

Four Reasons to Audit Your Scorecard

A paper in the Performance Perspectives Series by Dr. Bob Frost

Your financial measures are audited regularly to ensure that they are accurate and meet professional standards; there are even better reasons to audit the rest of your performance scorecard.

Perhaps you have strong performance measures in your organization and use a Balanced Scorecard, or something similar, to review and manage performance. And like every other organization, you know very well the value of auditing your financial documents and measures of financial performance. But what about auditing the rest of your scorecard—the validity, usefulness, strengths and weaknesses of the measures that drive financial results? Should you be thinking about such an audit? What are the benefits?

What Is a Scorecard Audit? Like any true audit, a scorecard audit will compare your practices against key criteria: professional standards, best practices, and their suitability or usefulness to your enterprise. An audit provides an independent, impartial assessment of how you track the performance of your enterprise and the quality and suitability of the data you use for this tracking.

The particular audit model we use specifies 17 factors for each audit, grouped along four dimensions: content of the scorecard, value to users, technical validity, and reporting methods. Relying on such a model helps give you a straightforward, efficient audit with actionable data for improving your system.

Why Audit? Once optimized, your scorecard provides an accurate tracking of enterprise performance, stimulates action on emerging issues, and supplies a rich backdrop of relevant information against which to make strategic decisions. It functions as a key management tool and should be a significant part of the

foundation from which you lead the enterprise. An independent professional audit is the best way to assess the success of the system and better realize these goals.

Perhaps you believe it's self evident that performance measures should be carefully audited. Many people would generally agree. But let's be more specific about the reasons:

- 1) *Audits validate system design*, ensuring that you have the right measures and right scorecard design to address the two fundamental issues in enterprise performance: strategy execution and operational efficiency.
- 2) *Audits improve user satisfaction*, by checking the quality of information available to managers and the means by which these data are incorporated into the process of managing the organization.
- 3) *Audits improve data quality*, through careful examination of the performance data, the analyses performed on the data, and the comparatives presented. Leaders are assured that the right topics are measured *and* that reliable numbers are being presented.
- 4) *Audits drive change*, because an outside assessment and analysis can more readily galvanize action and bring focus to your improvement opportunities.

As they use performance measures over a period of time, two things happen for business unit and workgroup leaders at all levels. First, their requirements change as new circumstances arise and, second, leaders learn more about the measures they need and what drives the right actions. An outside examiner is uniquely positioned to gather relevant data on this experience, sift the significant issues and lessons learned, and promote the changes that better serve your organization.

Where to Start? If you are contemplating an audit of your performance measures, you have several tasks ahead. Here's how to get started:

- 1) Determine the benefits you want from an audit. Consider your priorities carefully because you may not need to thoroughly audit every aspect of your performance measures.
- 2) Consider the merits of an internal audit vs. one by an external firm. Your audit function may be well equipped for this task and able to meet your timeline. And, you may also feel it's appropriate to identify and evaluate potential external audit firms—ask what they recommend for your circumstances, the steps in their audit process and, of course, the time and fees involved.
- 3) Complete your selection process. If you are using an external firm, you will want to narrow the field, interview, and check references and credentials.
- 4) Pave the way for a smooth audit by ensuring the required materials are available and people are prepared to cooperate.

Easing into an audit this way ensures that you maintain control, that the work will be designed to suit your particular requirements, and that you will have all the

right information in hand before you must make any decisions. Please accept my best wishes in all your efforts as you examine and improve your performance measures.



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