had on SIAS over the last 2 years, how are they going to continue to develop the four levels of the governance framework (SIAS Board, Operations Group, CLT/ECLT and the SIAS Team) to ensure they align to the strategies outlined above, aspirations of full partnership and future company models, etc

- **Entry and Exit of Partners and Clients** - although there is considerable indication of growth above SIAS needs to consider exit of partners too - learning from the last 12 months and the interference factors at DCC should SIAS review the host arrangements and possibly source a new host?

- **Risk and performance management** of SIAS - development of meaningful RM and PM frameworks across the partners is essential to help develop the partners understanding to the whole partnership and not just the data reported individually to each audit committee, developing the necessary frameworks to enable positive discussion and engagement at the four levels of SIAS is necessary.

- **Vision and objectives**: - Emerging issues from the 2016/17 and 2017/18 financial years , the SIAS Board and that they have reflected on and the considered / proposed changes for 2018/19.

- **Change Management** – how SIAS will manage change throughout its ongoing change programme and beyond.

Proposed Structure – CLT positions
SIAS Operations group focus on top part of the structure 1+2 or 1+3
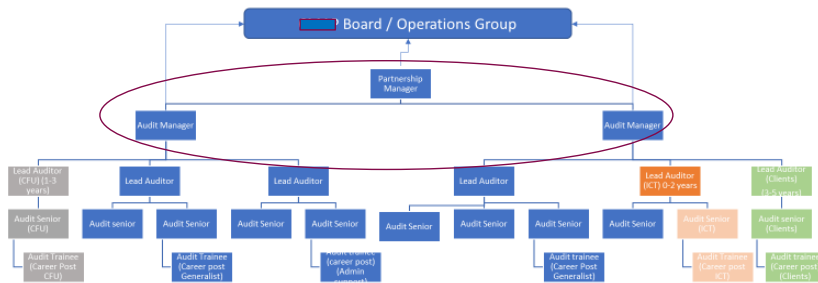
Costs and Budget

- SIAS Budget 2018/19 = £826,208
- SIAS Audit Plan Days required = 2608

- All structures need to be considered against the budget for both elements.
- Structures are for 2018/19 prices and at the mid scale point

- Structures A to E contain the following team levels – (Cost £608,013)
  - 4 x Lead Auditor (including 1 x ICT Lead Auditor)
  - 8 x Senior Auditor
  - 3 x Trainee Auditor
- Structures F and G reduce the Partnership Manager to the same value as the Audit Manager

Structure A

- 1 x Partnership managers – with higher grade awarded
- 2 x Audit Managers

- Total days available = 2626
- Total cost = £828,893

Structure B

- 1 x Partnership Manager
- 3 x Audit Manager

- Total days available = 2704
- Total cost = £890,971

Introducing changes at lower levels

- Trainees reduced by 1 – Structure C
  - Reduces the grow our own programme

- Lead Auditor reduced by 1 – Structure D
  - Reduces the supervision, resilience, development and succession planning

- Senior Auditor reduced by 1 – Structure E
  - Reduces resilience, succession planning and overall skill base

Structure C

- 1 x Partnership Manager
- 3 x Audit Manager
- 1 less Trainee

- Total days available = 2600
- Total cost = £864,936

Structure D

- 1 x Partnership Manager
- 3 x Audit Manager
- Less 1 Lead auditor

- Total days available = 2548
- Total cost = £841,538

Structure E

- 1 x Partnership Manager
- 3 x Audit Manager
- Less 1 senior auditor

- Total days available = 2522
- Total cost = £846,320

Lower value Partnership Manager Structure F

- Partnership Manager reduced to the same value as the Audit Manager
- 1 x Partnership Manager
- 2 x Audit Manager

- Total days available = 2626
- Total cost = £819,273

Structure G

- 1 x Partnership Manager
- 3 x Audit Manager

- Total days available = 2704
- Total cost = £881,351

Summary A – G structures
SIAS Budget 2018/19 = £826,208
SIAS Audit Plan Days required = 2608

Structure A = 1 PM + 2 AM
- Total days available = 2626
- Total cost = £828,893

Structure B = 1 PM + 3 AM
- Total days available = 2704
- Total cost = £890,971

Structure C = 1PM + 3AM – 1 trainee
- Total days available = 2600
- Total cost = £864,936

Structure D = 1PM + 3AM – 1LA
- Total days available = 2548
- Total cost = £841,538

Structure E = 1PM + 3AM – 1SA
- Total days available = 2522
- Total cost = £846,320

Reduced value of PM:

Structure F = 1PM + 2AM (lower PM value)
- Total days available = 2626
- Total cost = £819,273

Structure G = 1PM + 3AM (lower PM value)
- Total days available = 2704
- Total cost = £881,351

12.10 EXAMPLE TEMPLATE – CHANGE PROGRAMME MANDATE

PROGRAMME MANDATE

Programme Overview

SIAS Vision: "Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners."

Introduction

Following the external review that was presented to SIAS Partnership Board on the 27th March 2017; a change programme is being introduced to manage the delivery of the required changes highlighted in the review.

This Programme Mandate sets out the programme of works, governance structures and other key features of this programme.

Purpose of the SIAS Programme Mandate is:

To provide structure for decisions in the programme using existing hierarchical decision frameworks of SIAS

To ensure a robust process has been applied to the review, business case development and final rationalisation of the SIAS Service and Governance Package, including appropriate authority being sought for:

a. Vision and objectives of SIAS

   i. Entry and Exit Strategy

   ii. Risk Management and Performance Management

b. Services provided and quality levels

   i. General Audit, Counter Fraud, ICT Audit and Specialist Services

c. Governance frameworks and model of service delivery

   i. Marketing, Financial Management, Operations and Human Resource Management

d. Benefit Realisation

Hierarchy of decisions in the SIAS Programme

Name	Group identifiers	Level of Decision	Role
Partnership Board	Chairs of Audit Committee or equivalent	Ultimate Strategic Decision Group	Decision
Operational Management Board	Section 151 Officers or equivalent	Strategic direction / Local requirements / Programme Board	Steer
SIAS Leadership Team	SIAS Management Officers	Project Board	Champion
SIAS Project Leads	SIAS Officers	Project / Workstream	Define

Reporting Arrangements

- The Working Group will meet on a fortnightly basis to follow up on actions agreed. Meetings to be arranged by a nominated member of the group for a duration of a maximum of 2 hours.
- The Working Group Lead will update the SIAS Programme Plan as a central record for ensuring the Leadership Team is kept up-to-date on progress.
- The Working Group Lead to ensure the SIAS Programme Plan is updated with the appropriate RAG rating against each action point.
- The Working Group Lead will feedback to the Programme Manager on a weekly basis.
- The Working Group to provide feedback at the audit team meeting. (SIAS Programme is a standing item on the agenda).

Tasks and Remit

To identify the key areas to focus on within the work stream and identify sub work streams.

To establish an overall objective for the work stream:

- To ensure that SIAS is appropriately resourced, suitably experienced and has the skills and supporting framework in place to deliver the current objectives and support the partnership in its development.

To establish the objectives for each sub work stream:

- Identification of currently applicable policies and procedures.
- Assessment of the level of correlation between the current policy and procedures and SIAS's objectives.
- To establish the most appropriate policies and procedures to meet SIAS's requirements.
- To develop an implementation programme.
- To assign a member of the work stream team to each identified action, with a target date.

To complete the standard working paper document. (Working Paper)

To log the work streams on central record J:\Audit\HOA\A-Administration & Management\03-SIAS PROGRAMME\Standard Working Papers\SIAS Programme Plan (Master Document).xls

To ensure suggestions made to Leadership Team in accordance with the core values of the SIAS Programme of Change:

- Is it Cost effective?
- Does it improve working practice?
- Does it ensure a high Quality of Audit Product?
- Does it increase Customer Satisfaction?

Present to Leadership team for review and sign off.

To work in consultation with the other work streams to ensure there is no duplication.

To identify links to SIAS strategy documents.

12.11 EXAMPLE TERMS OF REFERENCE TEMPLATE

SIAS PROGRAMME

Work Stream – Entry and Exit Strategy

Terms of Reference (ToR)

SIAS Vision: "Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners."

Purpose of the Entry and Exit Strategy

To support the SIAS Leadership Team in identifying which work categories fall under the remit of the Entry and Exit Strategy and assess the current approach being taken and make appropriate recommendations for delivering services differently.

The aim of the group is to define the processes in place to manage the entry of new partners into the Central Midlands Audit Partnership and the implications of the exit of any Partnership members.

Serves to support the SIAS objectives of:

Look to improve the capacity and sustainability of the Partnership through its expansion.

Maintain ongoing effective relationships with key stakeholders

Membership

Name	Job Title
	Principal Auditor (Lead Officer)
	Principal Auditor
	Principal Auditor

Reporting Arrangements

- The Working Group will meet on a fortnightly basis to follow up on actions agreed. Meetings to be arranged by a nominated member of the group for duration of 2 hours.
- The Working Group Lead will update the SIAS Programme Plan as a central record for ensuring the Leadership Team is kept up-to-date on progress.
- The Working Group Lead to ensure the SIAS Programme Plan is updated with the appropriate RAG rating against each action point.
- The Working Group to provide feedback at the audit team meeting. (SIAS Programme is a standing item on the agenda).

Tasks and Remit

To brainstorm and identify the key areas to focus on within the work stream and identify sub work streams.

To establish an overall objective for the work stream:

- To ensure that SIAS has considered the implications of:
    - The integration of new partners into the SIAS contract
    - The exit of any partner from the SIAS contractual arrangement
- To provide a framework to manage any changes to the bodies that constitute the SIAS

To establish the objectives for each sub work stream and list below:

- Entry of new partners/clients
    i. Define criteria for assessing potential new partners
    ii. Document process for communicating declarations of interest from potential partners and progress of integration to SIAS Board
    iii. Define standards we expect new partners to accept and work to
    iv. Define method for integrating new partners at both a SIAS Board and operational level
    v. Define how we would manage the impact on existing partners of new organisations joining SIAS

- Exit of SIAS Partners
    - Identify the criteria for triggering SIAS to consider ending the relationship.
    - Define the process for managing the exit of a partner
    - Consider the treatment of SIAS resources (eg staff, reserves)
    - Consider SIASs arrangements for remaining partners following exit.
    - Document the treatment of incidental costs associated with a partner leaving

- Provide a dispute resolution process

To identify for each work sub-work stream:

- The current process or procedure being followed
- Any weaknesses in the current process / procedure
- Potential changes to improve the process / procedure
- Assign a member of the work stream team to each identified action, set a target date.

To complete the standard working paper document. (Working Paper)

To log the work streams on central record J:\Audit\HOA\A-Administration & Management\03-SIAS PROGRAMME\SIAS Programme Plan.xls

To ensure suggestions made to Leadership Team in accordance with the core values of the SIAS Programme of Change:

- Is it Cost effective?
- Does it improve working practice?
- Does it ensure a high Quality of Audit Product?
- Does it increase Customer Satisfaction?

Present to Leadership team for review and sign off.

To work in consultation with the other work streams to ensure there is no duplication.

To identify links to SIAS strategy documents

12.12 EXAMPLE THEMATIC INTERVIEW ANALYSIS (CODING)

Topic: *How the shared internal audit service demonstrates integrity*

Questions relating to the EQA standard 1112 and the emerging issue of too much time spent on other services (red RAG rating on the EQA) - Following the initial question of:

"I understand that the Head of the Shared Service has other service responsibilities."

PSIAS (2017) 1112 Chief Audit Executive Roles Beyond Internal Auditing
Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity

Question:	So how much time is given to the internal audit service? *(from the transcripts of the semi-structured interviews in cycle 1)*	"Time" coding
Participant 1	… spend about… as little time as possible on this as the other services are struggling..	The areas highlighted in yellow show time coding. From the 19 participants asked about the other work done 12 were able to give an indication of "time" spent on internal audit – however this is very low percentages of time being mentioned therefore results in a red RAG
Participant 2	He gives advice when I ask but normally I go to XXXX to get reports signed off. He is mainly involved with the corporate governance and risk management stuff.	
Participant 3	As little as possible it seems to me.	
Participant 4	I don't know about 5 %	
Participant 5	He's not around much on my site but he is on the phone. He goes to the committee so he must spend some time on it.	
Participant 6	I go to XXXX for my support as XXXX is never around.	
Participant 7	Somewhere from 0 to 10% of his time I suppose	
Participant 8	About 5% it think	

Participant 9	I've no idea, I do see him about though and he goes to the committees I think	
Participant 10	He's always here [host site] but I think he is <mark>spending most of his time with the risk and governance</mark> lot	
Participant 11	Don't know	
Participant 12	He is about at [Host site] but he is rarely at the other sites I cover, so perhaps <mark>about 10% of his time is on audit stuff</mark>	
Participant 13	I don't really know…I've just started so I can't really say	
Participant 14	<mark>He's got a lot of time for me but I don't think he has all that much time anyway</mark>.	
Participant 15	I don't see him much…I am out with XXXX most of the time	
Participant 16	He seems to be busy but not sure if that is audit or other stuff	
Participant 18	I think <mark>most of his time is with risk, so about 5 to 10</mark> %	
Participant 19	Can't really comment as I don't really get involved at that level	

12.13 THE COLLABORATIVE BUSINESS MANAGEMENT FRAMEWORK AND INTERVIEW CODING

How the collaborative business management framework maps to the coding, layering and categorisation of the interview results.

Interview Coding/Categories Layered & Cross Referenced to CBMF

Collaborative Business Management Framework

Participant reference number	Vision and Objectives	Governance and Model	Service and Quality	Exit and Entry Strategy	Risk and Performance Management	Internal Audit	Counter Fraud	ICT Audit	Specialist Services	Marketing	Operations	Financial Management	HRM
1	✓	✓	✓			✓	✓	✓				✓	
2			✓	✓		✓						✓	
3			✓		✓	✓				✓			
4	✓	✓	✓			✓	✓		✓	✓	✓	✓	
5			✓			✓			✓	✓			✓
6	✓	✓	✓	✓		✓			✓		✓		✓
7		✓			✓	✓				✓	✓		
8			✓			✓	✓						✓
9		✓			✓	✓				✓		✓	✓
10	✓	✓	✓			✓	✓		✓			✓	✓
11	✓		✓	✓	✓	✓							✓
12	✓	✓	✓			✓					✓		✓
13					✓	✓					✓		
14	✓		✓			✓		✓	✓		✓		
15		✓			✓	✓					✓		
16		✓	✓			✓							
17			✓			✓	✓				✓		✓
18			✓			✓		✓					
19			✓			✓		✓					✓
20						✓		✓				✓	✓
21	✓		✓			✓	✓	✓	✓				
22		✓	✓			✓					✓	✓	
23	✓	✓	✓			✓					✓		
24	✓		✓	✓		✓		✓				✓	
25	✓		✓	✓	✓	✓		✓		✓			
26	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
27	✓		✓			✓	✓	✓					

12.14 EXAMPLE EQA RESULT TABLE PRESENTATION

Standards Check list

RAG ANALYSIS

Definition and Code of Ethics

		Generally Conforms	Partially Conforms	Does Not Conform
	Definition of Internal Auditing			
Reference	Code of Ethics			
1	Integrity			
2	Objectivity			
3	Confidentiality			
4	Competence			

Attribute Standards

		Generally Conforms	Partially Conforms	Does Not Conform
Reference	Attribute Standards			
1000	Purpose, Authority and Responsibility			
1010	Recognising Mandatory Guidance in the Internal Audit Charter			
1100	Independence and Objectivity			
1110	Organisational Independence			
1111	Direct Interaction with the Board			
1112	Chief Audit Executive Roles Beyond Internal Auditing			
1120	Individual Objectivity			
1130	Impairments to Independence or Objectivity			

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Attribute Standards

Reference	Attribute Standards	Generally Conforms	Partially Conforms	Does Not Conform
1200	Proficiency and Due Professional Care (The sum of Standards 1210-1230)		■	
1210	Proficiency		■	
1220	Due Professional Care	■		
1230	Continuing Professional Development			■
1300	Quality Assurance and Improvement Programme (The sum of Standards 1310-1320)	■		
1310	Requirements of the Quality Assurance and Improvement Programme	■		
1311	Internal Assessments	■		
1312	External Assessments	■		
1320	Reporting on the Quality Assurance and Improvement Programme	■		
1321	Use of Conforms with the International Standards for the Professional Practice of Internal Auditing	■		
1322	Disclosure of Non-conformance	■		

Performance Standards

Reference	Performance Standards	Generally Conforms	Partially Conforms	Does Not Conform
2000	Managing the Internal Audit Activity (Sum total of Standards 2010 – 2060)		■	
2010	Planning	■		
2020	Communication and Approval	■		
2030	Resource Management		■	
2040	Policies and Procedures		■	
2050	Coordination and Reliance			■
2060	Reporting to Senior Management and the Board	■		
2070	External Service Provider and Organisational Responsibility for Internal Audit	■		

Performance Standards

Reference	Performance Standards	Generally Conforms	Partially Conforms	Does Not Conform
2100	Nature of Work (Sum of Standards 2110 – 2130)	■		
2110	Governance	■		
2120	Risk Management		■	
2130	Control	■		
2200	Engagement Planning (Sum of Standards 2201-2240)	■		
2201	Planning Considerations	■		
2210	Engagement Objectives	■		
2220	Engagement Scope	■		
2230	Engagement Resource Allocation	■		
2240	Engagement Work Programme	■		

Performance Standards

Reference	Performance Standards	Generally Conforms	Partially Conforms	Does Not Conform
2300	Performing the Engagement (The sum of *Standards* 2300-2340)	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information			
2340	Engagement Supervision	✓		

Performance Standards

| Reference	Performance Standards	Generally Conforms	Partially Conforms	Does Not Conform
2400	Communicating Results (Sum of *Standards* 2410-2440)	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		
2421	Errors and Omissions	✓		
2430	Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	✓		
2431	Engagement Disclosure of Non-conformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions		✓	
2500	Monitoring Progress	✓		
2600	Resolution of Senior Management s Acceptance of Risks	✓		

12.15EXAMPLE LAYERING LEADING TO BROAD THEMATIC ANALYSIS

Set out below is an example of the layering that was used to identify the "Counter Fraud" aspect of the collaborative business management framework as it related to the share internal audit service
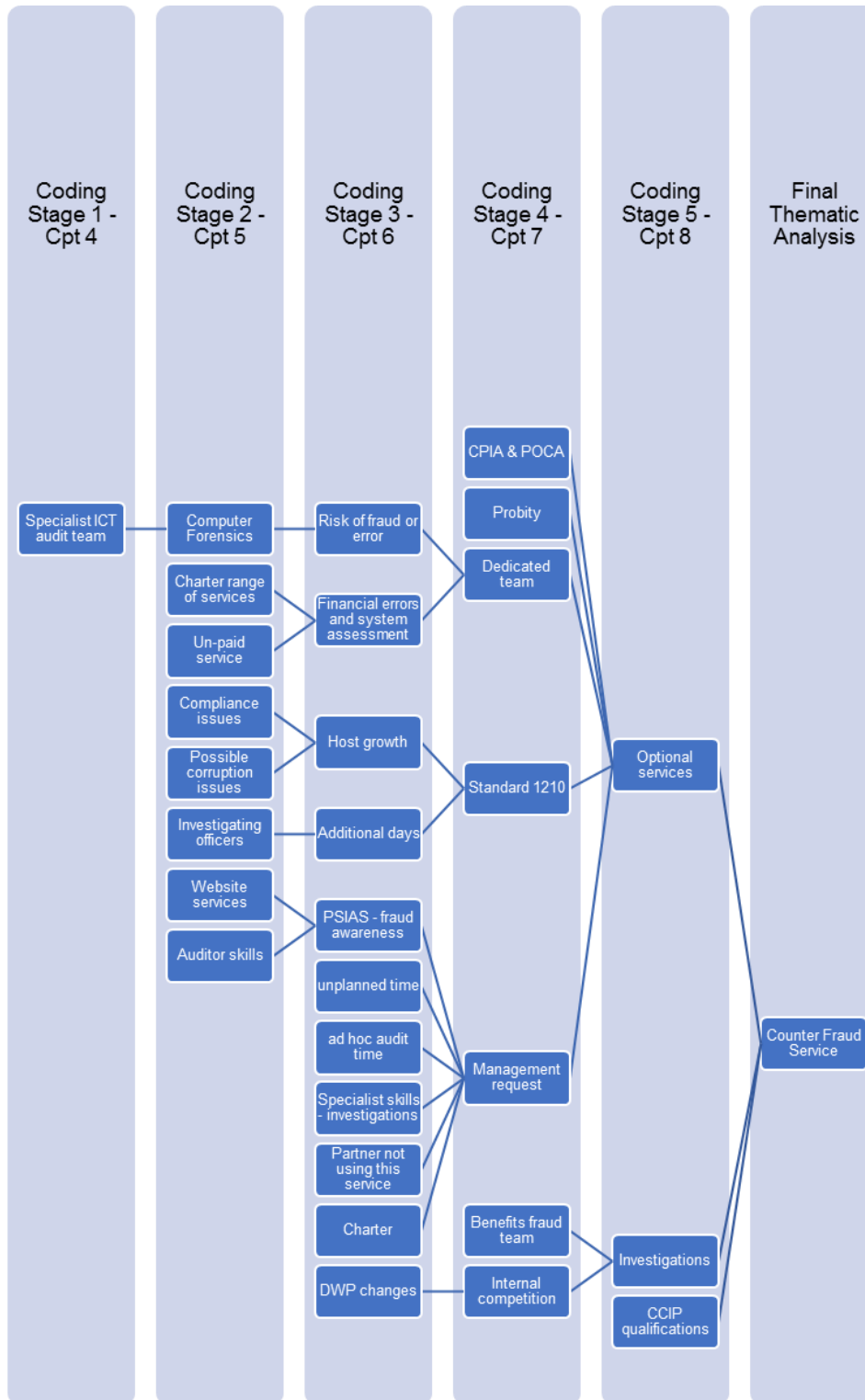
12.16 EXAMPLE PRESENTATION OF TEAM RESPONSE TO VISION AND OBJECTIVES

The Team Focus Group delivered a new set of objectives that were presented to the operations group and the Board.
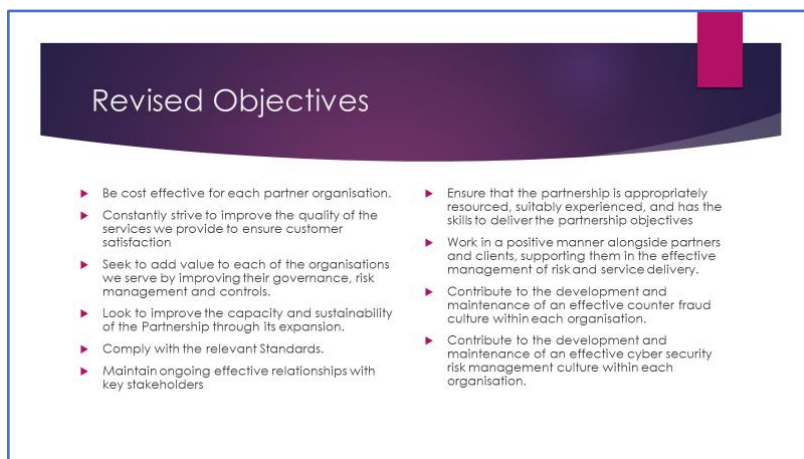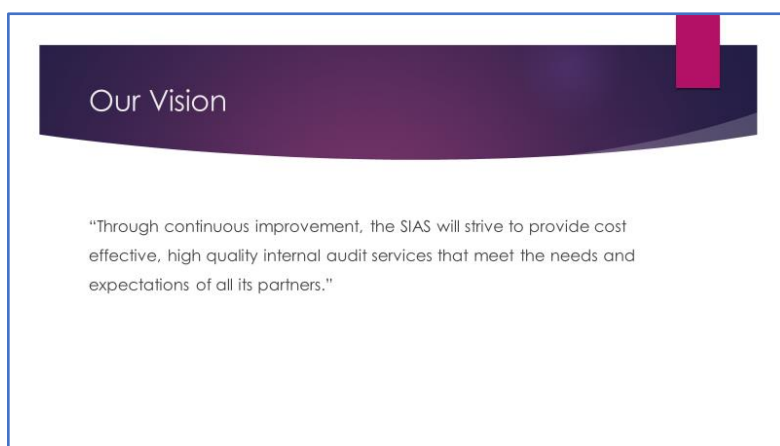
12.17 EXTRACT OF THE EQA RESULTS REASSESSMENT

The table below show the standard, RAG, Initial Assessment, Progress and Outstanding

1200	Proficiency and Due Professional Care (The sum of *Standards* 1210-1230)		⇄		Developing and maintaining core competencies [Att 1200 series e.g. CPD – 1230] Job descriptions – too low in expectation [Att 1200] Flat structure – no succession planning or development – Note institutionalisation [Att 1120, 1200 & Perf 2030]	**The Change Programme has identified a series of services that SIAS can provide and through specific workstreams such elements as job description and structural needs are being addressed. However, 'Agile' auditing techniques are enabling knowledge share and leadership development.**	**Completion of the Change programme will address the elements still outstanding, such as, identifying core competency and skill requirements.**
1210	Proficiency		⇄		Knowledge gap identification – [Att 1210 – resourcing from outside the partnership team]		
1230	Continuing Professional Development		⇄		Professional designations and CPD failing [att – 1210]	**All staff professional memberships have been assessed and where necessary reinstated with the relevant institute. All staff have gained CPD hours from the change programme (for example, participation in 'Agile') and through other training activities.**	**Ongoing maintenance of CPD will need to be checked and the development requirements monitored by Leadership Team to ensure the skills develop in line with objectives and those of the individual.**

12.18 EXAMPLE GATE REVIEW TEMPLATE

CHANGE PROGRAMME
GATE REVIEW
Senior Officer Group

Date: 4th September 2017
Meeting Room A,
Attendees:

Chair of the Gate Review:			
Gate Review Questions:	Agreed	Not Agreed	Comment
The objective of this document is to provide a governance framework to enable SIAS to deliver on the set vision and objectives.			
THE DOCUMENT:			
The document clearly sets out how the governance of SIAS will operate and enable the various elements to operate to deliver the vision.			
Is the document suitably future proofed.			
Is it going to enable SIAS to deliver the change programme.			
Does the document clearly set out expectations of each group e.g. expected reports and outputs.			

Overall Gate Result:

Green: Document meets with the gate requirements, no further actions required

Amber: Document meets with the gate requirements, subject to further actions

Red: Document does not meet the gate requirements and will need a substantial re-working and be brought to another gate review

[ACTIONS/DATES]

 [NEW GATE REVIEW DATE]

Sign off:

All voting members and Chair:

NAME	SIGNATURE

12.19 PUBLICATIONS AND RESEARCHER BIOGRAPHY

Publications:

Books

- Milford R., Cooke N. and Cox L. (2020) Collaborative Accreditation Review Assessor Handbook, Local Government Association supported shared service scheme, Milford Research Publications

- Milford R. (2019) Collaborative Business Management Overview, Module 1, Institute of Leadership and Management Approved Programme, Milford Research Publications

- Milford R. (2019) Collaborative Leadership in the Day-to-Day Business, Module 2, Institute of Leadership and Management Approved Programme, Milford Research Publications

- Milford R. (2019) HRM and ICT in Collaboration Businesses, Module 3, Institute of Leadership and Management Approved Programme, Milford Research Publications

- Milford R. (2019) Financial Management and Marketing in Collaboration Businesses, Module 4, Institute of Leadership and Management Approved Programme, Milford Research Publications

- Milford R. (2019) Operations and Change Management for Collaboration Businesses, Module 5, Institute of Leadership and Management Approved Programme, Milford Research Publications

- Milford R, Macdonald-Wallace D. and Gatt E. (2017) *Planning the Governance, Risk Management and Control of Collaboration Projects Toolkit*, Shared Service Architects Publications

Articles

- Milford, R contributor for the Institute of Leadership and Management (2018) Collaboration Getting it Right Guidance Cards [online] available from: file:///C:/Users/Milford/Downloads/Collaboration%20-%20Getting%20it%20right.pdf

- Milford, R (2016) "Upstream Collaboration vs Mirror Collaboration" *Collaborative Transformation Journal* Vol.2 Ed.3

- Milford, R (2015) "Who gets the vote?" *Collaborative Transformation Journal* Vol.2 Ed.2

- Milford, R (2013) Internal Auditing in a Shared Service World. *Audit Viewpoint* (114). pp. 12-18.

Conferences

- Milford R (2017). "*The evolution and devolution of governance within the shared internal audit services in local government: the story so far*", Presentation at the MORS Research Group Research Seminar. Representing the MORS Research Group, date, University of Worcester, UK.

- Milford, R (2015*) Internal Audit: The Vanguard of Change*. In: the Chartered Institute of Internal Auditors South West Region Conference, 15th May 2015.

- Milford, R (2015) *Bridging the Gap*. In: the Chartered Institute of Internal Auditors South West Region Event, 15th April 2015.

- Milford, R (2014) *Governance, Risk and Compliance* – Strategies, challenges and rewards for setting up achievable goals and cross functional collaboration. European GRC Summit 2014, *Panellist expert*, available from https://www.youtube.com/watch?v=xFKRkLB97JU [accessed 16th May 2016],

- Milford, R (2014) *Audit and Assurance over Outsourced and Shared Services*. In: CIPFA Procurement & Contract Audit Update Seminar, 17th September 2014.

- Milford, R (2014) *Auditing in the shared service world*. In: the Chartered Institute of Internal Auditors International Conference, 6th July 2014

- Milford, R (2013) *Auditing in the Shared Service World*. In: CIPFA in the Midlands Audit Training Seminars (CATS), 2nd October 2013. (Unpublished)

- Milford, R (2013) *Auditing in the Shared Service World*. University of Worcester Post-Graduate Research Conference July 2013, available from http://worcestergrsconference.files.wordpress.com/2013/07/rob-milford.pptx

Robert Milford Biography

Rob Milford MA PGDip PGCert CFIIA CMgr FCMI CIA QIAL CTArcf AFHEA FInstLM is the Managing Director and Founder of Milford Research & Consultancy Ltd and an academic practitioner working in the field of collaborative assurance, governance, risk and control.

He is currently a lecturer in leadership at Coventry University and works with public sector clients to develop their internal audit, risk management and collaborative services.

Rob has been an internal auditor for over 18 years, including 8 years as the head of internal audit. He also designed, built and operated his own internal audit shared service in local government for multiple partners, and advised on many other programmes for collaborative transformation. He is vastly experienced in the assurance, governance and risk problems encountered in collaborative working.

He has completed this PhD thesis in "An Investigation of the Governance within a Shared Internal Audit Service in Local Government" which includes real life action based research with a collaborative organisation. Through this research and his own practical experiences he

has identified some of the fundamental problems associated with shared services and has developed actions to help remedy them.

His philosophy is that of working in partnership with the individuals and organisations to *Research, Consult, Develop, Deliver and Reflect* on problems and solutions by bringing a fusion of academic, professional and practical know-how into the room. He believes in providing you with the skills to solve the problem of today but also how to manage the issues of the future in the collaborative world.

12.20 ETHICS EXAMPLE TEMPLATE

CONSENT FORM

Full title of Project: The evolution and devolution of governance in shared internal audit services in Local Government

Name, position and contact address of Researcher:

Robert Milford, PhD Researcher, Worcester Business School, University of Worcester, City Campus, Castle Street, Worcester, WR1 3AS. Email: r.milford@worc.ac.uk

Please tick box

I confirm that I have read and understand the information sheet for the above study and have had the opportunity to ask questions.

☐

I understand that participation is voluntary and that I am free to withdraw at any time, without giving reason.

☐

I agree, on behalf of the case study site, to take part in the above study.

☐

I agree that my data gathered in this study may be stored (after it has been anonymised) in a specialist data centre and may be used for future research.

☐

I agree to the use of anonymised quotes in publications

☐

_____   _____   _____

Name of interviewee   Date   Signature

Robert Milford

_____   _____   _____

Name of Researcher   Date   Signature

12.21 ETHICS EXAMPLE INFORMATION SHEET

Study title: 'The evolution and devolution of governance in shared internal audit services in Local Government audit'

You are being invited to take part in a research study. This will involve a simple semi-structured interview process with Robert Milford part time PhD student of the University of Worcester. Before you decide whether or not to take part, it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully.

What is the purpose of the research?

The research is investigating the evolution of a shared internal audit service using an action research approach in a local government context. The study seeks to understand the challenges faced by these shared services and develop and test actions to manage these challenges. The research is being undertaken over a period of 1 year.

Why have you been invited to participate?

You have been invited to take part because initial research has identified that you may have important experiences that can inform the research. This is not a study intended to evaluate or assess your individual performance, merely to gain your perspective of the changes across the local government environment in relation to shared services and internal audit. The research is looking to cover perspectives from those involved in shared services.

Do we have to take part?

Taking part in the research is entirely voluntary and you may choose not to participate. If you decide to participate, you can still withdraw at anytime and without giving a reason. However, you may find the process interesting, and the research is intended to be of benefit to both your organisation and the wider local government agenda.

What will happen if we take part?

You will be asked to discuss your experiences of shared internal audit services within the local government context, the role of internal audit, and your views on any changes over the last few years. You will also be asked to consider the challenges faced and developments for the future based on your experiences.

What are the possible benefits of taking part?

The action research and interviews will help in gaining an understanding of the shared internal audit service developments in local government plus enhance understanding of the role of internal audit in this context. It will help inform local government and professional bodies in the role of internal audit and use in the context of shared services and its implications, which should ensure future developments are more effective.

Will what we say in this study be kept confidential?

All information collected about the individuals and organisation will be kept strictly confidential: other people (including managers in your organisation), will not have direct access to interview notes, tape recordings or transcripts. Where necessary to protect your

privacy, any comments you make will be anonymised in any research reports. Data generated by the study will be retained in accordance with University of Worcester's policy on Academic Integrity (subject to legal limitations). This means that all data generated during the research will be kept securely in paper or electronic form and password protected.

What should we do if we want to take part?

All you have to do is to agree to become an interviewee and sign the consent form

What will happen to the results of the research study?

The specific results of the study will be part of the thesis presented for the award of a Doctorate in Philosophy at the University of Worcester. In addition, the data may support academic papers published in journals or presented at conferences.

Who is organising and funding the research?

The research is being conducted by Robert Milford (PhD student at University of Worcester). Milford Research and Consultancy Limited is funding the project.

Who has reviewed the study?

The research has been approved by the Research Ethics Committee and Research Degrees Board of the University of Worcester.

Contact for Further Information

Robert Milford (robertmilford@milfordresearch.co.uk).

Should you have any concerns about the way in which the study has been conducted, you should contact the Director of Studies Dr Abdulmatten Taroun (a.taroun@worc.ac.uk) at University of Worcester Business School.

Thank you for taking part.

Robert Milford

END