The resilience, reputation and value of a company can be positively influenced by successful transformation projects.

Assuring success in large business programs

Internal audit's role in strategic risk management





92% of chief audit executives see internal audit's role as being important or very important in managing large program risks.

PwC's 2012 State of the Internal Audit Profession Study

Implementing lasting change and transforming business functions helps organizations gain a competitive advantage, playing an important role in their long-term strategy. However, our 2012 State of the Internal Audit Profession Study revealed that chief audit executives and stakeholders also see large program failure as one of the major risks organizations face.

Failed projects can have both short- and long-term impacts on your organization and are often the result of project or program practices which are not mature and do not address risks sufficiently. Ineffective project management can lead to suboptimal use of resources, duplication of effort or systems and an inability to deal with risks upfront, which can in turn significantly increase costs. A lack of focus on strategic goals and failure to realize the benefits sought from transformation projects can result in a demoralized workforce that resists change. If the project is high profile, failure can also result in reputation loss.

Internal audit can help identify many of these risks early in the project lifecycle, which in turn will provide you with sufficient time to course correct and help you obtain maximum value from your business transformation projects.



Transforming your business

The resilience, reputation and value of a company can be positively influenced by successful transformation projects. In an environment where requirements are becoming more complex and regulatory pressures are escalating, achieving positive outcomes in transformation programs and satisfying stakeholders are becoming progressively more important and challenging.

With the changing landscape, company executives increasingly need to mitigate the risk of projects not delivering on their objectives and providing the value expected. They need confidence that they're investing in the right programs, some of which can make or break the organization, and assurance that all programs will deliver expected benefits so they can 'do more with less'.

Unfortunately the success rate for large projects is low. Large information technology (IT) change projects for example have an average cost overrun of 27% and one out of six projects are "black swans" – they overrun their cost by over 200% and schedule by over 70%.1

Given the strategic impact that large-scale projects have on business, organizations must capitalize on innovation, measure progress, value, and risks, and confirm that the right projects can be delivered in alignment with organizational strategy. To manage the strategic risk of a failed project, organizations can turn to internal audit from the beginning of the project lifecycle to serve as an early warning beacon and help mitigate the high risk of project failure.

Internal audit has traditionally provided assurance for compliance and financial risks. According to the results of our recent 2012 State of the Internal Audit Profession Study, there's now also an expectation for internal audit to rise to a new standard to stay in alignment with stakeholder expectations. Active involvement of internal audit in large projects helps ensure that critical success factors such as risk management and independent reporting to the board are well-defined and on track.

With shifting risks and the need to ensure success for large programs, expectations of internal audit have gone up.

B. Flyvbjerg and A. Budzier. Why Your IT Projects May Be Riskier Than You Think. Harvard Business Review. 2011.

When should internal audit be involved?

A large project goes through distinct stages, from the time it is planned until the time benefits are realized. There's a significant role for internal audit to play throughout the project lifecycle.

There are numerous benefits of engaging internal audit early on in the project lifecycle, such as:

- · better organizational readiness
- early identification, greater understanding and improved resolution of issues
- increased likelihood of delivering the project on scope, on time and on budget
- better change management so that new systems are embraced
- increased project control to maximize efficiency
- improved ability of the internal audit and risk management functions to provide a thorough assurance solution



Engaging internal audit early and throughout the lifecycle of the transformation program has several benefits

Figure 1. The role of internal audit through the project lifecycle

Planning	Execution & Control	Completion	Benefits
 Review of business case and its internal governance process Clear articulation of expected benefits Validation of expected cost and related due diligence Articulation of key strategic and project risks and how they will be managed Identification of roles, responsibilities and accountabilities Project governance process 	 Participate in steering committee Adequacy and accuracy of project reporting – milestones, risks, costs and schedules Review business controls structure, change management, employee engagement and training Assess business impact and strategic changes required Evaluate impact on IT application and general controls Provide independent assurance to board 	 Organizational readiness Data migration – accuracy/completeness Contingency planning Post-implementation review Controlled testing of effectiveness Review policy/procedure changes necessary 	Cost-benefit analysis Provide organizational feedback on lessons learnt
Time —			

How internal audit can help transformation projects succeed

The delivery of a successful business transformation project requires that all stakeholder expectations be met. Internal audit can help key stakeholders, such as the board, audit committees and senior management, stay up-to-date on:

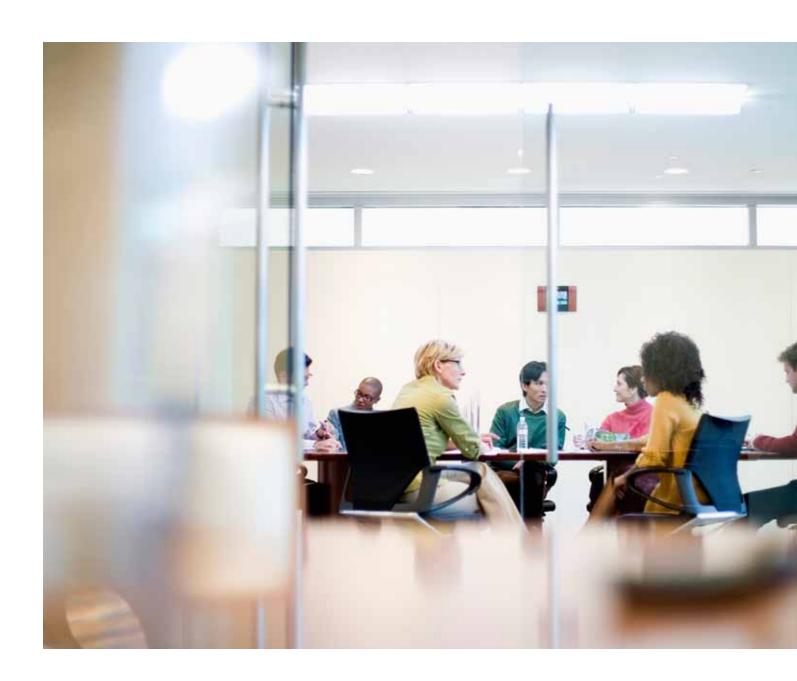
- effectiveness of the overall program and processes
- appropriateness of structures and governance
- performance against budgets and timelines
- management of key risks associated with the program
- organizational readiness for implementation

The two questions most commonly asked of internal audit by the board and executives when faced with a large, complex initiative are:

- Are we doing the right things?
- Are we doing them in the right way?

Internal audit involvement should naturally be tailored to address these questions and to meet the unique risks of the program.

Internal audit is often requested to get involved with major programs and projects



Are we doing the right things?

Initial baseline risk assessment of the project:

Through this step, internal audit can understand the key elements of the project, including approach, methodology, activities, timelines, resources and requirements. This step helps determine the specific processes and controls that are in place, and identifies the key risks so that internal audit can tailor the detailed checkpoint reviews to cover the risks.

Performing ongoing 'health checks':

Ongoing reviews by internal audit help ensure that the key risks related to the project scope, timelines, cost and deliverables are identified and appropriately managed. The timing and scope should be adjusted to address project risks, status, milestones and audit committee or board requirements, based on internal audit's assessment.

Are we doing them in the right way?

Risks can quickly become major issues during the course of large business projects. It's imperative for internal audit to be involved at the individual workstream level to help identify and monitor key risks. The following aspects of project management are critical success factors where internal audit can perform assurance or provide value-adding advice:

Business case validation

Large-scale programs are typically driven by detailed analyses, culminating in a business case that's validated by management and approved by the board. Even before the actual program begins, key questions, assumptions, analyses and other components of the business case may be misaligned with the corporate strategy, organizational structure and capability, technical complexity and competency or a number of other factors.

Industry emerging trends, forthcoming regulatory developments and evolving technology can also compromise elements of the business case. Reference and validation back to the business case through the project lifecycle is a leading practice. Unfortunately, many projects start with a great business case but then don't objectively measure, assess and report on it. Rather, the project team becomes solely focused on project management — scope, cost and timelines — and the project drifts away from the expected benefits listed in the business case. Subsequently, organizational expectations are not fully met and benefits not fully realized.

Internal audit can help:

- evaluate the linkage between project metrics and strategy when the business case is prepared
- evaluate individual components (e.g. financial models) and challenge assumptions within the business case as it is presented
- support the program team in the benefits tracking and realization processes during project execution

Program implementation: A people, process and technology perspective

Large business transformation programs need to focus on successful process alignment, technology deployment and people engagement. There are some critical components that form part of the decision to go live and help the program stay on track. Internal audit can help with both the decision to go live and measuring the success of the program applying a lens of people, process and technology:

From a process perspective

A systematic and organized set of processes brings order and efficiency to a project. Having the proper procedures, controls and authorizations in place improves system usability and the quality of reporting and data.

Internal audit can help:

- verify that standard operating procedures are in place
- validate completion of testing and data conversion processes
- advise and help identify relevant process-level risks
- support the design of business process controls to mitigate process-level risks and provide certification analysis
- evaluate go-live processes such as the creation of a transition team, parallel runs, crossover steps, contingency plans (including roll-back), end-user computing and output demands, risk management and issue escalation and resolution
- evaluate transition plans and identify any operational and organizational issues that are critical to launch
- assess whether any duplications exist in systems or efforts
- ensure interdependent risks are being managed

There's often a trade-off between controls and process effectiveness. It's important for internal audit to keep in mind that each potential process control should be examined on its own merit to determine if the benefits outweigh the risks.

Case study 1: Large payroll implementation

The organization:

A public sector organization

The project:

A multi-year implementation of a new payroll system to help integrate more than 10 different systems onto a new platform.

The role of internal audit:

Management and board wanted assurance that the project was well planned and key conversion risks were being adequately addressed. The in-house internal audit function was asked to provide assurance throughout the life of the project. Key responsibilities included a review of:

- transition of IT and business process controls from the legacy systems to the new system
- data transformation and migration
- change readiness of the organization
- readiness of the organization to go live
- segregation of duties and IT roles structured within the new system
- contingency planning and framework if things did not go as planned
- post-implementation walkthrough and testing to ensure processes are operating as planned

Key benefits of engaging internal audit:

The internal audit team provided ongoing assurance on program risks to those responsible for oversight and governance. Specifically, to launch the new system:

- Internal audit was able to raise a red flag when the organization was not ready to go live with the project and helped the project management team realize that they needed more time to ensure a smooth launch.
- Greater awareness was raised by the internal audit team on the need for better change readiness across the organization, in areas such as training and communicating the changes that would affect people. This was considered as adding significant value to the overall project success.



From a technology perspective

Technology forms the foundation for the processes being implemented, but it's important to keep in mind that many portions of business processes are not enabled through technology alone.

Organizations purchase and create systems and tools to automate and support the processes of transformation programs, but a great deal of money is often spent on systems that are subsequently not used. Additionally, sometimes the entire range of capabilities of technology systems is not used effectively.

Internal audit can help:

- ensure that functional needs, including forms and reports, are in place
- audit hardware and software environment (operating system, network, user workstations, printers)
- · check interface projects
- measure application, operating system and network security
- evaluate transition plans for technical processes and data
- evaluate IT system integration and data migration in terms of both quality and security
- validate and track benefits and cost savings

From a people perspective

Engaged and experienced staff often leads to project success. People in the organization execute transformation programs, and their engagement and performance is critical to the success of such programs. Additionally, project staff need to have the right skills, experience and certifications, without which the project can be at significant risk.

Internal audit can help:

- check whether end-user training and guides, including transition readiness, are in place
- provide an analysis on postimplementation sustainability
- measure resource utilization
- control and assess culture within the organization
- analyze whether skills and capability of the team are well suited to the project

The role of internal audit is changing with the evolving risks of the business. The time is right for internal audit to step up to the next level and help the business ensure success for its critical projects. From going live to measuring program progress, internal audit can help large projects succeed every step of the way.





Case study 2: **Transforming** organizational capability

The organization:

The project:

Launch a large new product line that would help offerings.

The role of internal audit:

Manage the board's expectations and mitigate risks from strategic planning to launch related to:

- scheduling

- the decision to go live

The end benefits of engaging internal audit:

project for the organization, internal audit used the hub and spoke model for bringing in subject matter experts for this review. They maintained core risk management expertise internally but augmented its the expanded internal audit team:

- The schedule for the product launch was too aggressive, and changing the schedule based on internal audit advice helped reach a more realistic timeline. Despite initial resistance from the project timelines were changed, which helped the project launch more effectively and gain wider acceptance.
- and there was a heavy reliance on third-party vendors who may not have been able to deliver

For further information on the support internal audit can provide for business transformation projects, please contact:

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