INTERNAL AUDIT ASSURANCE OR CONSULTING SERVICES RENDERED ON GOVERNANCE: HOW DOES ONE DECIDE?

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Abstract

The concept of organisational governance maturity and what exactly this entails is still perceived as somewhat of a mystery to most and, as a result, internal auditing find themselves in a dilemma when deciding which services to deliver in this regard. The objective of this article was to develop an organisational governance maturity framework that could be used as a measurement tool to assist internal auditing in this dilemma. A preliminary organisational governance maturity framework was developed based on the most relevant literature. A case study was conducted to obtain feedback on the preliminary framework from key stakeholders in the organisation. The results indicated that the framework significantly contributed to the determining and continuous monitoring of governance maturity; both for management and internal auditing.

Key Words: Internal Audit, Governance, Consulting Services

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1. Introduction

Over the past few decades the responsibility of organisational leaders towards the shareholders, the environment, society and various other stakeholders in respect of how organisations are governed has increased significantly. Other factors which could have played a role in driving this increased interest in organisational governance include the continuing global financial crisis, a general lack of confidence in leadership of organisations, stakeholders demanding more information and transparency, and the change in investors’ requirements (Bahrman, 2011(a):1-3). When investigating the correlation between governance and investors’ dynamics, contradicting evidence is obtained. On the negative side, studies (IFAC, 2004:5; Alexakis et al., 2006:682; Aluchna, 2009:195) conclude that the implementation of sound governance principles does not necessarily encourage investors to invest in an organisation as it is not always a contributing factor to the success or good business performance of the organisation. On the positive side, proof exists that good governance principles are important to the market and that investors are willing to pay a premium for the shares of a well-governed organisation, resulting in a positive correlation between organisational governance and an organisation’s valuation (Core et al., 2006:655-687; Bebchuk et al., 2009:783-827; Amman et al., 2010:36-55).

This growing importance of governance also informed certain key changes within the profession of internal auditing; being seen as one of the key players in the establishment and continuing support of sound governance (Allegrini et al., 2011:xi-xiii; Anderson and Svare, 2011:xi-xiii). Governance was not perceived as an important focus area before 1999, as the professional guidance, namely the Standards for the Professional Practice of internal auditing (hereafter referred to as Standards) issued before 1999 did not address governance at all (IIA, 1998). However, the current definition (issued in 1999), as well as the revised Standards in 2001 (and subsequently revised in 2004), identified the area of governance as a priority for internal auditing, and included this area in Standard 2100 – Nature of work (IIA, 2004:17). Thereafter, in 2009, with the issuance of the revised international Standards, the importance of governance as a priority area for internal auditing was highlighted: governance became the first sub-standard (Standard 2110) addressed in Standard 2100 – Nature of work (IIA, 2010:15). In addition, in April 2010 three new practice advisories were issued, all in response to an acknowledgement of the importance of the evolving role of internal auditing in respect of organisational governance (IIA, 2010:52-56).

From the changes to the Standards, as well as numerous studies and bodies (Ernst & Young, 2008; Coetzee, 2010; IIA, 2010; PWC, 2010; Allegrini et al., 2011:xi-xiii; Anderson and Svare, 2011:xi-xiii; Chen and Lin, 2011:xi-xiii; PWC, 2011; PWC, 2012), it seems evident that organisational governance is a focus area for internal auditing; where internal auditing can play one of two roles (IIA, 2006). In the
first instance, internal auditing can be part of the organisational governance framework. This relates to internal auditing being seen as a cornerstone of sound governance principles (Soh and Martinov-Bennie, 2011:605-622; Eulerich et al., 2013:57-72). In the second instance, internal auditing can provide internal audit services on organisational governance by either providing assurance on the organisational governance structures or by improving the structure by rendering consulting services (Bolger, 2011:11-12). However, which of these two services should be rendered is not an easy decision – the existence (or not) of certain aspects of organisational governance (also referred to as organisational governance maturity) would influence the value that internal auditing could add and must first be determined before choosing the best option. However, limited literature was found in this regard.

As a result, the objective of the study reported in this article, is to develop an organisational governance maturity framework that could be used as a measurement tool to assist internal auditing in this dilemma. It is argued that once the level of maturity is known, internal auditing will then be able to, first, decide which type of services could most appropriately be rendered, (either assurance or consulting services) and secondly, be more focussed in the execution of the service (resulting in a more effective and efficient audit engagement). The results of the study would broaden the body of knowledge for the internal audit profession – both the governing body, namely the Institute of Internal Auditors (IIA) as well as individual internal auditors, and provide guidance for internal auditors when determining the scope of governance-related audit engagements. Management will also benefit by understanding the services that internal auditing could render in establishing, improving and maintaining a sound governance framework for the organisation. The article is set out as follows: the literature review conducted in pursuit of the development of a preliminary framework is presented. Thereafter, the research method used to obtain input in refining the preliminary framework is discussed. Finally the research results, followed by the conclusion and recommendations are presented.

2. Literature Review

In this section the relevant literature relating to organisational governance, its connection to internal auditing and maturity frameworks/models are briefly discussed as foundation for the development of the framework.

2.1 Organisational Governance

As organisational governance is a broad concept, and can be interpreted in diverse ways by various parties, it needs to be properly defined in order to examine its influence and its role in the organisation. This section discusses organisational governance, the importance of its recognition and view and overall how it has developed over the years.

Organisational governance is a broad concept and can be interpreted in diverse ways by various parties. It is important to define it in a meaningful way. Many authors have tried to explain this rather complicated concept. A search of the most relevant literature reveals almost as many definitions as there were authors consulted. However, from these seemingly unique definitions two broad trends can be identified. Trend one covers definitions with a very narrow, specific focus on the organisation and its relationship with and responsibility toward stakeholders, also referred to as the exclusive approach (Friedman, 1993:162). Trend two comprises broader definitions which expand the accountability of the organisation to include its other stakeholders, also referred to as the inclusive approach (Freeman and Evan, 1993:76).

It appears that while some definitions are more comprehensive than others, they all address the following important issues (Cadbury, 1992:par.2.5; IoD, 1994:1; IoD, 2002:19; OECD, 2004:11; IFAC, 2009:6; IoD, 2009:20; ASX, 2010:3; FRC, 2010:1): Organisational governance has two important dimensions, namely conformance (compliance) and performance (strategy and value creation). These two dimensions need to be balanced to ensure effective organisational governance. However, effective responsible leadership is key in directing an organisation, which implies that the board and senior management have important responsibilities to ensure the effective implementation of organisational governance. The broader approach to organisational governance comes to the fore as the ethical values of responsibility, accountability, fairness and transparency underpin leadership and ultimately form the basis for sound organisational governance, which should focus on much more than just the financial aspects of an organisation. Organisational governance recognises the importance of the organisation’s relationship with all its stakeholders; for an organisation to merely have a relationship with its shareholders is not adequate.

Another aspect which also influences the establishment of organisational governance within a specific organisation are the approaches followed (principles-based or rules-based), resulting in certain codes and legislation being complied with, theories being developed as well as key role-players influencing the governance structures, systems and processes (hereafter referred to as organisational governance framework) by the roles they fulfil. The debate as to which approach is the best has been argued for many years and the arguments will most probably continue (Jackson, 2004:58). Under a rules-based regime organisations are encouraged to comply with a specific set of rules, usually legislation, whereas the principles-based approach focuses mainly on the end-result and doing what is best for a specific organisation. The first approach may provide more confidence to stakeholders, but at what cost? Following a strict rules-based approach may force an organisation to apply certain governance rules without necessarily understanding the intention of the
rule and, more importantly, the underlying principle or ‘spirit’ in which the rule should be applied (Baker, 2004:15-17; Waring, 2006:35-37). This implies that although organisations may have rules that are clear and not open to any interpretation that may cause confusion for role-players, the embedding of governance within the organisation might result in the risk of becoming a ‘tick-box’ exercise. Although applying a principles-based approach implies that more value is added to the business, the application of this approach is more open to the individual interpretation of the various role-players (Barrier, 2003:68-73; Jackson, 2004:57-61); resulting in different individuals interpreting a specific principle differently, leading to the misuse of the freedom granted. Although each approach has advantages and disadvantages, the focus should be on the effectiveness in which these rules and guidelines are implemented. A ‘one-size-fits-all’ solution is difficult to find and whether a rules-based or principles-based or a combination of the two approaches is followed, substance should take precedence over form (Sir Adrian Cadbury cited in Jackson, 2004:59).

The approach followed by an organisation will define the relevant guidance and/or legislation which the organisation will comply with. Numerous governance codes have been developed globally over the past few decades in pursuit of flawless organisational governance. The development of legislation has, however, not been as successful. The European Corporate Governance Institute (ECGI) lists codes adopted globally, and updates this list regularly (ECGI n.d.). A brief overview of the codes listed by the ECGI reveals that as at May 2014, there were over 100 countries and six ad hoc bodies that developed more than 140 codes in the past seven years (from 2008). This confirms that the world of organisational governance is constantly changing and that organisations cannot afford to lag behind: proactive development of responses to the deluge of codes and legislation in respect of organisational governance is a constant process. Three prominent codes which are internationally recognised as definitive and pivotal in the development of organisational governance (Marks, 2010; Marks, 2012(a)) are the third King Report on Governance for South Africa (King III) (IoD, 2009), the United Kingdom (UK) Corporate Governance Code (FRC, 2010), revised in 2010 by the Financial Reporting Council (FRC), and the Australian Corporate Governance Principles and Recommendations, revised in 2010 by the Australian Securities Exchange (ASX) Corporate Governance Council (ASX, 2010). A comparison of these three codes, using the chapters in King III as a benchmark, revealed the following in respect of the percentage coverage of the various elements in the UK code and the Australian code:

<table>
<thead>
<tr>
<th>Relevant area</th>
<th>King III (governance element)</th>
<th>UK code coverage</th>
<th>Australian code coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical leadership and corporate</td>
<td>Responsible leadership</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>citizenship</td>
<td>Board’s responsibilities</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Ethical foundation</td>
<td>0%</td>
<td>Limited coverage</td>
<td></td>
</tr>
<tr>
<td>Boards and directors</td>
<td>Role and function of the board</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Composition of the board</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Board appointment process</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Director development</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Company secretary responsibilities</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Performance assessment</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Board committees</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Group boards</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Remuneration of directors and senior executives</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Audit Committees</td>
<td>Membership and resources</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Responsibilities</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Internal assurance providers</td>
<td>Limited coverage</td>
<td>Limited coverage</td>
</tr>
<tr>
<td></td>
<td>External assurance providers</td>
<td>Limited coverage</td>
<td>Limited coverage</td>
</tr>
<tr>
<td></td>
<td>Reporting</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>The governance of risk</td>
<td>Responsibility of the board</td>
<td>Limited coverage</td>
<td>Limited coverage</td>
</tr>
<tr>
<td></td>
<td>Responsibility of management</td>
<td>Limited coverage</td>
<td>Limited coverage</td>
</tr>
</tbody>
</table>
Relevant area | King III (governance element) | UK code coverage | Australian code coverage |
--- | --- | --- | --- |
Risk assessment | 0% | 0% |
Risk response | 0% | 0% |
Risk monitoring | 0% | 0% |
Risk assurance | 0% | 0% |
Risk disclosure | Limited coverage | Limited coverage |

The governance of information technology (IT) | Principles listed, not governance elements. | 0% | 0% |
Compliance with laws, codes, rules and standards | Principles listed, not governance elements. | 0% | 0% |
Internal Audit | Need for and role of internal audit | Limited coverage | Limited coverage |
Approach and plan | 0% | 0% |
Dispute resolution | 0% | 0% |
Status in the company | 0% | 0% |
Governing stakeholder relationships | Principles listed, not governance elements. | Limited coverage | Limited coverage |
Integrated reporting and disclosure | Transparency and accountability | Limited coverage | Limited coverage |

From the abovementioned results it appears that King III is the most comprehensive organisational governance code of the three. This was also assented to by Norman Marks (2010), vice-president of Systems Applications and Products in data processing (SAP) and well-known governance expert as he was of the opinion that King III is currently one of the leading and most comprehensive organisational governance codes in the world.

The development of legislation relevant to organisational governance for the private sector has not received as much attention. This may be attributed to the fact that legislation supports a rules-based approach to organisational governance and may be an approach which is not as flexible and therefore not as attractive to private sector organisations as the principles-based approach. The development of legislation that has had a global impact on organisational governance is the Sarbanes-Oxley Act of 2002 (USA, 2002) and the Dodd-Frank Act (USA, 2010). In South Africa, legislation relevant to organisational governance has taken the form of the Public Finance Management Act (PFMA) (SA, No 1 of 1999 as amended by Act No 29 of 1999), the Municipal Finance Management Act (MFMA) (SA, No 56 of 2003) and the Companies Act (SA, No 71 of 2008), covering both private and public sectors of the economy. Although promulgating legislation as a form of guidance for implementation of organisational governance has some benefits, it may still be perceived as too prescriptive, costly and rigid to effectively implement governance in all forms of organisations (Mbecke, 2014:106).

### 2.2 The role of internal auditing in organisational governance

As mentioned before, over the past few decades internal auditing’s role in respect of organisational governance has come strongly to the fore, with internal auditing’s involvement in organisational governance being two-fold. In the first instance, internal auditing is seen as part of the organisational governance framework: this role relates to internal auditing being a cornerstone of sound governance principles. The second role relates to providing internal audit services in respect of organisational governance. This role entails internal auditing either providing assurance or consulting services.

In order to fulfil the first role, internal auditing is required to demonstrate its adherence to sound governance principles within its own activity, and then to assist the organisation (individuals, departments and management) to achieve similar levels of commitment (Soh and Martinov-Bennie, 2011:605-622; Eulerich et al., 2013:57-72). The second role that internal auditing can fulfil, namely providing assurance or consulting services, will mainly depend on the organisation’s governance maturity (refer to section 2.3 for a detail discussion). A further aspect that should be considered, is that for many internal audit activities there is a conflict between providing assurance services (required by the board) and providing consulting services (required by management) (Allegrini et al., 2006:846-850; IIA Research Foundation, 2007:53), resulting in a need for more specific guidance to internal auditing in this regard.

Assurance services entail the objective evaluation of evidence to reach an assessment of the process being investigated (in this case the organisational governance framework) (IIA, 2010:4).
If it is well-established, this implies that the organisation is relatively mature in respect of implementing governance (IIA, 2006:3-4; Marks, 2007:31). In such a scenario it can be assumed that the internal audit activity will render assurance services, as management’s main concerns would be to ensure that the organisational governance framework currently in place is adequate and effective. Internal auditing may be involved in activities such as evaluating the governance elements; analysing the effectiveness of reporting within the governance structure; comparing the structures with governance’s best practices; assessing compliance with relevant governance codes; and assessing whether governance policies and practices are appropriate to the organisation’s needs (IIA, 2006:5; Marks, 2012(b):41).

Consulting services include advisory-type services which should add value and improve an organisation’s processes (Allegrini et al., 2006:846-850; IIA, 2010). Should the organisational governance framework be developed to a lesser extent, it would be an indication that the organisation is not governance-mature. In this scenario the internal audit activity would most probably render consulting services, as management’s main concern would be to establish or to improve the governance framework currently in place. Typically, the internal audit activity would provide advice on achieving optimal governance structures, systems and processes, and implementing improved practices by, inter alia, comparing the current governance structure (if applicable) to relevant regulations and to other compliance requirements (IIA, 2006:4-5; Bolger, 2011:11-12). Once again, the value added when providing consulting services becomes apparent as internal auditing facilitates change that results in process improvements for the organisation.

It should thus be apparent that it is imperative for internal auditing to be aware of the level of governance maturity of the organisation to determine which services (assurance and/or consulting) should be rendered to add the most value. The development of a measurement tool, such as an organisational governance maturity framework, which can be used to determine the level of maturity of the structures, systems and processes, would therefore benefit internal auditing, enabling it to decide how best to meet the needs of the organisation in respect of internal audit services relating to governance. The potential additional benefits of such a framework include (RIMS, 2006:4; IIA Research Foundation, 2009:vii; Bahrman, 2011(b):41-42) internal auditing obtaining ideas on how to advance the organisation to the next level of maturity within the framework; benchmarking against best practices; providing valuable background information to be used in the planning of an audit engagement and conducting the engagement in a more efficient and effective manner.

### 2.3 Organisational governance maturity and maturity frameworks

A study of the literature revealed that organisational governance maturity refers to the extent to which an organisation established adequate governance structures, systems and processes, and the degree to which the board, management and employees implemented and adhered to these governance structures, systems and processes (IIA, 2006:4-5; Marks, 2007:31; Massie, n.d.). The evolutionary nature of maturity frameworks is evident from a study of the proliferation of these frameworks within various fields of specialisation over the past three decades (De Bruin et al., 2005; Paulk, 2009:5-19; Magdaleno et al., 2011:106). However, most of these sources identify the development of the Capability Maturity Model (CMM), which focussed broadly on software processes and which evolved into the Capability Maturity Model Integration (CMMI), integrating specific areas within the information technology environment, as an important milestone influencing the development of maturity frameworks in other fields of specialisation. The CMMI (SEI, 2010), seen as the benchmark of maturity frameworks, consist of the following core elements, namely: attributes, levels of maturity and criteria. Attributes refer to the characteristics or qualities that can be associated with the relevant area of specialisation. Levels of maturity refer to the stages of maturity or implementation that can be associated with the relevant area of specialisation. Criteria links the levels of maturity to the attributes by describing what is expected for that attribute at that specific level of maturity. It can be deduced that a well-developed maturity framework should, at minimum, adhere to these core elements.

An extensive search of the literature revealed maturity frameworks related to the area of governance which could be used in developing an organisational governance maturity framework. These are summarised in table 2.
### Table 2. Governance-related maturity frameworks

<table>
<thead>
<tr>
<th>Framework</th>
<th>Source</th>
<th>Description</th>
<th>Attributes</th>
<th>Maturity levels</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modes of managing morality (MMM) model</td>
<td>Rossouw and Van Vuuren, 2003</td>
<td>This model deals with the very pertinent aspect of managing ethics within organisations</td>
<td>4</td>
<td>5</td>
<td>Present and links attributes with maturity levels</td>
</tr>
<tr>
<td>Open Compliance and Ethics Group (OCEG) model</td>
<td>OCEG and NACD, 2007</td>
<td>This model was developed to serve the governance needs of directors and board and to ultimately achieve improved organisational governance through better board practices</td>
<td>5</td>
<td>5</td>
<td>Present and links attributes with maturity levels</td>
</tr>
<tr>
<td>Internal Auditing Capability Model (IA-CM)</td>
<td>IIA Research Foundation, 2009</td>
<td>This model was developed to assist internal auditors and other internal audit stakeholders to identify the fundamental needed for an effective internal audit activity within a government structure and within the broader public sector</td>
<td>6</td>
<td>5</td>
<td>Present and links attributes with maturity levels</td>
</tr>
<tr>
<td>Risk maturity model</td>
<td>RIMS, 2006; Coetzee, 2010</td>
<td>The Risk and Insurance Management Society (RIMS) maturity model which was developed as a generic tool to assist organisation to manage risks more effectively. This model was adapted by Coetzee (2010) so as to be useful in a South African context</td>
<td>7/8</td>
<td>5</td>
<td>Present and links attributes with maturity levels</td>
</tr>
<tr>
<td>Governance Capability Maturity (GCM) model</td>
<td>Bahrman, 2011 (a) &amp; (b)</td>
<td>This model was developed with the objective of assisting the organisation in defining the criteria to use in evaluating organisational governance within a USA context</td>
<td>10</td>
<td>5</td>
<td>Present and links attributes with maturity levels</td>
</tr>
<tr>
<td>Control Objectives for Information and related Technology (COBIT) 5 model</td>
<td>ISACA, 2012</td>
<td>This model was developed to serve as a tool which assists in ensuring compliance with relevant IT governance aspects deemed important</td>
<td></td>
<td></td>
<td>This model does not make use of the three core elements but is regarded as a leading tool measuring IT governance maturity</td>
</tr>
<tr>
<td>King III</td>
<td>IoD, 2009</td>
<td>This guidance document was drafted as a tool in creating awareness and ultimately enhancing governance within organisations, especially the private sector of South Africa</td>
<td></td>
<td></td>
<td>This guidance document does not make use of the three core elements but is regarded as leading the way in prescribing best practices for governance worldwide</td>
</tr>
</tbody>
</table>
Various deductions could be made from the analyses performed. An ideal measurement tool should consist of approximately seven attributes; the above maturity frameworks consist of between four (the minimum) and ten (the maximum) attributes, thus an average of seven. Using fewer than four attributes may be an indication that the specific area of specialisation is not adequately covered, while having more than ten attributes may result in overcomplicating the maturity framework or adding attributes that do not add any real value. The above maturity frameworks all consist of five levels of maturity, these levels could be meaningfully combined as they address the same concepts, despite the sometimes different choice of terminology. All the models consist of criteria linking the attributes to a specific maturity level. These models can thus all be used to assist in the development of an organisational governance maturity framework, with the King report and COBIT model providing valuable additional input.

3. Methodology

This study’s main focus is to develop a measurement tool to assist internal auditing in deciding which service to render (assurance or consulting). A preliminary organisational governance maturity framework (refer to Annexure A) was developed based on the most relevant literature on governance and related maturity frameworks (refer to table 2). The three core elements in each maturity framework were compared to identify common factors to be included.

After completing the literature review and developing the preliminary framework, a qualitative case study was performed to obtain inputs from key stakeholders within the field of governance, in order to refine the preliminary framework as it was believed to be best-suited to provide the necessary answers. According to Yin (2009:8-14), a case study can also be used to obtain a better understanding of certain concepts and it can provide valuable input while addressing the research questions by focussing on the issues of ‘how’, ‘why’ and ‘what’.

The study was limited to the private sector within South Africa; with South Africa being seen as a leader in corporate governance guidance (Marks, 2010; Marks, 2012(a)) and as research indicates (Erasmus et al., 2014:2) that the public sector is not yet as mature in terms of the implementation of their organisational governance structures, systems and processes as the researcher needed the case to be. This should be seen as a limitation to the study and further research should be conducted to include other organisations and/or countries. However to minimise this limitation, two aspects was carefully considered, namely the method used to select the targeted case, and only competent key stakeholders within the case was to be interviewed.

With regard to the first aspect, to refine the framework it was deemed necessary to obtain input from an organisation that is already mature in their implementation of organisational governance. To ensure that the case selected is most probably mature in their organisational governance, the following studies were used as criteria:

- Risk maturity of the organisation (Coetzee, 2010:477-478). This study ranked the Top 40 organisations listed on the Johannesburg Stock Exchange Limited (JSE Ltd) as at August 2009 according to their risk maturity.
- Integrated reporting quality and standards (Ernst & Young, 2013). This study ranked the top performers in respect of the quality of their integrated report. This is done on an annual basis.
- Presence on the JSE Ltd Top 40 (JSE, 2013). These are the top private sector organisations in South Africa in respect of financial performance. These organisations tend to be aware of the most recent governance requirements (both statutory and in terms of the JSE Ltd’s listing requirements), and it appears to be a widely held perception that by adhering to these governance requirements their reputations are enhanced.

A consolidated list was compiled from the top 10 organisations ranked for each of these studies. The top five organisations which achieved the highest scores in aggregate were then selected as the population. One of the top five organisations was selected as the case (for privacy purposes the company’s name may not be mentioned), based on the availability and willingness of key stakeholders to participate in the study. To this extent, professional judgement had to be applied. In the event of an organisation not being available for the empirical study, the next organisation on the list of top five would have been selected. Using this technique is best-suited where cases which are particularly informative have to be selected in order to answer the research question (Saunders et al., 2007:226-233; Yin, 2009:8-14).

With regard to the second aspect, the use of personal interviews, guided by the use of semi-structured questionnaires, was selected as the method of data collection most likely to provide the valuable results required to refine the preliminary framework. Formal interviews were conducted with the key stakeholders responsible within the organisation for the specific governance-related areas being addressed in the preliminary framework. The key stakeholders interviewed included the company secretary (organisation has three company secretaries); the chief audit executive (CAE); the group manager: compliance; the group manager: risk; executive: stakeholder relationship management; and information technology contracts and administrative manager.
The interviews were in-depth, with 11 open-ended questions forming the core of the interviews. The qualitative research tool Atlas.ti was used to analyse the data, i.e. the input obtained from the interviews. The input obtained from the interviews was used to refine the preliminary framework. The refined framework is attached as Annexure A. Amendments to the preliminary framework are indicated in italics, whilst the ‘strikethrough’ functionality was used to indicate text being removed based on arguments provided by the interviewees.

4. Results

The results are presented as follows: first, the process followed in respect of how the various attributes were consolidated is briefly discussed; secondly, key points relating to the input received from stakeholders are presented; finally, the input obtained from the CAE as far as it relates to the services provided by internal auditing and how the framework can be of assistance is elaborated on.

4.1 Process of consolidating attributes

The attributes of the maturity frameworks referred to in section 2.3 was analysed to determine which attributes are shared by these frameworks, and can therefore be included in the preliminary organisational governance maturity framework. The aspect of frequency of occurrence was considered whilst comparing the attributes of the various maturity frameworks. It was furthermore noted that many of the attributes addressed the same concepts, despite slightly different names. Some of the attributes did not relate to organisational governance and resulted in these attributes being discarded. Information from the extensive literature review performed in respect of comparing the attributes of the relevant maturity frameworks were therefore used to derive at four general attributes, namely leadership, strategies and structures, processes and communication and reporting (also refer to Annexure A).

4.2 Input obtained from interviewees on the preliminary framework

Interviewees were asked questions specifically relating to the preliminary framework developed and its usefulness as a measurement tool in the organisation. All interviewees were of the opinion that a definite need exists within business for the development of such a framework. An important argument was that various codes, tools and other guidance documents exist in respect of governance, but this framework now combines the most important aspects holistically in a comprehensive, yet succinct framework. Interviewees believed that this is what the business community in South Africa, and most probably world-wide, needs as most organisations are aware that governance is required, but are not able to implement it in a practical and uniform manner. Numerous benefits were identified during the interviews if such a framework would be used by the organisation. All interviewees were of the opinion that the framework is very user-friendly, especially as a qualitative tool, because it does not link any scores to the criteria, being more descriptive in nature – supporting a principle-based approach to governance. The five levels of maturity seemed adequate and logical. Interviewees’ opinions were that more than five levels would in all likelihood complicate the framework. The four general attributes of the framework appeared to the interviewees to be an accurate and succinct grouping of the general aspects in any governance environment for any type of organisation. Except for one general attribute (refer to Annexure A for text with ‘strikethrough’), positive feedback was obtained on the inclusion of all specific attributes detailed in the preliminary framework. Arguments in support of the validity and relevance of these attributes were reinforced by the interviewees during the interviews.

4.3 Input obtained from internal auditing on the usefulness of the preliminary framework

The CAE, as head of the internal audit activity, was of the opinion that this framework could assist internal auditing in rendering internal audit services in a more efficient and effective manner by guiding the internal auditor in providing either assurance or consulting services. The CAE provided pertinent background information on the challenges that the organisation faces regarding the conflict between rendering assurance and/or consulting services, as mentioned previously. During recent years the internal audit activity’s involvement in governance matters within the organisation has increased tremendously: the internal audit activity has increasingly been required to provide assurance and consulting services in respect of governance. This has placed a burden on the internal audit activity, as the internal auditors have not necessarily been in possession of the relevant knowledge and skills needed to provide these services. As governance is a very broad and sometimes complicated concept, it was noted that senior-level internal auditors had to be used on these engagements, adding to the cost of the process. Governance furthermore tends to have a strong strategic focus, which requires the internal auditor to operate on a more strategic level. Another challenge was that internal auditors generally find it difficult to provide the organisation with relevant advice while simultaneously deciding what types of services to render, as no guidance framework has yet been developed for this purpose. It should be noted that this potential lack of knowledge and skills
increases the need for guidance in the area of governance auditing. The CAE was of the opinion that the preliminary organisational governance maturity framework would greatly assist the internal audit activity to address these challenges identified when it comes to providing governance services. Reasons provided for this opinion included: it can assist internal auditors when obtaining background information for a governance engagement; internal auditing can use the framework to benchmark the organisation against its peers in the industry; it can be used to guide internal auditing in respect of recommendations provided to the organisation, especially when it comes to value-adding; internal auditing can determine, based on the structures, systems and processes currently in place, what type of services (assurance or consulting) could be rendered to provide for an effective and efficient governance engagement. This aspect was viewed as the most important contribution of this framework for internal auditing.

5. Conclusion

The focus on implementing sound organisational governance practices within organisations has come to the fore in the last few decades, with internal auditing, being seen as one of the corner stones, playing a prominent role in the establishment and continuous monitoring thereof. As the concept of organisational governance is broad, complex and open for different interpretations, it is important for internal auditing to first obtain an understanding of the need and/or implementation thereof within the organisation before deciding which services it should render; either assurance or consulting.

The main focus of this study was to develop a measurement tool in the form of a qualitative framework which could assist internal auditing to, first, determine which services they should provide and secondly, to provide a more effective and efficient internal audit engagement. The concept of maturity frameworks was investigated as a basis to develop such a tool. The literature introduced concluded that although a comprehensive framework to measure organisational governance maturity does not exist, various frameworks, addressing specific aspects within this concept, is available. These frameworks were used to develop a preliminary organisational governance maturity framework. The preliminary framework was tested by means of a case study in a seemingly governance-mature organisation, obtaining input from competent key stakeholders on the usefulness and completeness of the framework. Apart from management being of the opinion that the framework will add much value in the implementation and improvement of sound governance within the organisation, the head of internal auditing was of the opinion that the framework would add much value to internal auditing in its efforts to provide quality services in respect of governance, especially on a strategic level.

From the study it can be concluded that internal auditing should consider the descriptive nature of the framework when obtaining the necessary background information relating to the governance practices to be implemented. The framework can be used as a benchmarking tool, should the organisation require such an evaluation. The framework can further be used to determine the current state of governance maturity of an organisation. This will enable internal auditing to determine which type of service is more appropriate to render; either assurance for a more mature (level 3 to 5) organisation or specific structures, systems and processes and/or consulting for a more immature (level 1 to 3) organisation or specific structures, systems and processes, to add the most value. The criteria established for each specific attribute, and the corresponding maturity levels, could be used as points of departure for recommendations arising from having conducted governance reviews.

This framework was developed by taking into account the leading maturity frameworks and models in governance-related topics, resulting in a comprehensive organisational governance maturity framework. Although a too complex framework may result in stakeholders not using it, the framework could be further refined by developing more specific indicators for each criterion within the four attributes. Future research could include stakeholders’ perceptions on broadening the framework and, if needed, developing detail criteria for each attribute per maturity level.

References


20. ECGI: See European Corporate Governance Institute.


30. IFAC: See International Federation of Accountants.

31. IIA: See Institute of Internal Auditors.


35. Institute of Directors (IoD), (2009), King report on governance for South Africa, Institute of Directors Southern Africa: Johannesburg.

36. Institute of Internal Auditors (IIA), (1998), Standards for the professional practice of internal auditing, Altamonte Springs, Florida.


44. IoD: See Institute of Directors.


56. NACD: See National Association of Corporate Directors.

57. OCEG: See Open Compliance and Ethics Group.

58. OECD: See Organisation for Economic Co-operation and Development.


65. PWC: See PricewaterhouseCoopers.


70. SEI: See Software Engineering Institute.


## ANNEX A. REFINED ORGANIZATIONAL GOVERNANCE MATURITY FRAMEWORK

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Levels of maturity</th>
<th>General</th>
<th>Specific</th>
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</thead>
<tbody>
<tr>
<td><strong>Leadership</strong></td>
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<tr>
<td>Decision-making (OCEG and NACD, 2007; IoD, 2009; Bahram, 2011 (a) &amp; (b); ISACA, 2012)</td>
<td>Immature</td>
<td>• Leadership lacks key skills for effective decision-making.</td>
<td>• Leadership includes basic decision-making skills but lacks strategic vision.</td>
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<tr>
<td>Ethical foundation and culture ('tone at the top') (Rossouw and Van Vuuren, 2003; RIMS, 2006; OCEG and NACD, 2007; IIA Research Foundation, 2009; IoD, 2009; Coetzee, 2010; Bahram, 2011 (a) &amp; (b); ISACA, 2012)</td>
<td>Immature</td>
<td>• Ethical leadership is not perceived to be important.</td>
<td>• The importance of ethical leadership is recognised by majority of management.</td>
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<tr>
<td>Strategies and structures</td>
<td></td>
<td>No formal governance strategies and structures in place.</td>
<td>Governance strategies and structures not well-defined.</td>
</tr>
<tr>
<td>Governance strategies and structures (Rossouw and Van Vuuren, 2003; RIMS, 2006; OCEG and NACD, 2007; IIA Research Foundation, 2009; IoD, 2009; Coetzee, 2010; Bahram, 2011 (a) &amp; (b); ISACA, 2012)</td>
<td>Developing</td>
<td>Basic governance strategies and structures in place.</td>
<td>Well-defined governance strategies and structures which are understood by all employees.</td>
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<tr>
<td>Role of board (Added after empirical study)</td>
<td>Developed by board members</td>
<td>A board is established but not functioning effectively.</td>
<td>A board is established to ensure minimum adherence to compliance requirements.</td>
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<tr>
<td>Board committees (IoD, 2009; Bahram, 2011 (a) &amp; (b))</td>
<td>Immature</td>
<td>• The role of formal committees is not perceived to be</td>
<td>Limited number of established committees and not functioning effectively.</td>
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<td>Attributes</td>
<td>Levels of maturity</td>
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<td>Specific</td>
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<td></td>
<td></td>
<td>Immature</td>
<td>Developing</td>
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<tr>
<td>Information technology (IT) (OCEG and NACD, 2007; IoD, 2009; Bahrman, 2011, (a) &amp; (b); ISACA, 2012)</td>
<td>• Governance of IT not perceived to be important.</td>
<td>• No committees established.</td>
<td>• Commence with the establishment of an IT governance framework.</td>
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<td>• IT regarded as support function.</td>
<td>• IT regarded as support function.</td>
</tr>
<tr>
<td>Risk (RIMs, 2006; IoD, 2009; Coetzee, 2010; Bahrman, 2011 (a) &amp; (b))</td>
<td>• Risk management not perceived to be important.</td>
<td>• No risk management function (RMF) established.</td>
<td>• RMF established but not functioning effectively.</td>
</tr>
<tr>
<td>Internal audit activity (IAA) (RIMs, 2006; IIA Research Foundation, 2009; IoD, 2009; Coetzee, 2010; IIA, 2010; Bahrman, 2011 (a) &amp; (b))</td>
<td>• IAA not perceived to be important.</td>
<td>• IAA unstructured providing ad hoc services or not established at all.</td>
<td>• No formal reporting structure for the IAA.</td>
</tr>
<tr>
<td>Internal and external compliance (Compliance with laws, regulations, rules, codes, practices, and organisation policies and procedures) (Rossouw and Van)</td>
<td>Compliance culture is non-existent.</td>
<td>• Establishment of unstructured compliance framework.</td>
<td>• Relevant internal and external compliance structures are recognised but not enforced by means of a compliance framework.</td>
</tr>
<tr>
<td>Attributes</td>
<td>Specific</td>
<td>Levels of maturity</td>
<td>General</td>
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<td>Immature</td>
<td>Developing</td>
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</tbody>
</table>
| Processes  | Risk management process (RIMS, 2006; IoD, 2009; Coetzee, 2010; Bahrmann, 2011 (a) & (b)) | No formalised risk management process in place. | - Simplified risk management process in place.  
  - Overall risk awareness throughout organisation is lacking. | - Enterprise-wide risk management process is established but not embedded.  
  - Annual audit of process takes place. | - Enterprise-wide risk management process is established and embedded.  
  - Continuous feedback received on adequacy of process.  
  - Any additional loss events identified by the IAA are reported. | - Effective risk management structures.  
  - Enterprise-wise risk management process is implemented, applied and monitored using leading frameworks as guidance. |
|            | Internal control process (IoD 2009; IIA 2010; Bahrmann 2011 (a) & (b)) | Importance of internal controls is not recognised. | Adherence to basic internal controls is not encouraged. | - Adherence to internal controls is important.  
  - Internal control process is established to ensure minimal compliance. | - Internal controls are understood by all employees.  
  - Continuous improvement of control environment is prioritised. | Comprehensive framework for internal control is implemented, applied and monitored on a regular basis. |
|            | Ethics management process (EMP) (Rossouw and Van Vuuren, 2003; IoD, 2009; Bahrmann, 2011 (a) & (b); ISACA, 2012) | - Ethics standards non-existent.  
  - Unethical behaviour is tolerated. | - Ethics standards exist but are not enforced or formally managed.  
  - Unethical behaviour is not punished. | - A formal EMP is in place to manage ethics but with limited ethics initiatives.  
  - Unethical behaviour is punished and perpetrators are dealt with accordingly. | - A formal EMP is in place to manage ethics.  
  - Ethical behaviour is encouraged.  
  - Ethical values and standards are embraced. | - Total integration of ethics within organisation.  
  - Ethics is part of the culture, purpose and decision-making processes of the organisation. |
|            | Performance management (employees) and performance measurement (processes) (RIMS, 2006; OCEG and NACD, 2007; IIA Research Foundation, 2009; IoD, 2009; Coetzee, 2010; Bahrmann, 2011 (a) & (b)) | - No formal process in place to manage performance of employees.  
  - Performance measurement of processes not deemed important. | - Performance management of employees not applied consistently.  
  - Limited measurement of performance of processes. | - Performance management process is established and complied with.  
  - Methods used to measure performance of processes still inadequate. | - Performance management process contributes to development of employees.  
  - Consistent methods used to measure performance of processes. | - Regular performance management reviews of employees are conducted and regular follow-up takes place.  
  - Performance of processes measured on continuous basis. |
<table>
<thead>
<tr>
<th>Attributes</th>
<th>Specific</th>
<th>Levels of maturity</th>
<th>Developing</th>
<th>Compliant</th>
<th>Institutionalised</th>
<th>Mature</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>Stakeholder relationship management process (SRMP) (Rossouw and Van Vuuren, 2003; IIA Research Foundation, 2009; IoD, 2009; Bahrman, 2011 (a) &amp; (b); ISACA, 2012)</td>
<td>Immature</td>
<td>Stakeholder relationships are dealt with in a re-active manner.</td>
<td>Stakeholders are identified but not actively engaged with.</td>
<td>Stakeholders are identified and engaged with to the extent necessary.</td>
<td>An effective SRMP is in place.</td>
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<td>Measures are instituted to ensure that stakeholders’ requirements are met where ever possible.</td>
<td>Stakeholders are identified, engaged with and relationships monitored in a pro-active manner.</td>
</tr>
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<td></td>
<td>Communication and reporting (Rossouw and Van Vuuren, 2003; RIMS, 2006; OCEG and NACD, 2007; IIA Research Foundation, 2009; IoD, 2009; Coetzee, 2010; Bahrman, 2011 (a) &amp; (b); ISACA, 2012)</td>
<td>Communication and reporting</td>
<td>Inconsistent communication of information.</td>
<td>Communication of information is done in a re-active manner.</td>
<td>Communication of information on a ‘need-to-know’ basis and to ensure basic compliance.</td>
<td>Communication of information to key stakeholders only, but done in a more pro-active manner.</td>
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<td></td>
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<td>No formal reports are issued.</td>
<td>Only annual financial statements issued to shareholders.</td>
<td>Annual report issued as required by relevant legislation to interested parties.</td>
<td>Annual report plus sustainability report issued (to limited extent) to all stakeholders.</td>
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<td>Organisation commences to institute measures for priority areas in measuring integrity and effectiveness with which strategies, structures, systems and processes are applied.</td>
<td>Organisation commences to institute measures for priority areas in measuring integrity and effectiveness with which strategies, structures, systems and processes are applied.</td>
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<td>Measures implemented are expanded for all areas in measuring integrity and effectiveness with which strategies, structures, systems and processes are applied.</td>
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</tbody>
</table>

Source: Refer to the individual columns of the table (specific attributes).

Note 1: Amendments are indicated in italics.

Note 2: The specific attribute indicated by means of a strikethrough was deleted based on the arguments provided by the interviewees.