



Grant Thornton

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Construction controls

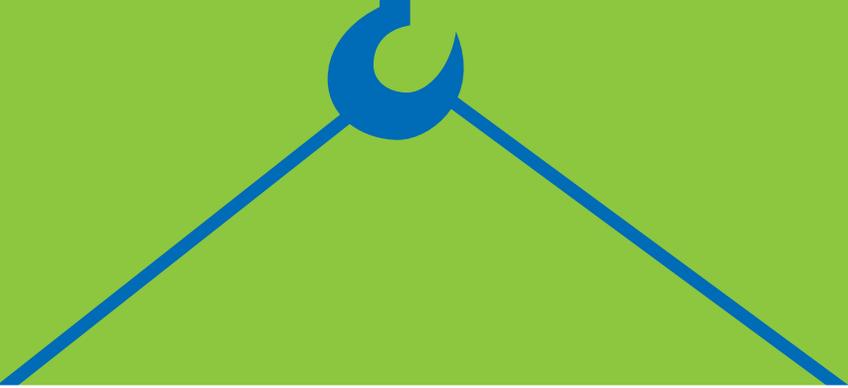
Capital project controls for owners



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More than half of large construction projects either fall behind schedule or exceed their original budget. Having successful construction controls in place is critical to mitigate the risks related to the management, execution and control of projects. Our team at Grant Thornton LLP has worked on numerous construction projects of all shapes and sizes, and has helped ensure the proper controls are in place—before something goes wrong.



The three constraints

Effective owner oversight is a critical driver in the execution of successful capital projects.

The size and complexity of major construction projects have always presented a challenge for project managers in terms of balancing costs, quality and schedule. These are difficult to manage individually, let alone as a collective. For instance, trying to meet an aggressive deadline might prompt an increase in the speed of service which could result in reduced quality. Similarly, using new technology or materials to gain a higher quality might result in unforeseen cost over-runs.

With the evolution of contracts and new approaches to major capital project management, there is now additional risk to project owners that they may assume greater responsibility for cost, quality and schedule.

In today's construction environment, effective owner oversight is now a critical drive in the execution of successful capital projects.

The objectives of our capital project controls services are to:

- assess the risks along with the likelihood and impact of them materializing;
- assess the design and operating effectiveness of existing or planned project controls; and,
- provide practical and appropriate recommendations to issues to address risks.

At Grant Thornton, our goal is to assist you to create an oversight framework that will reduce your risk by increasing transparency, accountability and value for money across your capital project.



Common issues

Unintentional errors or overpayments—commonly referred to as contract leakage—are common on large design-build, guarantee maximum price, or fast-track capital projects. Strong project oversight can help identify and manage risks, develop and maintain financial controls, identify overcharges and avoid litigation.

Project managers play a key role in driving the completion of a project on time and within budget. However, project managers are often focused on

completing the project and may miss other risks and potential areas of concern, such as errors and even fraud. That’s where we come in.

Our Operational Advisory Services professionals can help capital project owners and managers reduce risk and prevent, deter, and detect cost overruns that can happen during the course of the capital project life cycle. The following table shows just a few of the issues that could be encountered during a project.

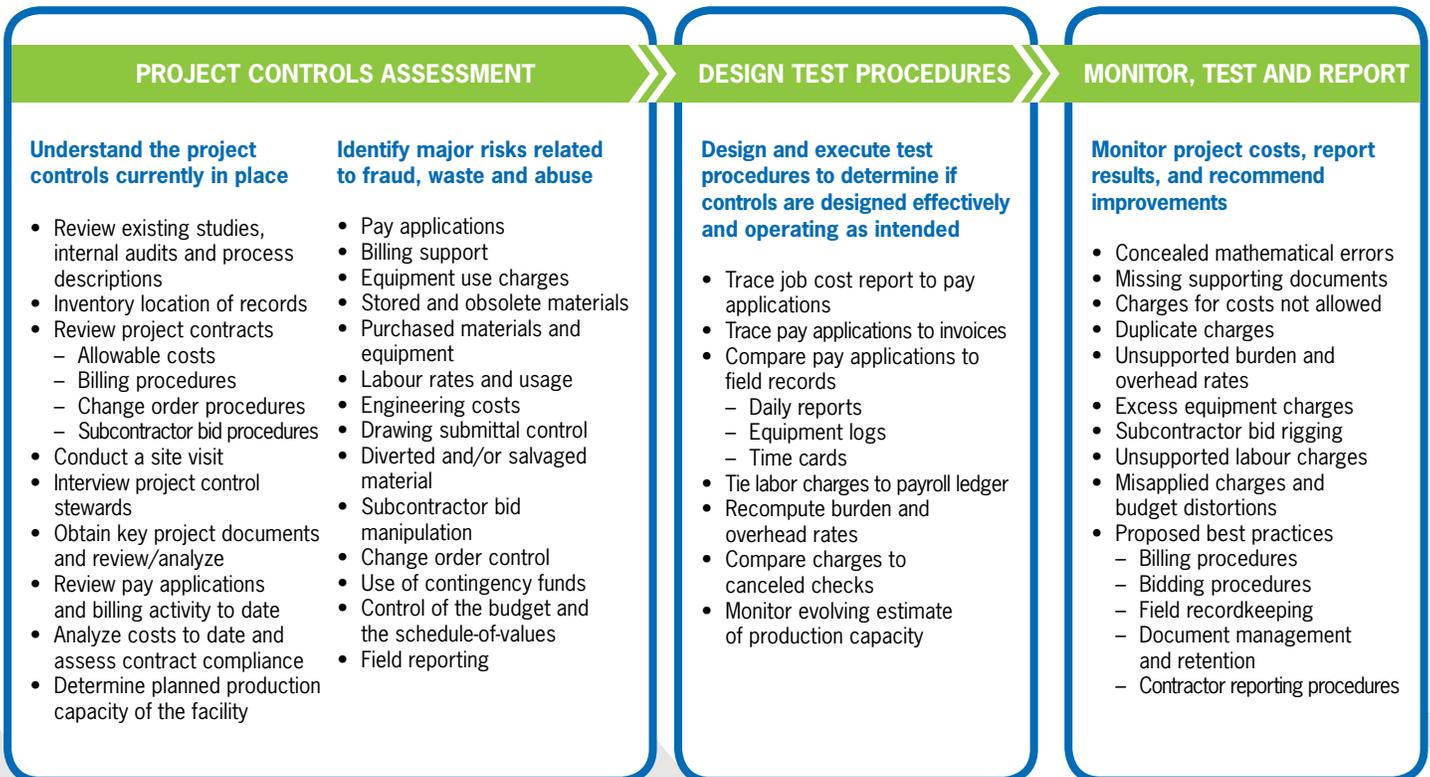
COST CATEGORY	COMMON ISSUES ENCOUNTERED
Labour	<ul style="list-style-type: none"> • Inaccurate labour burden • Claims for non-reimbursable labour costs • Improperly charged overtime • Billing for work not performed, or phantom labour • Use of undocumented labour • Misclassifying labour rates
Materials	<ul style="list-style-type: none"> • Duplicate payments • Purchase discounts/rebates not credited to the project • False or missing invoices • Diverting purchases and theft of materials
Subcontractors	<ul style="list-style-type: none"> • Change order discrepancies, rework costs charged to the project • Bidding processes not in accordance with the construction contract • Duplicate invoices • False invoices or phantom subcontractors
Equipment	<ul style="list-style-type: none"> • Rates in excess of contractual limits • Charges for idle equipment on construction site • Total payments exceeding the value of equipment • Missing coding equipment rates
Other	<ul style="list-style-type: none"> • Mixing lump sum costs into time and materials change orders • Charges of contractually excluded costs such as travel costs, home office costs or capital equipment • Diverting owner payments to other projects • False affidavits and lien waivers • Fees being applied incorrectly

Construction project audit methodology

Effective project oversight starts with a clear understanding of the risks combined with a framework for testing to determine if proper controls are in place – and working – to mitigate the risks to an acceptable level.

When beginning a project, it's important to plan every step of the way. Here are just some of the ways that our construction project audit methodology can help your project continue to move along.

The diagram below outlines some of the common risk and controls areas in our construction project audit methodology.



Construction controls and oversight services

At every stage of the project, you face different obstacles. Let us help you every step of the way.

1 Pre-construction

Plan and build a foundation to control risk

- Identify risks and develop related internal controls
- Suggest and/or modify key contract clauses related to financial control issues
- Assess fraud risk
- Assess project governance

2 Construction

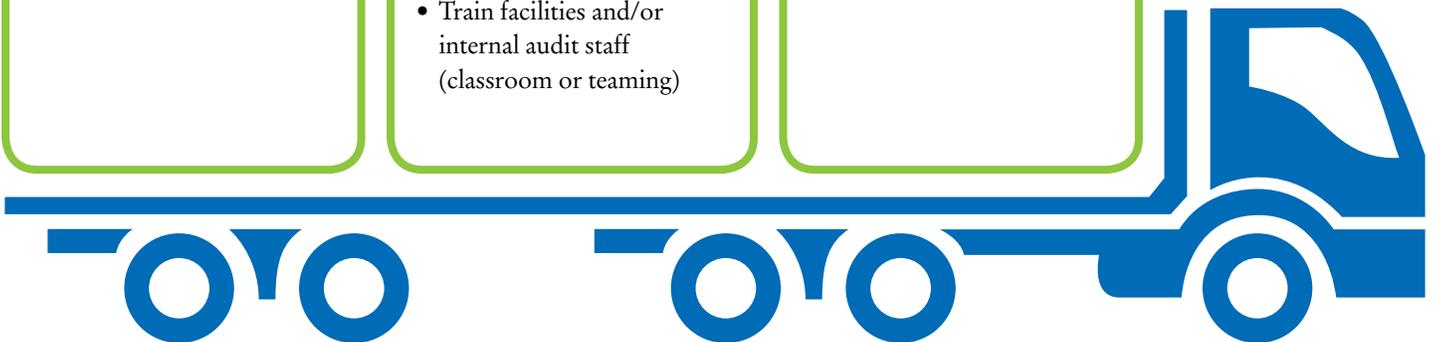
Monitor compliance and performance

- Perform monitoring of costs and contract compliance
- Perform periodic or midpoint cost and contract compliance audits
- Assist facilities and/or internal audit staff with subject matter expertise
- Train facilities and/or internal audit staff (classroom or teaming)

3 Close-out

Monitor compliance and performance

- Perform cost close-out audit
- Identify best practices and assist with implementation
- Accounting for assets and cost segregation for tax purposes
- Claims negotiation and expert testimony



For more information or to see how we can help your construction project, please contact

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