

# The Significance of Auditing in Project Management

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**Abstract:** *The evaluation of a project is critical to its success. Therefore, project organizations consider this aspect of managing project an essential tool in accomplishing the objectives of the organization through project management. Project audit assesses the performance of the project with respect to its available resources. In other words, it provides a comprehensive feedback on project status. Such feedback enables senior management to make informed decision that will push the project in achieving its objectives. However, some of the primary benefits of project audit are as follows; helps improve the performance of the project, enhances customer and stakeholder satisfaction, saves costs, controls scope and avoid scope creep, provides early problem diagnostics, clarifies performance/ cost/ schedule relationships, identifies future opportunities for improvement, evaluates performance of the project team, informs client of project status/prospects and reconfirms feasibility of commitment to project. Project auditors are charged with the responsibility to audit the project; for which the project manager and team should be supportive in order to boost the process. The project manager and team are the insiders, they know the ins and outs of the project; so, they are in a better position to provide guidance for the audit team as they audit the project. The Monitoring and Evaluation Plan developed earlier in the project should be used in this exercise. The project manager and team have that document and it should be made available to the audit team in order to aid them throughout the audit process. That document will spell out the critical areas of the project that should be evaluated during the audit process. Areas of the project where the auditors lack the capacity to probe into, they can recommend for a technical audit to be conducted in such areas.*

**Keywords:** Auditing; Evaluation; Performance; Audit Lifecycle; Credible Audit; Audit Information; Audit Report

## 1. Introduction

Project auditing serves as one of the primary vehicles for the evaluation of projects. It focuses on thorough assessment of the project in order for senior management to establish how well the project is doing in terms of performance. The auditors compared the present status of the project with its planned activities to establish whether the project is delivering its deliverables on schedule, cost, scope and quality.

The findings of the auditors should be made known to the project staff, to make their inputs and answer to some of the challenging questions posed by the auditors before the report will be forwarded to senior management for decisions to be taken. Auditors are allowed to recommend and not make decision on the project; rather, decisions are made by the management of the organization. The recommendations of the auditors should be treated with utmost seriousness, as they have taken their time and resources to isolate those areas of the project that are not performing. In addition, project managers and team should not see auditors as rivals but rather people who are there to complement their work on the project. As such, should be given the necessary support required to undertake this venture for the good of the organization.

### 1.1 Project auditing and when it should be conducted

Project auditing refers to the systematic evaluation into the ways project management ideals are applied to the project. It involves thorough review process to establish best practices and serves as pillar to support management decisions needed for the project. There is no 'best' time to conduct an audit; however, most project audits are conducted at the start of the

project, later in the project and after the project is completed, depending on the following:

- The nature and size of the project
- To ensure that all necessary technical issues are resolved before proceeding with the project. This actually reinforces the need for the early audit.
- Providing the parent organization with the required details as to whether the project is conforming to the planned schedule, budget, scope and quality constraints. This refers to the late audit usually conducted during the project.
- Follow up with the regulations set together with the client. Most clients demand for such audit and its usually called the post project audit.

The best time to conduct such audit can be determined by project stakeholders such as the parent organization, project manager and team. Project audit should not be seen as a final verdict on the performance of the project manager and team but rather a learning curve experience. As such should be embraced by all for the good of the project.

### 1.2 Information accessibility for project audits

Accessibility to relevant project information is pivotal to the accuracy of project audit. Though, it is challenging especially when dealing with government related projects. Data collection which is the back bone exercise for every credible audit, lies in the hands of the audit team. Even though, the project team must provide the audit team with the necessary project details for the effectiveness of the process, the audit team should take the lead. The audit team must have access to all project documents including:

- Preliminary project documents such as Request for Proposal (RFP), minutes of project board meetings and

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other technical documents from senior management

- The project plan and other documents developed during the course of project implementation
- Status report on the project and other important technical document

Information gathering is a daunting exercise that must be undertaken by the audit team in order to ensure an effective and credible audit. Some organizations have strong rules to prevent workers from destroying information and other documents that are needed by the audit team. The audit team should have free access to information regarding the project except otherwise stated; it is their responsibility to decipher what is useful to their work or not.

### 1.3 The project audit lifecycle

Lifecycle is a description of the vital phases of the audit process. Each phase is loaded with series of activities that must be accomplished for the process to be deemed successful. Therefore, the phases of the audit lifecycle and its associated activities as stated by (PRADHAN, 2017) are thus:

- 1) Audit initiation: This is the first phase that signals the start of the entire audit process and it involves the following activities:
  - a) Defines the what, where, when and how the auditing process should go. The purpose of the auditing should be clearly delineated for the audit team to know their target.
  - b) The scope of the audit should be established. Whether the audit is focusing on specific areas of the project or the entire project. Whether the audit is probing into deeper aspects or just superficial areas of the project. Auditing deeper areas of the project requires technical and highly experienced project auditors. The narrower the audit scope, the lesser the challenges faced by the auditors whereas broader audit scope are trickier and more tedious to manage.
  - c) Data collection is an integral component of the whole process and that takes place at this phase of the audit lifecycle.
  - d) Auditing methods and practices suitable for auditing the project are established in this phase of the process.
  - e) Rules, guidelines and other auditing protocols are fundamental at this stage. Hence, members of the audit team should be fully aware of the ground rules governing the process to ensure compliance and effective audit exercise.
- 2) Baseline definition of the project: This phase focuses on the establishment of concrete benchmarking parameters used to assess the project. These parameters can be previous project implemented, standards set by project management bodies like PMBOK, PRINCE2 etc. or agreed standards set by the parent organization and the audit team. The output of the project will be evaluated based on these parameters established at this phase. Infact that is more the reason why the parent organization should be deeply involved at this phase of the audit life cycle.
- 3) Audit database: Once the yardsticks for the assessment of the project are established then, a database should be

created to enable the audit team in discharging its duties. The information gathered in the initial stage of the audit exercise should be stored in this database for the evaluation of:

- a) The management of the project
  - b) The current and future status of the project
  - c) The project schedule, budget and quality in terms of its performance and meeting client's requirements
  - d) This database can serve as an important repository that the parent organization can use to manage similar and future projects.
- 4) Initial analysis of the project: When parameters are set and valuable data collected then, decisions can be made from an informed position. Auditors are not the ones making decisions but rather present the facts for senior management to make decisions regarding the project. This preliminary assessment done by the auditors should be presented to the project manager and team for their inputs before making it available to senior management. Project manager and team should accommodate this initial analysis and see it as a supportive move to make the project better than seeing it as a dubious ploy to humiliate them. Such a spirit is good for the success of the project.
  - 5) Preparation of the audit report: This involves collating the facts about the project and putting it in a format called audit report. This format should be approved by the parent organization before being used by the project audit team. The report should contain recommendations made by the team and possible remedies if there be concerning the project. However, the decisions that should be made using this report must come from senior management and it is their responsibility to publish the audit report.
  - 6) Termination of the audit: This involves bringing to a close the entire audit process. However, it can only be terminated when the report has been properly reviewed, recommendations addressed and released by management. The report is reviewed to enhance the methods used throughout the audit process. This phase closes with the dismissal of the entire audit team.

### 1.4 Components of the audit status report

The audit status report is a significant document that provides management and other stakeholders of the project with the required knowledge about the progress made so far on the project. Such information can help bring back the project on track in cases of deviation. It also evaluates the project with respect to schedule and budget. Therefore, this report should consist of the following components in order to provide the necessary project details:

- An introductory aspect: This focuses on the general overview of the project including the goal and objectives of the project. It should be simple and clear for all to understand. This aspect should be well written to provide readers with the purpose for which the project was initiated.
- The present status of the project: Four important parameters are considered here; these are cost, schedule, progress and quality. Every project has a budget and hence, making project cost a significant constraint in project management. Actual costs should be compared to

what was budgeted at the start of the project to see if the project is doing fine in terms of cost. All project cost should be clearly stated in this report. The time required to complete project activities should be recorded and compared to planned schedule in order to establish percentage completion of the project. Tasks that were unable to finish at the stated time should also be captured; as this can help reinforce learning for future projects. The progress made can be established by relating the amount of work completed as against the project resources used. In addition, the quality of the project should be recorded in this report. Quality measures the degree to which the project meets its initial specifications. In actual fact, the success of the project hinges on its ability to meet client's requirements. Thus, making such information vital for management action.

- Status of future project: This points to the auditor's take on what should be done in the project. The previous approach used that led to several uncompleted tasks should be modified or changed in order to achieve success within schedule and budget. The auditor has the right to recommend changes to the project approach especially when the project is lagging behind in critical areas.
- Management issues: All project issues that require the attention of senior management especially those primary to the success of the project. In addition, decisions affecting the schedule, cost and performance of the project should be made by management.
- Risk management: Assessment of risks associated with the project and how such should be mitigated in order to save the project.
- Project assumptions and limitations: Stating the conditions under which this report is deemed true. It is the duty of the auditor to prove the accuracy of this document by affirming the circumstances or assumptions made in this report. It is worth noting that, the interpretation of this report lies exclusively with senior management and not the auditor. The auditor presents the facts for onward submission to management for proper decisions.

### 1.5 The essential conditions of a credible project audit

A project audit is considered credible when it is conducted in the most appropriate manner worthy of senior management acceptance. (Meredith & Mantel (Jr.), 2009) put forward some of the conditions required for a credible project audit and these are:

- 1) Correct selection of the audit team: This is fundamental to the accomplishment of the audit process and it involves the following:
  - a) Selection of audit team members should be based on competence and not mere availability.
  - b) Having the requisite number of personnel to match the size and nature of the project. In essence, sophisticated project requires more members that are technically endowed to perform the task than smaller project that can be handled by an individual or few members. It is a good practice to incorporate members with diverse management skills to be part of the audit team especially when dealing with large and complex projects.

- c) Audit team members must learn not to project their personal thoughts or opinions in the process; but rather should carefully observe and advice accordingly without prejudice.
  - d) Audit team must refrain from conflicts and other personal mis-happenings with project staff; such vices will cause tension and unusual confrontations that can lead to unnecessary delay and eventual distortion of the process.
- 2) Accessibility to all project records and files: Accessibility to all project related information is crucial to the success of the exercise. The audit team is exclusively responsible for the effective collection of project information and not the project management team; even though, the project team can provide the necessary support needed by the audit team in this regard. The project management documents and other relevant information that will help the audit team should be made available. Both teams should work as partners instead of seeing each other as opponents. In most cases, people see auditors as police men and as such refusing to divulge the much-needed information required by the auditors. However, the audit team should protect the information collected and keep it safe from illegitimate access; as this information contains classified content about the organization that must not be in the public domain.
  - 3) Easy accessibility to project staff: The audit team should be free to contact members of the project team and even interpersonal contact in order to fast track the audit process. Such contact should be formally stated in the audit document in order to define the appropriate communication flow among personnel. This can be enforced in cases where personnel refuse to make available the required information needed for the smooth running of the process.

### 1.6 Measures to overcome project auditing challenges

Project team members usually feel jittery or agitated whenever an audit exercise is conducted on the project they are managing. Such perception from the project team can affect the audit team in getting access to the information needed to do their work. Project teams usually see the audit operation as a ploy to expose their inadequacies and shortcomings. As such, they consider the audit team as opponents thus, defeating the purpose for which the audit exercise is conducted. There is a dire need to change such perception and reinforces stakeholder confidence in the entire audit process. Once project staff are confident that the process is not to "witch hunt" or embarrass them; they will be fully cooperative and provide the external evaluator with the necessary information needed to succeed. Therefore, the following measures should be followed to help reduce such perception:

- Get the project team to clearly understand the scope of the audit.
- Brief the project team on how you intend auditing the project.
- Make them know that you are not going after them but rather looking into the project so as to make it better. Make the project team believe that you are complementing their work and not the other way around.

Such will give them the confidence to support the audit process.

- Make sure you present the audit findings to the project team for their inputs and possible explanations.
- Avoid using derogatory or demeaning terminology; as this will create tension and unnecessary strife, that will hinder the audit process.
- The external auditor should verify every information given so as to exclude prejudice and untrue information.
- The auditors should be sensitive to organizational politics; as this might cause project staff to start maligning others in order to gain position or extra favors.
- Auditors must comply with professional standards in the discharge of their duty.

### 1.7 How to efficiently manage project audit information

Data collection is a daunting process especially when conducting audit exercise on a project. Nevertheless, it is a must do exercise in order to present a credible and reliable audit report. Sufficient time should be allocated to it in order to get the appropriate results. This time can be best utilized when the exercise is done in a methodical manner or else it will amount to waste of time. It is imperative that the audit team follow a particular pattern in the management of information during the audit process so as to get the desired outcome. This organized method of information handling as put forward by (Meredith & Mantel (Jr.), 2009) involves:

- Efficient filing system of collected information on the project so as to ease accessibility.
- Information should be categorized into 'useful', 'most useful' in order to ensure proper management.
- There should be rules and policies guiding the timeline for the collection and processing of information. An information can be useful but yet not timely; in such cases, that information might not be appropriate enough for decision making.
- The information should be organized in a manner that favors the important once than the less important when it comes to data analysis.
- Measures should be taken to prevent duplication of information that will result in time wastage.
- Setting adequate actions required to regulate the entire process in terms of information dissemination.

### 1.8 Rationale for bringing external auditors to audit project

Most organizations have internal auditors who are capable and to some extent reliable enough to effectively audit the operations of the organization. Nevertheless, that organization can still go in search of external auditors, for the following reasons:

- Even though internal auditors are more efficient and less expensive than external auditors, yet external auditors are more preferable due to the fact that they are more objective in their opinion. The internal ones are familiar with the running of the organization and as such might want to sweep some findings under the carpet in order to protect their colleagues and keep their job. Objectivity is the center of all audit process, and once that is compromised; the credibility of the whole process

becomes questionable. In as much as the organization is seeking for areas to cut down cost, yet it cannot turn blind eyes to the life line of the process.

- Outside auditors are vast in terms of industry standards and other auditing procedures. Therefore, these outside auditors can easily compare what is happening in the project to what is obtained out there and make the necessary recommendations to enhance the performance of the project.
- Outside auditors are not familiar with the project staff and as such are being guided by the auditing procedures and policy of the organization. They discharge their duties with due diligence, ignoring sentiments and personal affiliations that usually hinders inside auditors in performing their duty.

### 1.9 The cost/benefits analysis of project evaluation/audit

Evaluation is an essential component of every project geared towards achieving project objectives. Therefore, it's imperative for the project manager to ensure that thorough evaluation exercises are conducted periodically on the project. Some of the benefits of project evaluations are discussed above; nevertheless, evaluation tends to increase project cost. Some pundits are of the opinion that evaluation exercises should be limited in order to cut down on cost. However, when compared to the benefits that the project will derive from an effective evaluation exercise, it is abundantly clear that evaluation is a cost-effective exercise in project management. In fact, proper evaluation enables the project manager and team to efficiently manage the project budget. Evaluations can reveal how the resources, materials and other facilities of the project are utilized.

During the evaluation of project, the project manager and team will be able to estimate schedule, cost and quality which are critical in the assessment of project performance. The progress made so far in the project can be estimated using parameters such as schedule variance, cost variance and time variance. These parameters compare the planned estimates as against what is achieved so far in the project; thus, enabling the project manager and team to establish whether the project is doing fine or not. Allocating cost to project evaluation proves beneficial to the project manager and team in their pursuit to achieve project success. Therefore, the cost/benefit analysis favors or justifies the action of project stakeholders in conducting periodic evaluation of the project.

### 1.10 Ethical responsibilities of project auditors

(Keller & Pyzdek, 2013) put forward some of the ethical responsibilities of an auditor and they are as follows:

- The leader of the audit team should be smart enough to identify misunderstandings among team members and act speedily to resolve such issues. Underestimating such, can lead to serious challenges that will prevent the auditing team in achieving their primary objective. Team leader should learn to resolve conflicts among members in private than in the open to avoid embarrassment for the good of the process.
- Audit team leaders must demonstrate fairness when settling dispute among members. The issue should be investigated without prejudice in order to keep the project

on course. Objectivity and fairness should be the watch word in this regard.

- The audit team must follow the policy guiding the process for others not to view the exercise as 'witch hunt'. Unproven facts should not be reported by the auditors rather their findings should be disclosed to responsible personnel of the organization to test the validity of the audit findings before formal exposure of the audit report.
- Integrity should be the watch word for the entire team in the audit process. This should be demonstrated at every stage of the process. Team members should not accept bribes or any gifts that might influence or prejudice the audit or its relationship with the project. The policy should be clearly interpreted by the leader for the members to know what is expected of them as they interface with the project staff.
- Auditors are not permitted to divulge propriety information they might have access to; as that might compromise the integrity of the process. Such disclosure jeopardizes the trust and eventually damages the good working relationship between the auditor and auditee.
- Auditors must avoid the temptation, during audits, to discuss the outcomes of previous audit exercises conducted elsewhere. Except in cases where such internal audit was to assess the efficiency of an internal system that is applicable to more than one facility. (For instance, two or more projects owned by the same parent organization).

It is expected of all auditors to act in an ethical manner which will bring credit to themselves, their auditing firm and the auditing profession.

## 2. Conclusion

The benefits of project audits are obvious in large organizations undertaking large projects. In such cases, multiple audits are recommended, perhaps one per phase. People auditing projects should be familiar with some of the project management principles and practices in order to identify wrong approaches used to implement project. Project audit is necessary to establish project performance and what should be done to improve such performance for the project to deliver its deliverables on time, cost and scope. Project managers and team should embrace the audit exercise in order to learn from it for future projects they will be managing

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