

KNOWLEDGE TRANSFER IN LOCAL GOVERNMENTS: A CULTURAL CHALLENGE FOR INTERNAL AUDITORS

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INTRODUCTION

During the last two decades, public sector experienced a number of management, accounting and policy changes. As a consequence the actors role had to meet the new accountability and responsibility requirements. The article aims at analyzing the role of internal audit committee in the Italian local government context and the attitude of auditors to transfer managerial culture to public authorities. Thus, the survey conducted over the auditors technical, human and conceptual attributes allows to underline the important strength and weakness auditors have as 'agent of change'.

Knowledge transmission, besides knowledge creation and knowledge absorption, is one of the interrelated aspects playing a critical role in the processes of knowledge communication (Engelbrecht, 1998: 359-367). Every entity, understood as an economic organization correlated to its internal and external environment, is affected by its own ability to create, transmit and absorb knowledge. In particular, individuals are a fundamental element of a *never-ending spiral of tacit and explicit knowledge* (Nonaka & Takeuchi, 1996), integrated within the organization (Grant, 1996: 109-122).

In modern society, economic strategies tend to put knowledge as the center of their focus (Hall, 1992). Therefore, intangible assets are not seen, as in the past, as residual elements of the wealth of an organization. Brands, patents, R&D and human resources become factors more and more are involved in strategic management and decision making process (Stewart, 1995). In particular, organizational knowledge depends on how human resources are interrelated and managed.

Human resources absorb, transfer and create knowledge fostering the achievement of a competitive advantage of the organization. In order to fulfill that objective, it is necessary to

create a feasible environment to knowledge communication. In fact, previous studies found out that internal stickiness impedes the transfer of better practices within entities (Szulanski, 1994 and 1996: 27-43).

Internationally, from the beginning of the eighties public sector management has been characterized by a number of changes which brought to new public management policies able to re-invent public administrations and introducing institutional renewals (Jones and Thompson, 1999). The new public management approach could help building learning organizations that operate more efficiently and effectively and that better serve the public interest (Reschenthaler and Thompson, 1998: 59-106).

This article is aimed at analyzing how the presence of internal professionals, with their skills and attributes, can foster the transfer of better practices within the organizations, soothing the internal stickiness. The analysis focused on the potential role of internal auditors in the Italian Local Government. The main reasons stem from the reforms that characterized internal audit in public sector in the last decade.

From 1990, and more clearly from 1995, the legislation has required internal auditors to deal with performance auditing and consultancy; in fact the legislation requires them to support local government management. This kind of activity places internal auditors in the position to transfer better practices, and more generally their knowledge, to local authorities. The latter can benefit from this source of knowledge by improving their ability to create value for the citizens.

Through the analysis of the literature available and past researches a questionnaire has been then constructed. It reflected ten attributes, which could help explain the ability of internal auditors to communicate and transfer knowledge. The results of the survey permitted to test the framework detecting the area of improvement. The final findings show that internal auditors have, in prospect, the possibility to become a dynamic source of knowledge,

provided local government comes to accept them as a strategic actor of change within local authorities.

A NEW ROLE FOR INTERNAL AUDITORS IN THE ITALIAN LEGISLATION

Internal audit is generally defined as *“an independent appraisal function within an organization for the review of activities as a service to all levels of management. It is a control which measures, evaluates and reports upon the effectiveness of internal controls, financial and other, as a contribution to the efficient use of resources within an organization”* (CIPFA, 1979: 4). This definition for the public sector maintains strong similarities with that commonly used in private organizations, in which internal auditors monitor and support managers to improve the internal control system. Besides they deal with control and valuation of the effectiveness of management decision. In Bruni (1996) it is defined in a similar way as the activity aimed to guarantee the reliability of the data the top management receives, in order to improve the internal procedures and the internal control system.¹

As far as the Italian local government is concerned, internal auditing has not become part of its vocabulary until very recently (Marchi, 1997), i.e. after the promulgation of the Law 8 June 1990, n. 142 (thereafter l. 142/90) and in particular after the decree law n. 77/1995 (thereafter d.l. 77/95). In fact, before that it was not possible to talk about internal auditing since:

- Three controllers were chosen among the elected members, without any guarantee for independence and professional skills. They were internals, not independent;
- Their activity was limited to legitimacy and legality audit, it was a formal activity, controllers could not, and probably did not want to, enter the merit of performance and decisions;

- Their presence was occasional; it was not a permanent part of the organization.

However, law 142/90 does not talk about internal auditor, or internal auditing. The utilization of this specific term is due to the functions auditors are called to fulfill. As we will see briefly, auditors in local authorities are in a gray area, neither completely external, nor internal. D.l. 77/95, which reformed and modified the previous l. 142/90, emphasized the consultancy and collaboration role of auditors, who are also directly accountable to the major.² Although they maintain the duty to report externally, a comment attached to the financial statements on the legality and legitimacy of accounts, the prospects seem to consider auditors as an internal function of auditing.

Nevertheless, the fact is that L. 142/90 deeply reformed the role of internal audit in local government. It represented a “breaking point” (Mussari, 1995: 127-141) from the past, closing the gap with the Anglo-Saxon tradition.³ As anticipated, the previous system was based exclusively on a legitimacy and bureaucratic control. Law 142/1990 had the merit to abandon this tradition by introducing a managerial approach, together with new concepts for the Italian internal audit, such as economy, efficiency and effectiveness (VFM).⁴ Like in many other countries, the reforms of control systems in local government continued during the '90 (Guthrie and Humphrey, 1996: 283-302), in particular with d. lgs. 77/95 and l. 286/1999, as part of the attempt to modernize the way local authorities are managed. The old hyper-bureaucratic local government was considered unable to cope with the new external environment and the critics coming from the stakeholders. The reforms aimed at giving local authorities the opportunity to bring about changes. Consequently, the “new” framework of local government is one characterized by (Farneti, 1995, 1997; Borgonovi, 1996):

1. Increased autonomy, both financial and organizational;
2. Increased responsibility and accountability for local government decision makers;
3. Increased focus on values like economy, efficiency, effectiveness and quality of services provided.

Therefore, the function and role of internal auditors in local government must be understood within the wider attempt to achieve strategic changes. Internal auditors are now a guarantee of independence and professional competence, since:

1. They are a permanent internal body of the organization, in a number of three, or one for very small authorities with a population of less than 5.000;
2. They must be appointed by the Council and chosen among Chartered Accountants or Auditors or persons with proved experience in public sector audit;
3. They stay in charge for three years, thus allowing continuity.

Thereafter l. 142/90, the d.l. 77/1995 strengthened the role of internal auditors. In particular, the d.lgs 77/95 increased the focus on performance audit and consultancy activity. Internal auditor's functions can now be summarized as follows:

1. **Legitimacy Control** Internal auditors have to control the conformity of acts and decisions with the law, internal regulations and financial regulation;
2. **Financial audit.** It regards the controls upon the regularity to the accounting standards and regulations of financial statements and other accounting documents;
3. **Performance Audit** It is an assessment of the performance of local authorities organization, program, and services; it deals with the merit of the decisions;
4. **Consultancy Activity.** Internal auditors can propose suggestions to improve the overall performance of the organization. Moreover, public managers can consult them during the decision-making process.

The functions of internal auditors immediately appear to be wide and relevant. In particular, when properly implemented performance audit and consultancy can play a strategic role in the process of reforming local government and making managers more accountable and responsible for the results achieved. The reform also allows auditors to be appointed by up to three local authorities. This implies two different possible effects; on one side auditors have the opportunity to transfer their experience in one local authority to the other, which means create an infra-organization exchange of experiences and thus knowledge. On the other hand, as we will underline, it does not seem feasible for auditors to be effective in just one authority, let alone when they are appointed in more than one local authority. However, from a knowledge transfer point of view if auditors carry out their activity in different authorities, they have the opportunity to create a process of spatial transfer of expertise. Our findings suggest that this is just a potential role; the reality is still far from this point.

Internal auditors are not just controllers but they now are, or at least should be, part of the organization and can enter the decision making process. Consequently, the legislation allows internal auditors to have dedicated staff in order to deal with the routine and atypical tasks. This is an important aspect of the regulation; local governments are stimulated to create an internal office especially for audit activity. The latter, in fact, should not be considered as an intruder by the organization. Internal audit is a compelling part of the organization, is not against anyone, instead its focus is the improvement of the organization's ability to achieve its goals. Unfortunately, the reality is far more different, local authorities' employees still find it difficult to accept and understand the internal audit functions.

For the purpose of the article, performance audit and consultancy are considered. The latter are those activities in which internal auditors can really play the role of "agent of change" the most. The term "agent of change" has been sometimes abused, probably emphasizing the potentiality of internal auditors and underestimating the complexity, problems and

impediments it involves. Internal auditors are now considered a source of knowledge, which is available to public managers in order to take better decisions towards the improvement of the overall performance of the organization. Internal auditors are experienced professionals, most of them coming from many years of experience in private organizations; they represent strategic intangible assets. Public organizations should acquire the sensitiveness to consider human resources as the starting point to bring about change in the way it functions and operates. Bureaucracies, it has to be said, are not the ideal places for human resources development and involvement in process of change and knowledge creation (Stewart, 1996; Nonaka and Takeuchi, 1995). In fact, to be knowledge based an entity should allow its employees at every level to become independent agents, who take responsibility, experiment and make mistakes to learn. Local governments, instead, are organized with managers and elected members as rule-makers and employees as rule-followers.

However, local governments are now facing strong reforms in their organization and functioning. Moreover, they differ from other public administration since they provide direct services to users. Thus, they are increasingly concerned about the efficiency, effectiveness and quality of the services provided. The accountability channels tend to be several and short; the number of stakeholders is increasing and they have direct contact with the public organization. A citizen can complain directly with the responsible of the service, in particular in small local authorities.

The reforms headed to an increased responsibility for local government managers, accountability and openness of local authorities. Responsibility was then delegated downwards the organization; the achievement of certain quality standards must be an organizational responsibility, not just a managerial one.

We are assisting in a cultural revolution, local governments are trying to move away from a culture of duty to a culture of responsibility and ideally to a culture of results (Farneti, 1995).

It is likely that this process will take some time, as well as never occur, however, internal auditors are clearly active players.

The law provided local authorities with a source of knowledge, it depends on them trying to enhance and exploit their role and functions. Internal auditors require a proper work environment in order to deal effectively with their tasks and to become part of the organization. They need first to become part of the organization culture, before they can even hope to start influencing it.

At the same time, internal auditors need to have the right attributes to carry out the difficult task of knowledge transferors. Performance audit and consultancy involve a different set of skills from legitimacy and financial audit. Therefore, to study what skills and attributes an internal auditor should possess, it could help to evaluate and understand the role of a so-called agent of change. Transferring knowledge within an organization is not as simple as it sounds. It involves three different kinds of person, the general managers, the source of knowledge and the recipient, and a means, the organization. Among these elements intervene a number of relations, formal and informal communication, of which only a small part is controllable.

The transfer and absorption of knowledge is not automatic. The process should be as far as possible controlled and maintained, since internal impediments can spring around the organization.

A previous study (Szulansky, 1996: 30-31) found out the presence of internal stickiness,⁵ which impedes the transfer of better practice within an organization (see Tab.1). The origins of this stickiness depend on:

1. **Characteristics of the knowledge transferred;** Causal Ambiguity and Potential Invalidity.
 2. **Characteristics of the source of knowledge;** Lack of Motivation and Not Perceived as Reliable.
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3. **Characteristics of the recipient of knowledge**; Lack of Motivation, Lack of Absorptive Capacity, and Lack of Retentive Capacity.
4. **Characteristics of the Context**; Barren organizational Context, Arduous Relationship.

Table 1: Origins of Internal Stickiness

| Origins | Description |
|--|---|
| Characteristics of the knowledge transferred: | |
| Causal Ambiguity | Refers to the difficulties to detect a cause for a fact. When the exact reasons for the success or failure of a practice cannot be determined, the knowledge involved is likely to find critics for its transfer. |
| Potential Invalidity | Knowledge without a proven record of past success is more difficult to transfer. |
| Characteristics of the source of knowledge | |
| Lack of Motivation | The knowledge source could not have the incentives to transfer her/his knowledge to others. |
| Not perceived as reliable | The more the experience and the trustworthiness of the source, the more likely the recipient will be influenced. |
| Characteristics of the recipient of knowledge | |
| Lack of Motivation | The recipient, as well as the source, must have the incentives to accept the role of the source. |
| Lack of Absorptive Capacity | The recipient could be unable to exploit an outside source of knowledge |
| Lack of Retentive Capacity | The process of knowledge transfer is effective only when the recipient is able to retain and use what is transferred. The institutionalization of new knowledge shows retentive capacity |

Characteristics of the Context

| | |
|-------------------------------|---|
| Barren Organizational Context | A barren context is one that hinders the knowledge communication process. |
| Arduous Relationship | Especially when tacit knowledge is involved, mutual relation among employees are necessary. The communication must be easy and quick, otherwise people would prefer not to communicate. |

Source: Adapted from Szulanski, G. 1996. "Exploring Internal Stickiness: impediments to the transfer of best practice within the firm". *Strategic Management Journal*, special issue.

Therefore, transferring knowledge, and finally bringing about change, is hindered by many critical bottlenecks. Internal auditors, and in general all the potential source of knowledge, as well as local government managers, need to understand this and to have, or acquire, the appropriate skills and attributes to overcome the stickiness. In the next section, we will propose a framework of skills and attributes. The latter, we believe would allow internal auditors to communicate knowledge and better practice within local government in a better way. Moreover, the last section will analyze how the same skills and attributes are apt to soothe the internal stickiness described above.

AGENT OF CHANGE? WHAT SKILLS AND ATTRIBUTES?

The recent reforms regarding the role and scope of internal auditors in local government moved decisively towards the need to create actors of change. The presence of professional auditors in the vest of consultants, other than controllers, represents a potential source of knowledge available to local administrators. The latter, provided their will and motivation, can thus find within the organization a strong support to meet the needs, and bring about changes. It is important to remark that knowledge is not something that exists on its own, independently of someone who knows. It is embedded in somebody's culture and experience.

Undoubtedly, internal auditors, as “*information workers*”⁶ (Davenport, 1997), have the opportunity to play a valuable role within the process of knowledge creation, accumulation, transfer and absorption. As already mentioned, auditors can also activate inter and infra – organization processes of knowledge transfer.

They are professionals with a strong cultural and experience background, what they need is probably will and a positive environment. Interorganizational transfer is feasible since, at least strictly interpreting the reform; they can be considered a permanent part of the organization. At the same time, infra-organizational transfer is also possible since the legislation allows auditors to hold more than one appointment (up to three) in different local authorities. Whether feasible or not, the reality still sees them bounded in their institutional function. They are first of all controllers for the legality and legitimacy of actions and accounts.

Besides, a hostile environment characterized the initial experiences of internal auditors within local government. “*The auditor is a watchdog not a bloodhound*” (Venables and Impey, 1991), this very nature of internal auditor is not usually accepted and understood, in particular by those controlled. In particular, in the very first years of implementation of the reform, internal auditors experienced a little co-operative environment, if not hostile, that affected their performance and effectiveness. The acceptance and integration in local authorities of an internal audit function, for the purpose of this study, represent two critical aspects. The arduous relationship between the source of knowledge and the potential receiver has turned out to be one of the reasons for the internal stickiness of knowledge (Arrow, 1974; Szulansky, 1997: 27-43).

The Italian local government, even though in the last decades it was interested by several reforming waves, still have to achieve the most important change; the cultural one. The actual culture is the one typical of highly bureaucratic organizations focused on the respect of regulations and legislation, “*culture of duty*”; the necessary cultural revolution would be one

towards a “*culture of objectives and responsibility*” (Farneti, 1995). No revolution has occurred without a cultural one.

The culture and the consequent environment directly influence the transfer of knowledge.⁷ In fact, it is not only something strictly related to the technical ability, but most of all to interpersonal relation, social relation and environment, and motivation. The latter are crucial to stimulate the so called “*knowledge spiral*” (Nonaka and Takeuchi, 1995).

Therefore, knowledge communication cannot be analyzed detached from the culture of the organization and its members; several researches demonstrated how sometime it takes years to transfer better practice knowledge within a private institution⁸ because of cultural aspects (Szulansky, 1994; 1996; O’Dell and Grayson Jackson, 1998; 154-174). Considering the characteristics of public sector organizations, and the internal bounds for information and knowledge, it is reasonable to foresee even greater stickiness for better practice to circulate.

Internal auditors have had to deal with the novelty of their presence in local government. For most of them it was the very first working experience in such organizations. Inevitably, during the initial years, they were like novices, occupied in learning functions and covering a role they were not used to. In most cases they started from scratch, beginning “*the context free rehearsal of rules which can be equated with the mindless rehearsal of text book knowledge*” (McAulay, King and Carr, 1998: 173-200). The image of internal auditors as novice could sound extreme, however moving from private sector to public sector is not immediate, the knowledge, skills, attributes, tools, and practices required may differ substantially. At the same time, Internal auditors needed at first to acquire the collective knowledge (Spender, 1996: 45-62), which is defined as the organization genetic material, both explicit (bureaucratic rules) and implicit (organization culture) (Nelson and Winter, 1982).

In Nonaka and Takeuchi (1995) the interaction between implicit and tacit organization culture, and implicit and explicit personal knowledge, and the evolution back and forth one of these states are the base of a knowledge-creating entity. To become an effective source of knowledge, internal auditors need at first to be embedded into the organization in order to understand its functioning and internal characteristics, i.e., informal relations, and communication system. Have they been absorbed by the collective knowledge, they are in the position to make their tacit knowledge explicit by starting a *knowledge spiral* (Nonaka e Takeuchi, 1995).

Although we consider internal auditor as a source of knowledge available to the management to improve the organization pattern and behavior,⁹ a question rises; what makes an internal auditor in local government a knowledgeable source of best practice? As a start, some clues could come by understanding the activities carried out by internal auditors, trying, as previously attempted, to discern "*folklore and fact*" (Mintzberg, 1975: 49-61).

The past literature about management and auditors skills, although very little is about internal auditors in public sector, also helps in this effort to identify attributes of a successful auditor. The analysis of management literature depends on the close similarity in skills and attributes between managers and auditors, when the latter deal with performance audit and consultancy activity. In Marchi (1997), internal auditors should possess a "*managerial qualification*", thus "*a superior qualification respect to a financial audit*"; in Beisser (1978) they "*must be a surrogate manager*".

Therefore, as far as performance audit and consultancy are involved, the set of skills and attributes tend to move from the one typical of auditors to those characterizing managers. As demonstrated in previous research, audit partner and manager (more involved in consultancy and relational activity) develop interpersonal and social skills.

Bahmornsiri and Guinn (1991: 9-24) questioned audit partners to rank by importance five capabilities auditors needed to achieve promotion to audit manager: Technical Competence was first in the list followed by Communication Skills and Interpersonal Skills; the last two became the first two in case of higher promotion, i.e., as audit partner.

Abdolmohammadi and Shanteau (1992: 158-172) and Abdolmohammadi, Searfoss and Shanteau (1994) carried out a research involving 110 industry experts and audit partners asking to list and rate the most important skills for an auditor. The top three, somehow surprisingly, were Interpersonal Skills, Psychological Traits and Knowledge Component (technical). The present study reports similar results.

Interpersonal, communication and psychological skills, unlike much of the technical skills, are tacit; they are presumably acquired through experience, certainly not taught at university, and unarticulated (Tan e Libby, 1997: 97-113). Tacit knowledge overwhelms the explicit one, representing metaphorically the basement of the iceberg (Nonaka and Takeuchi, 1995).

For the purpose of this study, we started the analysis of skills from the three broad categories proposed by Katz (1974: 90-102), namely: Technical Skill *“implies an understanding of, and proficiency in, a specific kind of activity, particularly one involving methods, processes, procedures, or techniques”*, Human Skill *“ability to work effectively as a group member and to build co-operative effort within the team (...) is primarily concerned with working with people”*, Conceptual Skill *“the ability to see the enterprise a whole”*.

They seemed to be comprehensive and capable to include the attributes in an ordered way. The three categories were then disaggregated into different attributes we thought an auditor would possess in order to carry out a role within the knowledge communication in local authorities. The attributes stem also from previous studies (Pedler et al, 1986; Arul 1994), and personal judgments by the authors, namely:

1. **Relevant Professional Knowledge.** Refers to the knowledge of the technical and professional aspects, for the purposes of the research, in auditing in local government;

2. **Balanced Learning Skills and Habits.** This is the attitude of openness to various sources of knowledge and learning and the ability to apply them in one's own experience. It is the attitude of experimenting new theories or tool and not being limited to the conventional sources of learning and knowledge;
3. **Self-Knowledge Skills.** Awareness of the need to undertake personal learning routes. It is the attitude of willingness to learn by oneself without external compulsion or pressures;
4. **Analysis and Reporting Skills.** Auditors communicate officially through the reporting activity. The attitude and ability to create effective, interesting, timely reports lay at the base of an effective audit activity;
5. **Proactivity.** It is the attitude to react immediately and purposefully to events, both typical and atypical. Performance Audit and Consultancy require internal auditors to bear in mind the importance of their ideas and knowledge for the organization's goals and mission;
6. **Mental Flexibility.** Ability to adapt one's own knowledge to the various situations that may be encountered. Not being attached to standard behavior schemes. Trying out new ways of doing things. This is particularly important for dealing with performance audit and consultancy in an effective way;
7. **Social Relation** This is the ability to interpersonal communication, delegation, negotiation, conflict resolution, and dealing with various levels of authority and power, as well as with audit colleagues;
8. **Team Work Skills.** Internal auditors in local government generally work in a committee; thus, the effectiveness of their activity depends on their ability to create a harmonic working environment. As well as Social Relation, the ability to interpersonal communication, delegation, collaboration and co-ordination is fundamental;
9. **Knowledge of Strategic Aspects.** The ability to understand and be interested in the long term aims and objectives of the organization they work for. It is then the ability to influence the strategic aspects, to become familiar with them and behaving coherently;

10. **Command of Routine Facts.** It refers to the knowledge of the organization’s short-term goals and plans, the awareness of its internal functioning, i.e. the various roles and the interdepartmental relationships.

There is a dominance of Human and Conceptual attributes, although the Technical ones maintain a basic importance. In fact, technical skills are important to carry out routine and on going concern tasks, such as checking the reliability of internal control and so forth. However, their importance tends to decrease for consultancy and, as this is the case, when auditors are called to stimulate the adoption of better practice within the organization (Tan and Libby, 1997: 97-113).

Table 2: The Ten Attributes for an Effective Internal Auditor

| Technical | Human | Conceptual |
|--|-----------------------|-----------------------------------|
| 1. Relevant professional knowledge | 5. Proactivity | 9. Knowledge of Strategic Aspects |
| 2. Balanced learning skills and habits | 6. Mental flexibility | 10. Command of Routine Facts |
| 3. Self knowledge | 7. Social Relation | |
| 4. Analysis and reporting skills | 8. Team Work Skills | |

We expect then to find, through the data analysis, Human Skills as the most important element in the knowledge transfer process. In Davenport (1997), the information process, and consequently knowledge, depends in vast majority on psychological aspects, rather than technical or practical. The Author talks about “*information ecology*”¹⁰ where human quality and behavior is, thus, central for the success or failure of an information system.

In conclusion, the attributes are considered necessary in order to overcome some of the impediments to the transfer of better practices within an organization, as proposed in

Szulanski (1997: 27-43). The proposed framework was not previously tested for this particular purpose; nevertheless, a first attempt was necessary to corroborate the initial hypothesis and to improve the framework itself for more robust and stringent future studies.

METHODOLOGICAL ISSUES

The methodology followed by this research started with the analysis of the literature available regarding auditors' expertise, internal auditors' reforms and role, knowledge communication and management and managerial skills. The framework was then constructed on previous researches conducted on managerial and auditing expertise (Mintzberg, 1975; Pedler et al., 1986; Bennis, 1984; Rao and Selvan, 1992; Arul, 1994; Ashton and Brown, 1980: 269-277; Hamilton and Wright, 1982; Bonner, 1990: 72-92; Choo, 1996: 339-359) and related with studies about knowledge communication and transfer (Polanyi 1958; Nonaka and Takeuchi, 1995; Stewart, 1997; Sveiby, 1998; Szulanski, 1996: 27-43; Grant, 1996: 109-122; Spender, 1996: 45-62).

The following step was to undertake an empirical research involving internal auditors operating in local governments in order to test the framework and to detect critical issues. The content of the framework was represented by 10 attributes, which, we believe, are highly sensitive to the final aim of this study. The attributes were reflected into a structured questionnaire with five questions for each attribute. The questionnaire was constructed in order to avoid that auditors would understand the final aim of the questions; the latter were also mixed creating an ordered chaos.

The possible answers were four for each question, from (a) to (d) representing from poor (a) to optimal (d), and were given an increasing value from 1 (a) to 4 (d). In this way, the higher the overall values the better the ability of the auditors.

The internal auditors of the sample operate in either small, medium or large municipalities; and the returned and useable questionnaires reached a response rate of some 33, or 33%. The latter is a positive result, although the absolute number attained is not big enough to allow statistical analysis and generalizations. Nevertheless, some interesting indications are drawn, and most of all, the results could certainly be utilized for future research and improvement of the framework proposed.

RESULTS

The average auditor of the sample was a professional of 40-50 year old, with an average experience of 15,45 years. Nevertheless, as we will be examining later on, the actual experience in a public sector or local government environment is far smaller.

The first result deriving from the analysis of the questionnaire is related to the explicit importance of attributes given by the auditor. In fact, they were asked to rank, in order of prominence, the ten attributes, which were apparently unrelated to the subsequent questions of the questionnaire. The list obtained explicitly and that 'tacit', which emerged from the analysis of the answers given by internal auditors, were then compared.

The results, summarized into the table below, confirmed the initial expectation, as well as previous researches: Human Skills are far more determinant for the transfer of knowledge within local government. Nevertheless, the framework predicted as well the relevance of conceptual skills such as Command of Routine Facts and Knowledge of Strategic Aspects; instead, they bottomed the list. One explanation can be found through reasoning about the actual activity of auditors as source of knowledge. To transfer best practice they do not necessarily need to be involved in strategic decision or control of routine facts, instead, they need to master knowledge (learning capacity and motivation) and to communicate it (social and interpersonal relations). Especially in local government, strategic decisions are the

peculiar activity of elected members, who received the delegation from the citizenship, and top managers, who generally involve in this process a small group of people. Internal auditors may be asked to take part to the strategic decision process but mainly as consultants.

List 2 expresses the results obtained through the analysis of the questionnaires; the answers to the questions were referred to the same attributes.

Human skills remain the most important characteristics; though some interesting differences between what it should be and what it is can be underlined. Social relation for internal auditors, in list 1, is considered as being relatively less important, although according to the questionnaires, list 2, the attribute ranks first. Indeed, creating positive and interactive relations with the organization is extremely determinant to improve the job performances. However, as in this case, it appears that there are some slacks in the other attributes. Self Knowledge ranks 6th against 2nd, Analysis and Reporting Skills decreases its position from 7 to 9, similar situation for Relevant Professional Knowledge, from 6 to 8.

Table 3 Explicit and Implicit Lists of Attributes Importance

| List 1 | List 2 |
|---|---|
| Explicit Attributes Importance According to the Auditors | Implicit Attributes Importance According to the Questionnaires |
| 1 Proactivity | 1 Social Relation |
| 2 Self knowledge | 2 Proactivity |
| 3 Mental flexibility | 3 Balanced learning skills and habits |
| 4 Balanced learning skills and habits | 4 Mental flexibility |
| 5 Team Work Skills | 5 Team Work Skills |
| 6 Relevant professional knowledge | 6 Self knowledge |
| 7 Analysis and reporting skills | 7 Knowledge of Strategic Aspects |
| 8 Social Relation | 8 Relevant professional knowledge |
| 9 Command of Routine Facts | 9 Analysis and reporting skills |
| 10 Knowledge of Strategic Aspects | 10 Command of Routine Facts |

The favorable positioning of Social Relation seems due, thus, by the deficiency and weakness of some other attributes. In fact, the average score is just satisfying of some 2.62 points, compared to a top score of four. The Table below shows the scores obtained by each attribute according to the data analysis by the authors.

Internal auditors seem to understand the potential role they could play within local government and the skills they need to deal with it. However, the reality shows a neat duality between what they could be and what they actually are. Social Relation and Proactivity outperform the mean, and together with a positive Mental Flexibility and Teamwork Skills, they suggest an aptitude of internal auditors towards communication and transfer. The co-operative environment is however offset by some weakness in the other skills and attributes, which will be now taken into consideration singularly.

Table 4

Implicit Attributes Importance According to the Questionnaire – The Values

| | | |
|-----------|-------------------------------------|-------------|
| 1 | Social Relation | 3.1 |
| 2 | Proactivity | 3.1 |
| 3 | Balanced learning skills and habits | 2.84 |
| 4 | Mental flexibility | 2.64 |
| | MEAN | 2,62 |
| 5 | Team Work Skills | 2.59 |
| 6 | Self knowledge | 2.58 |
| 7 | Knowledge of Strategic Aspects | 2.45 |
| 8 | Relevant professional knowledge | 2.34 |
| 9 | Analysis and reporting skills | 2.33 |
| 10 | Command of Routine Facts | 2.29 |

Nevertheless, this initial results must be analyzed and understood within the overall picture characterizing the internal audit activity in Italian local authorities:

1. It is a relatively new activity, introduced in 1990, but effectively some years afterwards. Initially, internal auditors had to deal with a new activity, both technically and socially, they had to, and still have, understand the local government environment with its tacit knowledge and internal functioning;
2. The political context it operates, and the will of elected members to have an effective internal audit. This aspect is possibly the most striking difference between the public and private sector. Internal auditors, as said they all came from private sector experiences, had to learn how to handle with it;
3. The organization environment, the other staff are sometimes little co-operative and see the internal auditors as enemies. This was true in particular during their very early stage;
4. The poor economic treatment¹¹ that does not motivate the internal auditors to spend greater share of their efforts and time in favor of audit in local authority.

Yet, at this point it is useful to analyze the information springing up from the desegregation of the results. They could help us to have a better understanding of the impediments towards a more effective role of internal auditors as source of knowledge. Internal auditors appear to have a good knowledge of the strategic goals of the organization, financial regulations and general functioning. In spite of this, as said before, they are rarely involved or consulted to define the strategy, nor the financial regulations, nor general functioning. This shows a scarce aptitude of local authorities' managers to consult internal auditors, even in matters like financial regulations. This point is not to be underestimated, in particular on knowledge transfer analysis, in which the aptitudes of the recipient to receive, absorb and retain are critical. Internal auditors, whether not stimulated or disappointed when they observe their

efforts falling unheard or unused, will tend to perform the institutional tasks fulfilling the basic obligations of the contract.

Another crucial aspect to be stressed is the apparent inexperience of internal auditors. The newness of the internal audit in local government is to blame for the little expertise that professional has at this regard. Although the mean experience in audit activity is robust (15,45 years), of this less than a third regards public organizations. Before law 142/1990 the role of internal audit, as it is now understood, did not exist, therefore the first auditors were professionals borrowed from the private sector. In the past 10 years, may be less since almost all local authorities abided by the law with tremendous late (Mussari, 1995: 127-141), not much has been done. There is not, and it does not seem to be creating, a tradition of professionals specialized in public sector accounting and auditing. However, some promising steps have been taken, although there still is a long way to go.

Most worrying is the time internal auditors give to the activity within local government, generally no more than 30%, which means that most of the time is used for other activities. Moreover, it comes as a result of the questionnaire that auditors are in the organization on average no more than three times a month, less than once a week. Consequently, the committee of auditors meets as much as twice a month. Certainly, the initial experience gap internal auditors suffered have not enjoyed many attempts to be overcome through high commitment.

It is generally accepted that public administration cannot be treated like private ones, thus the competencies and skills needed to operate in one or another can differ substantially. In addition, in Italy an administrative legal framework regulates public sector. Therefore, it is not immediate the possibility to transfer and adopt tools and practices developed in the private sector. Every professional in local government needs to master both technical skills and the specific legislation that affects every single moment of public organizations. A strong audit experience in private sector is not a guarantee of similar performances in public sector, at

least in the short term. According to Spender (1996: 54) “*individuals cannot be proficient until they are socialized into an organization, until they have acquired much of the collective knowledge that underpins the way things are done around here*”. Every organization has a level of tacit knowledge that cannot be understood by an external in the short term,¹² it is seen as “*phylogenetical*” (Spender, 1996: 54). Experience and proficiency are two of the main factors affecting the overall performance of internal audit. In Choo (1996: 339-359) the three dimensions of auditor’s knowledge, i.e. distinctiveness, abstractness, and contingency for the task, were determinant for their performance in going concern tasks. In Biggs et al. (1993), experienced auditors recognized more atypical events in their going concern valuations than did inexperienced auditors.

Experience is also important for the final judgments and the report effectiveness, Frederick et al. (1994: 1-21) recognized to experienced auditors the knowledge of “*deep structure information*” relative to internal changes and atypical events.

In relation to the ability to transfer knowledge within local authorities, experience seems to play a strategic role. According to Szulansky (1997: 36) the most important origins of internal stickiness are; a) lack of absorptive capacity of the recipient; b) causal ambiguity; and c) arduous relationship between the source of knowledge and recipient.

In particular, causal ambiguity is the inability to detect an appropriate solution to a problem. It is clear that the more experienced a professional is, the more probable to find a solution to a specific problem, in particular when caused by atypical events (Frederick et. al., 1994: 1-21).

Internal auditors in local government, to improve their importance and performance, need to become public sector professional setting aside other unrelated activities, or at least, they should increase the share of the time given to internal audit activity.

The prospect for the future seems positive. The majority of auditors foresee internal audit in local government to increase of importance in their activity. If it is so, local authorities should

become keener to make the most of this invaluable internal source of knowledge. It is important to stress, as a conclusion of this aspect, the need to stimulate both financially and professionally, internal auditors. Whether we consider them a source of knowledge, thus as an intellectual capital, they have to be managed, also strategically (Hall, 1992; Porter Liebeskind, 1996: 93-107; Grant, 1996 Stewart, 1997), creating best value for the citizenship. They must be protected and motivated to make their personal knowledge a social one, otherwise we would have in local government highly skilled professionals carrying out routine tasks.

The insufficient time spent in local authority by auditors is another aspect halting the improvement of their expertise as well as other attributes. In fact, the poor presence of internal auditors in local government affects, other than experience, their ability to command routine facts, and generally, to control the overall activity. As said before, internal auditors attend local authorities less than once a week; they barely can be seen as part of the organization by the rest of the staff. Whether this rate of presence could be reasonable in relation to a routine financial audit, it becomes unreasonable as far as operational and program audit is concerned. In an optic of knowledge transfer, internal auditors in such a condition must decide how to use their time versus an efficient or an effective communication. Given the time spent, they hardly will be able to achieve both efficient and effective communication. An efficient communication involves low transaction costs, whereas effective communication involves redundancy, therefore high transaction costs. In a context of knowledge transfer, redundancy is a precondition for knowledge generation and transfer, and it is defined as the presence of information that goes beyond the immediate operational needs of the organization (Nonaka and Takeuchi; 1995).

Moreover, it seems they make scarce use of the internal information system (the usual answer to a specific question was 'Seldomly'), although a reason could be the sometime difficult access to, reckoned the auditors.

Information is most of the time collected through meetings with top manager and managers, rather than with elected members. It is true that the information system in many local authorities is of little help for internal auditor, it allows few analysis and the information are mainly financial. There is not generally any kind of cost accounting practice, and the technical devices and structures are obsolete, internal audit is sensible in terms of performance to the technological advances of the information system (Savary, 1999: 95-108). At the same time, high communication technology, such as hardware, software, intranet systems, chat, electronic mail, integrated information systems and so on, help towards the creation and diffusion of organizational knowledge (Hansen, Nohria e Tierney, 1999: 106-116; Davenport et al., 1998; Stewart, 1997). Besides the lack of advanced information systems, internal auditors according to the questionnaire do not easily access to the sources available, some 57,6% of auditors meets some sort of difficulties when trying to gather information. It appears that internal auditors do not attend local authorities' premises as a regular habit, and in those occasions they meet even access problem to the information system. They normally gather information through formal and informal talks with elected members, but most frequently with managers. Such a situation is not optimal for a knowledge transfer environment; internal auditors can hardly in this way become part of the organizational culture, thus risking remaining a "perfect stranger".

However, we believe that had local government expensive and highly technological information system, the performance of auditor would improve less than proportionally. The information system is certainly determinant, but it is not the solution for all problems (Davenport, 1997). The worrying aspect regards the difficulty sometime internal auditors meet to accede to the information system.

In short, internal auditors do not spend enough time in the organization they should be proficient of; they find obstacles in accessing information systems, thus they seldom use them.

The situation described above directly affects the ability to report of internal auditors. In fact, having little time to dedicate to local authorities means that Value for Money analysis and reporting, and consultancy activity tend to be residual or even absent. Generally, the reports refer to the validity of accounts and they follow a standard format, and then they are usually of little interest. In Hatherly et al. (1998: 23) free form¹³ audit reports are considered as able to improve reader's perception of a more "*rigorous and useful audit*".

In the Italian experience of internal audit report, little is done to attract the interest of readers, as well as to improve the appeal of it. Usually, they follow standard wording and format not entering the merit of critical issues and problems; they tend to ascertain the regularity of the appropriation of accounts. Despite the dated reforms, internal audit enjoyed little advance in terms of operational and performance audits, which remain residual, whether not absent.

Besides, there is little follow up, probably there is not need in such a situation; financial audit or compliance audit reports check the legality and compliance of accounts with the regulation, legislation and accounting standard. Unfortunately, neither accounting, nor audit standards for public sector exist;¹⁴ local authority's accountants are required only to abide by the law. They will not be persecuted in other cases. These lacks impede the development and improvement of an audit profession in local authority, and in general public sector. The legislation is thus the only certain parameter for internal auditors, and it regulates the behavior of local administrators who do not usually pay great attention to the suggestions and proposals of auditors. The latter are most likely disregarded and eventually forgotten.

Consequently, the overall performance of internal auditors could be anything but disappointing: Reporting is probably the most important means available to them to be heard, to be accountable and to make others internally and externally accountable. A report

communicates the activity carried out, the main findings, the suggestions for improvements, if it is misused and spoiled of its prerogatives it becomes just a formal action of paper made out of a broken twisted tree. In Tan e Kao (1999: 209-223) accountability increases the motivation of auditors, it raises the risk of control and the efforts put into the activity, in conclusion it improves the overall performance of auditing. Performance audit reports must become a ritual activity in order to underline the areas of inefficiency, diseconomy and inefficacy, and the feasible solutions. They can perform their consultancy activity, and become a real source of knowledge to solve operational or/and strategic problems in that ground.

Internal auditors reckoned to have good relations, usually collaborative, with elected members, top managers and employees. As predicted, the relation with citizens is nearly absent, they do not have institutional occasion to interact with them, and the little time spent in the local authority premises hamper this relation. Having good relationships with the other actors could mean two things. First, there are potentiality to extend the role and functions of internal auditors towards a more VFM and consultancy one. Second, since they do not make much fuss with their investigations, elected members and managers do not consider them as enemy, thus, they have the interest to maintain the good relations. The reality seems to confirm the second option, internal auditors at this moment is limited to a mere financial control and reporting, thus it does not question the merit of decisions and the appropriateness of organization, structures and policies. In prospect, the good relationships among the actors could foster the advance of performance audit and consultancy to managers.

Good relations exist also among internal auditors, when they operate in committees, however the questionnaire reveals the low frequency with which auditors meet, in average, twice a month. This is a consequence of the already scarce presence of auditors in the local government. They also have not many opportunities to meet outside the local authority; thus, the creation of a working environment and effective team tends to be rather arduous.

Besides, in local governments there is not an internal audit office, with specific staff in charge. In some cases, auditors can take advantage of some 'borrowed' staff from other offices when they are present in the local authority. This situation shows all the limitation and difficulties internal auditors have to deal with, and it is not certainly the most motivating one, nor financially. In a word, it can be described as precarious, residual, build up not with really intent, but just to abide by the legislation. The lack of specific staff does not allow internal auditors to dedicate their time to more complex and atypical tasks. Given their little presence in local authority the financial and compliance audits absorb most, if not all, of their time, leaving little scope to other functions.

In fact, the human attributes of the auditors appear to be in line with their role of agent of change, allowing making positive prevision for the near future. The average auditor seems to be proactive, keen to propose and defend his/her opinions, and to take up responsibilities. Internal auditors tend to defend their positions and creeds, knowing the art of rhetoric and confrontation; they also prefer to work in a team, at best, leading it.

Creativity and mental flexibility, according to the psychological questions, appear as being another prerogative of the internal auditors, thus with the potentiality to bring to the post the extremely useful and needed qualities. These characteristics are confirmed by the tendency of internal auditors to attend training courses, look for new tools and practices to be introduced in their activity. They are open to new experiences and ways to improve and to solve old and new problems. They also believe to be able to transfer their knowledge in the organization; this perception is positive, however the previous results do not allow thinking that this practice is diffuse and constant. The question is how can they effectively transfer knowledge when they attend the local government premises for no more than three times a month and without a devoted and permanent audit office and team? It is likely expect that the amount of knowledge transferred is very little.

It seems that internal auditors are attempting to catch up with the starting knowledge gap they had when they first started operating in public organization. Most of the professionals come from private organization experiences with little or no knowledge of public ones. They all attended at least one specific training regarding public organizations and audit in public sector, and at the moment they try to retain and improve this knowledge through dedicated reviews, newspaper, journals, conferences, workshops and so on.

Besides, few auditors took part to past scientific researches regarding public administration, or audit in public sector, although they are now becoming more interested in such an activity.

ANALYSIS AND CONCLUSIONS

Internal auditors, in this analysis, are considered as a knowledge source whose best practices could be transferred within the organization. We then supposed they must have or will acquire through experience skills and attributes, that will enable them to play that strategic role. Being a source of knowledge, tacit or explicit does not have a real meaning, in the sense that if not used or applied it does bring about any improvement or benefit. First, there is the need to activate a transfer process, which is composed of four stages (see Szulansky, 1996):

1. initiation,
2. implementation,
3. ramp-up,
4. and integration.

In every stage, internal auditor is potentially apt to be involved. At the same time he/she can stimulate the process identifying the need to be met, proposing a change, which may reconsider a previously satisfactory situation as unsatisfactory. The initial phase, initiation, starts with the identification of a problem and the will to solve it. Once the process has started there must be the involvement of the organization, and a continuous follow-up should ensure

the consistency of all actions. Each one of the remaining phases (implementation, ramp-up and integration) presents some risks that the process stops. Knowledge transfer involves the organization as a whole, which means every actor is called to take up responsibility and autonomy. The final aim of the process is the routinization of the best practice that is when occurs a socialization of knowledge (Nonaka and Takeuchi, 1995).

This simple description does not explain the complexity that instead it involves and its difficulties. In reality, the process is time and resource consuming and it is based on a strong motivation and communication within the organization. It is not the aim to this study to carry out a deep description of these matters, for which we refer back to the existing literature.

Instead, our main purpose is the identification of some of the attributes an internal auditor should possess to transfer knowledge, and their interaction with the internal environment in local authorities. In the previous section, we detected some of these attributes and we analyzed the results of the empirical research about the Italian reality in local government. In our view, internal auditors are not just a passive source of knowledge, like an asset, but active actors of change. They can promote change and contribute to overcome some of the impediments towards the transfer of best practice within local authorities.

Undoubtedly, the need for changes in local government is felt, internal auditors could become the source of knowledge able to detect the feasible solutions, and thus to bring about changes. As previously described, there are 10 origins of internal stickiness to knowledge transfer (Szulansky, 1996), divided in four set of factors referred to the Characteristics of the knowledge transferred, the source of knowledge, the recipient of knowledge and the context.

Starting from this base, we will try understanding whether or not and to what extent internal auditors can soothe these impediments. Causal ambiguity and unproven ness are first set of factors. Experience in such situations can partly avoid their occurrence; an experienced auditor can better identify the cause of a particular problem. This is due thanks to a more proficient knowledge of the functioning of the internal and external environment. Similarly,

an experienced auditor may have a more robust record of successful best practices reducing the risk of unproven ness. It is clear that this is not the only aspect to be taken into account, however, high expertise seems to be critical. From our analysis, we concluded that although the mean experience was considerable, relative to local authority was far less; besides they usually are present no more than three times a month. They lack of expertise specifically about local authority; consequently, they may encounter more problems to overcome Casual Ambiguity and Unproven ness problems.

The second set of variables is relative to Lack of Motivation and Nor Perceived as Reliable. Most of our interest is concentrated on the first one. Motivation is certainly one of the most important elements in the process of knowledge transfer, without it auditors may feel not adequately rewarded (both financially and moral) for sharing knowledge, and be unwilling to devote time and resources. As a result of the analysis, they are not adequately rewarded, especially financially but also morally, and therefore the time and resources devoted by internal auditors is often inadequate. However, the prospects are for an increasing involvement of internal auditors, as they declared, allowing hope for an improvement in both motivation and commitment. Creating a motivated internal environment stands right at the base of a dynamic organization centered on information and knowledge. Both the sources of information and knowledge and the recipient must be interested and motivated, if it is not, all the technical efforts would be just a waste of resources. According to Davenport (1997, p.3) *“all the computers in the world won’t help if users aren’t interested in the information generated. All the telecommunications bandwidth won’t add a dime of value if employees don’t share the information they have with others (...) Information and knowledge are quintessentially human creations, and we will never be good at managing them unless we give people a primary role”*.

The perception of internal auditors as unreliable is not only related to their expertise; the organization itself must accept them and understand their role, function, and scope. The social

relation of the internal auditors of the sample was positive with all layers of the organization, which means that the internal environment is improving after a difficult start. Local authorities have started, probably, to associate to internal auditors a positive function, not a negative one, and to understand the contribution they may bring. In Polanyi (1958) the master, or as in this case the transmitter, must have authority and the trust of the receiver.¹⁵

Authority and trust are closely linked and internal auditors should eventually acquire both.

The characteristics of the recipient of knowledge represent the third set of origins of internal stickiness; they refer to the lack of motivation, absorptive capacity and retentive capacity. Knowledge communication and transfer is a continuous dyadic exchange involving at least two sides. It is banal to say that both sides must co-operate, be motivated and put efforts into the process in order to either communicate, transfer, absorb and retain knowledge. The present study did not enter this field examining the will and the capacity of the receiver to absorb and retain what is transferred.

The last set of origins refers to the internal environment, to characteristics like Barren organizational context and Arduous Relationship. The former can halt the intrafirm exchanges of knowledge; internal behaviors, structures and organization can impede the communication, gestation and evolution of knowledge. In an Italian local authority it is likely to find a very hostile organization; an intense bureaucracy, a strict regulation even regarding the organization, they do not certainly play in favor of a knowledge based organization (Nonaka and Takeuchi, 1995). However, this does not mean knowledge cannot be transferred, or at least attempts cannot be done. Local government will probably never become a knowledge-creating institute, but still this does not mean it could not improve its performances through knowledge.

The relational aspect is taken in consideration as the Arduous relationship. As stated earlier, the importance of having a sort of intimacy among the actors involved in the process is

relevant. Yet, the internal auditors of the sample appeared to have acquired a positive capacity to interrelate with elected members, top managers and middle managers. The relations are cooperative facing very little conflicts and hostility. This is certainly positive as long as this harmony is not due to reciprocal personal interests, but this is not the case, possibly. Improving the relations between internal auditors and the rest of the organization is also a matter of socialization. The latter means a process of organizational legitimization in which internal auditors has the opportunity to understand the internal culture becoming part of it¹⁶. This is when they can easily either receive or transfer knowledge or both.

We have seen in this section how the skills and attributes of internal auditors can contribute towards the elimination of the impediments to the transfer of best practice within the local authority. Internal auditors need to overcome the momentarily slacks they seem to have, at least according to the analysis. At the same time, local administrators have to realize that the first step towards a general improvement of performance and to create a better internal environment, more collaborative and objective oriented. It is clear that the most difficult challenge is the cultural one, and so it remains.

What's Next?

In this brief and still incomplete study of the role of internal auditors in local authorities as a source of knowledge, the analysis began based upon three facts:

1. The evolution of internal auditors' function, as indicated by the law. They are required to assist local managers in their decision making process, and to question, whether necessary, the merit of the decisions;
 2. Internal auditors in Italian local government have filled the gap that existed with other more advanced countries, i.e. advanced in terms of control systems;
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3. A new kind of control raised the necessity to have internal and independent professionals able to guarantee the economy, efficiency, effectiveness and quality of public services, i.e. Social Control (Farneti, 1995).

The potential role of internal auditors as “agent of change” is clear, but only feasible whether local authorities want them to. In our survey, internal auditors appeared to have both some important strength and some dramatic weakness. The latter are mainly due to the slacks of the legislation and within the local authorities’ organizations. Internal auditors are not paid enough in relation to their functions and responsibility; thus, they keep previous activities giving to local government a residual part of their time. At the same time, local governments do not stimulate, in general, the commitment of the internal auditors, who without incentives do not choose this role as their main work field.

Coherently with our findings, auditors could effectively fulfill its role as long as:

1. There is a cultural change within local government;
2. Accounting and audit standards and principles are introduced;
3. Auditors become public sector professionals;
4. There are adequate financial incentives.

However, we concluded that internal auditors are undoubtedly a source of knowledge available to local governments. They are willing to learn and to apply their knowledge and skills; they are proactive and mentally agile. The missing link is the lack of motivation and incentives for a higher commitment of internal auditors. The survey detected some of the main attributes an internal auditor should possess, they were grouped in social and technical skills, and the main weakness showed by the sample.

Weakness that can be summarized as follows:

- They lack of continuous experience, and presence in local governments. They cannot carry out effectively the whole set of functions the legislation indicated;

- They should intensify the attendance to specific training and educational courses. Experience is important but the background must be robust;
- They are not supported by an adequate staff, nor by a robust information system;
- Consequently, they would improve other attributes, like the reporting skills, and so on and so forth.

As explained, the limitation in function and scope is due to different interrelated causes. Both internal auditors and local governments must acquire the awareness that an effective internal audit office is an intangible asset. It is a resource of knowledge and best practices that can lead to an improvement of local government performances.

In the last section, we tried to link the presence of skilful internal auditors with the abatement of the internal impediments to the transfer of knowledge and best practices within the organization. Therefore, internal auditors not only can be a source of knowledge, but they can even foster and improve the transfer process. The final findings are inevitably general and not prescriptive. However, they are useful in order to direct future research in this field. In particular, we believe analyzing some case studies is the next step, and this is the answer to the initial question, i.e. what's next?

NOTES

1. *“La revisione aziendale, quando è esplicitata esclusivamente da organi interni (revisione interna), si svolge principalmente allo scopo di garantire la affidabilità dei dati che convergono verso l’alta amministrazione perché possa trarre migliore consapevolezza della gestione e perché tutte le procedure amministrative abbiano ad essere oggetto di un più attento e sistematico controllo”* (Bruni, 1996; 11).

2. The role audit plays in public accountability manifestation is analyzed by English and Guthrie, 2000.
3. *"After the promulgation of law 8th of June 1990, n. 142 and until the recent promulgation of decree law 25th of February 1995, n. 77, the audit institution in local authorities experienced deep changes. Therefore, at least in a normative meaning, it seems that the gap, which divided our country from the European and extra-European Countries that in the eighties promoted significant reforms in the public sector and, thus, in the public audit, is filling up"* (Mussari, 1997; 83).
4. See Mussari, 1995: 128. The author states, *"We can say that Italy is also moving from financial audit towards Value For Money audit"*.
5. Similarly in O'Dell, C. and Jackson, Grayson C. (1998: 157) the *"natural desire to learn"* is impeded *"by a variety of logistical, structural, and cultural hurdles that organizations create."*
6. As defined in Davenport, 1997, an information worker explains, details, and compiles information for the rest of the organization.
7. Schein (1985: 7) argued, *"...there has to have been enough shared experience to have led to a shared view, and this shared view has to have worked for long enough to have come to be taken for granted and to have dropped out of awareness. Culture, in this sense, is a learned product of group experience."*
8. *"In companies, the immune system is the culture, and if the culture is not receptive, best practices, however good, will be rejected. In a research study sponsored by the APCQ, a doctoral student at the European business school INSEAD studied attempts to transfer best practices in 10 large firms and found that it often took up to 27 months for some practices to transfer."* (Stamps, 1999: 37).

9. Private enterprises, such as Xerox for instance, involved internal auditors in a project aimed at studying the ability of the organization to transfer and adopt best practices and knowledge, (O'Dell and Jackson Grayson, 1998; 161-162).
10. *"You could also describe information ecology as holistic management of information or human-centered information management. The essential point is that this approach puts humans back at the center of the information world, banishing technology to its rightful place on the periphery"* (Davenport, 1997; 11)
11. The Home Office in 1991 indicated the ceiling local authorities can pay internal auditors. The gross payment for an internal auditor working in a local authority (except province) with more than 500.000 people can earn up to Lit. 20.000.000 gross per year.
12. The same tenure was used by Aristotele, *"...those who have just started learning a subject reel off a string of propositions which they do not understand; because knowledge has to be assimilated, and that takes time."*
13. For a definition of Free Form audit report see Estes (1982; 93), who define it as a report written *"anew, from scratch for each audit."*
14. The "Consiglio Nazionale dei Dottori Commercialisti" (Chartered Institute of Certified Accountants) released in 1994 auditing standard for local authorities, although they are not compulsory. The "Osservatorio Nazionale per la Finanza e la Contabilità per gli Enti Locali" (National Accounting and Finance Observatory for Local Authorities) is in this moment carrying out a research aimed at defining a feasible set of accounting standards for local authorities.
15. *"To learn by example is to submit to authority. You follow your master because you trust his manner of doing things even when you cannot analyze and account in detail for its effectiveness"* (Polanyi, 1958).

16. *“The interplay between cognition and personality does not take place in a vacuum; it is largely mediated by socialization processes that vary considerably in their content, intensity, and duration, yet are deeply embedded in a culture (...) pushing the mediating role of culture of extremes, the sociology of knowledge asserts that we live in a world that is socially constructed and the individual knowing and choosing is always hemmed in by forces of acculturation.”* (Boisot, 1995).

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