



European Confederation of
**Institutes of
Internal Auditing**

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INTERNAL AUDIT'S ROLE IN PROJECTS

ECIIA PUBLIC SECTOR COMMITTEE



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01

Introduction

The ECIIA promotes strong corporate governance and audit across Europe. The ECIIA'S Public Sector Committee have been examining IA's role in projects.

The Chartered Institute of Internal Auditors in the UK have issued a Technical Guidance Note on projects and this as a good reference source. More recently the UK's National Audit Office have issued a report on governance and decision-making on mega projects.

Whilst these and other organisations have advised on project assurance the Committee believe that the subject is worthy of further investigation to discover best practices in European Public Sector audit and to provide further guidance to internal auditors.

This position sets out the thoughts of the Committee.



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Background

A project is a business initiative designed to achieve change/ improvement. It tends to be a 'one-off' piece of work which frequently breaks new ground and for which there are no precedents.

It is designed to meet specific business needs within a prescribed timescale. It involves a number of inter-related tasks and usually impacts on more than one functional area.

There are various types of project including:

- Development of a new product/ service
- Introduction of new technology
- Re-engineering of a business process
- Reaction to new legislation
- Quality improvement initiatives
- Construction works, etc.

Projects in both the public and private sectors, however, do not have a good track record of success. Projects can require considerable investment in terms of finance, people and systems and if they are not successful this can result in significant loss and/or failure to realise savings/efficiency gains as well as commensurate reputational risk.

Projects are concerned with change and therefore have a significant impact on an organisation's risk profile. It is therefore imperative that projects are managed effectively to ensure that the benefits accruing from the project investment are optimised.

Project management is a significant activity requiring individuals with leadership, interpersonal, technical and commercial skills.

Whilst there are well established methodologies for managing projects, there are a number of areas that internal auditors should consider in relation to projects.

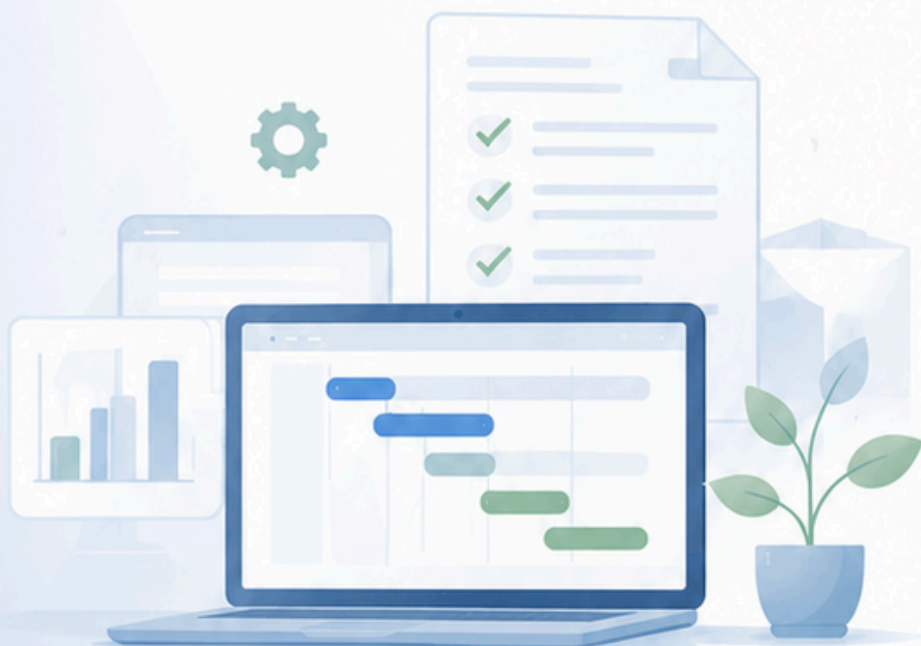
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Internal Audit's Approach to Projects

Projects can provide a considerable challenge to IA in terms of approach, resources and skills. At the same time, projects present IA with a great opportunity to provided real added value.

IA's involvement could span the entire project life cycle or individual steps, from initiation to closure. To help determine this involvement, IA should adopt a risk-based approach.

IA's role is to provide independent assurance and consulting services in relation to governance, risk management and control. IA should assess the relative risks associated with projects when prioritising its work plan.





GOVERNANCE

With regard to governance, internal audit should review the processes whereby projects are generated, selected and prioritised and how they align with the organisation's strategic objectives.

Once a project has been selected for implementation, IA should familiarise itself with the methodology to be used. It should then focus on the key project risks.

Project governance is an important area for IA to review, including, for example:

- Who has overall responsibility for the project?
- What controls have been established to ensure that the project remains within budget and on track to achieve the desired benefits?
- Is risk management embedded in the project (e.g. identifying, assessing and managing potential risks)?
- Who is providing assurance?



ONGOING INVOLVEMENT

Once the project is up and running IA needs to decide on its ongoing involvement.



Does IA have the necessary skills to audit projects?

If not, could we consider co-sourcing or outsourcing?



SHOULD IA HAVE A SEAT ON THE PROJECT BOARD / STEERING COMMITTEE?

Whilst it has been argued that this may compromise IA's independence, **the benefits of IA's involvement generally outweigh this concern.**

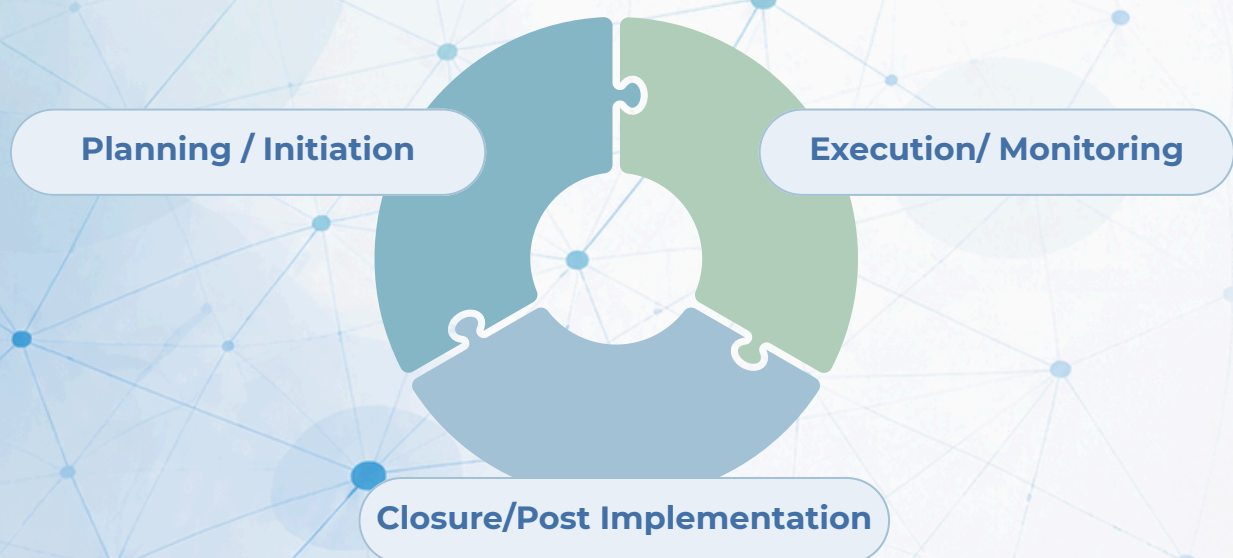
Early involvement provides IA with valuable insight and understanding of the project, while also creating opportunities to influence governance, risk management and controls at an early stage. The perceived threat to IA's independence can be mitigated by clearly establishing that IA is not part of the decision-making process. Where IA has a seat on the Project Board or Steering Committee, its role should be clearly defined from the outset as advisory only, with no decision-making authority or voting rights.

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Specific areas for Internal Audit to consider in relation to projects

Projects require resources and it is important for these resources to be utilised in an effective and efficient manner. A structured approach to project management is therefore essential and will help to ensure the project's success. Thorough planning is a pre-requisite for project success. It should define what has to be done and how it will be achieved. It should be communicated to ensure a common understanding.

There are a number of key factors that internal audit should pay attention to as set out below, analysed over three key phases, ie Planning/Initiation, Execution and Monitoring, and Closure/ Post Implementation.



1

Planning / Initiation

- **Is there a Business Case/ Budget?**
- **Has the project been properly defined?**

Project Definition – This should set out the business need, stakeholders, the product/ service required, how it is going to be delivered, costs, benefits and risks. Project objectives should be clearly defined and align with strategic goals.

[NB Decisions taken in the early stages have the greatest impact on the eventual outcome. Good upfront definition is therefore vital for a project's success]

- **Has the project been properly approved?**

Project approval – a formal approval process for projects should be set out in the organisation's financial regulations. There are 3 important questions to be asked before project commencement:

- Has the project been appropriately authorised?
- Is the project commensurate with the business strategy?
- Have other options been identified, evaluated and considered?

- **Is there a clear sponsor for the project?**

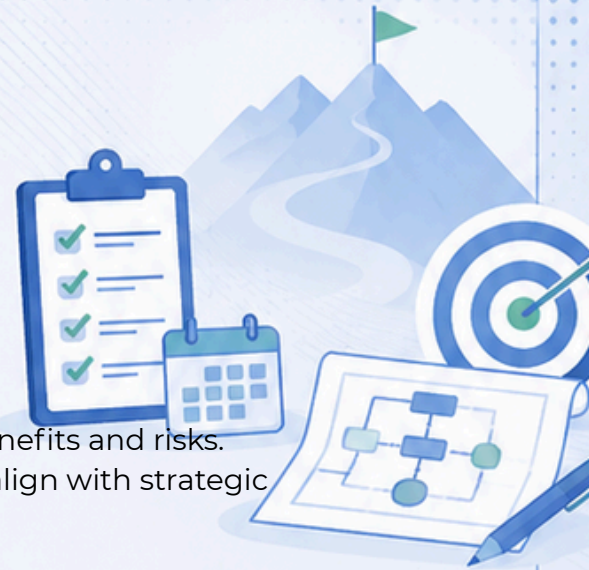
Project sponsor – effectively acts as the 'buyer' of the project on behalf of the users and organisation as a whole

[NB Politicians may promise benefits to citizens that are not reasonably achievable. It is imperative that expectations are aligned with those of management]

- **Has the project been properly planned?**

Project planning is another key essential to project success. There should be an overall project plan broken down into constituent parts and showing key milestones.

The project manager should ensure that progress against this plan is regularly monitored and reported and that, where necessary, remedial action is taken. The project manager should ensure that the plan is capable of being resourced, both in totality and to the prescribed timescales.





- **Is there a formally defined project methodology?**

It should govern the project's lifecycle from its inception right through to post implementation review.

It should ensure that processes are in place to secure and demonstrate the costs, benefits and value for money of the project and that associated risks are understood and effectively managed.

- **Is there effective project management?**

Project managers are responsible for the management of projects. They require additional skills to those practised in normal line management. In particular, people skills are of paramount importance because projects necessitate overcoming the barriers inherent in any change process. The Project Manager is also responsible for ensuring effective communication on all matters relating to the project.

- **Who oversees the project?**

Project oversight – usually provided by a committee of senior people from different disciplines whose task is to ensure that the organisation's best interests are served. This committee will also act as a forum for resolution of major issues.

- **Who is providing project assurance?** - There is a need for independent assurance and challenge.

- **How is the project being implemented?**

Project implementation – At each checkpoint/ milestone the project should be reviewed to ensure that it maintains congruency with current business objectives, will be delivered on time, the benefits can still be achieved, the costs are in line with budget and that risks and uncertainties have been reduced to an acceptable level. One particular area worthy of internal audit focus is the control over changes to the project, ie variations. There should be clear rules for authorising these variations taking into account increased costs, resources and the impact on expected benefits

[NB To continue with a project that will not deliver benefits commensurate with the investment is an unacceptable waste of resources and a recipe for disaster! If a project ceases to be viable because of, for example, changing business objectives, technical difficulties or other factors, it may well be that the best option is to terminate!]

- **How is the project being “risk managed”?**

Project Risk Management – Projects change an organisation’s risk profile. All projects face threats and uncertainties. The things that might go wrong need to be considered at the early stages.

There are threats associated with the product/ service, ie will it meet stakeholder needs? There are also risk associated with missing deadlines, overspending the budget, not delivering the anticipate benefits/ savings, etc. Continuous monitoring is important to ensure that risks remain within acceptable limits/ risk appetite.

3 Closure/Post Implementation

- **Is the end of the project clearly defined?**

There should be a clear “end point” after which the project becomes part of normal business operations and responsibility transfers from the project team to the user. The project should be ‘signed-off’ by the project sponsor to signify the end of the project.

On completion of the project there should be a post-implementation review to both evaluate the project’s success, ie have the intended benefits been realised at the right cost, and to learn lessons for the future.

Conclusion

The intention of this paper is to provoke some thought about IA’s role in relation to projects. It is our view that projects constitute a very significant area of risk and that IA should carefully consider its approach when planning its work.

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About ECIIA & Public Sector Committee

ECIIA

The European Voice of Internal Audit

The European Confederation of Institutes of Internal Auditing (ECIIA) is the representative body of internal audit profession at European level, bringing together 36 National Institutes and representing more than 58,000 internal auditors across Europe.

Through advocacy, thought leadership, research and engagement with regulators and policymakers, ECIIA promotes strong corporate governance and effective internal audit across Europe.

By fostering collaboration among Institutes and professionals, ECIIA supports the development of internal audit as an independent, objective assurance and advisory function that creates value and strengthens trust in organisations.

PUBLIC SECTOR COMMITTEE



The ECIIA Public Sector Committee promotes good governance and internal audit across the European public sector. It develops guidance and thought leadership papers that can be used as advocacy tools at European and national level, supporting ECIIA and its National Institutes in promoting the role and value of internal audit.