The role(s) of the internal auditor in projects

“Consultative auditing” in projects: contradictus in terminus?

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Amsterdam, July 2008

Thesis - Executive Master of Internal Auditing, Amsterdam Business School, University of Amsterdam
This thesis is written to complete and graduate the Executive Master of Internal Auditing program at the Amsterdam Business School of the University of Amsterdam.

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'Every instant a change takes place. ... New harmonies, new contrasts, new combinations of every sort. ... The most familiar people stand each moment in some new relation to each other, to their work, to surrounding objects.'

Henry Ward Beecher
Preface

This thesis has been written to complete the postgraduate Executive Master of Internal Audit (EMIA) at the Business School of the University of Amsterdam (UvA).

I have found this research to be a very stimulating way of investigating and elaborating further on how changing environments can create opportunities to redefine the role(s) of the internal auditor in projects. The aim of my thesis is to contribute insights to the internal audit profession that have practical relevance in industry. Therefore I appreciate the willingness of the four Chief Audit Executives/Managers to share their thoughts, opinions and to validate and enrich my findings: Mr. Roelof Mulder - DSM, Mr. Bernard de Vries - Fortis, Mr. Jan Westenbrink - SNS Reaal and Mr. Michel Kee - Heineken International.

I am very grateful to my coach Drs. Ed van Hecke for acting as a sounding board and flexibility to make time available when requested for reviewing this thesis. I would also like to thank Mr. Arie Molenkamp for his constructive feedback during the initial research definition phase and Prof. Dr. Hans Strikwerda for his feedback on a case study I presented related to this thesis.

I really appreciate the discussions I have had with my colleagues at work and all the EMIA students who shared experiences from diverse organizations. I would also like to thank the consultants of the audit/consulting firms with whom I work for sharing their thoughts and publications, in particular Mr. Ronald Jonker, a partner of KPMG Advisory and his team.

To conclude I would like to express my gratitude to Mr. Mark Waller project manager of Avisen at Heineken and some English colleagues for their final review of this thesis. A final acknowledgment goes to Miss Vicky Nash BA Hons. of the UK-based company English Editing Services for her highly professional and extremely accurate editing remarks.

Last but not least I would like to thank my family and friends for their encompassing support.

Amsterdam, July 2008.
Executive Summary

In the era of dynamically changing environments, globalization and increasing legislation companies need to re-visit their strategy on a continuous basis. Consequently this requires the redesign of the organization, processes and systems, all of which are often executed through (large) projects. With increasing demands from management on the internal audit profession, the question is raised of how the internal auditor’s role can be redefined, as it shifts from the more traditional assurance role to being involved as a proactive partner in projects, without losing its independent position. Potentially the advisory and participative roles might conflict with the assurance role of the internal auditor. However, if for this reason the internal auditor’s role is restricted to the compliance aspect only, the added value of the internal auditor in the organization may be substantially reduced.

The objective of this thesis is to provide practical guidance on how the internal auditor can undertake potentially conflicting roles in projects without jeopardizing the auditor’s independent position and objectivity.

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In this thesis I describe the different types of roles that can be fulfilled by the auditor, taking into consideration the shift from the traditional assurance role towards more proactive roles in projects.

Figure I Summary of core roles, legitimate roles with safeguards and roles that internal audit should not undertake in projects.
Therefore I have used a position paper from the IIA (2004)\(^1\) to categorize the different types of roles that the auditor can play in projects into three groups (see Figure I):

1. The core roles of internal audit: traditional assurance roles such as project reviews.
2. Legitimate roles with safeguards: consulting and participative project roles that can be performed by the internal auditor if certain preconditions are met.
3. Roles that should not be undertaken by internal audit such as the management of project related risks.

The most important precondition, both for roles with safeguards and the roles which should not be undertaken, is that the internal auditor must refrain from any managerial accountability in all project areas, from initially setting the project risk appetite to the final embedding of deliverables in the standing organization.

**Guidance and conditions provided in a framework**

![Summary framework of guidance and conditions for the role of the internal auditor in projects](image)

I have compiled a framework which describes the guidance and conditions that enables the internal auditor to fulfill potentially conflicting roles in projects. Each quadrant represents a different perspective: (I) guidance from the Institute of Internal Auditors (IIA), (II) the structure of the internal audit department, (III) interchangeable roles with other governance departments and (IV) project governance and de facto project management frameworks. Every quadrant entails two levels which are described in detail:

1. the *organizational level* describing guidance that is applicable in a broad company-wide context and,
2. guidance at the *individual program/project level* (whereas the portfolio level is the link between the organizational goals and the program/project objectives).

\(^1\) In 2004 the Institute of Internal Auditors (IIA) published a position paper that elaborated on the roles of the internal audit function in Enterprise-wide Risk Management.

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For example in quadrant III I focus on the increasing prominence of risk management and control awareness in organizations. As a consequence the emergence of different governance departments such as Risk Management, Compliance and Internal Control, creates a safeguard to avoid potentially conflicting roles by dividing different roles between these separate departments. The first step in effective cooperation is to define and agree with the executive management the roles and responsibilities in the organizational governance structure. Accordingly at program/project level the different roles can be assigned to individuals of different governance departments to avoid potential conflicts in project roles. To give an illustrative example, Internal Control is involved in the design of controls in a process, whereas Internal Audit reviews the completeness of the control design.

The most important common denominator in all quadrants of the framework is the importance of defining, formalizing and communicating the agreed roles and responsibilities at all organizational levels in order to guarantee unambiguous mutual understanding:

- At organizational level a clearly defined governance structure, approved by the executive management, which includes documented roles and responsibilities in charters, codes of conduct and policies has a strong hand in directing and defining boundary conditions at the project level.
- At program/project level the roles and responsibilities of the internal auditor should be in line with the policies at corporate level, made explicit and documented in writing and accepted by the engagement client upfront. In the case of any potential conflict of interest, in fact or appearance, as a result of combining roles, both the Institute of Internal Auditors (IIA) and the best practice project management guidance of the OGC\(^2\) prescribe the disclosure of the details and reporting lines explicitly.

To conclude, I have argued in this thesis, supported by the insights of psychological and organizational theory (group decision-making processes), that the internal auditor should be extremely reluctant to participate in Steering Committee meetings even as a non-voting member.

Aim of this thesis is to provide a practical relevance to the internal audit profession and industry. The results have been confirmed and enriched by interviews with the Chief Audit Executives/Managers of four large multinational organizations. The shared view is that the real added value of internal audit is its involvement in the project from an early stage and its ability to act in a proactive way. This is not perceived to be in conflict with the independent position and objectivity of the auditor. On the contrary, one of the executives stated that: “one should see the opportunities for the internal audit discipline rather than focusing on the threats”.

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\(^2\) The Office of Government Commerce (OGC) provides best practices frameworks with respect to project management such as PRINCE2 that have been globally adapted across industries.
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1 Introduction

1.1 Background and problem statement

In this era of dynamic markets, changing environments and increasing globalization many companies continuously revisit their company strategy and reorganize the company’s organizational structure, processes and systems accordingly. As a consequence many of these changes are executed as (large) projects. During the transition and migration period of these projects, while re-designing existing processes and implementing new strategies, the company may become more vulnerable to risks or the risks that exist may well not be understood. This raises the question of what the role of the internal audit function might be in such projects. Molenkamp (2005) argues that in the era of changing environment, legislation and managerial demands the internal auditor's role has to be redefined in a proactive way and he should be involved in strategic topics and organizational redesign without jeopardizing his independent position.  

Relevance to the internal audit profession

With increasing demands from management on the internal audit profession the question is raised of how the internal auditor can play a more active role without losing its independent position. Potentially the advisory and participative roles might conflict with the independent assurance role of the internal auditor. However, if for this reason the internal auditor is restricted in its role to the compliance aspect only, the added value of the internal auditor in the organization may well be substantially reduced.

Previous thesis writers have concluded that the consulting and/or participative role of the internal auditor could jeopardize the auditor's independence and for that reason the auditor’s role should be mainly restricted to the assurance function. Other thesis writers acknowledge that more roles can be fulfilled by the internal auditor and refer to IIA standards, but do not extensively explore how the internal auditor could fulfill potentially conflicting roles. Mintjes (2004) suggests that further investigation into the potential roles of the internal auditor in relation to other governance functions is necessary (addressed in Chapter 4.3 of this thesis).

Aim and motivation

The aim of my thesis is to provide guidance for the way in which the internal auditor can, in practice, fulfill one or more combined roles in project organizations, even if they might seem to be conflicting. My personal motivation in choosing this subject is that in my daily work as an internal advisor and project manager in process innovation, governance, risk and compliance at Heineken International, I am heavily involved in this discussion. Together with the Chief Audit Executive of Group Internal Audit, I define the roles of Internal Audit in large projects in cooperation with partners in consulting/audit firms including KPMG and PricewaterhouseCoopers (PwC).

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3 Note that for the ease of comprehension the masculine gender will be used throughout the document but that it could always be replaced with the feminine.


Problem description
By applying different insights I would like to give practical guidance on under what conditions the internal auditor can fulfill potentially conflicting roles in projects.

Under what conditions can the internal auditor fulfill potentially conflicting roles, such as participative and assurance roles, without jeopardizing the auditor’s independence and objectivity?

Research questions
1. What roles can be played by the internal auditor in project organizations?
2. Which of these roles are potentially conflicting and might jeopardize the independence and objectivity of the internal auditor?
3. Under what conditions can the internal auditor fulfill some of these conflicting roles in projects?

1.2 Approach and structure of thesis
The foundation of this thesis is a synthesis of the literature which is used to compare and apply the standards and guidelines of both the internal audit profession and project management to the role of the auditor in projects.

The approach I have followed in my research is initially centered around a synthesis of literature. Next I have validated and enriched the findings with a practice part.

Theory
1. Apply theory with respect to the role of the auditor and the guidance of the IIA, in particular the position paper from the Institute of Internal Auditors (IIA, 2004), ‘The Role of Internal Audit in Enterprise-wide Risk Management (ERM)’ to projects.

2. Apply project governance frameworks and best practice to gain additional insight into the role of the auditor in projects and the necessary guidance with respect to potentially conflicting roles.

I have developed a framework (see Chapter 4) based on a synthesis of the literature (publications, articles) and the guidance of governance bodies in particular the IIA and the Office of Government Commerce (which developed widely adapted approaches like PRINCE2). Some additional theoretical insights such as those from psychological and organizational theory (group decision-making processes) have been used to complete this literature synthesis.
Practice
The findings of this study have been further enriched by examples from common practice in day-to-day operations based on interviews with Chief Executive Auditors of four large companies (see Chapter 5). By conducting these interviews additional insights with respect to the conditional role of internal audit in projects have been gained. In addition I have validated my results from the literature synthesis (see Chapter 2, 3 and 4). Finally, I have investigated the opinion of the Chief Audit Executives/Managers and the way in which they deal with the role of the internal auditor in practice.

Figure 1 Approach and structure of thesis.

In the last chapter (Chapter 6) I will come to an overall conclusion and provide guidance about the ways in which the auditor can fulfill potentially conflicting roles in projects without jeopardizing his independence and objectivity.
2 The role of the internal auditor in projects

2.1 The roles of the internal auditor

Though historically the role of the internal audit function has concentrated on the reliability of financial reporting, in the mid-1980s a shift towards extending the scope of the role to the effectiveness of the internal operational processes occurred. In the 1990s the Anglo-Saxon managerial approach towards embedding the audit function in the management cycle of the organization was the next step in the development of the internal audit function.

The Institute of Internal Auditors (IIA) (2007) defines internal auditing as '(... an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.' Assumption services demand an internal auditor’s objective assessment of evidence to be able to make an independent judgment regarding the audit object. Consulting services are advisory in nature and are performed at the explicit request of the client and are subject to mutual agreement. Consultative auditing refers to problem-solving methodologies aimed at improving the situation of the client.

Over time the internal auditing function has evolved to focus on managerial needs. Sawyer (2005) lists how the internal auditor can generate added value by assisting the management in:

- monitoring activities that cannot be performed by the management itself
- the identification of risks
- the validation of management reports
- advise in the security design in the technical area
- support in the decision-making process (by validating data for example)
- future-oriented reviewing
- supporting managers in problem detection and suggesting corrections.

Subsequently the role of the internal auditor might vary from the typical assurance-related roles of inspector and independent judge to consulting and even participative roles such as process coordinator. Molenkamp et al. (2004) mention a mixture of roles that the auditor might perform:

- inspector
- (content) expert
- objective, independent judge
- investigator and advisor
- process coordinator
- challenger or coach.

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6 Driessen and Molenkamp (2004).
7 The IIA (2007), paragraph xxix.
8 Sawyer (2005), p. 35-37.
In a position paper the IIA (2004) elaborated on the different types of roles fulfilled by the internal auditor in Enterprise-wide Risk Management (ERM). In this paper the roles are categorized into three different groups:

1. Core internal auditing roles with regard to ERM.
2. Legitimate internal auditing roles with safeguards are roles that audit might fulfill in projects when certain conditions are taken into consideration.
3. Roles internal auditing should not undertake.

In this thesis I will apply this classification to the roles the auditor can play in projects. In this chapter I will describe the natural (core) role of the internal auditor and the roles that can be fulfilled with safeguards in place. In Chapter 3 I will concentrate on roles that should not be fulfilled by the internal auditor.

2.2 Project governance and frameworks

Since the center of attention in this thesis is the role of the auditor in projects, I will make use of specific project governance frameworks. Of course more generic frameworks like COSO-ERM (2004) can also be applied, for example to link project goals to company objectives. However best practice project frameworks of for example the International Project Management Association (IPMA) and the UK Office of Government Commerce (OGC) provide more tangible guidance on the role of the auditor in projects. In addition the role of the auditor may vary in each different phase in the project.

The IPMA (2006) acknowledges three levels in linking individual projects with company objectives:

1. On a strategic level the business management is responsible for the setup of an environment for the effective execution of programs and projects.
2. On a tactical level the business goals and program/projects objectives are linked via the business case and include the allocation of the project budget and resources.
3. On an operational level the standing organization sets the requirements for the project’s deliverables.

The Office of Government Commerce (OGC), an independent office of the UK government, provides standards and guidance on best practices with respect to project management that have been globally adopted across industries. PRINCE (an abbreviation of Projects in Controlled Environments) was developed by the OGC in 1989 as the standard approach to IT projects. Over time the method has been enriched to become a generic, best practice project management framework covering a wide variety of disciplines and activities for all kinds of projects outside the IT and public sectors. Today PRINCE2 has been widely adopted by both public and private organizations as the de facto standard for project management and has a demonstrable track record.

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The OGC describes the typical characteristics of a project as\textsuperscript{12}:

- a finite and defined life cycle
- having clear and measurable deliverables
- a corresponding set of activities to realize the deliverables
- a limited amount of resources
- an organizational structure, with clear responsibilities within the project (project roles and responsibilities).

The OGC provides guidance on the best practice grouping of key roles, and the relationship between the roles, which is a basic condition for successful delivery. They offer a description of the project team and project team members (see Appendix 1 for an overview of the roles).

OGC defines a project team as\textsuperscript{13}:

‘(...) a group of individuals with appropriate and complementary professional, technical or specialist skills who, under the direction of the project manager, are responsible for carrying out the work detailed in the project plan. The size of the team will of course depend on the nature of the work being undertaken.

(...) The project team is collectively responsible for:

- Assisting the project manager to deliver the project's objectives
- Within their technical expertise carrying out the elements of the project they are tasked with
- Providing administrative support to the project manager (this may be through the setting up and resourcing of a project support office)
- Advising the project manager if any risks arise that (SH: are) likely to affect delivery of the project’s objectives and to be part of the risk reduction process
- Providing information for project documentation as required.’

The project manager is the primary individual responsible for the delivery of deliverables according to the pre-defined quality standards. In addition he is responsible for the management of risks and the development of contingency plans. Depending on the size and the complexity of the project, other individuals can be appointed to support the project manager, for example a risk manager or internal auditor.

I would like to remark that an individual project can be part of a program. The program is the ‘umbrella’ under which individual projects have been grouped in order to contribute to an identical objective. The OGC points out (see Footnotes 11/12) that the quality assurance and overall compliance of the program - focusing inwardly on the internal consistency of the program structure; and outwardly on its coherence with infrastructure, interfaces with other projects and corporate standards - is the primary responsibility of the program manager. He will define the governance structure and make sure that appropriate assurance roles are appointed. It is the responsibility of the project manager to liaise with the appointed assurance roles to ensure the overall integrity and coherent structure of the project.

\textsuperscript{12} Office of Government Commerce: www.ogc.gov.uk (adapted from publication 27\textsuperscript{th} of July 2008).
\textsuperscript{13} http://www.ogc.gov.uk/User_roles_in_the_toolkit_project_team.asp (quoted 27\textsuperscript{th} of July 2008).
Since quality assurance is relevant at both levels and the way projects are grouped and structured depends on the organization and situation, the roles I describe in this thesis are both applicable for programs and projects (see also Chapter 6, suggestions for further research).

In the next section I will describe the different types of roles of the internal auditor in these multidisciplinary teams.

2.3 The roles of the internal auditor in projects

In line with the definition of the IIA (2007), Sawyer (2005) acknowledges both the assurance and the consulting activities of the internal auditor: ‘internal auditing is a systematic, objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether (1) financial and operational information is accurate and reliable; (2) risks to the enterprise are identified and minimized; (3) external regulations and acceptable internal policies and procedures are followed; (4) satisfactory operating criteria are met; (5) resources are used efficiently and economically; and (6) the organization’s objectives are effectively achieved – all for the purpose of consulting with management and for assisting members of the organization in the effective discharge of their governance responsibilities.’

This definition makes the link between the specific role of the auditor with respect to projects more explicit than the IIA definition. Typically a project contains elements which are made explicit in the definition of Sawyer. Van Aken (1997) defines a project as ‘a totality of coherent activities executed for the sake of pre-agreed result, with a beginning and an end, making use of limited resources and manpower, and mostly singular in nature.’ Common essentials in both definitions are that objectives are achieved by making use of limited resources in a controlled manner (coherent activities within a certain timeframe).

Sawyer (2005) mentions various approaches to auditing with a possible overlap in activities but as long as they are performed by internal employees they are within the definition of internal auditing:

- comprehensive auditing: encompasses auditing of operational activities
- management-oriented auditing
- participative auditing
- program auditing.

The term program auditing is used to differentiate between ongoing audit activities and audit activities related to a specific time-frame. The audit is oriented to determine if pre-defined objectives are met. Participative auditing is aimed at supporting the client in helping to realize pre-defined goals, it is a problem-solving partnership. In an update of its position paper of 2005, the IIA discloses trends with respect to the internal audit function in the Netherlands (2008). The IIA explicitly confirms the need for involvement from program and project management to ensure the consistency of project objectives with overall strategic objectives. In this paper some roles have been described but not specifically related to projects.

\[14\] Sawyer (2005), p.10.
In the literature the roles of the internal auditor are described in various contexts and might vary between the classical assurance role and truly participative roles. Often the roles are described in a broader context than just within the context of projects. Some authors have addressed the role of the auditor in process redesign\textsuperscript{15}. It is worth commenting that in some recent literature the role of the auditor in projects is mentioned in the context of developments in the area of the audit field, in particular a trend towards more proactive involvement from the internal auditor in an environment subject to changes and aligning internal audit roles with risk management.\textsuperscript{16}

### 2.3.1 Classification of the roles internal auditor in projects

In the table below (Table 1) I will apply various roles that are described in the literature to the role of the auditor in projects based on a classification in an IIA publication by Frigo (1995). He distinguishes three different types of roles with respect to projects (in this case a process redesign project):
- judgment (assurance with respect to the outcome/result)
- advisory
- participative in multidisciplinary teams.

Based on this classification I have derived three main categories which capture the various roles an auditor can play (see Table 1 below):
1. assurance roles
2. consulting roles
3. participative roles.

#### Assurance roles

Quality assurance reviews can be provided during different phases of the project. KPMG divides project reviews into four categories (Donker, 2008):
1. initial project reviews
2. milestone project reviews
3. business readiness or pre-implementation reviews
4. post-implementation project reviews.

#### Consulting roles

In his ‘Management Consulting Guide to the Profession’ Kubr (1980) divides consultant roles into two major categories:
2. Process consultants: provide approaches and methods in order to enable the organization to diagnose and remedy its own problems.

Translated to the role of the auditor in projects, the role of the resource consultant is an advisory role related to the content of deliverables based on specific knowledge and


expertise (for example a control design). Consulting with the project management about embedding the quality assurance process is a clear example of a process consultant role.

**Participative roles**

Donker (2008) argues that today the auditor can also have a participative role as a monitoring function for quality control or even as a project leader/coordinator in specific areas.

Table 1 describes roles that the auditor can play in projects using this classification to group the roles (in assurance, consulting and participative roles). Note that I do not claim nor intend this list to be complete, my aim is to provide indications of the different types of roles that can be fulfilled by the auditor in projects.

2.3.2 **Different types of roles of the internal auditor in projects**

**Quality assurance role**

I would like to make an important side remark with respect to the quality assurance role. This role can be restricted to a compliance role by providing assurance to the project sponsor, a consulting role towards the project management or can even be a facilitating role. Donkers and Lof (2008) describe a shift from the traditional (IT) audit assurance role to more active involvement from the internal auditor. They argue that practice has demonstrated that by providing project assurance in a proactive way a safety net is created, preventing bad decisions being taken that result in increased costs later in the project. In addition Donkers and Lof argue that the auditor’s experience can be used not only by fulfilling the traditional role of independent reviewer but also by working in a proactive manner on the project with the Project Management Office (PMO) and in this way contribute to the successful realization of the project. By doing so the internal auditor can provide project assurance by independently identifying risks and providing advice with respect to proposed mitigations made by the management.

**The role of the auditor during the different phases of a project**

As mentioned above, the role of the auditor might differ per phase of the project. In the literature project phases are described with several levels of detail that can vary depending on the nature of the project. However on a highly generic level three levels can be distinguished as a common denominator to all projects:

1. project preparation/start
2. project execution
3. project close.

Driessen and Molenkamp (2004) refer to a trend in internal auditing in which the auditor operates more proactively, denoted as ‘proactive auditing’, and is asked to provide a second opinion on proposed plans early on during the strategy definition phase\textsuperscript{17}.

\textsuperscript{17} Driessen and Molenkamp (2004), p.70.
In Appendix 2 I have linked the generic levels to the phases identified in the PRINCE2 project methodology and the PRINCE2 components (modules or products per phase). In addition I have provided examples of how the role can differ per phase of the project. It is not my aim to investigate the role per phase in-depth since the core purpose of this thesis is to investigate how different roles can be fulfilled (see Chapter 4 and also paragraph 6.2, suggestions for further research).

<table>
<thead>
<tr>
<th>Type of role</th>
<th>Project roles</th>
<th>Description</th>
<th>Reference literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance</td>
<td>Quality Assurance (QA) – Program/project reviews</td>
<td>4 levels - Initial project - Milestone project reviews - Business readiness or pre-implementation reviews - Post-implementation reviews.</td>
<td>Donker 2008, OGC</td>
</tr>
<tr>
<td></td>
<td>Quality Assurance - deliverables</td>
<td>Review focusing on the quality of the products (deliverables).</td>
<td>Donker 2008</td>
</tr>
<tr>
<td></td>
<td>Post-implementation audit</td>
<td>Provide opinion about the quality of the internal control system embedded in the operational processes.</td>
<td>Strikwerda 2008</td>
</tr>
<tr>
<td></td>
<td>Quality Assurance – advisor to program/project management</td>
<td>Advise the project management on project management and risk assessment methodology.</td>
<td>Kubr 1980 (derived from process consultant role), IIA 2008</td>
</tr>
<tr>
<td>Consultant</td>
<td>Advisor (content)</td>
<td>Act in an advisory capacity in a narrow sense, answering questions and expressing particular views but no direct involvement in realization.</td>
<td>Kubr 1980 (derived from resource consultant role)</td>
</tr>
<tr>
<td></td>
<td>Sounding board – objective observer</td>
<td>Raise questions to reflect.</td>
<td>Kubr 1996</td>
</tr>
<tr>
<td></td>
<td>Coach/trainer</td>
<td>Advise in designing learning experiences or acts as coach.</td>
<td>Driessen and Molenkamp 2004, Kubr 1996</td>
</tr>
<tr>
<td>Participative roles</td>
<td>Proactive expert role</td>
<td>Own specific knowledge in the area of internal control systems and IT security and proactively participates in a project to define alternatives, provide recommendations and solutions.</td>
<td>Swayer 2005, IIA 2008</td>
</tr>
<tr>
<td></td>
<td>Project/process coordinator</td>
<td>Coordinate project activities.</td>
<td>Donker 2008, Molenkamp 2005</td>
</tr>
<tr>
<td></td>
<td>Documentation controls</td>
<td>Support in documentation of controls.</td>
<td>IIA 2008, Diekman 2005</td>
</tr>
<tr>
<td></td>
<td>Proactive QA partner – facilitator role</td>
<td>QA partner that not only identifies risks but also translates them into real business issues and makes recommendations.</td>
<td>Donker 2008, IIA 2008</td>
</tr>
</tbody>
</table>

**Table 1** The roles of the internal auditor in projects.
2.4 Conclusion to Research Question 1

In this chapter I have addressed the first research question:

**Research Question 1**

What roles can be played by the internal auditor in project organizations?

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**Figure 2** The roles of the internal auditor in projects

I have summarized the roles that can be fulfilled by the internal auditor described in this chapter in Figure 2. Note that this is not a restricted list but I have categorized the roles in groups in order to gain more insight into the potential roles that the auditor can play in projects: assurance, consulting and participative roles. In the next chapter I will provide a greater in-depth view of to what extent these roles might jeopardize the auditor’s independence. This might apply to both individual roles or to a combination of roles (for example consulting and assurance roles). In addition I will address roles that should not be undertaken by the internal auditor at all in Chapter 3.
3 Theory: Potentially conflicting roles

In order to gain insight into the potentially conflicting roles that may impact on the internal auditor's independence I will apply the IIA position paper (2004) to the types of roles that the auditor could undertake in projects.

### Table 2 Categories from IIA position paper linked to audit roles in projects

<table>
<thead>
<tr>
<th>Project roles</th>
<th>Categories of roles from IIA position paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance</td>
<td>Core internal auditing roles</td>
</tr>
<tr>
<td>Consulting</td>
<td>Legitimate internal auditing roles with safeguards</td>
</tr>
<tr>
<td>Participative</td>
<td></td>
</tr>
<tr>
<td>No role</td>
<td>Roles internal auditing should not undertake</td>
</tr>
</tbody>
</table>

The assurance role is the traditional role of the auditor (core role). The consulting and participative roles are typically roles that can be fulfilled by the internal auditor but only when certain safeguards (i.e. preconditions) are put in place. In paragraph 3.1 I will concentrate on these safeguards. There are also certain roles that should not be undertaken by the internal auditor. In paragraph 3.2 I will address the roles the auditor should not undertake.

The IIA and other standard-setting bodies describe the core elements of the audit profession which need to be taken into consideration when assisting an organization through non-audit activities. The core elements described are:

- ‘Auditors should be independent and avoid relationships and situations that compromise auditors’ objectivity.
- Auditors should not audit their own work.
- Auditors should not perform management functions or make management decisions.’

These principles will be further detailed in the following paragraphs and in Chapter 4.

### 3.1 Legitimate roles with safeguards

By applying the model of Kubr (1996) consulting roles can be put on a scale from non-directive, in which the client is central, to directive, in which the consultant has a relatively dominant role. Therefore the question arises as to what the boundaries and conditions are in cases where the internal auditor acts as a consultant to the client.

---

18 Practice Advisories of the IIA Professional Practices Framework (2007), p.53 including reference to other standard-setting bodies such as IAASB/IFAC in its Code of Professional Ethics and the U.S. Government Accountability Office in its Generally Accepted Auditing Standards.
In the IIA position paper of 2004 safeguards with respect to ERM have been described that I have adapted for project management:\(^{19}\)

- It should be clear that management remains responsible for project risks and determining the risk appetite (see next paragraph).
- The nature of internal audit’s responsibilities should be documented in the audit charter and approved by the Audit Committee\(^ {20}\) (see Chapter 4, reference IIA 1.1).
- Internal audit should not manage any of the project risks and mitigations on behalf of the management (see next paragraph).
- Internal audit should provide advice, challenges and support to the management’s decision making, as opposed to taking management decisions themselves or implementing solutions on behalf of management (see next paragraph).
- Internal audit should avoid any impairment of independence and objectivity in fact or appearance. Segregation of duties should be applied and/or tasks be transferred to other governance departments or outsourced (see Chapter 4, references IIA, DEP and AUD).
- Any work beyond assurance activities should be recognized as a consulting engagement and the implementation standards related to such engagements should be followed (see Chapter 4, reference IIA 1.2).

A final remark I would like to make here is that the exact boundaries of the extent to which the auditor can fulfill a consulting and participative role without risking any infringement of independence cannot always be carved in stone. Since the context, objectives and tasks to be performed might differ from project to project there will always be an individual judgment to be made. As pointed out by Mautz and Sharaf in their book ‘The Philosophy of Auditing’\(^ {21}\) first published in 1961, the responsibility of making a judgment in order to maintain independence in different situations must rest in the first place with the individual audit practitioner and he must constantly be aware of his professional responsibility in all kinds of situations.

### 3.2 Roles that internal audit should not undertake

I have made the core element of auditor independence mentioned by the IIA (2007) that the internal auditor should not perform management functions or make management decisions more explicit with respect to project management in the table below (Table 3).

The IIA standards and the standard roles and guidance provided by the OGC are mutually supportive. The OGC points out that the project manager is responsible, on behalf of the ‘Senior Responsible Owner’ (management), for the successful realization of the project objectives and deliverables.

---

\(^{19}\) The safeguards described in the position paper of the IIA with respect to the role of the auditor in Enterprise-wide Risk Management (2004) are preconditions necessary if the internal auditor is to extend his role beyond the traditional assurance role.


\(^{21}\) *The Philosophy of Auditing*, 12th edition, 1985 by Mautz and Sharaf is a publication of the American Accounting Association established in 1935 in part to develop principles and standards to be endorsed or adopted by enterprises, accountancy and governmental bodies.
In addition, it is the primary responsibility of the project manager to manage project risks. The audit function can assist in making risks transparent but it is up to the business management to determine the risk appetite and define and implement mitigation actions. In addition the embedding of project deliverables into the standing organization is a line management responsibility. If the internal audit function takes on these roles it has crossed the line and therefore cannot provide sufficient safeguards to ensure independence and objectivity (see Table 3 below).

<table>
<thead>
<tr>
<th>Description of roles not to be undertaken by the internal auditor</th>
<th>Literature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting the project risk appetite</td>
<td>IIA 2008, Interviews</td>
</tr>
<tr>
<td>Imposing the project management process</td>
<td>Derived from IIA 2005</td>
</tr>
<tr>
<td>Managing risks identified in quality assurance</td>
<td>IIA 2008, Interviews</td>
</tr>
<tr>
<td>Taking managerial decisions regarding the proposed solutions</td>
<td>IIA 2008</td>
</tr>
<tr>
<td>Implementing solutions on behalf of the management.</td>
<td>Derived from IIA 2008</td>
</tr>
<tr>
<td>Being accountable for project deliverables</td>
<td>Derived from OGC User roles</td>
</tr>
<tr>
<td>Being accountable for project budget and/or progress against milestones.</td>
<td>Derived from OGC User roles</td>
</tr>
<tr>
<td>Being accountable for embedding project deliverables in the organization.</td>
<td>Derived from IIA 2004 position paper</td>
</tr>
</tbody>
</table>

Table 3 Roles not be undertaken by internal audit

3.3 Conclusion to Research Question 2

In this chapter I have addressed Research Question 2 which enquired to what extent the various roles of the auditor in projects might threaten his objectivity and therefore independence. This might apply for individual roles or combined roles (for example consulting and assurance roles).

Research Question 2

Which of these roles (mentioned in Chapter 2) are potentially conflicting and might jeopardize the objectivity of the internal auditor?
In order to answer this question I have grouped the roles described in the previous chapter into three categories$^{22}$ (see Figure 3):

1. core roles of internal audit
2. legitimate roles with safeguards that audit might fulfill in projects when certain safeguards are taken into consideration
3. roles that should not be undertaken by the internal auditor.

The key condition is that line management and project management should always be accountable for risk management, mitigations, managerial decisions and the implementation of deliverables.

Figure 3 The core roles of the internal auditor in projects, legitimate roles with safeguards and roles that internal audit should not undertake

How, and under what conditions the legitimate roles with safeguards can be fulfilled I will describe in Chapter 4. I will also indicate in the next chapter whether the guidance and conditions apply to the potential infringement of a single role or a combination of roles (see also Appendix 4).

$^{22}$ Based on the classification used in the position paper of the IIA describing the role of the internal auditor in ERM (2004).
4 Theory: Guidance & conditions in a framework

The objective of this chapter is to provide guidance and conditions to enable the internal auditor to fulfill potentially conflicting roles.

I have developed a framework (see Figure 4) based on a synthesis of the literature (publications, articles), the guidance of governance bodies in particular the IIA and the Office of Government Commerce (which developed widely adopted approaches like PRINCE2) and feedback from interviews with Chief Executive Auditors (see Chapter 5).

This framework provides guidance and describes the conditions that enables the auditor to fulfill potentially conflicting roles that might otherwise jeopardize his independence. The framework consists of two dimensions that can be combined:

1. **Unit level**: the main distinctions are:
   - *organizational level* describing guidance that is applicable in a broad company-wide context and,
   - guidance at *individual program/project level* (whereas the *portfolio level* is the tie between the organizational goals and the translation to program/project objectives)
2. **Guidance and conditions:** the dimensions are represented by quadrants which represent different angles from which guidance and conditions related to the role of auditor can be approached:

- Roles and responsibilities of the *Internal Audit department*.
- Interchangeable roles with *other governance departments* (such as Risk Management, Internal Control etc.).
- Project governance: guidance for project governance that can be applied to the role of the auditor in projects.

In the following paragraphs the dimensions will be combined: for each quadrant I will describe the guidance and conditions both at the organizational level as well as at the project/program level.

### 4.1 The IIA Guidance

![Figure 5](image-url)  
**Figure 5** The IIA Guidance based on The Professional Practices Framework

In *The Professional Practices Framework* (2007), applied in **quadrant 1**, the IIA provides guidance to the audit profession for assurance activities and consulting activities. The IIA *Standards* can be divided into\(^23\).

\(^{23}\) The IIA (2007), p.3 and 4.
- **Attribute Standards** that concentrate on the attributes of organizations and individuals performing internal audit services.
- **Performance Standards** which focus on the audit services and quality criteria on which the performance of the audit services can be evaluated.
- **Implementation Standards** which elaborate on applying the attribute and performance standards in specific situations.

Though most standards described are relatively broad and do not specifically deal with projects, the audit objects to which the IIA Standards apply relate to ongoing and finite activities. In both cases audit is oriented to determining if pre-defined objectives are set (see also section 2.3), so the standards are applicable for both ongoing auditing as well as project activities. In quadrant I of the framework I describe the guidance of the IIA with respect to the nature of services at two levels:

1. **Organizational level:** the Attribute Standards provide guidance at the organizational level. The purpose, objective and responsibility of Corporate Audit is to be defined in the Audit Charter (IIA 2007, Attribute Standard 1000). In addition the nature of both the assurance and consulting activities has to be defined in the Audit Charter (IIA 2007, Attribute Standard 1000.A1/C1).

2. **Program/project level:** for every individual engagement involving consulting activities, whether or not in combination with assurance activities, an understanding of objectives, scope and activities is to be established with the client, and for significant engagements this understanding must be documented (IIA 2007, Performance Standard 2201.C1). In addition consulting engagement objectives must be consistent with the overall values and goals of the organization (IIA 2007, Performance Standard 2210.C1) within the boundaries of the pre-defined nature of activities in the Audit Charter (see point 1 above).

In the Practice Advisory 1000.C1-2 of the IIA (2007) it is explicitly stated that in some cases assurance and consulting activities can be combined provided that the CAE provides a methodology for classifying the engagements: *The Chief Audit Executive should determine the methodology to use for classifying engagements within the organization. In some circumstances, it may be appropriate to conduct a “blended” engagement that incorporates elements of both consulting and assurance activities into one consolidated approach. In other cases, it may be appropriate to distinguish between the assurance and consulting components of the engagement.*

The IIA standards also provide guidance in the Attribute Standards that focus on impairments to independence and objectivity (IIA 2007, Attribute Standard 1130). The overall guiding principle of the IIA states that when performing consulting-related activities the auditor should always refrain from management responsibility. In the case of any impairment in fact or appearance a disclosure of this impairment is required prior to accepting the engagement (IIA 2007, Attribute Standard 1130.C2).

In the position paper (2004) the IIA provides supplementary guidance regarding consulting activities (see also Chapter 2). In fact the IIA states that *any work beyond the assurance
activities should be recognized as a consulting engagement and the implementation standards related to such engagements should be followed.\(^\text{24}\)

4.2 Division of responsibilities in the internal audit department

Quadrant 2 of the framework focuses on the way activities and roles are organized within the Internal Audit department.

![Diagram](image)

**Figure 6** Division of responsibilities in the audit department.

The concept of the segregation of duties as one of the key control principles described in the administrative organization literature can be applied to avoid potentially conflicting roles. Starreveld et al. (2002) describe the segregation of duties as a way to divide labor-related activities and group them together. One of the main objectives explained is the possibility of creating independent control activities for different persons with non-identical or possibly conflicting objectives. They also remark that the possibility of separating activities depends on the size of the organization. Therefore I have applied the concept of the segregation of duties on different levels:

1. **Organizational level**: division of the internal audit activities into separate sub-departments by the nature of the activities (consulting and assurance). In this case one department focuses on the consulting-related activities while another

department carries out assurance-related activities. A precondition is that an extensive part of the audit activities should be related to consulting-related activities on a continuous basis; this is explicitly agreed with the Board and Audit Committee and the size of the activities should justify several full-time equivalent employees to focus on these activities.

2. **Organizational and program/project organizational level:** division of the internal audit activities based on area of expertise. One sub-department might focus on financial audit-related activities, another department might specialize in IT audit-related services. Hartog and de Korte (2008) recommend regarding every audit as a project and therefore appointing an integral audit manager. Similarly, for every large project an integral audit manager can assign tasks and responsibilities to all involved internal audit disciplines and assurance, consulting and participative roles can be divided between different departments. For example IT Audit services can, based on expertise, participate and consult in defining a control design while Operational and Financial Audit can concentrate on assurance-related activities during the project phase and post go-live assessment.

3. **Individual project level:** for every individual involvement in consulting activities another person will carry out the assurance-related activities. With respect to assessing specific operations for which they were previously responsible, the IIA presume impairment if the internal auditor provides assurance services for an activity for which he had responsibility within the previous year (IIA 2007, Attribute Standard 1130.A1). Although the project and line management take managerial responsibility, this line of reasoning could be extended to the role of the auditor in projects to avoid any appearance of impairment to objectivity. The CAE of DSM mentioned in an interview (see Chapter 5) an internal procedure in which an individual involved in a project will not audit the same project within a period of at least one year.

### 4.3 Interchangeable roles with other governance departments

In **quadrant III** the reasoning behind the so-called ‘lines of defense model’ is that it is a way to ensure the internal auditor’s independence at both the organizational (organization-wide) and program/project level. Hartog and de Korte (2008) argue that the way in which departments can cooperate in an integrated way is organization dependent. They argue that for this reason the first step in effective cooperation is to define the roles and responsibilities in the organizational governance. They refer to the ‘lines of defense’ within an organization as a starting point:

1. **First line of defense – management:** business and project management have the primary responsibility to monitor and control the operations.
2. **Second line of defense – supporting functions:** the management is supported by the staff department in their monitoring responsibility, for example Internal Control, Risk Management, Compliance and Quality Assurance.
3. **Third line of defense – Internal Audit:** provide additional assurance on top of the activities of the first and second line of defense. Different types of audit might be
applicable and can operate in an integrated way: for example operational, IT, financial.

4. **Fourth line of defense – external audit**: additional assurance to external parties (SAS – 70, ISO audits for example).

**Figure 7** Define and align interchangeable roles.

In case potentially conflicting roles might arise, the activities can be split among departments:

1. roles can be defined at organization level as a generic guiding principle
2. roles can be divided between different governance/staff departments
3. roles might be divided between departments within the audit function (see previous paragraph).

Hartog and de Korte (2008) state that real integration is not really applicable between governance departments but the focus is more on cooperation. It is important to avoid overlap in activities whilst at the same time making use of each others’ results. Hartog and van der Kerk (1999) have described how different functions can cooperate together:

- common planning (particularly relevant for projects)
- sharing results for a focus on risk assessment
- sharing results for opinions/judgment
- integrated reporting.
Areas for alignment are:
- planning
- choice of objective and milestones
- execution
- means of reporting
- method and techniques used.

An important remark to be made is that some factors might influence the extent to which activities will be divided between governance departments, for example the business environment in which an organization is operating and the maturity of the organizational governance system. The IIA (2008) mentions that internal audit can have an advisory role with respect to the integrity and compliance system if the compliance structure is immature.

In an outlook study of trends and the expected evolution of the internal audit function (2007) PwC predicts that internal audit activities will be more and more risk-centric. Alongside the focus on controls assurance based on the risk-based audit plan, the audit model for 2012 is projected to be risk-centric and assurance will be provided on the effectiveness of risk management. Geeve and Molenkamp (1998) state that in the context of the concept of lines of defense, as described above, the role of internal audit diminishes as the internal quality system improves. The internal audit’s added value is to improve the quality of the internal embedded control system.

### 4.4 Guidance from project governance perspective

**Figure 8** Guidance of project from the governance perspective.
In quadrant 4 I describe the guidance necessary for the role of the auditor from the project governance perspective. In this paragraph I use best practices developed by the Office of Government Commerce (OGC) such as PRINCE2 to provide guiding principles for project roles and methodology.

### 4.4.1 Clearly defined project responsibilities

#### 4.4.1.1 Guidance from OGC regarding combining project roles

In the OGC profile description, the ‘Project Manager’ is responsible for adopting any delegation and the use of project assurance roles within agreed reporting structures. The OGC states that the grouping of key roles, and the relations between the roles, is of crucial importance to a successful delivery. A precondition of the OGC is that if roles are combined (which is especially appropriate for smaller/less complex projects) ‘it is important to ensure that delegations and reporting arrangements are understood by all involved.’ The OGC also provides ‘gateway lessons’ based on lessons learned from a review program. The first topic addressed is the risk of ‘inadequately defined or ineffective project organization/governance arrangements/agreed roles and responsibilities’.

Guidance for consulting tasks is described in the role of the professional advisors; ‘advisors and consultants should not be used in key decision making roles on projects and programmes’ (see also Chapter 3). In his management consulting guide for the profession Kubr (1996) points out that problems with independence and objectivity can in most cases be avoided since they usually occur when the management and the internal consultant (read internal auditor) fail to clarify their roles and responsibilities. He argues that as long as ‘the role and status of internal consulting are properly defined and respected, the independence, objectivity and credibility of this service can be considerably enhanced.’

The roles and responsibilities of internal audit and responsible business management can be documented in the project quality plan which, along with these responsibilities, also describes the quality control and audit processes.

#### 4.4.1.2 The independent role of the internal auditor on the Project Board

In this paragraph I will address the role of the internal auditor on the Project Board, often referred to as the Steering Committee. In the role description of the OGC it is mentioned that the ‘Project Board’s Senior Executive’ is responsible for the overall quality assurance of the project. Questions might arise as to how this relates to the role of the internal auditor and whether the internal auditor can be part of the Project Board in the capacity of an (additional) assurance provider.

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By applying physiological theory additional arguments can be raised in favor of the statement that the internal auditor should be very reluctant to participate in a steering committee even as a non-voting member. Janis (1972) argues that so-called ‘groupthink’ effects might result in poor decisions. An overemphasis on consensus and direct pressure from the group might result in a failure to consider alternatives, bias and an incomplete use of information. Beach and Connolly (2005) provide additional insight by applying the psychology of decision-making to the organizational theory. They describe the “risky shift” based on research that demonstrated that groups tend to be more extreme than individuals in their (un)willingness to endorse risky decisions. This implies that individuals end up agreeing to decisions that they would not have taken on an individual basis. An explanation may be that group members endorse a group decision because responsibility might be assumed to be diffused across the group.

My personal opinion is that the internal auditor should be extremely reluctant to participate in a steering committee meeting even as a non-voting member. If a decision is taken in the presence of the internal auditor, it might in hindsight be unclear what the role of the internal auditor in a particular decision had been. Even if Internal Audit had not expressed an opinion, once the results turn out to be different from what was expected, it could always be used against the internal auditor that he “could or should have known” or had at least been part of the decision by being present in the meeting at which the decision was taken. Therefore it is important to document in writing what the relationship of the internal auditor is towards the Steering Committee. If the internal auditor does participate in the meeting by expressing a second opinion it should be clear in the project charter that:

- The auditor acts completely independently and has no managerial responsibility whatsoever for the managerial decisions taken by the Project Board.
- There is no formal reporting line to the Project Board and Project Board chairman. In line with the Audit Charter and IIA Attribute Standards (2007) the internal auditor should report independently to the senior business management.
- Following good audit practices as described in the IIA Performance Standards (in particular IIA 2300 – Performing the Engagement) the auditor should document advice and opinions given and maintain an audit trail based on retention requirements.

4.4.2 Embedding standard project (audit) methodology

The internal audit function can sponsor the implementation of standard project and audit methodology. By sponsoring the definition and embedding of a standard project methodology a safeguard is created and this enables the project management to manage projects in a controlled way. The quality criteria for project gateways and deliverables can be made explicit and transparent and can serve as a reference model for project reviews.

The OGC Portfolio, Programme & Project Management Maturity Model (P3M3) can be used as the basis for improving portfolio, program and project management processes. It is structured in five levels of maturity varying from ‘level 1 - initial process’ to ‘level 5 – optimized process’. A mature organization has the organization-wide capability to manage
projects through a defined standardized process (from maturity level 3 onwards). Roles and responsibilities are defined and communicated in a clear way throughout the organization.

At organizational level the purpose of quality assurance is to provide an assurance that the project has adequate plans and measures, in line with the established project methodology, to ensure that the project processes are suitably controlled and are likely to result in products that meet explicit quality criteria. Audit can support the design of the quality assurance and standard audit project methodology in the organization, including clearly defined roles and responsibilities of both line management, internal audit and other governance functions. At project level audit can consult and facilitate the embedding of quality assurance in the project by assisting the project management with implementing the quality assurance system in an effective way.

The IIA (2008) confirms this role by stating that instead of waiting until processes and systems have been implemented, audit can add value by advising on how to embed adequate controls in the project process to ensure the outcome will be in line with anticipated results. Audit can make use of best practice frameworks like PRINCE2: ‘in the PRINCE2 methodology the purpose of ‘Quality Assurance’ is to provide an organizational assurance that the project has suitable quality plans and measures, in line with the tailored PRINCE2 method, to ensure that the project processes are suitably controlled and are likely to result in products that meet explicit quality criteria as defined by Product’. In Appendix 3 I present an overview of how the PRINCE2 processes (for each phase) can be linked to the components.

Cleton and Hartog (2005) confirm the added value of internal audit when it has a facilitating and advisory role in developing a standard project management methodology, both at the organizational level and on an individual project level. The authors illustrate that the internal audit function has a choice in the role with respect to the auditing of projects:

1. Perform audits and review as part of the quality assurance system of the project.
2. Review the project methodology and quality assurance system.

In the second option audit (‘outsider option’) is not directly involved in providing quality assurance but provides assurance as an ‘outsider’. Cleton and Hartog argue that both roles can be fulfilled without jeopardizing the auditor’s independence. This does not conflict with the assurance role in reviewing the methodology. In this case advising means to make the audit reference framework explicit in advance in order to ensure that an adequate review is undertaken.

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4.5 Conclusion to Research Question 3

In this chapter I have addressed Research Question 3:

**Research Question 3**

Under what conditions can the internal auditor fulfill some of these conflicting roles in projects (described in Chapter 2 and 3)?

In Figure 9 I have summarized the guidance and conditions that enables the internal auditor to fulfill these potentially conflicting roles without jeopardizing his independence and objectivity. I have described this in a framework which includes different viewpoints: the IIA guidance, the organization of the internal audit department, the role of other governance departments and the project governance.

![Figure 9 Summary framework of guidance and conditions for the role of auditor in projects](image)

In Appendix 4 I have included an overview with detailed descriptions. In this overview I also highlight the instances in which the guidance is applicable in order to avoid infringement of the auditor’s independence when related to an individual role or combination of roles in a project. I have validated and completed this framework by conducting interviews with four Executive Audit Managers of multinational organizations (see Chapter 5). Consequently I will draw general conclusions in Chapter 6.
Executive Master of Internal Auditing

5 Practice: opinions and validation of theoretical framework and guidance

5.1 Approach and objectives

In order to validate the framework in Chapter 4 and to gain additional insights into the role of the auditor in projects I have conducted interviews with the Chief Audit Executives (CAE)/managers of four multinational organizations:

- Mr. Bernhard de Vries - Audit Director Fortis Verzekeringen (global), international provider of banking and insurance services.
- Mr. Roelof Mulder - Chief Audit Executive Royal DSM N.V., Dutch diversified multinational manufacturing company.
- Mr. Jan Westenbrink - delegate Chief Audit Executive SNS Reaal (delegate Thijs Smit CAE), banking and insurance service provider.
- Mr. Michel Kee, Chief Audit Executive Heineken N.V., international operating brewery.

Objectives
To investigate the opinions of Chief Audit Executives/managers in four large companies and the way they deal with potentially conflicting roles in projects in their organizations in practice. The interview was structured around the research questions and structure of this thesis. The objectives are:

1. To gain an understanding of what roles an internal auditor plays in the organization and in particular in projects.
2. To gain feedback about to what extent some of these roles are considered to be potentially conflicting and how they might jeopardize the objectivity of the internal auditor.
3. To understand how and under what conditions the internal auditor can fulfill some of these conflicting roles in projects.

5.2 Answers to interview questions

Objective 1

To gain an understanding of what roles an internal auditor plays in the organization and in particular in projects.

What kind of roles does internal audit play in projects in your organization?  
→ See questionnaire (Appendix 5), question 1.1 and 1.2.
## Executive Master of Internal Auditing

### The role(s) of the internal auditor in projects

#### Type of role

<table>
<thead>
<tr>
<th>Assurance</th>
<th>Consultant</th>
<th>Participative</th>
</tr>
</thead>
</table>

#### Project roles

<table>
<thead>
<tr>
<th>Type of role</th>
<th>Project roles</th>
<th>Fortis</th>
<th>SNS</th>
<th>Heineken</th>
<th>DSM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance</td>
<td>QA – program/project reviews</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Quality assurance – deliverables</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Post-implementation Audit</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Consultant</td>
<td>QA – advisor to program/project management</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Advisor (content)</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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<td></td>
<td>Sounding board – objective observer</td>
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<td>N</td>
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<td></td>
<td>Coach/trainer</td>
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<td>N</td>
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<td>Proactive expert role</td>
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<td>N</td>
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<td></td>
<td>Proactive QA partner - facilitator role</td>
<td>N</td>
<td>N</td>
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<tr>
<td></td>
<td>Project/process coordinator</td>
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<td>N</td>
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<td></td>
<td>Documentation controls</td>
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<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
</tbody>
</table>

**Note:** Y" refers to “Yes” and “N” to “No”.

### Table 4 Role of the auditor in projects by organization.

In all organizations audit is involved in projects and in all cases internal audit provides assurance and consulting services. Here it is worthwhile to note that in three organizations the main objective of internal audit, as agreed and described in the charter, is to provide assurance. Advice is restricted to supporting migrations or given on an occasional basis. The exception to this is Heineken where it is mentioned that audit has two primary tasks: both assurance and consultation (i.e. proactively advising on how to improve). Heineken’s ambition is that audit becomes a proactive partner in risk management.

**What kind of roles does internal audit play in projects? - continued (per phase)**

<table>
<thead>
<tr>
<th>Type of role</th>
<th>Project role</th>
<th>Object of review by phase</th>
<th>Fortis</th>
<th>SNS</th>
<th>Heineken</th>
<th>DSM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance</td>
<td>Quality Assurance – program/ Project review</td>
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<td>Project milestones</td>
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<td></td>
<td></td>
<td>Business readiness</td>
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<td></td>
<td>Project evaluation</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
</tbody>
</table>

**Note:** Y" refers to “Yes” and “N” to “No”.

### Table 5 Quality assurance during different phases of the project.
In all organizations audit provides assurance in all phases of the project ranging from a review of the project plan and risk analysis, to the go-live readiness review and evaluation of the lessons learned. It is meaningful to mention that audit can also initiate these assurance activities themselves and not exclusively at the request of the client.

The audit manager of Heineken mentioned a difference in the auditor’s role between different levels:

- Program level: challenging role, proactive QA in all phases of the project with a focus on risk assessment.
- Project level: also various additional roles including participative roles.

Objective 2

To gain feedback regarding which roles are considered to be potentially conflicting and might jeopardize the independence and objectivity of the internal auditor.

Do you consider some of the roles that audit plays in your organization in projects as potentially conflicting with the independence and objectivity of the auditor? Which roles should under no circumstances be fulfilled by internal audit in projects?

See questionnaire (Appendix 5), question 2.1 and 2.2.

<table>
<thead>
<tr>
<th>Answer from</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernard de Vries - Fortis</td>
<td>Main objective of audit is to provide assurance. Advice is provided to support improvements in migrations. Under no circumstances does audit have accountability for the execution of project deliverables. The target bonus of senior management is partly related to their internal control responsibility. Monitoring the follow up of improvements is the responsibility of the Risk Management department, which includes supporting self risk assessments.</td>
</tr>
<tr>
<td>Jan Westenbrink – SNS Reaal</td>
<td>The primary task of audit is to provide independent assurance. This is the added value of Internal Audit. In terms of administrative organization and internal control consulting activities, very few, if any are performed by Internal Audit. In some cases audit specifies minimum requirements in control design, but it is the responsibility of the line organization to detail the control design.</td>
</tr>
<tr>
<td>Michel Kee - Heineken</td>
<td>Audit has two primary tasks at Heineken: both assurance and consulting (i.e. proactively advising how to improve). The ambition is that audit will be a proactive partner in Risk Management. The objective is to make the business more control minded by explaining controls and creating control awareness. The ownership of controls should always be within the business.</td>
</tr>
<tr>
<td>Roelof Mulder - DSM</td>
<td>Main objective of audit is to provide assurance. Consulting activities are limited and on a personal basis. Audit does not fulfill participative roles in projects. If an individual is involved in consulting activities another auditor is involved in the audit activities</td>
</tr>
</tbody>
</table>

Table 6 Opinion with respect to potentially conflicting roles and roles not to be undertaken in projects.
Roles not be undertaken by internal audit (Appendix 5, questionnaire, question 2.2)
In Table 6 I have combined the remarks related to these two questions in the interview (question 2.1 and 2.2). All the roles that should not be undertaken by the auditor mentioned during the interview have been confirmed (see Appendix 5, question 2.2). The Audit Manager of Fortis (Bernard de Vries) mentioned explicitly that, alongside project deliverables, internal audit cannot be responsible for the accountability of budget and progress against milestones and objectives. One single exception was made: at Heineken in some cases audit can facilitate the implementation of solutions based on competences (control frameworks) but with the unambiguous condition that the line management remains accountable.

Objective 3
How and under what conditions can the internal auditor fulfill some of these conflicting roles in projects?

Do you have a division in project-related roles and responsibilities on the following levels in your organization?
See questionnaire (Appendix 5), question 3.1

In all companies in a similar way to the way the governance is structured on an organizational level, governance activities can be divided between governance departments in a project.

At Heineken no separate governance departments, such as Risk Management and Internal Control, exist. For this reason audit is involved in various roles that could be fulfilled by these departments. Audit in a consulting role is primarily related to the design phase in which the audit department provides input based on its competences. Assurance is mainly provided with respect to how effectively management has implemented the designs. The audit manager mentioned that the separation of tasks might depend on the industry (“for banks it is logical to make this split”) and size of the company.

The CAE of DSM mentioned that at the project level audit can perform risk management and internal control-related activities. This is at the request of the process owner and based on a mutual agreement between staff departments. In any case audit will still audit the project (although the audit will be carried out by another individual).
## Division of responsibilities at different levels of the organization

<table>
<thead>
<tr>
<th>Remarks</th>
<th>Fortis</th>
<th>SNS</th>
<th>Heineken</th>
<th>DSM</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Division of responsibilities between different governance departments both on the organizational level and program/project level</td>
<td>Quality Assurance: Y Y Y Y *</td>
<td>Internal Control: Y Y N Y</td>
<td>Risk management: Y Y N Y</td>
<td>Business control: Y Y Y Y</td>
<td>Compliance: Y Y N N*</td>
</tr>
<tr>
<td>* Quality assurance is directly related to product quality based on regulations (for example, the FDA for pharmaceutical products).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2: Division in audit department into sub-departments performing consulting and assurance activities.</td>
<td>N* N N* N*</td>
<td>* Opinion: might be an option if the audit department is large enough and the number of consulting activities justified a separate department. At Fortis the internal audit department is organized following the business organization structure.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3: Not to assign individuals to project audits who have previously been involved in participative project roles like quality assurance and consulting.</td>
<td>Y Y Y Y</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4: Outsourcing of potentially conflicting roles*</td>
<td>Y Y N N</td>
<td>Outsourcing occurs in all organizations but the sole reason is not always a division of responsibilities but can also be capacity driven.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: “Y” refers to “Yes” and “N” to “No”.

**Table 7** Division of responsibilities in governance structure by organization.
**Executive Master of Internal Auditing**

*Have guidelines been established in your organization regarding the roles and responsibilities of the business management and project management in relation to other governance departments and Internal Audit? What are these, and if not what is common practice?*

→ See questionnaire (Appendix 5), question 3.2.

The **line of defense model** is applicable to all organizations:

- At **Heineken** supporting governance departments in the second line of defense (like Risk Management) are limited or non-existent. For this reason audit might fulfill more than one role in projects. Internal Audit has two formalized objectives at Heineken: both assurance and consulting.

- At **Fortis and DSM** the lines of defense model is the formal model that has been made explicit and formalized in the audit charter. Business management is the first line of defense, supporting governance departments the second line of defense (for example, Risk management and Compliance) and Internal Audit is the third line of defense. Audit is to provide additional assurance and deliver a formal statement on the effectiveness of internal control and supporting governance functions on a regular basis to the Audit Committee. In the charter the accountabilities and responsibilities of the management have also been made explicit (as part of the first line of defense).

- At **SNS Reaal** it is common practice that the project management and business management are responsible in the first place. Governance departments (such as Risk management, Compliance, Internal control) provide supporting activities. Internal Audit provides independent additional assurance.

**Does audit have a role in establishing or embedding a standard project methodology in the organization? How?**

→ See questionnaire (Appendix 5), question 3.3.

In all four organizations audit is involved in establishing or applying **standard project methodology**. Both at Heineken and DSM audit is involved in the design of the project methodology. At DSM Internal Audit is involved in defining procedures and manuals. The standard project methodology is described in a Project manual which is part of the Operational Excellence best practices within DSM. The manual is owned by a corporate department (audit does not provide content input). At SNS Reaal and Fortis the main role of audit is to review how standard project management methodology has been applied.
Feedback on statement

Objective is to understand the opinion of the CAE regarding the statement below.

“If internal audit is not (pro)actively involved in large projects and limits its role to assurance activities, internal audit has limited added value.”

<table>
<thead>
<tr>
<th>Answer from</th>
<th>Opinion and remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernard de Vries - Fortis</td>
<td>“Totally agree”. Internal audit’s added value is to give advice. This cannot be easily outsourced. Internal audit has knowledge with respect to the processes and how recommendations can be implemented in a practical way.</td>
</tr>
<tr>
<td>Jan Westenbrink – SNS Reaal</td>
<td>“Being proactively involved in large projects and limiting the role to assurance activities are not mutually exclusive”. Audit is proactively involved in projects.</td>
</tr>
<tr>
<td>Michel Kee - Heineken</td>
<td>“100% agree.” “One should see the opportunities for the Internal audit function rather than focusing on the threats.”</td>
</tr>
<tr>
<td>Roelof Mulder - DSM</td>
<td>“Yes if ‘at the end of the project’ is added to the statement.” The added value of internal audit is to be involved in the project during the project and not limited in its role to a review afterwards. “We (SH: Internal Audit) should not be restricted to being an adjudicator in the case of failed projects”.</td>
</tr>
</tbody>
</table>

Table 8 Feedback on statement.

5.3 Overall conclusions regarding interviews

In all organizations audit is involved in projects and its role is extended beyond the scope of assurance activities. The applicability of the framework I have compiled (see previous chapter) has been confirmed during the interviews. The reasoning behind the lines of defense model (see quadrant 3 framework in Chapter 4) is one of the main rationales which ensures auditor independence. The primary responsibility for mitigating risks and quality assurance in the projects belongs to the business and project management. It should be noted that, in the opinion of the audit managers, structuring the audit department based on the segregation of duties (quadrant II) is considered to be one way of avoiding conflicting roles but other reasons can prevail in practice. The structure of the audit organization might depend on the nature and number of activities described in the Audit Charter or internal audit may simply follow the business organization, as is the case at Fortis.

Common feedback from the (Chief) Audit Executives of the four Dutch multinationals is that the real added value of the internal auditor is to provide assurance and advice during the project and not limit the role to a project review after the project has finished. One of the reasons mentioned is that audit is still able to challenge and give feedback that can be used to mitigate risks. In the post-evaluation review role audit can have an added value in generating lessons learned that can be used for future projects.
6 Overall conclusion and summary of problem statement

6.1 Conclusion to problem statement

In this chapter I will summarize the general conclusions and recommendations based on the problem statement addressed in this thesis. Then I will give some suggestions for further research and conclude with my personal view and propositions.

**Problem statement**

*Under what conditions can the internal auditor fulfill potentially conflicting roles, such as participative and assurance roles, without jeopardizing the auditor’s independence and objectivity?*

**Potentially conflicting roles**

In Chapter 3 I described the roles which potentially conflict with the auditor’s core role and therefore might infringe auditor independence and objectivity. This potential conflict might relate to a single role or a combination of roles. Following a position paper from the IIA (2004) I have grouped the roles of the auditor into three categories (see a summary in paragraph 3.3, Figure 5, page 15)²⁹:

1. **Core roles:** these are the traditional assurance roles such as independent project reviews.
2. **Legitimate roles with safeguards:** these roles can be performed by the internal auditor if certain preconditions have been met. In this thesis the consulting and participative roles are roles that audit might fulfill in projects when certain safeguards are taken into consideration.
3. **Roles that audit should not undertake:** such as determining the project risk appetite and the management of project risks.

The unequivocal criterion to judge if audit crosses the border, both applicable to the roles with safeguards and roles not be undertaken, is that internal audit takes no managerial responsibility whatsoever.

**Framework of guidance and conditions for the role of auditor in projects**

In Chapter 4 I have compiled a framework which describes the guidance and conditions that enables the internal auditor to fulfill potentially conflicting roles in projects. Each quadrant represents a different perspective. These perspectives, clustered in four quadrants, are:

I. the guidance provided by the Institute of Internal Auditors (IIA)
II. the structure and organization of the audit department
III. the interchangeable roles with other governance departments
IV. project guidance and de facto project management standards.

Every quadrant has been described comprehensively both from the organizational and the individual program/project point of view, while the portfolio level is the link between the overall organizational goals and the individual objectives of the program/projects.

Quadrant I

The first quadrant provides guidance from the Institute of Internal Auditors (IIA). At organizational level the purpose, authority and nature of activities should be clearly defined in the audit charter and approved by the board. At program/project level every single assignment beyond the scope of assurance activities should follow the IIA standards starting with a clear understanding about objectives, scope and activities being established with the client in line with the nature of the activities in the Audit Charter.

Quadrant II

Within the audit department a segregation of duties can avoid jeopardizing independence by fulfilling conflicting roles. This can be realized on several levels depending on the size of the departments and the number of activities of internal audit: a division of the audit department into consulting/facilitating and assurance-related activities, dividing tasks between existing internal audit sub-departments based on specialization (IT audit, financial audit) or by applying a segregation of duties at the project level.

Quadrant III

With the increasing prominence of risk management and control awareness in organizations and the emergence of different governance departments like Risk Management, Compliance and Internal Control, dividing different roles between these different departments creates another safeguard to ensure the avoidance of potentially conflicting roles. For example
Internal Control is involved in the design of controls in a process, whereas Internal Audit reviews the completeness of the control design.

**Quadrant IV**
The Office of Government Commerce (OGC) provides standards and guidance on best practices with respect to project management that have globally been adopted across industries (i.e. PRINCE2). The OGC de facto standard role description does not explicitly mention the role of internal audit but their guidance regarding quality assurance and advisory roles is mutually supportive of the IIA view. In addition I have argued, supported by the insights of psychological and organizational theory (group decision-making processes), that the internal auditor should be extremely reluctant to participate in Steering Committee meetings even as a non-voting member.

The most important common denominator in all quadrants of the framework is the importance of defining, formalizing and communicating the agreed roles and responsibilities at all organizational levels:

- **At organizational level** a clearly defined governance structure approved by the executive management which includes documented roles and responsibilities in charters, codes of conduct and policies is a strong grip and directive to boundary conditions at the project level.

- **At program/project level** the roles and responsibilities of the internal auditor should be in line with the policies at corporate level, made explicit and documented in writing and accepted by the engagement client upfront. In the case of any potential conflict of interest in fact or appearance as a result of combining roles, both the IIA and OGC prescribe the disclosure of the details and reporting lines explicitly.

**Feedback interviews (practice section)**
In Chapter 5 I have described the outcome of interviews with four persons in leading positions in Internal Audit in large multinational organizations. The overall results confirm the roles described in Chapter 2 and the potentially conflicting roles described in Chapter 3 which are based on the assumption that no managerial responsibility is taken, in fact or appearance, with respect to project quality assurance, risk mitigations and deliverables.

The applicability of the framework described above has been confirmed and in some cases further enriched by examples from common practice in day-to-day operations. It should be noted that, in the opinion of the audit managers, structuring the audit department based on the segregation of duties (quadrant II) is considered to be a possibility as a way to avoid conflicting roles but other reasons can prevail in practice. For example the way the audit function is structured might depend on the nature and number of activities agreed with the board or the structure of audit department might follow the overall business organization.

Finally, I have asked for the personal opinions of the audit managers with respect to the role of the auditor in projects. The shared view is that internal audit should be involved in the project from an early stage and act in a proactive way. This is not perceived to be in conflict with the independent position and objectivity of the auditor.
One of the executives remarked that “one should see the opportunities for the internal audit discipline rather than focusing on the threats”.

6.2 Suggestions for further research

**Competences**
In this thesis I have described the different types of roles that can be fulfilled by the auditor and the shift from the traditional assurance role towards more advisory and facilitating roles. This requires other competences from the internal auditor that could be further examined.

**Factors influencing the role of the internal auditor**
With respect to the role of the auditor in projects it can be further investigated how certain variables influence the role of the auditor. I have described the roles of the auditor in projects, focusing on potential infringements to the auditor’s independence and how to deal with this in practice. Suggestions for further research include to what extent (meaning to what statistical significance) the roles of the auditor in projects might differ:
- at portfolio, program and project level
- by project phase (see examples in Appendix 3)
- by industry and business environment.

6.3 Personal view and propositions

I would like to conclude my thesis with two propositions that reflect my personal opinion. In my opinion the real added value of internal audit is to act in a proactive way in projects by adding its competences in both consulting and participative roles. My opinion opposes the view of some previous thesis writers who addressed the role of the internal auditor in projects and concluded that the auditor should be very reluctant to fulfill roles beyond the scope of providing independent assurance to avoid possible conflicts to independence. The fact that I did not agree with the conclusions presented by these authors was what actually triggered me to write this thesis and investigate how the internal auditor can fulfill potentially conflicting roles in projects.

Initially my opinion was based on both my personal conviction and working experience. However, my personal point of view has been strengthened by this research both from the theoretical perspective and through the interviews with persons in leading positions in the internal audit profession (see Chapter 5).

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30 The Competence Baseline of the International Project Management Association (IPMA, 2006) presents a framework called “The Eye of Competence” in which different types of competences grouped by contextual, behavioral and technical competences are linked to different project roles.
Proposition 1

If internal audit does not fulfill roles in projects beyond the scope of providing independent assurance through project reviews in order to avoid any conflict to independence, internal audit has limited added value.

Proposition 2

‘You have the right to remain silent. Anything you say can be used against you (...)’

An opinion that has not been expressed by the internal auditor can also be used against him.

---

32 The Miranda warning is a mandated warning by law in the United States given by the police to criminal suspects: http://usgovinfo.about.com/cs/mirandarights/a/miranda_2.htm (quoted 27th of July 2008).
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Appendix 1 Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAE</td>
<td>Chief Audit Executive</td>
</tr>
<tr>
<td>ERM</td>
<td>Enterprise-wide Risk Management</td>
</tr>
<tr>
<td>IA</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>IIA</td>
<td>The Institute of Internal Auditors</td>
</tr>
<tr>
<td>PRINCE</td>
<td>Projects in Controlled Environments</td>
</tr>
<tr>
<td>OGC</td>
<td>Office of Government Commerce</td>
</tr>
<tr>
<td>PMO</td>
<td>Project Management Office</td>
</tr>
<tr>
<td>QA</td>
<td>Quality Assurance</td>
</tr>
</tbody>
</table>
Appendix 2 OGC Standard roles

OGC Standard roles

Appendix 3 The roles of the internal auditor during different phases of the project

Links between generic project phases, OGC PRINCE2 processes and examples of components are described in the table below.

<table>
<thead>
<tr>
<th>Generic project phases</th>
<th>PRINCE2 - Process</th>
<th>PRINCE2 – Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project preparation/start</td>
<td>Project initiation</td>
<td>Plans, Management of Risk, Organization Business Case</td>
</tr>
<tr>
<td></td>
<td>Project start-up</td>
<td>Plans, Quality, Management of Risk, Business Case, Controls</td>
</tr>
<tr>
<td></td>
<td>Controlling a stage</td>
<td>Controls, Change Control, Configuration Management</td>
</tr>
<tr>
<td></td>
<td>Managing project delivery</td>
<td>Change Control, Plans, Controls</td>
</tr>
<tr>
<td></td>
<td>Managing stage boundaries</td>
<td>Plans, Business Case, Management of Risk, Controls, Organization</td>
</tr>
<tr>
<td>Project execution</td>
<td>Closing a project</td>
<td>Controls, Configuration Management, Business Case</td>
</tr>
</tbody>
</table>

http://www.ogc.gov.uk (26th of July 2008)
In the table below I have provided some examples of the roles that might be played by the internal auditor (see Chapter 2) and how they are linked to different generic and PRINCE2 project phases. Note that the safeguards mentioned in Chapter 3 and the guidance and conditions described in Chapter 4 apply to the consulting and participative single roles and/or a combination of roles (see also Appendix 4).

<table>
<thead>
<tr>
<th>Generic project phases</th>
<th>PRINCE2 process</th>
<th>Component PRINCE2</th>
<th>Examples of the role of an auditor</th>
<th>Examples (with reference to the safeguards in Chapter 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project preparation/start</td>
<td>Project initiation</td>
<td>Plans, Management of Risk, Organization, Business Case</td>
<td>- QA assurance to program/project management.</td>
<td>Review if project objectives are consistent with the overall values and goals of the organization.</td>
</tr>
<tr>
<td></td>
<td>Project start up</td>
<td>Plans, Quality, Risk Management, Business Case, Controls</td>
<td>- QA advise to project management</td>
<td>Advise in the setup and organization of the project management and quality assurance processes.</td>
</tr>
<tr>
<td>Project execution</td>
<td>Controlling a stage</td>
<td>Controls, Change Control, Configuration Management</td>
<td>- QA independent assurance</td>
<td>Milestone review of progress and quality of deliverables.</td>
</tr>
<tr>
<td></td>
<td>Managing project delivery</td>
<td>Change Control, Plans, Controls</td>
<td>- Advisor on content - Sounding board - Proactive expert role - Project/process coordinator - Documentation controls</td>
<td>Advise in setup of the security design of a process. Facilitate in the definition and documentation of process controls. Provide support in the coordination of defining controls.</td>
</tr>
<tr>
<td></td>
<td>Managing stage boundaries</td>
<td>Plans, Business Case, Management of Risk, Controls, Organization</td>
<td>- QA proactive support</td>
<td>Provide support in identifying and logging project risks.</td>
</tr>
<tr>
<td>Project Close</td>
<td>Closing a project</td>
<td>Controls, Configuration Management, Business Case</td>
<td>- QA assurance to program/project management.</td>
<td>Project evaluation to generate lessons learned for future projects</td>
</tr>
</tbody>
</table>
### Appendix 4 Conditions and guidance for the role of the internal auditor in projects

<table>
<thead>
<tr>
<th>GUIDANCE &amp; CONDITIONS</th>
<th>Reference</th>
<th>Organizational level</th>
<th>Project level</th>
<th>Organizational/project level</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
<td><strong>Code/type</strong></td>
<td><strong>Short description</strong></td>
<td><strong>Organizational level</strong></td>
<td><strong>(Individual) project level</strong></td>
<td><strong>Relates to conflict in role(s)</strong></td>
</tr>
<tr>
<td>IIA [IIA]</td>
<td>[IIA.1.1/1.2] Standards</td>
<td>Nature of services clearly defined</td>
<td>The purpose, authority, and responsibility of the internal audit activity must be formally defined in the Internal Audit Charter. → <em>IIA Standard 1000.A1/C1</em> The nature of assurance and consulting services provided to the organization should be defined in the Audit Charter. → <em>IIA Standard 1000.A1/C1</em></td>
<td>Roles of audit defined in individual assignments. Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented. → <em>IIA Performance Standard 2201.C1</em></td>
<td>Individual and combined roles.</td>
</tr>
<tr>
<td></td>
<td>[IIA.1.3] Standards</td>
<td>Independence and objectivity</td>
<td>Policy that internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year. → <em>IIA standard 1130.A1</em></td>
<td>If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the engagement client prior to accepting the engagement. → <em>IIA Standard 1130.A1</em></td>
<td>Individual and combined roles.</td>
</tr>
<tr>
<td>Division</td>
<td>Roles divided among different departments</td>
<td>Division of potentially conflicting roles and responsibilities between different departments/functions for example the Compliance department, Risk Management, Internal audit and Quality Assurance.</td>
<td>Combined roles.</td>
<td>PwC (2007), Hartog (2008), Spira (2003)</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>[AUD.2.3] Standards</td>
<td>Independence and objectivity</td>
<td>Policy that internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.</td>
<td>If an individual auditor had been involved in a consulting and/or participative role another auditor is to be assigned.</td>
<td>Individual and combined roles.</td>
<td>IIA (2007), Sawyer (2005)</td>
</tr>
<tr>
<td>[DEP.3.1/3.2] Organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project governance [PRO]</td>
<td>[PRO.4.1] Project Organization</td>
<td>Project methodology</td>
<td>Establish guidelines regarding lines of defense, primary responsibility with project management and business management. → Lines of defense model</td>
<td>Project quality is primary responsibility of project management. Audit can support project management in quality assurance and risk assessment.</td>
<td>Individual and combined roles.</td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------------------------------</td>
<td>---------------------</td>
<td>---------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td></td>
<td>[PRO.4.2] Project Organization</td>
<td>Steering Committee</td>
<td>To assure organizational independence, the Chief Audit Executive (audit function) should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities independently. → IIA Standard 1110</td>
<td>The auditor should be very reluctant to be involved in Steering Committee (meetings) not even as non-voting member (group decision effects). Role of audit in relation to Steering Committee should be made explicit in writing in the project charter.</td>
<td>Individual role.</td>
</tr>
<tr>
<td></td>
<td>[PRO.4.3] Project methodology</td>
<td>Project methodology</td>
<td>CAE can agree with Audit Committee to apply standard (audit) project methodology. CAE to coordinate activities regarding establishing project audit methodology.</td>
<td>Quality assurance and audit activities related to supporting application of project methodology.</td>
<td>Individual and combined roles.</td>
</tr>
</tbody>
</table>
Appendix 5 Interviews: methodology and questionnaire

Methodology and approach

Approach
By conducting interviews with internal audit managers additional insights with respect to the (conditional) role(s) of audit in projects might be gained. From these insights results from the literature synthesis can be validated.

Target group
Chief Audit Executives/Managers at four large companies.

Survey Method
Interviews semi-structured in order to be able to get a more in-depth view of opinions, motivations and practices.

Investigation of the opinions of Chief Audit Executives/Managers in four large companies and the way the organizations deal with potentially conflicting roles in projects in their organizations in practice.

Objective

Objective of the survey

1. To gain an understanding of what roles an internal auditor plays in the organization and in particular in projects.

2. To gain feedback about to what extent roles are considered to be potentially conflicting and how they might jeopardize the objectivity of the internal auditor.

3. To understand how and under what conditions the internal auditor can fulfill some of these conflicting roles in projects.

The interview structure follows the structure of the thesis and the research questions.

Research literature used to prepare interview

Swanborn, Methoden van Sociaal-wetenschappelijk onderzoek, Boom, Amsterdam, 2005.

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Interview

Start interview

- Personal introduction, ask CAE to explain position and responsibilities within organization.
- Explain objectives of the interview.
- Explain the next steps (feedback of minutes in writing) and send a final copy of the thesis (if appreciated).

Objective 1

To gain an understanding of what roles the internal auditor plays in projects in the organization.

Interview questions

1.1 Does audit have a role in projects? If yes, what kind of projects is audit involved in?

<table>
<thead>
<tr>
<th>Yes</th>
<th>Compliance projects</th>
<th>If answer is yes continue with 1.2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Organizational change</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Process standardization/improvement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IT projects</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Special purpose</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

If answer is “yes”

1.2 What kind of roles does internal audit play in projects? Please describe briefly.

<table>
<thead>
<tr>
<th>Type of role</th>
<th>Example project roles</th>
<th>Yes/No</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance</td>
<td>Quality Assurance – program/project reviews (to sponsor/Steering Committee/AC)</td>
<td>Initial project</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Project milestones</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Business readiness</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Project evaluation</td>
</tr>
<tr>
<td></td>
<td>Quality assurance - deliverables</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Post-implementation audit</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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1.3. What is the reason that audit is not involved in projects?

1.4 Have you considered involving internal audit in projects?
   If yes, what roles do you consider internal audit can fulfill in projects?

**Objective 2**

To gain feedback regarding which roles are considered to be potentially conflicting and how they might jeopardize the independence and objectivity of the internal auditor.

2.1 Do you consider some of the roles that audit plays in your organization in projects (mentioned before in 1.2) as potentially conflicting with the independence and objectivity of the auditor? Why (motivation)?

→ Additional sub-questions (if not mentioned)

Do you consider that performing a combination of assurance roles, consulting roles and/or participative roles in a project can be potentially conflicting for auditors (refer to the roles mentioned before in 1.2)? Why (motivation)?
2.2 Which roles should under no circumstances be fulfilled by internal audit in projects?

<table>
<thead>
<tr>
<th>Description of the role not to be undertaken by the internal auditor</th>
<th>Yes/No</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting the project risk appetite</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imposing the project management process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managing risks identified in quality assurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taking managerial decisions regarding proposed solutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementing solutions on behalf of the management.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Being accountable for project deliverables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Being accountable for embedding project deliverables in the organization.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Objective 3

*How and under what conditions can the internal auditor fulfill some of these conflicting roles in projects?*
### 3.1 Do you have a division in project-related roles and responsibilities on the following levels in your organization:

<table>
<thead>
<tr>
<th>Description of the division of the responsibilities of the internal auditor</th>
<th>Yes/no Specify departments involved (if applicable)</th>
<th>Remarks If no, might this guidance safeguard the independence and objectivity of the internal audit function in your opinion?</th>
</tr>
</thead>
</table>
| 1 Division of responsibilities between different governance departments on an organizational level. | Quality assurance  
Internal control  
Risk management  
Business control  
Compliance  
Other: | |
| 2 Division of roles and responsibilities between different governance departments at program/project level. | Quality assurance  
Internal control  
Risk management  
Business control  
Compliance  
Other: | |
| 3 Division of audit department into sub-departments performing consulting and assurance activities. | | |
| 4 Not to assign individuals to projects audits who previously have been involved in participative project roles like quality assurance and consulting. | | |
| 5 Outsourcing of potentially conflicting roles* | | * If yes, please explain on what level and for what reason. |
3.2 Have guidelines been established in your organization regarding the roles and responsibilities of the business management and project management in relation to other governance departments and internal audit? What are these and if not what is common practice?

3.3 Does audit have a role in establishing or embedding a standard project methodology in the organization? How?

**Feedback on statement**

*Objective is to understand the opinion of the CAE regarding the statement below.*

“If internal audit is not (pro)actively involved in large projects and limits its role to assurance activities, internal audit has limited added value.”

**Closing**

- Next steps (written feedback – minutes) and ask if copy of thesis is appreciated
- Ask if individual name and company can be mentioned in the thesis (after approving minutes)
- Reminder to send copy of Audit Charter and organogram
- Thanks for time and participation

**Background**

*Information that is useful to understand the background and context of internal audit in the organization.*

⇒ Ask for a copy of the audit charter and organogram