Internal Auditing

A shift in role and scope

Master Thesis

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Abstract

Purpose: Our purpose is to investigate if the documentation of an internal audit department at banks reflects a shift towards more consulting activities, and how this potential change in the internal audit documentation can be explained.

Background: Previous research indicates that internal audit has developed from its traditional assurance activities to include more consulting activities such as risk management assistance and corporate governance support. Some researches argue that this development can have a negative impact on internal auditor independence. However, there is a lack of research in this area using documentation and content analysis of internal audit reports.

Method: In this study, we have done qualitative content analysis of internal documents collected from the period 2004-2013. These documents are analyzed using a coding scheme based on previous research.

Conclusion: By qualitatively analysing the activities reported we find that the documentation reflects a shift, over time, towards more activities that we classified as consulting. We argue that this can mainly be explained by coercive and normative isomorphism; for example, regulatory pressures and influences from the Institute of Internal Auditors. We also argue that internal auditing might benefit from a more consistent view of the role.
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1 Introduction

1.1 Background

Corporations have used the title internal auditor for some time. However, it has not been considered a profession in the same sense as the external auditor, which the creation of the Institute of Internal Auditors (IIA) aimed to change (Sawyer, 1996). The rationale was that an organization focused on professionalization and the production of knowledge was required to further develop internal auditing. The IIA of today argues that internal auditing should be an important part of the corporate governance structure of any company (IIA, 2009). This was not the case in 1941 when internal auditing was closely tied to financial accounting and had a strong link to the work of external auditors (Meigs, 1951; Haun, 1955).

One of the first contributions by the IIA was the release of the ‘Statement of Responsibilities of the Internal Auditor’ in 1947 (Gupta et al., 1992; Sawyer, 1996). The statement was part of the endeavour by the IIA to establish a common foundation for the objective, range and responsibilities of internal auditing. In this first Statement of Responsibilities, internal audit was described as:

“an independent appraisal activity within an organization for the review on the accounting, financial and other operations as a basis for protective and constructive service to management. It is a type of control that functions by measuring and evaluating the effectiveness of other types of control. It deals primarily with accounting and financial matters, but it may also properly deal with matters of an operating nature” (Van Voorhis, 1952:1).

It is clear from this first definition that review of financial accounts, existing activities and controls is the scope of internal auditing. “...matters of an operating nature” is something that an internal auditor might handle, but it is not a central part of the service provided. This is in line with the arguments by Meigs (1951) and Haun (1955). Moreover, the definition states that internal auditing is a service provided to management. There is no mentioning of the board of directors or other stakeholders.

The Statement of Responsibility was revised in 1957, 1971, 1976, 1981 and 1990, until it was replaced by a new definition in 1999, and was made part of the International Pro-
fessional Practices Framework published by the IIA in 2002 (Arwinge, 2010). During this time the IIA also grew in importance and is now a recognized global professional organization, its mandatory and recommended guidance have gained wide acceptance (Al-Twajry et al., 2003; Nagy & Cenker, 2007; Swinkels, 2012). The new definition from 1999 was:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” (IIA, 2014a)

Both the 1947 and the 1999 definitions mention that internal audit has to be independent; however, the definitions differ greatly in other aspects. The 1947 version makes it clear that internal auditing has foremost a finance- and accounting-focus. While the new definition makes no such statement, it describes a more general approach to control and risk management. By writing that internal audits should focus on evaluation, measurement and control, mainly of financial matters, the 1947 definition suggests that internal audit has a low level of integration in corporate governance. In contrast, the 1999 version focuses on adding value and helping an organization accomplish its objectives. Hence, Nagy & Cenker (2007) argue that the new definition distances the internal audit profession from assurance and moves it closer to a value adding profession.

After the implementation of the new definition in 1999 and the new IIA International Professional Practice Framework in 2002 a number of researchers doubted that the activities of internal auditors had changed in practice (Nagy & Cenker, 2002; Spira & Page, 2003). Spira and Page (2003) even suggest that the new definition is visionary and does not reflect actual practice. However, since then, several researchers state that the scope of internal auditing has indeed increased and that it now includes consulting activities and operational support in addition to the traditional financial assurance and operational review activities (Swinkels, 2012; Brody et al., 2014).

Researchers who discuss the downside of consulting services, argue that consulting services can have a negative impact on the objectivity and independence of the audit at a later stage (Anderson, 2003). Some consulting services can make the auditors nervous
about their ability to objectively audit these areas at a later date (Anderson 2003). However, at the same time as researchers consider independence to be one of the main features of internal auditing, that it has been part of the IIA’s definition from the beginning; adding value and consulting has not (Hass et al., 2006; Abu-Azza, 2012), other does not consider independence as having high importance and that the value added to management is more important (Yee, 2007). If independence has only a small impact on internal auditing, then the possibly increased scope should not be considered as something negative.

1.2 Problem formulation

Literature reviews published by Hass et al., (2006), Cooper et al., (2006) and Allegrini et al., (2006) show that studies looking into the new scope and responsibilities taken on by internal auditors are using research strategies that are centered on gathering information from people in the profession or those working closely with internal auditors. While results regarding the expanding scope of internal auditing seem to be coherent, there are calls for more research in similar areas using different methods (Stewart & Subramaniam, 2010) and in different national settings (Soh & Martinov-Bennie, 2011).

One reason why a different method is advisable is that surveys, interviews and other forms of information gathering that is based on responses from people, suffer from social desirability bias (King & Bruner, 2000). This means that respondents and interviewees have strong tendencies to answer the question in a way that they believe society at large deems desirable or correct. Another factor that is true for internal auditing specifically is that most respondents and interviewees in these studies are members of the internal auditing profession and, as such, share a desire to improve the standing and reputation of their profession.

Additionally, we argue that a large gap in internal audit research is that there is a lack of studies looking at the topic from the inside. One possible explanation for this is that confidentiality provides strong incentives for companies and professionals to refuse researchers access to internal documentation. Nevertheless, we posit that one can only establish a clear picture of the scope of internal auditing by looking at internal documents stating what activities the internal audit function has performed.
Furthermore, Arwinge (2014) states that there is a close relationship between regulatory developments and the use of internal control systems in companies. The Swedish Banking and Finance business act from 2004 (SFS 2004:297) obligates banks to identify and report potential business risks, and to ensure that they have satisfactory internal controls in place. Since internal auditors are supposed to verify the effectiveness of the internal control systems (Arena et al., 2006), we argue that the internal control and the internal audit of banks are further developed than that of businesses that are exempted from the act.

Moreover, another organization that also has a large influence on banking regulation is the Basel Committee on Banking Supervision (BCBS) who aims to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability. In a paper from 2012, on how to evaluate internal audit functions, the organization defines internal auditing as:

“An effective internal audit function provides independent assurance to the board of directors and senior management on the quality and effectiveness of a bank’s internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organisation and its reputation.” (BCBS 2012: 04)

When we compared this to the latest IIA definition (IIA, 2014), we found some important differences. Both organizations mention independence early, however, BCBS does not include consulting activities in their definition. Furthermore, the IIA states that internal audit should work to “add value and improve an organization’s operations” in addition to the control, risk management and governance processes. This formulation is not mentioned by BCBS, which specifically states that it should protect the organization and its reputation. The differences in how these two bodies define internal audit show that there are different views on the purpose of internal auditing and that the role is not yet properly established as it seems to differ between regulators and the profession.

Furthermore, the differences in the definitions becomes even more interesting as BCBS write that their view of internal auditing is set as guidance for assessing the effectiveness of internal audit functions at banks (BCBS 2012), when they at the same time states that they:
“encourages bank internal auditors to comply with and to contribute to the development of national and international professional standards, such as those issued by The Institute of Internal Auditors.” (BCBS 2012: 01)

When BCBS encourages banks to comply with IIA, they are indirectly supporting consulting activities, since consulting activities are part of the IIA definition of internal auditing. Due to this contradiction, it is of relevance to investigate banks to see if the scope of internal auditing has increased to include consulting activities in addition to the traditional financial assurance and operational review activities or not. If there is an increased used of internal auditors for consultant services then this phenomenon is important to highlight as it can reduce the objectivity of assessments and, therefore, the assurance provided by internal auditors (Andersson, 2003).

We investigated if and how the internal audit of banks has developed by looking at their internal audit documentation. Using real datasets from banks, there is an opportunity to investigate whether it is possible to trace the development of internal auditing, from its traditional assurance activities into consulting activities (Swinkles, 2012). By studying documents, we aim to provide a more neutral and objective view (Bryman & Bell, 2011: 559). We aimed to answer the following research questions:

- How does the internal audit documentation at a bank reflect the alleged shift towards more consulting activities?
- How can a potential change in the internal audit documentation be explained?

1.2.1 Purpose

Our purpose is to investigate if the documentation of an internal audit department reflects a shift towards more consulting activities, and how this potential change in the internal audit documentation can be explained.

1.2.2 Limitations of the study

While it would be interesting to look at an industry as a whole, the uniqueness and restricted access to data limits us to one bank. Hence, our results cannot be generalized without careful consideration. This study does, however, contribute to a broader under-
standing of internal auditing. Furthermore, the core data is not disclosed due to confidentiality, which limits the ability to replicate the study.

In addition, we have also decided to limit our investigation to the Swedish context, mainly due to the impracticalities of contacting banks abroad. But also to focus our investigation on a national setting that has not been covered in previous research (Hass, et al., 2006; Cooper et al., 2006; Allegrini et al., 2006).

The research contribution of this study would benefit from analyzing a longer time series of ten or more years. Thus covering the last change of the definition of internal auditing by the IIA. However, this was not possible within our study since the investigated bank had not been archiving any documentation before 2004.

2 Literature review

2.1 Previous findings

Brody & Lowe (2000) were early to acknowledge the increase in the scope of internal audit activities after the IIA presented their new definition (IIA, 2014a). However, they accepted the increased scope of internal audit as a fact and instead focus their research onto the area of independence. They criticize the new consulting role of internal auditing and how this affects independence. In contrast to the independence focus, Nagy & Cenker (2002: 130) asked the question: “... have the activities of internal auditors really changed?” They interviewed 11 directors of internal auditing departments at large publicly traded companies in the USA. Among the findings presented in their paper, the directors argued that the profession should not decide on the scope of internal audit activities. This should be the privilege of their customers, top management or the board of directors. However, the interviewees still acknowledged that the profession had taken a turn towards more value adding activities at the cost of assurance services, which is in line with the new IIA definition. Despite this, Spira & Page (2003: 657) posit that there is a “...rhetoric gap...” between the visionary’s views of internal audit and the actual practice in organizations.

In their paper from 2003, Selim et al., look at mergers, acquisition, divestitures and the involvement of internal audit in these events by surveying internal auditors and senior managers in the USA and Europe. They found that the involvement of internal auditors
is only moderate but that it has increased from accounting issues only to include “... deal structuring and negotiation, post-acquisition integrating and ... post-acquisition audit.” Both the internal auditors themselves and senior managers in other functions believe that internal audit could increase their involvement in mergers, acquisitions and divestitures (Selim et al., 2003: 224).

A large amount of research focused on internal auditing, has been published in cooperation with the IIA or their research foundation, The Institute of Internal Auditors Research Foundation (IIA, 2014b). This raises the question of researchers’ bias; however, the papers still contribute to what we know of internal auditing. The research that stands as most relevant to our study is a three-part literature review published in 2006 (Hass et al., 2006; Cooper et al., 2006; Allegrini et al., 2006). Hass et al., (2006) cover literature from the Americas and note that internal auditors must maintain their objectivity and independence when performing their duties. In addition, they state that implementation of the Sarbanes Oxley act in 2002 (SOx) caused many companies to focus their internal audit departments on compliance, reverting some of the progress that internal auditors in the U. S. had made towards a more consultative role. They also state that SOx compliance makes up approximately half of the internal auditor’s workload and that internal auditors must work closely with management and the audit committee to ensure that the risk assurance services remain adequate (Hass et al., 2006). Nagy & Cenker (2007) agree that internal auditors in the USA are spending major parts of their time as compliance experts and worry that this development is negative for both internal auditors and their employers. However, later research found that SOx compliance did not remain as the main focus of internal auditing departments once the initial implementation was over (Swinkles, 2012).

Returning to the three-part literature review, Cooper et al., (2006) covered the Asia-Pacific region. A central theme in the research from 2000 and onwards is the objectivity issue that can arise from a situation where internal auditors both help management with value adding services while at the same time being charged with reviewing the managers performance. Cooper et al., (2006: 832) draw several conclusions, such as: (i) the role of the internal auditor has changed from a financially-oriented role towards a focus on risk assessment and internal controls, (ii) the inclusion of consulting services is put-
ting the independence of internal auditors into question, and (iii) a conclusive consensus on the role of the internal auditors does not yet exist.

In the European literature review, Allegrini et al., (2006) report that consulting engagements represent 27 per cent of the working agenda of internal auditors in France. A study in Belgium found that 12 per cent of the time was spent on consulting services, but the respondents expected this to increase. In contrast, an Italian study found that only a few large companies have internal audit functions that also provide advisory services (i.e., consulting services), and that these were considered pioneers. Several studies also state that more time is spent on operational and compliance audits compared to financial audits (Allegrini et al., 2006). Nevertheless, Allegrini et al. (2006) does not provide strong opinions regarding the independence of internal auditors, despite stating that the internal audit charter is strongly influenced by management, in addition to the audit committee.

The three literature reviews (Hass et al., 2006: 835; Cooper et al., 2006: 822; Allegrini et al., 2006: 845) have almost identical conclusions, where they state that:

“The increasing complexity of business transactions, a more dynamic regulatory environment… and significant advances in information technology have resulted in opportunities and challenges for internal auditors.” “More must be done to prepare internal auditors for the expanded set of skills and knowledge required to perform audits of the future.”

In a paper based on interviews, Yee et al., (2007) write that the modern view of internal auditors is that they are consultants who work with senior management to recommend improvements of the organization’s processes. Managers in Singapore support this development and the authors also state that independence is not a major concern. On the other hand, Mihret & Woldeyohannis (2008) found that the assurance function of internal auditing remain dominant, primarily based on interviews and a survey among auditors and managers. They also state that the goals of the organization and the risks it is facing seem to shape the internal auditing department. This is coherent with the view expressed in the study by Nagy & Cenker from 2002; management should steer the focus of internal audit, not the profession. By using interviews Soh & Martinov-Bannie (2011) instead find that several factors have influenced the widening scope of internal
audit: regulatory changes, increased awareness of IAF value, cultural changes and, an increase in the quality of individuals in key roles within internal audit and the audit committee.

Recently published research from Brody et al., (2014) used an experimental approach to find that internal auditors are less objective than external auditors when acting as consultants in regards to an acquisition. The researchers then posit that this lack of objectivity might extend to the assurance services provided by internal auditors and question whether external auditors should rely on information that come out of said services. However, Brody et al., (2014) agree that modern internal auditors provide both consultancy services to top management and assurance to the audit committee. However, Byrne (2014) question whether internal auditors provide the level of assurance needed to comfort the audit committee and management, and posit that future regulations will require even more comprehensive risk management. Similarly, in a paper by Chambers (2014:268) one can read that internal auditors are “... now regarded as part of the supervisory process.” and that regulators are imposing demands on internal auditors that go beyond the standards of the profession.

We have summarized the previous findings in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Authors</th>
<th>Study type</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Brody &amp; Lowe</td>
<td>Experimental</td>
<td>Accept increased scope, critical of how consulting affects IA independence</td>
</tr>
<tr>
<td>2002</td>
<td>Nagy &amp; Cenker</td>
<td>Interviews</td>
<td>The profession should not decide the scope of IA, value adding has been part if IA for some time already</td>
</tr>
<tr>
<td>2003</td>
<td>Spira &amp; Page</td>
<td>Discourse analysis</td>
<td>Rhetoric gap between IIA definition and actual practice</td>
</tr>
<tr>
<td>2003</td>
<td>Selim et al.</td>
<td>Surveys</td>
<td>Moderate IA involvement in M&amp;A and divestitures</td>
</tr>
<tr>
<td>2006</td>
<td>Hass et al.</td>
<td>Literature review</td>
<td>New regulations may force IA into a compliance role and reduce the assurance provided</td>
</tr>
<tr>
<td>2006</td>
<td>Cooper et al.</td>
<td>Literature review</td>
<td>IA role has changed away from a financial focus. Consulting activities is putting IA independence in-</td>
</tr>
</tbody>
</table>
Theoretical perspectives

This study aims to investigate if the documentation of an internal audit department reflects a shift towards more consulting activities, and how this potential change can be explained. The idea behind our research arose from previous research, where findings show a development in the internal audit activities from traditional assurance services into more consulting based services. We argue that new institutional theory and the need for legitimacy, in accordance with Ashworth et al., (2009) and DiMaggio and Powell (1983), is particularly useful when investigating organizational development.

2.2.1 The "new" Institutional theory

DiMaggio & Powell (1983) argue that a central assumption of institutional theory is that organizational changes are highly constrained. However, institutional theory explains changes in organizations as something that emerges when there is a need to legitimate actions, or to meet expectations of stakeholders or society (Ashworth et al., 2009). Insti-
tutional theory focuses on the similarity of forms and practices in organizations (DiMaggio & Powell 1983). The concepts of institutional theory are built upon ideas that organizational survival is based on conformity, which is practiced according to norms such as expectations by stakeholders and society (DiMaggio & Powell, 1983). The developments of organizations towards conformity is described by three different types of isomorphism; coercive, mimetic and normative (DiMaggio & Powell, 1983). Isomorphism is defined as: “a constraining process that force one unit in the population to resemble other units that face the same set of environmental conditions.” (DiMaggio & Powell, 1983:149)

DiMaggio & Powell (1983) argue that in order to achieve legitimacy, an organization require homogeneity in the forms and practices. Meyer and Rowan (1997) discuss that organizations become isomorphic with their institutional environment to maintain the legitimacy of its practice. However, legitimate changes can occur through isomorphism and institutional isomorphism can occur in different phases within the three discussed groups. Coercive isomorphism can be a result of laws or regulations imposed by the state or the organization (DiMaggio & Powell 1983), or as result from more political influences and the problem of legitimacy, which is develop from "...formal and informal pressure exerted on organizations, including government mandate." (Arena et al., 2006:280) Mimetic isomorphism, on the other hand, can be the result of environmental uncertainty or ambiguous goals. In those cases, an organization often mimics the practice and strategies that they perceives as successful and legitimate (DiMaggio & Powell 1983).

Normative isomorphism is associated with professionalization. It is argued to develop from increased proficiencies in organizations, which occurs when institutional changes emerges out of the recognition of professions within the organization (Abbu-Azza, 2012). DiMaggio and Powell (1983) argue that formal education and legitimation in a cognitive environment, such as a course produced by university specialists, or training programs produced by professional institutions, are seen important sources to normative isomorphism and legitimacy. The more legitimized the practice are, the more likely firms are to adopt it (DiMaggio & Powell 1983).
Abbu-Azza (2012) elaborates further on ideas of normative isomorphism and argues that universities and professional training institutions are important for the development of organizational norms among professional managers and their staff within organizations. This has a significant impact on internal auditors, since the proficiency of internal auditors can appear in the very early stage as courses in internal auditing at a university, or perhaps later in the career, by being involved in the local IIA chapter; as a result:

“This has the potential to raise the profile of both IA and the IIA in that locality and increase the momentum for the diffusion of IA activity to similar establishments. A likely consequence of the resultant increased proficiency within companies is enhanced conformity to IIA standards.” (Abbu-Azza, 2012:40)

Other researchers investigated isomorphic behaviour in the context of the internal auditing. One example is the research by Al-Twaijry et al., (2003) who studied the internal audit function during the establishment phase in companies. They were focusing on the motivations and choice for not establishing internal audit units and processes for the scope of work in those companies. Al-Twaijry et al., (2003) concluded that coercive isomorphism could be related the pressures applied when establish internal audit departments in organizations and highlighting the need of a stronger coercive pressure for the internal audit function.

Arena et al. (2006) followed up coercive isomorphism when they investigated the development of internal audit departments in Italy. They discussed regulations on internal controls as a formal pressure, which can influence organizations and the development of internal audit functions. Arena et al., (2006) also discussed that internal audit adoption may have elements of mimetic behavior, as companies seek to model themselves on the practices of similar organizations in the same field (or at least the IIA), which they perceive to be more legitimate or successful. Furthermore, Arena et al., (2006) argued that professional bodies, such as the IIA, mostly influence the internal audit functions. They also differentiate between two types of internal audit functions: those who have a formal role that is mostly shaped by legal requirements (i.e., regulations) and other coercive pressures, and those who go beyond these coercive pressures and also focus on business processes and consulting activities as well (Arena et al., 2006).
Figure 1: Summary of theoretical perspectives for changes, own illustration.
Discussion

Institutional theory and the different categories of isomorphism only explain changes towards similarity (DiMaggio & Powell, 1983). This means that changes in organizations that take a different direction than the collective at large cannot be explained using this theory. In our case we investigate a change towards a perceived norm and therefore we deem the theory as suitable despite this limitation.

Furthermore, the three pressures, coercive, normative and mimetic are all external forces that affect an organization. The theory does not contain an explanation for changes that are driven by internal pressures and can as such only explain one part of the driving forces towards change (Van der Steen, 2005). However, we argue that the major driving force in our example is external and that internal pressure is limited; this means that the impact of this limitation is limited.

2.2.2 Legitimacy theory

Legitimacy has been discussed with relation to the institutional theory above. However, the term legitimacy is quite complex and needs to be further explained. Rindova et al., (2006) define legitimacy as the degree to which broader public view a company's activities as acceptable. Organizational practices must comply with industry norms and the broader societal expectations. Legitimacy theory in the scope of organizations can also be defined as:

“…a condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy.” (O’Donovan, 2002: 345)

If organizations want to be seen as legitimate, it depends on the ability to convince stakeholders that the governance processes of the organization are trustworthy (Gabrini 2013). According to Gabrini (2013) to accomplished a trustworthy process, one need to developing an appropriate method, as internal audits and nevertheless through reporting results of the performance.
Summary of theoretical perspectives

Based on the discussions above, isomorphic behaviour and legitimacy are relevant to consider in this study. DiMaggio and Powell (1983) discusses that changes in organizations can occur, as in recognition of professions, in order to adapt to, and legitimate, new structures and processes. Examples from internal auditing are that the role has: developed towards value adding activities and consulting services (Brody et al., 2014), shifted from being a detection function into a preventive function (Hass et al., 2006) and, moved from the traditional assurance role towards the role of a consultant (Swinkles, 2012).

Changes in how organizations use the internal audit function can either be a result of coercive isomorphism due to regulations and laws for internal control as internal auditors are supposed to verify the effectiveness of the internal control system (Arena et al., 2006). Or, normative isomorphism as a result of education, membership in IIA, or the IIA standards that internal auditors are expected to follow (Al-Twaijry et. al., 2003; Abbu-Azza, 2012; Arena et al., 2006; DiMaggio & Powell, 1983). Mimetic Isomorphism can be the result of organizations mimics the practice and strategies that they perceive as successful and legitimate (DiMaggio & Powell 1983). The absence of a change can as well be explained by institutional theory; organizational changes are seen as highly constrained as long as the actions within are seen as legitimate (DiMaggio & Powell, 1983).

3 Research methodology

3.1 Pre-study

We did a pre-study to investigate whether it would be possible to gain access to banks’ internal audit documentation. We managed to get in contact with internal auditors at seven banks and asked them to participate in our study; five immediately declined, citing the vital information contained in the documentation, another bank withdrew after consulting the legal department. This confirmed our belief that the gap in research might be the results of banks’ need to protect vital information.

However, as one might guess by looking at previous research, all who declined to provide us with documents were willing to participate in interviews. Since we strive to
avoid answering bias and feel that document analysis is a research gap in this field we were determined to use documents.

In the end, one bank was willing to provide us with internal audit documentation covering 2004 to 2013, if we signed confidentiality agreements and agreed to handle and store the data according to their instructions. Hence, we concluded our pre-study with the result that banks are reluctant to provide researchers with access to internal audit documentation, which explains the research gap that we have identified. Nonetheless, we gained access to documentation covering the internal auditing at a bank, enough to carry on with our initial research purpose. The bank will be described in more detail in chapter 5 in this thesis.

The results from our pre-study had several implications for the method choices in this thesis. Having data available from only one source rules out two, otherwise very favorable, research designs. A comparative study or a historical comparative study with a larger number of data sources would have allowed us to get closer to industry wide findings, and therefore provide stronger conclusions. However, since we could not find any previous studies analyzing internal documents on this topic, the idea of letting this opportunity pass due to only one participant was not an option. With these settings, we decided to do longitudinal design of one bank over a longer period. As we consider that a longitudinal content analysis of internal documents would contribute the most to the research in this type of academic field.

3.2 Approach - Qualitative research

Qualitative and quantitative research often stands in contrast to each other, where qualitative research aims to describe reality through conceptual meaning while quantitative research aims to describe causalities and to quantify data (Bryman & Bell, 2011). Qualitative research is more appropriate for this study since we aim to bring broader insight into if, and how, banks’ internal audit documentation reflects a shift towards more consulting activities.

3.3 Design - longitudinal

Bryman & Bell (2011) argue for the use of a longitudinal design when analyzing documents from more than one occasion. We collected data from documents created on a
large number of occasions during a ten year period and therefore we use a longitudinal design. However, the long time frame also introduced some issues as the design and structure of the documents changed considerably over time. We had to spend time on organizing and structuring the data to our needs and to make sure that the layout did not affect our coding. For example, the result of activities was sometimes reported in one year, but the description and planning of that activity was documented a different year; we had to organize all the information regarding the activities in one place.

3.4 Data collection – Internal audit reports

Internal audit documentation is our primary data; it consists of 89 documents that the internal audit function produced at the bank. 49 of these documents were produced as a basis for the internal audit function’s meetings with the audit committee; these were in the format of PowerPoint presentations. The meetings have taken place on a quarterly basis, while some years have had additional reports created. The other 40 documents are mixed between risk assessments, audit plans and various other reports; they consist mostly of Excel files but also a few PowerPoint presentations. All these documents were investigated in order to gain a complete picture over the activities that have taken place. Due to the confidentiality of the analyzed documents and the limited presentation of internal documents in our research, replication can be difficult, since it requires the same bank to provide new researchers with its internal documentation. With limited presentation we mean that we have removed any information that can be used to identify the bank in question. In addition, we can only show extracts of the documents and not their entirety.

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<tbody>
<tr>
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<td>8 (149)</td>
<td>11 (269)</td>
<td>6 (152)</td>
<td>6 (166)</td>
<td>7 (174)</td>
<td>8 (168)</td>
<td>6 (180)</td>
<td>10 (221)</td>
<td>7 (138)</td>
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<td>Excel</td>
<td>1 (7)</td>
<td>2 (16)</td>
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<td>1 (2)</td>
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<td>283</td>
<td>167</td>
<td>173</td>
<td>176</td>
<td>170</td>
<td>199</td>
<td>222</td>
<td>160</td>
</tr>
</tbody>
</table>

Table 2: Overview of primary data
3.5 **Strategy - content analysis**

We have had the rare opportunity to analyze internal documentation using a qualitative content analysis. Content analysis is a qualitative framework used to deal with data in order to understand qualitative concepts (Kohlbacher, 2005). According to Hsieh & Shannon (2005) content analysis in qualitative research focuses on the characteristics of language as communication with attention to the content or contextual meaning of the text. This is appropriate for this study, since we have interpreted what is written in the documentation of the internal audit function.

Qualitative content analysis focuses on communication and social reality (Hsieh & Shannon 2005). Findings are usually displayed as quotations in order to justify conclusions (Schilling, 2005). However, it can also be displayed in combination with graphs, charts or tables (Miles & Huberman, 1994). We have used a combination of both to make it easier to view our findings. When presenting the results of qualitative content analysis research, authors need to balance descriptions and interpretation. Description adds background to the phenomenon, whilst interpretation shows the authors theoretical understanding of the phenomenon (Denzin, 1989). Table 5 & 6, in chapter 5, serves as general summaries of the findings from our coding scheme, the quotes in chapter 5 provide insight into our interpretation of the data. The main contribution of this thesis lies in the qualitative analysis and categorization of internal audit activities. Numerical presentation of our data is a suitable way of presenting our findings while also giving a holistic view.

3.5.1 **Directed content analysis**

Searching for themes with content analysis, regardless the use of a quantitative or a qualitative approach requires a well-constructed coding strategy (Bryman & Bell, 2011). The directed approach to qualitative content analysis, also referred to as deductive category application (Mayring, 2000), starts with a theory or relevant findings from previous research as guidance for initial coding (Hsieh & Shannon, 2005). In cases when prior research exists about a phenomenon that would benefit from further description, a directed approach can be used validate or extend the understanding of this phenomenon (Hsieh & Shannon 2005). Moreover, Hsieh & Shannon (2005) state that when using
previous research for coding, researchers can preferably begin by identifying key ideas or variables as coding categories. We argue that prior research provides us with a good foundation to start our coding as there are plenty of descriptions of internal auditing and the related activities. Therefore, we used a directed approach to qualitative content analysis and, in chapter 4; we describe the process of deriving our coding scheme from previous research.

3.6 Designing the coding scheme

Bryman and Bell (2011) argue that it is important to consider subjectivity (i.e., rater bias) when using qualitative content analysis; this is especially true in our case as the ability to replicate our study is limited. In order to make the most of content analysis, and to avoid rater bias, we have set up a coding scheme. The scheme is based on previous research findings by identifying key ideas, and definitions as primary coding categories. In addition, we have followed the recommendations from Bryman and Bell (2011) that can reduce rater bias. We started by defining the recording units (for example: words, phrase, sentence, paragraph), then defined the coding categories and tested them on a coding sample. After assessing the accuracy and reliability of the sample coding we decided that it required improvement. As such, we revised the coding rules in order to never be unsure on how to code an activity, before we coded all the documents.

Furthermore, the reliability of coding is also an area of interest. Bryman and Bell (2011:304) discusses that: “coding must be done in a consistent manner. As with structured observations, coding must be consistent between coders (inter-coder reliability) and each researcher must be consistent over time (intra-coder reliability).” We avoided the lack of reliability by being consistent and synchronized in the observation phase. Once we had our first coding scheme, we coded the sample activities together and tested whether we both agreed on how we should code an activity. Accordingly, our first coding scheme and the coding units used did not meet the requirements for our purpose and needed a revision, as we had several occasions we were unsure how to code an activity. This required us to rethink and redo. The new defined coding units, and the definition of the coding categories used in our analysis can be seen in chapter 4 of this study. These units are narrower than the ones we used previously and facilitated a more consistent coding. They can be seen in figure 5, chapter 4.
3.7 Data analysis

In the documents there was a lack of continuous text, this absence allowed us to analyze phrases and words, rather than free-flowing text. According to Zhang et al., (2009) a qualitative content analysis generally need the data to be transformed into written text before an analysis can start. Our documents consist of text, only running text is absent. However, another researcher argues that content analysis can consist of identifying few words rather than analysis of free-flowing text, as long as the categorization is rigorous (Hodder, 2000).

Furthermore, the activities within the analyzed documents were never clearly grouped into assurance or consulting categories, nor into years. The activities first had to be sorted and organized before we could analyze and code them into separate categories. Since we had to interpret the data, using another method for analyzing these documents is not more appropriate. We have analyzed phrases and words while searching for themes that relate to our coding scheme for assurance-, and consulting services. Our findings have been justified by quotations, as discussed by Schilling (2006). The quotations were then discussed and consolidated in previous research findings and theoretical perspectives, as is considered viable by Hsieh and Shannon (2005). An example of the later stages of our coding procedure for one activity can be seen, step-by-step, in appendix 1 and 2.

4 Directed content analysis framework

We argue that it is important to discuss descriptions of assurance and consultant services. Especially, since previous research indicates that internal audit has developed from its traditional assurance activities, into considering more consulting (Swinkles, 2012). This development has increased the added value processes for organizations, which should have increased the use of internal auditors in organizations (Munro & Stewart, 2010). This section will consider various concepts and definitions of assurance services, consultancy services, and related activities. It is of importance to only look at previously stated definitions and concepts, and not make any own assumptions. By considering several views, we obtain a broader and less subjective view of the described meaning behind assurance, and consultancy services (Bryman & Bell, 2011).

We started by considering concepts and definitions in an article by Anderson (2003), who examined the nature of assurance and consultancy services by discussing defini-
tions and how these services stand in contrast to each other. Anderson (2003) later devised a continuum of assurance and consulting (Figure 2), to describe activities that can be accounted for in the scope of these services. This continuum is important for further understanding, since it explains what to classify as an assurance or consulting activity. It captures different audit activities behind the assurance, and consultancy services (Anderson, 2003).

This section will go on by first discussing definitions and concepts of assurance services, consulting services and related activities.

### 4.1 Descriptions of assurance service

The definition used by Anderson (2003) is more or less the same as the one the IIA is using for describing assurance service: an objective examination of evidence while providing an independent assessment. Both Anderson (2013) and the IIA (2014c) exemplifies assurance services as an engagement related to assurance of financial, performance, compliance, system security, and due diligence audits (Anderson, 2013; IIA, 2014c).

Furthermore, Krogstad et al., (1999) describe assurance services in a much broader concept. It adds value by providing an assessment of the reliability of the organizations forms and settings. All the original descriptions made by these researchers and associations are listed in the table below.

<table>
<thead>
<tr>
<th>Study/Association</th>
<th>Descriptions of Assurance service</th>
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</thead>
<tbody>
<tr>
<td>Anderson (2003)</td>
<td>An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization.</td>
</tr>
<tr>
<td>IIA (2014c)</td>
<td>An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organi-</td>
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</table>
Krogstad et al., (1999)  
The profession can add value by providing an assessment of the reliability of the data and operations on specific organizational settings. This concept includes all the traditional audit areas (e.g., efficiency, financial compliance, operational) as well as newer forms of assurance involving control and risk management issues.

Table 3: Summary of relevant literature and associations describing assurance service

<table>
<thead>
<tr>
<th>Study/Association</th>
<th>Descriptions of consultant service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anderson (2003)</td>
<td>The definition discussed by Anderson (2003) is the same, or very similar to what the IIA uses to describe consulting services. They are both highlighting terms as advisory, add value and, improve the organization’s operation (Anderson, 2003; IIA, 2014c). Anderson (2003) also discuss it by exemplifying it as: conducting internal control training, providing advice to management about the control concerns in new systems, drafting policies, and participating in quality teams. The IIA (2014c) exemplifies it as counsel, advice, facilitation, and training.</td>
</tr>
<tr>
<td>Fernandes (2000)</td>
<td>Fernandes (2000) describes consulting as something that attempts to improve the conditions of an organization. According to Nagy &amp; Cenker (2002) consulting services are something different than just assessing controls, something that fixes a problem. Stewart &amp; Subramaniam (2010) describes consultant services as pro-active and activities of a problem solving nature, when working closely with management with a focus to achieve objectives. Lastly, Coetzee &amp; Bruyn (2001) essentially describes consulting services as the opposite to assurance services. All the original descriptions made by these researchers and associations are listed in the table below.</td>
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4.2 Descriptions of consultant service

The definition discussed by Anderson (2003) is the same, or very similar to what the IIA uses to describe consulting services. They are both highlighting terms as advisory, add value and, improve the organization’s operation (Anderson, 2003; IIA, 2014c). Anderson (2003) also discuss it by exemplifying it as: conducting internal control training, providing advice to management about the control concerns in new systems, drafting policies, and participating in quality teams. The IIA (2014c) exemplifies it as counsel, advice, facilitation, and training.

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<table>
<thead>
<tr>
<th>Author</th>
<th>Description</th>
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<tbody>
<tr>
<td>Anderson (2003)</td>
<td>Advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization’s operations.</td>
</tr>
<tr>
<td>IIA (2014c)</td>
<td>Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility.</td>
</tr>
<tr>
<td>Fernandes (2000)</td>
<td>Consulting attempts to make direct improvements in the circumstances or conditions of an organization.</td>
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</table>
| Nagy & Cenker (2002)    | Consultants are hired to solve problems or recommend solutions. It is described as a different than just assessing controls or procedures against established criteria  
Consultants are hired to fix problems and then go away. |
| Stewart & Subramaniam (2010) | Involves a more pro-active approach whereby internal audit becomes a partner with management. Consulting activities are generally of a problem-solving nature, with internal audit working closely with management to assist management to achieve its objectives |
| Coetzee & Bruyn (2001)  | Consulting activities are beyond tradition- |
Table 4: Summary of relevant literature and association’s descriptions of consultant service

4.3 Assurance & consultancy activities

When Anderson (2003) discusses assurance and consultancy activities over a continuum, he describes activities that are aligned with assurance and consultancy services. It should be clear that this does not explain the difference between assurance-, consulting services by definition, it only explains which activities fit under each category. Furthermore, Anderson (2003:107) states:

“While the taxonomy of the assurance consulting continuum captures the extent of departure of from the traditional attestation paradigm, it does not delineate the distinction between assurance and consulting.”
The continuum shows six broad types of activities that all fit under either assurance, or consultant services (Anderson, 2003). The three audit based activities to the left; financial auditing, performance auditing and quick response auditing are all a part of the assurance service scope. While assessment services, facilitation services and remediation services are all a part of the consulting service scope.

On the far left of the continuum, we have traditional accounting assurance audit, which can be explained in terms of assuring financial statements. The opposite side of the continuum consist of remediation services, which Anderson (2003:106) explain as: “...doing the actual work of client management rather than providing assurance.” All these activities are further discussed below.

Financial auditing is activities that are following the traditional attestation model, which includes the situations where the internal audit function audits a division’s results (An-
Compliance auditing (i.e., compliance attestation) is also a part of the traditional internal audit view and is also seen as an assurance service. Examples of a compliance audit would be audits of travel expenditures or conflict of interest policies (Anderson, 2003). The financial auditing category does also include if work of the internal audit function combines with the organization’s external auditors, for the audit of the financial statements (Anderson, 2003).

Performance auditing is also referred to as operational auditing and is discussed as traditional internal audits (Anderson, 2003). This includes to audit through a process of risk assessment with the objective of minimizing the risk, this engagement provided assurance on internal controls. It can also include a presentation of a list of recommendations for how to correct those weaknesses.

Quick response auditing is a part of the assurance services, yet it includes services provided on special request from upper management. It is similar to consultancy services; however, quick response auditing is not classed as such since the request typically comes from a third party looking for assurance. Examples can be; fraud investigations, valuations or due diligence investigations etc. (Anderson, 2003).

Further, the assessment services in the continuum are described by Anderson (2003:112) as:

"engagements in which the auditor examines or evaluates a past, present, or future aspect of operations and renders information to assist management in making decisions."

These activities are often based on the assessment of controls in a design system. Examples of activities can be to assess the completeness of an accounts payable system, study and evaluation a proposed restructuring or estimating potential savings from the outsourcing process (Anderson, 2003). Note this should not be confused with an independent assessment on governance, risk management, and control processes for the organization, which clearly is an assurance service and results in an audit opinion (IIA, 2014c).

Facilitation services are typically activities based on promoting changes. As when the auditor assists management in examining organizational performance in relation to changes (Anderson, 2003). In these types of activities, the auditor does not judge the or-
ganization performance; the auditor rather guides the management in identifying organizational strengths and opportunities. These activities can include:

"...control self-assessment, benchmarking, business process reengineering support, assistance in developing performance measurement, and strategic planning support.” (Anderson, 2003:112)

Moreover, a remediation services engagement might be as basic as developing and delivering a training seminar on internal controls. Still, Anderson (2003:112) states that this category:

“represents the most extreme and threatening consulting activity in terms of incompatibility with providing assurance, and yet has always been present for a degree in all internal audit functions.”

These activities can consist in drafting policies, or assisting in writing the organization’s code of conduct. They are argued to make auditors nervous about the ability to objective audit these areas at a later date (Anderson, 2003).

Anderson (2003) states that the distinction between these services also includes the number parties involved in the audit engagements; assurance service does always involve a third party besides the auditor and management, while consultancy services only involve the auditor and management in the process. Anderson (2003: 109) discusses assurance services in terms of following standards in the interest of a third party:

“Auditing and assurance standards are the primary mechanisms that have developed to protect the interests of a third party and that allow for efficient engagement contracting for assurance services.”
Furthermore, consulting services and related activities, does only involves two parties (i.e., the auditor as a service provider and management as the requestor), the value added is always determined by the value received by management. A consulting service has, therefore, not to consider third party protection, which means that the result is not up to the internal auditor independence or standards requirements. When the internal audit function does consulting services, everything is up to management, which also is free to stop these activities if not seeing the potential value of the work anymore (Anderson, 2003).

Figure 3: Anderson (2003) Exhibit 4-5a “Assurance.”
4.3.1 Assurance summary

The definitions and descriptions of assurance services indicate that the assurance services are more related to postmodern activities, in a more problem finding nature, where the auditor provides a professional opinion. Activities that are aligned with those requirements are: (1) Financial audit (2) Performance/operational audit (3) Compliance audit (4) System security audit (5) Due diligence audits (6) independent assessment of risk management, control, and governance processes. These subgroups all come from the assurance service concepts and definitions above.

4.3.2 Consulting summary

The definitions and descriptions of assurance services indicate that the consulting services are more related to pro-active activities, in a more problem-solving nature, where the auditor provides a professional recommendation of a solution. Activities that are aligned with those requirements are: (1) Training of other personnel (2) Providing advice/Assist management objectives (provide a professional recommendation) (3) Drafting policies (4) Participating in quality teams (5) Counsel (6) Facilitation. These subgroups all come from the consulting service concepts and definitions above.
4.3.3 Coding scheme

Based on the argumentation above we have constructed the coding scheme below, the scheme show key descriptions that we will use to decide whether an activity is assurance or consulting.

Figure 5: Coding scheme, assurance & consulting
5 What has changed: a longitudinal study

5.1 Company background

The investigated bank operates in Scandinavia and some other additional countries within Europe. The bank is mostly involved in consumer lending, financial services, as well as leasing. The internal audit function is centralized in Sweden and is responsible for all countries. Furthermore, the internal audit function increased from one employee in 2004, into four in 2008. However, the bank later received recommended requirement from a regulator to at least be five employees, including one head of internal auditing. So the bank has followed these recommendations since the end of 2008. 4 auditors left the company between 2009 and the beginning of 2010. Hence, during 2010, the bank employed a new head of internal auditing, and three additional auditors; the new head of internal auditing had strong linkage to IIA. Moreover, each employee in the internal audit function has been member, or has in some way been involved, in the IIA since 2010, this was not been the case before.

We have only been in contact with the head of internal auditing. This person has distributed the documentation to us and has also helped us to come in contact with the legal department in the bank, to sign a confidentiality agreement.

5.2 Findings

Our findings are presented as quotations from the documentation, however, some areas have been anonymized due to confidentiality, as the name of the bank, instead we have used the term ‘the bank.’ The colored terms are key-terms that are part of our coding scheme. Green for assurance and Blue for consulting.

We have summarized the findings from our coding scheme as descriptive statistics in the table below. One can clearly see that the majority of activities performed and time spent is related to assurance while consulting activities are only present in some years and then in a clear minority. However, one can se a more consistent use of consulting services from 2010 until now.

Our material starts in 2004 and this year we have not identified any consulting activates, based on our coding scheme. We coded all the 27 activities as assurance. Some example from this year: (1) “Customer & bad business ... Process review – controls, reporting,
payments, accounting, closure/termination.” We have coded this as a performance/operational audit as well as assessment on control processes, since it is an audit of an already existing control system and of several operational processes: reporting, payments, accounting etc. (2) “New contracts ... process review – controls, reporting, payment, accounting, closure/termination.” This is also a performance/operational audit, however, this time it is a review of an already established process for how to processes new customers (3) “Audit... system security and dormant A/C, monitoring logs, business continuity plan and data cleaning.” This is system security audit of saving accounts with low activity, log monitoring etc. All these assurance activities have in common that they are looking for problems rather than trying to solve problem, this is in line with the description in 4.4.1.

In the document covering 2005 we discovered the first activities that we coded as consulting activities. The work performed by internal audit in one such activity is described as “advisory role on operations and risk” in the “Basel II implementation project”. Another example is “Guidance on authority policy.” The 6 consulting activities in 2005 were all related to new regulation requirements that were going into effect the next year; the regulations in question was Basel II, SOx, NYSBD and Swedish tax law. We coded these activities as Facilitation and Counsel; internal audit was advising management on how to design and change operations to comply with regulations but internal audit did not own the process. We also found 26 assurance activities, for example: (1) “Commission calculations & administration processes and controls ... full review due to new consumer process.” (2) “IT-review of account lifecycle processing system SOx fulfillment.”; the first one is coded as performance/operational audit, and the second as compliance audit. (3) “Financial Service Authority reporting, statutory and regulatory processes.”; a compliance audit of financial reporting.

There is a large difference between 2005 and 2006 in the number of activities that are executed. However, the activities larger, time wise, so the total internal audit effort remains the roughly the same. In 2006 we could not code any activity as consulting but instead identified 14 assurance activities in areas including, (1) IT: “… test of integrity/reliability ... logical security and data access...”, (2) Finance: “Customer debit balances and cash to receivable ledge ... review of process, routine, accounting, segregation of duties, reconciliation.”, (3) Fraud prevention: “Review of process and awareness,
training, testing of controls.” and (4) Compliance: “Basel II project ... review project status...”. In order the activities fit into the following categories of our coding scheme: system security audit, financial audit, independent assessment of control processes and, compliance audit.

The documentation for 2007 and 2008 show that while the number of activities remains the same the internal audit department spent much less time on activities, compared to 2006. This is then reversed when one compares 2007 and 2008 to 2009, in 2009 the reported time changes to a level above that of 2006. Apart from the difference in time the activities reported in 2007, 2008 and 2009 are very similar to 2006; they cover the same range of the organization: IT, finance, operations and compliance, albeit different processes within said areas. As we want to avoid repeating ourselves we will refer to the findings from 2006 for these years. However, it is of interest that Basel II was mentioned every year from 2005 up to 2011, we coded the related activities as assurance: 2007 & 2008 “Operational risk review”, 2009 “Process, control and reporting for operational risk, credit risk, capital adequacy assessment, process and governance” and in 2010 “Credit risk model, data validation, model development & governance.” All these are, therefore, coded as compliance audit.

The documentation from 2010 shows several changes that are outside the scope of our coding scheme: layout, personnel, objectives and so forth; this will be discussed later (in other findings). There was also a change that we can trace in our coding scheme. We coded one activity as consulting: “Review of HQ oversight function upgrade process.” In this case the bank was implementing a function for headquarter to have an overview of the internal controls and the internal audit department was giving advice on this implementation. Therefore, we code this as Counsel / Facilitation on the consulting side of our coding scheme. Despite being only 1 out of 14 this consulting activity required 13% of the internal audit activity time. In addition to the Basel II assurance activity described above there was 12 other activities that we coded as assurance activities. Some examples are: (1) “Data warehouse process review: data management, information security, solution delivery.”, System security in the coding scheme, (2) “Pricing/servicing accounts: Interest changing process.”, Financial audit in the coding scheme and, (3) Customer relationship management: “CRM process, control environment, data quality
and selection criteria, system integrity.”, Performance/operational audit in the coding scheme.

2011 is the year in which we coded the largest share of activities as consulting; it is also the year in which the largest share of the reported time is given to consulting. We identified 26 activities and 6 of those were coded as consulting. One was related to SOx regulation: (1) “Support setting up new SOx organization, test of design, test of effectiveness/remediation.” This was coded as facilitation in our coding scheme, as internal audit only help to create this new function which would later operate on its own. Another consulting activity that was coded as Facilitation / Counsel in our coding scheme was described as (2) “Internal processes & controls at key vendors: support the implementation of process improvements and controls to avoid service interruptions.” In this activity the internal audit department at the bank was to assist an external partner in improving their processes. There was also one consulting activity related to (3) “Disaster recovery system testing“ were the internal audit department assisted the IT department with “Support and advice on testing approach and lessons learnt”; we coded this as Counsel in our coding scheme. Again, the activities coded as assurance covered a many different areas of the business, some examples: (1) IT audit of “Core business systems... general system review” and this was coded as performance/operational audit, (2) Card production: “Independently verify adequacy and effectiveness of controls procedures on card production” this was coded as an independent assessment of controls, (3) Compliance: “Ensure compliance with applicable Anti Money Laundering laws...”, “Know Your Customer regulation” and codes as compliance audit in the coding scheme. We noted that this was the first time that independence was mentioned directly in the description of an internal audit activity

Unfortunately the documentation changed in 2012 and 2013 and the internal audit department did no longer track, and therefore report, the time spent on specific activities. Hence, we could still track and identify internal audit activities and their focus but we could no longer see whether an increase in activities was also an increase in actual internal audit effort.

Nonetheless, we identified 24 assurance activities and 2 consulting activities in 2012. One assurance activity was that the bank had outsourced their payroll procedures and the internal audit department was called in after this to (1) “Independently verify the ad-
equacy and effectiveness of the payroll procedures at the vendor & related processes at the bank.” Moreover, internal audit looked at the liquidity risk management to (2) “In-
dependently verify the adequacy and effectiveness of managing liquidity risks.” The first
process is coded as performance/operational audit in our coding scheme, while the second
is an independent assessment. If we move on to the activities that we have coded
as consulting activities we only identified 2 in 2012. One was described as Business Partnership; the IA was to participate in various senior management and high level risk control meetings to (1) “enhance risk awareness and issue resolution processes.” We coded this as Counsel, the IA was not to be directly involved in solving any problems or risk assessments but rather act as a specialist in these areas. The second activity was (2) “Issue closing support”, “Continuous support in remediating … issues, leading to no overdue issue at the report date.” Here internal audit was to support other departments in remediating issue related to risk and controls. Hence, it was coded as providing advice/assist management objectives.

2013 was the last year covered in our documentation and we identified 19 activities during the year; we coded 5 as consulting and 14 as assurance. Two of the consulting activities was identical to 2012; namely, Issue closing support and Business partnership. In addition, one activity was described as (1) "Compliance testing methodology” and meant that “IA will help compliance refine and potentially train compliance staff to ensure that the compliance testing performed is of “audit” standard ... most compliance staff are not auditors and have had limited experience in testing.” This was coded as providing advice/assist management objectives. Two other activities were also coded in this category; the first is, Evaluation of BCP exercises: (2) “Internal audit has taken part in three BCP exercises and given recommendations on how these and the BCP program can be enhanced.” The second is, Improve anti fraud framework: (3) “IA assisted risk management department during a workshop to establish a better framework for preventing internal fraud and strengthen the monitoring of the area.” Among the 14 assurance there were three new activities. The first was called Logical security and meant that internal audit would (1) “Assess whether the control environment over web applications logical security process is appropriately established.”; Coded as system security. The second was called Compliance governance audit and meant that internal audit would (2) “Audit of how the compliance organization is governed and monitored.” and this was coded as a compliance audit.
The last one was called: Vendor and intermediary management, and internal audit was to (3) ”Verify the controls in the following areas: Take-on: compliance with legal, regulatory, and corporate requirements as well as sufficient mitigation of third party and protection of the bank. In-life: third party in–life cooperation is sufficiently managed and monitored.” This was coded as an independent assessment of controls.

Other findings

The documentation from 2010 shows several changes that are outside the scope of our coding scheme. Three internal auditors, including the head of internal auditing, left the department during 2009, another internal auditor left in the beginning of 2010, which meant it was only one from the original team left. Hence, the bank employed four new internal auditors between January to October 2010. Including a new head of internal auditing. All the new members were associated with IIA, as could be seen in the background presentation of the new auditors. However, the internal auditor who remained at the bank in 2009 also had a connection to IIA. This now meant that all internal auditors in the bank had connection to IIA. This reorganization of the internal audit function contributed to several changes in the layout and the focus in the documentations. One could now see wider explanations of the completed activities, key findings and auditor opinions and time budgets (budgets was later withdrawn from the documentations in 2012).

Summary of findings

A vast majority of the activities that we have identified in the documentation have been coded as assurance activities. These activities cover a large range of areas and one can easily say that the internal audit department is doing value adding audits beyond the traditional finance auditing. The activities that were coded as consulting were mainly found during the last four years. However, in 2005 there was a number of consulting activities related to the adaption of the organization to regulations. During the last four years the consulting activities had a wider scope and also involved advisory work of a operating and governance nature.

We have summarized the decoded activities in table 5 and table 6 below to complement our findings section and to make it easier to get an overview.
<table>
<thead>
<tr>
<th>Year</th>
<th>% of Assurance</th>
<th>% of Consulting</th>
<th># of Assurance</th>
<th># of Consulting</th>
<th>Total # of Activities</th>
<th># of Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>100%</td>
<td>0%</td>
<td>27</td>
<td>0</td>
<td>27</td>
<td>1</td>
</tr>
<tr>
<td>2005</td>
<td>81%</td>
<td>19%</td>
<td>26</td>
<td>6</td>
<td>32</td>
<td>1</td>
</tr>
<tr>
<td>2006</td>
<td>100%</td>
<td>0%</td>
<td>14</td>
<td>0</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>2007</td>
<td>100%</td>
<td>0%</td>
<td>14</td>
<td>0</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>2008</td>
<td>100%</td>
<td>0%</td>
<td>15</td>
<td>0</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>2009</td>
<td>100%</td>
<td>0%</td>
<td>15</td>
<td>0</td>
<td>15</td>
<td>5 (4)¹</td>
</tr>
<tr>
<td>2010</td>
<td>93%</td>
<td>7%</td>
<td>13</td>
<td>1</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>2011</td>
<td>65%</td>
<td>35%</td>
<td>11</td>
<td>6</td>
<td>17</td>
<td>5</td>
</tr>
<tr>
<td>2012</td>
<td>92%</td>
<td>8%</td>
<td>24</td>
<td>2</td>
<td>26</td>
<td>5</td>
</tr>
<tr>
<td>2013</td>
<td>74%</td>
<td>26%</td>
<td>14</td>
<td>5</td>
<td>19</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 5: Audit activities 2004-2013

¹ 1 person was on sick leave during 2009, the number of active auditors was 4.
<table>
<thead>
<tr>
<th>Year</th>
<th>% of Assurance</th>
<th>% of Consulting</th>
<th># of Assurance</th>
<th># of Consulting</th>
<th>Total # of Weeks&lt;sup&gt;2&lt;/sup&gt;</th>
<th># of Auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>100%</td>
<td>0%</td>
<td>46,5</td>
<td>0</td>
<td>46,5</td>
<td>1</td>
</tr>
<tr>
<td>2005</td>
<td>91%</td>
<td>9%</td>
<td>61</td>
<td>6</td>
<td>67</td>
<td>1</td>
</tr>
<tr>
<td>2006</td>
<td>100%</td>
<td>0%</td>
<td>63,5</td>
<td>0</td>
<td>63,5</td>
<td>1</td>
</tr>
<tr>
<td>2007</td>
<td>100%</td>
<td>0%</td>
<td>39</td>
<td>0</td>
<td>39</td>
<td>1</td>
</tr>
<tr>
<td>2008</td>
<td>100%</td>
<td>0%</td>
<td>33</td>
<td>0</td>
<td>33</td>
<td>4</td>
</tr>
<tr>
<td>2009</td>
<td>100%</td>
<td>0%</td>
<td>74</td>
<td>0</td>
<td>74</td>
<td>5 (4)&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td>2010</td>
<td>87%</td>
<td>13%</td>
<td>66,9</td>
<td>9,7</td>
<td>76,6</td>
<td>5</td>
</tr>
<tr>
<td>2011</td>
<td>63%</td>
<td>37%</td>
<td>100</td>
<td>59</td>
<td>159</td>
<td>5</td>
</tr>
<tr>
<td>2012</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
</tr>
<tr>
<td>2013</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
<td>N/ Avail</td>
</tr>
</tbody>
</table>

Table 6: Audit weeks 2004-2013

<sup>2</sup> # of weeks represents the time spent on fieldwork; planning, documentation, administration and training is not included.

<sup>3</sup> 1 person was on sick leave during 2009, the number of active auditors was 4.
5.3 Analysis

In our research findings, we see that assurance services are in clear majority during all the ten years. We also suggest that one can divide our time frame into two distinct periods; 2004 to 2009 and 2010 to 2013. In the first period one can see an increased use of consulting services during 2005 but assurance is still the major part; the increase in consulting service activities in 2005 is driven by implementation of new processes and systems in order to comply with regulations for the banking industry, Basel II, SOx, NYSBD and Tax law. In contrast, the period between 2010 and 2013 is not driven by one clear factor and the consulting services are aimed at a variety of areas within and outside the bank; however, the recruitment of a number of new auditors seems to be one reason for the change in audit scope.

Our two periods closely reflect the two different categories of internal audit departments presented by Arena et al. (2006); those who only do what they must, according to regulations, and those who go beyond this and add value to business processes. We can see that the internal audit department in our study has moved from one category to the other; only in the second period did the internal audit department truly go beyond what is formally expected from them.

- How does the internal audit documentation at a bank reflect the alleged shift towards more consulting activities?

The period from 2004 to 2009 is coherent with findings by Mihret & Woldeyohannis (2008) who found that, the assurance function of internal auditing remains dominantly in the organization. Furthermore, Mihret & Woldeyohannis (2008) also state that the goals of the organization and the risks it is facing seem to shape the internal audit department; we see a distinct change in 2010 that might be caused by a change in risk and/or goals of our bank, but we cannot see this in our documentation. Moreover, findings by Nagy & Cenker from 2002, argue that management should steer the focus of internal audit, not the profession. Based on our findings, we can partly support this, as the change in definition in 1999 did not truly affect the internal audit department in our case until much later, in 2010.

Arwinge (2010) stated that there is a close relationship between regulatory developments and the use of internal controls in companies. Hass et al., (2006) found evidence
to support this; when the Sarbanes Oxley act in 2002 (SOx) was new it caused many companies in the America to focus their internal audit departments on compliance, reversing some of the progress those internal auditors had made towards a more consultative role. Later research found that SOx compliance did not remain the main focus of internal audit departments once the initial implementation was over (Swinkles, 2012). We see the opposite behavior in our study. When the bank faced regulatory pressure the internal audit department took an advisory role to help other departments implement processes that comply with regulation. Once the departments had implemented the processes, with consulting help from internal audit, the internal audit department took an assurance role.

The regulatory effect is also discussed by Soh & Martinov-Bannie (2011). They discussed that several factors have influenced the widening scope of internal audit: regulatory changes, increased awareness of IAF value, cultural changes and, an increase in the quality of individuals in key roles within internal audit and the audit committee. The findings in our research also touch upon the same answers as Soh & Martinov-Bannie (2011), since we can see a high impact on regulatory changes as well as high impact from change of personnel.

The documentation in our study reflect the alleged change towards more consulting activities. It shows that the number of consulting related activities, and the time devoted to them, has increase over the ten year period. Hence, we partly agree with previous research that states that internal audit has made a clear change towards a larger consulting focus after the definition change in 1999 (Nagy & Cenker 2002; Selim et al., 2003; Cooper et al., 2006; Allegrini et al., 2006); we find however, that the change towards more consulting occurred at a later stage. We argue that this delay can be partly explained by the information in the company background section. During the start of the investigated time period the internal audit department consisted of only one employee, who then focused on the core activities of assurance. We argue that this could be the main factor behind the delayed development towards consulting activities.

If we had a larger data sample that include more Swedish banks we could have seen whether this delay is a Swedish phenomenon or if it is limited to this bank, alas with our current data we cannot.
**How can a potential change in the internal audit documentation be explained?**

New implementations caused by regulatory changes can be argued to have an isomorphic impact on organizations (DiMaggio & Powell 1983), and thereby also the internal audit function within the organizations. Coercive isomorphism that are driven by regulatory changes are discussed as something that can legitimate new processes and structures within an organization (DiMaggio & Powell 1983). This can later have an impact and extend what is seen as a legitimate action in the company, and also for the profession therein, internal auditing and its activities (DiMaggio & Powell 1983; Arena et al., 2006). This is something that can be discussed in relation to the changes that occur in 2005. The new implementation was due to regulation and, therefore, driven by regulation, which most likely was driven by the need to legitimate actions, or the need to meet expectations of stakeholders or society (Dimaggio & Powell 1983). This later led to new structures and practices for the organizations (Dimaggio & Powell 1983), which the internal auditor had to review before it was implemented (consulting), and later, after the implementation also had to continue to control and review (assurance).

We cannot find the same clear cause behind the increase in consulting activities in 2010, as we did in 2005. However, if we apply institutional theory to the situation we can analyze it further. We know that the department employed a new head of internal auditing in 2010, who is a member of the IIA, and three new auditors that were also members in IIA. Secondly, the IIA and researchers posit that internal audit departments should perform consulting activities. These two points suggest two different forms of isomorphism.

We argue that the first would mean that the change is caused by normative isomorphism. DiMaggio & Powell (1983) argue that firms are increasingly likely to adopt a practice as the legitimacy of the activity increases. We argue that the legitimacy of the internal audit function increased when the head of the department as well as several other auditors are members of a professional network. As such, the organization is more likely to adopt suggested changes of said department. The change towards consulting activities was therefore driven by the need for the internal audit department to add value and this was facilitated by the increase legitimacy from being members of a professional network that is perceived as legitimate and influential.
Another suggestion is that the change is caused by mimetic isomorphism. The IIA is a strong proponent for a larger scope of internal audit activities. Similarly, as seen in our literature review, many researchers concur that the scope of internal auditing is expanding. This combination paints a picture that a successful internal audit department should have a wide scope, and include consulting activities. Therefore, we posit that it is possible that the change in 2010 was a mimetic isomorphism. Senior management, the recruitment function and/or the board of directors perceived that a successful internal audit department had a wide scope that included consulting activities; as such, they hired a head of internal audit that had the ability to facilitate this change. Both scenarios are within the frame of institutional theory and are caused by the organizations strive for legitimacy.

The implications of the change in internal audit scope to add value through consulting services can improve the legitimacy of the internal audit department within the bank, by showing its importance (Nagy & Cenker, 2002). The value added from these activities is always measured as the value received by senior management, according to Andersen (2003). Working to close to management and the rest of the organization can turn independence into an area of concern. Especially when the auditor first works as an consultant facilitating the implementation of a new process or standard; and later as an independent assessor of the same process (Anderson, 2003; Brody et al., 2014).

In this study the internal audit function acted like consultants for the Basel II implementations during 2005, and later, after the implementation, acted as an independent assessor of the how the organization had adapted to the Basel II regulation. Some of the consulting activities that we identified from 2010 and onwards meant that internal auditors worked close to management and the rest of the organization to remediate audit issues, prevent issues from arising and to support further implementations of both compliance and operational processes. We argue that this is a problem as it can reduce the objectivity and independence of future audit assessments (Anderson, 2003; Brody et al., 2014).

Based on our findings we suggest that changes are rooted in regulatory pressures, professional influences and, a desire to be perceived as a successful internal audit department. We also suggest that the implication of this is that the independence of the internal audit function might come into question.
5.4 Discussion

It is difficult to argue that the focus of an internal audit function and prioritizes within has changed only due a changes in the definition of the profession. The question whether there is an increased focus of consulting services or not, should also depend on the complexity of the investigated organization. This is true if one argues that organizations should decide the focus of internal audit, and not the profession (Mihret & Woldeyohannies 2008; Nagy & Cenker 2002), and if it is as Arena et al., (2006) discusses, that there exist different types of internal audit functions.

Regulatory changes seem to influence and change the focus of organizations use of the internal audit function to a large extent. However, this seems only true in the implementation phase, when processes and settings are new, and needed to be tested and learned. Later it withdraws back to the organizations normal use of internal audit function again. Furthermore, it is hard to ignore the fact that internal auditors and the internal audit functions within organizations are influenced by professional bodies, such as the IIA (Arena et al., 2007); we have seen a development in the internal audit function since the head of internal auditing and the other auditors have been members in IIA.

Moreover, the legitimacy of internal auditing activities are almost no question for the internal auditors if the organizations are the one who decides the focus and the use of the internal audit function, since all activities needs to be followed up, presented to and discussed with the audit committee. However, it is interesting to think in terms of institutional theory. That changes in organizations are something that emerges when there is a need to legitimate actions, or the need to meet expectations of stakeholders or the society. How to know, or who knows if an organizations priority among the activities are seen as legitimated in the society, since it is internal documents and confidential restricted information. If very few persons can see the activities that are made; does it then matter how the organization prioritizes among assurance-/consulting services, as long as they can assure the financial statements?

Chambers (2014) argue that internal auditing is seen, by regulators, as part of the supervisory process. As such, internal auditor’s independence from management should be of high importance. Despite this, the IIA encourages internal auditors to provide consulting services to management and as such we argue that they concur with a reduction in the
independence of internal auditors. However, by excluding consulting services from their
definition of internal auditing the Basel Committee of Banking Supervision seems to
strive for a more independent, and more assurance focused view of internal auditing.

6 Conclusion

With the help of our coding scheme we are able to follow the development of the activi-
ties of the internal audit function at the bank. We see that there has been a development
towards more consulting activities, but this development has mainly occurs during the
last four years. We can divide the period into two; during the first the internal audit de-
partment mainly did what was required by regulation and during the second it went be-
yond this and we saw a more consistent use of consulting activities.

We posit that the changes have occurred due to isomorphism of mimetic, normative as
well as coercive nature. The coercive pressure has come from regulation, normative
from the internal audit profession and the IIA and, the mimic from a perception of what
an internal audit function should do. However, in the problem discussion we were criti-
cal of the methods of many previous research papers into this area. Based on the doc-
uments studied in our case we must say that our findings are similar to that of previous
research; the scope of internal auditing has increased to include consulting services,
however, in our case the change occurred at a later point in time, perhaps due to earlier
personnel limitations.

BCBS does not discuss consulting activities in their definition of internal auditing.
However, they state that internal audit departments should comply with IIA recommen-
dations, which encourages consulting activities. We found one interesting finding that
complements this contradiction: the internal audit function acted as consultants for the
Basel II implementations during 2005, and then acted as an independent assessor of
how the organization had adapted to the Basel II regulation once the implementation
was complete. In light of this, and if this is something that is undesirable by regulators,
internal auditing would benefit from a more consistent view of the role.

We argue that we have contributed to a deeper understanding of the changing role and
scope of internal auditing by using documents to investigate the change towards more
consulting activities and the possible implications thereof.
6.1 Future research

Firstly, according to the above and since we have discussed legitimacy of the activities within the organization. It would be interesting to investigate if the perception of internal auditing (i.e., legitimacy) is coherent between organizations and those in the society. This could be investigated by a comparative study between organisations and associations in the society.

Secondly since we have noticed a shift in the processes and a more consistent use of consulting activities in the latest three years. One cannot ignore the fact that all employees in the internal audit function, including the head of internal auditing, has been members of the Swedish IIA chapter. It would, therefore, be interesting to investigate two companies within the same branch, where one internal audit function of the companies are members in the IIA, and where the other internal audit function are not. Investigate these companies and how a potential influence by IIA differs, if this can be seen in the priorities among the activities. This study would preferably be done in a combination of interviews and analysis of internal reports.

Thirdly, it would also be interesting to investigate further on what Arena et al., (2006) has referred to as different types of internal audit functions. Audit functions that have a formal role that is mostly shaped by legal requirements (i.e., regulations) and other coercive pressures, and those who go beyond these coercive pressures and also focus on business processes and consulting activities (Arena et al., 2006). Investigate if it differs between larger and smaller firms.
References


Byrne, A. (2014) Governance, Strategic Risk, Internal audit: What Auditors Need to Know, EDPACS: The EDP Audit, Control and Security Newsletter, 49 (2) pp. 6-14


Sawyer, L.B (1996) Sawyer’s Internal Auditing (4th ed.): The Institute of Internal Auditors


Appendix

Appendix 1

Original activity

<table>
<thead>
<tr>
<th>Entity/Audit Area</th>
<th>Scope</th>
<th>Key Findings and Opinion Rationale</th>
<th>Actions Underway</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway Vendor &amp; Intermediary Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1T 2013 Operational Needs improvement</td>
<td>Bank Norway works with a total of 1,150 retailers, seven brokers and 12 marketing partners, spending totally more than 2021. The use of marketing and sales partners is critical to the success of the bank. At such, the proper take-on and, subsequently, the monitoring of such third-parties is likewise critical. The audit objectives were to verify the controls in the following areas: Take-On, compliance with legal, regulatory and corporate requirements as well as sufficient mitigation of third-party risk and protection of In-Life Third-party, in-life cooperation is sufficiently managed and monitored.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The Governance and Termination phases were out of scope for this audit as the risk assessment revealed greater risk in the Take-on and in-life areas and the audit results from other banks in Europe also found issues in these areas.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• In the take-on phase for retailers, Watchlist screenings in certain cases are not performed and documentation for checks in certain cases is missing. (1) A lack of documentation of the performance by the Risk function.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Review of financial performances of the retailer and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. A check of the CEO and Board members (three of the retailers). In addition, for four of the seven retailers tested, the required Watchlist screening was not performed by the Risk function.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Note: While in certain cases the Watchlist screening was not performed by the Risk function during take-on, Compliance performs monthly ongoing screening.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opinion Rationale: The key driver for the Needs improvement opinion is that systemic failure of the controls in the take-on phase.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Observation phase

<table>
<thead>
<tr>
<th>Entity/Audit Area</th>
<th>Scope</th>
<th>Key Findings and Opinion Rationale</th>
<th>Actions Underway</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway Vendor &amp; Intermediary Management</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>1. Review of financial performances of the retailer and</td>
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<td>Opinion Rationale: The key driver for the Needs improvement opinion is that systemic failure of the controls in the take-on phase.</td>
<td></td>
<td></td>
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</tbody>
</table>
The second was called Vendor and intermediary management, and internal audit was to "Verify the controls in the following areas: Take-on: compliance with legal, regulatory, and corporate requirements as well as sufficient mitigation of third party and protection of the bank. In-life: third party in–life cooperation is sufficiently managed and monitored."