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The Institute of
Internal Auditors
Australia

Whitepaper

Auditing Projects

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Level 5, 580 George Street, Sydney NSW 2000 | PO Box A2311, Sydney South NSW 1235

T +61 2 9267 9155 **F** +61 2 9264 9240 **E** enquiry@iia.org.au **www.iia.org.au**

Auditing Projects

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Background

Purpose

This White Paper provides a framework for auditing projects that is more comprehensive than the traditional approach, and helps ensure that key audit concerns are properly addressed.

Background

When auditing projects, it is a challenge to escape the confines of the procedural components of whichever project management methodology is being used. Emphasis may be placed almost exclusively on the 'paperwork', rather than taking a step back and looking at whether management objectives of the project are being met.

The traditional three components of time, cost and deliverables are not adequate to address all audit concerns.

Discussion

Issue

A framework for auditing projects is useful to help ensure that all of audit concerns are addressed in a logical and comprehensive manner.

History

As long as projects have been undertaken, their results have varied from spectacular successes to dismal failures. Projects are often crucial if an organisation is to achieve its objectives. For these reasons, there has historically been a need to review and assess the management of projects. The audit of projects has become more complex with the adoption of formal project management methodologies, and the increased demand for auditing projects real-time as they are being undertaken. Auditors are often expected to identify problems in projects before the problems cause significant damage. This expectation by management has the effect of dramatically increasing the audit risk attached to projects, and highlights the importance of using a framework in the audit of projects.

Discussion

Project Success

The success of a project is traditionally considered in terms of three factors:

1. Completing the project within budgeted costs.
2. Not exceeding the time allocation.
3. Producing all the promised deliverables to the required quality standard.

There are other important factors that should be included in an audit of a project as they are also significant factors in determining the project's success or failure. The other factors are:

- > Are the key stakeholders satisfied with the project?
- > Is the objective or purpose of the project being achieved?
- > Are there shortfalls in the project?
- > Is damage being done to relationships between key parties in the project?

Project success can be shown by a conceptual formula, in which the items in the top line should be maximised, and the items in the bottom line should be minimised:

$$\frac{\text{Deliverables X Stakeholder satisfaction X Project purpose achieved}}{\text{Cost X Time X Shortfalls x Relationship damage}}$$

Figure 1 gives an overview of the factors that should be considered in a project audit. The relative importance of the factors may vary from project to project.

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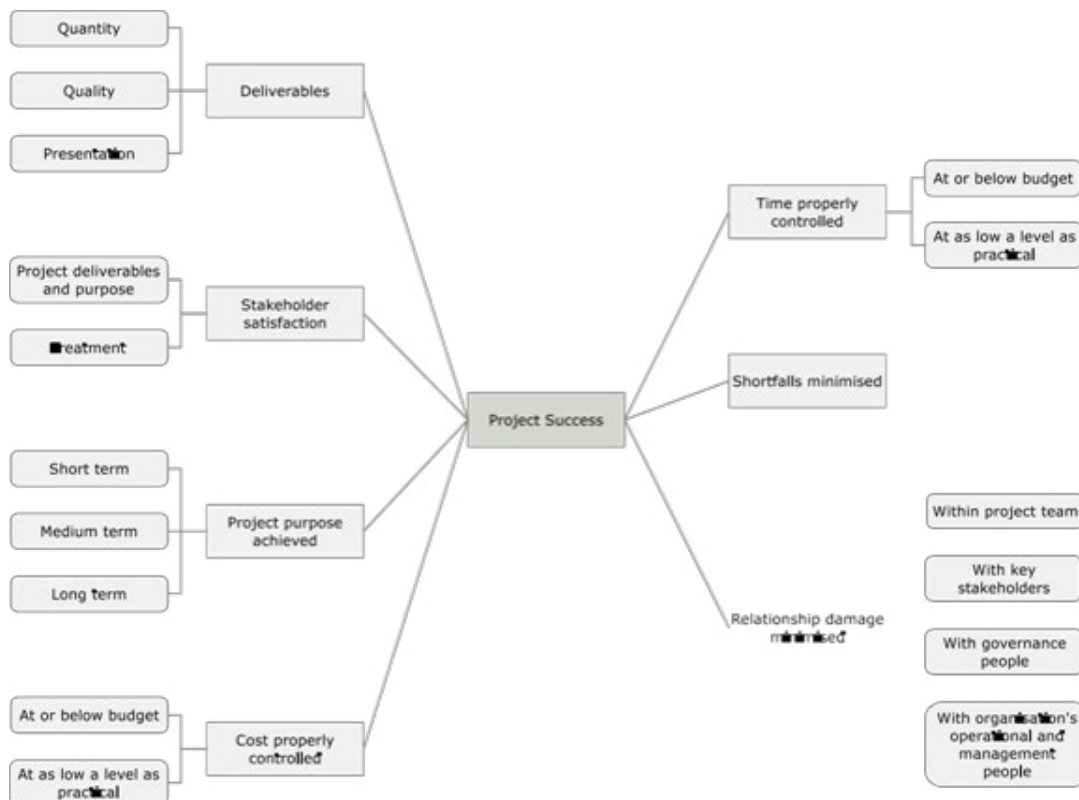


Figure 1: Overview of factors that should be considered in a project audit

Deliverables

Audit considerations might include:

- › Will all the deliverables be produced?
- › Will the quality of the deliverables be at the level specified?
- › Will the delivery be within the timeframes promised?
- › Will the deliverables be presented in a manner that supports their easy use and integration into operations?
- › Is there adequate flexibility to ensure that reasonable and worthwhile changes to deliverables can be made as the project proceeds?

Stakeholder satisfaction

In some projects, all specified deliverables are produced, yet some key stakeholders are dissatisfied with the project. Reasons for stakeholder dissatisfaction are varied, and could include poor understanding of the project and deliverables, unreasonable expectations, project staff not understanding stakeholder needs adequately and not producing what they want, and changes to stakeholder needs being ignored during the project through inflexible change management.

It is crucial for sound project management to go beyond obtaining formal stakeholder sign-offs, to obtaining a deep understanding of stakeholders and their needs, and ensuring the project meets those needs as far as practical. Communication with stakeholders is critical to project success. As the project progresses, it can be gauged whether or not the key stakeholders feel they are being treated appropriately.

Project purpose achievement

Even if all the deliverables of a project are produced, it does not mean the project's purpose will be achieved. It is therefore essential to audit the achievement of the project purpose as a separate matter.

Questions the auditor could ask might include:

- › Are the key objectives of the project clearly stated and realistic?
- › Are there likely important consequences of the project that have been ignored?
- › Are the objectives of the project aligned to the organisation's mission, vision, values, key objectives and strategies?

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- › As far as practical, do the key stakeholders support the objectives, as applied to them?

At each stage of the project, the auditor should consider whether the project is on track to achieve the project purpose.

Frequently, it is beneficial to consider achievement of the project purpose in the short-, medium- and long-term, rather than only the effect immediately after project completion.

Cost

Projects should ideally be completed at or below budget. However, it is important when auditing this factor to take into account changes to the quantity and quality of deliverables, and events that could not reasonably have been anticipated. In many cases, cost overruns are indicative of poor project risk management, and a failure to learn lessons from other projects.

Time

Time management is an essential component of project management, and is therefore an important audit concern. The comments made above about costs may also apply to time.

Shortfalls

Shortfalls may occur at any time in the project lifecycle. There may be shortfalls in the quantity or quality of the deliverables, the testing of deliverables, the ability of deliverables to work together to achieve the project purpose, in reporting and meeting governance requirements, in communications, and in other areas of internal control.

When shortfalls occur, there is a temptation for project managers to not react quickly and adequately, or to overreact. Resources or time may be wasted, and other items that require attention may be given inadequate attention. The risk attributable to the project may increase without management noticing.

Even though many of the potential shortfalls are implicitly addressed under other headings, it is useful to have shortfalls as a separate category to remind the auditor to give them adequate attention.

Relationship damage

As projects progress, it is important project managers adequately address relationships, particularly those between the project team and key stakeholders, the project governance team, project sponsors, operational management, and others. It is important for the smooth functioning of the project for relationships within the project team to be well-managed.

There have been many examples of projects achieving the project purpose and all deliverables within time and cost budgets, yet being deemed to be unsuccessful. Relationship damage may result in a seemingly successful project being harshly criticised by key stakeholders, governance members and general management.

If relationships are well-managed, the consequences of relationship damage may be avoided.

Audit procedures

There is a temptation to place almost exclusive audit focus on the documentation produced by the project management methodology being used. It is noted that documentation may easily hide significant problems. Examples are key stakeholders may have formally accepted the deliverables without being satisfied with them, and changes requested to deliverables might have been formally rejected when their inclusion would have significantly improved the project purpose at minimal cost.

It is recommended that additional audit procedures be considered, including:

- › Interviews with people from the project team, key stakeholders, project governance, users, supply chain and others.
- › Surveys.
- › Facilitated control self-assessment (CSA) workshops.
- › Internal control questionnaires (ICQs).
- › Directional testing for overstatement and understatement.
- › Examining the adequacy and readability of reporting.



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Conclusion

Summary

Audit factors for a project should typically include:

- › Deliverables.
- › Stakeholder satisfaction.
- › Project purpose achieved.
- › Cost.
- › Time.
- › Shortfalls.
- › Relationship damage.

Conclusion

When auditing projects, it is useful to address audit concerns in a logical and comprehensive manner, and escape the confines of the procedural components of whichever project management methodology is being used.

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Purpose of White Papers

A White Paper is a report authored and peer reviewed by experienced practitioners to provide guidance on a particular subject related to governance, risk management or control. It seeks to inform readers about an issue and present ideas and options on how it might be managed. It does not necessarily represent the position or philosophy of the Institute of Internal Auditors–Global and the Institute of Internal Auditors–Australia.

Author's Biography

Written by: Barry Davidow
BCom, BAcc, MTaxLaw, ACA, CFE, CRMA, PFIIA

Barry has over 20 years of experience in internal audit, fraud and corruption control, investigations, governance and compliance. He has contributed to books on fraud control, computer fraud, communications and sociology.

He co-authored IIA–Australia White Papers on Fraud Risk Indicators, Corruption Indicators in Internal Audit, Corruption Related Risks in Decision-Making, Conflicts of Interest: A Framework, Conflicts of Interest in the Award of Contracts, Conducting Fraud and Corruption Investigations and Fraud and Corruption Risk Assessments.

Naveen Moda
BCom, Chartered Accountant (CA ANZ), Diploma in Public Sector Management, Diploma in Investigation

Naveen is currently working with NSW Amblunace in the New South Wales Government, and has 15 years of internal audit experience. He has over 10 years of experience in the public sector, and has managed and delivered a large range of operational, compliance and performance audits.

Edited by: Andrew Cox
MBA, MEC, GradDipSc, GradCertPA, DipBusAdmin, DipPubAdmin, AssDipAcctg, CertSQM, PFIIA, CIA, CISA, CFE, CGAP, CSQA, AIPA, AFA, MACS Snr, MRMIA



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The Institute of Internal Auditors (IIA) is the global professional association for Internal Auditors, with global headquarters in the USA and affiliated Institutes and Chapters throughout the world including Australia.

As the chief advocate of the Internal Audit profession, the IIA serves as the profession's international standard-setter, sole provider of globally accepted internal auditing certifications, and principal researcher and educator.

The IIA sets the bar for Internal Audit integrity and professionalism around the world with its 'International Professional Practices Framework' (IPPF), a collection of guidance that includes the 'International Standards for the Professional Practice of Internal Auditing' and the 'Code of Ethics'.

The IIA-Australia ensures its members and the profession as a whole are well-represented with decision-makers and influencers, and is extensively represented on a number of global committees and prominent working groups in Australia and internationally.

The IIA was established in 1941 and now has more than 200,000 members from 190 countries with hundreds of local area Chapters. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

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