A Guide to Project Auditing

Association for Project Management
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Introduction

1.1 Introduction

Project assurance is a fundamental part of effective project governance. The project audit is the means to provide that assurance and enables the sponsor to have confidence that the governance is working and that the project is being managed as intended. There is currently a considerable amount of information relating to the assurance of projects and programmes, and why it is important. This guide seeks to demonstrate how to plan and undertake a comprehensive audit of a project, thereby providing that assurance.

The guide seeks to explain the role of an audit, how it could be planned and undertaken, the degrees of assurance that can be given, and how project audits can be aligned to organisational governance. Although the guide acknowledges the need for project audits to be integrated with the works of other assurance providers (particularly technical and quality audits) a project audit is a stand-alone process aimed at the three main roles involved in a project.

The three main roles involved in project audits are:

<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation board/audit committee/</td>
<td>Those who schedule the project audit and receive the audit findings</td>
</tr>
<tr>
<td>sponsor/other stakeholders</td>
<td></td>
</tr>
<tr>
<td>Project team</td>
<td>Those whose project is being audited, with whom the auditors interact</td>
</tr>
<tr>
<td>Project auditor(s)</td>
<td>Those who undertake the audit, and report its findings and make recommendations</td>
</tr>
</tbody>
</table>

For any audit to be successful and provide value to all parties, these three main roles must work together and understand each other’s function in the process.

As is common in all projects it is vital that there is a recognition that people undertaking different project roles may have differing interests and perceptions about project outputs, progress and the various stakeholders. This guide therefore
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refers to how audits relate to the various responsibilities within a project and how
to apply the processes associated with auditing in a project context taking project
responsibilities into consideration. These processes include: the development of
an annual audit plan; choosing the auditor/audit team to undertake the work;
developing an audit programme; performing, closing, and reporting the audit;
and undertaking follow-ups.

1.2 Purpose of the guide

This guide is principally intended for use by project auditors in developing an
audit approach to the review and assurance of projects. However, it is also
intended to be of value to anyone involved in the management and administration
of projects, as it records areas of project risk, and identifies audit evidence and
practices. The guide will also indicate those aspects of a project which the
auditors may choose to review, and how the audit will be performed.

This guide is not intended to provide step-by-step instructions on how to carry
out audits on any particular type of project; rather, it will provide guidance which
can be adapted by the user to the circumstances of their own projects. The audit
can then be planned, performed and reported on, and based on the auditor’s
preferred approach, adapted to suit the particular project discipline.

In section 2.2.1, and expanded in Appendix 1, the guide proposes some
elements and areas of interest for review by project auditors, together with the
risks and expected controls to manage those risks. These elements do not form
an exhaustive list so it is recommended that further assessment by the project
auditor is always necessary to decide upon areas of focus before a project audit is
undertaken.

1.3 Structure of the guide

The guide focuses on the various aspects of project audits, to answer the following
three questions:

- What is an audit? (And how an audit differs from other assurance methods.)
- Why do we undertake project audits?
- How should a project audit be planned, performed, evaluated, reported, and followed up?
1.4 What is project auditing?

Auditing is defined by the Chartered Institute of Internal Auditors as ‘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’.

In any audit, the auditor(s) perceives and recognises the propositions before them for examination, collects evidence, evaluates the same, and on this basis formulates an opinion on the adequacy of controls within the activity being audited.

Throughout this guide we use the term ‘project’ to mean ‘a unique, transient endeavour undertaken to achieve planned objectives’ (see APM Body of Knowledge, 6th edition); the audit of programmes and portfolios will require different techniques. Auditing of a project should be seen in the context of the definition of project, programme and portfolio (P3) assurance set out in the APM Body of Knowledge: P3 Assurance is ‘the process of providing confidence to stakeholders that projects, programmes and portfolios will achieve their scope, time, cost and quality objectives, and realise their benefits’.

1.5 Principles of project audit

The APM publication A Guide to Integrated Assurance identifies the principles governing project audit, which are those established for the provision of assurance generally. Project audit should be:

- independent, and supported in this by the organisation board;
- accountable within a governance and reporting system;
- planned and coordinated as part of the organisation’s management system;
- proportionate to risk potential and the assurance needs of stakeholders;
- risk-based, against an independent risk evaluation;
- able to allow the impact of identified weaknesses to be reported and addressed, by follow-up and escalation.
Element 1. Project definition and requirements management: clear and controlled baseline requirements, objectives, success criteria, business case, terms of reference, contracts and benefits realisation

<table>
<thead>
<tr>
<th>Area of review</th>
<th>Risk</th>
<th>Control</th>
<th>Audit methods include</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business plan alignment</td>
<td>The programme/project is not aligned with organisation or business strategy</td>
<td>Formal approval of project start-up recorded and confirmation that it aligns with strategic objectives</td>
<td>Review of appropriate board minutes and documentation</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Review of stage gate (gateway) approvals</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Schedule of delegated authority</td>
</tr>
<tr>
<td>Business case</td>
<td>The business case is not robust, or does not exist or outputs and outcomes are not measurable</td>
<td>Senior responsible owner/sponsor identified with appropriate authority to deliver project outcomes</td>
<td>Review of approved business case to identify responsibilities and ensure that business case template and guidance is available</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Review of approved business case to assess extent of compliance</td>
</tr>
<tr>
<td></td>
<td>Business case does not fit with organisation’s model e.g. five case model: strategic, economic, commercial, financial and management cases</td>
<td>Requirement that business cases take account of approved model</td>
<td>Review of approved business case to assess extent of compliance</td>
</tr>
<tr>
<td></td>
<td>Project cost as stated is not defined effectively or is insufficient to allow delivery</td>
<td>Costs (including life cycle costs) have been reliably estimated and a mechanism exists for these to be refined</td>
<td>Review of cost methodology and processes based on approved business case</td>
</tr>
<tr>
<td></td>
<td>If already funded: Level of agreed funding is insufficient to deliver objectives</td>
<td>Due account is taken of optimism bias in respect of cost</td>
<td>Review of approved business case. Ensure that cost of risk has been accounted for</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Review whether additional funding should be sought to enable successful delivery</td>
</tr>
<tr>
<td>Area of review</td>
<td>Risk</td>
<td>Control</td>
<td>Audit methods include</td>
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</tr>
<tr>
<td></td>
<td>Target dates are unrealistic or overly ambitious</td>
<td>Target dates have been subject to a reality check and a mechanism exists for these dates to be refined</td>
<td>Review of schedule and programme methodology and processes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Due account is taken of optimism bias in respect of target dates and schedules</td>
<td>Review of approved business case</td>
</tr>
<tr>
<td></td>
<td>Business cases are not used as a control against achievement of the project deliverables</td>
<td>Approved business case is used as a change control baseline document, and is subject to periodic review</td>
<td>Assessment of change control mechanisms applicable to project and that business case is routinely updated</td>
</tr>
<tr>
<td>Scope defined including change control processes</td>
<td>The project scope/requirements is not clearly defined or understood</td>
<td>Project scope defined</td>
<td>Review of approved business case – scope must be clear and unambiguous</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Change control processes implemented</td>
<td>Assessment of change control processes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Project manager’s responsibilities and limits of authority defined</td>
<td>Schedule of delegation in PID or approved business case</td>
</tr>
<tr>
<td>Requirements definition – clear/ complete/ understood? Required outcomes clear/agreed</td>
<td>The project’s scope(plan is not baselined at time of project start</td>
<td>Project plan developed to appropriate level</td>
<td>Review of PID and approved business case to ensure clarity of scope and planning</td>
</tr>
<tr>
<td>Authorisation including definition of baseline</td>
<td>The project has commenced prior to formal authorisation</td>
<td>Project governance arrangements reflect organisation requirements</td>
<td>Review of project governance arrangements including authorisation to start projects</td>
</tr>
</tbody>
</table>