Is good good enough?

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With spending on global capital projects and infrastructure expected to more than double to $9 trillion by 2025, it seems obvious that effective project delivery is critical for any organization wanting to survive, let alone thrive.

But while the project management profession has become highly proficient in managing the intricacies of projects, spawning a plethora of standards, methodologies, software, and training and certification bodies in the process, project success rates remain stubbornly low.

So why do 30% of them fail? It’s a question that is increasingly being asked, as is, how can project auditors prevent this from happening, while contributing to the success of the project at the same time.

Introduction

Against a backdrop of a widening interest in project auditing, the IIA Netherlands (IIA NL) joined forces with the Management Innovation Centre (MIC) to develop the 2015 Project Auditing Global Benchmark Study. Led by Sam Huibers, this followed on from the 2013 survey into project auditing trends in the Netherlands [Huibers and Walrave, 2013], as well as.

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1 Source: Capital project and Infrastructure spending: outlook to 2025 PWC http://www.pwc.com/gx/en/capital-projects-infrastructure/publications/cpi-outlook/key-findings.jhtml
as using MIC’s own insights and experience in this area.

The key objectives of the Global Benchmark Survey were to understand the importance of project auditing and obtain an accurate snapshot, not just of the profession’s current state, but also emerging solutions to the risks and challenges it faces.

In March 2015, our Global Benchmark Study analysed 453 responses from industry professionals across 22 industries and 43 countries involving more than 2000 audited projects, with follow up work with focus groups adding further knowledge.

**Key findings**

Four main areas were covered by the Study, with the findings presented across different themes:

- Theme 1: Audit Universe
- Theme 2: Planning
- Theme 3: Role of the Auditor
- Theme 4: Capabilities and Methods.

**Theme 1: Audit Universe**

From our findings, it was evident that among respondents there was a strong sense that projects would not only become more numerous (62% expected project numbers to rise) but also more complicated (76% predicted an increase in project complexity) - a consequence it seems of the increasing pace of change and the interconnectedness of organizations.

This is a clear signal that internal auditors will have a growing role to play in successful project delivery, with 90% of respondents indicating that their internal audit functions are already involved in auditing projects.
**Theme 2: Planning**

With more projects than capacity to audit, the number of projects actually to be audited is to a large extent restricted. So it is key to select the right audits, based on the right criteria, to add most assurance and value to the organization.

Instead, there seems to be a lack of structure in the way projects are chosen for audit, seemingly based as much on ad hoc requests from senior management (30%) or a governing body (20%), as on any deliberate risk-based selection process.

**Theme 3: Role of the Auditor in projects**

We researched three types of roles that internal auditors can legitimately play in respect of projects [Huibers / IIA NL, 2010 and 2013]:

- Assurance roles – the traditional role of providing assurance through project reviews and audits, with the auditor conducting independent reviews of the governance and controls of the project (e.g. they audit compliance with project methodology and review the design and effectiveness of project deliverables).
- Advisory roles – the auditor uses professional knowledge to provide advice to the project, but is not directly involved in the execution of the project (e.g. they provide advice on project setup, and act as subject matter expert, sounding board or coach).
- Participative roles – the auditor takes an active role in the execution of the project (e.g. they document controls or conduct risk assessments).

Consulting and participative project roles are legitimate roles with safeguards that can be performed by the internal auditor if certain preconditions are met. The most important of these preconditions is that the auditor should not have managerial accountability in any area of the project, from setting the project risk appetite initially, through to the final embedding of deliverables in the organization.
The auditor’s role is redefined, as it shifts from the more traditional assurance role to being involved as a proactive partner in projects.

So, while providing assurance through project reviews and assessment remains the core role of internal auditors, our study found many (85%) who were also acting in advisory roles and, to a lesser extent, actually participating in project delivery (20%).

The Survey also found that audits are being conducted across the project lifecycle, not just at the end.

Generally there appeared to be broad-based satisfaction with project auditing performance. Overall, 81% of respondents rated their accomplishments as either ‘good’ or even ‘excellent’ for ‘assurance’ and 72% for ‘advisory’ roles, although that figure fell to 44% for their ‘participative’ efforts. However, such self-congratulation doesn’t quite square with the low success rates among major projects.

**Theme 4: Capabilities and Methods**

There seems to be an inherent inability in standard auditing frameworks to effectively review major projects that are both transient in nature and also liable to significant change throughout their lifecycle.

The Study found that the audit frameworks currently used are not well suited to complex projects, as they rely heavily on checking compliance against a project methodology (e.g. PRINCE2). Consequently, most standard project methodologies and in-house methodologies, tend to offer only a “one-size-fits-all” approach. In particular, less experienced auditors may rely too heavily on achieving compliance against a particular project methodology, whether created in-house, or a proprietary product, like Prince 2.

Over reliance on these ‘usual suspects’ however, can foster a spurious sense of control, with risks being ‘assumed away’, something that may actually increase project risk by emphasising compliance over what is actually needed for project success.
Projects that vary greatly in both inherent and contextual complexity are difficult to audit successfully, as an approach that deals effectively with complexity in one context, may fail completely in another. This would suggest that there is a strong need to employ a wide range of different project management methodologies. However, to date, innovation in project delivery has focused largely on intricacy – managing the ‘moving parts’ of a project - rather than the uncertainty attached to it.

There needs to be a greater understanding of the social dynamics and individual behaviours of complex projects.

This is something that we believe must change. We see the better management of behavioural uncertainty in particular as providing the greatest opportunities when it comes to achieving improvements in project delivery. In other words, there needs to be a greater understanding of the social dynamics and individual behaviours of complex projects.

However, from our focus group discussions it seems that many professionals in the sector feel they lack the tools to review non-technical ‘soft’ factors such as commitment.

Project auditors appear to compensate for the shortcomings in the frameworks they use, with experienced auditors often relying on their own professional judgement. However, without appropriate methodologies in place, this dependence on individuals creates risks and limits the flexibility and capacity of audit functions.

Conclusion

With the complexity and volume of projects being audited expected to grow, internal audit functions have responded to the challenge, largely by:

- incorporating project audits in their audit plan and reacting to an increasing number of management requests; and
- expanding their roles beyond assurance to encompass advisory and participative roles, and by being involved earlier and throughout the different phases of the project lifecycle.

Internal audit functions believe their project auditing performance and capability is good. At the same time, project success rates remain stubbornly low. Other research [PwC, 2013] indicates that executives are dissatisfied with the performance of the audit department in project auditing. The top four concerns all relate to projects and programs. Good is therefore most definitely not good enough.

The project audit profession needs to address three particular potential blind spots.

- **Blind spot 1**: The majority of project audits are based on ad hoc requests rather than being systematically identified by the audit department.
- **Blind spot 2**: Audit departments place too much reliance on the skills and experience of individuals, and project auditing frameworks used do not cover all critical risks and controls. For example, most auditing frameworks do not include factors that are key to success in the vast majority of projects, such as ‘tone at the top’ and commitment to change.
• **Blind spot 3**: There seems to be a disconnect between having a successful audit and a successful project. Project auditors tend to focus on the proper execution of the audit program rather than the success of the project.

A final consideration is that a rapidly changing and complex environment requires not just adaptive processes and adequate tools and techniques, but also a continuous dialogue with senior management.

This article provides a picture of just some of our findings and considerations, which we hope will shed light on the increasing demands being generated by a highly dynamic organizational landscape.

The full report will be launched in June and presented at the IIA Netherlands conference on 19th June 2015.
References


  Can be downloaded from the Knowledge-leader® database of Protiviti ([http://tinyurl.com/mlo4bua](http://tinyurl.com/mlo4bua)) and the site of Taylor and Francis in the United States ([http://tinyurl.com/pnvacz3](http://tinyurl.com/pnvacz3)).


*Analysis Project Failure MIC (figure 1)*

Sources: analysis Management Innovation Centre, survey results from:

- IBM, making change work (2008)
Author’s biography

Sam Huibers – Study Lead

Drs. Sam C.J. Huibers, EMIA RO, CRMA, has extensive experience in a range of international managerial business, audit and advisory functions. He has led large international projects in the areas of finance, governance, internal control and audit.

He is currently employed in a managerial role in the Global Audit Function at Heineken International, for whom he designed and deployed its audit methodology and system globally. As a member of the Dutch IIA (IIA) Professional Practice Committee, Sam leads the Project Auditing Advocacy initiative. He is also the coordinator and lecturer of Internal Audit Excellence of the Executive Master of Internal Auditing Programme at the Amsterdam Business School of the University of Amsterdam.

More information about Sam Huibers on LinkedIn

The Project Auditing Benchmark Study

The Project Auditing Global Benchmark Study is part of ongoing research on project auditing by Sam Huibers that originates from his initial research project as the Executive Master of Internal Auditing Program of the University of Amsterdam. Various articles are published by the IIA Netherlands and the professional bodies for registered IT auditors and chartered accountants in the Netherlands. His international publications on the role of the auditor are available at the Knowledgeleader® database of Protiviti and the website of Taylor and Francis in the United States.

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About the Management Innovation Centre

The Management Innovation Centre is a private company with offices in the Netherlands and Australia. Its mission is to develop practical solutions for complex management problems.

Based on the outcome of the Study, one of its aims is to develop specific project auditing standards in cooperation with the audit profession. This standard will be modular, so that applicable modules can be selected based on the complexity of the project. The modules will cover all aspects, both technical and non technical, required to deliver projects successfully and manage organizational risk. MIC’s complexity assessment framework and the module selection methodology will be part of the standard.

The Management Innovation Centre works in partnership with leading academic institutions, companies and public sector organisations.

Please visit www.managementinnovationcentre.com to learn more.

For more information on the Project Auditing Global Benchmark Study contact: projectauditing@managementinnovationcentre.com