

Project Management
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Week: 7
Lecture 34 - Essentials of an audit evaluation

Dear students, we are discussing about project audit. In this lecture, we will discuss some more important concepts on project audit that is essential of an audit or evaluation. The previous lecture, I have discussed about the project audit. In this lecture, we will study more concepts with respect to audit. So, the agenda for this lecture is some essentials of an audit or evaluation, then what should be the component of audit or evaluation team, then what is the importance of access to records for auditors, then access to project personnel and others, then measurement, then we will study some note on auditor or evaluator, then we will discuss about charts, written reports and first hand observations, how this will be useful for auditing and what are the advantage and disadvantages. Then we will discuss about seven golden rules for auditors, the same way we will study about seven golden rules for auditing.

Agenda

- Some Essentials of an Audit/Evaluation
- The A/E Team
- Access to Records
- Access to Project Personnel and Others
- Measurement
- A Note to the Auditor/Evaluator
- Charts, written reports, and firsthand observation
- The auditor: 7 golden rules
- The auditee: 7 golden rules



Some Essentials of an Audit/Evaluation

- For an audit/evaluation (hereafter, a/e) to be conducted with skill and precision, several essential conditions must be met to be credible and generally acceptable to senior management, the project team, and the client.
- The a/e team must be properly selected, all records and files must be accessible, and free contact with project members must be preserved.



So, some essentials of an audit or evaluation. For an audit or evaluation to be conducted with skill and precision, several essential conditions must be met to be credible and generally acceptable to senior management, the project team and the client. So, audit evaluation team must be properly selected, all records and files must be accessible and free contact with the project members must be preserved. The choice of audit evaluation team is critical to the success of the entire process.

The A/E Team

- The choice of the a/e team is critical to the success of the entire process.
- It may seem unnecessary to note that team members should be selected because of their ability to contribute to the a/e procedure.
- Still, sometimes members are selected merely because they are available.



The A/E Team

- The size of the team will generally be a function of the size and complexity of the project.
- For a small project, one person can often handle all the tasks of the a/e, but for a large project, the team may require representatives from several different constituencies.



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It may seem unnecessary to note that team members should be selected because of their ability to contribute to the audit procedures. Still sometimes the members are selected merely because they are available. The size of the team will generally be a function of the size of the complexity of the project. When the complexity is more, we need to have larger team. For a small project, one person can often handle all the task of the audit team, but for a larger project, the team may require representative from several different constituencies.

The A/E Team

Typical areas that might furnish a/e team members are



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So, these are the different areas, typical areas that might furnish your audit evaluation team members. They are the project itself, then the project manager, then the project owner, the project sponsor, the project management office or program office manager, the accounting, controller department, technical feasibility areas, the funder, the marketing department, the senior management, the purchasing and asset management, the personal

management and the legal and contract administration department. So, when you make your audit team, we should have a members from these areas so that the auditing can be done very effectively. So, the main role of audit team is to conduct a thorough and complete examination of the project or some pre specified aspect. The team must determine which item should be brought to the management's attention.

The A/E Team

- The main role of the a/e team is to conduct a thorough and complete examination of the project or some prespecified aspect.
- The team must determine which items should be brought to management's attention.
- It should report information and make recommendations in such a way as to maximize the utility of its work.



re: Meredith, J. B., Shafer, S. M., & Mantel Jr, S. J. (2017). *Project management: a strategic managerial approach*. John Wiley & Sons.

It should report information and make recommendations in such a way to maximize the utility of its work. The team is responsible for constructive observation and advice based on the training and experience of its members. Members must be aloof from personal involvement with the conflicts among project team staff and from rivalries between projects. So, the audit team is highly disciplined process. All team members must willingly and sincerely subject themselves to that discipline.

The A/E Team

- The team is responsible for constructive observations and advice based on the training and experience of its members.
- Members must be aloof from personal involvement with conflicts among project team staff and from rivalries between projects.
- The a/e is a highly disciplined process; all team members must willingly and sincerely subject themselves to that discipline.



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Access to Records

- For the a/e team to be effective, it must have free access to all information relevant to the project.
- This may present some problems on government projects that may be classified for reasons of national security.
- In such cases, a subgroup of the a/e team may be formed from qualified (“cleared”) individuals.



The next one is access to records. For audit team to be effective, it must be free access to all information relevant to the project. This may present some problems on government projects that may be classified for reasons of national security. In such case, a subgroup of audit team may be formed from qualified individuals. Most of the information needed for audit team will come from the project team's records and those of project management office and from various departments such as accounting, personnel and purchasing.

Access to Records

- Most of the information needed for an a/e will come from the project team's records and those of the PMO, and/or from various departments such as accounting, personnel, and purchasing.
- The a/e team is responsible for data collection, not the project management team, while the project team is responsible for keeping project records up-to-date throughout the project's life.



So, the audit team is responsible for data collection, not the project management team, while the project team is responsible for keeping the project records up to date throughout the project's life. Here the role of audit team is to collect the data, but the role of project team is they have to maintain up to date information about all the data, but that will be accessed by the audit team. In addition to the formal record of the project, some most valuable information comes from documents that predate the project. For example, correspondence with the funder that led to the request for proposal, minutes of project

selection committee, minutes of senior management committees that decided to pursue a specific area of technical interest. Clearly project status report, relevant technical memoranda, change orders, information about the project organization and the management methods and financial and resource usage information are also important.

Access to Records

- In addition to the formal records of the project, some of the most valuable information comes from documents that predate the project.
 - for example, correspondence with the funder that led to the RFP, minutes of the Project Selection Committee, and minutes of senior management committees that decided to pursue a specific area of technical interest.



Access to Records

- Clearly, project status reports, relevant technical memoranda, change orders, information about project organisation and management methods, and financial and resource usage information are also important.



Access to Records

- The a/e team may have to extract much of these data from other documents because the required information is often not in the form needed.
- Data collection is time-consuming, but careful work is vital for an effective, credible a/e.



So the audit team may have to extract much of these data from other documents because the required information is often not in the form needed. So data collection is time consuming, but careful work is vital for an effective and credible audit. Now we will discuss about access to project personnel and others. So the audit team should maintain free communication with the project team members and other organizational members with project knowledge. One exception is the contact between audit team and the funder.

Access to Project Personnel and Others

- The a/e team should maintain **free communication** with project team members and other organisational members with project knowledge.
- One exception is contact between the a/e team and the funder; such contacts are not made without clearance from senior management.
- This restriction would hold even when the funder is represented on the audit team and should also hold for in-house clients.



Such contacts are not made without clearance from the senior management. So this restriction would hold even when the funder is represented on the audit team and should also hold for in-house clients. In any case, several rules should be followed when contacting the project personnel. So care must be taken to avoid misunderstanding between audit team members and the project team members. The project personnel should always be made aware of the in progress audit.

Access to Project Personnel and Others

In any case, several rules should be followed when contacting project personnel.

- Care must be taken to avoid misunderstandings between a/e team members and project team members.
- Project personnel should always be made aware of the in-progress a/e.



Access to Project Personnel and Others

- Critical comments should be avoided.
- Particularly serious is the practice of delivering on-the-spot, off-the-cuff opinions and remarks that may not be appropriate or represent the consensus opinion of the a/e team.

Additional comment should be avoided, particularly serious is the practice of delivering on the spot of the curve opinion and remarks that may not be appropriate or represent the consensus opinion of the audit team. Next we will discuss about the measurement because measurement is an important aspect before going for auditing. Then only we can say whether there is a deviation from the baseline or not. So measurement is an integral part of auditing process. Several aspects of project that should be measured as apparent and fortunately relatively easy to measure.

Measurement

- Measurement is an integral part of the a/e process.
- Several aspects of a project that should be measured are apparent and, fortunately, relatively easy to measure.
- For the most part, it is not difficult to know when a milestone has been completed.



Measurement

- It may be difficult to tell when a chemical experiment is finished, and it is almost impossible to tell when a complex computer program is finally "bug free."
- Largely, however, milestone completion can be measured adequately.



source: Meredith, J. B., Shafer, S. M., & Mantel Jr., S. J. (2017). *Project management: a strategic managerial approach*. John Wiley & Sons.

For the most part, it is not difficult to know when a milestone has been completed because these things are very easy to measure. It may be difficult to tell when a chemical experiment is finished and it is almost impossible to tell when a complex computer program is finally bug free. So largely however milestone completion can be measured adequately. There is a theoretically acceptable solution to such measurement problems, but there are politically acceptable solutions. All the cost revenue allocation decisions must be made when the various projects are initiated.

Measurement

- There is **no** theoretically acceptable solution to such measurement problems, but there **are** politically acceptable solutions.
- All the cost/revenue allocation decisions must be made when the various projects are initiated.

Measurement

- If this is done, the battles are fought “up front,” and the equity of cost/revenue allocations ceases to be so severe an issue.
- If allocations are made by a formula, major conflict is avoided—or, at least, mitigated.

If this is done, the battle are fought upfront and the equity cost revenue allocation ceases to be so severe an issue. If allocations are made by formula, major conflict is avoided or at least mitigated. Now this is the baseline marketing data for a new product. So from this form what we can do? We can collect some informations. For example, total market share, we can say what is the minimum, then what is the best estimate, what is the maximum for first year.

Measurement

PRODUCT _____		DATE _____				
MARKET _____						
DATE OF FIRST SALE U.S. _____						
O.U.S. _____						
	1ST YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	TOTAL
	MIN	BE*	MAX	MIN	BE	MAX
1. Total Market Size:						
2. Expected Market Share:						
3. Kg or Units:						
4. Est. Selling Price:						
5. Gross Sales:						
6. Est. COGS %:						
7. Gross Margin %:						
8. Est. Marketing Expense %:						
9. Marketing Margin %:						
10. Loss on Profit from other Products List:						
11. Est. Profit:						
12. Development Expenses:						
13. Capital Expenditures:						

*Best estimate.

Baseline marketing data for a new product



A Note to the Auditor/Evaluator: Rules of Engagement

- In the context of auditing, "rules of engagement" refer to a set of guidelines or procedures that auditors follow when conducting an audit.
- These rules are designed to provide a framework for the audit process, ensuring consistency, objectivity, and adherence to professional standards.



source: Meredith, J. R., Shafer, S. M., & Mantel Jr, S. J. (2017). *Project management: a strategic managerial approach*. John Wiley & Sons.

So over a period of time with respect to total market share, we can find out minimum, maximum and best estimate. So this measurement will be useful for further auditing process. Next we will discuss about some note to the auditor evaluation that is nothing but the rule of engagement. In the context of auditing, the rule of engagement refers to set of guidelines or procedures that auditors follow when conducting an audit. These rules are designed to provide a framework for the audit process ensuring consistency, objectivity and adherence to the professional standards.

A Note to the Auditor/Evaluator: Rules of Engagement

- The rules of engagement help define the audit's scope, the auditor's responsibilities, and the expectations of both the auditor and the auditee (the entity being audited).

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[illegible]

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Key elements of the Rules of Engagement for an auditor

- **Communication Protocols:**

- Establishing channels of communication between the auditor and the auditee.
- Defining reporting requirements and timelines for communication of findings.



So outlining the specific audit approach or methodology to be used, then describing the techniques and tools that will be employed during the audit. The next element for rules of engagement is called communication protocol. Defining channels of communication between the auditor and the oddity and defining reporting requirement and timeline for communication of findings. The next element is documentation standards. Specifying the documentation practices and standards to be followed and ensuring that audit papers are organized, complete and in compliance with relevant standards.

Key elements of the Rules of Engagement for an auditor

- **Documentation Standards:**

- Specifying the documentation practices and standards to be followed.
- Ensuring that audit work papers are organised, complete, and in compliance with relevant standards.



Key elements of the Rules of Engagement for an auditor

- **Confidentiality and Security:**
 - Addressing the confidentiality of audit information.
 - Outlining procedures to safeguard sensitive data and information.



Key elements of the Rules of Engagement for an auditor

- **Ethical Considerations:**
 - Reinforcing adherence to professional ethics and codes of conduct.
 - Addressing ethical dilemmas that may arise during the audit.



Key elements of the Rules of Engagement for an auditor

- **Client Cooperation:**

- Outlining expectations for cooperation from the auditee.
- Defining the responsibilities of the auditee in providing access to information and personnel



The next element is confidentiality and security. So addressing the confidentiality of audit information, then outlining procedure to safeguard sensitive data and information. The next element is ethical considerations. Here the reinforcing adherence to professional ethics and codes of conduct, then addressing ethical dilemma that may arise during the audit. The next element in the rules of engagement is called client cooperation.

A Note to the Auditor/Evaluator: Permission to enter the System

- It refers to the authorisation granted to auditors to access and examine an information system, network, or specific IT resources as part of an audit engagement.
- This permission is crucial for auditors to perform their evaluations, assess controls, and gather evidence related to the security, integrity, and functionality of the system.



So outlining the expectation for cooperation from the oddity and defining the responsibility of oddity and providing access to information and personnel. The next note to auditor or evaluator is permission to enter the system. Previously we talked about the rules of engagement. The next element is permission to enter the system. It refers to the authorization granted to the auditors to access and examine an information system network or specific IT resources as part of audit agreement.

This permission is crucial for auditors to perform their evaluation, assess controls and

gather evidence related to the security, integrity and functionality of the system. Now we talked about collecting information. Now suppose for the purpose of auditing, suppose the three type of information is given. For example, chart, written report and first hand observations. We will discuss about what are the advantages and disadvantages.

Charts, written reports, and firsthand observation

Source	Advantage(s)	Disadvantage(s)
Chart	<ul style="list-style-type: none"> • Easy to read and understand • Useful in pattern identification during data analyses (trends, seasonal cycles, non-seasonal cycles) 	<ul style="list-style-type: none"> • Can create false impressions, due to the distortion of measurement axes that often occurs
Written report	<ul style="list-style-type: none"> • Can convey subtle points • Can convey large amounts of information very effectively • May provide a clear hierarchy of detail 	<ul style="list-style-type: none"> • May confuse more than inform the reader
Firsthand observation	<ul style="list-style-type: none"> • Provide primary data about performance in a system or environment 	<ul style="list-style-type: none"> • Subject to errors such as selective perception of events and inattention to small details • Is used to observe symptoms, but it does not necessarily reveal what causes these symptoms in the first place



Source: Messier, D. B., Glover, C. M., & Mitchell, C. I. (2017). *Principles of auditing: a theoretical, managerial, and research*. John Wiley & Sons.

Suppose the chart is available, it is easy to read and understand and useful in pattern recognition during data analysis like trends, seasonal, seasonal cycles and non-seasonal cycles. What are the disadvantages of chart? Can create false impressions due to the distortion of measurement access that often occurs. So the next way to get the information is written report. What is the advantage? Can convey subtile point, can convey large amount of information very effectively, may provide a clear hierarchy of detail. What are the disadvantages of written report? May confuse more than inform the reader.

The another type of information that we can measure is from the first hand observation. So what is the advantage? It provides primary data about performance in a system or environment. The disadvantage is it is subject to errors such as selective perception of events and inattention to small details and it is used to observe symptoms but it does not necessarily reveal what causes these symptoms in the first place. Now we will discuss about seven golden rules for an auditor. So the auditor's behavior should be neutral.

The auditor: 7 golden rules

1. The auditor's behavior should be neutral. Rudeness or a nervous approach will lead to resistance. Being overly friendly may convey the message that the audit is not serious.
2. The auditor asks open questions, then allows time for answers and listens carefully.



Rude-ness or a nervous approach will lead to resistance. Being overly friendly may convey the message that the audit is not serious. The second rule is the auditor ask open questions then allows the time for answers and listen carefully. The third rule is in most cases the auditor should avoid naming names. The point is not to attack the person but to check the conformance to the requirements.

The auditor: 7 golden rules

3. In most cases, the auditor should avoid "naming names." The point is not to attack the person but to check the conformance to requirements.
4. The auditor should communicate effectively with management.



<https://www.projectmanagement.com/articles/428494/7-golden-rules-of-quality-audits>

The fourth rule is the auditor should communicate effectively with the management. The fifth rule is the auditor refrains from giving recommendations regarding the actions because it can compromise the audit subjectivity. The auditor should report any safety issues regardless of the audit scope. The seventh golden rule is the auditor is fluent in the agreed upon language of the audit. So these are the seven golden rules for an auditor.

The auditor: 7 golden rules

5. The auditor refrains from giving recommendations regarding the actions because it can compromise the audit's objectivity.
6. The auditor should report any safety issues regardless of the audit scope.
7. The auditor is fluent in the agreed-upon language of the audit.



<https://www.projectmanagement.com/articles/428494/7-golden-rules-of-quality-audits>

The auditee: 7 golden rules

1. The documents are identified and updated with proper classification.
2. Order and cleanliness of the work environment must be respected.
3. The auditee knows and applies references

Now we will see the seven goals for an auditor. So the documents are identified and updated with the proper classification. The second rule is the order and cleanliness of the work environment must be respected. The audit knows and applies the references. The fourth rule is the audit are punctual, available, factual and inspire confidence.

The auditee: 7 golden rules

4. The auditees are punctual, available, factual and inspire confidence.
5. The auditee does not give answers they are unsure of and, if needed, seeks help from their manager or colleagues.

The auditee: 7 golden rules

6. If a non-conformity is found, the auditee acts according to the defined reaction rules.
7. Answers are transparent and do not compromise the confidentiality of information.

The audit does not give answers they are unsure and if needed seek help from their manager or colleagues. The sixth rule is for oddity if a non-conformity is found the oddity acts according to the defined reaction rules. The seventh golden rule is answers are transparent and do not compromise the confidentiality of the informations. Dear students, in this lecture I have continued with the previous lecture point that is project oddity. Here we discussed about what should be the component of a audit or evaluation team.

Then what is the importance of access to records and what are the importance to access to project personnel and others. Then how to collect and measure the information for purpose of auditing that we have discussed. Then we discussed some note on auditor or evaluator. Then we discussed about advantage and disadvantages of charts, written reports and first hand observations. Then I have given you seven golden rules for auditor and oddity. Thank you. Thank you very much.