

A framework for the development of an organisational governance maturity model: a tool for internal auditors

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ABSTRACT

The study aims to develop a framework for an organisational governance maturity model that can be used by the internal audit function to assess the effectiveness of an organisation's governance framework. A review of the literature on organisational governance and on the role of the internal auditor was conducted. Based on the literature, a framework for the development of a governance maturity model is proposed. A need was identified to develop such a framework due to the fact that there is very limited literature available specifically on *governance* maturity models. Relevant international maturity models were studied and used as a basis for developing the specific governance maturity model framework. The study proposes a framework that highlights the desirable attributes of leadership, systems, structures, processes and communication to stakeholders that should be present at various maturity levels. In addition, the proposed framework could be used by internal auditors to assess organisational governance as required by the International Professional Practices Framework issued by the Institute of Internal Auditors.

Key words

Governance approach; governance assessment; governance guidelines; governance maturity model; internal audit function; maturity models; organisational governance

1 INTRODUCTION

In recent years the demands placed on organisational leaders to govern in a way that demonstrates responsibility towards the shareholders, the environment, society and a variety of stakeholders has increased significantly (IoD 2009; Maak & Pless 2006). Reasons for the increased need to improve governance include amongst others, the global corporate scandals and collapses, the current financial crisis as well as several well publicised cases of poor management, unethical behaviour and, most importantly, inadequate and ineffective monitoring of the aforementioned functions (IFAC 2004:13-14; IoD 2002; IoD 2009; Solomon 2007:31-47). Responsible leaders are challenged to govern their organisations more effectively, focusing on the institutionalisation of sound values and principles (IoD 2009) by choosing a governance approach and a best-practice framework that will enable the organisation to achieve governance maturity and ultimately sustainable business success.

The institutionalisation of a mature governance framework¹ within an organisation is the responsibility of senior management and the board of directors, who should act as the central point for and custodians of corporate governance (IFAC 2004; IoD 2009:29).

Utilising other role-players within the organisation is critical in ensuring effective organisational governance. One of the key role-players in the governance framework of an organisation is the internal audit function (IAF) (Gramling, Maletta, Schneider & Church 2004:194-195; Gray 2004:17-19; IoD 2009:93; Marks 2007:32). The IAF is not only seen as one of the cornerstones of corporate governance within an organisation (IoD 2009:5), but also has, in its assurance and advisory roles, a mandate to evaluate and assess the effectiveness of organisational governance (IoD 2009:96-102; IIA 2010).

Research conducted globally, specifically in the field of internal auditing, emphasises the important role the IAF should play in assisting management with governance issues (Barac & Van Staden 2009:947; Bookal 2002:46; Gramling & Hermanson 2006:37-39; Hermanson & Rittenberg 2003:58; Marks 2007:31-32). In South Africa, the third King Report on Governance (hereafter referred to as King III) elaborates on and highlights the importance of the governance role of the IAF (IoD 2009:96-102).

Research has been conducted globally in the areas of organisational governance and governance maturity (Friedman 1993; Gramling & Hermanson 2006:38;

Hermanson & Rittenberg 2003; IFAC 2004; IIA 2006:4-5; Lipman & Lipman 2006; Marks 2007:31; Monks & Minow 2001; Rossouw & Van Vuuren 2007; Shleifer & Vishny in Vives 2000; Solomon 2007; Turnbull 1999; West 2006). The role the IAF plays in assessing the adequacy and effectiveness of organisational governance has, however, received less attention. As a result of this lack of research, the objective of this study is to address the following questions: What is organisational governance? What is organisational governance maturity? Does a model exist to assess an organisation's governance maturity? What is the role of the IAF in assessing organisational governance maturity? To answer these questions, section 2 highlights the research objectives, scope, methodology and limitations of the selected methods, and section 3 examines the current literature on organisational governance as well as on organisational governance maturity and other related maturity models. Growing out of the literature study, a framework for the development of a governance maturity model is presented in section 4. Section 5 briefly discusses the role of the internal auditor with regard to organisational governance and section 6 draws conclusions and presents recommendations.

2 RESEARCH OBJECTIVES, SCOPE, METHODOLOGY AND LIMITATIONS

The study aims to develop a framework for an organisational governance maturity model that can be used by the IAF to assess the effectiveness of an organisation's governance framework. In order to achieve this objective, a review of the literature on organisational governance and the role of the internal auditor was conducted. Drawing on concepts from the literature, a framework for the development of a governance maturity model has been proposed. A need to develop such a framework was identified because of the paucity of literature available specifically on *governance* maturity models. For purposes of this study, relevant and related international maturity models were studied and used as a basis from which to develop a framework for a governance maturity model.

The assumptions on which this framework is based and the limitations identified, are the following:

- The extent to which this framework will be applied depends on the size, nature and complexity of each organisation and should therefore be adapted to suit specific organisational requirements;
- Effectiveness, for purposes of this framework, refers to the actions, decisions and deliberations in support of the achievement of organisational objectives; and
- The specific indicators/scores (quantitative and qualitative) to determine the different modes of governance maturity are not explicitly specified in this study but are an area for future research.

It is argued that this framework can be used to develop a comprehensive organisational governance maturity model. Such a model can then be used as a tool by various internal and external assurance

providers to assess the level of organisational governance maturity. One such key role-player acting as an internal assurance provider is the IAF. In addition, it appears that a comprehensive governance maturity model will assist the IAF, amongst others, in effectively assessing organisational governance by moving beyond compliance to a more value-adding approach. Progressing from this, the role of the internal auditor as an assessor of the level of organisational governance is finally discussed with reference to the framework for a governance maturity model.

This study has specific limitations. Only a *framework* for the development of an organisational governance maturity model that can be used by IAFs in providing assurance and consulting services with regard to organisational governance is proposed. The study does not propose a comprehensive *model* with its specific indicators for identifying each level of governance maturity. In addition, the framework was developed based on a literature review only. It is acknowledged that organisations differ in size, nature, complexity and culture and that the proposed framework is a comprehensive, but generic framework for assessing governance maturity, and that it should therefore be adapted to suit specific organisational requirements. These are limitations of this study which it is intended to explore in future research.

In light of the limited research that exists on governance and the role of the internal auditor, this study builds on the current body of knowledge and therefore its findings are important from a theoretical perspective. The study can be of benefit to the Institute of Internal Auditors (IIA), the global professional body representing internal auditors, by providing information on the role of the IAF in assessing organisational governance; information that the IIA can use in developing guidance notes for its members. In addition, this study is relevant to internal audit practitioners. Organisations that are not mature in terms of organisational governance can use the findings of this study to enhance their governance frameworks. In addition, IAFs can use the proposed governance framework to assess organisational governance maturity and to make value-adding recommendations for enhancing organisational governance maturity.

3 LITERATURE REVIEW

3.1 The concept of organisational governance

The concept of organisational governanceⁱⁱ (being corporate governance, governance or organisational governance) has been discussed by many authors (Friedman 1993; Hermanson & Rittenberg 2003; IFAC 2004; IIA 2006; Lipman & Lipman 2006; Monks & Minow 2001; Rossouw & Van Vuuren 2007; Shleifer & Vishny in Vives 2000; Solomon 2007; Turnbull 1999; West 2006). In addition, Sir Adrian Cadbury defined corporate governance in the Cadbury Report on Corporate Governance in the United Kingdom (UK) in 1992 as "... the system by which companies are directed and controlled ...". (Cadbury 1992). The actions of direction and control

are referred to as the notions of conformance (compliance) and performance (strategy and value creation) (IFAC 2004:4). Performance needs to be balanced with conformance to ensure effective organisational governance.

Two perspectives on governance exist, namely the narrow perspective on governance (also referred to as the exclusive approach) and the broad perspective on governance (also referred to as the inclusive approach). The exclusive approach implies that the focus is only on organisations' relationships with and responsibilities toward their shareholders; thus the only two relevant parties to which governance relates are management and the shareholders (Friedman 1993:162; Solomon 2007:1; West 2006:433). The relationship between these two parties is purely financial in nature and the main objective of the organisation is to maximise profits (Friedman 1993:162; Parkinson in Solomon 2007:13; Shleifer & Vishny in Vives 2000:1; West 2006:433). On the other hand, the inclusive approach to governance implies that a relationship does not exist only between the management of an organisation and the organisation's shareholders but also between the management of an organisation and other stake-holders such as the employees, customers and suppliers, whose best interests should be considered and to whom the organisation should be held accountable (Donaldson & Preston 1995:65-91; Freeman & Evan 1993:76; Solomon 2007:23-26; West 2006:433).

Critical in the process of understanding organisational governance, is the need to take cognisance of the various theories underlying organisational governance (Solomon 2007:16-30). For the purposes of this study only the stakeholder theory is briefly discussed, since the inclusive approach to organisational governance, which supports the stake-holder theory, is applicable to the proposed governance framework discussed more fully in section 4. The stakeholder theory stems from the fact that today's organisations are so large and complex and have such a significant impact on society, that it is necessary for these organisations to be held accountable to many more interest groups than solely their shareholders (Freeman 1984). King III further-more recognises the importance of stakeholders (IoD 2009:110-127), highlighting how this relationship can be effectively managed, since a stakeholder is seen as someone who has a 'stake' in one's business and hence can affect one's organisation in some significant manner (Donaldson & Preston 1995:65-91; Freeman & Evan 1993:76).

In addition to defining organisational governance, an organisation should consider which governance approach to follow. It appears from the literature that, from management's perspective, there are two main approaches to organisational governance, namely rules-based and principles-based (Barrier 2003; IoD 2009; Jackson 2004; Sarbanes-Oxley Act of 2002). There are numerous arguments for and against both approaches (Barrier 2003:71-73; Deloitte 2009; IoD 2009:7; Jackson 2004:58; Simpson 2005:xvi). Under a rules-based regime, organisations are encouraged to comply with a specific set of rules - basically a checklist of what to do and what not to do. In contrast, the principles-based approach focuses mainly on the

end-result and doing the 'right thing' or what is best for the organisation. In addition, it is argued that the rules-based approach is applied in regulated, complex areas in which the public interest is high, whereas a principles-based approach is applied in areas that are seen as flexible, less complex and in which public interest is low. Arguments against the rules-based approach include statements that rules are easier to circumvent and in order to ensure compliance, one is forced to do something, regardless of whether it is true and fair or not. Arguments against the principles-based approach are limited, but include statements that a lack of standardisation may result in information being presented in various formats not understandable to all stakeholders.

One common factor guiding the determination of which approach an organisation should use is the country in which it operates. For example, United States of America (USA)-based organisations generally follow a rules-based approach whilst organisations within the UK and Europe tend to be advocates of the principles-based approach (Green & Gregory 2005:50-54; Jackson 2004:57-61). It appears that the approach followed in South Africa (Barrier 2003:68-73) is mostly principles-based given the fact that King III, which is the governance code applied by a large number of organisations, is based on the governance principles of responsibility, accountability, fairness and transparency (IoD 2009:7-8). King III recommends that an organisation should ensure that all deliberations, decisions and actions are based on these four principles or values that underpin good governance (IoD 2009:20). Concurring with King III, the Organisation for Economic Co-operation and Development (hereafter referred to as OECD) principles of corporate governance (principles of fairness, transparency, responsibility and accountability) are also widely recognised (Luo 2007:244-252; Monks & Minow 2001:252-253; OECD 2004:1-66; Simpson 2005:xi-xx; Solomon 2007:335-337).

It is acknowledged that various organisational governance-related codes and legislation exist and are used as guidance throughout the world. It is also noted that organisations and the markets they operate in are influenced by local cultures, pressures and practices as well as the political and legal systems of the specific country of operation (IoD 2009:6-9; Jackson 2004:57-61; Monks & Minow 2001:252). The European Corporate Governance Institute (ECGI) provides a complete list of codes and legislation adopted globally (ECGI 2010). An analysis of some of the guidelines (Dutch Corporate Governance Code of 2008; German Corporate Governance Code of 2009; IoD 2009:2-11; Provisional Code of Corporate Governance in China for Securities Companies of 2004; Revised Australian Corporate Governance Principles and Recommendations of 2007; Sarbanes-Oxley Act of 2002; The Belgian Code on Corporate Governance of 2009; The UK Corporate Governance Code of 2010) identified the main differences in systems and structures developed under the above-mentioned two approaches. King III was used as the benchmark or point of departure from which to identify the systems and structures relevant for consideration in developing a governance maturity

framework, due to the fact that its guidance is seen internationally as one of the leading frameworks in the organisational governance field, as indicated by Marks (2010), a well-known organisational governance expert in the USA. The analysis revealed that systems and structures such as boards and directors, corporate citizenship, risk management, internal auditing, integrated sustainability reporting and disclosure, as well as managing stakeholder relationships, are not considered to be part of the organisational governance frameworks within a rules-based regime. On the other hand, in a principles-based regime the aforementioned systems and structures are seen as important, relevant and necessary areas underpinning the establishment of sound organisational governance systems and structures (IoD 2009:2-11).

Summary

To fully understand organisational governance maturity it was first necessary to discuss the concept of organisational governance, with reference to its definition, perspectives, approaches and guidance. However, the purpose of this study is to develop a framework for an organisational governance maturity model, and therefore the concepts of maturity, with reference to maturity models and specifically organisational governance maturity are discussed in the following section.

3.2 The concept of organisational governance maturity

The concept of organisational governance maturity refers to the extent to which the organisation has established an adequate governance framework as well as the board's, management's and employees' implementation of and adherence to its governance framework (Gramling & Hermanson 2006:38; IIA 2006:4-5; Marks 2007:31). Organisations that are not seen as mature in respect of organisational governance, either have not established any form of organisational governance framework or are only in the beginning stages of establishing such a framework. Organisations that are seen as mature have well-established governance frameworks in place, and their existence and successful functioning are well-known to all relevant parties such as management and the employees of the organisation (Gramling & Hermanson 2006:38; IIA 2006:4-5; Marks 2007:31).

The purpose of an organisational governance maturity model is to provide a benchmark for comparison of organisational governance frameworks, as well as to provide an aid for understanding and ultimately improving organisational governance in its effort to achieve maturity. The assumption might be made that all organisations want to attain the highest level of governance maturity they are capable of, but this might not always be the case. Since organisations vary in size, nature and complexity, and they operate in a wide diversity of business and legislative environments, it might not always be in the best interest of an organisation to operate at the highest level of governance maturity. Some obvious

challenges to establishing a governance framework are the high cost of its development and implementation, as well as the consequent time-consuming processes of daily management of its operations. In recent years, maturity models have been developed and used by organisations to provide a road map for performance improvement (SEI 2010).

It appears from the literature that the capability maturity model developed by the Software Engineering Institute (SEI) of the Carnegie Mellon University in the United States of America (SEI 2010; Ziegenfuss 2010:68) is currently used in diverse areas to improve organisational business processes (Liebowitz 2007; RIMS 2006; SEI 2010), despite the fact that the SEI model was originally developed for evaluating software development processes.

In addition to the information technology (IT) environment, maturity models have also been developed in the areas of risk management (RIMS 2006) as well as internal auditing (IIA Research Foundation 2009). These models are discussed in more detail in section 3.3.

Maturity models, including the SEI model, are usually presented in a matrix and contain the following elements (Chapman 2009; Coetzee 2010):

- various stages or levels of maturity development;
- the attributes or characteristics of each maturity level; and
- the competencies describing the desired capabilities, linking the levels of maturity development to the attributes.

It is therefore possible to apply the concept of a maturity model to the governance environment, in which levels of governance maturity and the attributes of each governance maturity level are identified.

Governance-related maturity models are discussed and compared next. This comparison forms the basis of the framework for the organisational governance maturity model developed in this study.

3.3 Governance-related maturity models: a comparison

A comprehensive literature search revealed only a few governance-related maturity models (IIA Research Foundation 2009; IT Governance Institute 2010; RIMS 2006; Rossouw & Van Vuuren 2003:389). Only one governance maturity model (OCEG & NACD 2007) that specifically related to organisational governance, could be found. It is possible that other governance-related maturity models do exist, but for the purposes of this study, of the models found, these related most closely to the topic of governance.

In respect of the models currently in use in business, the Open Compliance and Ethics Group (OCEG) developed the OCEG corporate governance maturity model in 2007 in collaboration with the National Association of Corporate Directors (NACD). This model was developed in pursuit of the NACD's

mission which is to serve the governance needs of directors and boards and to ultimately achieve improved organisational governance through better board practice (OCEG & NACD 2007). This model's attributes mainly focus on decision-making and presents only a very limited overview discussion of capability, processes, structures, IT and performance management.

The modes of managing morality (MMM) model was developed in 2003 by Rossouw and Van Vuuren as an evolutionary model of managing ethics in organisations (Rossouw & Van Vuuren 2003:389). This model was studied, since ethical leadership plays an important role in applying governance effectively throughout an organisation.

The Control Objectives for Information and related Technology (COBIT) model was developed in 2007 by the IT governance institute. It is an IT governance framework, including a supporting toolset, that allows managers to bridge the gap between control requirements, technical issues and business risks by making use of certain IT governance focus areas (IT Governance Institute 2010). This model was included in the study due to the increased awareness of IT governance within organisations (Ernst & Young 2008; IoD 2009; IT Governance Institute 2010; Ramamoorti & Weidenmier 2004).

The Risk and Insurance Management Society (RIMS) maturity model is a comprehensive risk maturity model developed as a generic tool to assist organisations in managing risks more effectively by first determining their risk maturity and then, guided by that outcome, determining what actions are needed to become more risk mature. This model is included in the study due to the significance of an effective risk management framework as part of the organisational governance framework (Coetzee 2010; IoD 2009).

The IIA Research Foundation has conducted extensive research on the concept of capability or maturity and developed an Internal Auditing Capability Model (IACM) in 2009. This model is based on the SEI model discussed earlier and was developed to assist internal auditors and other internal audit stakeholders to identify the fundamentals needed for an effective IAF within a government structure and within the broader public sector (Ziegenfuss 2010:68). The IACM is included in the study due to the fact that the IAF is regarded as one of the pillars of organisational governance (Gramling, Maletta, Schneider & Church 2004:194-195; Gray 2004:17-19; IoD 2009:93; Marks 2007:32).

Although King III (IoD 2009) is not a governance maturity model, but rather a comprehensive code based on governance principles and recommendations, it was decided to also include King III in the comparison of governance maturity models.

The elements of each of the above models and codes are briefly summarised in Table 1.

Summary

The concept of governance maturity was discussed and a number of governance related maturity models were subsequently studied and compared to a comprehensive organisational governance code (King III). The maturity models studied include the OCEG, MMM, COBIT, RIMS and IACM. Whereas the OCEG is the only model focusing on organisational governance in general, the other models focus specifically on the areas of ethics, IT, risk management and internal auditing. In addition to the above-mentioned five models, the King III code was also included in the comparison and used as a point of departure in developing a framework for a governance maturity model.

Table 1: Governance-related Maturity Models

Model	Attributes	Modes of Maturity				
		Forming	Developing	Normalised	Established	Mature
OCEG & NACD 2007	Capability	Leadership lacks key skills for effective decision-making	Leadership includes basic decision-making skills but lacks strategic vision	Leadership is able to determine short-term strategies	Leadership is able to determine long-term strategies	Leadership is able to make decisions under uncertain circumstances
	Structure	Structure not well-defined and decisions are not enforced	Roles and responsibilities i.t.o. decision-making not well-defined	Decisions are made at appropriate levels	Roles and responsibilities i.t.o. decision-making is well-defined and understood	Decisions are made at appropriate levels and are effectively communicated throughout organisation
	Processes	Processes are not defined	Basic processes are defined but applied inconsistently	Strategic processes are defined but applied inconsistently	Basic processes are well-known and used consistently	Continuous assessment and improvement of processes
	Information & Technology	<ul style="list-style-type: none"> ▪ Information about decisions is not well-known ▪ Technology maintaining information is isolated and decisions are made without the necessary information 	<ul style="list-style-type: none"> ▪ Information about decisions is communicated to a limited extent ▪ Outdated technology which leads to outdated decisions being made 	<ul style="list-style-type: none"> ▪ Information about decisions is communicated internally only ▪ Technology ensures that timely and accurate decisions are made 	<ul style="list-style-type: none"> ▪ Information about decisions is communicated to key stakeholders ▪ Technology ensures that timely and accurate decisions are made and that adequate feedback is obtained 	<ul style="list-style-type: none"> ▪ Information about decisions is communicated to broad public ▪ Technology delivers timely and accurate information and feedback is obtained throughout the decision-making chain

Model	Attributes	Modes of Maturity				
		Forming	Developing	Normalised	Established	Mature
	Results	No processes in place to measure performance	Limited measurement of effectiveness and efficiency of decision-making processes	Methods used to measure the effectiveness and efficiency of decision-making processes are almost adequate	Consistent methods used to measure the effectiveness and efficiency of decision-making processes	Effectiveness and efficiency of decision-making processes is measure on a 360 degree basis
Model	Attributes	Immoral mode	Reactive mode	Compliance mode	Integrity mode	Totally aligned organisation (TAO) mode
Rossouw & Van Vuuren (MMM) 2003	Nature	Unethical behaviour is tolerated	Unethical behaviour is still ignored and not punished	Unethical behaviour is punished and there is a commitment to manage and monitor ethics	Ethical values and standards are embraced	Total integration of ethics into the workplace and reporting to stakeholders on this
	Purpose	Ethics is not perceived to be important in reaching the bottom line	Ethics standards do exist but are not enforced	Ethical reputation is important	Ethics is strategically seen as important and good ethical behaviour is encouraged	Ethics is part of the culture, purpose and decision-making processes of organisation
	Ethics management strategy	No strategy or any interventions	Ethical values not enforced and not practised	Systems and codes are in place to manage ethics	Systems and codes are in place to manage ethics and are enforced and implemented	Each individual within organisation feels responsible for ethics
	Challenges	Negative financial consequences to be unethical	Credibility and ethical reputation seen in a negative light by stakeholders	Personal moral autonomy and responsibility is undermined and employees can not properly use ethical discretion	The discretion granted is abused and leaders undermine ethics	Can become complacent i.t.o. ethics which may lead to lack of co-ordination in managing ethics
COBIT 2007 (IT Governance Institute 2007)	COBIT does not make use of any 'attributes' or 'levels of maturity'. However certain specific IT governance focus areas are specified such as strategic alignment, value delivery, resource management, risk management and performance measurement.					
RIMS 2006	RIMS have five levels of risk maturity ranging from immature to mature namely ad hoc, initial, repeatable, managed and leadership. For each of these maturity levels seven criteria also exist namely approach, process, appetite, cause, uncover risks, perform and sustainability. For purposes of this study, the maturity levels are not discussed in detail.					
IACM (IIA Research Foundation 2009)	The IACM model has 5 levels of maturity for the IAF ranging from immature to mature namely initial, infrastructure, integrated, managed and optimising. For each of these maturity levels six criteria also exist, namely services and role of the IAF, people management, professional practices, performance management and accountability, organisational relationships and culture, and governance structures. For purposes of this study, the maturity levels are not discussed in detail.					
King III 2009 (IoD 2009)	King III, as with COBIT, does not make use of any 'attributes' or 'levels of maturity', however various key governance principles are focused on. If compared with the other models in this table, these principles can be related to attributes. As King III is seen as the leading report in terms of governance in South-Africa, the guidance contained in this report would inspire organisations to reach the highest level of maturity, as indicated below:					
	Ethical leadership and corporate citizenship	Effective leadership is based on an ethical foundation where the board is responsible for implementing an effective ethics management process as well as for ensuring that the organisation is seen as a responsible corporate citizen.				
	Boards and directors	An effective board (consisting of responsible directors), adhering to all responsibilities as indicated in King III, is in place.				
	Audit committees	An effective audit committee, adhering to all responsibilities as indicated in King III, is in place.				
	The governance of risk	An effective risk committee is in place. An organisation-wide risk management framework and process is implemented, applied and monitored.				
	The governance of IT	An IT governance framework supporting the effective governance of IT, as indicated in King III, is implemented, applied and reported on.				
	Compliance with laws, codes, rules and standards	An effective compliance framework, with associated processes, is implemented, applied and reported on.				
	Internal audit	An effective IAF, adhering to the definition of internal auditing as well as the fulfilling the requirements for an effective risk-based internal audit, as indicated in King III, is in place.				
	Governing stakeholder relationships	Effective stakeholder relationship management is in place. Stakeholders are identified and engaged with, and relationships are monitored.				
Integrated reporting and disclosure	Integrated reporting, supported by the values of transparency and accountability, to all relevant stakeholders.					

4 A FRAMEWORK FOR THE DEVELOPMENT OF A GOVERNANCE MATURITY MODEL

In developing this framework for an organisational governance maturity model, the OCEG model, the MMM model and King III code were used extensively. Given the fact that the COBIT model only focuses on

IT-related governance aspects, this model was used as a point of departure for the IT governance-related issues in the proposed framework. The same applies to the RIMS model for risk management and for the IACM model for internal auditing. When comparing the first three key models identified above, it was noted that some of the 'modes of maturity' and the

'attributes' overlap and address the same concepts, although different terminology might have been used. These overlapping concepts were meaningfully combined in the development of the framework for an organisational governance maturity model.

All the proposed main elements to be included in the framework (the headings in italics) for an organisational governance maturity model are briefly discussed. The common 'attributes' and 'modes of maturity' of the three key models, are also discussed. The proposed framework is presented in Table 2.

Attributes

The attributes in an organisational governance maturity model refer to the characteristics or qualities that can be associated with an organisation's governance framework. Based on the models studied, the following attributes were identified for inclusion in the proposed framework:

Capability (IoD 2009; OCEG & NACD 2007)

Capability refers to the ability to lead and govern. The OCEG model highlights the importance of making informed decisions, whereas King III recommends ethical leadership and corporate citizenship. Leadership is regarded as the most important attribute which sets the foundation for all the attributes listed: without ethical and responsible leadership it can be argued that no other attributes will be regarded as important. Effective ethical leadership is based on an ethical foundation. All the deliberations, decisions and actions of the leaders are based on the ethical values of responsibility, accountability, fairness and transparency (IoD 2009:21). Therefore, the proposed framework highlights ethical leadership and corporate citizenship.

Systems/structures (IoD 2009; OCEG & NACD 2007)

Systems and structures refer to the mechanisms required to support the governance framework. As identified by both the OCEG model and King III, if an organisation does not have the necessary systems/structures in place, informed decision-making might not take place. The relevant systems/structures highlighted in the proposed framework are those mentioned in King III, such as boards and directors, committees, IT, the IAF as well as compliance with laws and regulations. The organisation has these systems/structures in place to ensure the achievement of its objectives. It is furthermore important to keep in mind that the size, nature and complexity of an organisation will determine the systems and structures implemented.

Processes (IoD 2009; OCEG & NACD 2007; Rossouw & Van Vuuren 2003)

This relates to the key processes supporting the concept of governance within an organisation. As indicated by the OCEG model, processes should be well-defined, consistently applied throughout the organisation and continuously monitored. To this extent, the implementation of a performance management process is deemed very important. The MMM model furthermore elaborates on the nature, purpose, ethics management strategy and challenges faced in implementing an effective ethics management

process. Equally, King III recognises ethics management as a key governance process and emphasises the importance of the risk management process as well as that of managing stakeholder relationships.

The existence, degree of implementation and adherence to these processes appears to be a good indicator of the importance of effective governance for an organisation. The processes highlighted in the proposed framework are the risk management process, the internal control process, the ethics management process, the performance management process and the stakeholder relationship management process.

Communication/Reporting (IoD 2009)

Communication and reporting refers to the ability to transfer information regarding governance issues to all the relevant parties. In addition, this attribute describes the integrated reporting requirements as identified by King III, which includes representation of the organisation's performance in terms of both its finance and its sustainability to internal and external stakeholders.

Modes of maturity

The modes of maturity refer to the levels or stages of an organisation's governance maturity and highlight the extent to which a governance framework has been implemented by an organisation.

As mentioned, only the OCEG and MMM models were studied in detail because they specify various stages (five) of maturity (refer to Table 1). In determining what the 'modes of maturity' should be in the proposed framework (refer to Table 2), and as discussed below, each of the five stages of maturity of both these models were considered (OCEG & NACD 2007; Rossouw & Van Vuuren 2003).

Forming/Immature (OCEG & NACD 2007; Rossouw & Van Vuuren 2003)

This implies that the organisation either does not see the value of any of the attribute(s) identified/mentioned in the previous section, or is unaware of these attributes and their importance. The OCEG model refers to this level as the forming stage whilst the MMM model refers to this level as the immoral mode.

Developing (OCEG & NACD 2007; Rossouw & Van Vuuren 2003)

The organisation might be in the process of becoming aware of the existence and importance of the relevant attribute(s). If implemented, the effectiveness of these attributes might still be questioned. The OCEG model refers to this level as the developing stage whilst the MMM model refers to this level as the reactive mode.

Compliant (OCEG & NACD 2007; Rossouw & Van Vuuren 2003)

The relevant attribute(s) is (are) implemented to the extent that it ensures compliance with the minimum requirements of specific organisational policies, laws and legislation. The focus is only on compliance, which appears to be synonymous with a rules-based environment. Monitoring of such an environment

normally takes place by using various checklists to determine the level of compliance. The OCEG model refers to this level as the normalised stage whilst the MMM model refers to this level as the compliance mode.

Entrenched/Institutionalised/Deep-rooted (OCEG & NACD 2007; Rossouw & Van Vuuren 2003)

The organisation recognises the importance of the pro-active implementation of and adherence to the relevant attribute(s). The concept of moving beyond compliance is encouraged and as such the organisation moves in the direction of recognising the value that could be added by institutionalising this (these) attribute(s). The OCEG model refers to this

level as the established stage whilst the MMM model refers to this level as the integrity mode.

Mature (OCEG & NACD 2007; Rossouw & Van Vuuren 2003)

This implies that the organisation recognises the value that can be added by the pro-active implementation of and adherence to the relevant attribute(s). The importance of this attribute(s) is recognised by all stakeholders and considerable effort is made in the effective institutionalisation of, adherence to and reporting on this attribute(s). The OCEG model refers to this level as the mature stage whilst the MMM model refers to this level as the totally aligned organisation mode.

Table 2: Proposed Framework for an Organisational Governance Maturity Model

Attributes		Modes of Maturity				
General	Specific	Immature/ Forming	Developing	Compliant	Entrenched/ Institutionalised/ Deep-rooted	Mature
Capability	Ethical leadership and corporate citizenship (IoD 2009; OCEG & NACD 2007)	Ethical leadership and corporate citizenship is not perceived to be important.	Ethical leadership includes basic decision-making skills but lacks strategic vision. Limited number of corporate citizenship initiatives are established but not established with responsibility towards society.	Ethical leadership is able to determine short-term strategies. Corporate citizenship initiatives are established with reference to relevant laws and regulations or policies.	Ethical leadership is able to determine long-term strategies to ensure sustainable business success. Corporate citizenship initiatives are established to promote accountability towards society.	Effective ethical leadership is based on an ethical foundation. All the deliberations, decisions and actions of the leaders are based on the ethical values of responsibility, accountability, fairness and transparency.
Systems/ Structures	Boards (IoD 2009)	The role of the board is not perceived to be important.	A board is established but not functioning effectively.	A board is established to ensure adherence to legislation.	A board is established and contributes to the achievement of organisational objectives to a limited extent.	Effective board is in place.
	Committees (IoD 2009)	The role of formal committees is not perceived to be important. No committees established.	Limited number of committees is established but not functioning effectively.	Limited number of committees established to ensure adherence to relevant legislation.	Committees established to enhance amongst others, direction, control and decision-making processes.	Effective committees are in place, inter alia an audit committee, risk committee, remuneration committee and nomination committee.
	IT (IT Governance Institute 2007; IoD 2009)	No formal IT resources used to achieve organisational objectives.	Outdated IT resources are used resulting in outdated decision-making.	Limited number of IT resources used to ensure improved decision-making.	IT resources utilised to a limited extent to improve decision-making and achievement of organisational objectives.	IT resources are used effectively in achieving organisational objectives.
	Internal Audit Function (IAF) (IIA 2010; IoD 2009)	IAF not perceived to be important. No IAF established.	IAF established but not adding value/functioning effectively.	IAF established and rendering an assurance service following a compliance-based approach.	IAF established and rendering an assurance service following a risk-based approach.	Independent and objective assurance and consulting activity adding value and improving the organisation's operations and achieving its objectives.
	Laws & Regulations (IoD 2009)	Adherence to laws and regulations are not perceived to be important.	Relevant laws and regulations are recognised but not enforced.	Relevant laws and regulations are recognised and enforced to prevent non-compliance penalties.	Relevant laws and regulations are adhered to and compliance is monitored.	Formal compliance framework including company secretary, compliance division, checklists, are in place to ensure effective compliance.

Attributes		Modes of Maturity				
General	Specific	Immature/ Forming	Developing	Compliant	Entrenched/ Institutionalised Deep-rooted	Mature
Processes	Risk management process (AS/NZS 2004; COSO 2004; ISO31000 2007; IoD 2009; RIMS 2006)	Risk management not perceived to be important and no formalised risk management process in place.	Basic risk management process in place.	Organisation-wide risk management process is established but not institutionalised.	Organisation-wide risk management process is established and institutionalised.	Effective risk committee. Organisation-wide risk management process is implemented, applied and monitored using COSO framework as guidance.
	Internal control process (COSO 1992; IoD 2009)	Internal controls are not perceived to be important.	Basic internal controls exist but are not enforced.	Internal control is important and a lack of internal control is addressed to a limited extent.	Internal control is important and continuous improvement of the control environment is encouraged.	COSO framework for internal control is implemented, applied and monitored.
	Ethics management process (EMP) (IoD 2009; Rossouw & Van Vuuren 2007)	No ethics standards exist and ethics is not perceived to be important.	Ethics standards exist but are not enforced or formally managed.	A formal EMP is in place to manage ethics but with limited ethics initiatives.	A formal EMP is in place to manage ethics and ethical behaviour is encouraged.	A formal EMP is in place to manage ethics. Ethics is part of the culture, purpose and decision-making processes of the organisation.
	Performance management process (PMP) (OCEG & NACD 2007)	No formal PMP is in place.	PMP is in place but is not applied/functioning effectively.	PMP is established and complied with.	PMP is complied with and contributes to development of staff.	Effective PMP is in place. Regular PM reviews are conducted.
	Stakeholder relationship management (SRM) (IoD 2009)	No formal SRM process is in place.	SRM process is documented but not functioning effectively.	Stakeholders are identified but not engaged with.	Stakeholders are identified and engaged with to a limited extent.	Effective SRM is in place. Stakeholders are identified, engaged with and relationships monitored.
Communication/ Reporting	Integrated reporting (GRI 2002; IoD 2009)	No formal reports generated.	Annual financial statements to shareholders only.	Annual Report as required by relevant legislation presented to interested parties.	Annual Report plus Sustainability report (to limited extent) presented to all stakeholders.	Integrated report to all stakeholders.

Summary

It appears from the above discussion that organisational governance maturity refers to the extent to which an organisation has identified and implemented appropriate systems, structures and processes. In addition, organisational governance maturity highlights the quality of leadership within the organisation, as well as the quality of the organisation’s reporting to various stakeholders. A framework for an organisational governance maturity model was subsequently developed and discussed. The IAF’s role in assessing organisational governance maturity, utilising the proposed frame-work, is briefly highlighted in the next section.

5 THE ROLE OF THE IAF IN PROVIDING ASSURANCE AND CONSULTING SERVICES RELATING TO ORGANISATIONAL GOVERNANCE

The role of the IAF is to evaluate and improve the effectiveness of governance, risk management, and control processes (IIA 2010). The *International Standards for the Professional Practice of Internal Auditing* (hereafter referred to as the *Standards*) issued by the IIA also emphasises the fact that the IAF should evaluate and make the necessary recommendations in respect of the governance process of the organisation (IIA 2010). The practice

advisories, which are an extension of the *Standards*, provide more detailed advice on the role of the IAF. These practice advisories highlight the fact that the IAF should perform governance assessments (IIA 2010) and evaluate the adequacy and effectiveness of the organisation’s governance framework.

The IAF renders both assurance and consulting services in respect of organisational governance. The first capacity requires internal auditors to provide assurance on the integrity of the governance framework implemented at that specific organisation. This implies that the organisation is relatively ‘mature’ in terms of its governance framework and that management’s main concerns are to ensure that the governance processes, structures and systems are adequate and effective (Gramling & Hermanson 2006:38; IIA 2006:4; Marks 2007:31). According to Gramling and Hermanson (2006:38), should the aforementioned scenario be applicable, internal auditing may be involved in evaluating whether organisational governance interventions function as expected, analysing the level of reporting transparency between the parts of the governance structure; comparing governance best practices, and identifying compliance with applicable governance codes. Therefore, in the role of assurance provider, the IAF can use the proposed governance framework as a tool in guiding the internal audit assurance engagement.

The second capacity requires internal auditors to act as 'catalysts for change' in order to improve the organisation's governance framework. Typical services that can be rendered by the IAF in this scenario are to assist with the board structuring, to assess the adequacy of information forwarded to the board and to assess board committee effectiveness (Gramling & Hermanson 2006:38; IIA 2006:4-5; IIA 2010; Marks 2007:31). The IAF, as a consultant, can thus use the proposed governance framework to assist management pro-actively in enhancing the organisation's governance maturity.

It is argued that the IAF has a critical role to play when performing governance assessments in both an assurance and a consulting capacity. These assessments might not be performed as a single internal audit engagement, but could quite often be based on information obtained from numerous audit engagements over time (IIA 2010). The IIA practise advisory highlights the information to consider when performing governance assessments. The considerations are aligned to the proposed governance framework and include, amongst others: the results of audits of specific governance processes (for example the risk management process, internal control process and ethics management process); governance issues arising from audits that are not specifically focused on governance (for example financial reporting, fraud risks analysis); the results of other internal and external assurance providers' work (for example legal counsel, external audit) and other information on governance issues (for example adverse incidents indicating an opportunity to improve governance processes) (IIA 2010).

The IAF should therefore have a clear understanding of the organisation's governance framework as well as its level of governance maturity. The latter will determine the specific role the IAF will fulfil with regard to assessing organisational governance. The IAF can use the proposed framework for determining organisational governance maturity as a tool to perform governance assessments and to make value-

adding recommendations to senior management and the board to enhance the governance framework of the organisation.

6 CONCLUSION, RECOMMENDATIONS AND AREAS FOR FUTURE RESEARCH

This study explored organisational governance maturity and the role of the IAF. The concept of organisational governance was studied with reference to governance guidelines, approaches and processes. In addition, the concept of organisational governance maturity was highlighted and existing governance related maturity models were studied and discussed. Based on the literature, a framework for a governance maturity model was developed. Finally, the use of the proposed framework as a tool for the IAF to assess organisational governance maturity, was briefly highlighted.

It is recommended that the IAF should apply the proposed framework to effectively assess organisational governance maturity. In addition, the IAF should take note of the mode of governance maturity of an organisation when planning its role. The role can vary from providing assurance to rendering a consulting service with regard to organisational governance. It is concluded that the IAF can add value by applying this framework as a tool when performing governance assessments and when making recommendations for enhancing the organisation's governance framework. The study on which this article is based makes an initial attempt to develop a framework for an organisational governance maturity model, a relatively unexplored area. This fact, as well as the limitations of the study, indicates future research opportunities. Further research could be conducted to develop a best practice model that would then be available to the IAF to assess the adequacy and effectiveness of organisational governance. This model could then be incorporated into the IIA's guidelines to its members, which would enable the latter to more effectively provide assurance and/or consulting services relating to organisational governance.

ENDNOTES

- ⁱ For purposes of this study, a framework includes all systems, structures and processes that an organisation considers necessary in order to implement in its governance strategy.
- ⁱⁱ Publications from the IIA acknowledge the fact that the terms corporate governance, organisational governance and governance are used interchangeably to describe the same concept (Hermanson & Rittenberg 2003:26-28; IIA 2006:3-4). The first and second King Reports refer to corporate governance, whereas King III refers to governance due to the fact that it is applicable to all types of organisations (IoD 1994; 2002; 2009). It is therefore argued that the term organisational governance is the most encompassing term, as it implies that the focus is on the governance of any type of organisation and not only corporate/private or publicly listed companies. For the purposes of this study the term organisational governance will be used.

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