

Making sense of the internal audit function: towards internal controls integration and organizational learning

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Abstract

The purpose of this article is to contribute to the ongoing debate on the internal audit function in the public sector, by discussing the role that this function can play in addressing the following issues: (i) the complex and fragmented structure of internal control systems resulting from the progressive layering of multiple audit bodies and assurance providers with different standards and tools, and possible overlapping competences and activities, and (ii) the emphasis of internal controls on monitoring, which has become an end in itself, with no attention to value creation. To this end, the article examines the evidence from a research project aimed at improving the internal control system of public healthcare organizations in an Italian Region (i.e., Emilia-Romagna) which has long since reflected on public audit issues. Findings shed light on the activities and tools developed and implemented by the regional audit team and the internal auditors. The article provides some significant research contribution in that, drawing on the theoretical lens provided by Miller and Power (2013), it reveals how the internal audit function can improve integration and coordination within the internal control system and foster a risk management culture that enables organizational learning.

Keywords: internal audit, internal control system, risk management, internal controls integration, organizational learning

1. Introduction

Public audit has a long history. Nevertheless, the spread of the audit mentality started in the 1980s. Since then, the definition of audit itself has progressively expanded from the traditional financial and compliance audit to “a multi-directional journey away from its classical areas of application” (Schillemans et al., 2018, p. 531), thus encompassing a plurality of very different practices (Ferry et al., 2022a; Hay & Cordery, 2018; 2021; Mattei et al. 2021; Monfardini & von Maravic, 2019; Rana et al., 2022). An historical and theoretical explanation to the “audit explosion” has been provided drawing on concepts from New Public Management (NPM) and New Public Governance (NPG) reforms (Mattei et al. 2021), as well as by means of Power’s theorization of the “audit society” (Power, 1994; 1996; 1997; 2021). In his seminal works, Power depicted the “audit society” as characterized not only by a quantitative growth in auditing, but also by a “qualitative shift: the spread of a distinct mentality of administrative control, a persuasive logic which has a life over and above specific practices. One crucial aspect of this is that many more individuals and organizations are coming to think of themselves as subjects of audit” (Power, 1994, p. 4). Power (1997) recognized a transformation towards other evaluation, inspection, and control systems which do not substitute for traditional financial and compliance auditing (Guthrie, 1992), but rather supplement them, extending audit scope towards public sector performance, including value-for-money, efficiency, and effectiveness (Cordery & Hay, 2021; Pollit, 2003). Such new tasks inevitably required new oversight bodies and new assurance providers with specific competencies.

Power described the “audit society” as neurotic, affected by a sort of obsession with control and monitoring. The audit explosion usually took place through sedimentation, with new auditing mechanisms and bodies being layered on pre-existing ones. Legislation and regulation on public audit, indeed, were unsystematic and lacked a comprehensive approach to risk management, thus producing a fragmented and complex system (Ferry & Ahrens, 2022; Fadda & Paglietti, 2016; Power, 1994) with multiple internal and external oversight bodies and assurance providers, as well as typical private audit solutions (Ferry et al., 2022a). To further complicate this architecture, auditing bodies may be in charge of a plurality of tasks, thus increasing “the total amount of auditing carried out, and also the possibility of overlapping competences and activities”, not to mention the coexistence of different standards of reporting and auditing (Monfardini & von Maravic, 2019, p. 147). Consequently, coordination and integration of controls has become a relevant issue.

Counterintuitively, the aforementioned quantitative growth and qualitative transformation have not always lived up to expectations, thus not necessarily leading to better auditing. This can be ascribed to an overlap between “the demand for things to be auditable and for things to be seen to be auditable” (Power, 1996, p. 312). Ritualistic and self-perpetuating auditing is, therefore, the product of a means-end decoupling, where control and monitoring become ends in themselves (Bromley & Powell, 2012). Strictly connected to this, public audit has been criticized for having easily turned into a legal exercise, generating an illusory sense of security (Power, 1997; 2009). Within such a defensive approach, based on satisfaction of legal requirements

and rule-based compliance, it is difficult to stimulate practitioners' enthusiasm and engagement – and, therefore, create opportunities for organizational learning (Vinnari & Skærbaek, 2014) and value creation.

The purpose of this article is to contribute to the ongoing debate on public audit by discussing the role that the internal audit function can play in addressing the following issues: (i) the complex and fragmented structure of internal control systems resulting from the progressive layering of multiple audit bodies and assurance providers with different standards and tools, and possible overlapping competences and activities, and (ii) the emphasis of internal controls on monitoring, which has become an end in itself, with no attention to value creation. The internal audit function is particularly well suited to fulfil this role as it provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management, including internal controls, thus playing a third line role¹ (IIA, 2013; 2017; 2020; INTOSAI & IAA, 2022; Bantleon et al., 2021; Eulerich, 2021; Roussy & Rodrigue, 2018).

The article presents the findings of a research project aimed at improving the internal control system of public healthcare organizations in an Italian Region (i.e., Emilia-Romagna) which has long since deeply reflected on public audit issues. The article sheds light on the activities and tools developed and implemented by the regional audit team and the internal auditors. To tease out the theoretical contributions, these empirical elements are analysed through the theoretical lens provided by Miller and Power (2013).

The article adds to the growing literature on the internal audit function in the public sector, focusing on its relationship with internal control systems and risk management. In particular, it puts forward two themes: one corresponding to improving integration and coordination within the internal control system, and another to learning and evolving from risk. With reference to the former, the article reveals how the internal audit function, thanks to territorializing and mediating, can contribute to understanding and enhancing interdependencies and interconnections among different organizational units and assurance providers (with different competences, different organizational positions, and possibly conflicting interests), thus responding to the need for integration and coordination within the internal control system. On that regard, an increasing importance has been attributed by International Professional Standards to combined assurance², as a way to minimize overlap and streamline reporting, improve risk management, and promote greater confidence among assurance providers. Secondly, the article points out how the internal audit function, thanks to adjudicating and subjectivizing, can foster a risk management culture that enables organizational learning and is not limited to preventing adverse events from occurring. In this way, it also provides a possible response to those warning against the risk that internal audit may increase red tape, without adding value (Roussy, 2022).

¹ The IIA's Three Lines Model (2020), available at: <https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>

² IIA Standard 2050: Coordination and Reliance. For details on combined assurance see also: <https://www.theiia.org/globalassets/site/resources/knowledge-centers/executive/executive-knowledge-brief/documents/ii-a-executive-kb---combined-assurance.pdf>

The remainder of the article is structured as follows. Section 2 offers an overview of the literature on internal audit, by considering its relationship with risk management and internal control systems, and highlights the relevant research gaps. Section 3 provides the theoretical framework. Section 4 sets out the methodology in terms of research setting and research methods. Section 5 presents the empirical elements and, in particular, the activities and tools developed and implemented by the regional audit team and the internal auditors. Section 6 discusses the findings using Miller and Power's (2013) theoretical lens. It also concludes the article by raising implications for theory and practice, acknowledging the limitations of the study, and suggesting future research paths.

2. Internal audit, risk management and internal control system

The internal audit function has been introduced in several public organizations. For the purpose of this study, it is important to underline that Internal Audit is required to play a third line role in the internal control system³. More specifically it should be devoted to providing assurance and advice on the adequacy and effectiveness of governance and risk management, including internal controls (IIA, 2013; 2020; INTOSAI & IAA, 2022; Spira & Page, 2003), complying with Global Internal Audit Standards⁴. These Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. The internal audit function in the public sector has been introduced with a wider remit than the private sector. It has long since expanded its role, shifting from a traditional compliance, financial, and accounting watchdog to a value-adding partner which supports public entities in achieving their organizational objectives (e.g., Ferry et al., 2017; Langella et al., 2023; Roussy, 2013; White et al., 2020). An increasing number of responsibilities have been progressively attributed to the internal audit function, so much so that Roussy and Perron (2018) defined it as a ‘jack of all trades’, dedicated to a multiplicity of complex tasks and (official, but also unofficial) activities and acting a plurality of roles, ranging from protective shield, keeper of secrets, advisor of organizational performance, and guide (Roussy, 2013).

Despite the relevance of the topic, only a limited number of studies have analysed the relationship between internal audit, internal control system, and risk management in the public sector. In a recent literature review, Nerantzidis et al. (2022) highlighted that internal audit value-adding role can be undermined by a weak internal control system. This is particularly critical in such a context where the architecture of control mechanisms have developed unsystematically throughout a progressive stratification, thus producing a fragmented and complex system, consisting of multiple internal but also external oversight bodies and assurance providers, as

³ For further details on the three lines model, please see footnote number 1. The definition for “internal audit” is provided in the Global Internal Audit Standards, published on January 9, 2024, and available at: https://www.theiia.org/globalassets/site/standards/editable-versions/globalinternalauditstandards_2024january9_editable.pdf

⁴ The Standards are set according to a due process followed by the International Internal Audit Standards Board and overseen by the IPPF Oversight Council. The more recent Global Internal Audit Standards were released on January 9, 2024 and will become effective January 9, 2025. The unique aspects of internal audit in the public sector (in terms of governance, organizational and funding structures) required the International Internal Audit Standards Board to provide specific recommendations on the application of the Global Standards to the public sector.

well as typical private audit solutions, with overlapping competences and activities (Fadda & Paglietti, 2016; Ferry & Ahrens, 2022; Ferry et al., 2022a; Power, 1994; Monfardini & von Maravic, 2019). Prior literature acknowledged the issue by considering the relationship between internal and external audit and encouraged the development of a deeper academic debate (Monfardini & von Maravic, 2019; Roussy, 2013; 2022). In that regard, Roussy (2022, p. 349) explicitly identified the topic as a promising research avenue and highlighted the potential complementarity of internal and external audit. Indeed, the introduction, in the public sector, of the internal audit function should not “increase red tape by simply adding another layer of control without adding value”.

This challenge is relevant also in terms of the relationship between internal audit and other internal monitoring bodies, especially considering the rapid expansion of specialized assurance providers playing a second line role (IIA, 2020) and each following specific rules and standards (Bracci et al., 2022). On that regard, it is worth recalling that the Institute of Internal Auditors has increasingly encouraged combined assurance, as a way to improve knowledge transfer, eliminate overlapping efforts, and focus on more significant risks (Bantleon et al., 2021; Decaux & Sarens, 2015). By embracing a risk management perspective, Coetzee (2016, p. 354) pointed out the need to examine “the level of coordination practices between risk management structures and the Internal Audit Function”. At least in principle, internal audit and risk management structures should communicate extensively and constantly update each other on potential new risks, internal control deficiencies or loss events to avoid fragmentation and inefficiencies. However, empirical evidence on this is scarce. Hence the need to further investigate how internal audit can contribute to a more integrated and coordinated internal control system, fostering a holistic approach to risk management (as opposed to a silo-based one).

Furthermore, the literature suggested that internal audit can easily turn into a legal and compliance exercise (Roussy, 2022), generating a superficial system that results in the costly “risk management of nothing” (Power, 2009, p. 853). This is especially true when new risk management structures and control systems clash with pre-existing and well-established organizational rules, norms, procedures, practices, and culture (Barrett, 2014; Bracci et al., 2021; Carrel, 2010; Crawford e Stein, 2005; Hinna et al., 2018; Vinnari & Skærbaek, 2014). If that is the case, a decoupling issue may arise. What is peculiar in the public sector with reference to this defensive approach is that “learning and evolving from risk cannot occur because, by definition, failure is normatively negative” (Flemig et al., 2016, p. 430). Moreover, risks tend to be seen as threats rather than opportunities that lead to gains or value creation. As a natural consequence, risk management is driven by a compliance-oriented approach rather than a forward-looking performance perspective (Azim & Nahar, 2022; Barrett, 2022; Gong et al., 2022; Narayan & Kommunuri, 2022). Hence the importance of understanding how internal audit can spread a risk management culture that allows organizational learning (as opposed to failure avoidance), considering both the offensive and defensive approaches⁵ of managing risks (i.e., value creation and value protection).

⁵ For a deeper examination of the offensive and defensive aspects see: IIA, 2020; Eulerich, 2021.

3. Theoretical framework

This study draws on Miller and Power's (2013) theoretical lens, which provides a suitable framework for "illuminat[ing] the substance of public audit work", as highlighted by Heald (2018, p. 332). In their seminal work, Miller and Power suggested that "accounting is a mechanism by which the economization of organizational life becomes elaborated and institutionalized" (*ibid*, p. 556). They identified four interacting roles of accounting – namely, territorializing, mediating, adjudicating, and subjectivizing – which offer a useful theoretical conceptualization to further investigate the "accounting complex".

Territorializing is defined as "the recursive construction of the calculable spaces that actors inhabit within organizations and society" (*ibid*, p. 592). By delineating boundaries – be they physically or abstractly conceived –, this role determines what is recognized and measured. For instance, "economic events not recognized in traditional cash-based accounting systems are captured routinely within accrual-based financial reporting systems" (Heald & Hodges, 2018, p. 797). For this reason, territorializing is commonly interpreted as the precondition for stronger application of the other roles (Heald & Hodges, 2015).

Mediating refers to the fact that accounting "links up different actors with a common narrative and may constitute a network of relations within and beyond the boundaries of the enterprise" (Miller & Power, 2013, p. 579). This role has been explained by means of the mediation among different environments, perspectives, or interests. Accounting, indeed, allows comparability, mediating among different rules and practices in the construction of financial reports (Heald & Hodges, 2018), also between the public and the private sectors (Bisogno et al., 2019). At the same time, accounting may provide the basis for reconciliation of stakeholders' competing interests (Heald & Hodges, 2015).

Adjudicating deals with "performance measurement as a basis for evaluation and accountability" and "the allocation of responsibility" (Miller & Power, 2013, p. 581). In other words, accounting provides measurement bases on which the performance of calculable spaces can be evaluated, thus defining criteria of "success" and "failure" (Heald & Hodges, 2015; 2018).

Finally, subjectivizing corresponds to "the possibility of being subject to regulation or control by another", while remaining "free to choose, and indeed obliged to choose, albeit often by reference to financial norms or standards" (Miller & Power, 2013, p. 561). This externally-set regulation or control – especially when perceived as distant – can be resisted by various behavioural responses in order to justify decisions and performance or to circumvent rules and standards (Heald & Hodges, 2015; 2018; Heald & Steel, 2018). It is not surprising that "territorializing, mediating, and adjudicating are strategies and technologies of representing and intervening, while subjectivizing pertains to the domain of meaning" (Hasselbladh & Bejerot, 2020, p. 30).

Miller and Power (*ibid*, p. 586) underlined that accounting is a fluid concept, which encompasses auditing and, more recently, also issues in risk management and internal control. Auditing, in particular, is strongly linked to the adjudicating and subjectivizing roles. Adjudicating is explicitly associated with the "audit explosion"

(Power, 1994; 1997), as accountability means making things auditable. As for subjectivizing, Miller and Power stated that the audit society “is essentially a society of auditees, organizational agents whose attention and working practices are shaped by the possibility of audit and the need to create trails of evidence of proper performance” (*ibid*, p. 585).

Heald (2018) specifically addressed the under-theorization of public auditing in academic literature and, by integrating calibration into the process of economization, showed the applicability of Miller and Power’s framework to recent developments in public audit. Public audit plays an enforcement role within the calculable spaces resulting from territorializing. It also plays a mediating role by “establishing a common language for communicating the bases for adjudication” (*ibid*, p. 331). Adjudicating and subjectivizing are the primary roles of public audit, with the former being a traditional audit function and contributing to “the competitive tension around the interpretation of government performance” (*ibid*, p. 331). With reference to subjectivizing, which derives from the audit expansion, the author also acknowledged some issues in that it introduces “self-review threat” and questions “independence in appearance” (*ibid*, p. 331). More recently, Ferry et al. (2022b) drew on Miller and Power (2013) to assess policy initiatives aimed at increasing accountability in local governments in England. In particular, they examined the construction of auditable space, the relationship established within that space, performance evaluation, and central government’s attempt to subjectivize. They found failures due to incomplete territorialization and mediation which resulted in adjudication of the governance of the overall system instead of individual local authorities.

4. Methodology

4.1 Research setting

This study focuses on the Italian National Health Service (INHS). The INHS is organized into three tiers: the Central Government at the top, which retains ultimate responsibility for ensuring that each Regional Health Service (RHS) receives sufficient funding and provides the nationally defined ‘essential levels of care’ (Torbica & Fattore, 2005); twenty Regional Governments in between, which are commonly interpreted as the ‘parent company’ of the relevant RHS (Cantarelli et al., 2017); and about two hundred public healthcare organizations (local health authorities and public hospitals) at the bottom.

Generally speaking, public sector audit in the healthcare sector is particularly relevant, especially in a time of crisis (Cordery & Hay, 2022) as also pointed out in Roussy’s (2022) directions for future research. With specific reference to the Italian public sector, the INHS provides an interesting research setting because it is the component that most extensively experienced managerial logics and techniques (Ongaro et al., 2013; Anessi-Pessina & Cantù, 2016). Starting from the 1990s, accrual-based financial accounting and management accounting were introduced in public healthcare organizations. With specific reference to auditing systems, new oversight bodies were established (e.g., Board of Statutory Auditors) – some of which were typical of the private sector and, thus, partially adapted to reflect public sector peculiarities (Langella et al., 2021). Several specialized assurance providers (e.g., Clinical Risk Management, Quality Management, Anticorruption

Officer, Data Protection Officer) were introduced and developed, each following specific rules and standards, according to a silo-based risk management approach. All the above resulted in a progressive layering of controls, with a lack of coordination and systematization.

This study specifically analyses the Emilia-Romagna RHS. Emilia-Romagna ranks amongst the top regions in Italy for quality of life and ranks first in Italy and third in Europe for the quality of its healthcare services, thanks to a strong system of public, territorial and community welfare⁶. It is also one of those that most extensively adopted the managerial paradigm (Anessi & Cantù, 2016). The RHS governance model is characterized by a collaborative culture and a widespread leadership attributed to the Regional Healthcare Department, which is responsible for healthcare planning and coordination, and public healthcare organizations, which have strategic and managerial autonomy (Cantarelli et al., 2017).

Remarkably, the Region strongly contributed to a deep reflection upon internal audit (Langella et al., 2023). In accordance with regional law 9/2018, internal audit functions were introduced within each public healthcare organization. At the regional level, an audit team was established which is composed by internal auditors and other key assurance providers from individual healthcare organizations. The regional audit team is responsible for coordinating internal auditors' activities and for promoting education and training initiatives, without undermining public healthcare organizations' autonomy.

The first activity carried out by the regional audit team was a mapping of the internal control system, focusing on the second line roles (i.e., Management Control, Strategic Control, Anticorruption Officer, Anti-Money Laundering Officer, Clinical Risk Management, Quality Management, Data Protection Officer, Cyber Security Officer, Health and Safety Manager) in order to appreciate the different perspectives adopted by assurance providers.

The regional audit team then asked all internal auditors to perform an audit on the *intramoenia* process in their organizations. The *intramoenia* process refers to the possibility, for NHS doctors, to see private outpatients (for a specialist visit) or to treat private inpatients within public hospitals. *Intramoenia* activities represent an iconic process which involves several operating units across the organization, with administrative, medical and health staff. The process requires a constant balance of the interests at stake and, namely: the patient's right to choose the doctor; the physician's right to perform part of their professional activity privately and receive adequate remuneration; the healthcare organization's interest of performing healthcare services in an efficient and effective way; the NHS patients' right to be treated equally. The process is therefore subject to the risk of opportunistic behaviours, so much so that the Italian Anticorruption Authority (named ANAC) has considered it one of the priorities within the National Anticorruption Plan.

The audit was developed in different steps. First, the regional audit team identified the phases and the relevant activities of the *intramoenia* process. For each activity, the main risks were identified and associated to the

⁶ Source: WHO. (2022). Regions for health - Emilia-Romagna Region, Italy. Available at: https://cdn.who.int/media/docs/librariesprovider2/regions-for-health/2022-rhn-region-profiles-emilia-romagna.pdf?sfvrsn=5b1ae4f6_3&download=true

relevant controls (and control owners) intended to mitigate them. Second, the regional audit team identified a methodology for evaluating risks and controls and decided to implement Control Risk Self Assessment (CRSA) techniques within each healthcare organization based on a shared evaluation methodology. Third, at the healthcare organization level, preliminary meetings were organized by internal auditors with key process owners (usually the *Intramoenia*, Anticorruption, and Accounting Officers) in order to pave the way for CRSA workshops. Fourth, CRSA workshops were held in each healthcare organization with all the actors involved in the process and with internal auditors running the meetings. Finally, internal auditors performed audit tests to assess control effectiveness, thus confirming (or disconfirming) self-assessment results.

Concluding meetings were held by the regional audit team in order to share and discuss the experiences of each healthcare organization.

4.2 Research methods

The research was partially conducted using an ‘interventionist approach’ typical of innovation action research (Jönsson & Lukka, 2005; 2006; Kaplan, 1998). This approach allows – despite the existence of some reservations about its validity and legitimacy (Baard, 2010) – to get a deep and intimate understanding of the phenomena being studied (Suomala et al., 2010) and prevents researchers to become a mere ‘tourist’ (Jönsson & Lukka, 2005, p. 5), with only ‘access to a sanitised tour guide version of events’ (Dumay, 2010). Researchers currently face difficulties in generating or accessing data on internal audit practices (Christ et al., 2021). Internal auditors in the public sector are still very limited in numbers and there is a lack of archival data. In addition, organizations are not required to disclose information on their internal audit activities, and internal auditors themselves do not issue publicly available opinions. These conditions force researchers to reach out and connect with internal audit practitioners, in order to listen to their experiences, opinions, and concerns (Decaux & Sarens, 2015).

More specifically, over the years 2021-2022, researchers had the opportunity to take active part in a project sponsored by the Emilia-Romagna Region aimed at improving the internal control system of healthcare organizations. The project directly involved top managers, internal auditors and other practitioners from public healthcare organizations (administrative, medical and health staff), the regional level (e.g., regional officers, regional audit team, other inter-organizational groups), and the Italian Institute of Internal Audit. Researchers were required to provide education and training activities, as well as technical and methodological support to: (i) perform a detailed mapping of the internal control system in place in individual public healthcare organizations; (ii) analyse different types of risks from an integrated perspective; and (iii) develop the internal audit function within the RHS. As described in the previous section, the project was articulated in several phases, with activities carried out both at the regional and the organizational levels.

Researchers benefited from participant-observer status and were involved in brainstorming sessions, technical meetings, and informal interactions with regional officers, top managers, internal auditors, and assurance providers from healthcare organizations. These sessions and meetings provided the opportunity to access key

actors and develop an understanding of process and substance. Furthermore, during these sessions and meetings, researchers acted like discussants on such issues as: analysing governance arrangements to identify responsibilities, structures, and allocation of resources between the first, second and third lines roles; discussing the complementary relationships of different control bodies and strengthening these relationships; identifying techniques that could be more suitable for risk assessment and control evaluation in public healthcare organizations. Throughout this process, the researchers' purpose was to make a contribution to the academic debate by analysing how internal audit can foster a more integrated and coordinated internal control system and spread a risk management culture that allows organizational learning and value creation. To this end, extensive field notes were collected. Unfortunately, researchers were not always able to directly observe the activities carried out in all the healthcare organizations. To overcome this issue, reports documenting these activities were analysed. Documentary analysis was, indeed, employed to confirm and supplement data collection: archival sources included relevant regional legislation, regional guidelines, audit charters, audit manuals, audit plans, and audit reports.

Appendix A provides detailed information about sessions and meetings, dates, main contents, documents analysed, research activities, and key observations.

5. Findings

The project started with a deep reflection on the internal control system. The regional audit team performed an assurance mapping exercise, focusing in particular on the second line roles (i.e., Management Control, Strategic Control, Anticorruption Officer, Anti-Money Laundering Officer, Clinical Risk Management, Quality Management, Data Protection Officer, Cyber Security Officer, Health and Safety Manager). Relevant legislation and regulation, organizational positioning, risk typologies, risk assessment techniques, reports documenting the control activities performed, communication flow, and possible synergies with other control bodies were extensively examined in order to appreciate the different perspectives adopted by assurance providers. The head of the regional audit team referred to the unsystematic way in which internal controls have progressively developed using the image of "organ pipes" which do not play together as each one is narrowly focused on its own duties. Drawing on the reflections by the regional audit team, internal auditors mapped the internal control system within their own healthcare organization. This preliminary work paved the way for subsequent auditing activities.

To improve the internal control system in a more impactful way, the regional audit team decided to focus on a practical application. To this end, a relevant organizational process (i.e., the *intramoenia* process) was selected to be audited. Indeed, *intramoenia* represents an iconic process which involves several units across the organization, with administrative, medical and health staff, and which is subject to different types of risks.

The first step of the audit was process mapping. To this end, the regional audit team drew on and enriched a pre-existing and similar work prepared by the regional team of Anticorruption Officers. The regional audit team synthetized the phases and the relevant activities of the *intramoenia* process, which can be summarized

as follows. *Intramoenia* activities are planned annually in accordance with national legislation and internal regulation. Doctors that are willing to perform part of their professional activity privately within the public healthcare organization need an authorization. The authorization specifies: the typology of professional activities, volume thresholds, fees, physical spaces, and all other resources owned by the healthcare organization but dedicated to *intramoenia* activity. Patients are free to choose the doctor and book the outpatient visit, based on schedule availability. They are invoiced and usually required to pay before the outpatient visit. Subsequent payment is usually allowed only for those medical examinations which may require additional tests or services. Fees should cover doctor's compensation and expenses incurred by the healthcare organization for providing physical spaces, medical equipment, consumable goods, nursing, and administrative staff. After invoicing and (usually) payment, healthcare services are delivered. On a regular basis, fees collected are apportioned among the doctors and the healthcare organization. Process mapping also included bookkeeping and other relevant administrative activities.

The regional audit team identified and classified the main risks associated to each activity. Risk typologies included compliance (e.g., authorizing doctors who do not qualify; violating volume thresholds), financial (e.g., fees that do not adequately cover expenses incurred by the healthcare organization; misalignment between revenues and cash inflows), and fraud (e.g., encouraging patients to prefer *intramoenia*; payments without invoice; manipulation of waiting lists; private use of public consumable goods, equipment, facilities or time) risks. The involvement of the second line roles was crucial in this phase especially with reference to Anticorruption Officers.

Every risk was then associated to the relevant controls (and control owners) intended to mitigate that risk. Process mapping focused mostly on controls performed by the *Intramoenia* Office (first line role), which, for instance, was responsible to verify compliance with internal regulation. Remarkably, controls from other assurance providers (second line roles) were also included (e.g., transparency and anticorruption controls; *ex ante* and *ex post* control of expenses incurred by the organization for *intramoenia* activities).

The regional audit team, then, established a shared methodology for assessing risks and controls to ensure consistency, comparability, and avoid self-referral. The criteria were set in accordance with the International Professional Practices Framework, thus adopting private sector standards. Inherent risks (i.e., risks before actions are taken to mitigate them) were assessed in terms of their likelihood (depending on the complexity of the activity, the number of procedures handled, staff training, staff turnover, and information systems) and impact (depending on the negative consequences that may arise from financial, reputational, non-compliance, or service interruption damages). Fraud risks were, instead, measured using the qualitative methodology recommended by ANAC, which combines enabling factors and risk indicators, taking also into account the activities implemented in accordance with the Anticorruption Plan. Controls were evaluated in terms of design and operational effectiveness. Test of design evaluated the adequacy of the architecture of the controls by analysing their attributes (namely, relevance, coverage, strength, and timeliness) designed to achieve certain objectives. Test of effectiveness evaluated whether controls were implemented as designed and verified the

actual performance/functioning of controls, considering their consistency, computerization, possible errors detected, and resources available. The presence of controls carried out by the second line roles was also examined. Finally, residual risks (i.e., risks remaining after control measures have been applied), were measured by combining the analysis of inherent risks and controls. This enabled the identification of the critical areas characterized by medium to high inherent risks and inadequate or partially inadequate controls. To sum up, the regional audit team identified shared criteria for evaluating risks and controls and developed spreadsheets and matrices to be used by internal auditors in individual healthcare organizations.

Furthermore, the regional audit team decided to implement CRSA techniques, which are borrowed from the private sector, as an essential part of the audit of the *intramoenia* process. CRSA is a structured approach that requires the engagement of managers and operational units. Their knowledge and expertise are, indeed, crucial to: (i) identify the main organizational objectives and the risks that may hinder their achievement; (ii) assess the effectiveness of the internal control system; (iii) support organizational learning and development through the identification of improvement actions; (iv) keep the risks below a risk tolerance threshold (IIA, 1999; Dittmeier, 2011). In other words, CRSA workshops are structured meetings with managers and other relevant actors involved in the process. The underlying idea is that the evaluation of risks and internal controls would benefit from collegial discussion. Process managers are not auditors and typically do not have auditors' level of scepticism when reviewing a process. Therefore, a successful workshop usually needs a facilitator that: bears in mind what the workshop should achieve, provides the structure of the meeting, ensures that the group feels comfortable discussing important and thorny issues, nurtures and sustains participants' enthusiasm (Dittmeier, 2011; Pickett, 2010).

Before conducting CRSA workshops, preliminary meetings with key process owners were planned and managed by internal auditors in each healthcare organization. They were intended to explain the purpose of the audit and, specifically, of the workshop, the methodologies used, and the main expected benefits, thus developing the appropriate mindset. During these meetings, the phases, activities, risks, and controls of the *intramoenia* process, mapped by the regional audit team, were individually discussed with key process owners (usually from the *Intramoenia*, Anticorruption, and Accounting Offices) and adapted to better reflect organizational characteristics. Furthermore, the tools developed to evaluate risks and controls were illustrated and employed in a preliminary evaluation activity. Results were synthetized by internal auditors and used as a starting point and valuable support for collegial discussion during CRSA workshop.

CRSA workshops were held in each healthcare organization with all the actors involved in the process. Group composition varied from one healthcare organization to another, but usually, encompassed staff from the *Intramoenia* Office, the Medical and Administrative Directorates, different Departments (e.g., Accounting, Human Resource Management, Quality Management, Clinical Risk Management, Management Control, Nursing Service Management) and the Anticorruption Officer. Internal auditors planned and managed the meetings. Interestingly, the workshop gave to organizational units (belonging to different organizational levels and with specific expertise – be they administrative or clinical) the opportunity, for the very first time, to sit at

the same table and have a complete overview of the process in a neutral environment. To tell the truth, some forms of resistance did happen, especially at the beginning of preliminary meetings and CRSA workshops when the purpose of the audit and the expected benefits had not been clarified yet. However, the facilitating role of internal auditors overcame these resistances and auditees, eventually, showed a cooperative and proactive attitude.

Workshops held in all healthcare organizations were similar in terms of structure. The work group reviewed the process to validate and, if necessary, integrate the mapping of phases, activities, risks, and controls resulting from preliminary meetings. The work group discussed inherent risks and control assessment, examining in depth any divergencies or critical issues. A shared evaluation of residual risks was, importantly, the product of collective self-assessment.

After completing CRSA workshops, internal auditors performed audit tests to verify control effectiveness, thus confirming (or disconfirming) self-assessment results. To this end, a letter was sent to the organizational units involved, explaining the purpose, the object, and the expected outputs (i.e., the identification of the main issues and the relevant improvement actions) of the audit test. Details about dates and times were also provided.

Testing activities mainly consisted of the examination of written documentation and records, or of a sample of items included in the records (e.g., procedures, internal regulation, employee manuals, system databases). Internal auditors also performed, even if less frequently, physical observation, by examining, for instance, the spaces for *intramoenia* activities, and inquiries with administrative, health, and medical staff.

Although control systems were generally considered adequate and effective for mitigating organizational risks, testing activities allowed to identify some areas for further improvement related, for instance, to fraud risks and outstanding expenses.

Audit results were shared within the relevant healthcare organization and then summarized in a report. More importantly, improvement action plans were prepared by internal auditors in collaboration with the actors involved in the process. Such plans outlined the roadmap for the future, by identifying corrective actions, their time frame, and the responsibilities connected to their implementation. Interestingly, improvements also included streamlining oversized controls, especially when they were found to overlap, as well as strengthening them in case of unmanaged risks.

Last but not least, concluding meetings were held with the regional audit team in order to share and discuss the results of individual healthcare organizations.

6. Discussion and conclusions

This article set out to develop insights into the relationship between internal audit, internal controls, and risk management in the public sector. To this end, it examined the evidence from a research project conducted in Emilia-Romagna RHS over the years 2021-2022. Overall, the study illustrated the activities and tools developed by the regional audit team and implemented by internal auditors within each healthcare

organizations. These include: mapping activities (organizational processes, risks, and controls); definition of shared criteria and methodologies to be used during the audit process; implementation of CRSA techniques; audit tests; definition of improvement action plans. Furthermore, it analysed the improvements achieved by means of these innovations. The article offers some significant research contribution in that it revealed how the internal audit function in the public sector can improve integration and coordination within the internal control system and foster a risk management culture that enables organizational learning and value creation. In the following, each contribution is discussed in more detail through the theoretical lens of the framework by Miller and Power (2013).

6.1 Improving integration and coordination within the internal control system

The assurance mapping of the second line roles confirmed the suggestions by prior literature of a fragmented internal control system (Fadda & Paglietti, 2016; Ferry & Ahrens, 2022; Ferry et al., 2022a; Monfardini & von Maravic, 2019; Power, 1994). Several specialized assurance providers exist within Emilia-Romagna public healthcare organizations, each following specific rules and standards and narrowly focused on their own viewpoint and activities.

In order to improve coordination and go beyond such a silo-based perspective, the regional audit team decided to adopt a holistic approach to monitor a specific organizational process across-the-board. The *intramoenia* process was selected because it represents an iconic process within public healthcare organizations which involves several organizational units, with different competences (both administrative and clinical), organizational positions, and (possibly conflicting) interests. The risks to be assured were also explicitly identified and declared.

Mapping activities represented the first step of the audit, with standardized spreadsheets being prepared by the regional audit team. Conceptually, such process mapping can be interpreted as territorializing (Miller & Power, 2013) the phases, activities, risks, and controls of the *intramoenia* process. Process mapping provided, for the very first time, a unified overview of the process to different organizational units who had been long since narrowly focused only on their duties, thus completely ignoring organizational interdependencies and interconnections. Consequently, process mapping allowed the actors involved in the process to identify any overlapping activities or possible synergies, as well as unmanaged risks. Furthermore, territorializing led to univocal identification of process owners and control owners, thus resulting in a clearer segregation of duties. Control mapping was particularly valuable in that it paved the way for integration.

Mediating was strictly entwined with territorializing. It facilitated influences among different rules and practices, thus resulting in a constructive dialogue among actors. This also improved comparability (Bisogno et al., 2019; Heald & Hodges, 2018; Miller & Power, 2013). Internal audit, indeed, mediated among the different perspectives of the actors involved in the *intramoenia* process by spreading a common narrative through the identification of standardized criteria and instruments for evaluating risks and controls. These criteria and tools, largely derived from private sector practice, defined and shared at a regional level by the

regional audit team, linked up different assurance providers, administrative and clinical units. To this end, preliminary meetings laid the foundations for developing a proper mindset, as the purpose of the audit, logical categories, technical terms, methodologies, as well as phases and activities of the process were extensively explained and discussed. With specific reference to risks, this provided the opportunity to spread a risk management culture and develop risk awareness. On that regard, particularly valuable is the distinction between inherent and residual risks, which was (surprisingly) largely ignored by operating units and assurance providers. Sharing standardized criteria and tools improved comparability both across organizational units and among healthcare organizations. Furthermore, by organizing sessions and meetings the internal audit provided a neutral environment for an effective dialogue among different organizational units. The workshop technique, in particular, strengthened the network of relations among actors and, interestingly, between auditors and auditees. CRSA workshops and internal auditors acting as facilitators, indeed, provided incentive for participation and collaboration, improved communication and mutual understanding, thus helping to balance and reconcile the different perspectives and interests at stake.

All the above allowed to understand and enhance interdependencies and interconnections among different organizational units and assurance providers, thus responding to the need for integration and coordination, and leading to combined assurance. Furthermore, territorializing and mediating paved the way for appreciating the purpose of risk management and internal controls. Indeed, in line with prior literature (Ferry et al., 2022b; Heald & Hodges, 2015; 2018), such calculable spaces and common narrative facilitated the construction of auditable spaces and laid the foundations for a stronger application of the other roles of accounting by Miller and Power (2013). In other words, a deeper reflection on territorializing and mediating might be helpful to overcome the possible issues in adjudicating and subjectivizing highlighted by prior studies (Ferry et al. 2022b; Heald, 2018).

6.2 Learning and evolving from risk

Adjudicating emerged as the primary role of audit, thus confirming the suggestions by prior literature (Heald, 2018; Miller & Power, 2013). In general, adjudicating corresponded to audit testing, aimed at verifying controls implementation and their actual performance/functioning. What was peculiar about our findings was that adjudicating also corresponded to a collective self-assessment. Through CRSA workshops, auditees – in particular, process owners and control owners (first and second line roles) – were directly and personally involved in the audit and became, ultimately, accountable for the whole process. Such self-assessment exercise promoted enthusiasm, engagement, empowerment and further sustained awareness of risk management and internal control issues. Importantly, it facilitated an easier and more spontaneous identification of improvement actions, thus giving auditees the ownership of improvement action plans.

In line with prior literature, subjectivizing emerged as strictly related to auditing (Heald, 2018; Miller & Power, 2013) with auditees being subject to control by internal auditors, ultimately, by top management, and, possibly, by the Region. Despite not being the case of Emilia-Romagna RHS – whose governance model is characterized by a collaborative culture and a widespread leadership between the Regional Healthcare Department and public

healthcare organizations –, it may become relevant in highly centralized RHS (Langella et al., 2023). As subjectivizing “pertains to the domain of meaning” (Hasselbladh & Bejerot, 2020, p. 30), internal audit could have been perceived as an externally-set watchdog or as an end in itself, increasing red tape without adding value, thus producing auditees’ resistance. As a matter of fact, some forms of reluctance did happen, especially at the beginning of the project. This was mainly due to the newness of the function and, possibly, the fact that the *intramoenia* process encompassed both administrative and clinical activities⁷. However, internal auditors acted as facilitators and overcame these issues thanks to territorializing, mediating, (as preconditions) and adjudicating – which provided, respectively: a unified mapping (of the entire process, the different roles and responsibilities, and the risks to be assured); a common narrative and a neutral environment for an effective dialogue; a self-assessment approach which stimulated enthusiasm and engagement. Internal auditors played a “maieutic” role which helped process owners, control owners, and, more generally, all the actors involved to become aware of the ultimate purpose of their work within the *intramoenia* process. Consequently, auditees understood that performance evaluation was not merely intended to measure their “success” or “failure”. Rather, auditing was perceived as an opportunity to add value to *intramoenia* process thanks to the identification of improvement actions which will benefit the whole organization (and auditees first and foremost). In other words, all the actors involved in the *intramoenia* process perceived auditing as a learning opportunity, to innovate and develop both the organization and their own professional competencies.

Taken together these findings shed light on how “learning and evolving from risk” can occur in the public sector, despite the prevalence of a compliance-oriented approach where “by definition, failure is normatively negative” (Flemig et al., 2016, p. 430). The self-assessment approach was crucial for promoting enthusiasm and engagement and for spreading a forward-looking performance perspective in risk management, diametrically opposite from the typical focus on satisfaction of legal requirements and rule-based compliance. Thanks to this shift in the “domain of meaning”, process owners, control owners, and, more generally, all the actors involved in the process understood and appreciated the value-adding role of internal audit, as well as other control and monitoring activities. Within such virtuous circle, adjudicating and subjectivizing reinforce each other and contribute to organizational performance.

6.3 Concluding remarks

As with any piece of research, the study is not free of limitations. First, qualitative research inevitably suffers from subjectivity issues. Additionally, the article admittedly was limited to the Emilia-Romagna RHS and focused only on the *intramoenia* process, disregarding all other actors not directly involved in this process. A possible implication for future research would thus be to investigate other contexts and processes, by

⁷ For a deeper examination of modes of clinical risk management see Fischer and Ferlie (2013).

considering also the viewpoint and the relationship with other internal and external oversight bodies. Furthermore, knowledge development would benefit from longitudinal and comparative methodologies.

Despite these limitations, the study offers some relevant practical implications. Findings may be useful for public organizations that are considering the introduction and development of an internal audit function to achieve a more integrated internal control system and sustain organizational learning, without increasing red tape. Our findings show the importance of legitimizing the new function through top-management commitment and regional coordination. With specific reference to the latter, the Emilia-Romagna Region's decision to establish a regional audit team enabled to spread a common narrative and to define shared criteria and tools. This allowed for stronger interorganizational relationships, comparisons, and further learning opportunities. In addition, the selection of an emblematic process and the explicit identification of the risks to be assured facilitated the identification of roles and responsibilities. Selecting a process and a set of risks is an essential starting point for the development of the new function. Another important choice was to involve, right from the beginning, specialized assurance providers (playing a second line role in the internal control system) in the implementation of the internal audit function (third line role).

A further practical implication pertains the use of CRSA workshops. This proved to be a particularly valuable technique in that, unlike a simple interview, it allows the active involvement of people. Importantly, internal auditors were required to act as facilitators, keeping all participants focused on the purpose of the audit, providing the required technical tools, improving communication, encouraging synergies among different assurance providers and organizational units, nurturing and sustaining organizational enthusiasm and engagement. To effectively fulfil this role, internal auditors need to develop hard and soft skills, for instance by attending educational and training initiatives organized by professional organizations. Soft skills should not be underestimated as they are essential to eliciting the so-called "maieutic" effect, which enables individuals to understand the ultimate purpose of their work. Achieving these results is not easy and cannot happen in one fell swoop.

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