ADDRESSING AUDIT FATIGUE ON LARGE CAPITAL CONSTRUCTION PROJECTS
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RECOGNIZING AUDIT FATIGUE

Audits – those universally dreaded phenomena that occur at the most inopportune time – seem to be ever increasing and expanding in scope. And we’re not talking just the financial audits that occur but once a year. We’re talking the proliferation of “audits” of all kinds performed by an abundance of assurance providers from all walks of life. This is particularly true on large capital construction projects—where the owner uses “audits” as a way to identify and mitigate project risks.

As a result, project teams may find themselves responding to, documenting and managing audit findings and recommendations from a slew of internal auditors, risk managers, regulatory bodies, external auditors, industry standards and guidance organizations. These redundant auditing efforts are usually uncoordinated, leaving the project team very little time to actively and effectively manage the project.

The increased burden is manifesting itself in a growing sense of “Audit Fatigue,” that universally recognized look of defeat and despair on a manager’s face when the auditors arrive. It’s that sense of push-back in the room, that enough is enough, that subtle feeling that the managers just want the time to do their job. But why has the desire to provide constructive feedback and collaborative recommendations turned into a burden on the organization?
Our experience in the construction industry has shown there are a number of driving forces at play, with the biggest contributor being an uncoordinated “assurance” model. Often the companies engaged in multi-billion dollar projects, especially companies like utilities, are undertaking bet-the-company projects – where construction is not their core business.

These companies may not have the in-house expertise for such projects, and, as a result may rely on the familiar and well understood “audit” as a type of “assurance” that the projects are going well.

While audits themselves are not the problem (in fact, we believe they have value when employed at the right time and place), issues arise when multiple assurance providers with overlapping responsibilities and multiple touch points are utilized with little coordination. Another contributing factor is that large capital projects have a history of cost and schedule overruns.

These issues often play out in the media, as these projects are usually high-profile, and impact numerous external stakeholders, including shareholders, rate payers and tax payers.

The goal of these companies is often commendable, including increasing regulatory oversight, deepening or broadening financial audits, enhancing enterprise risk management processes and Sarbanes Oxley (SOX) compliance, and a need for the board of directors to understand inherent business risks. Increasing oversight in response to these forces makes logical business sense and is meant to protect the shareholders and advance the understanding of just what’s going on in the nether reaches of a company.

The results, however, are often uncoordinated, awkward, and increasingly viewed as a drain on the project team’s time and a burden to the business. When performed by inexperienced personnel or those who lack the full context of the project, audits can become focused on the wrong processes or set of problems.

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This results in audits that backfire on the assessors who come off looking like they don’t know what they are talking about or don’t understand the topical area, increasing the potential for audit fatigue.
SO, WHY ARE THESE INTELLIGENT AND ACCOMPLISHED ORGANIZATIONS’ EFFORTS TO PROVIDE PROJECT ASSURANCE FAILING?

The main contributing factors appear straightforward but prove difficult to resolve without informed decision makers. Below are the top three issues we find contributing to audit fatigue:

(1) **INEFFECTIVE COORDINATION**

The organizations performing audits and other assurance activities do not recognize cross-overs in scope and potential economies of scale — simply stated, there are too many cooks in the kitchen. Ineffective coordination can occur for many reasons. In our experience, one of the main contributors is that projects are typically not the core business of the company, yet they represent significant risk.

This is particularly acute in the utility and nuclear industry where major projects are fewer, farther between, and very cost and time intensive. Utilities have also largely shifted to EPC contracting models that have erected barriers to transparency and heightened interest from auditors and regulatory bodies. These issues frequently invite special audits that fall outside of the normal audit planning cycles and are overlooked by the planning teams. Without proper coordination, multiple organizations end up performing audits that overlap scope, increasing the burden of responding to audits and creating fatigue.
(2) LACK OF EXPERTISE

General auditors and oversight organizations often lack specific skillsets required to perform a particular audit or assessment – they simply cannot execute what they set out to perform. Audit fatigue can also result from a lack of project management related skillsets, rather than simply too many audits. For example, auditors and risk managers are often accountants and finance professionals, focused on those parts of the business; they may not have the experience with scheduling software, earned value, construction contracts, or procurement processes.

A lack of expertise can reduce credibility in the intervening organization, can prevent discovery of real issues, and may actually cause the reverse – hiding of issues due to the fear of opening an ever-widening audit – and can distract project managers from immediate issues or true program weaknesses.

(3) POOR SCOPING

For a host of reasons, outside (or inexperienced) auditors cannot determine appropriate areas of risk or identify relevant audit topics – as a result, the project teams simply do not see the benefit of the audit. Audits are often poorly scoped, targeted at the wrong issues, and/or unable to provide the desired outcome due to a lack of understanding of the project or its status.

When audit topics are untimely or inappropriate, they risk degrading the relationship with the project team or simply wasting valuable time for all involved. Poorly scoped audits risk the same results but for a different reason – the audit team may appear to be fishing rather than focused on providing the constructive feedback that can drive project teams to higher performance.

These factors individually and collectively contribute to audit fatigue on projects by degrading the confidence in auditors and oversight organizations. We have seen this time and again on projects where auditors have swooped in to assess all manner of processes and procedures.
AUDIT FATIGUE BUILDS, AND EVENTUALLY, MAKES THE PROJECT TEAM LESS LIKELY TO INTERACT, CAUSING THE AUDITS OR ASSESSMENTS TO BE FAR LESS EFFECTIVE.

A DIFFERENT APPROACH

Often written on the project manager’s face, regardless of cause, one thing is abundantly clear: audits are becoming a burden on the team, sapping valuable time and energy from their primary purpose, managing and controlling project performance.

But the problem can’t be wished away; the fact that audit fatigue is real will not by itself deflect audits or reduce the burden. So what can be done? In our interactions with internal auditors and other oversight organizations, it is clear that they recognize the problem and have shown a strong desire to increase effectiveness. However, there are several things companies that are in this situation can consider, starting with embedding an assurance team on the project.

Embedded Independent Oversight is not a new concept but one that is rarely employed. Our experience shows that embedded assurance teams perform much more effectively, acting as an intermediary between the project team and the various organizations who request audits or project information. With a team that knows the project, knows where the data is, and has access to the right team members, audit fatigue can be greatly reduced.

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EMBEDDED INDEPENDENT OVERSIGHT

Embedded Independent Oversight reduces audit fatigue and increases audit effectiveness by:

(1) INCREASING COORDINATION AMONG ASSESSMENT ORGANIZATIONS

- Coordinates audits from all areas of the business through one organization to ensure there are no overlapping or duplicative scopes.
- Develops plans early to synchronize audits with internal and external organizations; this often requires a lead time of up to a year or more.
- Orchestrates the timing of audits to support reliance on findings from multiple organizations.
- Solicits input from the project managers and project team regarding areas of weakness in the project during the planning cycle.

Having a coordinated effort and reducing overlapping audits is the most basic, yet essential, component of reducing audit fatigue.

(2) BOLSTERING THE AUDIT TEAMS WITH KNOWLEDGEABLE PERSONNEL

- Provides quick access to appropriate project team members and project data – being embedded in the project provides a foundation of project knowledge that is usually missing from internal audit or external resources.
- Seeks out subject matter experts from within the company to provide support and feedback throughout the audit and planning cycles.
- Supplements the audit team with experts that can deliver capabilities not available internally while instilling confidence in the team.

The only way to perform effectively and efficiently while providing constructive feedback and maintaining credibility, is to ensure the audit team is knowledgeable in the topical areas being assessed.

(3) SCOPING RELEVANT AUDITS

- Listens and communicates with the project managers and project team about their perceived risks and issues that may need support from outside their organization to drive change and improve performance.
- Scopes the audit cleanly and clearly; limits the room for misinterpretation of the intended topic.
- Interprets and filters requests from other organizations to produce more meaningful, timely, and accurate audit scopes.

A clearly understood scope benefits both the auditors and the audit targets allowing both to find common ground and to work collaboratively to achieve the audit goals.

We have seen many benefits from taking these simple actions. From increased involvement and buy-in from the project managers and project teams to higher satisfaction with findings and ownership of resolving recommendations.
CONCLUSION

Overall, the likelihood of success both during the audit and from follow-through with closure of findings is dramatically greater. At the same time, there is often a reduced suspicion of the “gotcha” audit mentality, less misunderstanding of findings and results, and a decrease in wasted effort and valuable time.

The key to success is reducing undue burden and being diligent with the project team’s time. Being cognizant of the time required to implement resulting actions can also go a long way. After all, the project team still has a project to run and time spent resolving inconsequential actions is not spent project managing.

There are a few guidelines for deploying Embedded Independent Oversight effectively, which will be the topic of our next white paper but here is a sneak peek at those that we find most important:

- Embedded Oversight should be demonstrably independent, reporting separately from the project management team.
- Assessments, audits, findings, and reports should be objective, evidence based, and transparent.
- Clear processes, procedures, authority, responsibility, and accountability should be well known to all project team members, assessors, and stakeholders. With an embedded assurance function and clear guidance, an increase in oversight of major projects does not necessitate an increase in audit burden.

PROPER COORDINATION OF STAKEHOLDERS, A KNOWLEDGEABLE AUDIT TEAM, AND BUY-IN FROM THE PROJECT TEAM BENEFITS ALL ORGANIZATIONS AND ELIMINATES DUPLICATION OF EFFORT, REDUCING THE POTENTIAL FOR AUDIT FATIGUE.
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