Creativity and Innovation: Keys to a successful future for Internal Auditing

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ABSTRACT

Research Context, Motivation and Objectives:
It is often alleged that the continued pursuance and success of many activities is closely tied in with the ability of that activity to be undertaken and performed in increasingly creative and innovative ways. Accordingly, the purpose of this research is to provide a reflective analysis of past, current and future issues, in terms of creativity and innovation by considering appropriate theory (the theoretical research) and then evaluating this by reference to an Internal Audit department – using that department as the case unit (the empirical research).

Research Design/Methodology/Approach:
Consistent with the dual objectives of the research, two forms of research design and methods are employed within it. The theoretical research is undertaken by completing a review and evaluative analysis of relevant (primarily theoretical and/or professional) literature – particularly of theoretical creativity and innovation models that have been advanced. Inter alia, within an internal auditing context, these theoretical models draw on issues such as motivations, goals and categories of innovation. The empirical research is completed by undertaking a Case Study analysis (primarily through interviews and document consideration) within a particular case, so as to determine how well the previously identified theory resonates within the case unit and to then draw evaluating inferences. Within the relevant case unit, the research attempts to reveal how creativity and innovation adds status and value to internal auditing – particularly in relation to its current and future roles and practices. The case unit is an internal audit activity operating in a social housing and care services group. Its 2011 Group income was circa £40 million and in that year it employed circa 1,000 staff. Its internal audit department has evolved over recent years into operating in a Continuous Improvement and Risk Management Unit reporting to a board member and with an independent line to a Group Board Corporate Governance Committee. Against that backdrop, it was judged to be an appropriate case for study in relation to the empirical objectives of the research.

Findings/Limitations:
Our research enables two types of findings. The first is offered in terms of the general utility and effectiveness of key theories of creativity and innovation within
the context of the quality and continuous improvement of internal audit services in the Group, while relating these to an increase in value in terms of its contribution to good governance, risk management and control. The second set of findings is an evaluation of the resonance of key theories of innovation and creativity within the internal audit department of the relevant case unit. As is the case for all case studies, the findings of the present case are limited and non-generalisable. However, such findings may well be indicative of institutions in other sectors and sizes of internal audit departments, both in the United Kingdom and globally because of the nature of its compliance to international professional standards.

**Originality/value:**
The importance of creativity and innovation in professional internal auditing has always been strongly driven by its global professional body The Institute of internal auditors. In part, this has been influenced by increased and changing demands of corporate boards and senior management as well as the imagination of its ambitious members. Concurrently, there has been some encouragement from internal audit management and other stakeholders who take an accountability and interest perspective in the added value of internal auditing services. This is evidenced from related research and compliance with the continuous improvement of its “International Professional Practices Framework” of standards and guidance. Prior research into innovation in internal auditing has been mainly in large internal audit activities. However, this research recognises that the majority of internal auditing activities are small with limited resources and therefore deliberately focuses its research into creativity and innovation processes with that level of size and activity.

**Paper type:**
As indicated, the research is both theoretical and empirical. The theoretical research determines how creativity and innovation are being promoted in organizations and internal audit activities - at both strategic and operational levels. The empirical research seeks to do the same through an examination of (but) one internal auditing department and the environment within which that service is provided.

**Keywords:**
Continuous improvement, creativity, innovation, internal auditing, quality

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1 In its Annual Report 2010 it boldly states – The IIA has long pioneered inventive approaches to solving the problems facing internal auditors worldwide. This year, we demonstrated how innovation can make the difference between merely discovering the future and actively defining its success.
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Following a long auditing career within multi-national manufacturing companies, in 1991 Professor Ridley was endowed with a Chair in Auditing at London South Bank University. Since then he has been teaching and researching several aspects of corporate governance, management and sustainability programmes at postgraduate and doctoral levels. He is the author of two books Cutting Edge Internal Auditing (2008) and co-author of Leading Edge Internal Auditing (1998). His recent research papers have been on corporate governance and sustainability assurance issues. In September 2010 he presented a joint-paper with Professor D'Silva entitled “Internal Auditing’s contribution to sustainability programmes” at the EABIS 9th Colloquium held in St. Petersburg, Russia. This has been subsequently published. In 2011, at Ashridge Management College he presented with co-researchers a joint paper on Assurance Of Sustainability Reports: Insights And Evidence From UK Companies.

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Dr. D'Silva is a professor at London South Bank University. He is a U.K. and Canadian qualified Chartered Accountant with “Big 4” firm experience in both countries. His doctoral thesis at the Cass Business School in London, England was in Auditing and he has held senior finance positions. His lecturing portfolio covers Corporate Governance, External/Internal Auditing and Research Methodology. He is an active researcher and research supervisor, having supervised to completion a number of doctoral students. His research is mainly within auditing and governance. He has presented his research at conferences in the U.K. and overseas (e.g. Italy and India) and has conducted invitational-seminars in Research Methodology in the U.K. and abroad (e.g. Lithuania and China).
Research context and methodology
This paper is about the future success of internal auditing. More specifically, while focusing on the theme of “creativity and innovation” as an element of “continuous improvement” and “quality”, the paper provides both theoretical and empirical insights into its creativity and innovation. While the paper is clearly focused on internal auditing, it is helpful to first take regard for its assurance and consulting roles within organizational governance. These roles are seen when one accepts (Pojunis and Steinberg, 2000; Baker and Owsen, 2002) that good internal audit systems contribute to heightened transparency (mainly in terms of significant decisions, records and events) while facilitating greater accountability (mainly to relevant stakeholders) and so leading to higher levels of probity (honesty and integrity) overall - in other words – governance. And, in that sense, the paper is also associated with excellence in governance.

The paper commences with some discussion as to the nature of creativity and innovation generally. It then considers some of the creative and innovation-related pronouncements made by the internal audit profession – mainly by reference to professional statements made by The Institute of Internal Auditors Inc. (in the United States) and those by the Chartered Institute of Internal Auditors in the United Kingdom. It then briefly reviews some prior relevant research literature (particularly Gray and Gray, 1996 and more recently Ridley 2008). We then explore creativity and innovation in the future of internal auditing. Finally, we create a case unit of innovation in a small internal auditing activity today: justifying this choice of size on the basis that the majority of internal auditing activities worldwide are small and therefore the findings will be of particular interest to the most organizations.

Creativity and innovation theory and research
For our paper we use the philosophical meaning of creativity to be the generation of new ideas from wisdom that form cultures and attitudes that lead to change in an organization – a good example of this is seen in its vision: we define innovation as the process of effecting (positive) change in practices through the use of new (improving) ideas and/or new procedures (Gray and Gray 1996). Innovation is therefore essentially a creative process that is underpinned by wisdom. Within management thinking, the nurturing of creativity tends to fall within the ambit of good leadership (a traditional aspect of management) and hence considerations on innovation can be seen through the frame of leadership within change management (IIA, 2004).

When used as a noun, the Oxford English Dictionary defines “cutting edge” as “the latest or most advanced stage or “the forefront” and, when used as an adjective, it is described as “pioneering” and “innovative”. Thus the term innovation is synonymous with the term “cutting edge”.

What then does “cutting edge” really mean in practical terms? It is a term that has been used to describe various types of activities, from strategies to
operations, to product and service outputs. Understandably, it has many synonyms and these include the words – progressive, advanced, forward-looking, radical, even revolutionary (but rarely evolutionary). And, as the following two terms are also used to convey a sense of innovation, it is interesting to note that two other synonyms often encountered in the (academic and professional) literature are the terms “leading edge” and “best practice”.

Creativity and innovation always start with a vision – for both without vision has neither proper genesis nor direction. Further, such direction is fostered by the formulation of a stated mission (or set of missions) which may be expressed formally or informally. Regardless, for innovation to become a reality there must be a vision which is initially expressed in mission terms and these must be shared by all concerned. Both visions and missions may be expressed formally in “vision statements” and “mission statements”.

The preceding ideas provoke some discussion on the precise nature of “vision” and “mission” and how (in the context of change) the two are interlinked. Whiteley (1991) describes “vision” as “a vivid picture of an ambitious, desirable state that is connected to the customer and better in some important way than the current state”. He contends that a vision has two vital functions. The first is to serve as a source of inspiration. The second is to guide decision-making, so that all parts of an organization are in alignment and work consistently together. Such a shared vision leads to a competitive advantage, with it being an impetus for change and excellence.

In terms of such a “shared vision”, Whitely (1991) argues that when an organization clearly declares what it stands for and its people share that vision, a powerful network is created – an interconnected network of people seeking related goals.

Coulson-Thomas (1992) discussed research into vision statements when he wrote on leadership and the management of change. Drawing on an earlier series of three surveys of large organizations, he re-confirmed the need for a clear vision to be sustained by senior management commitment in order to bring about successful change.

Additionally, in the same context of successful innovation and/or “change management” Coulson-Thomas (1992) offers the following conclusions and practical suggestions:

- A clear vision and strategy, supported by top management commitment is of crucial importance in the management of change. If either is lacking, a change programme is likely to be built upon foundations of sand.
- The vision and commitment need to be sustained. This requires an effective board composed of competent directors. Further, all employees need to be
equipped to manage change. This often requires a change of attitude, approach and perspective.

- The ability to communicate is an essential management quality. Successful communication and sharing of a vision requires integrity and a relationship of trust.

- A compelling vision both differentiates and transforms. It must be organizationally shared with the purpose of change being communicated so that complete employee involvement and commitment is secured.

Given the importance attributed to creativity and innovation it is no surprise to see that governments throughout the world promote both in many forms of publications and websites. In this context the latest messages from the European Commission\(^2\) and UK Government\(^3\) on the importance of innovation in competitive market places are good examples of the importance of such strategies for the growth, even survival, of enterprises, both large and small.

“Innovation provides real benefits for us as citizens, consumers, and workers. It speeds up and improves the way we conceive, develop, produce and access new products, industrial processes and services. It is the key not only to creating more jobs, building a greener society and improving our quality of life, but also to maintaining our competitiveness on the global market.” (European Commission – Innovation Union Initiative)

“The Coalition Government is putting innovation and research at the heart of its growth agenda. Innovation is essential to competitiveness and higher living standards. Through greater investment and increased collaboration, we will make sure that the UK has a promising future. The Coalition Government is putting innovation and research at the heart of its growth agenda. Innovation is essential to competitiveness and higher living standards. Through greater investment and increased collaboration, we will make sure that the UK has a promising future.” (BIS 2001: Foreword)

Ridley (2006)\(^4\) cites Whiteley’s new innovation ways, requiring much more organized teamwork (quality circles) and an on-going analysis of each of the following processes:

\(^2\) European Commission website accessed 26\(^{th}\) February 2012.
\(^3\) Innovation and Research Strategy for Growth, Presented to Parliament by the Secretary of State for Business, Innovation and Skills by Command of Her Majesty, December 2011 (Foreword)
\(^4\) Extract from Continuous Improvement in Internal Audit Services, a joint research paper by Professor Jeffrey Ridley and Professor Dr. Kenneth D’Silva, delivered at Cass Business School, London, England, Fourth European Academic Conference, April 2006.
• learning customers’ needs
• keeping up with technology outside the firm
• maintaining basic technical strengths
• discovering new technology that will be useful in products (and services)
• neutralising competitors’ basic technical strengths
• keeping the organization as a whole informed about discoveries

These ways are still evident in quality programmes, continuous improvement and innovation today.

Oakland (2002) sees vision statements as part of a quality framework. He states that "any organization needs a vision framework, which includes its guiding philosophy, containing the core values and beliefs and a purpose. These should be combined into a mission, which provides a vivid description of what an organization would like to achieve. The strategies and plans suggest how it is going to be achieved." In more general terms, Oakland (2002: 16) recommends an organised and systematic approach to innovation and continuous improvement in stating:

“An organization may identify opportunities for improvement in a number of ways, perhaps through process analysis, benchmarking, or the use of self-assessment against an established framework [examples could be comparison and compliance with The IIA International Standards and/or ISO 9000 the international standard for quality management] …a distinction needs to be made between those processes which run pretty well – to be subjected to a regime of continuous improvement, and those which are very poor and are in need of a complete re-visioning, re-design or re-engineering activity.”

**Creativity and Innovation drive today’s continuous improvement in internal auditing**

Since its very foundation the IIA Inc. has been at the forefront of creativity and innovation in internal auditing with its business plans being underpinned and promoted by both vision and mission statements. D’Silva and Ridley (2007) cite the following excerpt as somewhat traditional today, but at the time it was cutting edge thinking - certainly for internal auditing. The IIA Inc.’s Certificate of Incorporation (1941) states its objectives and purposes as:

“To cultivate, promote and disseminate knowledge and information concerning internal auditing and subjects related thereto, to establish and maintain high standards of integrity, honour and character among

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5 Innovative Practices in Today’s Internal Auditing, a joint research paper by Professor Jeffrey Ridley and Professor Dr. Kenneth D’Silva, delivered at The Fifth European Academic Conference, University of Pisa, Italy, 2007
internal auditors; to furnish information regarding internal auditing and the practice and methods thereof to its members, and to other persons interested, and to the general public; to cause the publication of articles, relating to internal auditing and practices and methods thereof; to establish and maintain a library and reading rooms, meeting rooms and social rooms for the use of its members; and to do any and all things which shall be lawful and appropriate in furtherance of any of the purposes ... expressed (above).”

Any research into creativity and innovation in internal auditing must always reflect on the ‘words of wisdom’ by Lawrence Sawyer. His maxims are still at the cutting edge of internal auditing today, and will be tomorrow. Recognition of the benefits of innovation within Internal Auditing is not a new phenomenon. More than thirty years ago, Sawyer (1973) contended that innovation plays an important part in the working relationships essential for developing overall Internal Audit strategy, policies, processes, style and the communication of engagement end-results. He further argued that good IA relationships are supported by even better IA resources. In part, this is articulated by him when he recommends the following six personal ingredients for success in Internal Auditing engagements:

1. helpfulness
2. empathy
3. understanding
4. open-mindedness
5. problem-solving
6. attentive listening

One of his most timeless is:

Successful internal auditing is constructed on a foundation of technical excellence. But the structure must be firmly butressed – on the one side by demonstrated acceptance and support at the highest levels in the enterprise; on the other by continued, imaginative service to management. (1973)

Later, in 1992 on creativity he concluded:

Creativity is not reserved for the arts and sciences. It is needed in our profession as well. But it will never be tapped if we do not develop a divine discontent with what we see and if we fail to search for new ways of solving the problems which we identify or which management present to us. We can offer a new presence to the business community – as creative problem-solving partners to managers at all levels,

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6 The Practice of Modern Internal Auditing (1973 p.2, Lawrence B. Sawyer, The IIA Inc.
7 The Creative Side of Internal Auditing, Lawrence B. Sawyer, 1992
There are many exhortations about and for innovation within the internal auditing profession. These are seen in statements made by the profession about (and for) itself and its guidance given to members of the profession ‘…to continuously improve’.

As a simple illustration of the above, one notes comments made by Winters [The IIA Research Foundation President] 2007) in the March 2007 “From the President’s Study” Statement, when he states that “staying on the cutting edge of knowledge and understanding our profession is what the IIA Research Foundation is all about”

Then, basing his views on words from the foundation’s current mission statement i.e. “to expand knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally”, the statement goes on to detail how these objectives are being operationalised.

And, more recently from a roundtable of US internal auditors and regulators:

“Current financial circumstances present opportunities for internal auditors to reassess their own audit strategies by stepping back and taking a fresh look at how the organization’s changing business goals and resulting risks line up with the audit plan. Because the economic outlook is uncertain, CAEs need to be ready to change direction quickly, while keeping an eye on the actions management is taking to cope with today’s economy. CAEs are rapidly reprioritizing to identify potential cost savings and efficiencies and devoting more coverage to operational risks. There is a renewed need to provide objective analysis so that those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, and facilitate decision making to oversee or initiate corrective action and contribute to public accountability.”

If innovation is crucial in a professional context, it is pertinent to review or consider how innovation and features intrinsic to it (visions and missions) are perceived by the profession itself. Alternatively, is there evidence to suggest that the profession is itself “innovatively” minded? The quotations below suggest good evidence to the positive.

The IIA Inc today holds its mission statement out to be critical to its activities:

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8 A World in Economic Crisis: Key Themes for Refocusing Internal Audit Strategy. The IIA GAIN (2009). These observations were overwhelmingly shared by the 28 CAEs, service providers, and regulators who convened in Washington, D.C., by invitation of The Institute of Internal Auditors (IIA) with the goal of gaining insight on the impact of the economy on internal auditing.
**Mission**

The mission of The Institute of Internal Auditors is to provide dynamic leadership for the global profession of internal auditing. Activities in support of this mission will include, but will not be limited to:

1. Advocating and promoting the value that internal audit professionals add to their organization.

2. Providing comprehensive professional educational/development opportunities; standards and other professional practice guidance; and certification programmes.

3. Researching, disseminating, and promoting to practitioners and stakeholders knowledge concerning internal auditing and its appropriate role in control, risk management and governance.

4. Educating practitioners and other relevant audiences on **best practices** in IA.

5. Bringing Internal Auditors from several countries together to share information and experiences.

This mission statement relates well to The IIA’s adopted theme from Raymond Noonan’s presidential year in 1953/54 *Progress through sharing*, incorporated in its seal in 1955\(^9\) and aptly creating a vision which continues today. (Fitting appropriately into Whitely’s argument commented on earlier that when an organization clearly declares what it stands for and its people share this vision is created.)

Gupta and Ray 1995 in their conclusions on the implementation of improvement processes emphasise the related importance of vision and mission statements. They suggest that “vision and mission statements which lead to a related listing of objectives provide road maps for the implementation of TQM within the internal auditing function”. And, it is the realization of these set objectives that become the expression of innovation.

Dittenhofer 2001 suggests that innovative improvements internal auditing can be classified from three distinct classifications; philosophical, methodological and operational. And, within the “philosophical” classification, lie issues relating to “visions and missions”. He contends that Internal Audit vision statements describe what the IA department “will do and its contribution to the well being of the organisation”. These statements serve as a means to enhance (partly through innovation) the very existence of the IA department, but even more importantly, the service it provides to its beneficiary departments.

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In terms of mission statements in Internal Auditing, Dittenhofer (2001:459) sees them emerging from a given “vision”. They are a description of how that vision will be accomplished and the activities required to do so. These activities will “have a specific intent and definable impact in a specific and demonstrable area of (IA) performance.”

In the context of innovation generally and, creating a vision in particular, for the future of Internal Auditing, Ridley and Chambers (1998 : 45) describe vision statements in the Internal Audit profession in the following words:

“Imagination needs direction – not in a controlled sense but in a creative sense. It is the art of forming mental images and constructively channelling these into visions for the future. It is not easy to find examples of internal auditing vision statements. Not all internal auditors are committed to the value of vision statements. Yet, in their organizations they are often prominent as management statements or team statements, and always associated with their organization’s products/services. So, why not for Internal Audit? Vision statements now generally aim to promote a vivid picture of an ambitious, desirable state that is connected to the customer and better in some important way than the current state. Vision statements need to be exciting, even emotional. They need a total commitment to succeed. They must be measured and updated as time improves vision. They need to be short and simple.”

Gray and Gray 1996 analysed innovation motivation, goals and categories developed in a sample of North American organizations providing the first research focused on innovation in internal auditing. This framework was developed further in research by Ridley (2008) resulting in the framework at Appendix 1. Since that time there have been further developments in internal auditing professional standards and practices mainly in the focus on organizational governance.

Cosmas 1996 researched marketing internal audit to achieve audit customer satisfaction, deducing that at that time this concept in internal auditing was virtually unexplored. Her study, based on experience and much of the thinking at that time of Lawrence Sawyer and Mortimer Dittenhofer, included discussion on performance measurement in internal auditing and the importance of using a systematic approach to continuous improvement to market internal audit

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10 Cosmas frequently refers to The Practice of Modern Internal Auditing (1996), Lawrence B. Sawyer and Mortimer A. Dittenhofer, The IIA, Florida. This textbook was first published in 1973 and the latest 5th Edition published in 2003 contains the following general guidance on implementing quality assurance in internal auditing – Create an innovative environment by – allowing for creativity; challenging all staff members to question the status quo and suggest improvements; taking every staff suggestion seriously and implementing each when appropriate. (p.1038). This text book continues to be recommended reading for candidates sitting the IIA CIA professional examinations.
services. That systematic approach aligns very well with the concept and discipline of quality management, with its performance measures and commitment to continuously improve.

The link between visions, creativity, innovation and governance has grown since the first framework and its updating in 2008. The European Commission recognised this in 2010 in its published strategy for smart, sustainable and inclusive growth - Europe 2020 requiring a focus and clear goals:

“To achieve transformational change, the Europe 2020 strategy will need more focus, clear goals and transparent benchmarks for assessing progress. This will require a strong governance framework that harnesses the instruments at its disposal to ensure timely and effective implementation.” (p. 25)

Research into governance in small and medium enterprises in the same year by the European Confederation of Directors Associations emphasised the role of the directors to “…establish and maintain the company’s vision, mission and values.”(p.16). The UK Corporate Governance Code 2010 makes no mention of a vision or mission for good governance though in its linking of governance to performance but does state:

“The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company.” (p.1)

Creativity and Innovation will drive continuous improvement in internal auditing in the future

The IIA has set out its clear vision for creativity and innovation in internal auditing in the future. An important pathway for this is emphasised in The IIA Annual report for 2010, celebrating its 70th anniversary:

“The Institute of Internal Auditors, now in the midst of celebrating its rich 70-year history as the leader of the internal audit profession, worked determinedly and successfully throughout 2010 to reassess, enhance and reposition itself to meet its members’ rapidly growing and evolving needs. The IIA has long pioneered inventive approaches to solving the problems facing internal auditors worldwide. This year, we demonstrated how innovation can make the difference between merely discovering the future and actually defining its success.”

Those needs are aptly expressed by Chambers 2012 in his five challenges for internal auditing stated during The IIA Global Council meeting in New Delhi, India in February this year:

Alignment of internal audit work to stakeholder needs
Quality of internal audit work
Risk management
Awareness of change
Status of internal audit profession

For some time now The IIA\textsuperscript{11} has been promoting the ‘bridging of gaps’ between internal auditors and their clients, building partnerships with management. Bain & Company 2011 in its definition of management tools includes many references to innovation in the tools used today. One such tool, “open innovation” encourages the building of partnerships to create new ideas in the development of products and services. Perhaps this is the next step now for future innovation in internal auditing. The IIA already has created partnerships with a number of organizations, the latest being the global Association of Certified and Chartered Accountants: internal audit activities must and will follow this lead with their management and other internal auditing providers and services to harness wider knowledge and experience for the continuous improvement of the services they provide. Only by doing this will the status of internal auditing grow to its potential as a key player in governance, risk management and control in every organisation in which it provides its professional services.

Creativity and innovation in a small internal auditing activity today\textsuperscript{12}
Seren Group was formed in 2004, comprising Seren (the parent company), and a group of separately managed companies providing social housing and care services: all Group members are not for profit organizations\textsuperscript{13} governed by voluntary boards: all, except Pen yr Enfys, are registered as Industrial and Providence Societies and as Registered Social Landlords, regulated by the Welsh Government and other social and care inspectorates. e.g. Care and Social Services Inspectorates Wales. Seren currently employs 900+ staff providing services and housing developments covering South East Wales, working in partnerships with 13 local government authorities: owning 5600+ accommodation units in 2011 (with 300 more under development) and providing care and/or support to 4200+ older people and those with disabilities. Seren’s income in 2011 was £39M, mainly from controlled affordable rents and government grants, with housing developments funded by private providers. Financial viability and governance structure and process arrangements in Seren are assessed and regulated by the Welsh Government through descriptive

\textsuperscript{12} At three separate interviews on 9\textsuperscript{th} March, one at board level, one with the Head of Continuous Improvement and one with the Group Senior Internal Auditor: the Internal Audit Charter, dated February 2012 was reviewed for its motivation of creativity and innovation in internal auditing, the possible categories to which these could be allocated and the goals they are planned to achieve.
\textsuperscript{13} Charter Housing Association Ltd: Reach (Supported Living) Ltd: Solas-Cymru Ltd.: Fairlake Ltd.: Fairlake Living Ltd. all are Industrial Provident Societies and with the exception of Fairlake Living Ltd are charitable: Pen yr Enfys is a company limited by guarantee and registered charity.
requirements\textsuperscript{14}, which involve annual self-assessment reporting and co-regulation.

Seren prides itself at being part of a group with a full range of expertise, helping people to live the life they want. It promotes its purpose as providing \textit{housing and support which makes a real difference to people’s lives} and values as openness, respect, fairness, ambition, integrity and responsibility; these values underlie all its strategies and policies.

Both regulation and the organization’s legal status require annual external financial auditing to appropriate standards. In addition to these assurances the Seren Group organizations are subject to other internal and external assurances by its staff and other regulators, covering quality, improvement, social and environmental situations. One aspect of Seren’s regulation is a recommendation that internal auditing should be in place, complying with appropriate professional standards. Seren established in 2006 an internal audit department reporting to the chief executive and an audit committee, consisting of a manager, senior internal auditor, auditor and a ‘best value officer’. Later the emphasis of this group moved to a service of assurance and continuous improvement with a \textit{Continuous Improvement} function title and Head replaced the Audit Manager. Today, the Continuous Improvement function is staffed by a Head of Continuous Improvement, Group Senior Internal Auditor, Internal Auditor, Continuous Improvement Support Officer and Business Improvement Officer, the latter having risk management, performance management, lean working and business planning responsibilities. This function now reports to a Corporate Director at Group Board level and has a reporting line to the Group Corporate Board Governance Committee, with governance, risk management and control monitoring terms of reference: it also has lines of reporting to the Group Chief Executive and Chairman, as well as Chairs in all the group organizations.

The internal audit working link into the Group’s continuous improvement and risk management responsibilities is innovative but could be questioned as a

\textsuperscript{14} The Welsh Government Regulatory Framework For Housing Associations Registered in Wales 2011 (This Regulatory Framework applies to those housing associations registered and regulated by the Welsh Ministers under Part 1 of the Housing Act 1996). The key features of the Regulatory Framework are:

\textit{Delivery outcomes: Self-assessment: Regulatory Assessment report and publication: Financial viability judgement and publication: Regulatory and enforcement powers.} The goal is to provide quality homes and services to tenants and other service users. The different elements of the Regulatory Framework work together to assure this through the information collected by creating a rounded view of an association and an understanding of the experiences of tenants and service users. This allows the findings on self-assessments to be challenged, leading to robust regulatory assessment. One of the requirements of self-assessment is to demonstrate each of the cultures of the organizations in the Group \textit{...supports the delivery of their purpose and outcomes, innovates, seeks new ideas and evaluates learning from others.}
weakness in its independence, even through it has opportunities to report at board level. Its independent and objective status is established clearly through an excellent Charter, kept under regular review, approved by the Group Corporate Governance Committee, requiring …the internal audit team to meet or exceed the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors. The status and importance of these standards is emphasized by the Welsh Government adoption of the UK HM Treasury Government Internal Audit Standards for its public sector administration, now based on The IIA standards, and the qualifications and continuing professional development of the head of internal audit (a qualified Chartered Member of the Institute of Internal Auditors). Both the Charter and the status of the internal audit staff are promoted across the Group through an in-house Intranet system.

Although the words creative/ity and innovate/ation do not appear in the Charter, independent and objective appear once: improvement appears 17 times, professional 4; quality 1. Each of which has creative and innovative connotations. This depictive insight into terms in the Charter show a significant motivation to continuously improve internal audit and to contribute to improvement in the group, but with less focus on quality in its services as measured by itself and its clients and other stakeholders – though its one mention of quality is in its scope to ensure - Quality and continuous improvement are fostered in the organization’s monitoring and control processes – and this includes itself and its compliance with professional standards.

The mission and scope of work of internal audit is broadly stated at the beginning of its Charter as:

*The internal audit function is a management tool for the Seren Group in its drive towards continuous improvement, safeguarding its reputation and sustainability.*

Apart from this motivating statement there are other motivations in its internal audit Charter to encourage creativity and innovation in its assurance and consulting services, in particular:

*Opportunities for improving management control, profitability, effective use of resources and the organization’s image may be identified during audits. They will be communicated to the appropriate level of management.*

*Maintain the links between improvement initiatives and associated reviews and the work of the Business Improvement Officer and the audit work,*

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15 D'Silva and Ridley (2007) in their research into innovation in internal auditing asked respondents (41) to comment on a list of selected words used to market their service. The results then included creative (10); innovative (20); independent (35); objective (37); improvement (33); professional (32); quality (29).
both of which are instrumental in providing opportunities for performance improvement.

Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.

Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.

Keep the Group Corporate Governance Committee informed of emerging trends and successful practices in internal auditing.

The Group Senior Internal Auditor recognised in the Gray and Gray/Ridley list of motivations for innovation the following as encouraged by the Charter and the culture of the Seren Group:

Increasing competition leading to pressures to reduce costs and increase efficiency.

New challenges, such as increasing internal control risks due to staff reductions and restructuring.

Changes in corporate management practices and philosophies, such as Total Quality Management, reengineering, continuous quality improvement, or related approaches.

Importance of organizational governance to meet regulatory and stakeholders’ needs.

Recognition that all types of crime in and by an organization should be fought.

Encouragement to think creatively.

And sees the following goals for these reflected in the internal audit programmes, plans and objectives and the internal audit required reporting of its ...significant measurement goals and results to the Group Corporate Governance Committee.

Continuous Improvement of the quality of internal auditing services.

Expansion of services to increase the value-added of internal auditing.

To reduce the opportunities for all types of crime in an organization.
Increase satisfaction from all our customers.

Add new skills in the art of questioning.

Sell internal auditing services as a contribution to the organization’s good reputation.

Finally, in the list of categories of innovation Categories the following were selected with examples of creative and innovative practices:

A Changes in the way that internal auditors interact with the rest of their enterprises and all those with a stakeholder interest.

The government regulatory focus on financial viability, tenant satisfaction, governance and value of money is included in every internal audit engagement. This has involved internal audit in a consulting role in Seren Group Lean reviews focused on improving customer satisfaction, working with the intervention team to ensure that as part of any improvement scheme the internal control environment is effectively and efficiently maintained.

B Creation of new audit services and methods.

Internal audit has a focus on continuous improvement in every internal audit engagement, both in the services it provides and the operations in which it is providing assurance and consulting services.

C Continuously improve knowledge and skills in the teams of staff who carry out internal auditing engagements.

Internal audit staff participate on a regular basis with network groups of internal auditors from other organizations in Wales and England.

Group Senior Internal Auditor has pursued IIA-UK professional qualification and is committed to documented continuing professional development

D Continuous improved satisfaction from all our customers.

Auditees are encouraged to express their comments on the internal audit service and results at the end of each audit report and these are fed back to the Group Corporate Governance Committee.
Changes in the way internal auditing asks questions.

*Internal audit questionnaires are developed for every internal audit engagement as part of the planning process.*

Contributions to the organization’s good reputation.

*Such a contribution is clearly seen in its Charter mission statement - The internal audit function is a management tool for the Seren Group in its drive towards continuous improvement, safeguarding its reputation and sustainability, as well as the scope of its independent professional assurance over Seren’s governance, risk management and control.*

These Categories selected by the Group Senior Auditor were chosen without sight of and compare very favourably with the five published challenges for professional internal auditing promoted by Richard Chambers, The IIA President and Chief Executive Officer, earlier this year:

- Alignment of internal audit work to **stakeholder** needs: A D E F
- **Quality** of internal audit work: A D E F
- Internal audit involvement in and use of **risk management**: A D E F
- **Insight** into change in sector and regulation: A D E F
- Contribution to the **status** of professional internal auditing: B C

Conclusions

D'Silva and Ridley at the Fourth European Academic Conference in 2006\(^6\) presented their findings from research into continuous improvement in internal auditing services, concluding then:

Quality and continuous improvement words and phrases are well represented in The IIA standards and supporting guidelines. Yet, phrases and words such as ‘*quality circle*’, ‘*teamwork*’, ‘*total commitment*’, ‘*motivation*’, ‘*innovation*’ and ‘*excellence*’ are conspicuous by their absence. Though they do appear in much of the supporting development and practice aids from which the standards have been developed. Raising the profile of such words in the standards and supporting guidelines would be a good start to increasing the importance and effectiveness of continuous improvement in internal audit activities. It would also add value to the contribution it makes to good governance practices.

The evidence from today’s theoretical research shows a growth in both the profile and importance of quality, innovation and continuous improvement in

\(^6\) Continuous improvement in internal audit services, Ridley and D’Silva: 2006
internal auditing services since that time, motivated by creative teamwork and a total commitment. Not just in its services but also the focus it now gives to all three words in the strategies and operations it reviews in its governance, risk management and control engagements, at board, function and supply chain levels: engagements, which often contain both assurance and consulting objectives. The challenges and opportunities internal auditors face today and in the future make it imperative that these three words and how they are practiced are measured in their performance and visible, not just to all internal auditors, but also to all their clients, at the planning and reporting stages of every engagement.

The empirical evidence in this research from the selected case unit demonstrates there is a role for internal audit to practice not just in the continuous improvement of its own services, but also in the operations of the organizations in which it works, in particular:

1. Opportunities can be taken within organizations and outside organizations for internal auditors to build bridges, share, benchmark and even develop innovative practices with others. Developing collaborative ‘open innovation’ teams may be the way forward for all internal audit departments to be creative in their roles and continuous improvement in their practices. Cross functional communities of practice probably exist or can be developed in every organization: and, externally there are qualifications to be achieved, discussion groups to join, conferences and workshops to attend. Use of the social media today is growing exponentially, creating new opportunities for continuous improvement through innovation.

2. The question of independence and objectivity in today’s internal audit engagements has always been recognized as a risk in all internal audit planning and engagements: recognised in its standards, guidance and research reports over many years. It is important that any impairment to its independence and objectivity – whether in its structure, staffing or reporting, are recognised at board level and appropriately managed in its engagements. The independence of internal audit and objectivity of its staff, complying with the international professional standards and code of ethics in all of its services, is a significant power to its elbow and adds value to an organization’s vision, mission, operations and compliance in its regulatory environment.

3. Sustainability is included in the case unit’s scope of work. The IIA has promoted increasing opportunities\(^\text{17}\) for internal auditing to be involved in

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and contribute to sustainability assurance and consulting engagements in organizations and across supply chains, thus enhancing the reputation of both. In today and tomorrow’s environmental and social concerns creating innovative approaches to the issues involved should be a challenge for every internal auditor.

These conclusions impact globally all policy-makers in internal audit departments of whatever size and sector. The importance of creativity and innovation in internal auditing has been demonstrated by The IIA since its inauguration. Not least, by the recent launch of its Audit Executive Centre in 2010 “…a portal to a vast array of services designed to provide Chief Audit Executives with everything they need to help them stay empowered, connected, and relevant.”: designed to “enhance their value to their organizations and stakeholders such as executive management, boards of directors, and audit committees. Every internal audit department needs to continuously address its scope of work, attributes and quality of its performance to improve its empowerment, connections and relevance, through the creation of new and innovative practices.

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Appendix 1

Motivations, Goals and Categories for innovation in internal auditing 2008

Throughout my book I have referenced into the Gray and Gray (1997) research, their motivations, goals and categories for innovation in internal auditing. I am indebted to them for their insight. Their research has proved to be an invaluable guide to me in my teaching and research, and I am sure to others. Their analysis and understanding of how innovation is encouraged, achieved and monitored in internal auditing has stood the test of time well. Each of the Motivations, Goals and Categories in the original Gray and Gray research is in bold, though some of these have editing reflecting my own research in 2008. (Ridley (2008 pp. 413/4).

Motivations

1. Progress within the field of professional internal auditing.
2. Increasing competition leading to pressures to reduce costs and increase efficiency.
3. New challenges, such as increasing internal control risks due to staff reductions and restructuring.
4. Opportunities to increase efficiency and quality as a result of technological advances.
5. Changes in corporate management practices and philosophies, such as Total Quality Management, reengineering, continuous quality improvement, or related approaches.
6. Challenges and opportunities of global issues and developments.
7. Social and environmental issues, including health and safety, impacting all organizations.
8. Recognition that professionalism, quality and standards are essential attributes for world-class status in any internal auditing activity.
9. Importance of organizational governance to meet regulatory and stakeholders’ needs.
10. A continuous search for good and evil in how organizations and all their operations are directed and controlled.
11. Recognition that all types of crime in and by an organization should be fought.
12. Encouragement to think creatively.
13. Commitment to a good business plan.

Goals

1. Continuous improvement of the quality of internal auditing services.
2. Achieve best practice by continuously benchmarking.
3. Expansion of services to increase the value-added of internal auditing.
4. Manage staff knowledge, skills, performance and morale well.
5. Sell internal auditing as future-focused.
6. To reduce the opportunities for all types of crime in an organization.
7. Increase satisfaction from all our customers.
8. Add new skills in the art of questioning.
9. Sell internal auditing services as a contribution to the organization’s good reputation.

Categories

1. Changes in the way that internal auditors interact with the rest of their enterprises and all those with a stakeholder interest.
2. Internal restructuring and changes in the organization and management of internal auditing.
3. Creation of new audit services and methods.
5. Continuously improve knowledge and skills in the teams of staff who carry out internal auditing engagements.
6. New services to fight crime.
7. Assistance in evaluation of the board’s performance.
8. Continuous improved satisfaction from all our customers.
9. Changes in the way internal auditing asks questions.
10. Contributions to the organization’s good reputation.