



Professional guidance for internal auditors

An introduction to projects and project auditing

This guidance provides a brief introduction to the management of projects and the roles that internal auditors can play.

It briefly explains the difference between a portfolio, a programme and a project, the various stages involved in a project, the methodologies that can be used to help deliver a project, the key players involved and risks to success. The guidance also considers the activities that internal auditors can perform to help the organisation ensure success within its projects.

With such a wide range of material within this area it is only possible to provide an overview of project management as a basis for further research and training. We have included references at the end of the document that will facilitate a more in-depth consideration of the subject.

What is a project?

A project can be the construction of a new building, the implementation of a computer system, a major staff reorganisation, an acquisition or disposal within a business, the roll-out of a new product or service and much more. This means it is difficult to provide one simple definition.

The Oxford English dictionary definition, describes a project as “an enterprise carefully planned to achieve a particular aim”. The Association for Project Management adds the idea that a project has a limited lifespan by defining a project as “A unique transient endeavour undertaken to achieve a desired outcome.” Using these and other definitions it is possible to identify the key characteristics of a project:

A project is finite – activities have a defined start and finish;

Project deliverables are designed to meet specific business objectives;

Planned activities are undertaken to create the deliverables;

The project requires a defined amount of resources; and

A formal organisation structure is set up to manage the project, with defined roles and responsibilities.


The basic role of internal audit in projects remains the same, to provide independent assurance and consulting services in relation governance, risk management and control.

What is the difference between a portfolio, programme and a project?

Distinguishing between a 'portfolio', a 'programme' and a 'project' presents a problem because the terms are often confused with one another. A good way to avoid confusion is to think in terms of a pyramid hierarchy. At the top of the pyramid is a portfolio, followed by

programmes and then projects which are prioritised according to business objectives and needs. As you go up the pyramid from the bottom then the budget, life expectancy, complexity and interdependencies all become greater.

The Office of Government Commerce (OGC) document '*Portfolio, Programme and Project Management Maturity Model*', known as P3M3 is a tool to assess and initiate improvement in an organisation's approach to implementing change, it provides a useful explanation of terms:

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- A portfolio is as a collection of programmes or projects that define the totality of the organisation's investment in change to facilitate strategic business objectives. The programmes and projects may not be related except to the extent that they are identified, prioritised and authorised with a view towards achieving a set of strategic business objectives.
 - A programme is a collection of projects that are linked together by a business need and clearly defined benefits. This could be an IT programme designed to improve customer service that contains an internet upgrade project, invoicing and customer complaints projects. A programme is therefore likely to involve a number of different departments or functions within the organisation and can span several years.
 - A project is a unique set of co-ordinated activities, with definite starting and finishing points, undertaken by an individual or team to meet specific objectives within defined time, cost and performance parameters as specified in the business case.

Why are projects important?

Failure to deliver a project on time, within budget and to specification poses a major threat to the strategic direction and financial viability of any organisation. There are links to a number of examples within the other website references that illustrate this.

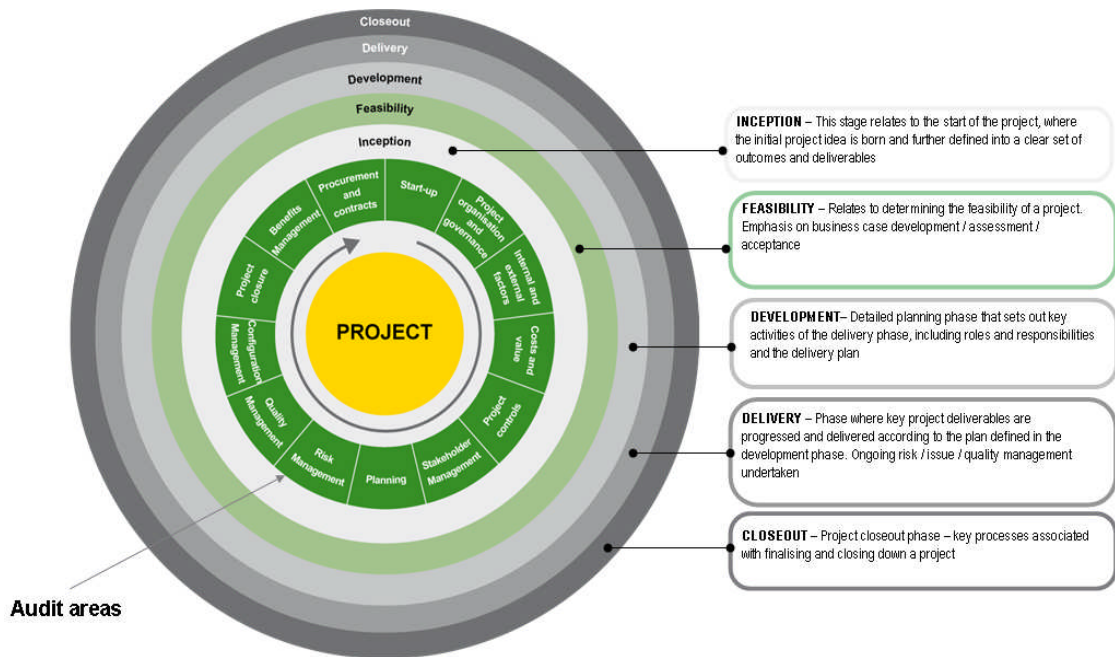
Every project is different but the things that go wrong tend to fall into two categories – aspects of completion such as time, cost and delivery and failure to achieve the outcomes and benefits. All too often the completion failures are the ones that grab the headlines but the outcome failures can have the greatest impact. Managers and internal auditors need to understand which will have the most impact in their organisation. A project that achieves all the delivery criteria but fails to deliver the expected outcomes or one that delivers the expected outcomes but overruns on time and budget?

The success or failure of a project can have a significant impact on the organisation's ability to provide a much needed service, take advantage of a market opportunity or ensure compliance with the law and other important requirements. Success or failure of a project will also have an impact on the organisation's reputation, the confidence of its stakeholders and financial performance. Benefits should not be an afterthought but the primary consideration when designing and delivering a project.

Project activities and lifecycle

A project can be split into a number of activities or stages. The lifecycle refers to the overall time span and progress of the project made up of the individual activities and stages. Not all projects will visit every stage as projects can be terminated before they reach completion but what happens during each of these stages needs to be firmly defined with clear boundaries. The important thing to appreciate is that it is an orderly process that involves a series of steps and procedures to bring about a successful outcome.

The diagram developed by the internal audit team for projects at Transport for London illustrates the progression through the stages and the sort of activities that may take place within each stage. It is therefore possible to manage the steps, procedures and stages through a process of project management. It is worth noting that in some cases the "project" may finish but the "change" may continue for some time after the project team has disbanded, particularly in terms of the delivery of benefits.



Project management

Project management is the process by which projects are defined, planned, monitored, controlled and delivered to achieve agreed outcomes and benefits. As there are many people involved with different disciplines and expertise a key task is to ensure that everyone knows what is expected of them. This requires the definition and scheduling of activities in terms of duration, cost, resources and interdependencies. It is important to keep in mind that the overall aim is to deliver objectives and benefits efficiently and effectively.

Knowledge, skill and experience in project management are critical to achieving successful projects. The organisation will need qualified and competent project managers, either in-house employees or appointed consultants, with a proven track record to develop and apply its project management process. It is also important to have good project control knowledge amongst members of the Project Board.

Key players within programmes and projects

A successful project requires a wide range of stakeholders to cooperate and work together. The nature of their roles will depend upon the scale of the organisation, the type of projects, and the size of the project portfolio or programme. The following table is a list of potential roles which may be part of the project management process. There are likely to be variations between organisations and it is useful to recognise that these are roles and may not necessarily individual posts. In some cases a role may be combined into part of a person's larger job, in smaller organisations one person may have a number of roles.

Project sponsor	Users	Stakeholders
The project sponsor is an individual or group for whom the project is being undertaken. This is usually a senior manager or executive responsible for identifying the business need, holding the project budget and responsible for delivering the benefits.	Users specify operational requirements and are also the people who will ultimately accept the end product from the project. User responsibilities include identifying the project requirements, stating project constraints and testing.	This is a person, group or organisation that is affected by or has an interest in the activities of the project.
Supplier or specialist	Project Board or Steering group	Project Team
The person who provides the expertise to do the actual work on the project (i.e. will be designing and building the outcome) is called the supplier or specialist. This may be an in-house or contracted service.	The Project Board or Steering group ensures strategic direction of the project. They are responsible for monitoring progress to plan, managing risk mitigation and for making decisions at defined points.	The project team is responsible to the Project Manager or Stage Manager for undertaking tasks and managing risks within the constraints of the project.
Project Manager	Stage Manager	Project Office
This is the person responsible for managing the entire project and is accountable to the project sponsor.	The Stage Manager is someone appointed by the project manager who has similar roles to the project manager but only for a particular section or stage of the project.	Some organisations or large projects have project offices, project management offices or corporate PMOs to provide a range of support functions.

Project assurance

Providing a view of how a project is progressing is known as project assurance and is the responsibility of the Project Board or Steering Group.

Project assurance is about checking that the project remains viable in terms of costs and benefits (business assurance), checking that the users' requirements are being met (user assurance), ensuring procedures and rules are being followed (quality assurance) and that the project is delivering a suitable solution (specialist or technical assurance).

In some organisations assurance may be delegated to or be supported by a Project Assurance Manager or Project Assurance Team and may therefore feature in the list of key players. In other organisations assurance may remain with individual members of the Project Board.

Project assurance therefore means different things in different organisations and is likely to be influenced by the strategic importance of projects, the level of investment and the significance of risk. Project assurance can also involve the design of a framework, provision of advice for those involved in a project, start up reviews at the beginning of each stage in the lifecycle, post implementation reviews and generally communicating lessons learnt from projects.

It is therefore important for the internal auditor to understand who provides assurance, who it is provided to, how it is provided and the scope of assurance activities as this will influence the nature of what internal audit includes within the annual internal audit plan. For instance internal audit may provide project assurance in organisations where no support exists, provide assurance upon the reliability of the project assurance provided by management, providing advice to managers who have a project assurance role or some combination of these activities.

Risks to the success of a project

Typical risks that may occur in a project are:

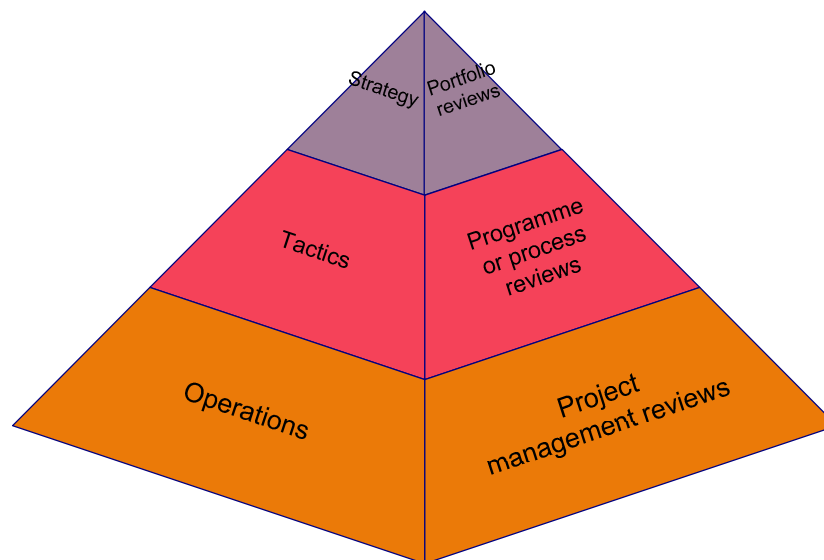
Risk	Potential impact	Possible response
Absence of clear links between a project and the organisation's key strategic priorities.	<p>The opportunity cost of not being able to progress a project with more strategic importance.</p> <p>A lack of clear direction may result in a waste of time, effort and cost.</p> <p>Loss of stakeholder support if agreed critical success factors are not met.</p> <p>Damage to the organisation's reputation.</p>	<p>Ensure that projects are linked to strategic objectives through a prioritised, structured portfolio approach</p> <p>Ensure a baseline project plan is in place for the entire duration of the project that clearly articulates how benefits will be realized.</p> <p>Ensure the plan is redrawn and checked for viability when changes to the specifications are made.</p> <p>Ensure lessons learned from previous projects have been applied.</p>
Lack of clear senior management ownership, support and leadership.	<p>Project will not be regarded as important and will miss important deadlines and targets.</p> <p>A lack of commitment results in slippage in time and cost.</p> <p>Conflicts within the project.</p>	<p>Ensure there are clear governance arrangements in place for the project.</p> <p>Deliverables should be clearly specified in the project scope and signed off by senior management at the initiation stage.</p> <p>Provide individuals with clear performance objectives (that may run alongside their business as usual objectives) and provide them (and possibly their business as usual line manager) with regular feedback.</p>
Lack of effective engagement with users and stakeholders.	<p>Unrealistic expectation upon the project</p> <p>End product delivered will not match user or stakeholder expectations and requirements.</p> <p>Damage to the organisation's reputation.</p> <p>Failure to achieve key strategic objectives – outcome is not fit for purpose.</p>	<p>Engage users and stakeholders in the definition and agreement of detailed requirements.</p> <p>Engage users and stakeholders in decision making following the completion of feasibility studies.</p> <p>Stakeholder representation on the Project Board.</p> <p>Ensure stakeholders are identified and involved in setting outcomes and deliverables.</p> <p>There is an evaluation at the end of each stage by the Project Board (and/or by others) against SMART – (Specific, Measurable, Achievable Relevant and Timely) business benefits and criteria stated in the business case.</p> <p>Require user sign-off at milestones stages.</p> <p>Ensure training documentation and testing by users and stakeholders.</p> <p>Design and gain agreement to a responsibility matrix to determine who will do what, when and how.</p>

Risk	Potential impact	Possible response
Lack of resources, skills and proven approach to project management.	<p>Poor management of project which may lead to delays in delivery, increased cost, and poor quality.</p> <p>Damage to the organisation's reputation.</p>	<p>Appoint experienced/qualified project managers.</p> <p>Agree the project management methodology if there is no set standard in place.</p> <p>Build resource requirements into business case and feasibility study.</p> <p>Ensure the project has been broken into stages with a clearly defined allocation of resources and responsibilities.</p> <p>Ensure the interdependencies and relationships have been considered, documented and reviewed.</p> <p>Ensure project timescales are realistic taking into account dependencies.</p> <p>Bring in outside resources where necessary.</p> <p>Ensure consultants are paid by results linked to specific duties and responsibilities</p>
Poor communication and lack of openness on the purpose and benefits of the project	<p>Evaluation of proposals driven by initial price rather than long-term value for money and benefits.</p> <p>Failure to deliver real benefits and outcomes.</p>	<p>Ensure that the evaluation of the project takes into account overall business needs, value for money and affordability and adopts a balanced view.</p> <p>Development and application of a communications plan</p> <p>Project changes are impact assessed then reviewed and approved by the Project Board</p>
Lack of understanding of, and contact with the supply industry.	<p>Project may not attract good competitive interest leading to poor quality</p> <p>Customer – client relationships breakdown that result in delay or inability to complete project</p>	<p>Evidence of ensuring sufficient measures have been taken to ensure a large interest.</p> <p>Establish a shared risk register if appropriate.</p>

What can internal audit do?

There is a great deal that internal audit can in relation to portfolio, programme and project management to help the organisation achieve its strategic objectives. However, the basic role of internal audit remains the same, which is to provide independent assurance and consulting services in relation to governance, risk management and control.

The fact that there may be many interrelated projects spanning several years does present a challenge to some internal audit activities. This necessitates additional time to plan, organise and coordinate the reviews that take place at various management levels, as illustrated in the diagram below.



Portfolio reviews

This type of review focuses upon governance by looking at the extent to which projects are designed and prioritised. These internal audit reviews consider how projects are selected against strategic objectives, how strategic risks are identified and managed and whether benefits and outcomes are realised from projects. The completion of such reviews therefore provides an indication of the organisation's maturity in terms of managing and delivering change.

Programme and process reviews

Internal audit activity at this level can make an effective contribution by considering how well a programme is being planned and controlled, examining the management of communications, critical dependencies and risks.

In addition there are a number of processes for managing and delivering projects that can be incorporated into an internal audit plan. This includes the application of methods, approaches and standards several of which are included within the Transport for London diagram presented earlier. For example within 'Start-up' a business case review can examine the assumptions and justification for projects looking at the accuracy and validity of the information presented to the organisation's decision makers. This might involve evaluating how the business case ties in with the portfolio objectives. By their nature these reviews can be more complex than project management reviews.

Project management reviews

The internal auditor can adopt a risk based approach to the selection and review of individual projects. This requires some initial research to determine relative importance. For instance find out what a project is about, who is running it, understand the nature of the risks and determine who, if anyone, is providing assurance. This will enable the internal auditor to consider and agree the scope and level of assurance and consultancy services with management, which might include:

- compliance with policies, procedures and controls built into the chosen project methodology**
- the effectiveness of risk management procedures and risk mitigation**
- the adequacy and effectiveness of controls built into operations**
- the ongoing financial viability of projects**
- the achievement of user requirements and other project benefits and outcomes**
- the reliability that can be placed upon project assurance**

A number of project management reviews within the annual internal audit plan may be combined to provide a process review of the project methodology provided this is agreed with management at the outset.

A typical approach to project management reviews is for the internal auditor to join a Project Board or team with the inclusion of time in the audit plan for meetings. Anyone who has done this will know that it involves a considerable time commitment. There are advantages and dangers with this approach:

Advantages	Dangers
It enables internal audit to be at the heart of what is happening and have the opportunity to influence decisions as they are made. In a fast moving project this may be the only opportunity.	Internal audit involvement can compromise independence in the future. This could apply when internal audit assess programme/project management or audit the process or activity that was the basis of the project.
If done well it raises the standing of internal audit within the business as a trusted advisor.	Internal audit attendance can also be interpreted as 'audit approval' or audit sign-off'. The implication being that everything is satisfactory and on course.
To ensure appropriate controls are installed.	Project Board meetings often include detailed discussion about the adequacy of risk responses and the nature of specific controls to justify the presence of internal audit but this can slow down, even delay progress. Internal audit may not need to be part of Project Board meetings to provide advice through their consultancy role.

While an invitation to take part in a Project Board is recognition that internal audit has a valuable role to play it is important to be clear about what they will gain from regular attendance. Involvement should have a specific assurance or advisory purpose that is discussed, documented and agreed with senior management and then shared with the audit committee. Internal audit should not be part of the management sign-off process or be part of the decision making. Measures may also need to be taken to ensure that internal audit involvement is understood and does not compromise the independence and objectivity of any future work. These measures might include involving different members of the internal audit activity in future work concerning the project.

An alternative approach would be for the internal auditor to schedule attendance at one or two selected during the audit of a project to consider specific issues such as the management of risk, validation of progress and to observe that appropriate information is being received, scrutinized and challenged. The full extent of internal audit's involvement in project management reviews will depend upon the number and relative importance of projects to the

organisation and how they fit into the overall landscape of risk. Major initiatives may be something of a rarity, whilst other organisations may be entirely project based and have multiple projects running simultaneously. This raises a number of questions for internal audit:

Which projects do we audit?

When is the best time to carry out an audit of a project?

Do we have the necessary resource, specialist skills and experience to perform audit engagements that are effective and credible?

Planning project management reviews


Internal audit should engage with management and the audit committee to develop an approach to audit planning that is based upon the organisation's profile of portfolios, programmes and projects to support the achievement of strategic objectives. In terms of specific projects there needs to be straightforward criteria, questions and measurement of priorities. It is possible to highlight audit priorities by using a simple assessment tool such as the following:

Strategic importance	How important is the portfolio or programme to our strategy and goals?	Low/Medium/High
Investment	What is the overall financial commitment to the portfolio of programme?	<£1m/£1m-£5/>£5m
Benefits	How will the portfolio or programme impact on our financial performance?	<£10m/£10m-£20m/>£20m
Compliance	Does this portfolio or programme require legal and regulatory compliance?	Low/Medium/High
Complexity	How complex is the portfolio or programme?	Low/Medium/High
Completion	How much of the portfolio or programme is complete?	Early/Middle/Late
Risk	What are the major risks associated with the portfolio or programme?	Risk rating 1-10

While the tool is simple it can easily become more sophisticated by adding or amending the criteria and measurement priorities to suit the organisation's circumstances. Weightings could also be applied to add further sophistication. Some internal audit activities may already use a similar approach for wider audit planning and the tool may only need slight adaptation to cater for project management. Measurement criteria can therefore produce a risk based audit plan that maximises resources. The outcome will be a list of priority projects for senior management and the audit committee to agree upon.

Project auditing resources

Planning will also help to determine whether internal audit has enough resource with the right competencies, not only for project management reviews but for all of the forms of review that we have mentioned. Some difficult choices may have to be made on how to allocate available time especially as demands for assurance around other risks such as



fraud, financial management, IT and other business operations have to continue to be met. Where the need for assurance and advice exceeds available audit time senior management and the audit committee may judge that additional resources are justified but in order to obtain this internal audit must be able to demonstrate a solid understanding of project management and its techniques.

Project management is a multi-disciplinary subject and internal auditors will require knowledge, skills and experience in a number of areas to demonstrate their competency. This includes knowledge of project management techniques, an understanding of the preparation of business cases, an appreciation of portfolio / programme planning, application of risk management in projects, forms of contract and their management and a general ability to work with managers at different levels with different skill sets.

Some internal audit functions turn to external support for the knowledge, skills and experience they need in the same way that IT auditing skills may be purchased. This can be done on a project by project basis or on a more ongoing permanent basis. While other internal audit functions in predominantly project based organisations might create their own multi-disciplinary teams that contains competencies in internal auditing, change management and project management. Some of whom may be co-opted into internal audit for short periods of time from other areas with the organisation. Competency can also be nurtured and developed in the medium term through training and development.

Risk management

Each type of review enables internal audit to consider whether there is effective risk management at each level – strategic, tactical or operational. This is particularly important where internal audit provides an overall opinion upon the effectiveness of risk management arrangements. For some organisations project risk management may be at an early stage of development and internal audit can provide advice and support as part of its consultancy role. Aspects of project risk management to consider include:

The extent to which the organisation has determined its risk appetite in overall terms and in relation to individual projects – acceptable levels of risk in strategic, financial, operational, reputational, and compliance terms.

Whether project risk management is consistent with the organisation's risk management and reporting process and is embedded and applied consistently at each level of management. The nature of project means that risks need continual assessment with appropriate action.

The extent to which project sponsors, stakeholders and ,particularly, end users are involved in the design of risk management processes, the identification and assessment of risk and the development of mitigation strategies for both project management and deliverable risks.

Whether there is a shared understanding of risk within the organisation, including and external delivery partners.

Whether reliance that can be placed on assurance – from management and internal assurance providers

Conclusion

The importance of internal audit in the management of project risk will continue to grow as the tendency for organisations to use initiatives to drive change and operational transformation continues to intensify. As organisations realise the strategic importance of projects they are looking to their internal audit activities to provide them with assurance and advice over their governance and delivery. Internal audit may not be able to provide full coverage of projects but can initiate reviews at different organisational levels according to their perceived priority to provide an opinion on the effectiveness of project governance, risk management and control.

However, the board have high expectations and need to be convinced that internal audit can approach the task with confidence and that it has the capacity to deliver assurance around these business critical and potentially risky investments. Internal audit must be confident it has the right mix of resources and competencies to address different types of projects and different types of review.

Relevant standards and guidance

Specific references to any part of the *International Professional Practices Framework*

Definition of Internal Auditing

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 its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

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Code of ethics– extract

Principle	Rules of conduct
4. Competency Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.	Internal auditors: 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience. 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing. 4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.

Standards

1210 Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Interpretation: Knowledge, skills and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

1210. A1

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Practice Advisories:

1200-1 Proficiency and due professional care

1210-1 Proficiency

1210. A1-1 Obtaining external service providers to support or complement the IA activity

Practice Guides:

The Global Technology Audit Guide (GTAG) series contains GTAG 12 [Auditing IT Projects](#). While focused on IT the GTAG has wider application and considers the different types of internal audit reviews that are possible and an approach to project audit planning.

Web-sites and other references

The Institute's web site

See the following magazine articles in the archive at

http://www.iaa.org.uk/en/Publications/IA_and_BR_Magazine/Archive.cfm

Learning the lessons of failure April 2006

On the straight and narrow January 2007

Why do projects fail? September 2008

Into the black hole October 2008

Other web site references

There are a number of web-sites that provide information and resources on project management. Here are just a few that may be helpful:

The [Office of Government Commerce](#) (OGC) has an extensive range of information with regard to programme and project management. This including a step by step introduction to project management and the [OGC gateway review process](#) that examines projects at key decision points in the lifecycle. The OGC also offers a range of information regarding the application of the project management process [PRINCE 2](#), which includes information on the [Common Causes of Project Failure](#) – OGC best practice 2005. While [Portfolio, Programme and Project Management Maturity Model](#) – OGC 2008 can be found through the [P3M3](#) official site of the OGC.

The resources section of The [Association of Project Management](#) UK provides a wide range of information on project management including the 5th Edition of the APM Body of Knowledge. The website also contains details of the APM practitioner qualifications.

The UK Department of Business Enterprise and Regulatory Reform (BERR) published [Guidelines for Managing Projects](#) in 2007. While the [UK Department for Business Innovation and Skills](#) provide a number of useful project management templates, including business case, project brief and project initiation.

The [Project Management Institute UK](#) and the [Institute of Project Management](#) Ireland provide a range of opportunities for professional development and a library of global standards and publications, most of which require to be purchased including the Project Management Body of Knowledge (PMBOK guide).

The British Standards Institute standard [BS 6079-1:2010 Project Management](#) provides principles and guidelines for the management of projects. This includes guidance on sponsorship, management, planning, undertaking projects and application of project management techniques. The principles provided in this standard are as relevant to small organizations and for small projects as they are to major organizations with multimillion pound projects spanning several years.

Examples of project failures reported on the BBC website include: completion of [Wembley Stadium](#) 2006, baggage problems at [Heathrow Terminal 5](#) 2008 and the [government project for tracking offenders](#) 2009.

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