THE RELEVANCE OF INTERNAL AUDIT AND INTERNAL AUDITORS COMPETENCIES IN PROJECT MANAGEMENT -THEORETICAL APPROACH

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Abstract

A project management is important to all enterprises today in the context of highly and growing competitive environment, rapidly advanced technology or increasing complexity of operations. A vital project management is essential for many organizations that require substantial effort to achieve its substantial benefits: the proper project management may be leading to achieve greater profitability, more accurate budgeting or improved stakeholder relationships world-wide.

The project is attempting to achieve something new while relatively high level of risk and uncertainty. Here the role of the internal audit is to be seen especially that within the framework of modern business world, the role of an internal audit is more and more. One of the crucial aspects internal audits to be effective and function are the auditors competencies.

This paper describes how role internal audit may play in the context of project management covering the internal auditor's competencies. There is the lack of any similar paper from this perspective worldwide. This article aims, through a detailed presentation as to provide clarification for a better understanding of how role plays internal audit and the specific competences expected of internal auditors performing project. The research underlying the paper was based on the review of the relevant literature.

This paper may have a chance to make a positive contribution in the worldwide literature because it extends the literature devoted to internal auditing in the context of project management and conversely: project management in the context of internal audit. Auditors must possess special competencies, mainly the knowledge and skills of project management. It is also necessary for them to understand the special nature of projects. Auditors' social competencies are a vital vehicle for their efficient cooperation with the environment in which they work.

Key words: *competence of auditor, internal audit, project management,*
JEL code: M10, M42, M50

Introduction:

Increasingly competitive business environment, fast advancements in technology and growing complexity of operations cause that project management has been important or even crucial to all enterprises today. However, project management takes a lot of effort on the part of organisations to produce the expected results, such as increased profitability, more accurate budgeting or improved relationships with the stakeholders. Because projects are designed as a value-adding activity, they inevitably involve relatively high risks and uncertainty. An institutional response to these threats is internal audit, the effectiveness of which depends on auditors' skills and competencies.

This paper describes at length the role of internal audit in project management and the specific competences expected of internal auditors performing project audits. The research underlying the paper was based on the review of the relevant literature.

The paper has three parts. Part 1 gives an insight into the special nature of project management and describes factors behind project success or failure. Part 2 characterises internal audit in the context of project management and describes its role and goals that determine internal auditors' competences and qualifications. The latter are covered in detail in Part 3. The paper ends with conclusions and recommendations.

Projects management

Today's volatile business environment causes that companies increasingly have to undertake new and unique projects, while the number of situations that can be handled routinely is smaller and smaller. This lack of stability entails changes in management that lead to new developments in project management theory and practice. Project management is the core of project-oriented companies (Gareis R., 2001; Kelly E.V., 2010). More and more organizations have so-called PMOs (project management offices). They are established to boost the effectiveness of project management, especially in the multi-projects environment. [‡‡‡] The definition of a project describes it as a new and unique activity that is undertaken to add value and has the elements of innovativeness, uncertainty and risk (Atkinson R. et al. 2006).

Project management is responsible for defining project's goals, securing the necessary resources and overseeing whether they are used in an effective and efficient manner (Pawlak M., 2008, p. 17). The field of project management has been developing for the last 30-40 years but expectations are still high (Meredith J.R., Mantel S.J. 2012) because project management has already proved to be more effective than traditional management methods, particularly in the case of innovative undertakings unrelated to companies' core business (Munns A.K., Bjeirmi B.F., 1996). Project management is a useful tool not only for the big affluent companies, because projects vary in sizes from large to small.

The focus of project management is on planning and controlling project tasks, as well as on making sure that the necessary resources are readily available. In other words, project management uses the human knowledge, qualifications and skills to enable a project to accomplish its goals and is comprehensive in nature (Kapczyński T., 2014). The Project Management Institute (PMI) [§§§] indicates that it should integrate different kinds of knowledge necessary to manage time, costs, quality, conflicts, communication, risk, deliveries, and human resources (Project Management Institute, 2000, p. 6-7). With well-designed project management, organisational changes are implemented quickly and effectively. A prerequisite for this is the preparation of detailed plan of action, organization, leadership and control (Jones R. 2007).

Projects differ from other activities in that they (Trocki M., 2012, p. 19-20):
- use many resources, including experts,
- are unique,

[‡‡‡] For more about PMO see P.F. Rad, G.L Levin (2002).

[§§§] The two largest organisations associating the practitioners and enthusiasts for project management are the Project Management Institute (PMI) founded in the USA in 1969 and the International Project Management Association (IPMA). The PMI has more than 700.000 members in nearly 270 branches in almost all countries (pmi.org). The IPMA is an international non-profit organization associating national project management associations from 57 countries. The IPMA plays important role in promoting and developing project management expertise. It also sets standards and guidelines for the project management experts (ipma.world).

- complex,
- have predefined scope,
- are implemented by an interdisciplinary team of high-skilled staff
- have specific start and end dates,
- are assigned substantial but limited resources (funding, staff, materials, information),
- are relatively separate from repetitive activity (structurally independent),
- involve substantial risks (technical, organizational and economic),
- use special planning and implementation methods.

M. Pawlak (2008, p. 18) has observed that projects are interdisciplinary by nature, cross the lines dividing departments in traditionally structured organisations and require the involvement of different experts, all of which adds up to bigger challenges in communication and cooperation. These characteristics of projects make their management considerably different from traditional management. The distinctive features of project management include (Pawlak M., 2008, p. 21):

- focus on delivering change,
- responsibility for complex activities,
- the use of fuzzy structures that exist only as long as the project does.
- innovativeness,
- higher risk of conflicts,
- the need to tackle risks and uncertainty.

Risk must be effectively managed over the whole life of the project, starting with the planning phase through implementation and project closure. Both positive and adverse events[****] can put a project at risk (European Commission, 2004, p. 145) and consequently may lead to its success[††††] or failure. Table 1 presents factors that can determine the ultimate outcome of a project.

Table 1

Factors of project success and failure
Factors

Success	Failure
effective communication	competition within the project team
flexible and quick reactions	tight budget
monitoring of progress	insufficient analysis of the situation and low awareness of risks
realistic and clear aims, mission and	poor cooperation between the project

[****] To learn more about risk in project management see, for instance, Carl L. Pritchard (2014).
[††††] The success factors and their measurement are described, *inter alia*, in Pinto J.K., Slevin D.P. (1988)

vision	manager and the company board, ineffective project management
awareness of risks and risk management	poor motivation and communication between the project team members (the misinterpretation of project requirements)
quick decision making	failures in project management (duplicated efforts, incoherent activities, rigid rules)
good planning	
the use of proven project management methodology	
optimal project design and requirements, project management utilising iterative and adaptive processes	
expert support	

Source: developed by the authors based on: Munns A.K., Bjeirmi B.F. (1996), Dorsey P. (2005), Jones R. (2007, p. 21-30), Trocki M. (2012, p. 49).

A successful project is a one that accomplishes its goals while keeping its stakeholders satisfied. If a project is found to perform poorly, a range of tools can be employed to offset the negative impacts of different factors (Ruskin A.M., Estes W.E. 1985). One of them is internal audit, which is used in addition to formal planning and control techniques and reporting procedures. Its capability to improve the quality of project management stems from a comprehensive approach that encompasses the identification of loopholes in the system and the suggestion of appropriate solutions (internal audit is a value-adding activity). Project audits are a major tool that industry uses to assess project success and improve future performance (Larson E., Drexler J.A. 2010).

Studies show that while more and more organisations recognize the need for improvements in project management, they still have problems with creating corporate culture with mechanisms enabling project management to be used effectively (West J.L., Plumeri M., 2005).

Internal project audit and the role of internal auditor

The IIA[‡‡‡‡] defines internal audit as follows: *Internal auditing is 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*

[‡‡‡‡] IIA is the world's oldest and largest institution associating internal auditors.

systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (The Institute of Internal Auditors, 2016).

Internal audit collects and analyses project data and monitors its processes on an ongoing basis. Its main focus is on risk management, compliance and governance. Depending on the area to be investigated, internal audit is called financial, operational, compliance or ethical. One of its variants is internal project auditing.

Project audit is defined by Project Management Institute as the monitoring of compliance with project management standards, procedures, and policies. Another definition used by Association for Project Management gives priority to the outcome of a project audit, i.e. to the delivery of an impartial assessment of project performance. (Levin G., Wyzalek J., 2015 p.134)

As the above definitions do not indicate whether a project audit should be performed by an external or internal auditor, both options are possible. The focus of this paper is on internal audit, but it is noteworthy that the professional requirements internal and external auditors are expected to meet are similar.

Internal audit seeks to produce an unbiased and objective assessment of project management and of the project itself. Its purpose is to identify potential problem areas, such as deviations from the plan, frauds and mistakes (Marnewick C., Erasmus W., 2014) and to propose corrective and preventive measures. Internal audit is also useful for controlling project costs (Gumz J., 2006).

In the literature, terms such as project audit, audit of project system management, and audit of the project implementation process are used interchangeably. Project audit has several variants, i.e. in-process quality assurance review, gateway review, project management audit and post-implementation audit (Gumz J., 2006).

Effective internal audit makes a comprehensive analysis of five areas encompassing technical objectives, costs and the budget, human resources, project termination, and technical and managerial implications. The phase of planning during which uncertainty and risk management have to be considered is a particularly demanding area for project management auditors (Marnewick C., Erasmus W., 2014).

An internal auditor seeks to establish whether an internal control system is in place, evaluates its effectiveness, and analyses risk management and governance. Internal audits aim to answer the following question: what may go wrong and what impact it will have on the organisation (Hutchins G., 2001; Roetzheim W.H., 2004).

G.M. Hill (2007) and C. F. Gray and E.W. Larson (2008) state that project auditing enables the following:

- monitoring of project management contributions to the achievement of the business objectives,
- identification and response to weak and troubled project performance,
- overseeing of quality management activities,
- maintaining of professional and best practices within the project management environment, and
- compliance with organizational policies, government regulations, and contractual obligations.

The main purpose of project management audits is to ensure that project management is strong enough to make the ongoing project successful (J. McDonald, 2002), but the lessons

from them are also useful in planning for other projects and improving the chances of their success.

Auditors often look into how changes are managed. They examine whether an impact assessment is made, if changes grouped and prioritized when feasible, if they are approved, and if they are implemented in an orderly and organized fashion (Gumz J., 2006). Project audits, on the other hand, investigate project governance, i.e. analyse whether the project is attaining its objectives and monitor its results (Marnewick C., Erasmus W.,2014).

Qualifications of project auditors

As a publicly trusted profession, internal auditors must comply with IIA's Code of Ethic and International Standards for the Professional Practice of Internal Auditing (hereafter Standards) (Institute of Internal Auditors, 2016). The Standards prohibit internal auditors from providing services other than those for the delivery of which they have the necessary knowledge, skills and experience. They also require them to improve their professional proficiency and the effectiveness and quality of services on an ongoing basis.

The Standards leave no doubt that internal audit must be an independent and objective process. Objectivity is defined as an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to the third party's opinions. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels (Standards). Internal auditors are also required to be meticulous and proficient in their work. The requirement of proficiency means that **"**Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities" (Standards)**.**

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. They must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

In Poland, there is a difference between the professional requirements that internal auditors operating in the private sector and public sector have to meet. As regards the private sector, formal requirements have not been defined, but the IIA recommends the following certificates (*CPSA & CPEA …*):

- CIA (**Certified Internal Audito**r)
- QIAL (Qualification in Internal Audit Leadership)
- CGAP (Certified Government Auditing Professional)
- CFSA (Certified Financial Services Auditor)
- CCSA (Certificate in Control Self-Assessment)
- CRMA (Certification in Risk Management Assurance)

- CPSA (Certified Process Safety Auditor) and CPEA (Certified Professional Environmental Auditor)

Each of these certificates requires its holder to take training and education to improve their knowledge and qualifications on an ongoing basis.

The situation of internal auditors providing services in the public sector is different, because their status is regulated by the Polish law. Consequently, the requirements they must satisfy are more complex (see table 2).

Table 2

Professional requirements for internal auditors in the public sector in Poland.

	PUBLIC SECTOR
FORMAL REQUIREMENTS	(a) tertiary education
	And
	b) no criminal record for intentional criminal offence or intentional tax offence
	And
	c) the citizenship of an EU member state or of a state the citizens of which can legally take employment in Poland under international agreements or Community laws
	And
	d) unlimited legal capacity and civic rights
AND	
PROFESSIONAL REQUIREMENTS	(1) one of the following certificates: CIA, CGAP, CISA, ACCA, CFE, CCSA, CFSA, CFA
	Or
	(2) an internal auditor exam passed before the Ministry of Finance Commission in the years 2003–2006
	Or
	(3) certification as an expert auditor
	Or
	(4) two years' experience in work as an internal auditor and post-graduate diploma in internal audit earned from educational institution authorised to award the doctor's degree in the field of economics or law

Source: developed by the authors based on the Public Financial Act (2009).

It is therefore the special character of project management presented in the previous part of this paper that determines the distinct professional requirements for project auditors.

K. Barac et al. (2016) indicate that project auditors need to have other competencies too, so that they can confront challenges and expectations in the constantly changing environment. These are in particular:

- marketing skills and relationship building skills to compete in a retendering environment;
- enhanced problem solving skills;
- data analytical skills to analyse and interpret big data;
- business acumen skills in line with broader business qualifications;
- in-depth industry knowledge;
- negotiation and relationship building skills to interact with various assurance providers;
- project management skills to manage audits in a globally regulated environment;
- forensic skills to unpick businesses.

As project environments are changeable and uncertain, auditors must be able to analyse all occurring interactions and relationships, which is not possible without social competencies. The competencies are important because in constantly seeking to improve the working methods (to add value) auditors frequently have to collaborate with other people. Effective communication is a major factor contributing to successful audit, particularly that it also allows its findings to be presented in a clear and comprehensible manner (Levin G. 1998). Communication is an important item of the three-part CIA exam syllabus consisting of internal audit basics, internal audit practice and internal audit knowledge elements (*CIA Exam …*).

Conclusion

Today, projects are becoming increasingly complex because they are implemented in turbulent business environments. The pillars of a successful project are the budget, time and the availability of resources, but the transparency of activities is also important. Project auditing has been created to measure the performance of all these elements. Its focus extends beyond the financial records, including all aspects of a project: its objectives, plans, schedules, budgets and resources (Ruskin A.M., Estes W.E. 1985). The intangible assets such as human resources and knowledge management are also investigated, because they are becoming increasingly important as the project success factors. Accordingly, a project audit can be defined as comprehensive analysis of project management. An audit in any project management environment should measure project performance and identify factors contributing to it (Hill G.M., 2007).

Most studies on project management do not go beyond analysing the selected aspects of audits and even the PMI standards only briefly discuss project audits (Marnewick C., Erasmus W., 2014) and their role in projects. Project management audits are mentioned in the literature, but they are not widely understood, and it is worthwhile examining them in some detail (Ruskin A.M., Estes W.E., 1985). In none of the studies cited in this paper has the relationship between project success and the outcomes of an audit been discussed, even though it is intuitive that such a relationship must exist**,** likewise that between the qualifications of an auditor and the outcomes of internal audit.

The results of this research have revealed that the literature and empirical studies have gaps in defining and presenting the role and competencies of internal auditors with respect to project management. Thus, they provide a basis and an incentive for the authors to continue their empirical research in this field.

It is unfortunate that many project managers consider project audits a reactive activity and try to avoid them. A widespread practice is that project audits are not initiated unless fraud is

suspected or when they are required by the law. The probable source of this attitude is the traditional perception of the role of auditing, which ignores the special characteristics of projects defined as a non-standard activity characterised by high risks and uncertainty. It also goes unnoticed that projects create new knowledge, so having a formal document presenting the lessons learnt from the project team and independent auditor's perspectives can make it easier for the project-oriented companies to manage their knowledge resources in the future.

To add value to this process, auditors must possess special competencies, mainly the knowledge and skills of project management. It is also necessary for them to understand the special nature of projects. Auditors' social competencies are a vital vehicle for their efficient cooperation with the environment in which they work.

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