The Project Problem

Most boards face the challenge of keeping an eye on "projects"… those big ticket development programmes that are a crucial part of the strategy but can all too easily go wrong. It could be a major IT initiative (a common one for most), investment programme (an innovative product, a new mine) or a combination of the two (a mega manufacturing facility, a new logistics system).

But boards often struggle with oversight of projects which can stretch over years – they don't want to take a look too frequently, and certainly don't want to get near the detail or interfere with the management process. At the same time, they know all too well that it's easy for projects to veer off course. So what should the Board be doing and watching out for without delving too far? Here are a few suggestions (by no means complete – it's complex) and a few traps to avoid.

Good practices to consider...	Things to avoid...
From the outset – when the business case is being presented and you're being asked for the investment approval – get a clear view of the project governance processes. Understand responsibilities and accountabilities within the evaluation and management processes, how governance will be exercised at regular points and then more deeply at certain defined stage gates or milestones – and the level of project assurance at the "second line".	Assuming that project governance is in place and will be taken seriously. Often there's a confusion between project management (the means of implementing the project) and project governance (a detached, objective and expert assessment). This can lead to the Board having few sources of information and assurance which don't have a direct interest in project delivery.
Understand how far the project governance includes a good degree of independence – possibly from external experts or at least from senior management who are well-detached from delivery and ownership.	Relying on management's assessments alone. There's often a natural tendency for management to be over-optimistic, even when there's no intent to mislead. And a fresh pair of eyes taking a look usually helps and gives the board reassurance.
Think about the best role for internal audit and ensure they are resourced to deliver on it. Often a good approach is to embed internal audit in the project governance, so they can monitor and report in real time – but they need the expertise to be credible if they are to pull this off. And the Audit Committee checks that management aren't dodging internal audit with excuses such as "there's nothing to look at yet".	Letting internal audit look at projects as part of their normal three-year cycle – this is a great way to be told that a disaster has already happened. Or allowing audit no specialist resources, so they perforce have to look at project management as a simplified process, rather than being able to look at whether the project is actually being managed well.
Ask about the risks. And in the business case presentations you receive, ensure the risks are well set out with good detail and an explanation of a practical mitigating action plan for each. A few "what if" scenarios can help the Board think through the risks and assess how far management have already done the same and would know how they would respond.	Accepting high level risk descriptions which are more generic statements of the obvious than informative assessments of the risks to delivery (for example, that IT development might not be done on time). And often that problem's combined with wishy-washy statements about mitigation which could be condensed to "we'll hope it won't happen and manage it if it does".

Good practices to consider...	Things to avoid...
Make sure the Audit (or Risk) Committee have taken a look at the project management principles and processes to check that management evaluation and oversight are sound.	Failing to look at the controls and processes as they don't fit into the usual financial reporting and internal controls categories. For companies where major projects are part of business as usual, reviewing the effectiveness of project management controls should be set out as a separate responsibility in the relevant committee's terms of reference.
Make the Board's expectations on reporting are clear from the beginning – frequency, independent assessments, level of detail that gives clear sight of the important things, and so on. And for the major projects ask for updates to be included in regular performance reports. As a minimum, time, cost and quality need to be reported regularly with a clear "Red Amber Green" assessment that can be readily understood and questioned.	Losing sight of developments and drifting through a project by allowing too long stretches between board reviews – or letting management dictate the timing of updates and the volume of material that the Board needs to read to find out what's going on.
Challenge the assumptions at the outset – and from time to time ask how the main assumptions have changed or been affected by events such as market price developments or competitor initiatives. The cost basis and the discount rates are the obvious ones at the outset, but as time goes on others, for example the availability of skilled people, will become more important.	Failing to understand the major assumptions or having an opportunity to challenge them. They should be justified (eg against benchmarks or market prices). And if there isn't a non-executive who's in a position to challenge, consider bringing in alternative sources of expertise to help make sure that the Board can ask the right questions.
Watch out for shrink and creep. Runaway costs are familiar to anyone who's been anywhere near projects. But that's not the only risk: as projects become more difficult, take longer or cost more, they can become less ambitious, so they still meet the budget but no longer meet the business needs.	Letting management make significant changes in project scope or cost without keeping the Board informed or seeking their approval. Major changes in budget, timing, scope or expected returns should come to the Board so it can explore what lies beneath the changes.
Beware good news! Nothing goes to plan – so if presentations to the Board claim that it's all going swimmingly, check whether you actually have sufficient independent sources of information and assurance.	Taking all reports at face value. Or going to the other extreme and refusing to believe that anything can go right. It's a tricky balance to achieve but it's much easier if independent information flows from well-qualified sources are in place.
Show and tell. If there's a site to look at, try to get a feel for progress, either in person or through video. If there's management enthusiasm or reluctance to show you, either way it's a signal.	Just listening to the words and looking at the numbers. And allowing yourself to be deflected from seeing for yourself or talking to the project team because it wouldn't be convenient.
Keep an ear to the ground. If there are big problems, "water cooler conversations" are likely to flag them up at an early stage. Then consider how these doubts are reflected in management reports to the Board – or not.	Relying solely on executive reports. Nobody likes taking bad news or surprises to the Board and more often than not management will want to show confidence that it's all going to come right – that's natural.

If you have any questions on the issues covered here, please contact Richard Sheath at richard.sheath@independentaudit.com

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