

2012 Internal Audit Series

Risk Based Auditing of Projects and Contracts

Who should attend?

- Heads of Audit, Audit managers and senior auditors
- Project Managers and Project Programme Managers
- Auditors responsible for undertaking project audits assignments
- Other professionals who need to understand the risks impacting complex projects
- Managers and Directors of business functions – to aid their knowledge of a risk based audit approach to projects.

New for 2012

- New IIA guidance – Introduction to project auditing
- Project risk assurance guidance
- Project risk evidence checklist
- New session on partnership audit
- New session on auditing of procurement
- Procurement project audit toolkit
- PMBOK and audit implications
- RASM risk based audit approach
- Project assurance measurement framework
- IT project audit checklist

What you will learn

- The concepts and practical application of a risk based approach to project review
- Understand how to identify, mitigate and control project risks effectively
- Appreciate how to separate the key risks from the lesser threats
- Challenge management and sell the benefits of proactive risk based audit of key projects
- Audit major projects including joint ventures with confidence
- Techniques to ensure that more projects meet their agreed objectives

Why you should attend

How many projects do you know which have been delivered on time, to budget and fully met the needs of all the parties involved?

Not very many I am sure will be your answer

Research indicates that in many projects, risks are identified and analysed in a random, uncoordinated manner. Not only does this result in unexpected risks arising, but the true impact of the risks actually identified are not fully appreciated or the combination effect of the risks are misunderstood

It has been estimated that a strong risk management process can decrease problems on a project by as much as 80 or 90 percent. In combination with solid project management practices, a good risk management process is critical in cutting down on surprises, or unexpected project risks. Such a process can also help with problem resolution when requirements change, because now those changes are anticipated and actions have already been reviewed and approved, avoiding the need for panic and emergency treatment.

Auditing the project throughout it's life from the project development stage to the post implementation review and adopting a risk based approach is a proven way to maximise the opportunity to deliver the project to time, to budget and fully meet the needs of all interested parties

Course Methodology

The training course is designed to be interactive and to give delegates opportunity to discuss their particular issues in an open atmosphere. The course includes exercises, discussions and case studies to reinforce the messages.

Your course director, Phil Griffiths, has considerable experience in the field of project audit having worked for 10 years as Head of Internal Audit for an international construction and professional services organisation and also managed major projects in the field of IT, telecoms and retail management.

Day 1 Understanding Project Risk

What is Risk?

- **Uncertainty or a surprise?**
- **Something that can go wrong or failure to get things right?**
- **Risk cultures and the impact on project delivery**
- **Enterprise risk management**
- **Why projects often fail.**
- **OGC paper on why projects fail**
- **The need for a formal approach to risk management**
- **Risk appetite and the implications for projects**
- **Selling the benefits to top management**

- How to quantify and measure risk – and why the approach followed by most organisations is incorrect
- The role of risk champions
- High profile project failures and the lessons to learn

Exercise 1 Why projects fail – The Wall

The top 10 mistakes in project management

- Scope is too large
- Schedule too ambitious
- No standard project methodology
- Poor communication between the team
- Team members not productive
- Over allocated resources
- Productivity leaks
- Incomplete data
- Not saying 'No'

Exercise 2 The Mystery – solving a major problem

The major project risks

- Business benefit poorly defined
- Scope of the project poorly defined
- Project sponsor not committed to the project
- Difficult to engage business functions or partners
- Lack of project management experience
- Project team scattered across many locations
- Unclear or inconsistent PM processes
- Business requirements unclear or changing all the time
- System availability difficult to achieve e.g. 24/7
- Technical requirements complex or new
- Project data requirements very complex
- Many locations impacted
- Complex system interfaces
- Large number of organisations involved
- Unrealistic timescales
- Man hours required very extensive over short time windows
- Long estimated project duration
- Type of project new to the business
- High dependency on outside parties (consultants, subcontractors etc)
- Businesses processes require major change
- Major changes to business structure
- Unfamiliar project technology
- Heavy customisation of packaged solutions

- Packages from new vendors

Exercise 3 The key project risks – using a project risk checklist

The 10 Golden Rules of Project Risk Management

- Make risk management an integral part of the project
- Identify risks early in the project
- Communicate the risks widely
- Consider both risks and opportunities
- Ensure each risk is owned
- Prioritise the risks
- Analyse the risks properly
- Plan and implement risk responses
- Record project risks in a register
- Track the risks

Exercise 4 The project risk management process

Day 2 The risk based audit approach

Risk Identification and Evaluation

- Approaches and techniques
- How to establish a risk workshop process
- The need for effective facilitation and
- Facilitation skills
- Establishing workshops
- The use of diagnostic questions and thought-provokers
- The pros and cons of using data capture technology
- Other methods of risk identification
 - Monte Carlo Simulations
 - Bayesian networks
 - Scenario planning
 - RAMP
- How to identify, sift and group the risks
- Measuring the consequences and the likelihood of occurrence of each risk
- The use of risk matrices to prioritise the risks.

Exercise 5 - An Actual Project Risk Workshop – at the project development stage

What is Risk Based Audit?

- Definitions
- Worldwide trends
- Trends (from the BRM Internal audit best practice database)
- Audit's primary roles and objectives in relation to projects
- What is best practice?
- The role of the function – policeman, risk assessor or consultant
- How to ensure you adopt best practice
- The key challenges resulting

Exercise 6 Challenges for Internal Audit

Risk and Internal Audit

- The changing scope of modern internal audit
- Identifying, appraising and evaluation risk during the audit process
- Translating key risks from the business risk process into the basis of the audit programme
- Monitoring of action plans
- Evaluation and reporting of actual versus perceived controls
- Determining which key risks are not readily auditable
- Coordinating efforts with other assurance providers

Exercise 7: Risk and reward – team exercise

RBA in practice

- Determining the scope of a RBA assignment
 - Whether objectives are being delivered efficiently and effectively
 - Whether risks have been identified, evaluated and are being managed
 - Whether controls mitigate the risks effectively
 - Where risk exposures exist action is being taken to improve controls
 - Whether appropriate management oversight is in place

Exercise 8: Scoping a RBA assignment of a major project

The RBA approach

- The need to assess the risk maturity of the project

- Commitment to risk management
- Reviewing risk registers
- The questions to ask
- Assessing risk appetite
- Reviewing the effectiveness of the risk management process adopted
- Determining which risks should be concentrated on in the audit
- Management evaluation of mitigation controls
- Identification of risk exposures
- Dealing with the exposures (the 4 Ts - terminate, tolerate, treat or transfer)
- Establishment of action plans.
- Reviewing risk ownership and identifying gaps
- Identifying residual risks above the risk appetite

Exercise 9: The audit involvement in the project life cycle

Day 3 Auditing contracts

Auditing of procurement

- Why understanding risk is crucial in Procurement
- Why all aspects of risk needs to be fully embraced
- Reviewing the range of procurement activities
 - Strategic
 - Leverage
 - Routine
 - Bottleneck
 - High value contracts
- Strategic procurement
- Tactical procurement

Exercise 10: planning a procurement audit

- Delegation and authority
- Sourcing strategy
- Collaborative procurement
- Approach from an audit perspective
- Procurement audit approach
 - Procurement policy
 - User requirements
 - Requisitioning process

- Information systems
- Urgent requirements and the risks
- Lead time for deliveries
- Consolidation of requirements
- Use of purchase cards
- Pricing strategy
- Use of authorised suppliers
- Supplier performance
- Audit trails
- Orders and invoice matching
- Dealing with problems
- Bids and tender process
- Procurement audit toolkit

Exercise 11: Using the procurement audit toolkit

Auditing Partnership contracts

- Ensuring that there is a risk strategy for partnership working
- The need to identify and schedule key partnerships
- What protocol is in place?
- What is the review mechanism?
- Is it effective?
- What frequency is there for review by management?
- What mechanism is there to guide officers and members in attending partnership meetings
- Does anyone know the partnerships you are involved in and how much money and other resources are invested in them
- Has each partnership been risk reviewed
- Partnership audit toolkit

Exercise 12 – The challenges of auditing a partnership

Day 4 Audit of major projects

The business perspective

- Assessing the project life cycle
- Different types of construction project and their implications
- Selection of Professional Services providers
 - Financial planning consultants
 - Engineering firms
 - Design/Construct providers
 - Construction managers
 - Facilities management

- The growing popularity of turnkey approaches
- Choice of contractor
- Principal contract terms
- Other legal and regulatory requirements
- Financing the project
- Choice of methodology
- Selecting the project manager
- Procurement process

Exercise 13: Auditing the project business process

Selecting a Contractor

- The tendering process
- Success criteria
- Use of approved organisations
- Categories of Risk in procurement
- Managing the range of risks
 - Strategic
 - Leverage
 - Routine
 - Bottleneck
- Strategic Procurement risks
- Partnering and Risk
- Contract negotiation
- Contract award

Exercise 14: Risk workshop – Risks in Contactor selection

The project in progress

- The construction plan
- Design methodology
- Site environment
- Measurement and valuation methods
- Evaluating the Quantity Surveyor process
- Innovation and reward
- Variations and claims
- Performance management
- Payments
- Liquidated damages
- Performance guarantees
- Sub-contractors
- Contract finalisation

Exercise 15: Auditing the project during the 'build' phase

Cost control and accounting

- The project budget
- Cost control and forecasting
- Cost accounting
- Schedule control
- Dealing with cost over-runs

Exercise 16: Auditing the costs

Handover and post audit

- Commissioning risks
- Completion certificates
- Maintenance agreements
- PFI contracts
- Post completion reviews
- Learning from successes and mistakes

Exercise 17: Completing a post Audit of a project

Day 5 Audit of other projects

IT Projects

- Statistics re IT project success rates
- Key risks in IT projects
 - Business requirements unclear or superceded
 - Cost issues
 - Potential over-run
 - Poor disaster recovery
 - Lack of Project management skills
 - Loss of key project personnel
 - Poor vendor management
 - Ineffective contract management
 - Lack of or poor use of development methodology
 - Obsolescence
 - Inappropriate infrastructure
 - Failure in testing
 - Inappropriate technical standards

- Poor interfacing
- Poor systems integration
- Poor configuration
- Ineffective change management disciplines
- Identifying the warning signs
- Use of CobIT
- Asking the right questions

Exercise 18: IT project failures – risks and causes

Other Projects

- Space shuttle case study
- Open forum to discuss projects as per specific delegate requirements – and may include
 - Joint Venture projects
 - Telecomms
 - Finance Projects
 - Business acquisitions and disposals

Strategic Audit Planning

- Determining which projects to audit, to which frequency and to what depth
- Determining the level of assurance required
- Determining the level of assurance that can be provided

Exercise 19: Determining project audit priorities

Project Problems Exercise

- A syndicate exercise where 3 project problems will be provided. The teams will discuss the issues and present their solutions

Exercise 20: Heathrow terminal 5 case study