

## Assurance for high risk projects



Why do so many governing bodies allow their organisations to embark on high risk projects without insisting on a robust, independent assurance function?

There is nothing wrong with embarking on a high-risk, high-reward project that has the potential to transform an organisation. In fact they are almost mandatory if an organisation is going to leap-frog its competitors and gain a strategic advantage. But going into this type of project with blinkers on is a great way to waste \$millions. The three elements needed to manage the risks and maximise the rewards are:

1. A very clear understanding of the risks and rewards. Supported by prudent risk management processes and transparent decision making and reporting<sup>1</sup>.
2. Clear management responsibilities and accountabilities supported by an appropriate skills mix and the methodologies needed to deal with all aspects of the project through to the creation of value.
3. A robust, independent and rigorous assurance function to make sure the first two requirements are being implemented fully and effectively<sup>2</sup>.

Project or Programme Assurance is a discipline that seeks to provide an independent and objective oversight of the likely future performance of major projects for those responsible for sanctioning, financing or insuring such undertakings. Good assurance provides an assessment of whether the elements fundamental to successful project delivery are in place and operating effectively. In itself assurance does not deliver a project, but it can identify and help mitigate any risks to successful delivery present in a project's sponsorship, business case and benefits plan, governance and reporting arrangements, contracting and supply chain strategies, commercial and delivery skills, funding and resourcing and overall project management approach.

Assurance provides information to those that sponsor, govern and manage a project to help them make better informed decisions which should lead to a reduction in the causes of project failure, promote the conditions for success and increase the chance of delivering the required outcome cost-effectively. Assurance helps ensure the disciplines around delivering projects are followed and highlights where they have not been.

The assurance system does not replace the management systems that select, approve and monitor the day-to-day running of projects such as 'portfolio management, PMOs, Stagegate® or 'gateway' reviews. Nor does it replace project and program methodologies and decision making bodies such as change control boards.

The function of assurance is to ensure current processes are being properly applied and used and identify opportunities for improvement. To be successful, the assurance system requires the direct support of the organisation's governing body<sup>3</sup> which should ensure the assurance system<sup>4</sup>:

<sup>1</sup> For more on **risk management** see:  
[http://www.mosaicprojects.com.au/WhitePapers/WP1047\\_Risk\\_Management.pdf](http://www.mosaicprojects.com.au/WhitePapers/WP1047_Risk_Management.pdf)

<sup>2</sup> For more on **project surveillance** and assurance see:  
[http://www.mosaicprojects.com.au/WhitePapers/WP1080\\_Project\\_Reviews.pdf](http://www.mosaicprojects.com.au/WhitePapers/WP1080_Project_Reviews.pdf)

<sup>3</sup> For more on the role of the **governing body** see:  
[http://www.mosaicprojects.com.au/WhitePapers/WP1096\\_Six\\_Functions\\_Governance.pdf](http://www.mosaicprojects.com.au/WhitePapers/WP1096_Six_Functions_Governance.pdf)

<sup>4</sup> Based on the UK NAO report *Assurance for high risk projects*, 2010.

- has a clear mandate;
- is non-optional;
- is outcome focussed;
- is built on a high and exacting evidence base;
- triggers further interventions where necessary;
- provides the ability to plan and resource assurance activity;
- systematically propagates lessons learned<sup>5</sup>; and
- minimises the burden placed on projects and programs.

The objective of assurance is to help identify and reduce risks to the successful delivery of project outcomes by providing information to those who sponsor, govern and manage a project to help them make better informed decisions which in turn reduces the causes of project failure, promotes the conditions for success and assists in the delivery of improved outcomes. The audit should also provide visibility of project performance, at the portfolio level.

Assurance should test that the defined control limits for each project (as agreed at approval of the business case), and for the organisation's portfolio of projects, are appropriate and highlight whether they have exceeded or are in danger of failing to achieve the required performance in:

- Time – variance against milestones
- Cost – variance against planned budget
- Quality – degrees off the quality target
- Scope – variance agreed against what will be delivered
- Risk – limits on identified risks as a percentage of the overall budget
- Benefit realisation<sup>6</sup> – variance against level of benefit identified as part of the business justification

Effective assurance processes help enable management by exception and act as a trigger for interventions if projects exceed agreed control limits. The system should be outcome focussed not activity focussed; it should assure the benefits of projects, not the projects themselves. Assurance should:

- Take place at the earliest opportunity to help establish clear criteria for identifying and measuring elements in a project which are uncertain and turning them into understood areas of risk which have a value placed on them. It should ensure that there is a justifiable reason to start a project and that the justification put forward in the business case is correctly documented and approved.
- Inform the assessment of project status at defined control points throughout the project lifecycle. It should help test if the project remains viable, if variance against the business justification is manageable and inform the overall decision made by those responsible of whether the project should proceed.
- Include both point in time and continuous assurance.
- Be one of the sources of information which informs portfolio investment decisions based on an understanding of forecast expenditure and deliverability.
- Inform the initial approval of projects and decisions on ongoing funding.

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<sup>5</sup> For more on **lessons learned** see:

[http://www.mosaicprojects.com.au/WhitePapers/WP1004\\_Lessons\\_Learned.pdf](http://www.mosaicprojects.com.au/WhitePapers/WP1004_Lessons_Learned.pdf)

<sup>6</sup> Assuring the creation of value through the realisation of the intended benefits is the key aspect of effective assurance; conformance to processes, or a particular metric, is only of value if the process itself assists in the creation of value. For more on **benefits and value** see:

[http://www.mosaicprojects.com.au/WhitePapers/WP1023\\_Benefits\\_and\\_Value.pdf](http://www.mosaicprojects.com.au/WhitePapers/WP1023_Benefits_and_Value.pdf)



- Act as a primary method for transferring learning between projects and developing an understanding of any systemic issues affecting the delivery of the portfolio.

Establishing an effective, independent assurance function that reports directly to a governance sub-committee or 'Chief Project's Officer' should be high on the agenda of every organisation investing in projects and programs to create its future. The cost of the system is a fraction of the costs saved by reducing the incidence of project failure and encouraging improvements in the organisation's project delivery capabilities.

## Summary

The key aspect of every governance system is being able to provide assurance to the organisation's stakeholders that the organisation is making effective use of its resources in pursuit of its objectives. The increasing importance of projects and programs as the vehicle of choice used by organisations to develop the new capabilities required to achieve their objectives makes effective project and program assurance a central element of the overall organisational assurance regime. 'Not knowing' is no longer an option for the people sitting on governing bodies.

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