Factsheet: Multi-Stage Audits

Updated 2023

Background

Programs, projects and major business initiatives are often the biggest risks an organisation can have, yet many internal audit functions devote little or no attention to them.

Internal audit functions have traditionally performed project assurance activities generally focused on:

› Project management frameworks – This is an important audit topic to assure the project management approach is sound with adequate governance and assurance mechanisms built-in.

› Post-implementation review some time after a project has been completed – This is not generally helpful as improvements are recommended after a project is completed, though it is understood that 'lessons learned' may be helpful for future projects. Plus, project team members have often moved on to projects in other organisations and cannot be located to provide insights.

What is a Multi-Stage Audit?

Another method used successfully by internal audit functions in some organisations provides agile real-time project assurance reporting, not after a project is completed and it is too late to influence whether it will be successful. This concept is Multi-Stage Audit (MSA).

As the name implies, a MSA is an internal audit service conducted over a number of stages. MSAs aim to provide assurance and assist effective planning, implementation and transition into business-as-usual activities of programs, projects and major business initiatives.

Each MSA stage review provides assurance and assists at critical points over the lifecycle of an implementation activity. This approach aims to provide assurance for informed management decision-making to proceed to the next stage and assure pre-requisites and planning have been effectively completed before launching the next stage.

This can be a valuable assurance tool, especially for auditing high-risk projects and major business initiatives which will be planned and implemented over a period of time.

The idea is that internal audit can provide assurance by adopting a lifecycle audit approach through agile 'short and sharp' assurance activities at key project stages. This provides immediate feedback as the implementation progresses and any areas requiring remedial action can be addressed at the time.

Refer 'MSA Protocol' at Appendix A and 'MSA Process Flowchart' at Appendix B.

Why use MSAs?

The utility and potential value of MSAs to provide assurance around high-risk projects and business initiatives during the project lifecycle can influence senior management and executive committees to seek this service.

It is widely acknowledged this approach is cost-effective, provides added assurance, improves outcomes and reduces later rework, than the alternative which is a post-implementation review some time after implementation is complete.

Further to this, project assurance could be considered as a regular feature of internal audit plans through a periodic rolling program of assurance activities over high-risk projects. Reporting could potentially align to audit committee meetings.

What are the Hallmarks of a successful MSA?

A successful MSA adds value to the organisation. Success of an MSA can be measured by the level of assurance provided against significant risks to the audit committee and senior management.

The success of an MSA can also be measured by the level of assurance provided against compliance obligations, together with gains in efficiency and effectiveness that will enhance the prospects of achieving objectives. Success and value of an MSA depends heavily on co-operation and collaboration between internal audit and project staff.

Another benefit of a MSA is to add to 'lessons learned' for future projects.

How is an MSA conducted?

The internal audit approach to a MSA is to:

› Meet with senior management to review project governance arrangements and ensure risks to project objectives are well-understood and can be effectively covered during the MSA.

› Ascertain project assurance coverage - if solid, internal audit involvement may be minimal or not necessary.

› Meet with the project manager to ensure a proper understanding of the project and its objectives and risks.

› Prepare a plan to evaluate project progress and management of risks at key project milestones.

› Obtain and review documentation around project planning, implementation and risk management.

› Attend project meetings and provide guidance on governance, risks and controls.

› Interact with the project manager and project staff, including co-ordination meetings as necessary and continuously consult on risks.

› Perform review activities at key project lifecycle activities or gateways.

› Prepare MSA reports at key project milestones and discuss with relevant management.

› Provide a final MSA report at conclusion of the project.

Typical documentation needed by internal audit would include project plan, risk management plan and risk / issue registers, stakeholder management plan, communication plan, monitoring and reporting documents, meeting minutes, project action items, control documents, etc.

High-risks to any project stage would be appropriately escalated to allow senior management to resolve risks that may threaten achievement of project objectives.

Acknowledgement

The content of this factsheet has been informed by information provided by Ross Baguley in Canberra, Australia.

Appendix A – MSA Protocol

A MSA is a preferred internal audit capability because, unlike a 'snapshot' internal audit engagement, a MSA provides a series of snapshots and provides ongoing assurance throughout the planning and implementation stages of a new program, project or business initiative.

Internal audit involvement up-front with major projects through a MSA approach at key project milestones is widely accepted as superior to end-of-project reviews 'after the event' that seek to retro-fit improvements.

Internal audit assurance should include advice on controls that might be used to mitigate risks at stages of the project, with the overall aim being to assist project objectives being met.

MSA reporting is via a series of strategic progress reports that will usually align to defined stages of the project lifecycle, including transition stage into business-as-usual operations.

High and extreme risks identified will be discussed immediately with the senior management business owner, relevant stakeholders and the project steering committee.

Progress reports and final reports should be considered on the basis of risk to project achievement, with lessons learned reported to relevant management committees and the audit committee.

Progress reports will be in a form designed to discuss the risks and issues identified by stage, and actions taken to mitigate risks and resolve issues.

Progress reports will be consolidated at conclusion of the MSA into a final report as a record. The final report will include updated information, details on resolution of observations, any outstanding actions to be resolved and lessons learned. It will be provided to the relevant stakeholders and the audit committee.

MSAs are to be considered when the annual internal audit plan is developed and applied where best benefit can be

obtained. Part of the annual risk-based discussion with senior management and relevant stakeholders is to include the veracity and value of the MSA approach to appropriate audit topics.

The MSA methodology is similar to other internal audit services, but is phased to align with project stages. A MSA commences with a 'planning stage' comprising research against business objectives, risk identification and scoping of audit criteria, planning audit tasks and resources against agreed strategic project phases, allocating appropriate staff, supervision, and providing a MSA work plan to the project steering team as the driver for risk-based discussion at an opening meeting.

After risks have been agreed and the scoping finalised as a result of the opening meeting, the MSA work plan is finalised and the 'fieldwork stage' of the MSA commences with the first project phase.

Progress reports need to be drafted rapidly, assisted by the fact that each audit phase is largely a defined tranche of assurance activity related to the project phase being audited. Draft progress reports are discussed with the project manager before being issued to the responsible senior management business owner for discussion, review and sign-off.

The MSA progresses with further progress reports produced in line with the MSA work plan, which can be amended as required by project changes that may occur. The MSA can be truncated or terminated if ongoing project risks are determined to be under adequate control and the audit resource can be more effectively used for other internal audit work.

Strategic and operational business risk themes will be reviewed from MSAs undertaken to establish how it may influence annual internal audit plan development, and to distil lessons learned.

Once observations have been consolidated and the associated recommendations agreed with management, a final MSA report is distributed by internal audit to management and the audit committee, The audit committee should review progress reports.

The MSA policy will be managed by internal audit and should be periodically reviewed.

Appendix B - MSA Process Flowchart

Start

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Annual internal audit plan development
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        ▼
List risk-based MSA topics for annual internal audit plan
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        ▼
Audit committee endorses plan
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        ▼
MSA planning stage
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        ▼
Draft MSA work plan
        │
        ▼
Opening meeting with senior management business owner
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        ▼
Final MSA work plan
        │
        ▼
Fieldwork stage MSA phase 1 ──────────────┐
        │                                  ▼
        ▼                         Fieldwork stage MSA phase 2 ──────────────┐
Draft MSA phase 1 progress report          │                               ▼
        │                                  ▼                      Fieldwork stage MSA phase 3
        ▼                         Draft MSA phase 2 progress report          │
Discuss MSA phase 1 observations           │                               ▼
and agree recommendations                  ▼                      Draft MSA phase 3 progress report
        │                         Discuss MSA phase 2 observations           │
        ▼                         and agrees recommendations                ▼
Final MSA phase 1 progress report          │                      Discuss MSA phase 3 observations and
        │                                  ▼                      agree recommendations
        ▼                         Final MSA phase 2 progress report          │
Distribute final MSA phase 1 progress      │                               ▼
report                                     ▼                      Final MSA phase 3 progress report
        │                         Distribute final MSA phase 2 progress      │
        │                         report                                    ▼
        │                                  │              Distribute final MSA phase 3 progress
        │                                  │              report
        ▼                                  ▼                               │
Audit committee reviews progress reports ◄─────────────────────────────────┘
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        ▼
All progress reports consolidated into final MSA report
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        ▼
Final MSA report distributed
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        ▼
Risk themes and lessons learned extracted, stored and distributed
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   ( MSA conclusion )
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