

THE POLITICS OF ACCOUNTABILITY: INSTITUTIONALISING INTERNAL AUDITING IN ISRAEL

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INTRODUCTION

The internal audit function in public sector organizations appears to hold high potential for promoting accountability and improving government performance. Several countries, Israel among them, have developed policies aimed at strengthening public sector internal auditors to enhance their capacity for contributing to these goals (Auditor-General (Australia) 1990; Office of the Auditor General (Canada) 1993 and 1996; Light, 1993; Newcomer, 1994 and 1998; and Friedberg, 1994). Policy measures include: requiring the establishment of internal audit units; establishment of standards for the professional conduct of audit work; training; resource allocation; expanding reporting arrangements and broadening mandates to make auditors responsible for performance assessment.

Professional internal audit norms and academic observers emphasize that internal audit is a management tool intended to aid senior management. As such it is a tool of internal accountability. In the United States, traditional internal audit functions have been transferred to Inspector-Generals who report findings to both the Executive and Congress, making them important tools of external accountability. Opponents of using internal audit as a tool of external accountability argue that audited units will be less willing to cooperate in providing information to auditors if they know that findings will be published. In favour of exploiting internal audit for external accountability are issues of transparency and the opportunity to hold senior management to account. The extent to which internal audit findings are used for external accountability has been a central issue in the politics surrounding the institutionalisation of internal auditing in Israel.

What little has been reported in the international literature on the assessment of internal audit policies portrays a less than rosy picture. Findings common to the American, Australian and Canadian experiences include: inadequate audit coverage, particularly of areas of major significance and

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high risk; a tendency to focus audits on compliance and regularity to the detriment of performance audits of economy, efficiency and effectiveness; and little attention to audit findings within agencies by senior managers. Australian and Canadian reports further reveal deficiencies in the professional qualifications of audit staff and in the involvement of senior management in audit planning. A prominent American assessment of the work of Inspector Generals in the United States concludes that, 'government appears no more accountable today than before the IG Act' (Light, 1993, p. 224).

Preliminary reports and discussions with key actors involved in developing and implementing Israel's internal audit policy suggested that here too, much of the expected benefit had not been realized (Adan Commission, 1994; Mizrahi, 1995a; and Tunic, 1998). After ascertaining that this is indeed the case, we assess the formulation and implementation of Israel's Internal Audit Law – 1992 exploring why it has been largely ineffective in strengthening internal audit in public sector organizations. Using conceptual frameworks from agenda setting and policy change theory, the study focuses on potential explanations for difficulties in developing and executing policies aimed at enhancing the efficacy of public sector internal audit.

Politics of accountability theory provides the fulcrum of this analysis. Political representatives, appointed officials, administrators and workers have good reasons to resist attempts at exposing their work to scrutiny (Wildavsky, 1972; Weiss, 1973; Palumbo, 1987; and Schwartz, 1998). Their interests in organizational stability, budget maximization and the promotion of favorable image, contribute to a general desire to oppose accountability mechanisms that might portray deficiencies in their work. Executive authority politicians tend to be interested in politically popular take-offs rather than landings that risk tying their names to failed programs (Weiss, 1973). The preponderance of political appointments at senior agency levels and the short tenure of top management officials divert attention to short-term opportunities for political gain and away from the uncovering of administrative shortcomings that may cause political pain (Weiss, 1973; and Bowsher, 1991). This suggests a politics of accountability theory according to which executive authority elected representatives and senior officials ought to disfavor policies aimed at increasing accountability.

Legislative actors might be expected to hold more interest in improving accountability than executive authority representatives. Yet a large body of literature indicates that legislators give low priority to accountability pursuits in general (Fenno, 1973; Schick, 1983; and Drewry, 1986) and pay little attention to audit and program evaluation reports in particular (Rosen, 1986; Chelimsky, 1987; Light, 1993; and Schwartz, 2000a). With some exceptions for scandal situations, legislators perceive that investment in accountability work yields low political payoff. Politics of accountability theory predicts that policy initiatives aimed at improving accountability will encounter resistance from within the executive branch and will generate little enthusiasm in the legislative branch.

Recent experience in a number of countries appears to refute this theory. At least some countries seem to have come down with 'accountability fever' regarding various public services, enacting a plethora of auditing mechanisms, quasi-market schemes and performance reporting systems. One observer suggests that the UK has become an 'audit society' (Power, 1997).

Agenda setting and policy selection theories lend some insight into this apparent refutation of politics of accountability theory. These theories seek to explain why particular policies are adopted – sometimes against all expectation. Various observers suggest that policy alternatives are more likely to be adopted when they are acceptable, agreed upon, viable, manageable, affordable and visible (Kingdon, 1984; Scheberle, 1994; Portz, 1996; Stone, 1989 and 1997; and Rochefort and Cobb, 1993 and 1994). Baumgartner and Jones (1993) use the concept of policy image to explain policy change. Following Deborah Stone (1989), they purport that the portrayal of conditions as problems mobilizes apathetic stakeholders to become involved. Certain policy alternatives become popular when portrayed as the most effective solutions to the perceived problem. When policy image is such that there is both a perceived problem and a perceived viable solution, the system is said to be in *disequilibrium* – a state with high potential for change. Some observers contend that when proposed policy solutions, such as strengthened accountability, are politically popular, but unattractive to important policymakers, they are likely to be adopted in a symbolically potent fashion (Hess, 1999; and Schwartz, 2000b).

Data on the formulation and implementation of Israel's internal audit policy were collected from a variety of sources. In-depth interviews were conducted with key actors involved in the development and implementation of policy.¹ Protocols of the Knesset State Audit Committee and related documents were reviewed for the periods leading up to the Internal Audit Law (1982 to 1992) and its amendment in 1995. And the heads of 25 internal audit units of government ministries and statutory authorities completed questionnaires and responded to semi-structured interview questions.² These represent 78% of all internal audit units of government ministries and statutory authorities, as they appear on the mailing list of the General Inspector, the government official formally responsible for audit activities. Data collection was limited by lack of access to internal audit reports and by the unwillingness of senior management officials to be interviewed.

DEVELOPMENT OF ISRAEL'S INTERNAL AUDIT POLICY

Internal audit policy in Israel is inextricably linked with developments in external audit. Not long after achieving statehood, Israel became well known for its advanced system of external audit (Friedberg, 1995, p. 6). The scope of external audit includes an ever widening range of agencies. Upon its

establishment in 1949, the State Comptroller's Office's (SCO) remit included government ministries and statutory authorities. In the 1950s the SCO was given responsibility for auditing local authorities and government corporations. In the 1960s and 1970s the audit of political party and election financing was added to the mandate. The State Comptroller Law authorizes investigation of government activities from just about any angle. The law states explicitly that the State Comptroller is to investigate incomes and expenditures, the management of moneys, legality, economy, efficiency and moral integrity. Furthermore, the law empowers the State Comptroller to investigate any other matter which he feels necessary. The State Comptroller uses this authority to conduct audits of effectiveness, decision-making processes and public policy (Sharkansky, 1991).

State audit reports have played a key role in spurring the institutionalization of internal audit (Friedberg, 1991). A State Comptroller Report emphasizing the importance of internal auditing preceded a 1959 Cabinet decision that internal audit units should be established in all government ministries. In 1964, the government formulated its internal audit policy in the Civil Service Commission Audit Rules. Key elements of these rules (including amendments) require that internal auditors: develop annual work plans in coordination with directors-general; submit reports to the Minister and the Director-General; monitor the correction of deficiencies. The Rules detail a wide-range of activities to be audited and specify that audits look at legality, propriety, economy, efficiency, moral integrity and the quality of service. Finally, the Rules stipulate that the General Inspector provide professional supervision to internal auditors and require that internal auditors coordinate audit planning with him.

Subsequent State Comptroller audits of internal auditing revealed progress in the establishment of internal audit units, in creating internal auditor position slots and in the filling of these slots (Friedberg, 1995). However, 1982 and 1986 audits reported significant deficiencies in the functioning of internal audit units in government ministries and in statutory authorities. Internal audit units were understaffed and existing staff did not meet with minimal professional training requirements. The inferior organizational status of internal auditors impeded their functioning and capacity to affect change. Several internal audit units did not conduct their work in accordance with approved annual plans. Internal auditors tended to neglect the requirement to follow-up on the correction of deficiencies and government bodies failed to establish follow-up committees.

These State Comptroller reports led to a long series of discussions in the Knesset State Audit Committee culminating, eventually, in the 1992 Internal Audit Law (Mizrahi, 1995b). Major stipulations of the law include: a statutory duty to perform internal audit in every public entity; professional training requirements; access to information; a broad mandate that includes economy, efficiency, effectiveness and decision-making; and making auditors

directly responsible to either the Director-General or the Minister; a 1995 amendment to the Law requires that senior management discuss audit findings within 45 days of submission.

Analysis reveals that most stipulations of the Internal Audit Law do little more than to upgrade existing rules to the statutory level. The few significant innovations of the Law were: the establishment of a duty to appoint an internal auditor in every 'public entity'; nomination requirements such as clean criminal record, academic diploma, and two years experience in audit work or participation in an approved professional program; and the need for the Civil Service Commissioner approval of the firing of internal auditors. The Law also requires auditors to report suspicions of criminal activity on the part of the superior Director-General or Minister to the State Comptroller's Office.

While the Internal Audit Law held some promise for strengthening internal audit, it neglected a number of provisions that would, ideally, according to the literature, have improved its chances for success. These include structural provisions to ensure reasonable audit capacity and measures to promote effective audit practice. Research on internal audit finds that three structural variables contribute to audit success: audit coverage capacity (i.e. audit staff-total staff and audit budget-total budget ratios); professional expertise; and organizational status (including independence and organizational rank) (Office of the Auditor General (Canada) 1993 and 1996; Light, 1993; and Newcomer, 1994 and 1998). Experience from other countries indicates the importance of establishing central mechanisms for training and advising public sector internal auditors and for monitoring their work (Office of the Auditor General (Canada), 1993; and National Audit Office (United Kingdom), 1987).

As it stands, the Internal Audit Law is drafted in quite general and indeed ambiguous terms. For example, the law states that in every public body there will exist internal audit by an internal auditor, but does not relate at all to the resources that a public body must devote to the internal audit function – in money or staffing terms. Similarly, the law requires that internal auditing be executed according to accepted professional standards, without specifying what these standards might be. And beyond requiring the internal auditor to report directly to the Director-General and Minister/board of directors, the law is mute on the organizational status of the internal auditor.

Failure to establish central administrative mechanisms for promoting, supervising and monitoring the execution of the internal audit policy dealt a second blow to the chances of effective implementation. This contrasts sharply with the Canadian and British experiences where units of the Ministry of Finance played an active role in strengthening internal audit units (Office of the Auditor General (Canada), 1993; and National Audit Office (United Kingdom), 1987). In fact, Israel's internal audit law removed 'defacto' the role previously given, in the Audit Rules, to the General Inspector in promoting internal audit practice. While these regulations are still formally

in place, their absence from the law has, in practice, prevented the General Inspector from enforcing them.

The law authorizes the responsible Minister to draft secondary legislation to elaborate on the legal requirements by specifying such things as training requirements, staffing levels and organizational arrangements for the functioning of audit units. There was also an expectation that the Minister would act to update the existing Audit Rules so as to resolve contradictions with the new law and to reflect additional requirements (Adan Commission, 1994). Despite this clear mandate, no action was taken to interpret the internal audit law into operational codes of practice. The absence of secondary legislation takes much of the force out of the law in the neglect of provisions that international practice finds vital to successful public service internal audit.

In the absence of centralized mechanisms to help operationalize the law, each government agency was essentially left free to decide what and how to implement. The fact that the State Comptroller all but ignored internal audit since the passage of the law likely contributed further to this *laissez faire* environment. The next sections portray how 25 ministries and statutory authorities have gone about implementing the internal audit policy.

POLICY IMPLEMENTATION

Implementation is assessed across dimensions of structure, process and outcome. Analysis of the variance in implementation patterns amongst ministries and statutory authorities concludes the presentation of findings.

Structure

Structure variables provide a picture of the extent to which government agencies have developed internal audit capacity. The legislation itself stipulates minimal requirements of employing an internal auditor and making him/her responsible directly to the Director-General or Minister/Chairman of Board. In order to give a more credible assessment of capacity, we explore additional structure variables gleaned from the internal audit literature. These variables express three underlying dimensions of audit capacity: audit coverage; professional expertise; and organizational status.

Audit Coverage

After acknowledging the difficulties of measuring audit coverage capacity, Light (1993) examines two ratios – audit staff to total organization staff and audit staff to total organization budget. Following Light, we analysed these two ratios and found no correlation between them. In order to provide an

overall picture of audit coverage capacity, we developed a score based on the average of quartile ranking on the two ratios. Audit staff to total organizational staff ratio ranges from 1:17 to 1:3,333 and averages 1:535. Eleven internal audit units had less than one auditor for every 500 workers. Audit staff to total organization budget ranges from 1:14 million dollars to 1:1,250 million dollars and averages 1:307 million dollars. One half of the organizations units had less than one auditor for every 175 million dollars.

Nine of the 25 (36%) organizations had two or less audit staff, including one with only one half-time employee and three with only one audit staff position. Seven of these nine organizations had above average combined audit coverage capacity ratio scores. One or even two person operations have little chance of making much dent in covering the operations of organizations employing hundreds of staff and spending hundreds of millions of dollars.

Comparison of current audit staffing to that reported by the State Comptroller's Office for 1985 (SCO, 1986:888) reveals that staffing levels increased for eight organizations decreased for seven and were unchanged in three. Audit chiefs are acutely aware of staff shortages. Twenty-one of our 25 organizations reported a need for additional audit staff, nine of these felt a need for a large increase and the remainder for a small increase. They place the blame for staff shortages on senior management who are not interested in fighting for increased audit positions and on the Civil Service Commission that has fully supported senior management on this issue.

Professional Expertise

The internal audit law stipulates rather minimal professional requirements for heads of internal audit units and says nothing about the requirements of other audit staff. Audit units have often been used as a dumping ground for personnel who for various reasons are unable to integrate in operational units (OAG, 1993:7.49). In 1986, the State Comptroller reported that 40% of all audit staff had no academic degree, including eight unit heads. Our findings show significant improvement. All but one audit chief had an academic degree, 16 had a second degree or higher.

Audit chiefs expressed less satisfaction with the qualifications of their audit staff. Many complained that their organizations offer very low compensation packages to internal audit workers, making it difficult to attract competent staff. Again, auditors blame both organizational management and the Civil Service Commission for this situation.

Organizational Status

A precondition for successful internal auditing is that the internal auditor be of unique organizational status. The internal auditor should be given maximum independence so as not to rely on audited units (General Accounting Office, 1988). And the organizational status of the internal auditor should be

sufficient to command the respect and cooperation of audited units (Office of the Auditor General (Canada), 1996: 4.29).

The Internal Audit Law stipulates only minimal provisions of organizational status requiring that auditors be supervised directly by either the Director-General or the Minister. The law makes no stipulations concerning the organizational rank of the auditor, his compensation or his budget.

Our findings demonstrate that, in practice, many internal auditors suffer from having quite low organizational status. While all but one auditor is supervised directly by the Director-General, only half are members of the senior management team. About one third of auditors work at the two lowest of six management ranks and only two auditors had the next to highest rank. Some auditors place the blame for their low rank on the Civil Service Commission, which maintains responsibility for allocating organizational ranks in government ministries. A number of auditors complained that they are not taken seriously by managers of higher organizational rank.

The relationship with auditees is further exacerbated when auditors are dependent on auditees for audit resources. Two-thirds of the auditors do not have their own budget lines, meaning that they are dependent on the good will of managers who are their auditees for all necessary resources – from the seemingly trivial to the important. Of the important ones, this includes budgets for contracting out audit work and obtaining expert advice. Less significant, but sometimes crucial are travel, overtime and equipment budgets.

A final indicator of organizational status is the extent to which auditors fulfill other organizational tasks. Taking part in planning and operational tasks involves two potential risks. It detracts from the time available for conducting audit work and it may preclude or bias future audits of activities in which the auditor took part. Aware of these risks, the Internal Audit Law prohibits auditors from assuming other organizational functions, apart from acting as complaints' commissioner.

Several organizations appear to be in violation of the stipulations of the Internal Audit Law. Ten auditors report having responsibilities as Disciplinary Investigators. Eight auditors fulfill additional responsibilities including: drafting internal regulations; conducting special examinations, dealing with workers' complaints, follow-up of investigations' commissions. Interview information shows that many auditors complain that their extra duties significantly defray from the time they are able to devote to the internal audit function proper. In some cases, extra duties consume more than 50% of audit staff time.

Overall Structure Score

In order to provide a broad picture of internal audit capacity, we developed a structure score which combines six structure variables. Each ministry and statutory authority received a 'pass' (1) or 'fail' (0) score for each of the

Table 1
Structure Variables and Overall Structure Score

<i>Variable</i>	<i>N</i>	<i>Mean</i>	<i>Standard Deviation</i>
Organizational Rank	24	0.21	0.42
Average Audit Staff Ratio	25	0.32	0.50
Budget Independence	22	0.36	0.49
Additional Functions	25	0.40	0.50
Senior Management Team	24	0.50	0.51
Need for More Staff	24	0.63	0.50
Overall Structure Score	25	0.41	0.28

variables. The overall structure score is a simple average of the scores with potential values ranging from 0 to 1.00.

Overall, the scores are quite low. The average overall score is 0.41 and 14 of the 25 organizations scored 0.33 or less. Yet there is considerable variance (standard deviation 0.28). Six organizations scored more than 0.67, and one had a perfect score of 1.00.

Process

We chose process variables to reflect the extent to which internal auditors operate in accordance with widely accepted good practice measures. Eight process variables cover three broad dimensions of practice: involvement of senior management; audit scope; and treatment of audit findings.

Involvement of Senior Management

Several sources note the importance of senior management involvement in internal auditing (Auditor-General (Australia), 1998; Newcomer, 1998; and Montondon and Fischer, 1999). Canada's Auditor General makes perhaps the strongest argument:

Probably no single factor is more important to effective internal audit than the attitude and expectations of the deputy head . . . Further, only the deputy head can signal the importance of internal audit by becoming personally involved in establishing its mission, setting its priorities, reviewing results, and meeting regularly with the auditors (OAG, 1996: 4.19).

Statements by a Civil Service Commission official prior to Israel's internal audit legislation echo the Canadian findings:

The quality of internal audit in each ministry is a direct result of the extent of interest of the director-general, and above him of the responsible minister. . . With radical means

of force, and legislation is force, we can create frameworks, we won't create content, we won't create quality.

Two variables measure the involvement of senior management in internal audit: participation in audit planning and number of meetings the internal auditor had with the Director-General and the Minister over the course of a year.

All but one of the auditors were supervised directly by Director-Generals, providing the potential for a close working relationship. Yet making auditors directly responsible to Director-Generals proved to be an insufficient condition for involvement of Director-Generals in internal audit work. Half of the auditors met their Director Generals less than 13 times in the course of the last year and one quarter of auditors held less than eight meetings. The frequency of meetings between auditors and Director-Generals varied greatly, ranging from twice per year all the way up to 360 times per year and averaging 45.42 with a standard deviation of 90.54. Auditors rarely meet with ministers. Half of the auditors did not meet with their minister at all over the last year and only four auditors met with their minister more than twice.

Low involvement of senior management in audit work is further reflected in data on audit planning. Only 10 of the 25 (40%) internal auditors reported that Director-Generals had significant involvement in determining the internal audit work plan. Only one auditor reported that a Minister had any significant involvement in planning audit work and only a few reported significant involvement of other senior management representatives.

Scope of Audit Work

Broadening the scope of internal audit to include economy, efficiency and effectiveness has been an integral part of advanced internal audit policies. By moving beyond traditional auditing of compliance, auditors stand a greater chance of contributing to improvements in organizational performance and accountability. The Internal Audit Law explicitly authorizes examinations of economy, efficiency, effectiveness and decision-making processes.

Internal auditors were asked to what extent audits conducted over the past year included examinations of economy, efficiency, effectiveness and decision-making processes on a four point scale ranging from 'never' to 'always'. An advanced audit score, calculated as the mean of the four measures, shows that according to these self-reports, there is quite a lot of advanced auditing going on. The average advanced score is 2.9, median 2.75. Twelve of the 25 auditors reported an increase, over the years since the internal audit law took effect, in the proportion of audit reports that deal with advanced audit.

Information gleaned from interviews with internal auditors somewhat tempers the relatively positive tone of these self-reports. One auditor, for example, said, 'I don't audit effectiveness and don't believe other auditors, including the State Comptroller, do'. Another auditor, who claims that her

reports 'generally' deal with effectiveness, spends an average of only ten days on each audit report casting doubt on the seriousness of her effectiveness audits. A third auditor admitted that while his reports generally consider questions of economy and efficiency, they rarely deal with program effectiveness or with decision-making processes. This suggests a situation similar to that reported by Newcomer (1994). Surprised by high proportions of performance reporting (60%) self-reported, by Inspectors-general, Newcomer asked specifically about the proportion of audits that measured program results. The proportion dropped to 12.5%. When in a follow-up survey the self-reported proportion of audits that measured program results rose to 45%, Newcomer remained skeptical:

It should be noted that 'measuring results' is certainly the term of choice and it may constitute the appropriate response, even though it may hold different meaning for different auditors (Newcomer, 1998).

Treatment of Findings

The internal audit policy includes ostensibly strong directives to ensure that audit findings are taken seriously within organizations. The Audit Rules require that every government organization establish an audit follow-up committee and the Internal Audit Law requires that the senior management committee discuss all internal audit reports. The law further requires that auditors deliver reports both to the director-general and to the minister. This is a non-trivial stipulation in that it creates a dual system of reporting designed, for example, to prevent the director-general from disregarding findings not to his liking. It is also the only potential channel of external accountability in that the minister has the prerogative of releasing audit reports to the public. The Minister of Police has used this authority on a number of occasions.

Only one ministry reported not having a follow-up committee, suggesting strong implementation of stipulations for dealing with audit findings. However, in over half of the organizations (55%) the committee met two or less times per year – in 25% only once a year. In interviews, many auditors noted that the primary function of the follow-up committee was to deal with state audit reports. Internal audit reports were not discussed in a systematic way, but only sporadically. When asked about the extent to which the committee followed-up on the treatment of audit findings, seven auditors replied 'never' and six 'sometimes'. Only nine of the auditors report that audit findings are generally or always discussed by senior management as required by the 1995 amendment to the Law.

Using our four point scale (never to always), we asked auditors to what extent they deliver audit reports to the minister, the director-general and members of the follow-up committee. It is telling that 16 of the 25 auditors never or only sometimes reported their findings to the minister. All but two of

Table 2
Process Variables and Overall Process Score

<i>Variable</i>	<i>N</i>	<i>Mean</i>	<i>Standard Deviation</i>
Meetings with Minister	21	0.29	0.46
Follow-up Committee	20	0.35	0.49
DG Involvement in Audit Planning	25	0.40	0.50
Discussion by Senior Management	20	0.45	0.51
Conduct of Advanced Audit	25	0.48	0.51
Change in Advanced Audit	22	0.55	0.51
Reporting Score	25	0.68	0.48
Meetings with DG	24	0.71	0.46
Overall Process Score	25	0.50	0.24

the auditors always or generally report their findings to the director-general. The exceptions are two auditors whose work consists mainly of routine audits of field units. Nine auditors report to the follow-up committee only sometimes.

Overall Process Score

Parallel to the overall structure score, our overall process score is a simple average of the eight process variables after dichotomization, with potential values ranging from 0 to 1.00.

The average overall process score is 0.5, standard deviation 0.24. Half of the organizations scored less than 0.5 and one quarter less than 0.3. One quarter scored higher than 0.67. Table 2 shows the mean scores for each of the process variables and for the overall process score.

Outcome

We explore three types of outcomes: the creation of an organizational environment conducive to internal audit success; perceptions of the contribution of the law to advancing internal audit; and self-reported contributions to organizational performance. These measures provide a partial picture of the effects of the law as perceived by internal auditors and provide some information as to the perceived effectiveness of internal auditing. We do not purport to provide a complete picture of the effects of the internal audit law or of internal auditing in particular organizations.

The first outcome concern is with the organizational environment of internal auditing. A major thrust of the internal audit law was to improve the organizational standing of the internal audit function. Auditors were asked about the degree of interest of Ministers, Director-Generals and Deputy

Director-Generals in internal auditing. All but three auditors perceive that Ministers have little or no interest in internal auditing, lending credence to politics of accountability arguments and curtailing hopes that they might act as a channel of external accountability. The organizational environment for internal accountability appears to fair much better. Auditors report that 68% and 74%, respectively, of Director-Generals and Deputy Director-Generals have a great deal of interest in internal auditing. Yet, auditors of only half of the organizations agreed that the organization would maintain an internal audit function in the absence of legal or administrative requirements. And two-thirds of the auditors noted that non-action on audit findings greatly impeded audit functioning. These findings suggest that while senior management in up to three-quarters of the organizations may express interest in internal audit, their interest is more symbolic than real in many cases.

Our questionnaire included five items that address auditors' perceptions of the effectiveness of the law in advancing internal auditing: internal auditors' status; creation of dual reporting channels (Minister, DG); broadening audit scope to advance audit; strengthened interest of Minister; and strengthened interest of Director-general. The findings indicate only partial success. Seven auditors (28%) reported no improvement in any of the five law effectiveness measures and 60% of the auditors reported significant improvements in two or less measures. The most improved measure – internal auditor status – was reported by 60% of auditors, while the least improved measure – strengthened interest of the Minister – was reported by only 24% of the auditors.

To get an idea of internal audit outcomes for particular organizations, we asked auditors to what extent they feel that they succeed in improving six aspects of organizational performance: prevention of fraud; legality and regularity; efficiency, effectiveness, decision-making and internal controls. Half of the auditors reported significant contributions in three or less of the six aspects of performance. A relatively high proportion of auditors felt they had contributed significantly to internal controls (72%) and legality/regularity (68%). A much lower proportion perceived that they had influenced effectiveness (56%), efficiency (52%) and decision-making (36%).

Variance

On each of the dimensions, structure, process and outcome, the findings indicate that, on average, the state of internal auditing leaves much to be desired. Yet, there is considerable variance on each dimension. The data indicate that there is a group of eight organizations doing very poorly across almost all measures and a group of six organizations doing quite well across most measures. The relationship amongst variables of the different dimensions amongst the middle group of organizations is less straightforward.

The wide variance amongst organizations in implementing the internal audit policy begs some explanation. Why have some organizations

implemented the policy to the letter of the law and beyond, while others continue to relate to internal audit almost as if there had been no policy change? The nature of our data does not enable the isolation of explanatory variables. The small number of cases combined with the self-reported source of information and with the ordinal level of measurement prevent the conduct of meaningful multivariate analysis. Nevertheless by triangulating interview information with questionnaire data we can offer some tentative explanations for the wide variance in implementation.

A number of auditors of 'low implementation' organizations attributed their sorry states of affair largely to: high turnover of ministers and director-generals; highly politicized administrative practice; non-professional director-generals and apathy toward the internal audit function. The auditor of one statutory authority attributes low implementation to the political nature of the governance structure of her organization:

The politicization of the organization is the principle explanation for the horrid state of audit. All reports are submitted to the General Assembly – a forum whose representatives are all party politicians . . . the Director-General, and senior managers have no interest in internal audit. They are looking for quiet, to finish their candidacy without enemies so that they will get a good job at the end.

The auditor of one ministry, controlled by ultra-orthodox parties complained that:

The ultraorthodox don't like auditing. They attacked me in a murderous fashion, libeled me and labeled me as anti-ultraorthodox.

Another auditor explained that:

This is a Ministry with a great deal of Minister turnover and political Director-generals.

In her five years in the position, one auditor had worked with five different directors-general. A number of auditors noted that the success of internal auditing depends more than anything else on the interest and relationship of the director-general.

Interviews with auditors of 'high implementation' organizations revealed additional explanations. The auditors of these organizations tend to be highly professional, come from high ranking positions and command a great deal of personal respect within their organizations. They include former deputy directors-general, high-ranking officers and successful private practice accountants. The organizations that appoint such high caliber individuals to internal audit positions are generally more professional and less political than low implementation organizations. One auditor attributes his appointment to a professional management oriented director-general who also made available all of the necessary resources. The auditor of one central economic ministry noted that the agency's senior managers are professionals with a sincere interest in using internal auditing to improve organizational

performance. Another auditor noted that high implementation was a direct result of the active interest of the then current minister.

Two 'high implementation' organizations are statutory authorities characterized by low-turnover professional director-generals and by internal auditors who report to the Board of Directors through active Internal Audit Committees. Statutory authority status does not however, guarantee high internal audit implementation, as the Boards of Directors are often themselves politicized. Of the seven statutory authorities included in our study, only two are included in the high implementation group.

Findings on implementation indicate that the Internal Audit Law has not led to a significant change in the functioning of internal audit in most government agencies. This is not surprising, given the weaknesses of the legislation. Yet, even where the Internal Audit Law provided for expectations of change, most ministries and statutory authorities did not come through in implementation. The politics of accountability and policy adoption conceptual frameworks allow for interpretation. For example, in accordance with politics of accountability theory, Ministers continue to take almost no interest whatsoever in internal auditing, despite explicit stipulations in the legislation that encourage greater ministerial involvement. Apart from rare exceptions, auditors report that ministers at best preferred not to be bothered with audit reports. Most auditors failed to comply with the stipulation to report audit findings to Ministers.

Similarly, as predicted by politics of accountability theory, senior management in most ministries and statutory authorities had little use for internal audit – this, despite explicit attempts in the legislation to strengthen the involvement of senior management in internal audit. Many agencies didn't comply with legislative stipulations concerning discussion and follow-up of audit reports. Senior management neglect of internal audit was most pronounced in those organizations that are more highly politicized and non-professional. These organizations marginalize audit units by giving audit chiefs low organizational rank, providing only skeletal audit staffs and audit resources, physically placing audit units in peripheral locations.

ANALYSIS OF POLICY DEVELOPMENT AND IMPLEMENTATION

Why has internal audit legislation and its implementation been so weak? How can the legislation of the internal audit law be explained in light of politics of accountability considerations according to which neither executive nor legislative actors have much incentive to promote policies aimed at strengthening accountability?

Policy change occurs, according to the Baumgartner and Jones (1993) model, with the emergence of disequilibrium – a state of high potential for change. Disequilibrium emerges in a policy field when there is both a

perceived problem and a perceived solution. The perception of a problem in internal audit can be traced to several reports by the State Comptroller's Office during the course of the 1980s that found significant deficiencies in the operation of public sector internal audit units (Knesset State Audit Committee, 1987). Yet while state audit reports provide abundant information regarding problematic issues, they do not often lead to major changes in policy. Hence the second half of the disequilibrium should be ascertained – the existence of a perceived solution to the perceived problem.

The perceived solution adopted for the perceived problem of ineffective internal auditing was legislation. Three factors help to explain the emergence of internal audit legislation as a perceived viable solution, despite politics of accountability expectations: (1) the politically mute nature of internal accountability; (2) the political capital associated with legislating in this policy area for the first time; (3) the symbolic potency of the chosen policy change.

Politically Mute Nature of Internal Accountability

The politics of accountability theory relates to situations where the work of public servants is subject to external accountability – scrutiny outside of the organizational setting. To the extent that internal audit findings remain within the organizational domain they pose little politics of accountability threats to senior executive authority officials and politicians. The internal audit scheme in place prior to the legislation (Civil Service Commission, 1984) was predominantly internal as the auditor's superior was the Director-General, and audit reports were to be submitted to the Minister and Director-General. Yet, there were a few channels through which internal audit findings could be used to promote external accountability. Internal auditors were to coordinate with the General Inspector in preparing the annual plan and to submit to him a semi-annual report on activities and main findings. Furthermore, reports that refer to logistics were to be transferred to the treasury general accountant.

Analysis of deliberations in the Audit Committee surrounding the drafting of the Internal Audit Law, reveals a tension between two distinctly different beliefs about internal audit or, more generally, about public management. One belief stresses the central role of the Director-General and/or Minister, as the loci of managerial competence and responsibility. Such a view conforms to the managerial premise:

that those who are responsible for government programs and organizations should be sufficiently empowered to act so that they can be accountable for their performance (Schick, 1996: 23).

In accordance with politics of accountability expectations, this approach was conveyed by most Director-Generals, who attended the Audit Committee's

sessions. The other approach is based on a more skeptical attitude towards public sector management, and hence stresses the need for an external accountability component to the proposed legislation. This view was expressed by a considerable number of government internal auditors. One participant went so far as to recommend that internal auditors be made responsible to the State Comptroller's Office.

The legislative outcome was basically an adoption of the prevailing internal audit structure, as stipulated by the Civil Service Commission's Audit Rules (which remained in force), but with a clear shift to a more internal orientation. The law makes no mention of the few external accountability channels that existed prior to the legislation. The internal bent of the new legislation became even more evident in the course of the first amendment of the law, in 1995. An initial blue-print of the amendment proposal stated that internal auditors would inform the Knesset State Audit Committee about the contents of every report submitted. Such a proposal would have constituted a considerable move towards external accountability. However, the amendment that was eventually adopted (article 6A) is considerably different. It provides no channel at all for external accountability, but rather seeks to strengthen the internal use of audit findings by requiring that the management of public entities discuss audit findings within 45 days of submission. As long as the legislation did not increase the likelihood of using internal audit findings for external accountability, it posed no politics of accountability threats to executive authority officials.

It should be noted that the Audit Rules were not revoked or amended after the 1992 legislation, and so, as a matter of law, where the rules do not negate the law, they are still binding. This assertion is true in the formal-legal realm. However, we have found that the resulting legal framework allows for practical interpretations. These interpretations usually do not follow the legal reasoning, but rather the internal-external accountability dichotomy – by commonly preferring the more 'internal' legal option. When asked about the procedure of preparing an annual plan, all of the internal auditors described the procedure, as it is set by the law, disregarding the coordination phase with the General Inspector, which is included in the Audit Rules. This interpretive preference, adds to the general apparent tendency to prefer internal accountability.

Legislation as a Source of Political Capital

The Internal Audit law of 1992 was a legislative act in a field, which heretofore was not subject, either directly or indirectly, to any primary or secondary legislation. The possibility of introducing entirely new legislation can be understood as a political opportunity for apparent ground-breaking activity. This emphasis can be readily observed in the Knesset State Audit Committee Chair's speech on the Knesset floor:

For the first time, the law states, in article 5, who is in charge of the internal auditor . . . An important **innovation** in the law can be found in article 9, which grants the internal auditor efficient tools for carrying out his duties . . . We believe that this law will open **a new page** in the self identity, the ability to operate, and the public image of the internal audit (Divrei Haknesset, 1992).

Legislation as a policy solution provides significant political capital for those responsible for promoting the legislation. Legislators stand to gain from the image of successfully imposing new requirements on public sector internal auditing. Apparently, this opportunity was sufficiently attractive to stir a small number of otherwise apathetic legislative actors into action, though it is also possible that some legislative actors were motivated by a sincere desire to improve the lot of public sector internal audit.

Legislation as a Symbolically Potent Policy Change

The first, and probably most evident indication of the law's symbolic nature can be seen by the comparison made above between its substantive content with that of the Audit Rules. Without detracting from the potential importance of the legislated innovations, it is clear that the major policy change was to give the force of legislation to existing administrative arrangements.

Analysis of the of issues discussed in the Knesset State Audit Committee surrounding the drafting of the legislation provide further support for the argument that the legislation was knowingly designed to be primarily symbolic. The first of these concerns the critical influence of the Director-General on the performance of the internal audit unit. A number of internal auditors made it clear to the Committee that audit work would prosper or deteriorate according to the Director-General's will or attitude. They pointed out that existing variance in internal audit standing amongst public organizations could be largely attributed to the relationship of senior management. Yet the legislation did not stipulate mechanisms to ensure that internal audit receive sufficient resources and attention from senior management. A second concern discussed by the Committee was the influence of the rank and pay of the internal auditor and his workers on the ability to recruit qualified staff and on the conduct of professional quality auditing. The law disregarded these issues altogether. The third example refers to the lack of professional requirements for appointing audit workers. The law only addresses the requirements for internal audit chiefs, ignoring those of his audit workers.

To conclude, apart from three aspects of the internal audit arrangement, the law did not substantially change the internal audit formal framework. Furthermore, the framers of the law ignored a number of important flaws of the preceding scheme, which were brought to their attention. It is claimed that this lack of substantial policy change, together with the political opportunity to introduce entirely new legislation, which can be seen as

ground-breaking, constitute a case of symbolically potent policy. Debates in the Audit Committee indicate that the symbolic nature of the policy reflects a compromise between legislative actors who would have preferred stronger legislation and stakeholders from the executive authority and organized interest groups including the Institute of Internal Auditors and the Institute of Accountants.

DISCUSSION

Efforts to strengthen internal auditing in Israel have made some impact, but have not significantly improved the overall performance of audit units in the lion's share of ministries and statutory authorities. Internal audit units in most of the organizations studied continue to operate well below reasonable capacity and accepted practices. Their effect on organizational performance, according to self-reports, is rather marginal. The top-down legislative solution adopted by Israel to address the problem of weak public sector internal audit has not met with broad success. This is not surprising in light of the weak legislative framework for change.

Yet there is a relatively small group of internal audit units that function at high levels of audit capacity and audit practice and appears to have greater impact on organizational performance. Their success however, is not attributable directly or solely to the audit legislation. Rather, these organizations tend to be more professional, less politicized and have senior management that has taken a real interest in internal audit. They also tend to employ professional internal audit chiefs of high stature. This finding conforms to the Canadian experience where the extent of interest of senior management in internal auditing was found to be the most important determinant of audit effectiveness.

It is unlikely that the findings of this study come as any great surprise to those who took part in discussions that framed the internal audit legislation. Most of the stipulations of the legislation existed already in the framework of the Audit Rules. A number of participants in the legislative process warned that merely upgrading the status of the existing framework would have little effect.

Why then was the legislative solution adopted and what can explain subsequent inaction to operationalize and promote implementation? In contrast to politics of accountability resistance to more radical solutions, the weak legislative alternative was viable, acceptable and symbolically potent. The act of legislation gained political points for certain Members of Knesset while posing no serious accountability threat to executive authority actors. Executive actors, willing to go along with the internal audit law as a symbolic policy solution, had no incentive to bring about effective implementation. And legislative actors had little to gain from monitoring the implementation of the legislation.

Those interested in strengthening public sector internal auditing ought not to put their hopes in top-down solutions. The Israeli experience makes clear that 'legislation alone, effective internal auditing does not make'. Efforts might be better placed by focusing on increasing the professionalism of public sector senior managers and educating them as to the potential value of internal auditing. This study reiterates the centrality of senior management interest to successful internal auditing as previously reported in studies from other countries. Given the politics of accountability and the nature of policymaking, panaceas to improving public sector internal audit should not be expected.

NOTES

- 1 Key actor interviewees were: the General Inspector; the Head of Government Ministries Internal Audit Group; the Head of Government Corporations Internal Audit Group; two leading academic audit specialists heavily involved in developing legislation; a leading head of internal audit in a government ministry; and the official in the Government Corporations Authority responsible for internal audit.
- 2 The questionnaire was divided into seven parts: (1) The Internal Audit Unit (staff, budget, roles, status); (2) Work Planning; (3) Characterization of Audit Work; (4) Relations with Organizational and Extra-organizational Actors; (5) Audit findings; (6) Implementation of Audit Work; (7) Background Information on the Internal Audit Head. It included a total of 65 questions – 57 closed and 8 open. Questions addressed: factual data, such as the number of internal audit staff and the number of meetings of the internal audit committee; perceptions, such as the contribution of the Internal Audit Law to changing the status of internal audit; and the extent of agreement with various statements. Interviews served to clarify answers to the written questionnaire, to broaden our knowledge and deepen our understanding of the functioning of internal audit units.

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