association for project management

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Directing Change

A guide to governance of project management

Contents

Foreword

How should those governing organisations oversee the management of projects? This guide provides the answer.

The discipline of project management has come of age. The body of knowledge is well defined, skill requirements can be assessed and methods are codified. Good practice in directing and managing project work is increasingly evident. However, in many organisations there remains a gap in the governing surveillance of project activities. Responsible practice requires that this gap be eliminated.

The guide applies standard governance requirements to your project portfolio. Following a structured approach it lists 42 questions which boards of directors, or their equivalents, should ask to satisfy themselves and their stakeholders.

It is short and to the point. It applies in most types of organisation, across all sectors.
It will help improve your corporate performance, reduce shocks at boardroom level and avoid hardship to stakeholders.

We commend its wide adoption.

Bob Reid

Sir Bob Reid, past President of the Association for Project Management

John Bourn.

Sir John Bourn KCB, Comptroller and Auditor General

1. Purpose

The purpose of the guide is to influence directors and others to adopt excellent practices regarding the governance of programme and project management activities. This involves aligning the interests of directors, programme and project teams and wider stakeholders.

Adherence to this guide will help boards of directors to:

- Assure themselves and others that robust governance requirements are applied across the projects managed in their organisations.
- Optimise their portfolio of projects.
- Avoid many common failures in project and programme performance.
- Motivate their staff, customers and suppliers on the basis of better communication.
- Minimise risks to the organisation arising from projects.
- Maximise benefits to be realised from projects.
- Assure the continued development of the organisation.

As the focus of this document is the achievement of coherence between corporate governance and project management processes, it is necessary to clarify activities not specifically covered by this guide. This document does not seek to:

- Duplicate or replace existing guidance and standards on corporate governance.
- Provide guidance related to non-project areas of business.
- Provide guidance on project management methods, other than those directly related to the purposes of sound corporate governance.
- Provide guidance on detailed methods that can be used to manage individual projects or programmes.

This document's sub-title “A guide to governance of project management” has been carefully chosen to distinguish it from other works concerning the governance of individual projects in the sense of their contractual and organisational arrangements.

2. Introduction

> *"Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."*

Organisation for Economic Co-operation and Development
OECD Principles of Corporate Governance 2004
www.oecd.org

Projects, Programmes, Project Management and Programme Management are defined in BS6079 and the UK Office of Government Commerce's guide Managing Successful Programmes. For brevity this guide uses the term project management as inclusive of the management of programmes of projects.

Whilst codes of corporate governance have been developed primarily for listed companies, in preparing this guide the requirements of all medium to large organisations, listed and private companies, government organisations and charities have been considered. We have concluded that the principles underlying the governance of project management apply to all such entities. Hence, in this guide we refer to "the organisation" rather than "the company". Our use of the term "board" applies to management boards and their equivalents in the public sector and to councils in companies limited by guarantee. It does not refer to project boards.

Introduction continued

The governance of project management concerns those areas of corporate governance that are specifically related to project activities. Effective governance of project management ensures that an organisation's project portfolio is aligned to the organisation's objectives, is delivered efficiently and is sustainable. Governance of project management also supports the means by which the board, and other major project stakeholders, are provided with timely, relevant and reliable information.

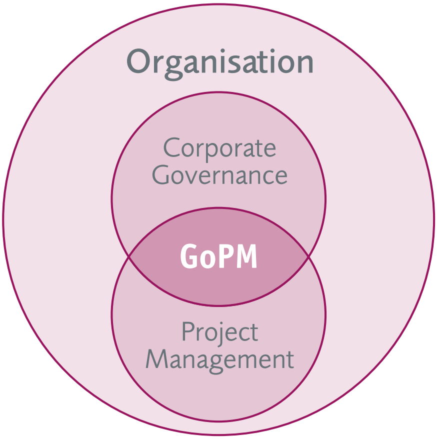

Figure 1
Governance of project management in context

Figure 1 illustrates that the governance of project management is a subset of the activities involved with corporate governance. It also represents that most of the methodologies and activities involved with the day-to-day management of individual projects lie outside the direct concern of corporate governance.

Note: *GoPM is an abbreviation of governance of project management.*

3. Principles of governance of project management

This guide seeks to direct how a board of directors might address four main components of the governance of project management:

- Portfolio direction
- Project sponsorship
- Project management effectiveness and efficiency
- Disclosure and reporting

These components are addressed in more detail in Section 4, where compliance checklists are provided.

Based on governance requirements and on the discipline of project management, the following 11 principles have been identified for governance of project management. These principles are cross-referenced to related sections of two major corporate governance documents in Appendices 1 and 2.

Applying these principles would help avoid common causes of programme and project failure, such as the seven noted below.

- Lack of a clear link with key strategic priorities.
- Lack of clear senior management and, in government projects, ministerial ownership and leadership.
- Lack of effective engagement with stakeholders.
- Lack of skills and proven approach to project and risk management.
- Lack of understanding of, or contact with supply industry at senior levels.
- Evaluation of proposals driven by initial price, rather than long-term value for money.
- Too little attention to breaking down development and implementation into manageable steps.

No	Governance of Project Management Principles
1	The board has overall responsibility for governance of project management.
2	The roles, responsibilities and performance criteria for the governance of project management are clearly defined.
3	Disciplined governance arrangements, supported by appropriate methods and controls, are applied throughout the project life cycle.
4	A coherent and supportive relationship is demonstrated between the overall business strategy and the project portfolio.
5	All projects have an approved plan containing authorisation points at which the business case is reviewed and approved. Decisions made at authorisation points are recorded and communicated.
6	Members of delegated authorisation bodies have sufficient representation, competence, authority and resources to enable them to make appropriate decisions.
7	The project business case is supported by relevant and realistic information that provides a reliable basis for making authorisation decisions.
8	The board or its delegated agents decide when independent scrutiny of projects and project management systems is required, and implement such scrutiny accordingly.
9	There are clearly defined criteria for reporting project status and for the escalation of risks and issues to the levels required by the organisation.
10	The organisation fosters a culture of improvement and of frank internal disclosure of project information.
11	Project stakeholders are engaged at a level that is commensurate with their importance to the organisation and in a manner that fosters trust.

4. Core components of the governance of project management

This section offers practical questions that should help decide what actions to take to comply with these principles.

Governance of project management is not the rigid application of a complex methodology. The best results will come from the intelligent application of principles combined with proportionate delegation of responsibility and the monitoring of internal control systems.

Sections 4.1 to 4.4 list questions relevant to the four components of governance of project management. Positive answers to these key questions would indicate that current practice broadly fulfils the principles and meets the requirements of appropriate governance of project management.

4.1 Portfolio direction

This component seeks to ensure that all projects are identified within the one portfolio. This portfolio should be evaluated and directed mindful of the organisation's aims and constraints.

Key questions

PD1	Is the organisation's project portfolio aligned with its key business objectives, including those of profitability, customer service, reputation, sustainability and growth?
PD2	Are the organisation's financial controls, financial planning and expenditure review processes applied to both individual projects and the portfolio as a whole?
PD3	Is the project portfolio prioritised, refreshed, maintained and pruned in such a way that the mix of projects continues to support strategy and take account of external factors?
PD4	Does the organisation discriminate correctly between activities that should be managed as projects and other activities that should be managed as non-project operations?
PD5	Does the organisation assess and address the risks associated with the project portfolio, including the risk of corporate failure?
PD6	Is the project portfolio consistent with the organisation's capacity?
PD7	Does the organisation's engagement with project suppliers encourage a sustainable portfolio by ensuring their early involvement and by a shared understanding of the risks and rewards?
PD8	Does the organisation's engagement with its customers encourage a sustainable portfolio?
PD9	Does the organisation's engagement with the sources of finance for its projects encourage a sustainable portfolio?
PD10	Has the organisation assured itself that the impact of implementing its project portfolio is acceptable to its ongoing operations?

4.2 Project sponsorship

This component seeks to ensure that project sponsorship is the effective link between the organisation's senior executive body and the management of the project. The sponsoring role has decision making, directing and representational accountabilities.

Project sponsors are variously titled, for example Senior Responsible Owner, and may be located at different levels in organisations. Project sponsors are the route through which project managers directly report and from which project managers obtain their formal authority, remit and decisions. Sponsors own the project business case.

Competent project sponsorship is of great benefit to even the best project managers.

Key questions

PS1	Do all major projects have competent sponsors at all times?
PS2	Do sponsors devote enough time to the project?
PS3	Do project sponsors hold regular meetings with project managers and are they sufficiently aware of the project status?
PS4	Do project sponsors provide clear and timely directions and decisions?
PS5	Do project sponsors ensure that project managers have access to sufficient resources with the right skills to deliver projects?
PS6	Are projects closed at the appropriate time?
PS7	Is independent advice used for appraisal of projects?
PS8	Are sponsors accountable for and do they own and maintain the business case?
PS9	Are sponsors accountable for the realisation of benefits?
PS10	Do sponsors adequately represent the project throughout the organisation?
PS11	Are the interests of key project stakeholders, including suppliers, regulators and providers of finance, aligned with project success?

4.3 Project management – effectiveness and efficiency

This component seeks to ensure that the teams responsible for projects are capable of achieving the objectives that are defined at project approval points. Project team capability is driven by a number of factors, including the skills and experience of project leaders, the resources available to them and the tools and processes they are able to deploy. The board and project sponsors should take these factors into account when assessing the effectiveness of their project teams and identifying improvement priorities.

Efficient project management requires effective delegation that allows decisions to be made at a level that is consistent with the organisation's system for internal control.

Key questions

PM1	Do all projects have clear critical success criteria and are they used to inform decision-making?
PM2	Is the board assured that the organisation's project management processes and project management tools are appropriate for the projects that it sponsors?
PM3	Is the board assured that the people responsible for project delivery, especially the project managers, are clearly mandated, sufficiently competent, and have the capacity to achieve satisfactory project outcomes?
PM4	Are project managers encouraged to develop opportunities for improving project outcomes?
PM5	Are key governance of project management roles and responsibilities clear and in place?
PM6	Are service departments and suppliers able and willing to provide key resources tailored to the varying needs of different projects and to provide an efficient and responsive service?
PM7	Are appropriate issue, change and risk management practices implemented in line with adopted policies?
PM8	Is authority delegated to the right levels, balancing efficiency and control?
PM9	Are project contingencies estimated and controlled in accordance with delegated powers?

4.4 Disclosure and reporting

This component seeks to ensure that the content of project reports will provide timely, relevant and reliable information that supports the organisation's decision making processes, without fostering a culture of micro-management. It is important for the organisation to distinguish between key drivers of success and key indicators of success; an effective reporting process will therefore include measures of both.

An efficient reporting process will minimise the reporting burden throughout the organisation without compromising effectiveness.

A culture of open and honest disclosure is a key requirement for effective reporting. Where internal or external pressures pose threats to this, independent verification of information should be required. Such threats are frequently present prior to major project approvals or when projects start to encounter serious difficulties. Disclosure should be extended to all stakeholders to the extent that they have a legitimate interest in project information.

Key questions

DR1	Does the board receive timely, relevant and reliable information of project forecasts, including those produced for the business case at project authorisation points?
DR2	Does the board receive timely, relevant and reliable information of project progress?
DR3	Does the board have sufficient information on significant project-related risks and their management?
DR4	Are there threshold criteria that are used to escalate significant issues, risks and opportunities through the organisation to the board?
DR5	Does the organisation use measures for both key success drivers and key success indicators?
DR6	Is the organisation able to distinguish between project forecasts based on targets, commitments and expected outcomes?
DR7	Does the board seek independent verification of reported project and portfolio information as appropriate?
DR8	Does the board reflect the project portfolio status in communications with key stakeholders?
DR9	Does the business culture encourage open and honest reporting?
DR10	Where responsibility for disclosure and reporting is delegated or duplicated, does the board ensure that the quality of information that it receives is not compromised?
DR11	Is a policy supportive of whistleblowers effective in the management of projects?
DR12	Do project processes reduce reporting requirements to the minimum necessary?

5. Postscript

5.1 Disclaimer

This guide is intended solely to provide practical guidance relating to the establishment of good governance of project management. This guide is not intended to comprise advice on which you may rely in order to ensure compliance with any legal obligations regarding corporate governance. All liability is excluded in respect of any loss or damage which may arise in connection with the use of or reliance on any information contained in this guide.

5.2 Acknowledgements

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Appendix 1

Relationship between Governance of Project Management principles and UK Listing Authority's Combined Code, 2003

Combined Code	Comply or explain requirement	Relevant GoPM principles
A.1 The Board	Every company should be headed by an effective board, which is collectively responsible for the success of the company.	1
A.2 Chairman and chief executive	There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.	2
A.3 Board balance and independence	The board should include a balance of executive and non-executive directors (and in particular independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.	6, 8, 11
A.4 Appointments to the Board	There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.	2
A.5 Information and professional development	The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.	5, 6, 7, 8, 9, 10

Appendix 1 continued

Combined Code	Comply or explain requirement	Relevant GoPM principles
A.6 Performance evaluation	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.	3, 5, 7, 8
C.1 Financial Reporting	The board should present a balanced and understandable assessment of the company's position and prospects.	4, 7, 9, 10
C.2 Internal Control	The board should maintain a sound system of internal control to safeguard shareholders' investment and the company's assets.	2, 3, 4, 7, 8
C.3 Audit Committee and Auditors	The board should establish formal and transparent arrangements for considering how they should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors.	3, 8
D.1 Dialogue with Institutional Shareholders	There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.	5, 10, 11

Financial Services Agency (UK Listing Authority)
The Combined Code on Corporate Governance, 2003
www.fsa.gov.uk

Appendix 2

Relationship between Governance of Project Management principles and the Sarbanes-Oxley Act 2002.

Section of Sarbanes-Oxley Act 2002	Particular requirement within section	Relevant GoPM principles
106. FOREIGN PUBLIC ACCOUNTING FIRMS	(a) APPLICABILITY TO CERTAIN FOREIGN FIRMS . . .	2, 8
108. ACCOUNTING STANDARDS	(b) RECOGNITION OF ACCOUNTING STANDARDS . . .	3, 10
201. SERVICES OUTSIDE THE SCOPE OF PRACTICE OF AUDITORS	(a) PROHIBITED ACTIVITIES . . .	8
202. PREAPPROVAL REQUIREMENTS	(A) AUDIT COMMITTEE ACTION . . .	8, 10
204. AUDITOR REPORTS TO AUDIT COMMITTEES	(k) REPORTS TO AUDIT COMMITTEES . . .	3, 8, 10
302. CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS	(a) REGULATIONS REQUIRED . . .	2, 3, 4, 7, 8, 9, 10
401. DISCLOSURE IN	(j) OFF-BALANCE SHEET TRANSACTIONS . . . PERIODIC REPORTS	5, 7, 8, 9, 10, 11
404. MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS	(a) RULES REQUIRED . . .	2, 3, 4, 5, 6, 7, 8, 9, 10

Appendix 2 continued

Section of Sarbanes-Oxley Act 2002	Particular requirement within section	Relevant GoPM principles
406. CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS	a) CODE OF ETHICS DISCLOSURE . . .	2, 3, 10
407. DISCLOSURE OF AUDIT COMMITTEE FINANCIAL EXPERT	(a) RULES DEFINING "FINANCIAL EXPERT" . . .	2
409. REAL TIME ISSUER DISCLOSURES	(1) REAL TIME ISSUER DISCLOSURES . . .	9, 10
906. CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS	1350. Failure of corporate officers to certify financial reports . . .	2, 3, 4, 7, 9, 10
1102. TAMPERING WITH A RECORD OR OTHERWISE IMPEDING AN OFFICIAL PROCEEDING	(c) Whoever corruptly . . .	3, 10

Sarbanes-Oxley
Sarbanes-Oxley Act 2002
www.sarbanes-oxley.com

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