UTILISING THE BALANCED SCORECARD FOR THE STRATEGIC ROLE ENHANCEMENT OF INTERNAL AUDITING.

ANDRIES FRANCOIS VILJOEN ROUSSEAU

THESIS

SUBMITTED IN PARTIAL COMPLETION OF THE REQUIREMENTS OF THE DEGREE

MAGISTER COMMERCII

IN

BUSINESS MANAGEMENT

FACULTY OF ECONOMIC AND BUSINESS MANAGEMENT SCIENCES

AT THE

RAND AFRIKAANS UNIVERSITY

STUDY LEADER: MR J BREDENKAMP

AUGUST 2004

Acknowledgements

The Author would like to express his sincere appreciation to Mr J Bredenkamp for his advice and guidance during the completion of this study. In addition I would like to thank God for allowing me to complete this study.

A word of thanks to my family and friends for their support, understanding and patience.

INDEX

List of tables and Figures

Chapter 1

Introduction, problem statement and objectives of the study

1.1 Introduction

The aim of this study is to develop and propose a strategic role enhancement for the Internal Auditing function for South African companies, by incorporating the Balanced Scorecard as a guide. The proposed strategy will be developed based on the methodology and the relevant elements and aspects for such a strategy derived from the latest literature on the subject. The concepts of Internal Auditing, strategy and Balanced Scorecard will be defined and discussed, by means of literature research. The intent of this paper is to consider the critical aspects regarding the utilisation of the Balanced Scorecard to enhance the strategic role of the Internal Auditor.

1.2 Background: The Internal Auditing function's changing role

The marketplace is becoming increasingly competitive and so too the rate of innovation. Knowledge must evolve and be assimilated by the relevant organisational structures faster than ever before. Knowledge and information have become the medium in which business problems occur. As a result the management of knowledge represents the primary opportunity for achieving substantial savings, improvement in human performance and ultimately a competitive advantage (Barclay & Murray, 1997: 3).

Over time the Internal Auditing function has developed and changed significantly. The Internal Auditing function has emancipated from being only financially orientated, to a much more diverse and versatile function today. Modern Internal Auditing has therefore been totally transformed. The organisational management's involvement in reviewing operations and controls require a different state of mind and a higher order of skills and training on the part of the Internal Auditor. Instead of the negative, protective, clerical function, modern Internal Auditing is a positive, constructive, and creative service to management. The Internal Auditor's primary focus and objective is in the appraisal of overall operations. The function seeks to enable management structures to more easily identify and solve problems and achieves management objectives. In practice, the role of the Internal Auditor in a company depends on the degree to which management accepts the modern concept of Internal Auditing. Even in certain organisations where the auditing function has been established as a separate function, its scope may be limited to clerical tasks. Therefore, the changing environment has led to a metamorphosis of the Internal Auditing function. The function has surpassed the classical financial role developing into a new operational Internal Auditing function, which encompasses the non-financial operations as well (Frigo, 2002: 32 - 33; Practical Accountant, 1999: 32 – 35).

1.3 Problem Statement

The fundamental change in the business environment requires management to rethink the role and function of the Internal Auditor. The correct utilisation of the strategic role of the Internal Auditor could lead to increased performance. This in turn will inevitably lead to increased profits. Markets, which have changed overnight from local only to global, have brought an accentuated increase in competition.

Academic research confirms that the Internal Auditor should play a greater strategic role within the organisation. The use of the Balanced Scorecard framework can assist in achieving this strategic influence. Use of the Balanced Scorecard has a direct influence on the performance levels of an organisation. The Balanced Scorecard, as the framework to enhance the strategic role of the Internal Auditing function, will maximize the efficiency and effectiveness of the organisation. The Balanced Scorecard ensures correctness and usability of the information generated by the Internal Auditor (Frigo, 2002: 49 – 55)

The King Report 2002 looked beyond the financial and regulatory aspects of corporate governance. The Report seeks to ensure good governance of the interest of the various stakeholders, going far beyond the ambit of the traditional boundaries of the financial arena. The King Report supports the use of the

Balanced Scorecard as a means of achieving shareholder value (King Report, 2002:5; Edds, 1980: 12).

The use of the Balanced Scorecard is a voluntary model. The majority of companies that have implemented the model have experienced the enhancement of performance in the company as a whole, as well as in individual departments (King Report, 2002:5; Edds, 1980: 12).

The Balanced Scorecard is a strategic performance measurement framework. The framework translates the strategy of the organisation into four focal perspectives: financial, customer, internal business processes, and innovation and growth. The implementation of the Balanced Scorecard results in the Internal Auditor fulfilling a strategic role within the organisation. This creates a powerful performance measurement tool and information flow to top management (Kaplan & Norton, 1999: 5-10).

The responsibility for the implementation of the Balanced Scorecard framework is normally delegated to the Human Resource (Performance Manager) and the Audit Committee or Audit Manager. These managers and committees are expected to drive and govern the adoption of the new process. The King Report advises companies to implement the Balanced Scorecard framework. The Report notes that organisations are committed to the idea of the Balanced Scorecard but fall short at the implementation stage. This results in the failure of the Balanced Scorecard as a strategic initiative within the organisation. (Kaplan & Norton, 2001: 5-10; King Report, 2002: 5).

The implementation of the Balanced Scorecard as a model / framework for the enhancement of the strategic role of the Internal Auditor is of paramount importance. Management and employees need to have a close working relationship in order to implement the Balanced Scorecard effectively. Top management is primarily responsible for the strategic role enhancement of the Internal Auditor via the Balanced Scorecard framework (Frigo, 2002: 49-50).

The Balanced Scorecard framework achieves performance enhancement and the profitability of the organisation. Today's managers have access to enormous amounts of data and information, which creates a problem of information overload. The implementation of the Balanced Scorecard must form part of the overall business strategy of the organisation. Managing the information flood within the organisation releases the time that the manager requires to focus on his business unit. Business pressures such as downsizing and reengineering result in irrelevant strategies being set. This is mainly due to incorrect information being researched, which causes incorrect business decisions. The Internal Auditor can enhance effectiveness and efficiency by aligning actions and performance to the strategy of the organisation. Timely decisions, based on accurate information are essential (Kaplan & Norton, 1999: 10-20)

The strategic role of the Internal Auditor in conjunction with the implementation of the Balanced Scorecard framework can achieve important results for South African organisations. These are the following:

- It causes the internal audit to extend to the performance operations of the business and not just focus on the financial and accounting reporting;
- It broadens the scope of the Internal Auditor to extend legitimately to commenting on all aspects of the management audit process, within a particular department or the organisation as a whole;
- Ensures that the Internal Auditor plays a pivotal role in the strategic intent of the organisation;
- The Internal Auditing function becomes a consulting advisor to top management (Frigo: 2002: 47-50).

The motivation for these changes is required by the changing corporate environment. This is also in line with the changing definition of the Internal Auditing function. The essential problem is that the Internal Auditing function has adapted itself to the environment, but the perceived role of the Internal Auditor within the organisation has remained constant. The new way is to audit different performance elements. In a rapidly number of growing companies Internal Auditing has assumed the broad management characteristic of operational auditing, extending not only to all the financial but to most non-financial aspects as well (McCall, 2003: 32).

In very few companies do the classical Internal Auditing activities fulfil the definition of actual current Internal Auditing. Management of these companies have recognised the myriad possibilities of fully utilising the Internal Auditors who move through various departments, divisions and other organisational units. The underlying intent as the literature suggests is that the process to internally develop and improve the Internal Auditing processes has not been addressed. Consequently, the framework or guideline for the enhancement of the strategic role of the Internal Auditor has not been put in place. As per the literature material, this is relevant in South Africa as well as the world as a whole. This provides a competitive advantage opportunity for the organisation. This can be achieved by implementing the Balanced Scorecard (Frigo, 2002: 43 – 47; Kaplan & Norton, 1996: 20 – 28).

The problem being investigated in this study is how to effectively utilise the Balanced Scorecard to enhance the strategic role of the Internal Auditor.

1.4 Objectives of the study

The organisation's management has a pivotal role to play in the establishment of a successful method of enhancing the strategic role of the Internal Auditor. This study is done with the following objectives in mind:

- To provide an overview of the Internal Auditing function;
- To provide an overview of the Balanced Scorecard, its function and application;
- Determining the operating environment in which the Balanced Scorecard is being implemented internationally;
- To provide management with a performance tool (the Balanced Scorecard framework), managed by the Internal Auditor, ensuring the alignment of every employee and business unit with the corporate strategy;
- Enhancement of the strategic role of the Internal Auditor.

The literature reviewed indicates that the Internal Auditor should play a strategic role in the company. The Internal Auditor can function strategically if the Balanced Scorecard is implemented as a framework for this strategic role. A strategic role enhancement model will be discussed. This model will aim to marry the implementation of the Balanced Scorecard in the organisation with the Internal Auditing function in a strategic manner. The total performance of the organisation can be measured and monitored by the Internal Auditing function. Simultaneously with this the Internal Auditor ensures and reports on whether business units are aligned to the corporate strategy and to what extent. The Balanced Scorecard and the Internal Auditing function reports can be compared against the corporate strategy.

1.5 Research methodology

The concepts of the Internal Auditing and Balanced Scorecard will examined through a literature study. The writing style will be done in such a manner as to enrich the current knowledge base by simplifying the concepts. The literature research is undertaken to specifically investigate how the enhancement of the strategic role of the Internal Auditor can be achieved through the application of a relevant methodology such as the Balanced Scorecard.

1.5.1 Literature study

The primary source of this study will be published literature and other research papers and case studies on the topics of Internal Auditing, performance, strategic management, and the Balanced Scorecard in the context of the enhancement of the strategic role of the Internal Auditor. The literature study has been utilised as a base to clarify the concept of the strategic role of the Internal Auditor, whilst utilising the Balanced Scorecard as the framework reference. The literature was selected and critically evaluated in order to select only the critically relevant information, while still portraying the sentiment of the respective authors.

The aim of the literature review is to establish guidelines to enhance the strategic role of the Internal Auditing function, in order to enhance the performance and attainment of the overall organisational objectives. A limited number of informal discussions with South African corporate advisors took place to clarify certain concepts in the literature review.

1.5.2 Limitations of the research

Certain restrictions were encountered during the study of the literature resources, as well as during the interaction with the relevant corporate advisors regarding the study. These are the following:

- No directly relevant studies have been done. Therefore most literature is legal or accounting orientated, and not operationally focused;
- The Internal Auditing definition has changed over time. Only literature which is directly relevant to aspects such as the changing role of the internal audit definitions has been included due to the direct impact of the articles on the study;
- The study is applicable for medium to large corporations, due to the structure of the organisation and related strategies of the company playing a role in the implementation of the Balanced Scorecard and ultimately the effective enhancement of the strategic role of the Internal Auditor.

1.5.3 Chapter outline

The study is divided into 5 chapters, which are structured as follows:

- Chapter 2: a literature study that defines the concepts of Internal Auditing as well as the objectives, scope and the responsibilities of the Internal Auditing function;
- Chapter 3: deals with the literature overview that describes the Balanced Scorecard and related concepts such as performance and strategy, as well as the measurement and implementation thereof. The Balanced Scorecard aspects are highlighted as of importance for setting the standards for the basis of the Internal Auditing function;
- Chapter 4: investigates, with the means of a literature overview, the alignment of the main functions of the organisation, and business as a whole, in order to correctly set the stage for the Balanced Scorecard as the framework for the process of enhancing the strategic role of the Internal Auditing function;
- Chapter 5: determines, by means of a literature overview, the enhancement of the strategic role of the Internal Auditor, utilising the Balanced Scorecard as a framework;
- Chapter 6: includes the findings and a conclusion. Interventions are proposed to establish the strategic enhancement process of the Internal Auditor.

1.6 Summary

Given the changing business environment together with the changing nature of the Internal Auditing function, the need to ensure that the enhancement of the strategic role of the Internal Auditor model is implemented successfully, is growing at an even greater pace. The strategic role of the Internal Auditor is becoming more important as this is a direct reflection on the information and management scope of the internal audit itself. The increased efficiency and effectiveness gained by the strategic role of the Internal Auditor using the Balanced Scorecard as framework will increase the strategic validity of the information audited. Top management needs to understand the interaction between the present day Internal Auditing function and the Balanced Scorecard, compared to the historical Internal Auditing function which was only financial and accounting orientated. The successful strategic enhancement process is therefore not only the strategic role enhancement of the Internal Auditor but also the establishment of the strategic link between the Balanced Scorecard and the future oriented operational internal audit, and a value adding function to management and the organisation as a whole.

Lastly, it should be noted that all words and expressions signifying the singular shall include the plural and vice versa, words and expressions implying the masculine shall include the feminine.

Chapter 2

Internal Auditing

2.1 Introduction

The traditional role for Internal Audit is well documented and understood. It centres on the examination, evaluation and monitoring of adequate and effective control structures within the organisation. The new definition of the Internal Auditing function challenges the model of Internal Auditing as a non-strategic function within an organisation. This places more emphasis on the financial and non-financial aspects of the organisation. It therefore increases the strategic role and scope of the Internal Auditing function within the organisation.

2.2 Internal Auditing defined

The role of the Internal Auditor has changed over the past decade. This is due to an ever-changing business environment. The organisation has an increasing reliance on effective and efficient financial and non-financial information from the Internal Auditor. Therefore, the Internal Auditing function has been adapted accordingly. The new definition of the Internal Auditing function is defined as "an independent, objective assurance and consulting activity designed to add value and improve the organisations operations" (William & Cenker, 2002:8: 130).

In June 1999 the Institute of Internal Auditors officially adopted the new definition of the Internal Auditing function as quoted above. The Internal Auditing function is defined to help the organisation accomplish its objectives. This is achieved through bringing a systematic and evaluative approach to improve the effectiveness of risk management, control and governance process. The new definition changes the focus of the Internal Auditing function to a value adding function. This function attempts to direct the profession towards a standard-driven approach with heightened identity. Internal Auditors were asked by management to provide a higher level of value added service. The focus of the Internal Auditor must remain on independence and objective functioning. The revised definition of the Internal Auditor highlights three major focal areas:

- independence,
- assurance function, and
- a consulting function (William & Cenker, 2002:8: 130; McCall, 2003: 32).

An Internal Auditor is a member of the internal audit team that performs the internal auditing function of an organisation. The Internal Auditor is an employee of the company in which the audit is being carried out. The Internal Auditor's degree of independence and objectivity within the units of the audited organisation (also referred to as the auditee), is very much dependent upon his reporting relationship within the whole organisation. The organisation's overall approach to Internal Auditing is therefore the variable, which determines independency. The Sarbanes-Oxley Act of the United States of America of 2002 attempts to deal and manage the Internal Auditor's independence, by addressing the non-audit services (which must be seen as applicable in the world as a whole). Therefore, the process of judging the effectiveness of the Internal Auditing function in an organisation and the reliance that can be placed upon it is of the utmost importance. The main concern of the organisation is the Internal Audit Department's reporting structure and the nature of the Department's mandate. This structure can be utilised more strategically if managed correctly by the audited organisation (Brink & Witt, 1982: 3-5; Locatelli, 2002:1; Sarbanes Oxley Act, 2002: 4 - 6).

The Internal Auditor's audits are part of the organisation's overall control structure. The internal audit is carried out for the benefit of managers at all levels in the organisation. Therefore, there is an increasing trend for the Internal Auditor to have a direct reporting relationship with the Board of Directors of the organisation. This relationship and reporting may flow through an audit committee of the Board. By adding the consulting function to the Internal Auditing function the success of the classical reporting disciplines can be proven and improved (Brink & Witt, 1982: 6; Razetti, 2003: 34).

The Institute of Internal Auditors defines the function of internal audit consulting as an advisory and client related activity. The nature and scope of the consulting function is agreed with the client. The consulting function intends to add value and improve an organisation's governance and risk management. This function is achieved by identifying and assessing the risks of the organisation and controlling processes. This remains a consulting function by the Internal Auditor to Top Management. The internal Auditing consulting function remains an independent advisory activity (McCall, 2003:32; Nagy & Cenker, 2003:130).

Internal Auditors are experts in breaking down holistic financial and non-financial concepts and determining its component parts and values. Internal Auditors also analyse an activity or a condition to determine the true nature thereof. Internal Auditors discover or uncover quality, causes, effects, motives, or possibilities, which will increase the competitive advantage of the organisation. An internal audit is an audit conducted on behalf of the organisation on internal processes. The internal audit can form the basis of the organisation's compliance structure on financial and non-financial aspects of the organisation (Brink & Witt, 1982:3; Sawyer & Vinten, 1996: 4; Razetti, 2003: 34).

2.3 The need for Internal Auditing

The need and requirements for an Internal Auditing function applies to Internal Auditing through certain elements which are applicable to external auditing. An Internal Auditing functions on behalf of the information-user, independent of the auditee and provides the information user with:

- assurance of the reliability of the information reported by the Internal Auditor, which will have a direct influence on the usefulness thereof;
- assurance that the auditee's self-interest in the information supplied by the organisation does not result in the distortion thereof.

The Internal Auditing function should not create new economic information about an auditee's activities. The Internal Auditor should however provide additional analyses, interpretations and insights into the activities and reports presented by the auditee to the committee. The Internal Auditor must aim to enhance the value of the financial and non-financial information. An in-depth audit may uncover new information (Edds, 1980:5; McNamee1995:1-5; Zito, 1986: 44-47).

The Internal Auditor's functions include the role of assisting management with emerging problems. The Internal Auditor is aligned with management and the strategy of the organisation. This alignment allows for maximum relevancy of reporting to top management. Through the changing definition of the Internal Auditing function, the cornerstone of the function is still independence, consulting and assurance. Therefore, the strategic focus of the Internal Auditor is becoming more crucial, as it is linked to the management objectives but still independent of bias or influence. This change in the Internal Auditing function is due to the changing external environment. The changing need of the organisational reporting system necessitated the Internal Auditing function to become more operational and strategically orientated. Thereby, enhancing the value of the information produced. The enhancement of the information is attained through strategically focusing on financial and non-financial aspects of the organisation (Edds, 1980:5; Mcnamee1995:1-5; Zito, 1986: 44-46).

Internal audit work is significantly different from external audit work, which is related to certifying a set of financial statements. External auditors focus on an event such as a set of financial statements, and ask historically orientated questions (such as “what happened or went wrong?”). On the other hand Internal Auditors focus on an ongoing process and assesses the risks and controls to answer the strategic question of “what could go wrong?” More than this, the review of operations reports on what can be improved and changed (Locatelli, 2002: 2-5).

The Internal Auditing function is important on another strategic level. The Internal Auditor performs a risk assessment role for top management. The Internal Auditing function assists executive management in identifying the risks in the organisation. The Internal Auditor is linked to the risk management of the organisation via the strategic functioning of the current day Internal Auditing function (PriceWaterhouse Coopers, 2003: 3-4).

Requirements for Internal Auditing

The Internal Auditing function can only operate successfully if certain requirements are adhered to by the Internal Auditor, or are in place by the organisation:

a) Integrity and competence on the part of the Internal Auditor:

   Information users generally require evidence that a specific standard of competence regarding the Internal Auditor, which can be achieved by pre-set levels of education, training and experience. Hence, an Internal Auditor is expected to have qualified as a member of a prescribed professional accounting or auditing society.

b) Independence and objectivity on the part of the Internal Auditor:

   All auditors (internal or external), regardless of the objectives of the relevant audit, must remain impartial and disinterested in the outcome rendered. The Internal Auditor must express the evidence examined in an honest and impartial manner. The Internal Auditor must avoid any action or circumstances that could appear to be impairing his objectivity. This implies that an Internal Auditor must perform his work with the competence that he is required to exhibit. Failure to perform the audit of the client with “due care” may cause a professional auditor to be held liable for any action of negligence. The Internal Auditor is responsible for reporting to top management, shareholders and other users on his audit report (Colorado University, 2002:2-10; Price Waterhouse Coopers, 2003: 1-16).

c) Auditable information:

Information is considered to be auditable if competent individuals examining it would conclude with a similar outcome. The outcomes and deductions can only be seen as reliable if the information provided is accurate and relevant (Macias, 1999: 32).

d) Measurement standards for the auditee:

Standards are put in place in order to enable the Internal Auditor to determine whether the information contains the desired characteristics. An important characteristic to consider is whether the organisation is correlated with the changing business environments and conditions (Macias, 1999: 32).

e) Reporting standards for the auditee:

Reporting standards enable the Internal Auditor to determine whether the relevant information has been effectively communicated and understood by the users. Reporting standards become the benchmark for quality reporting. This ensures that the information provided by the Internal Auditor matches the exact requirements of top management (Macias, 1999: 32).

f) Effective auditing practice:

The Internal Auditing method should embrace auditing standards and appropriate procedures. These methods are in place in order to enable planning, controlling and carrying out of the relevant audit. The Internal Auditor must provide evidence and assurance to the information user. The information presented must be presented through the application of recognised and accepted auditing standards (Colorado University, 2002: 8-11).

The cost of the audit should be less than the benefits resulting from it. This is the only method to ensure that the audit will be beneficial to the organisation as a whole. This cost-benefit analysis is difficult to do as the benefits of audits have not been fully identified or quantified. Furthermore, many information users do not contribute directly to the cost of the audit.

Therefore, these aspects are unable to relate the cost to the benefits occurring from the audit (Colorado University, 2002: 8-11).

g) Clear audit mission statement:

The mission is to be set out before the actual audit. This is important as the standards and the objectives are set according to the mission of the Internal Auditing function. The Internal Audit function employs three strategies in accomplishing its mission: examination and evaluation, counsel, and education (Colorado University, 2002:2-10; Price Waterhouse Coopers, 2003: 1-16).

The above requirements for a successful Internal Audit must be reviewed prior to any audit commencing. Examination and evaluation of the Internal Auditing activities include the following:

- audits need to evaluate how business processes accomplish strategic objectives, and identify ways to improve those processes,
- investigations must gather, analyse and present information related to allegations of individual fiscal misconduct,

- counselling occurs through participating in committees or engaging in other consultative contact to provide information and advice to management. The mission and vision of the Internal Auditing function are the building blocks of the objectives, scope and targets of this specialist area (Colorado University, 2002:2-10; Price Waterhouse Coopers, 2003: 1-16).

These targets mentioned above are directly linked to the responsibilities and scope of the Internal Auditor. Therefore, these principles are the guiding framework for the Internal Auditor, as discussed in the next section.

2.5 Objective, scope, and responsibilities of Internal Auditing

The objectives of the Internal Auditing function emanates from the overall mission and vision of the organisation. The objectives of the Internal Auditor have the function of assisting top management in the effective handling of their responsibilities. The Internal Auditing function is concerned with improving the effectiveness or efficiency of the management structures. In order to be able to achieve this, the Internal Auditor needs to go beyond accounting and financial reporting. This allows the Internal Auditor to obtain a full understanding of the operations under review. The attainment of this overall perspective of the organisation involves certain specific activities. The breadth of services and auditing should include the following:

- reviewing and appraising the soundness, adequacy, effectiveness, and application of accounting, financial, and other operating controls within the organisation. This should promote effective control structures, at a reasonable cost, in order to contain the cost at a level lower than the financial savings of the audit,
- ascertaining the extent of compliance with established policies, plans, and procedures,
- evaluating the extent to which company assets are accounted for and protected against all risks and losses of any kind,
- ascertaining the reliability and usability of management data developed within the organisation,
- appraising the quality of performance in carrying out assigned responsibilities,
- recommending operating improvements to the executive director and top management structures (Colorado University, 2002: 10-21).

The scope of the Internal Auditor's activities may be established at many different levels in an organisation. In an increasing number of organisations, the audit committee (which is a sub-committee of the board of directors) may give general or specific directions to the Internal Auditing Department. The success of the audit committee depends greatly on its working relationships with other corporate participants. When audit committees receive information about possible fraud, they should investigate and evaluate the matter thoroughly and report it to the top management of the organisation (Razaee, 2003:26-28).

The auditor's evaluation of the organisation includes an examination of the following internal control elements:

- personnel: Clearly established structures of authority and responsibility should be documented in written job descriptions and procedure manuals. These manuals must be kept up to date with changing policies and operational environments,
- organisational chart: an organisational chart providing visual presentation of lines of authority is important to eliminate confusion of duties and responsibilities,
- authorisation procedures: including a thorough review of supporting information to verify the propriety and validity of transactions. Approval authority should commensurate with the nature and significance of the transactions. The Internal Auditor must remain compliant with the organisation’s policies and procedures,
- segregation of duties: the segmentation of duties should reduce the likelihood of errors and irregularities in the reporting information. An individual employee should not have the responsibility for more than one of the three transaction components, namely: Authorisation, custody, and record keeping,

- physical restrictions: the most important type of protective measure for safeguarding organisational assets, processes, and data are physical restrictions. This could include safe combinations and passwords that are changed periodically,
- documentation and record retention: providing reasonable assurance that the assets are controlled and transactions are correctly recorded (McNeely, 2003: 2).

The monitoring operations, which are essential to verify that controls are operating properly, are an important factor to ensure standardisation. Control factors such as reconciliation, confirmations, and exception reports can provide this type of information (McNeely, 2003: 2).

The Objective, scope, and responsibilities of Internal Auditing constitute the backbone of its activities. A proper understanding of these pivotal aspects will serve to support the efficient and successful implementation of this function within an organisation.

2.6 The relationship between Internal Auditing and management processes

As companies have grown in size and complexity over the last two decades, the internal audit function has grown at an even faster pace. Due to the extent and pace of change within the industry, the scope of the Internal Auditing function has changed. The Internal Auditing function has changed from the traditional compliance function to strategic and consultative in nature (Brink & Witt, 1982: 6-13).

Consequently, the internal audit began to focus increasingly on operational appraisals, analyses of data processing systems, management cost studies and other related aspects. In the past, Internal Auditors' main activity was to certify the balances of financial statements. The new function that the Internal Auditor performs is to evaluate the adequacy and legality of the company's accounting system. This includes reviews of companies' systems of internal accounting control, as well as the relevant internal control systems (Brink & Witt, 1982: 6-13).

The metamorphosis of the defined Internal Auditing function can be illustrated by examining the definitions of Internal Auditing, published by the Institute of Internal Auditors over the years:

> 1947: Internal Auditing is the independent appraisal activity within an organisation for the review of the accounting, financial and other operations as a basis for protective and constructive service to management. It is a method of control, which functions by measuring and evaluating the effectiveness of other types of control. It deals primarily

with accounting and financial matters but it may also properly deal with matters of an operating nature.

1957: Internal Auditing is an independent appraisal activity within an organisation for the review of accounting, financial and other operations as a basis for service to management. It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls.

1971: Internal Auditing is an independent appraisal activity within an organisation for the review of operations as a service to management. It is a managerial control, which functions by measuring and evaluating the effectiveness of other controls (Edds, 1984: 10-15).

1984: Internal Auditing is an independent appraisal function established within an organisation to examine and evaluate its activities as a service to the organisation (Edds, 1984: 10-15).

1999: Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operations (performance). It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute of Internal Auditing, 1999: 1-10, Trotman, 1977: 5; Brink & Witt, 1984: 3; Frigo, 2002: 32).

2002: The Internal Auditing Function is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations (Nagy & Cenker, 2003: 130).

From the above definitions it is clear that the Internal Auditing function has developed from controlling primarily accounting and financial matters to being non-financial and managerially orientated. This orientation includes activities that govern the risk and value enhancement activities of the organisation. The Internal Audit Departments that provide forward looking operational and Internal Auditing function reviews will play an effective and critical strategic role in the changing corporate environment and improve shareholder value (Cenker & Nagy, 2004, 49 – 50; Practical Accountant, 1999: 31).

The new definition of Internal Auditor focuses on assurance, value adding and consulting activities. This concept conveys a paradigm shift to a more proactive customer orientated Internal Auditing function. Recent research has shown that the Internal Auditor's focus has indeed shifted to consultative-type activities, which require them to form a partnership type relationship with management. This partnership includes the strategic role that the Internal Auditor needs to play in the operational activities of the organisation as a whole (Cenker & Nagy, 2004, 49 – 50).

The changing definition of the Internal Auditing function has shifted the objectives of the Department to focus on value added activities. A consistent aspect of the Internal Auditing function is that management, not the profession, ultimately determines the orientation of the Internal Audit Department of the organisation. Though the Internal Auditors are trying to dictate what functions they are to perform, it is inevitably dictated by management's expectations (Naggy & Cenker, 2002: 130).

The relationship between Internal Auditing and management processes require a close working relationship. Admittedly, top management would determine the role and task of the Internal Auditing function. The independence and objectivity of the Internal Auditor should not be compromised in the execution of their task.

2.7 Essential components of Internal Auditing

The basic concepts of the Internal Auditing function have been examined above. However, the three essential components of a viable audit also need to be considered:

Competence:

The Internal Auditor must satisfy the auditee that he has the relevant experience and knowledge to conduct the audit of the company's operations and the required reports,

a) Objective:

The Internal Auditor must select a clear objective from the mission and vision, and various other possible objectives for the specific audit. The approval of the person to whom the auditor will be furnishing the results to, is of great importance, and he must be part in the objective setting stage,

b) Standards for judging performance:

The standards, which the auditor requires to enable him to effectively and efficiently pass judgment on the auditee's performance, are closely related to the objectives. In all activities the Internal Auditor should compare performance to the agreed standards (Macais, 1999: 32).

The above aspects are to be reviewed and considered prior to any process commencing for an Internal Audit. Adhering to the above principles of Auditing should ensure relevant and accurate information. This information can enhance the strategic drive of the organisation with new impetus. It can be achieved by expanding the role of the Internal Auditor to achieve strategic meaning and effect within the organisation. The Balanced Scorecard (which will be discussed in

Chapter 3) can be implemented in the organisation to enhance the strategic performance of the organisation as a whole. The Balanced Scorecard can be linked to the Internal Auditing function to ensure an enhanced performance of the last mentioned function and the organisation.

2.8 Summary

Recent changes in the business environment triggered the Institute of Internal Auditors to define the Internal Auditing function as a strategically focussed function. This definition forces the Internal Auditing function to move away from the financial orientated focus, and more towards risk based auditing and a consulting function. The Internal Auditing function provides an independent evaluation of the adequacy of internal controls and reports to management and the board. Auditors look at how the operation's internal controls work together to create the internal control structure. The Internal Auditor documents existing controls at each significant control point, evaluates the adequacy of the controls to ensure achievement of the objective, and then tests the controls to verify they are working as described. Further discussions with management focus on control risks, manager insights, and potential control enhancements. The greater the risk aspect in the organisation, the more extensive the control that is warranted to successfully control the relevant risk (Cenker & Nagy, 2004:45-49).

The Internal Auditing function adds credibility to the information rendered to the audited organisation. One must keep in mind that various people are involved in the Internal Auditing activity with various objectives. The current Internal Auditing definition is relevant as it takes aspects other than financial accounting into consideration. Aspects that the Internal Auditing function must take into account are independence, assurance and a consulting function (Frigo 2002: 43-60).

The link to the Balanced Scorecard is to be discussed once a proper understanding of what this constitutes is grasped. This will be discussed in the next Chapter. The Balanced Scorecard measures relevant information that is to be reported to top management, incorporating financial and non-financial aspects.

Chapter 3

Balanced Scorecard and Performance Related Aspects

3.1 Introduction

In this chapter the literature study will provide an overview of the Balanced Scorecard. The Balanced Scorecard is an important measurement tool for organisational performance.

The Balanced Scorecard provides managers with a navigation tool as well as strategic information. The required instrumentation is found in the Balanced Scorecard results. This enables managers to navigate to future competitive success. The current competitive environment has become complex and requires an accurate understanding of predetermined goals and the methods to attain them. The Balanced Scorecard translates the organisation's mission and strategies into a comprehensive set of measurements. It becomes a management system. The Balanced Scorecard allows the company to track financial results while simultaneously monitoring progress in building the capabilities to ensure future prosperity (Kaplan & Norton, 1996: 1-4).

The Balanced Scorecard report is a list of indicators, which show each key part of an organisation's success. The Scorecard measures performance on various levels. These include among others deliverables such as financial, employee, operations, supplier, customer, and support systems performance. The indicators should not just measure the important outcomes, but also the factors that influence or drive those outcomes. This is essentially a tool to implement in conjunction with the organisation's corporate strategy. Senior management aligns its strategic objectives for the organisation to operational activities throughout the organisation. The results or reports generated by the Balanced Scorecard pinpoints the barriers limiting performance within the organisation (Metrus Group, 2001: 1-8).

3.2 Benefits of the Balanced Scorecard

The Balanced Scorecard excels at focusing the organisation on the issues that are most important to its success. Strategic objectives can be achieved through the implementation of the Balanced Scorecard.

The Balanced Scorecard allows the company to increase performance by managing the important aspects and objectives of the organisation more successfully. Aspects such as strategy deployment, transparency of process problems and customer satisfaction can be focused on. This enables the company to track its financial well-being. Simultaneously monitoring progress in the growth of capabilities and acquiring the intangible assets needed for the future (Kaplan & Norton, 2000: 1-21).

The Balanced Scorecard is a strategic management tool that addresses a wide variety of needs of various teams or individuals within the organisation. The implementation of the Balanced Scorecard reduces irrelevant information. It enables management to align the organisation's strategy and desired actions. The Balanced Scorecard enables companies and management to:

- drive achievement towards business goals,
- focus on the business strategy,
- align employee's efforts towards strategic objectives,
- maintain improved business performance,
- facilitate business orientated shifts,
- achieve the stated results across the stakeholder spectrum (Chang, 2000: xvi).

The basic philosophy of the Balanced Scorecard focuses people's attention on important aspects in order to achieve the organisational objectives. Most organisations focus on a few financial measures, but this method limits the organisation to improve their overall performance. This is due to the normal processes not indicating what important focal activity points will ensure the achievement of the targeted result (increasing shareholder value). Having knowledge of the determining factors of shareholder value is of great importance for the organisation. The results of the Balanced Scorecard reports enable the organisation to direct managers and employees to the key issues that will create an enhanced performance level for the organisation (Kaplan & Norton, 2000: 1-21).

There are other benefits that the organisation can draw from the implementation of the Balanced Scorecard. Benefits such as an enhanced communication ability enabled through the cascading and measurement tracking processes. The Balanced Scorecard is able to predetermine future threats and opportunities for the organisation (Norton & Kaplan, 2000, 21-29).

The Balanced Scorecard is an important decision-making tool that includes everyone in the organisation. If an individual employee forces a system into place, chances are it will not reflect the organisation's key strategies, goals and strengths. The organisation as a whole will not support the Balanced Scorecard if it is not implemented properly. However if it is, employees understand the essence of what they are required to achieve. They are also rewarded for their efforts at achieving exactly what is set out in the Balanced Scorecard. This process ensures that there is zero ambiguity as to what will assure "success" for the individual in its varying forms. The clarity on objectives and deliverables achieved by implementation of the Balanced Scorecard is part of the golden thread of competitive advantage (Norton & Kaplan, 2000, 25-32).

3.3 Overview of the Balanced Scorecard implementation

The best process to implement the Balanced Scorecard is to first create a clear business model, and then to include measurements based on that model. This method of Balanced Scorecard implementation ensures commitment and brings greater agreement on the direction of the organisation. The method also builds accountability to company goals and increases the speed of change (Norton & Kaplan, 2000, 1-32).

The implementation of the Balanced Scorecard allows the organisation to be managed successfully, due to the focus on a vital few measures relating either to the customer or the stakeholders. Balanced Scorecards support the deployment of business strategies, meeting customer needs and the visibility of process problems (Norton & Kaplan, 1996, 1-15).

The implementation process will be fully discussed in Chapter 5. The process of implementing the Balanced Scorecard consists of six steps, namely: collecting, creating, cultivating, cascading, connecting and confirmation. The six steps of this model allows for a successful implementation of the Balanced Scorecard. Thereby, achieving strategic performance enhancement within the organisation.

3.4 Performance areas, measures, targets and initiatives of the Balanced Scorecard

Currently, the use of performance measures or benchmarks by the Internal Auditing Department has become an important part of the quality assurance function of the Internal Auditor (Ziegenfuss, 2000:12).

The Balanced Scorecard has various perspectives and each one includes objectives, measures of those objectives, target values for those measures, and initiatives, defined as follows:

- objectives can be defined as those major milestones to be achieved, for example, a profitable growth period,
- measures are those observable parameters that can be utilised in order to track progress toward reaching the objective,
- targets are the specific target values for the measures,
- initiatives can be seen as the action programs to be initiated to meet the objective.

The Balanced Scorecard has a major impact on the current day organisational activity, as it is a strategic performance measurement tool. This is due to focus increasingly falling on the value enhancement for shareholders, which is directly linked to the increased performance of the employees. The aspects that must be focused on are service quality as well as efficiency and value creation. To be effective such efforts should provide visibility of trends in audit results and insight into the value adding functions. The strategic performance measurement tool should also highlight organisational activities in need of improvement (Applegate & Bergman, 1997:62-68; Norton & Kaplan, 1999: 1).

Financial objectives remain the main focus, though it is important to also include the drivers of the financial objectives. The Balanced Scorecard measures and translates the performance of the organisation's strategy into four perspectives namely, financial, customer, internal business processes and innovation and growth (fully discussed in this chapter). The Balanced Scorecard always seeks to maintain the balance between:

- internal and external measures,
- objective and subjective measures,
- performance results and drivers of future results (De Bruyn, 2003: 186-189).

In the Industrial Age, most of the firm's assets were invested in property, plant and equipment. The financial accounting system performed an adequate job of valuing and evaluating those assets. In the Information Age, much of the value of the firm is invested in innovative processes, customer relationships, and human resources. This created a problem, as the financial accounting system did not adapt as a valuing tool for such assets. The Balanced Scorecard addresses the dilemma by introducing the measurement of less tangible aspects such as customer and stakeholder value and the internal capability of the organisation (De Bruyn, 2003: 186-189).

The relevance of the Balanced Scorecard in the organisation is becoming increasingly important. This is due to functions such as the Internal Auditing function focussing more prominently on both financial and non-financial aspects of the organisation. The Balanced Scorecard translates the organisation’s strategy into four perspectives namely, financial, customer, internal business processes and innovation and growth. This allows for the enhancement of the strategic value of the individuals, departments and the organisation.

3.5 Aspects of the current operating environment

The business environment consists of elements that may have an influence on organisational activities. Top management constantly seek to understand the operating environment in order to be pre-emptive in their decision-making abilities. The operating environment is an ever-changing business environment, with various aspects impacting on the speed of the change. The adaptive behaviour of the organisation in a changing environment is very important for survival. Organisations require relevant information to build a new set of objectives and strategies (De Bruyn, 2003:54-56).

The business environment should be analysed in order to align the strategy and the Balanced Scorecard to the external operating environment. The functioning of the organisation must be adaptable to the operating environment to ensure the organisation's competitive advantage. The current operating environment is briefly discussed below to ensure that the organisation takes these factors into consideration when implementing the Balanced Scorecard. The discussion notes a few important changes experienced in recent years in the operating environment.

3.5.1 Cross functional areas

The Industrial Age organisation specialised in the functional skills, such as manufacturing, purchasing, distribution, marketing, and technology. This ensured that the organisation gained competitive advantage. The Information Age cuts across various functional areas, in order to perform the activities necessary. Competitive advantage is created by combining specialisation benefits from the functional expertise of the organisation (Norton & Kaplan, 1996, 4).

3.5.2 Links to customers and suppliers

Industrial Age companies worked with customers and suppliers through very close and personal relationships and transactions. Various technological advances enable organisations to integrate supply, production, and delivery processes. This allows the operations to be guided by customer orders, and not by previously set production plans, that push products through the value chain. This change has impacted significantly on the links to customers and suppliers (Norton & Kaplan, 1996, 4).

3.5.3 Customer segmentation

The Industrial Age was a period where various companies prospered by offering the customer standardised low-cost products and services. A good example is Henry Ford's famous dictum, "They can have whatever colour they want as long as it is black". Therefore, one can safely presume that once consumers have satisfied their basic needs (clothing, shelter, food, and transportation), the customers will strive to attain more individualised needs satisfaction. Information Age companies must strategically change and adapt to produce more customised products and services. The adaptation of the organisation is directly linked to satisfying the diverse customer segment. The problem with taking this type of approach is that you may fall into the expensive trap of paying the usual cost penalty for high-variety and low-volume productions (Norton & Kaplan, 1996, 4).

3.5.4 Global Scale

Domestic borders can no longer be viewed as a protective barrier from international competition. International competition is more efficient and responsive to market changes. Information Age companies compete against the best companies in the world. Superior returns are required worldwide in order to generate the capital required for new products and services. Information Age companies must combine efficiencies and competitive global operations with marketing sensitivity. Utilising the international efficiencies and focusing the strategies on the local customers enables survival in the global economy (Norton & Kaplan, 1996, 4).

3.5.5 Innovation

Product life cycles are becoming shorter. The competitive advantage gained within one generation of a product's life is no guarantee of a successful product moving into the next technological platform. Companies that compete in industries with rapid technological innovation must be skilled at anticipating customers' future needs. These organisations must utilise innovativeness as a tool to devise radical new product and service offerings. This will allow the organisation to launch new product technologies into the ever-changing environment. Companies competing within the industry environment with relatively long product-life cycles must continuously improve their processes and product capabilities (Norton & Kaplan, 1996, 5).

3.5.6 Knowledge Workers

Industrial Age companies created sharp distinctions between two groups of employees. The first group consisted of an intellectually elite group of managers and engineers, utilising their analytical skills to design products and processes and manage customers and daily operations. The second group was composed of the actual producers and deliverers of the products and services. They performed tasks and processes under direct supervision of white-collar engineers and managers (Kaplan & Norton, 1996:6).

Automation and productivity have reduced the percentage of traditional work functions being performed by people in the organisation The competitive demands of the consumers have increased the number of people performing analytical functions, such as: engineering, marketing, management and administration. Individuals involved in direct production and service delivery are valued for their suggestions on how to improve quality, reduce cost, and decrease cycle times (Kaplan & Norton, 1996:6).

Today employees are expected to add value by what they know and by the information they can provide. Investing in the correct recruitment, selection, management, and exploitation of the knowledge of the current employees, is a crucial success factor in modern companies (Kaplan & Norton, 1996: 7).

3.5.7 Improvement programs

Transformation and innovation has become part of the formal programs within organisations. These programs are all focused on attaining competitive advantage. Performance measures within an organisation can support the improvement process in an organisation. Improvement programs incorporating the Balanced Scorecard can enhance the competitive advantage and performance of the organisation (Frigo, 2002:21-23).

In order to achieve competitive advantage, organisations are turning to a variety of improvement initiatives:

- total quality management,
- just-in-time (JIT) production an distribution systems,
- time-based competition,
- lean production/lean enterprise,
- building customer-focused organisations,
- activity-based cost management,
- employee empowerment,
- reengineering (Norton & Kaplan, 1996: 23-27).

These improvement programs have had various successes in the business environment. The improvement programs promise breakthrough performance and enhanced value creation. The goal of these programs is not only to ensure survival, but to create an environment for inevitable and long term growth (Norton & Kaplan, 1996: 23-27).

Certain improvement programs have had negative or disappointing results. Failure has been ascribed to fragmented programs not being linked to the larger organisational strategy. Major changes are required for the desired outcomes to be achieved. Some of these changes need to be implemented in the measurement processes of the organisation. The Balanced Scorecard aims to achieve the desired outcome through the model's focus on the four interrelated performance aspects (Norton & Kaplan, 1996: 23-27).

The operational environment, as discussed above, affects the daily activities of the organisation. The Balanced Scorecard, which is a performance measurement tool, can be utilised to manage the strategic performance of the organisation. Navigating the company to a greater competitive, technological, and capability-driven future must be actively strived for. This method allows the Internal Auditor to address the demands of the current operating environment (Norton & Kaplan, 1996, 25-27).

The Balanced Scorecard will ensure the standard of performance of the organisation. Performance will be discussed next, as it is an integral component of the Balanced Scorecard.

3.6 Performance

The Balanced Scorecard is effectively a strategic performance measurement tool. The Balanced Scorecard can be utilised as a model to enhance the strategic role of Internal Auditor within the organisation. The organisation must fully understand the aspects relating to performance to ensure the correct utilisation of the Balanced Scorecard (Kaplan & Norton, 1996: 6).

To achieve performance alignment, one has to consider exactly what the definition of performance is and how it is best represented in the organisation. Alignment of performance is evident through the Balanced Scorecard implementation (Langdon, 2000: 10).

Performance refers to the degree of accomplishment of tasks that make up a specific job. It reflects the degree of fulfilling the requirements of a job. Performance is often confused with effort, which refers to energy expended to perform a specific task. Performance is measured in terms of results. The word "performance" is an evasive concept and may be interpreted differently by different people. Performance can loosely be defined as "the fulfilment of a claim, promise, request or the act of carrying out something". It can also be said to be the ability to perform or the capacity to achieve the desired result (Joubert, D. 2002: 30).

In the business world, performance most often refers to a cycle of obligatory behaviour. Performance is measured during a time period in line with an expectation, promise or target. Performance is a function of competence, passion, drive, energy, accountability (in terms of goals, targets, standards, previous records, and expectations), measurement, feedback, reward and gratification. The Balanced Scorecard can report on the status of the organisation's performance levels (Langdon, 2000: 10).

Job performance is the net effect of an employee's effort as modified by abilities and role (or task) perceptions. Thus, performance in a given situation can be viewed as resulting from the interrelationships among effort, abilities, and role perceptions (Langdon, 2000: 10).

To attain an acceptable level of performance, a minimum level of proficiency must exist in each of the performance components. Similarly, the level of proficiency in any one-performance component can place an upper boundary on performance. If employees put forth tremendous effort and ability but lack a clear understanding of their roles, performance will not meet manager expectations. Much work will be produced, but it will be misdirected. Likewise, an employee who puts forth a high degree of effort and understands the job but lacks ability will rate low on performance. A final possibility is the employee who has good ability and understanding of the role but is lazy and expends little effort. This employee's performance will likely be low. Of course, an employee can compensate up to a point for a weakness in one area by being above average in one or both of the other areas (Langdon, 2000: 10).

3.6.1 Four levels of business performance

It is imperative to understand that there are various levels of performance. The following describes the nature of performance at various levels of the business sphere. The Balanced Scorecard is directly focussed on performance of the organisation.

3.6.1.1 Level One: The Business Unit

The term "business unit" may be used to designate the major level of a business that produces a significant output. Business unit may also refer to the business as a whole. A business unit may produce outputs for various reasons, such as profits. A business unit, by business definition, has a prescribed set of outputs the business should produce. The input level of the organisational team should be correlated to demanded output. Business units can comprise of a few workers and managers or thousands of people. Within larger organisations various business units make up the whole (Langdon, 2000: 17).

3.6.1.2 Level Two: Core Processes

A very well defined explanation of the core process is that offered by Hammer and Champy (1993), who suggest labelling processes by the “starting” and “finishing” points.

Core processes are the functions and approaches used to produce expected business outputs. A business unit may produce the output directly to an external client, or pass on their output to other work groups as input for processing. Many of these core processes interrelate at common points, cutting across two or more work groups. Typical processes are engineering, accounting, manufacturing, selling, researching, prospecting and training (Langdon, 2000: 10).

An example of the core processes cutting across various work groups, are the process of proposal writing in a training company that may be shared among several work groups. These boundaries define the beginning and ending points of the core process. These are clearly communicated to those involved in the process (Langdon, 2000: 17).

3.6.1.3 Level Three: Individuals and their Jobs

Individuals are seen as the people that perform the functions in order to complete the tasks at hand. This frame of thought includes individual workers, managers, and executives. Individuals use the core processes or support the core processes, within and between work groups, to ensure the benefit to the business unit (Langdon, 2000: 17).

The individual needs to have an expanded knowledge of his own job role. The individual must also understand their relation to other job roles, the process that they strive to achieve, the work group they function in, and their relationship to the entire business unit. At the individual level of the Business Sphere we can refer to work definitions as job modelling. The incorporation of job models can help individuals analyse and detect weaknesses and make improvement. The individual understands what they and others are responsible for in the workplace. This knowledge of their work plays a major role in the alignment of activities with the strategy of the organisation (Langdon, 2000: 17).

3.6.1.4 Level Four: Work Groups

Work groups are composed of sets of individuals who are strategically organised to work in common processes. The work group has a combined goal to produce the desired and preset outputs. These outputs are used by other relevant groups of the defined business unit. The outputs go directly or indirectly to external clients. Various major work groups constitute a business unit. Work groups utilise the inputs to produce certain outputs. The work groups contribute to the ultimate outputs of the specialised needs of the business (Langdon, 2000: 18).

Work groups are named according to the process to which they are most closely related. The unit is charted on the organisational chart according to their function in the organisation (for example, proposal development, marketing, sales, human resources, design, legal, engineering, civil affairs, public relations, or finance). Several work groups combine to make up a specific business unit (Langdon, 2000: 18).

It is imperative to have knowledge of the different levels of performance, as noted above. This will ensure that the Balanced Scorecard measures the correct objective of performance in the organisation. The Balanced Scorecard can strategically measure the performance of the different levels in the organisation. This will ensure the strategic role enhancement of the correct level or individual (such as the Internal Auditor). So too the different dimensions of performance must be understood. This will ensure a strategically efficient performance enhancement of the designated unit or individual.

3.6.2 Dimensions of Performance

Performance has various functions that need to be incorporated into successful performance within an organisation. The functions are guiding aspects to attaining the objective performance. Performance has six vital functions:

1. an expectation of the outcome,
2. a predetermined standard or target,
3. a time lifecycle or period in which to perform,
4. a measured result or outcome,
5. an emotional reaction to the result,
6. a corrective or incentive response (Joubert, 2000: 30-31).

These dimensions must be kept in mind when the results of the internal audit are presented to the audit committee and the board of directors. The performance functions act as a strategic driving force behind the Balanced Scorecard initiative, and the strategic role enhancement of the Internal Auditor (Joubert, 2000: 30-31).

Performance measured in terms of the accomplishment of tasks is related to the implementation of strategy. The accomplishment of the task should be aligned with the achievement of strategic objectives of the organisation. The execution of the organisational strategy via the Balanced Scorecard needs to be examined and reported on by a structure such as the Internal Auditing function (Joubert, 2000: 30-31).

The Balanced Scorecard is effectively a strategic performance measurement tool. The objective performance of the organisation cannot be attained if the Balanced Scorecard is not properly implemented. Certain prerequisites, such as the alignment of the organisation with the strategy, are deemed important for the successful implementation of the Balanced Scorecard. Therefore, a clear understanding of the organisational strategy is required. If the Balanced Scorecard is aligned to the corporate strategy, the performance most relevant to attaining these goals will be measured.

3.7 Organisational Strategy

The implementation of the Balanced Scorecard within the organisation will ensure a successful strategy execution. The strategy must be well designed to ensure value creation within the organisation. The Balanced Scorecard has evolved to align the organisation's activities with its strategy. To maximise the utilisation of the Balanced Scorecard within the organisation it must be linked to the strategy and objectives of the organisation (Frigo, 2002: 23).

The evolving definition of the Internal Auditing function has stressed the increasingly strategic orientation of the function. The activities of the Internal Auditor must effectively be linked to the strategy of the organisation to ensure an effective Balanced Scorecard incorporation as the guiding method for Internal

Auditing function's strategic role enhancement. Therefore it is imperative that the strategy and related aspects be studied and understood.

3.7.1 Strategy defined

The term strategy is derived from the Greek word, "strategos", which by definition means "The art of the general". This word can be directly related to strategic war tactics scenarios. Due to the fact that organisations and companies have become so competitive, business has become a war for total competitive dominance. The word "strategy" therefore sufficiently describes the business environment (Coyle, Bardi & Langley, 2003:573-574).

Strategy can furthermore be described as the course of action, scheme or principal idea that is selected in order to obtain certain objectives. It is seen as a broad objective orientated plan of action that individuals or groups engage in. In the past the strategy of the organisation was set, implemented and maintained by top-management. Present day organisation's have been reengineered and decentralised to the point where all employees have input into the strategy of the organisation. The reason for this change is the realisation that the employee has greater in-depth experience and knowledge of the relevant department. These inputs from the employees are valuable to ensure the effectiveness of the correct strategy (Ivancevich, Lorenzi, Skinner & Crosby, 1997:184; Thompson & Strickland, 2003:10).

New organisational strategies enable the organisation to handle much complexity through the process of continual learning and growth of knowledge. Management strives to predict and foresee the future economic environment. This is achieved through strategic thinking. Strategic thinking is the utilisation and correct allocation of the organisation's resources. This enables the attainment of organisation's long-term goals and objectives (Ivancevich, Lorenzi, Skinner & Crosby, 1997:184-185).

The Balanced Scorecard is a strategy-focused approach to performance management. The Balanced Scorecard includes financial and non-financial performance measures derived from the organisation's vision and strategy. Because the Balanced Scorecard is a strategic initiative within the organisation, it is imperative to understand the five tasks of strategic management:

- develop a strategic vision and mission,
- set objectives,
- craft a strategy to achieve the objectives,
- implement and execute strategy,
- monitor, evaluate, and take corrective action (Thompson & Strickland, 2003:7; Frigo, 2002: 11-29).

There are various factors that constantly shape the organisational strategy. This causes the strategy to change form situation to situation. These can best be depicted by Figure 3.1 below (Thompson & Strickland, 2003:60).

The table below illustrates that the strategy is influenced by certain elements in the organisational environment. These elements in the organisational environment may be internal or external influencing factors. The strategy crafting process needs to take these elements into account when the strategy is formulated. This will indicate alternative strategies which may be selected. From these alternatives one may be chosen which best suits the organisation and the current business environment.

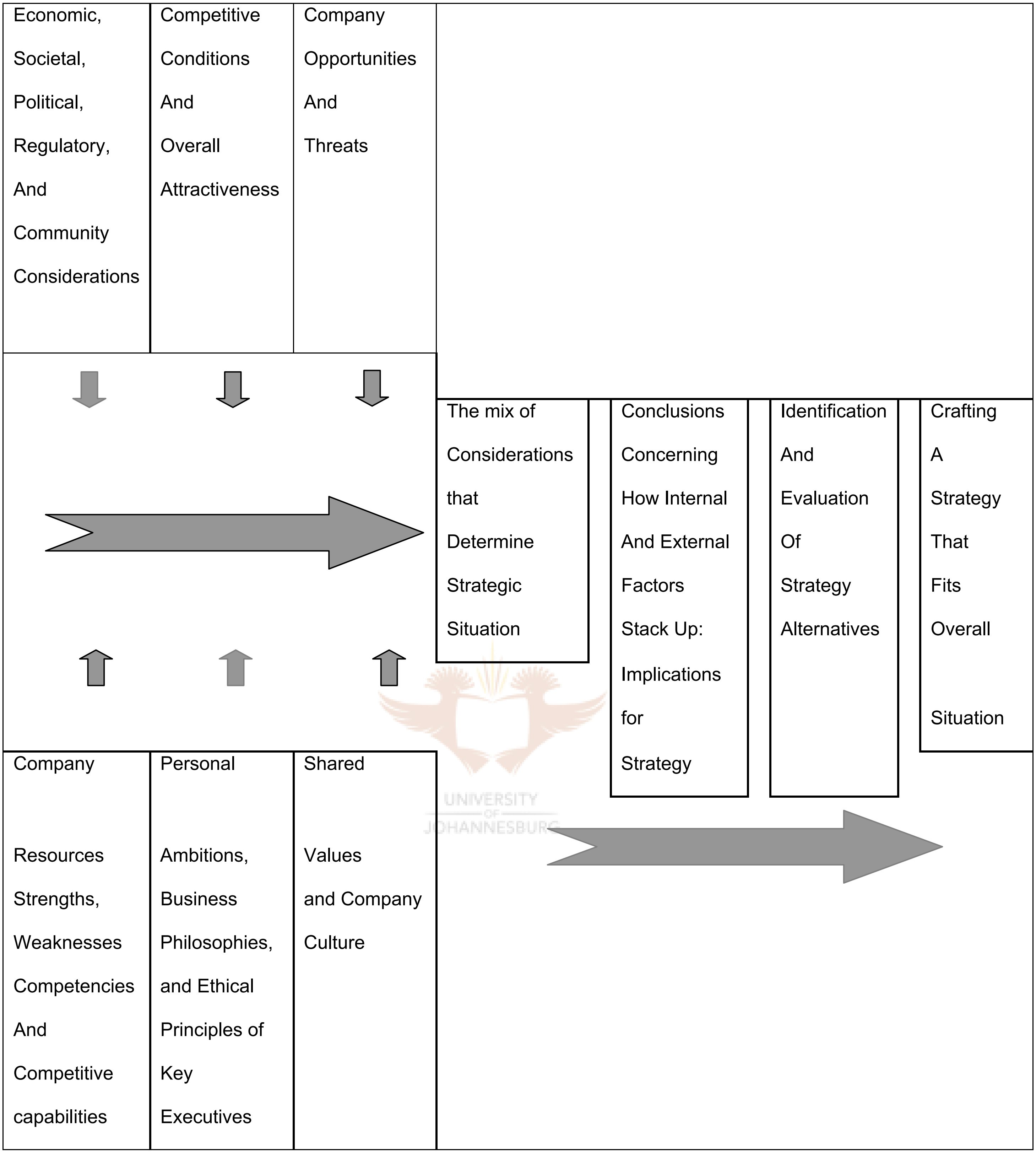


Figure 3.1: Source: Thompson, A.A. & Strickland III, A.J. (2003) Strategic Management. Concepts and Cases. Mcgraw-Hill Irwin Publishing. New York, New York.: p.60.

3.7.2 Role of the Balanced Scorecard in translating vision and strategy

The Balanced Scorecard assists in the strategy making process by helping management translate the strategy into various strategic objectives. The clarification process has two very important aspects to consider:

- clarifying the vision,
- gaining consensus.

The Balanced Scorecard highlights the most critical aspects and activities that will enhance performance for customers and shareholders. This process often reveals new internal processes that the organisation can excel at (Norton & Kaplan' 1996:10-11).

The strategy of an organisation is closely related to the mission and vision of the organisation. The objectives that evolve from the strategy are aimed at attaining the long-term mission and visionary goals of top management. The vision of the company is the valued aspirations that are important to the organisation. The vision adds extra explanation and life to the mission statement. This takes into account that the mission of an organisation may change over time, but the vision will endure over time (Hellriegel, Jackson & Slocum, 1999: 220).

Strategic vision is the map that directs the company to the desired future. It will provide definitions about technology, customer focus, geographic and product markets, the capabilities it plans to develop, and the company that the management would like to be part of in the future. The strategic vision portrays the future scope of the company. The company is defined by asking the following questions:

- "who are we and what do we do?";
- "where are we going?".

Therefore, one can assume that the strategy and vision of the organisation converge where the strategic vision is formed. Keep in mind that the strategic vision is a futuristic mission statement (Thompson & Strickland, 2003:6).

The most effective and efficient method of determining the future direction of the company is to develop a future vision, and comparing that to an analysis of the present. This allows for a comparative study in order to visualise the gap between the actual and the objective position (Cowley & Domb, 1997: 65).

The organisational departments and culture must be aligned to the strategy of the organisation. The Balanced Scorecard can only be effectively implemented and utilised for strategic performance enhancement if the organisation is aligned to strategy. The objectives of the organisation are the activities ensuring the attainment of the strategic focus.

3.7.3 Strategy linked Objectives

Setting the objectives converts the wholly set strategic vision into more attainable activities and targets. Setting objectives can be interpreted as the commitment by top management to attain the goals that have been set. The targets and objectives must be the connection between the organisation's strategic vision and its core values (Thompson & Strickland, 2003:41).

Strategic management consists of strategic and financial objectives. Both objectives are relevant and important to the long-term success of the organisation. There are differences between the financial and the strategic objectives of the organisation. Though, it must be kept in mind that both aspects are very important to the overall success of the organisation (Thompson & Strickland, 2003:43). The difference can best be illustrated as follows:

Financial Objectives	**Strategic Objectives**
• Growth in revenues • Growth in earnings • Higher dividends • Bigger profit margins • Higher return on invested capital • Economic Value Added • Strong bond and credit rating • Bigger cash flows	• Bigger market share • Quicker design to market times • Higher product quality • Lower cost relative to competitors • Better e-commerce • On time delivery • Superior customer service

• Market Value Added • Blue chip recognition • Diversified revenue • Stable earnings	• Strong global distribution • Recognition as a leader in technology • Wide geographic coverage • Increase customer satisfaction

Table 3.1 Source: Thompson, A.A. & Strickland III, A.J. (2003) Strategic Management. Concepts and Cases. Mcgraw-Hill Irwin Publishing. New York, New York, p.43)

The strategy is the guidance and navigation tool of the organisation. The goals and objectives that govern business units are set according to the organisational strategy. The strategy is the map that guides the organisation into a competitive advantage position of survival and prosperity.

3.7.4 Importance of developing a business strategy

The strategy of the organisation must be aligned with the realities of the competitive environment. This creates a competitive advantage for the organisation as this allows them to make pro-active decisions. The business competes with their rivals in very diverse ways and methods. The methods utilised are such as providing the lowest-cost product, superior characteristics of the specific product or quality service. To maintain the competitive advantage of the organisation, it must re-evaluate its strategic planning due to a global increase in competition. Forces that have an influence on the organisation such as new products, substitute products, a supplier gaining power, lower cost and enhanced power of the customer, can influence an industry (Porter, 1985: 35).

Incorporating the Balanced Scorecard as a strategic performance measurement tool into the organisation can enhance the strategic process. Recent surveys have shown that most organisations use the Balanced Scorecard as a framework to align their organisations to the organisational strategy. This enables the organisation to utilise the Balanced Scorecard as a framework for the strategic enhancement of other functions, such as the strategic role of the Internal Auditing function. The business model must be embedded in reality to truly succeed (Frigo, 2002: 23-26).

3.7.5 Measuring business strategy through the use of the Balanced Scorecard

Companies that use the Balanced Scorecard as the measuring tool of performance, and therefore also the cornerstone of strategic management, have two tasks that need to be performed. Firstly, they must build a relevant scorecard aligned to the corporate strategy. Secondly, the Balanced Scorecard must be implemented successfully. The business strategy measurement must follow four generic perspectives in terms of which the performance has been categorised. The Balanced Scorecard goes beyond the boundaries of the standard financial measures. This enables the organisation to include the following additional perspectives: the customer perspective, the internal perspective, and the learning and growth perspective (Norton, Kaplan, 1996: 33).

The perspectives incorporated in the Balanced Scorecard strategic measurement model and their corresponding measurements are set out below:

Perspective	**Generic measures**
Financial	Return on investment and economic value added
Customer	Satisfaction, retention, market-, and account share
Internal	Quality response time, cost, and new product introductions
Learning and growth	Employee satisfaction and information system availability

Table 3.2 (Norton, D.P; Kaplan, R.S. (1996).” The Balanced Scorecard *Translating strategy into action*”, p. 34)

A number of tenets are presented as a way to understand strategy and how it is executed through the Balanced Scorecard. The tenets can also be utilised to facilitate one of the four perspectives of the Balanced Scorecard. This creates an opportunity for the organisation to make the strategy a continual process. According to Frigo (2002) these tenets can be applied to the Internal Auditing function’s strategic enhancement process. These tenets are:

- maximize financial value creation,
- fulfill unmet customer needs,
- dominate large high-growth markets,
- innovative offerings,
- operate effectively and efficiently,
- brand,
- partner strategically,
- utilise strategy,
- reengineer the value chain and
- communicate strategically (Frigo,2003:24-28)

The Balanced Scorecard has four perspectives, as noted above, and are utilised to categorise the strategy of the organisation. These aspects must be discussed and understood to ensure the effective implementation and utilisation of this strategic performance measurement tool.

3.7.5.1 Financial perspective of the Balanced Scorecard

Building the financial aspects of the Balanced Scorecard encourages businesses and business units to link their financial measurement and objectives to the corporate strategy. The financial objectives must serve as the focus for the objectives and measures. A link of cause-and-effect relationship must exist between the measures of the financial perspectives. The correct implementation of customer, internal and innovation and learning prospects will not result in financial improvement. This will result and affect the performance level of the organisation. The financial perspective focuses on the resulting bottom line financial improvement. The financial perspective includes the measures of aspects such as operating income, return on capital employed, and economic value added. Financial considerations for public organisations have an enabling or a constraining role in the organisation. Though, it will rarely be the primary objective for business systems. Success for such organisations should be measured by how effectively and efficiently these organisations meet the needs of their constituencies. There are various differences at different stages in the linking process of the financial objectives to the organisational strategy. Such as the following:

- Growth

  The organisation's level in its growth curvature will determine what type of growth will be targeted. The growth curve will also indicate the product, service and process maturity. The overall financial objective for the growth-stage organisation would be focused on the percentage growth rate in revenue, as well as the sales growth rate in the target market,

- Sustaining

Most of the businesses that are successful or in the profit-generating category will fall in the sustaining stage. The organisation is expected to retain market share while earning excellent return on investment. Sustainability is measured by return on assets, return on investment, and economic value added,

- Harvest

The businesses in this phase have reached the mature phase of the business cycle, where the company's objective is to harvest the investment made during the previous stages (De Bruyn, 2003: 187; Norton & Kaplan, 1996:46-62).

Table 3.3 illustrates the financial objectives of the organisation and how to translate the strategy into the activities generating maximum results.

Phase	Revenue growth mix	Cost reduction / Productivity improvement	Asset utilisation
Growth			
	Sales growth rates by segment Percentage revenue from new product, services and Customers	Revenue/Employee	Investment (percentage of sales)
Sustain			
	Share of targeted customers And accounts Cross selling Percentage revenues from New applications Customer and product line Profitability	Cost vs. competitors Cost reduction Rates Indirect Expenses	Working capital ratios (cash to cash cycle) ROCE by the key categories Asset utilisation rates
Harvest			
	Customer and product line Profitability Percentage unprofitable Customers	Unit cost (per unit of output, per transaction)	Payback Throughput

Table 3.3 Norton, D.P.; Kaplan, R.S. (1996).” The Balanced Scorecard. *Translating strategy into action*”

3.7.5.2 Customer perspective of the Balanced Scorecard

The Balanced Scorecard is built on established competitive strategies. This will include strategies such as aspects of customer orientation, short response times, total quality management and teamwork. Organisations must identify with the customers in the chosen market segments. The customer-orientated portion of the Balanced Scorecard requires the company to identify certain important goals and measures. The customer-orientated perspectives allow the company to align their core customer outcome measures, such as: satisfaction, loyalty, retention, acquisition, and profitability. These measures focus on the organisation's target segment in the market (De Bruyn, 2003: 188).

Performance measures (time, cost, quality, performance and service) should be developed by teams of managers aligning customer needs. Certain aspects that must be analysed are: ordering, delivering, inspection, handling, storage, and scrap, storage, recycling and manufacturing performance. During the past decade companies only focused on their internal capabilities and emphasised the product performance technology and innovation. They did not understand the customer needs and consequently decreased their competitive advantage to customer-focused competitors. Therefore, the current day focus of the company has shifted to the customer and customer satisfaction. Organisations must acknowledge the rapidly changing market place and related internal changes.

Strategic organisational adaptations must be implemented in order to ensure the survival and growth of the company. The organisation must keep in mind that the customer perspective can further be segmented into five categories that allow further analysis and core measurement seeking abilities. The five groups illustrated in figure 2.1 are: Market share (reflecting the proportion of business in a market), customer retention (measures the rate at which the business unit attracts or wins new customers), customer acquisition (tracks the rate at which a business unit retains business and an ongoing relationships with customers), customer satisfaction (assesses the customer satisfaction level), customer profitability (measures the net profit of a customer after allowing the expenses that is needed to support that customer) (Norton & Kaplan, 1996:63-92).

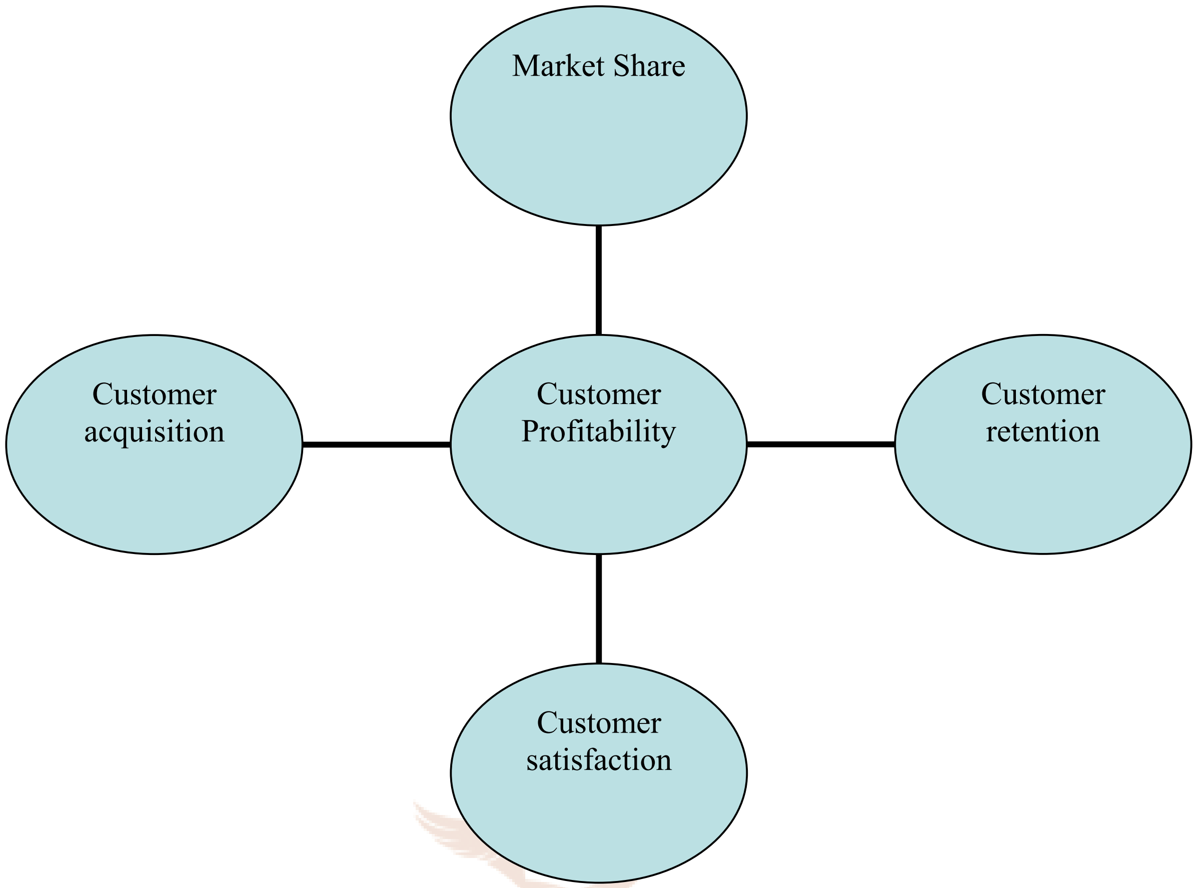


Figure 3.2 Modified from: Norton, D.P.; Kaplan, R.S. (1996).” The Balanced Scorecard. *Translating strategy into action*” p. 68

3.7.5.3 Internal business perspectives of the Balanced Scorecard

In order to meet the customer’s needs the organisation must develop or improve certain internal processes. The organisation must focus on the processes that are most critical to achieving customer and shareholder objectives. The internal business processes must focus on the organisation’s core skills and critical technology, which are needed to increase value. Satisfaction of the needs of the customer can theoretically be satisfied via three principal business processes.

The principles divide the principal goals of the organisation into the relevant departments and subunits (illustrated in figure 3.3). Business perspectives of the Balanced Scorecard include measures such as cost, throughput, and quality. These are for business processes such as procurement, production and order fulfilment. Each organisation has a unique set of business processes that will produce both customer satisfaction as well as improved financial results. Most companies can utilise figure 3.3 as a model for customer needs satisfaction through linking it to their own processes (De Bruyn, 2003:188; Norton & Kaplan, 1996:92 – 125).

Satisfying customer needs include three principal business processes:

Customer needs identification

1. Innovation

Identify the market

Create the product / service offering

2. Operations

Build the products and process

Deliver the products and services

3. Post-sale services

Service the customer

Customer need satisfaction

Figure 3.3: Modified form: Norton, D.P.; Kaplan, R.S. (1996).” The Balanced Scorecard. *Translating strategy into action*”

3.7.5.4 Learning and growth perspective of the Balanced Scorecard

The fourth perspective of the Balanced Scorecard is important in the changing business environment. The Balanced Scorecard creates an increase in information and knowledge for effective decision-making abilities.

The above three perspectives of the Balanced Scorecard are focused on the existing competitive position of the organisation. The focus should be on the effect that the ever-changing environment has on the organisation. All members of the organisation must continually strive to improve their knowledge of the operating environment. This will directly influence the level of innovativeness in problem solving situations. Relevant new products and services must be launched quickly and accurately, new technology must be adopted and the organisation must strive to reduce the operating cost. The objectives of the organisation must emphasize continuous adaptation to ensure customer satisfaction. This is achieved by comparing new product sales versus established products and investment growths versus comparable entities. The learning and growth perspective include measures such as employee satisfaction, employee retention, skill sets, etc. According to Norton & Kaplan (1996) there are three important aspects for the learning and growth perspective:

- employee capabilities, consisting of a change of thought from Industrial to Information Age thinking. This will facilitate the focus on employee contribution. This aspect may be measured by investigating employee satisfaction, employee retention, employee productivity,

- information systems capabilities and the effective information that is needed for the company to be successful as a whole. The information needs consist of a broad band of information on the customers, internal processes and the financial consequences of their decisions,
- motivation, empowerment, and alignment, are the aspects that the employees need to ensure success of the company. Motivation is driven by internal- and external reward systems. This is related to the employee's perception of importance in order to be successful. The employees will only be motivated to act in the best interest of the company if they are given the freedom of decision to make decisions and take related actions. Empowerment is the function of decentralising the decision-making structures of the organisation. Therefore, increasing the responsibility of the employees. The organisational departments must be aligned in order to effectively implement the Balanced Scorecard within the organisation. To ensure that the strategy of the organisation is incorporated into the strategic performance measurement tool (Norton & Kaplan, 1996:127-130).

The four elements are not simply a collection of independent perspectives. There is a logical connection between them, leading to growth and better business processes. This will increase the value of the customer-orientated products, and ultimately lead to improved financial performance (De Bruyn, 2003: 188).

The rational of setting measurements is to permit managers to see their company more clearly. Allowing coverage from all perspectives and hence allow wiser long-term decision-making. This allows for the concept of fact-based management:

> "Modern businesses depend upon measurement and analysis of performance. Measurements must be derive from the company's strategy and provide critical data and information about key processes, outputs and results. Performance measurement data needed for improvement are of many types, including: customer, product and service performance, operations, market, competitive comparisons, supplier, employee-related, and cost and financial. Analysis entails using data to determine trends, projections, and cause and effect. Data and analysis support a variety of company purposes, such as planning, reviewing company performance, improving operations, and comparing company performance with competitors' or with 'best practices' benchmarks" (Metrus Group, 2004: 1 – 4).

A major consideration in performance improvement involves the creation and use of performance measures or indicators. Performance measures or indicators are measurable characteristics of products, services, processes, and operations. The organisation utilises these measures to track and improve performance. The measures or indicators should best represent the factors that lead to improved customer, operational, and financial performance. A comprehensive set of measures tied to customer and/or company performance requirements represents a clear basis for aligning all activities with the company's goals. Through the analysis of data from tracking processes, the measures or indicators themselves may be evaluated and changed to better support such goals (Metrus Group, 2004:6-9).

The above four perspectives of the Balanced Scorecard are important, as they focus on the actual deliverables. It incorporates aspects that have an influence on the performance of the organisation. The four perspectives are aligned to corporate strategy. It ensures that the organisation translates the organisational strategy into operational activity. The Balanced Scorecard should be balanced between external shareholders and customers and internal business processes. Measurements must have standards to be measured against, as this will create a basis to control the outcome. The above discussion illuminates the importance and method of measuring the four perspectives with the Balanced Scorecard.

3.8 Control through setting standards

Standards are predetermined quantities serving as an acceptable basis for the measurement of results and performance. Strategic controls are based on the data and conditions that are extrapolated from previous measurements in order to calculate the new standards. The importance of the standard in this study relates to the fact that the strategic role of the Internal Auditor is enhanced via the utilisation if the Balanced Scorecard as a framework. This must be done in conjunction with standards relating to the strategy and objectives of the organisation. It must be kept in mind that strategy and standards of the organisation run hand-in hand due to standards being linked to the objectives of the organisation. The strategy is again linked to the objectives. Standards are set as a comparative control measure together with the Balanced Scorecard as the performance measurement tool of the Internal Auditing function (Langdon, 2000: 180-190).

Standards are very important in the performance measurement of business units. The Balanced Scorecard is a strategic performance measurement tool, which is implemented in the organisation as such. The measurement cannot be seen as an appropriate measurement tool if the technique is not consistently applied and implemented. The standards must be consistently and accurately utilised in order to play a comparative controlling function (Sherman D Rosin, Donald T. Barnum: 1996; Langdon’2000:194).

Standards are scientifically predetermined quantitities serving as an acceptable foundation for measuring results and performances. The strategic performance measurement tool, the Balanced Scorecard, needs to have a basis against which to measure the performance outcome of the organisation. It is crucial to understand the necessity of setting standards within the organisation (De Bruyn, 2003: 184-185).

3.8.1 Why Set Standards?

The setting of standards is the comparative values that the outcome of measurement tools such as the Balanced Scorecard, can be measured against. Standards are important aspects within the organisation that are required for performance consistency. The goals are set in the organisation in order to meet a specific end. It is assumed that the standards will be met if the focus of the organisation is directed at the predetermined goals and objectives. Standards can reinforce the desired behaviour within the individual, group or organisation. Setting standards increases the feedback process as it is measurable (Langdon, 2000:191 – 193).

To ensure that the standards are set at the correct level and relevancy, the standards must be set against a relevant researched aspect. The aspect must be closely correlated to business unit outcomes.

3.8.2 What to Set Standards Against

Standards are set according to research compiled on the needs and demands of the internal (internal organisational) processes and the external (customers and shareholders) environment of the organisation. Standards create a basis from which strategies, goals and objectives can be set. Standards must be set in accordance with the four business levels as set out in table 3.4 (Langdon, 2000:193):

Business Unit level	
Inputs	Accurate identification of clients needs Number of clients to be identified Standards of inputs the business expects of its vendors and suppliers
Conditions	Attention to regulations Attention to business policies and procedures
Process elements	Individual work group goals and production standards

Outputs Feedback	Model of desired outputs Profit goals Timely reports and records
Process level	
Inputs Conditions Process elements Outputs Consequences Feedback	Equipment specification Professional ethics Production standards Models of output Efficiency Quality standards
Individual level	
Inputs Conditions Process elements Outputs	Does the individual seek out input Do managers adhere to EEO standards? Cycle time Number of outputs expected in a time frame

Group Level	
Inputs	Attention to contribution of new ideas
Conditions	Group adherence to team rules
Process elements	Number of rejects
Outputs	Timelines of outputs to other workgroups
Consequence	Satisfaction of another workgroups
Feedback	Consisted use of suggested improvements

Table 3.4 Source: Langson, D.G. "Aligning Performance. Improving People, Systems and Organisations" (2000)

Incorporating the four business levels into the process of setting the organisational standards is important. This creates a wholistic standard setting process, as all four business unit levels are included.

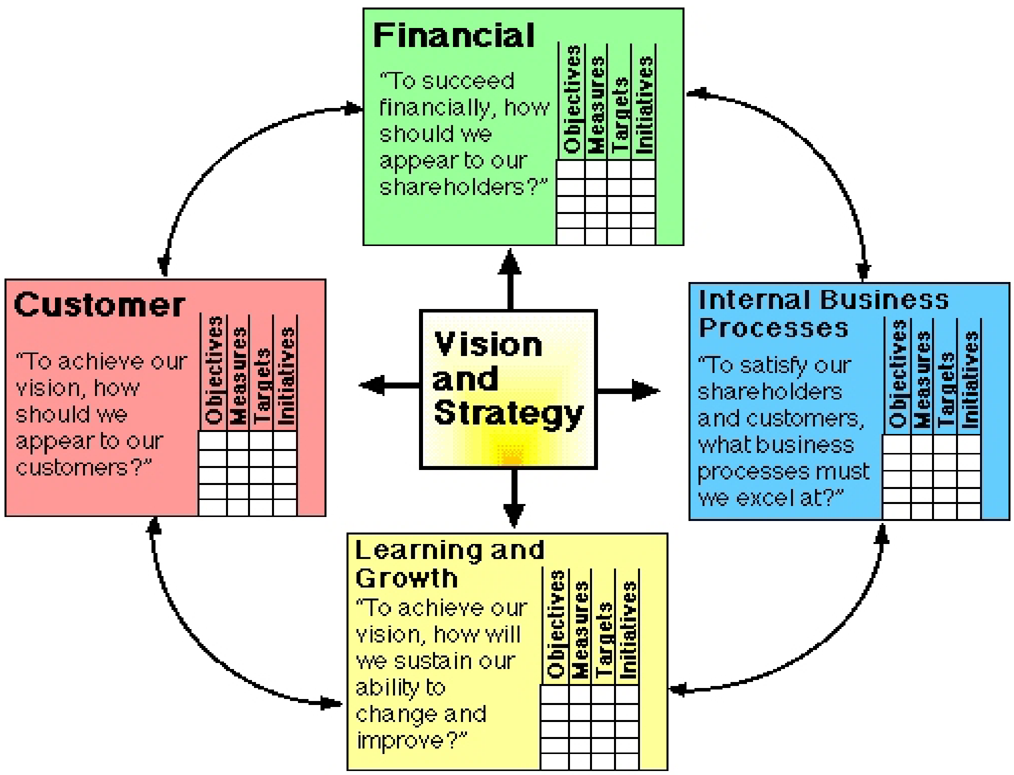
3.8.3 Setting Standards Consistently

According to the research done for the purpose of this paper, there are six elements which are important to the consistency of the measurement of standards, namely: quantity, quality, timeliness, cost effectiveness, need for supervision and interpersonal impact.

These will be discussed briefly:

- quality: Defined as the degree to which a process or a result can be seen as perfect. Compared to a set of standards or compared to the ideal way of performing the activity or fulfilling the activity's purpose,
- quantity: The goal or objective of the work group must be set at a certain measurement variable. Therefore the goal is used as an achievement and the group is measured against that on a periodic basis,
- timeliness*:* The degree of completeness of a certain activity, at the earliest desired time. The outcome of the earlier completion of one activity creates the opportunity to maximize the available time for other activities,
- cost effectiveness: Achieving the highest possible gain or reduction in possible loss in business units. This can be achieved by utilising the organisational resources (human, financial, technological, material) to their maximum ability,
- need for supervision: The degree to which an employee can carry out an activity, without requiring assistance or supervision
- interpersonal impact: The degree to which a performer encourages the feelings of motivation, self-esteem, etc. among their co-workers and subordinates (Langdon, 2000: 194; Sherman D Rosin, Donald T. Barnum, 1996: 194).

The Balanced Scorecard's effectiveness as a measurement tool is enhanced when the results are compared to an objective or a preset level of standards. The four perspectives of the Balanced Scorecard Model is utilised for the translation of the strategy and vision of the organisation, as was previously discussed (Frigo, 1996: 11-12).



Balanced Scorecard model

Figure 3.4: Source: Robert S. Kaplan, David P. Norton," Using the Balanced Scorecard as a management system" Harvard business review (1996)

The implementation of the Balanced Scorecard and the standards of measurement allows for strategic control of all relevant aspects in the organisation. The standards and the Balanced Scorecard must be implemented and measured effectively.

3.8.4 Strategic Control

The Balanced Scorecard requires that strategic control points should be determined in conjunction with the setup of key performance areas. Therefore, enabling the effective and efficient gathering of information for the strategic control process within the organisation. There are three characteristics, which are essential for the strategic control points:

- control points should be set for the key activities,
- the selection of the strategic control points must be done carefully, in accordance with the restrictive time requirements, and allowing for corrective procedures in due time,
- a focus on the quantifiable and non-quantifiable strategic control points, allows for a healthy balance (Thompson & Strikland, 2003: 390-391).

Strategic control points are a focus of strategic management and the relevant activities implemented to obtain the objectives of the organisation. Due to the Balanced Scorecard being a strategic performance management tool, the Balanced Scorecard has an important role in the measuring and controlling of the strategic performance measurement. This function will lead to maximization of the objectives to be attained (Thompson & Strikland, 2003: 390-391).

Together with the control systems there must be supportive policies and procedures in place. This ensures order to minimize the impact of changes on the organisational internal environment. Due to employees exhibiting some degree of stress due to change, the policies and procedures must be designed to eliminate or at least alleviate the stress factors. The reallocation of resources due to strategic changes must be handled with great care, especially when it influences human resources as such (Thompson & Strickland, 2003:390 – 392).

The Balanced Scorecard affords top management strategic control of the organisation. This is achieved by monitoring individual to business unit performance against the strategy. The focus of the Scorecard is key performance areas that will ensure the attainment of the objectives for each individual and business unit.

3.9 Summary

The Internal Auditing function has evolved significantly over the past decade. From a financially orientated function the Internal Auditing function evolved to the current definition of fulfilling an operational and a value adding role.

The aspects of strategy, performance, and standards were discussed in order to understand the enhancement of the strategic role of the Internal Auditor by using the Balanced Scorecard. The Balanced Scorecard can assist the Internal Auditor in evaluating the performance of the organisation from a strategic performance measurement perspective. Allowing the enhancement of the strategic role of Internal Auditing function.

In Chapter 4, the environment that needs to be set within the organisation in order to ensure the success of the Balanced Scorecard will be discussed. The prerequisites that need to be in place in order to create the effective environment will be reviewed. Firstly, the strategy of the organisation must be evaluated to ensure that the goals and objectives are correct. Thereafter organisational structure, departments and culture must be aligned to the strategy. This is important, as the cascading of the Balanced Scorecard cannot take place if this alignment is not completed.

Chapter 4

Organisational alignment for the Balanced Scorecard implementation

4.1 Introduction

The Balanced Scorecard is a strategy-focused approach to performance management. The Balanced Scorecard includes both financial and non-financial performance measures. The Balanced Scorecard can only be effectively utilised when certain aspects of the organisation is aligned to it. The aspects to be aligned are the strategy of the organisation, the human resources as deployed within an organisation, corporate structure and organisational culture. This creates an aligned environment suitable for the implementation of the Balanced Scorecard. The alignment of the aspects within the organisation with the Balanced Scorecard will set the stage for the successful implementation of the Balanced Scorecard. The successful implementation of the Balanced Scorecard allows the enhancement of the strategic role of the Internal Auditor.

4.2 Set the stage for the Balanced Scorecard

To set the stage for the Balanced Scorecard, certain aspects need to be addressed:

- the current organisational strategy must be evaluated,

- organisational structures and relevant departments or functions should be aligned with this strategy,
- aligning the strategy and culture of the organisation.

If all the above-mentioned aspects have been completed and implemented, the Balanced Scorecard can be introduced to effectively measure the correct organisational performance aspects (Norton & Kaplan:2000:8-14).

4.2.1 Strategy evaluation

The strategy evaluation process involves a number of steps that need to be fully understood before organisation-alignment is implemented. This is a prerequisite for implementation of the Balanced Scorecard (Thompson & Strickland, 2003:329).

The steps for evaluating organisational strategy entail the following:

1. identify the current corporate strategy. This needs to be done whether the company is pursuing related or unrelated diversification, the nature and reason for any acquisition that had taken place, and the future company that management is trying to create,
2. applying the Industry Attractiveness Test. This is done by evaluating the long-term attractiveness of each industry that the company operates in, and the attractiveness of all the industries as a group,

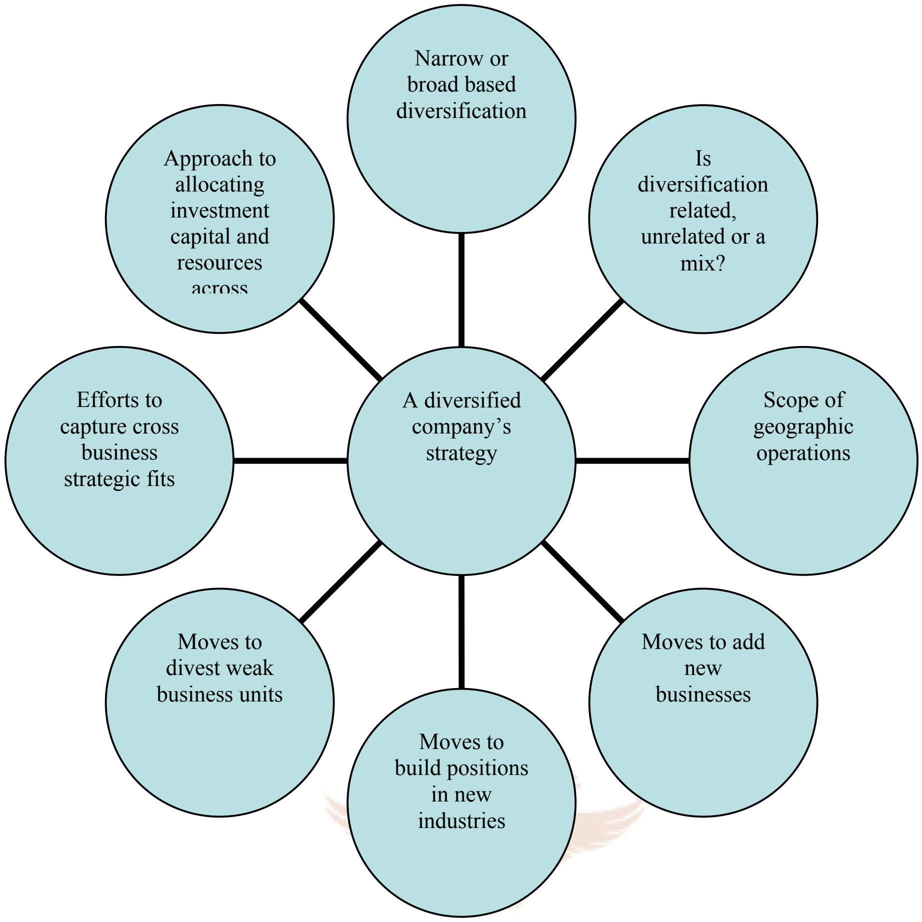


Figure 4.1: Identifying an organisational strategy (Source: Thompson, A.A., Strickland, A.J., 2003: 331)

3. applying the Competitive Strength Test. Evaluating the competitive strength of the company's business units, in order to evaluate which ones are the strong contenders in their respective industries,
4. applying the Strategic Fit Test. This step is to determine the competitive advantage potential of cross-business value chain relationships, and the related strategic fits among the respective business units of the company;
5. applying the Resource Fit Test. Determining whether the resource strengths match the resource requirements of the current business,

6. ranking the business. This incorporates both the analysing of historical performance and future prospects of every business,
7. ranking the business units in terms of priority for resource allocation. Determining whether the strategic structure for the relevant business units should be aggressive expansion, fortify and defend, overhaul and reposition, or the harvest / divest option. Business level managers are responsible for the business unit level strategy cultivation (with corporate managers only having suggestive and final selection authority), in order to increase the competitive advantage as a whole,
8. crafting new strategies aimed to improve the overall performance of the organisation. Altering the makeup of the organisation whether it is due to acquisitions or divestitures is done to improve the knowledge sharing or cost sharing between the units and departments. This allows the company to utilise human skill and knowledge resources in areas of greatest opportunities (Thompson & Strickland, 2003:330).

The Balanced Scorecard is a strategy focused performance measurement tool. Therefore, the evaluation of the strategy is imperative for the successful implementation of the Balanced Scorecard. Strategy differs from one organisation to the next. Ultimately, a good understanding of the strategy is important for the correct implementation of the Balanced Scorecard (Frigo, 2003:14-16).

A good understanding of the Strategy of the organisation is imperative to ensure correct correlation of the related business units to the Balanced Scorecard through alignment. This will allow the Balanced Scorecard to strategically measure and enhance the performance of the aligned departments of the organisation, such as the Internal Auditing function.

4.2.2 Aligning aspects

Alignment is a concept that is grounded as much in the world of change management as in the traditional domains of finance, accounting and Internal Auditing. Simply put, it asks what specific and unique values internal audit's customers, or stakeholders, seek to emphasize. Once those values are identified, it helps to correlate the environment for the implementation of the Balanced Scorecard. In order to prioritise their values the gaps in the delivery process needs to be evaluated, and the changes that might be needed to fulfil stakeholders' expectations (Norton & Kaplan, 2000:8-10).

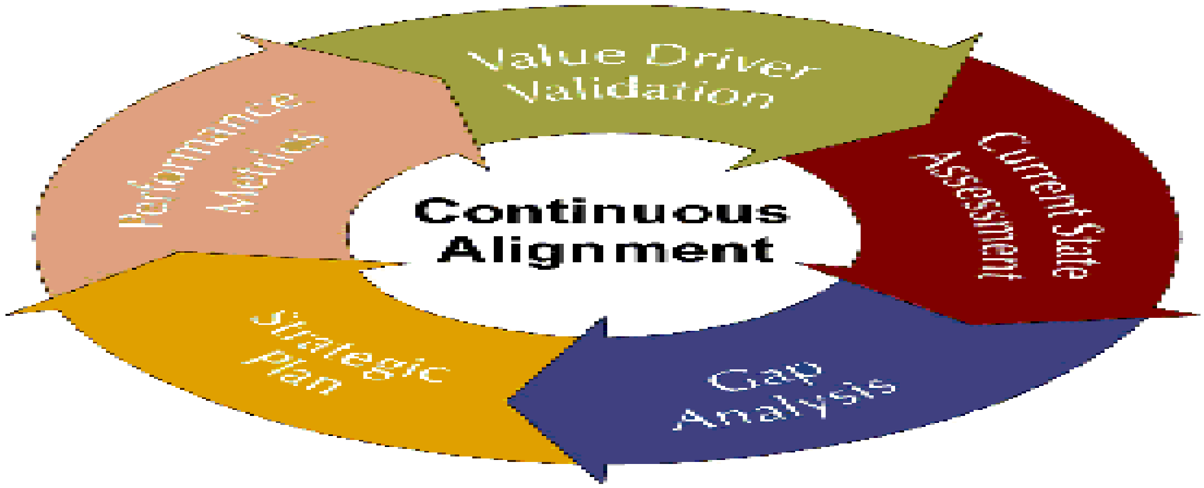


Figure 4.2: Alignment Process steps. PricewaterhouseCoopers (2003)

Continuous alignment also recognises that the values, which the Internal Auditing function's customers or shareholders want to emphasise, are never static. The demands of the Internal Auditing function can change as quickly and dramatically as do other aspects of the business. That is why Internal Auditing constantly reviews and evaluates stakeholders' value drivers and their priorities. Other aspects to look at are the skills and tools needed to deliver them, and ways to improve the process. As mentioned earlier in the paper, the main customer for which the Internal Auditing function provides a service is top management (Norton & Kaplan, 1996: 8-10).

In order to implement a strategy correctly one must start by involving the people who must execute it. In an ideal world everybody in the organisation would understand the strategy. The individuals would grasp how their actions benefit the process of achieving the ultimate objective. The alignment of an organisation to a shared goal, vision and common direction, is not be a simple process.

Therefore, great care must be taken in the planning and implementation process. Various interrelated mechanisms are utilised to translate the strategy via the Balanced Scorecard into the related objectives and measures. Three distinct mechanisms are used for this function:

- communication and education programs. All employees and stakeholders must have a firm grasp of the new or improved strategy and changes relating to the strategy. A continuous program to educate the organisation on the changing strategy, as well as educating with correct feedback on performance is of high importance. The Balanced Scorecard implementation and operations must be communicated to each individual;
- goal setting programs. Once a base level of understanding has been established, individuals and teams must translate the higher strategy into smaller targets and personal objectives. This is the area where the Balanced Scorecard assists to translate the strategy into actual performance standard;
- reward system linkage. Alignment of the organisation to the strategy must be motivated by an incentive and reward system. This process must be approached carefully and only after the education programs have been completed. Various organisations link their incentive schemes to the Balanced Scorecard approach in order to measure the performance accurately (Norton & Kaplan, 2000: 8-10).

Certain conditions create a positive atmosphere for the changing environment needed for the correct alignment of the organisational structures and culture. This is a necessity as it increases the adaptability of the organisation as a whole. This in turn will be suitable for the implementation of the Balanced Scorecard as a strategic performance measurement tool (Norton & Kaplan, 2000: 10-14).

Next a discussion follows of crucial aspects that have to be aligned to ensure the success of the Balanced Scorecard and Internal Auditing function. These are the Human Resource Department, Corporate Structure and Corporate Governance and lastly, Culture and strategy. By now it should be clear that the Balanced Scorecard and Internal Auditing function are united to form a strategic fit that drives strategy throughout the company. The benefits of combining this function and the measurement tool create powerful synergies for the organisation.

4.2.2.1 Human Resources

Integrating business strategy with the human resource function of the business is a high priority for the organisation. Greater competitive advantage has shifted the focus onto the utilisation of the resources more effectively. The process of managing human resources within the organisation is complex. Therefore the aligning of the human resource function has been divided into three categories: aligning people with the business, linking human resource management with the business strategy and repositioning the human resources of the organisation.

Aligning people with the needs of the organisation will reflect the numerous avenues of work in the Human Resource Management. Firstly it reflects the work of Lawler, Cohen, and Chang (1994) who focused on the process that the organisations use in order to identify their business priorities, and then craft the human resource programs and procedures accordingly (Joubert,2001:41).

Wright and McCahan (1992) define these activities of linking human resource management with the goals and needs of the business, as strategic human resource management. The needs of the business are generated from internal (internal business processes) and external environmental (shareholders and customers) conditions (Lawler et al., 1994). The strategy of the business reflects the needs, desires and discussions of the management as to the direction of the organisation (Baird and Meshoulam, 1988). This pre-mentioned point has been extended by Schuler (1992) who developed the five principles of strategic human resource management. Within this model there are certain linking points between the strategy and the human resource management activities that need to be aligned in order to be effective in the overall process (Kotter, 1990: 10-30).

These linking points are: human resources philosophy (vision), human resources policies, human resources practices, human resources programs and human resources processes. Importance aspects in the alignment process are the following:

- establishing direction: developing a vision, along with setting the strategies for producing the changes needed to achieve that vision,
- aligning people: communicating the change of direction to those that are influenced, in order to explain the vision and to increase the commitment of the employees,
- motivating and inspiring: Keeping people moving and working in the correct direction, by appealing to very basic but sometimes untapped human needs, values and emotions (Kotter, 1990:10-30).

The Internal Audit function will implement the Balanced Scorecard in partnership with the human resource function. It is therefore imperative that both these departments are closely apprised of the corporate strategy. More over each department has to grasp how each business unit is to implement the Balanced Scorecard down the level of each individual. Failure in the alignment chain between the corporate strategy, the Internal Auditing function and the human resource department will doom this process to failure at the outset.

4.2.2.2 Corporate Structure

It should be self-evident that the corporate structure must be aligned to the strategy of the organisation. This is however not always done in a changing environment. Strategic alignment leads to satisfaction of shareholders, customers, and employees, because each business unit achieves that which top management set out for it to achieve. The above three stakeholder groups are the main influencers of a suitable corporate strategy. Considerable knowledge must be present in the structures, policies, systems, and practices for the different environments and strategies of the organisation. This will influence the relevant phases within a company's growth and development process over time (Ferris, Rosan, Barnum, 1996: 117-119).

Alignment of the corporate structures assists in maintaining the original ideas and beliefs of the organisation during times of growth and expansion. The knowledge of the realignment process is as important as knowledge about the pattern of the organisation and management. Achieving the alignment process of the organisation requires the attainment of the following objectives:

- define a strategic direction that is relevant and takes the realities of the competitive environment and human capabilities into account,
- ensure that all the elements of the organisation's design are consistent with the strategy,
- develop the human capabilities to fit into the new environment. The specific points are such as the level of motivation, skills and teamwork, required to implement the strategy and thus meet stakeholder needs,
- accurately sense and appraise the needs of the stakeholders, which have not been met, as well as the environmental threats and opportunities before a crisis occurs (Ferris, Rosan, Barnum, 1996: 125-127).

Corporate structure alignment with the Balanced Scorecard allows for organisational adaptation, which is very important for the ultimate goal of creating competitive advantage. Companies need to be able to constantly and continually adapt and change according to the competitive advantage modifications. Therefore, firms must constantly move through a cycle of adaptive coping styles (Ferris, Rosan & Barnum, 1996:126).

Information about the external environment must be accurately transmitted to the correct parts of the company. Appropriate, relevant and accurate information about the impact of these external environmental changes enables pre-emptive changes in the corporate structure. The implementation of this decision asks the firm to re-evaluate three steps namely:

1. redefining the strategy,
2. making appropriate changes,
3. technical functions (Ferris, Rosan, Barnum, 1996: 125-128).

The feedback from the stakeholders on their experience of the relevant decision is the response that completes the cycle. This process can be repeated. This method is successful because of the fact that the stakeholders are very involved in the process and this gives various objective perspectives. They should be included in the redesign process. Corporate structure must follow corporate strategy (Ferris, Rosan, Barnum, 1996: 127).

4.2.2.3 Culture and strategy

An organisational culture consists of various complex sets of ideologies, symbols, and core values. These are shared by all the employees and directly influence their business conduct. Culture is defined as a set of important understandings that members or employees have in common, and a set of beliefs that guide them to that, which is right and true. The culture mainly consists of three aspects:

- values: reflects the perceptions of the employee regarding reality and are normative viewpoints in respect to what is right,
- norms: Generally accepted behaviour that is present in a group,
- beliefs: Are the various roles that the employees take on, to the positive interest of their company and fellow employees (De Bruyn, 2003:164).

Culture is directly linked to the strategy, as culture drives strategy. This is because the employees and management of the company is driven by the values, norms and beliefs (culture) that will influence the strategy creation process (De Bruyn, 2003: 164).

The culture is established via a communication process between all the employees and managers. The communication process will sift out the relevant core values and beliefs. This method is implemented over a long period of time and is very time consuming. The communication process consists of formal and informal communication. It is also comprised of the direct and indirect values that are communicated throughout an organisation (De Bruyn, 2003: 168).

Organisational culture and strategy fit is reached when a potential synergy is reached between the culture and the strategy at point of implementation. Managing the organisational fit between culture and strategy is in fact the process of creating a relation between the core factors of the two elements. The key components of the organisation to be adjusted for a new strategy are the structures, systems, management tasks, personnel and the various underlying aspects of the management team (De Bruyn, 2003: 168-170).

The process of managing the relationship between culture and strategy in the organisation is a balancing process between the strategic change needed and the culture to be implemented in the organisational workplace. It can be illustrated as follows:

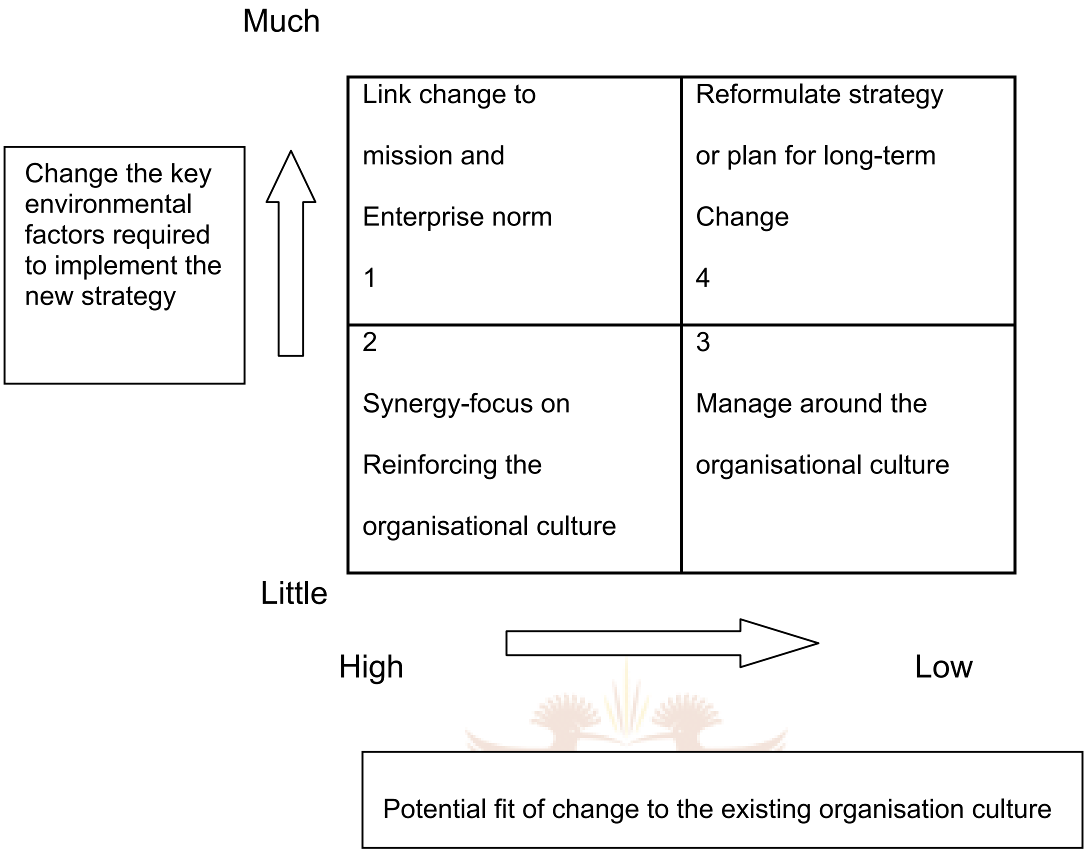


Figure 4.3: Managing the strategy / culture relationship. (Source: De Bruyn, 2003: 170).

Organisations with a culturally strong environment fit in the percentage of the higher performance organisations. This can be established when compared to organisations with weaker culture environments, which are usually associated with lower performing organisations. It was determined that a good fit between culture and strategy (fig. 4.3), can be undermined by a changing environment. Therefore, the strategy must be ever adaptable but still be a good fit with the cultural environment. Only cultures that can adapt to and help anticipate environmental change will be associated with superior performance over the long term (Kotter & Heskett, 1992: 38-44).

The organisation needs to be aligned to the Balanced Scorecard to ensure the success of the performance measurement ability. The success of the implementation of the balanced Scorecard is dependant on the alignment of the organisation. This will ensure the enhancement of the strategic role of the Internal Auditing function in the organisation.

4.3 Characteristics of the successfully implemented Balanced Scorecard, within an aligned environment

The Balanced Scorecard can effectively be implemented and utilised when the organisational strategy and structures are aligned. The alignment of Human Resources, Corporate Structure and Culture and Strategy has been discussed above. One must keep various other aspects in mind whilst implementing the Balanced Scorecard. According to managers and executives, the success rate of the Balanced Scorecard depends on certain characteristics:

- Balanced Scorecard presents clear and consistent messages to all levels,
- Balanced Scorecard reflects reasonable, accurate, and credible numbers,
- Balanced Scorecard is easy to understand,
- Balanced Scorecard provides the employees the ability to connect the Balanced Scorecard to the activities that are performed everyday,

- the combination of numbers, charts and graphs, provide an easy understandable report,
- cycle times, variances, ratios, percent of change, and customer complaints are aspects that are included in the measure of the performance statistics,
- Balanced Scorecard reflects trends by investigating and analysing a history of results (Joubert, 2002:41).

4.4 Summary

The aligned environment of the organisation is a prerequisite for the successful implementation and utilisation of the Balanced Scorecard. The environment in which the Balanced Scorecard is being utilised is an important aspect for the effectiveness thereof. The alignment of Human Resources, Corporate Structure and Culture and Strategy forms the platform from which the Internal Auditor can utilise the Balanced Scorecard as a strategic measurement tool. Only if the Balanced Scorecard is aligned to corporate strategy can the strategic role of the Internal Auditing function drive performance. The more correlated the strategic role environment of the organisation with the strategic needs of the Balanced Scorecard, the greater the strategic role enhancement of the Internal Auditor.

Chapter 5 discusses the enhancement of the strategic role of the Internal Auditing function. This illustrates the connection between the top organisational management and the Internal Auditing function. Guidelines for the enhancement of the strategic role of the Internal Auditor via the incorporation of the Balanced Scorecard as a framework for action are illustrated. There are three main aspects of the Internal Auditing function that stand out as important, which is independence, assurance function and consulting.

Chapter 5

Enhancing the Strategic role of the Internal Auditing function

5.1 Introduction

The important aspect that will be addressed in this Chapter is the link between the Internal Auditing function and the Balanced Scorecard. This link will ensure the strategic role enhancement of the Internal Auditing function within the organisation. This function can only be successfully achieved by ensuring an established relationship between top management, the Internal Auditing function and the Balanced Scorecard. The designed model will illustrate the above.

A brief synopsis of the discussion in previous chapters is noted here to highlight the main themes discussed previously. Chapter 2 discussed the Internal Auditing function. It was noted that the definition of the function evolved. The most recent definition highlights three focal areas, independence, assurance and a consulting function. This revised definition forces the Internal Auditing function to move away from the financial orientated focus, and more towards risk based auditing and a consulting function.

Chapter 3 discussed the Balanced Scorecard and various aspects related thereto. The benefits of implementing the Balanced Scorecard are noted. The

Balanced Scorecard translates the organisation's strategy into four perspectives namely, financial, customer, internal business processes and innovation and growth.

The current operating environment was briefly discussed to ensure that the organisation takes these factors into consideration when implementing the Balanced Scorecard. The discussion noted a few important changes experienced in recent years in the operating environment. Performance within the organisation was briefly discussed. It was noted that it is imperative to have knowledge of the different levels of performance, being at business unit, core processes, individuals and their jobs and workgroups.

Organisational strategy was covered. The Balanced Scorecard has evolved to align the organisation's activities with its strategy. To maximise the utilisation of the Balanced Scorecard within the organisation it must be linked to the strategy and objectives of the organisation. The Balanced Scorecard assists in the strategy making process by helping management translate the strategy into various strategic objectives.

The importance of standards in the performance measurement of business units was noted. The implementation of the Balanced Scorecard and the standards of measurement allows for strategic control of all relevant aspects in the organisation.

The aspects of strategy, performance, and standards were discussed in order to understand the enhancement of the strategic role of the Internal Auditor by using the Balanced Scorecard. The Balanced Scorecard can assist the Internal Auditing function in evaluating the performance of the organisation from a strategic performance measurement perspective.

5.2 The relationship between management and the Internal Auditing function

Top management's expectations govern the relationship between the Internal Auditing function and top management. The expectations of top management create the organisation's value system. This in turn is the value system by which the behaviour of various business units, especially Internal Auditing, is judged. The three types of management expectations are functional, personal, and other. Though, in this paper the focus will be on the function of Internal Auditing rather than on the individual Internal Auditor (Rickard, 1994: 30).

Functional management expectations can be summarised as:

- to serve as an arm of top management,
- determine how the management instructions are implemented in the departments,
- reporting aspects of importance only,

- divulge the true state of the organisation,
- cover the broad scope of the Internal Auditing function (Rickard, 1994:30).

The relationship between the organisation's top management and the Internal Auditing function is important. This relationship is built on the defined function of the activities that the Internal Auditor performs within the organisation. The definition of the Internal Auditing function adapts to the changing business environment. This allows the Internal Auditing function to satisfy the needs of the organisation. It will have a direct effect on the relationship between the two parties.

The following definition reaffirms the revised definition of the role of the Internal Auditor: "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations"(McCall, 2003: 32)

Examining the changing definition of the Internal Auditing function, the relationship with management becomes clearer:

- the term "internal" makes it clear that the auditing function is carried out by the organisation and by its own employees,
- the term "independent" characterises the audit work as being free of those restrictions that at a later stage could significantly limit the scope and effectiveness of the review,

- the term “appraisal” confirms the evaluation that the auditor will carry out in order to reach a suitable and accurate conclusions,
- the term “established” confirms the fact of the creation of a constant system by the organisation implementing the Internal Auditing role,
- the terms “examine and evaluate” describe the action of Internal Auditors where they find the facts and data, and evaluate the information and data,
- the words “its activities” confirm that the activities that the auditors perform fall into a wide range, within the scope of the organisation,
- the term “service” identifies help and assistance that the auditors can render to the organisation as a whole,
- the term “to the organisation” confirms the total service scope is totally and wholly focused on the organisation (corporate personnel, boards of directors, and stockholders) (Brink & Witt, 1982:4).

The definition defines the Internal Auditing function as having a consulting and objective assurance function in the organisation. This will guide the Internal Auditing function to be more strategically inclined in performing a consulting role to management.

The activities of the Internal Auditing function assist the organisation to accomplish its objectives. This is achieved by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, consultancy and governance processes (McCall, 2003: 32).

Internal Auditing is therefore an integral part of an organisation and totally involved in all its activities. In fact, the scope of the Internal Auditor should encompass the examination and evaluation of the adequacies and the effectiveness of the organisation as a whole. In the case of the operational audit it should focus on the performance of the organisation (Sawyer & Vinten, 1996: appendix).

Internal Auditing is a method of control. It functions by measuring and evaluating the effectiveness of various other controls within the organisation. The Internal Auditing function is itself only one of many types of controlling methods used. The Internal Audit department must be managed, as a project based function. Internal Auditors must plan, organise, staff, direct, lead and control the project and the relevant functions linked to their work. Internal Audit functions form part of the management activity within an organisation (Chambers, Selim, Vintem, 1987: 52; Brink & Witt, 1982: 4).

Internal Auditing is an evolving field that reflects a broad spectrum of types of operational activity and levels of coverage. In some organisations the Internal Auditing function used to be a formal financial activity and in others a very routine compliance task. The new role of the Internal Auditing function requires a relationship with the audit committee and top management. The scope of the

Internal Auditing function covers the whole spectrum from operational to strategic management (Brink & Witt, 1982:6).

Over time the changing definition and function of the Internal Auditor has altered the relationship between the Internal Auditor and organisational management due to the more strategic role that the Internal Auditor plays in the modern day organisation.

5.3 Operations between management and the Internal Auditing function

The development and the implementation of the corporate strategy have been considered to be the responsibility of senior executives. Corporate structure is an increasingly important aspect in the strategic management process. Corporate structure is the relationship between internal units (D Bruyn, 2003:189).

The information that is handed to the management will convey the results of internal audit reviews. Internal Audit Reports can be formal or informal. Results report on the controls and performance measurements within the organisation. The Internal Auditing function acts as top management's follow up system and the rational thinker. The Internal Auditing function is able to produce accurate and reliable information. Therefore, performance and other aspects can be measured against benchmarks or objectives (Sawyer & Vinten, 1996:10).

Management is independent of the function of ownership. Their priority is to work via others to achieve the organisational goals and objectives in an ever-changing environment. Central to this is the effective and efficient use of valuable information from the Internal Auditing function (Sawyer & Vinten, 1996:10).

The Internal Auditor upholds the three E's of this function, whether it is management, operational, or financial, in nature these are:

- economy, which means doing things at low cost,
- efficiency, which means doing things right,
- and effectiveness, that relates to doing the correct things (Sawyer & Vinten, 2003:65-66).

An effective measure of the internal audit performance is the ability to provide useful information to management for effective strategic planning and decision-making ability (Rickard, 1994:30-34).

It is important for the relationship and operations between the Internal Auditing function and management to be healthy. This allows for the alignment of the organisation to the corporate strategy, departments to the Balanced Scorecard and the Internal Auditing function to management. The Internal Auditing function can take a more active strategic role in the organisation. This can be attained through consulting, the objective assurance function and independency.

5.4 Enhancing the strategic role of the Internal Auditor using the Balanced Scorecard as a framework

The strategic role of the Internal Auditing function in the organisation can be enhanced via utilising the Balanced Scorecard as a model

Internal Auditing is the function for appraising and assisting the information flow from point A to point B. The Internal Auditing function must revise and analyse the information to ensure that it is consistent and relevant. This creates a system of quality and completeness. The Internal Auditing function plays a part in the larger systems control of the organisation. Internal Auditing is part of the internal control system. However, it is not just a monitoring process. The Internal Auditing function has now become an active aspect at management level (Chambers, Selim, Vinten, 2003:53; Naggy & Cenker, 2002:130-135; Flescher & Zanzig, 2000:130-137).

.

There are various auditing functions in an organisation. Not all Internal Auditing functions are linked to accounting activities. Internal Auditing has become part of a more strategic function in the organisation. According to the King Report (Summary of 2000:14), investors and stakeholders are seeking a future orientated reporting structure. This requires information at a glance so that companies can be measured against defined goals and objectives. Company information should enable investors to deduce whether a company has the capability to produce sustainable success (Joubert, 2002: 41; King Report - summary, 2000: 14).

The organisational reporting structure will have an enormous effect on the setting of objectives, targets and performance measures. Corporate strategy and structure must be aligned to a specific framework to allow for a directed approach. The Balanced Scorecard ensures institutional performance management discipline. The implementation approach requires an intensive strategic planning process (collect, create, cultivate, cascade, connect, confirm), which is usually cascaded through the various management layers (Joubert, 2002: 41).

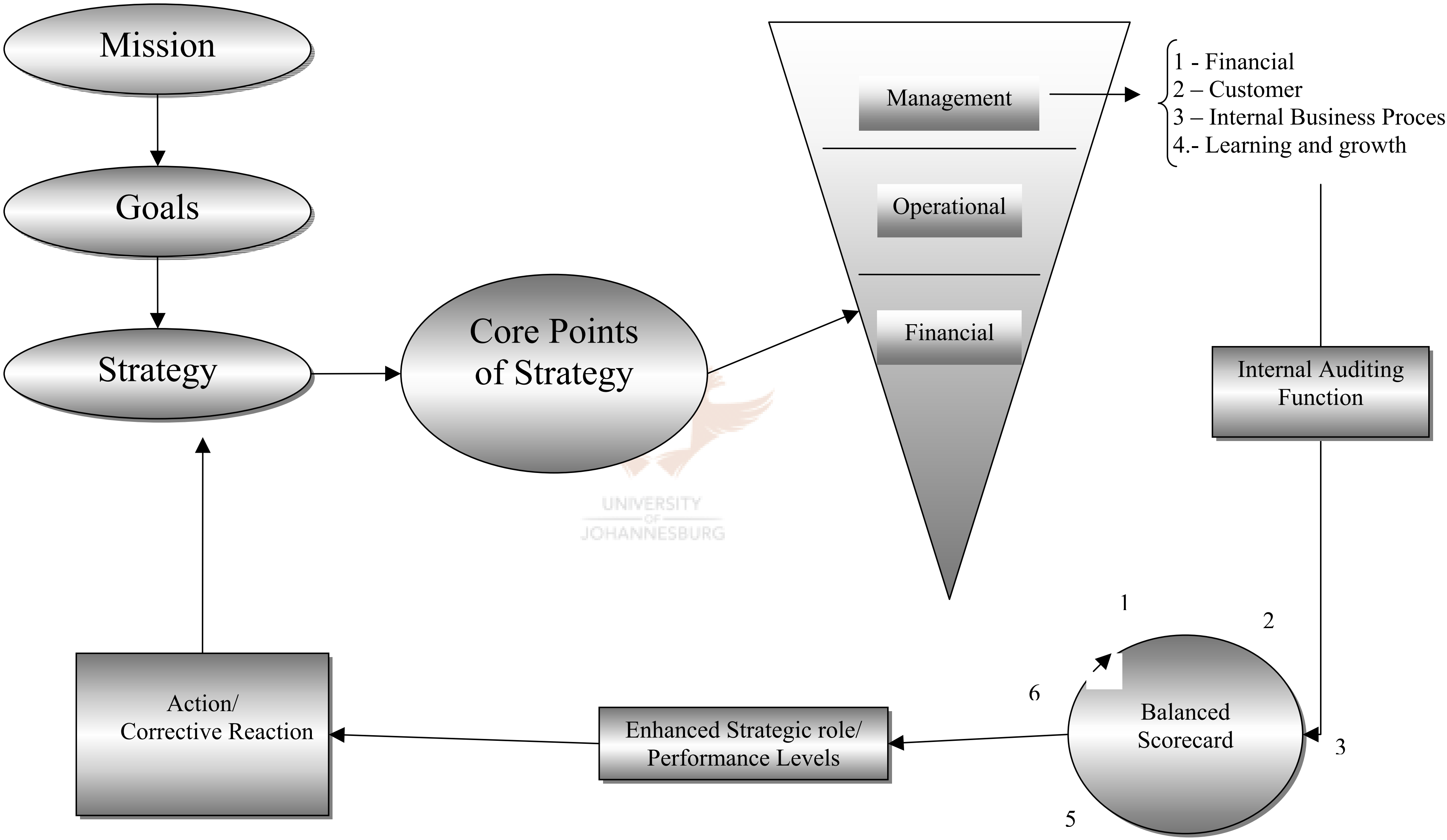
The Balanced Scorecard is a multi-disciplinary measurement tool, compared to the traditional single disciplinary frame of thought of the manager. It must therefore be implemented in an aligned culture that is compatible with the process. According to research that was collected internationally, 61% of the top 1000 companies in the world are implementing the Balanced Scorecard (Joubert, 2002: 41).

The introduction of the Balanced Scorecard into the South African corporate environment is very important to conform to global corporate best practice and the will of the investor. In order to become or maintain the competitive advantage in the market, a company must focus on the development and the leveraging of intellectual and human capital for innovation, which is an important aspect of the Balanced Scorecard (Joubert, 2002: 41).

Measurement systems attempt to determine human behaviour. This is achieved by gathering and evaluating information on the activities of individuals and groups within the company itself. Measurement assists management to monitor performance and objective attainment. Performance measurements can be done via the implementation of the Balanced Scorecard model. The King commission verifies this outcome based on research pointing to stakeholders seeking future orientated methods of management (Kotter, Schlesinger & Sathe, 1979:9-10; King, 2002: 14 – 17).

The Internal Auditing function is used as a method to enhance strategic objectives from business unit level through to individuals. The Balanced Scorecard model is the foundation for involving the Internal Audit function in the strategic objectives of the entire organisation. It provides a management tool to top management. The Internal Auditing function conducts the implementation of the model and ensures accurate reporting of the results. This process enhances the goals and objectives of the organisation (Dittenhofer, 2001: 443-445).

5.4.1. Model for the enhancement of the strategic role of the Internal Auditing function in the organisational structure (fig 5.1):


Mission
Goals
Strategy
Core Points of Strategy
Management
Operational
Financial
1 - Financial
2 – Customer
3 – Internal Business Proces
4.- Learning and growth
Internal Auditing Function
1
2
3
5
6
Balanced Scorecard
Enhanced Strategic role/ Performance Levels
Action/ Corrective Reaction

The model is a schematic representation of the process to enhance the strategic role that the Internal Auditing function plays in the organisation via the utilisation of the Balanced Scorecard. The flow chart illustrates the steps surrounding the Balanced Scorecard and includes the following:

1. Mission,
2. Goals,
3. Strategy,
4. Core points of the organisational strategy,
5. Aligning types of Internal Auditing with the Balanced Scorecard,
6. Different perspectives of the Balanced Scorecard,
7. Internal Auditing function defined (Independence, assurance function and consulting),
8. Implementation of the Balanced Scorecard model,
9. Action or corrective reaction.

These points are briefly discussed below:

1. Mission

The mission of the organisation is the guiding light that determines all actions. It is important for employees and management alike to achieve the mission of the organisation. This is the idea of the existence of the organisation and must be focussed on to ensure profitability and performance (Sawyer, 1990:30).

2. Goals

The goals and objectives are set according to the mission and vision of the organisation. Therefore the goals are the targets that are set in order to attain the mission. The link between the goals, objectives and the strategy must always be kept in mind, as it is a very strong bond (Sawyer, 1990:30).

The basic goals and objectives of the organisation must be identified, as it defines the goals to be accomplished, establishes measures relating to achieving those goals, and finally evaluates the overall Internal Auditing process (Dittenhofer, 2001: 443-444).

3. Strategy

The Balanced Scorecard is first and foremost about strategy. Performance measures in a Balanced Scorecard are logically derived from strategy. The execution of strategy is improved by understanding the strategy of the organisation. This creates the opportunity to link the strategic objectives of the organisation and the performance measures. The strategy gives direction in terms of goals and objectives that are to be attained (Sawyer, 1990:30).

For the strategy to be properly executed, the organisational structure must be aligned with the goals, objectives and action plans of the strategy. The Internal Auditing function must be certain that the auditee has the following aspects in place in order to have the correct organisational alignment for the effective enhancement of the strategic role via the Balanced Scorecard:

- effective degree of decentralisation;
- clear understanding of the function to subordinates;
- balance between span of control and hierarchy;
- effective and relative information;
- correct implementation of the Balanced Scorecard

framework (Sawyer & Vinten, 1996:152-155; Frigo, 2002: 44).

4. Core points of the organisational strategy

The strategy is evaluated and the core strategic points must be highlighted. The organisation must determine performance for each aspect. Increased performance will equal an increase in profits. It would serve no purpose for a strategy to only be a written document that is not much more than an ideal. Any strategy must be translated into actual achievable objectives. These core points must be captured on the Balanced Scorecard and reported on by the Internal Auditing function (Sawyer & Vinten, 1996:152-155).

5. Aligning types of Internal Auditing with the Balanced Scorecard

The various types of Internal Auditing (management, operational and financial) must be evaluated and the audit type best suiting the core points of the strategy must be selected. The current definition of the Internal Auditing function seems to be the most appropriate. The King Report mentions that the organisation requires a future-orientated, independent and systematic evaluation of its activities. The Balanced Scorecard provides this tool. The activities of the

Internal Auditing function are performed for improving organisational profitability. This would increase the attainment of the goals and objectives via the improvement of the performance of the employees and each business unit. This Internal Auditing style will directly link in with the function of the Balanced Scorecard (Chambers, Selim & Vinten, 1994: 77-80; King, 2002: 14 – 17).

The Balanced Scorecard is utilised as the strategic performance alignment tool, ultimately performing the role of strategic performance measurement tool of the organisation. This will allow the Internal Auditing function to report on performance and other non-financial aspects to management. The reports include will include the elements that are reflected in the Balanced Scorecard breaks the organisational strategy into.

6. Different perspectives of the Balanced Scorecard

The strategic objectives and performance measures within the Balanced Scorecard framework are derived from the vision and strategy of the organisation. The Balanced Scorecard represents a strategic performance measurement and management system (Kaplan & Norton, 1996: 10-12).

The Balanced Scorecard framework provides a look at strategy from the four different perspectives namely financial, customer, internal business processes, and learning and growth. The framework of the Balanced Scorecard has been discussed extensively. It is applied to business units, ensuring that activity is aligned with the strategy of the organisation as a whole (Kaplan & Norton, 1996: 10)

Recent survey results have shown that most organisations use the Balanced Scorecard framework to align their organisations to their strategy. Four recent trends have impacted on the way performance is measured within the Internal Auditing function:

- Trend 1: the new definition of the Internal Auditing function is more strategic role orientated by being independent, providing an assurance function, and a consulting function,
- Trend 2: the changing expectations of the Internal Auditing function's customers (management, audit committees, etc.),
- Trend 3: the increasing trend of the Internal Auditing function to move towards value-added activities, and
- Trend 4: recent innovation in benchmarking of the Internal Auditing function (Frigo, 2003: 31-35).

Translating the strategic performance changes into operational terms involves the use of a Balanced Scorecard. The Internal Auditing functions can evaluate the organisation according to information broken down via the Scorecard elements, as discussed in the previous Chapters (Frigo, 2003: 31-35).

7. Internal Auditing function defined (Independence, assurance function, consulting)

The Institute of Internal Auditor's definition has evolved during the last few years, to the current definition stating:

> "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish it by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes" (McCall, 2003: 32).

The definition of the Internal Auditor has a number of implications for performance measurement. One section of the definition focuses on the value-added service of Internal Auditing to the management of the organisation. The questions that one must keep in mind are:

- how can Internal Auditors measure the value added?
- what performance measures will help Internal Auditing departments in this imperative to add value in the organisation?
- what performance measures can help to communicate the strategic theme of focusing on value-added services (Frigo, 2002:30-33)?

The Balanced Scorecard helps measure the extent to which performance measures for the Internal Auditing function link to the evaluation of these processes (assurance function, consulting activities, and independence). Performance measures for the Internal Auditing function would focus on strategic performance measures. This allows Internal Auditing activities to more effectively anticipate and react to changing environments. Performance measures of Internal Auditing can be aligned with such critical strategic competencies and the value-adding services that Internal Auditors can provide via the Balanced Scorecard (Frigo, 2002:30-33).

Adding value is a key factor to the success and the survival of the Internal Auditing function. The value imperative takes various forms in different organisations. The performance measures must be used to focus on the strategic role of the Internal Auditing function, and more specific the value added services (Frigo, 2002:33-35).

8. Implementation of the Balanced Scorecard model

The implementation of the Balanced Scorecard entails clarifying strategic goals, cascading down, aligning the organisation to execute the strategy of which goals are a part of. Aligning means that the Internal Auditing function is firmly placed as part of the management, and that the scope of auditing addresses all four Balanced Scorecard objectives.

The implementation of the Balanced Scorecard model is divided into six steps. These steps ensure a successful implementation process. These steps follow the total alignment of the organisation to the Strategy. The Balanced Scorecard must be successfully implemented to ensure that the strategic performance measurement model can enhance the strategic role of the Internal Auditing function.

The steps for implementing the Balanced Scorecard are discussed below:

a. Collect:

- obtain Top-Level Objectives, Measures and Targets,
- identify Customers and Key Requirements,
- define Core Process Chains,
- set up documentation of high-level process flows,
- gather Measurement Data that currently exist,
- plan the Scorecard Development Session and Agenda (Chang & Morgan, 2000:19).

Recommended list of items to collect:

- key requirements of customers,
- company vision, mission, strategic goals, and values,
- company objectives, measures, and targets,
- objectives, measures, and targets of departments,
- high-level core process flow charts, and
- existing measurement data for core business processes (Chang & Morgan, 2000:19).

Outcomes:

- a visual aspect of your customer- supplier process chain,
- a relevant flow chart of core processes,
- relevant inputs and agenda for development sessions (Chang & Morgan, 2000:19).

b. Create:

- review the Balanced Scorecard development planning inputs,
- define the key result areas,
- relate the business objectives to the key result areas,
- brainstorm on potential measures,
- select the key indicators for your Balanced Scorecard,
- define the Key Indicators,
- develop action plans for compiling and reviewing the key indicators (Chang & Morgan, 2000:39).

Outcomes:

- the team sets objectives,

- scorecard measures is linked to the corporate goals, business objectives, and customer requirements,
- action plans are put in place to develop measures (Chang & Morgan, 2000:39).

c. Cultivate:

- gather, display, and analyze historical data,
- the process of conducting performance reviews,
- determine appropriate targets,
- develop action plans to enhance improvement,
- strengthen the horizontal and vertical linkages (Chang & Morgan, 2000:39).

Outcomes:

- the performance reviews are shorter and more effective,
- the targets for the Balanced Scorecard measures are more appropriate and challenging,
- the improvement actions are more specific and measurable,
- stronger links to the Balanced Scorecards (Chang & Morgan, 2000:39).

d. Cascade:

- determine the Balanced Scorecard measures for the next level in the cascade,
- verify the process that the cascade measures are at the appropriate levels,
- establish and affirm linkages and alignments,
- clarify the targets,
- the establishment of the summary measures as the need arises,
- refine the steps for the gathering, reporting, and reviewing of the results (Chang & Morgan, 2000:77).

Outcomes:

- a Balanced and linked set of scorecard measures,
- each level of accountability needs to have an appropriate feedback measure,
- Balanced Scorecard must first be implemented at top management level,
- this is important to ensure that the support and commitment of top management is firm,

- it is then cascaded throughout the organisation (Rohm, 2003: 4; Chang & Morgan, 2000: 77).

e. Connect:

- review the performance management process,
- develop an individual performance plan,
- conduct coaching sessions where applicable,
- provide evaluation summaries,
- review the links and outcomes of the process (Chang & Morgan, 2000:109).

Outcomes:

- individual contributions are linked to Balanced Scorecard outcomes and business results,
- the refinement and adjustment points of the Balanced Scorecard become known (Chang & Morgan, 2000:109).

f. Confirm:

- evaluate the Balanced Scorecard,
- improvements should be prioritised and acted upon,
- identify and resolve the applicable measurement issues,
- establish a continual process to refine the Balanced Scorecard (Chang & Morgan, 2000:129).

Outcomes:

- assessment of the Balanced Scorecard,
- plans and strategies for the improvement of the Balanced Scorecard,
- improve the Balanced Scorecard (Chambers, Selim & Vinten, 1981:78; Sawyer & Vinten, 1996: 145 – 157; Kaplan & Norton, 1996: 9).

The Six steps of the implementation of the Balanced Scorecard, as discussed above, should be regarded as a firm guideline for the implementation in the organisation. The Balanced Scorecard can play a vital role in the attaining the value-adding function of the Internal Auditor. This is achieved by providing a method for reporting, developing, monitoring, and executing the specific strategic objectives within the organisation. Following the course of action can attain the characteristics of the Balanced Scorecard to attain the objective of enhancing the strategic role of the Internal Auditor: The Internal Auditing function is able to consult to management by utilising the Balanced Scorecard as the aligning and performance management tool of the organisation. The aspects to be kept in mind while enhancing the strategic role that the Internal Auditing function:

- performance measures are driven by mission, vision, and strategy,
- cause and effect linkages,
- linkages to outcome performance measures,
- unique/customized to an Internal Auditing function (Frigo, 2002:43-45).

Tracking and measuring performance regularly will ensure performance enhancement. The Internal Auditing function will therefore be able to satisfy the increased scrutiny and more demanding expectations of stakeholders(PricewaterhouseCoopers, 2003: 2).

The Balanced Scorecard is an effective means to measure value. This is because it goes well beyond numbers to examine important, broad-based activities. With a Balanced Scorecard, for example, a detailed set of objectives and strategic activities can be measured on an ongoing basis. The Balanced Scorecard can illustrate the linkages between incentive compensation and individual performance (PricewaterhouseCoopers, 2003: 2).

9. Action or corrective reaction

The result of any decision must be an action. The resultant Internal Auditing function report identifies problems and recommended actions for solving these. Performance remains the point of focus. This is the strategy and objective related aspects that had been set out by management level of the organisation (Sawyer & Vinten, 1996: 151-152).

The major advantages most executives seek from today's Internal Auditing function are:

- it should be an effective tool for management to use in monitoring operating efficiency and compliance with company policy,
- it should be intended to be unbiased and independent, free from the subjective opinions of managers Thus it generally results in

factual and objective evaluations of the relevant operations. It must be adaptive to the changing business environment via the reporting on the Balanced Scorecard measurement of the organisation,

- at the same time, it must increase the confidence that the management has in the reported performance of operating units by expanding the scope and substance of the financial audit work performed by Internal Auditors,
- it should function as a tool for evaluating all facets of the organisation, including data processing, sales, marketing, production, and so forth,
- many top management members now consider the Internal Audit area the best and least costly training ground for potential high-level executives. This view is enhanced by the fact that cost savings uncovered during the various audit projects substantially offset the cost spent on training within the internal audit function (Hamilton, 1984: 3).

The model discussed above will enhance the consulting and value objective function of the Internal Auditing function within the organisation. The brief steps noted above form an integral part of the successful implementation of the Balanced Scorecard in the organisation.

5.4.2 Linking Internal Auditing function to the Balanced Scorecard

Implementation of the Balanced Scorecard via the Internal Auditing function is based on the premise that key performance measures can help Internal Auditing execute functional strategy and communicate the strategy throughout the organisation (Frigo, 2002:43).

The Balanced Scorecard integrates the various goals of the organisation on the different levels, and this gives the Internal Auditor the ability to monitor the total achievement. The Balanced Scorecard gives the Internal Auditing function the ability to play a strategic role in the organisation as a whole (Frigo, 2002:43).

If correctly implemented, the Balanced Scorecard can help the company decentralise and empower line managers. When the Balanced Scorecard is incorrectly implemented, it has the potential to become a problem of over-centralisation (Gering & Rosmarin, 2002:23).

The Balanced Scorecard should be used to empower the organisation. Unpacking the organisation's financial targets can attain this. The Scorecard creates an understandable dialogue regarding the strategy and the course to achieve these goals. The strategy becomes transparent, and reduces the risk of delegation, as the employees understand and are knowledgeable of what is expected from them. The non-financial indicators provide a method to check whether the targets have been attained correctly or via manipulation of financial statements (Gering & Rosmarin, 2002: 23).

The Balanced Scorecard compliments the financial indicators, which acts as a good supplement to the lag indicators for the financial success with the non-financial lead indicators. The action of driving the Balanced Scorecard down to the level where profit and loss occurs has the greatest impact. The Balanced Scorecard does not allow the manager to become distracted or unfocussed, as it forces the manager to focus on key performance areas (Gering & Rosmarin, 2002: 23).

The positive aspect of developing a Balanced Scorecard as a framework for the enhancement of the strategic role of the Internal Auditor is that this process can improve departmental strategic performance measures. The Internal Auditing function can report the performance and strategic aspects to top management. This allows the Internal Auditing function to satisfy its consulting function in the organisation. This also allows the Internal Auditing function to focus on both financial and non-financial aspects of the organisation. It may be achieved through utilising the four measures of the Balanced Scorecard model (Frigo, 2002:43-44).

The Internal Auditor can make use of all the values, goals and objectives to appraise the organisation and to be able to measure the performance of the department in question (Sawyer & Vinten, 1996: 193-195).

5.5 Conclusion

The Internal Auditing function can be a strategic part of the operational aspects of the organisation. The Balanced Scorecard is being utilised as the framework for the Internal Auditor's strategic role enhancement activities. This forces the Internal Auditor to perform the operational activities due to it being a strategic performance measurement tool (Frigo, 2002: 55-57).

The Internal Auditing function attains the defined objective through reporting and consulting to management. This is performed through utilising the Balanced Scorecard and hence, an aligned organisation and strategy. Through the utilisation of the Balanced Scorecard's four perspective approach, the Internal Auditing function is able to strategically focus on both financial and non-financial aspects. This enlarges the Internal Auditing function's scope of performance and role in the organisation. The Internal Auditing function enhances the flow of performance information to top management by consulting to the auditee.

Chapter 6

Conclusions

The objective of any measurement system should be to motivate management to implement the strategy successfully. Organisations that are able to link the strategy and measurement systems of the organisation, has a competitive advantage. The advantage is the enhanced ability to achieve their objectives and targets. The strategy focuses management on the critical drivers of performance and the actions to attain these goals and objectives.

It is clear that the Internal Auditing function is an independent appraisal function within an organisation. The function is placed in a position to measure and evaluate the activities as a service to the organisation. The Internal Auditor's strategic role is enhanced via the utilisation of the Balanced Scorecard. It allows the Internal Auditing function to furnish management structures with analyses, appraisals, recommendations, counsel, and relevant information concerning the measurements. Performance and profitability has a strong relationship. According to the King commission's report the focus must be on future orientated Internal Auditing function and activities. The Balanced Scorecard implementation will align organisational activities to its strategy. This will maximise organisational performance.

Once implemented, the Balanced Scorecard must become a part of the business' daily life. It should be embedded into a company's operations as a standard decision-making tool. This allows organisations to evaluate which business model yields the best long-term results. If it is updated regularly, the scorecard can give warnings of future problems ahead, or signal opportunities. It can and should also be used as the focus for continuous improvement.

The Balanced Scorecard requires a rigorous implementation process and commitment from top management. Various interrelated aspects have to be considered for the effective implementation of the Balanced Scorecard. Once it has been successfully implemented, the Balanced Scorecard becomes a powerful tool in the hands of the Internal Auditor.

The Internal Auditor's strategic role is essential to the specific measurement and consulting function that is to be fulfilled. The successful introduction of the Balanced Scorecard and its related reporting system would change the annual reporting structures of South African organisations. The value added by reporting on a wider ambit of business operations could have a positive effect on investor confidence. The status of the strategic objectives is reflected on the scorecard. These would illustrate to stakeholders where the areas of leverage are and indicate the soundness of the corporate well being.

6.1 Recommendations

The changing business environment has changed the defined role of the Internal Auditing function. The demand to adapt to the broad forces of globalisation, customer and market shifts creates a shifting landscape for business leaders to navigate. This forced the organisation to reorganise structures in order to support the goals and objectives, and attain them.

It is my recommendation that South African organisations study and comprehend the principles of the Balanced Scorecard. Combining this measurement tool with the strategic role of the Internal Auditor can create a powerful strategic driving force within the organisation. This ensures that organisations are equipped with a roadmap to achieve objectives and goals.

Strategy plays a vital role in the implementation of the Balanced Scorecard. The strategy gives the Internal Auditing function the ability to evaluate the true objectives of the organisation. In the case of performance measurement the process must follow the model in Chapter

4. The Internal Auditing function’s knowledge of the operations in the organisation increases as a consequence of this intimate involvement with implementation of the Balanced Scorecard and the ongoing reporting of results.

Top management must be prepared to commit to this change in performance management, and also commit time and energy. It is imperative that management define how the different parts of the solution fit together. This will contribute in achieving performance and company objectives.

The successful implementation of the Balanced Scorecard as the framework for the strategic role enhancement of the Internal Auditor will result in increased performance. It is proposed that South African organisations review the Internal Auditing function. Concurrently, the Balanced Scorecard should be implemented as a strategic measurement tool. The enhanced role of the Internal Auditor allows the reporting of the results to top management. This allows the Internal Auditor to become a vital role player in achieving strategic goals and objectives.

Bibliography

Alexander Hamilton Institute Incorporated(1982) Internal Auditing. Key to financial and performance improvement. USA.

American management Associations Extension Institute. (1977). The role of the Internal Auditor. USA.

A.T. Kearney Consultants (2001). Value Building Growth, Asia Leadership Forum.

Bader, G.E., Bloom, A.E. & Chang, R.Y. (1994). Measuring Team Performances: A Practical Guide to Tracking Team Success. Richard Chang Associates, Inc. Publications. Irvine, CA.

Beer, M. (1991). Leading Change. *Teaching note number.* 9 – 488 – 037. Boston. MA: Harvard Business School.

Beer, M. (1984). Organisation Change and Development: A System View. Santa Monica. CA: Goodyear.

Chambers, A. D., Selim, G.M. & Vinten G. (1981). Internal Auditing: Second Edition. Bell & Brain Ltd. Glasgow.

Cowley, M. & Domb, E. (1997). Beyond Strategic Vision. Effective Corporate Action with Hoshin Planning. Butterworth-Heinemann Publishing. Johannesburg, South Africa.

De Bruyn, H.E.C. (2003). Strategic Management: A Southern African Perspective. Entrepro Publishers, Issue 12: Pages 178-197.

Edds, J.A. (1984). Management Auditing. Concepts and Practices. Kendal/Hunt Publishing Company. Iowa. USA.

Flescher, D. & Zanzig, J. (2000). Management Accountants Express a Desire For Change in the Functioning of Internal Auditing. *Managerial Auditing Journal*, Volume 15. Number 7. Pages 331-7.

Frigo, M.L. (2002). A Balanced Scorecard Framework for Internal Auditing Departments. Florida. Institute of Internal Auditing. Research Foundation.

Gering, M. & Rosemarin, K. (2002). The Do's and Don'ts of Balancing. People Dynamics. April 2002. Volume 20. Number 4. Page 24.

Hammer, M (2001). The Agenda. Random House Business Books. USA.

Hellriegel, D., Jackson, S.E. & Slocum, JR. J.W. (1999). Management. Eighth Edition. South–Western College Publishing.

Ivancevich, J.M., Lorenzi, P., Skinner, S. J. & Crosby, P.B. (1997) Management - Quality and Competitiveness. Chicago: Richard D. Irwin Publishing.

Joubert, D. (2002). Performance Scorecards Sustain Superior Performance and Growth. HR Future, March 2002, Volume 2, Number 3, p. 30 – 31.

Joubert, D (2002). Corporate Governance and the Balanced Scorecard. HR Future, August 2002, Volume 2, Number 8. Page 41.

Kaplan, R.S. & Norton, D.P. (1999). The Balanced Scorecard: Translating Strategy Into Action. [Online]. Internet: http://www.quickmba.com/

Kaplan, R.S. & Norton, D.P. (1996). The Balanced Scorecard: Translating Strategy Into Action. Harvard Business School Press.

King, M.E. (2002). King Committee on Corporate Governance. Executive Summary of The King Report 2002. [Online]. Internet: http://www.iodsa.co.za/corporate.htm

Kotter, J.P. & Heskett, J.L. (1992). Corporate Culture and Performance. The Free Press, New York.

Kotter, J.P., Schlesinger, L.A. & Sathe, V. (1979). Organisation: Text Cases and Readings on the management of the Organisational Design and Change. Richard D. Irwin, Inc. Publishing. Homwood, Illinois.

Kotter,J. (*1990).* A Force For Change. How Management Differs from management. New York; Free Press.

Langdon, D.G. (2000). Aligning Performance. Improving People, Systems, and Organisations. Jossey-Bass Pfeiffer, San Francisco.

Locatelli, M. (2002). Good Internal Control and Auditor Independence. *The CPA Journal*. New York. October 2002. Volume 72. Issue 10. Page. 12.

Macias, M. (1999). Metamorphosis of Internal Auditing. *Practical Accountant*. July. 1999. Page32.

Mcneely, K. (2003). Financial management [online]. Internet: http://www.moneymax.co.za

McCall, S. (2003). Reconciling “Consulting” under GOA and IIA Audit Standards. The *Journal of Government Financial Management*. Alexandria. Volume 52. Issue 3. Page 32.

Metrus Group (2004). Balanced Scorecards and Strategic Measurement for Strategy Implementation [online]. Internet: http://www.metrus.com/products/scorecards.html

Naggy, A.L. & Cenker, W.J. (2002). An Assessment of the Newly Defined Internal Auditing Function. *Managerial Auditing Journal*. Bradford. Volume 17. Issue 3. Pages 130-138.

Porter, M.E. (1990). The Competitive Advantage of Nations. New York: The Free Press: Page 35

Practical Accountant (1999). Metamorphosis of Internal Audit. [online]. Internet. http://search.epnet.com/direct.asp?an=2206109&db=buh

Razaee, Z. (2003). High-quality financial Reporting: The Six- legged Tool. *Strategic Finance*. Montvale. Volume 84. Issue 8. Pages 26-30.

Razetti, E. (2003). Internal Auditing. *Consulting to Management*. Burlingame. Dec 2003. Volume 14. Issue 4. Page 34.

Rohm, H. (2003).The Balanced Scorecard Institute [online]. Internet: http://www.balancedscorecard.org/.

Sarbane Oxley Act (2002). Sarbane Oxley Act. [online], Internet. http://sixsigmatutorial.com/ch/sabanese-oxley.aspx

Sawyer, L.B. & Vinten, G. (1996). The Manager and the Internal Auditor: Partners for Profit. John Wiley and Sons. Brisbane.

Sawyer, G. (1990). Business policy and Strategic Management: Planning Strategy and Action. Harcourt Brace Jovanovich, Publishing. Brisbane.

Schuler, R.S. (1988) Customising the HR department at the Swiss Bank Corporation. *Human Resource Planning, Spring*. Pages 241-245.

Thompson, A.A. & Strickland III, A.J. (2003) Strategic Management. Concepts and Cases. McGraw-Hill Irwin Publishing. New York, New York.

Ulrich, D. & Lake, D. (1990). Organisational Capability. New York: Wiley.

Wright, P. & Mcmahan, G. (1992). Theoretical Perspectives For Strategic Human Resource Management, *Journal of Management*. Volume18. Issue 2. Pages 295-320.

Ziegenfuss, D. (2000). Developing an Internal Auditing Department Balanced Scorecard. Managerial Auditing Journal. Bradford. Volume 15. Issue 1. Page 12.

Zito, E.G. (1986). Audit's strategic role after a decade of turmoil. *The Internal Audito*r. April. 1986. Pages 44-45.