

## Using Audit to Reduce Costs of Major Construction Projects

Organizations involved in major capital projects are missing out on significant opportunities to strengthen internal controls and reduce costs. This is not to say that construction managers are fiscally irresponsible, conversely they are very reluctant to spend money where it is not absolutely necessary. So much so that in an effort to contain costs, most organizations don't budget funds for construction audits until the project is complete or nearing completion. However, this "Close-out" audit is only one component of a successful control and cost containment program. Vonya Global believes that investing in internal audit early in the construction process may save thousands or hundreds of thousands of dollars throughout the project. "Full-scope" construction auditing optimizes the effectiveness of internal controls, reduces total project costs, and maximizes cost recovery.

**Close-out Audit** At the project's conclusion, the owner requires assurance that the General Contractor/Construction Manager (CM) has completed the work in accordance with the contract. A close-out audit provides the owner confidence that the contracted obligations were fulfilled and the billing was accurate per the contract terms. While this is a critical step to verify compliance with the contract, it doesn't solve other problems caused by a poorly written contract. In fact, contracts rarely protect all the interests of the owner.

Involving construction audit services at the beginning, rather than the end of a construction project is far more effective because it mitigates risk before it materializes. Audit's first responsibility is to protect the owner's interest by creating favorable contractual agreements and improving the project control environment. Keeping Vonya Global engaged throughout the construction project assures the effectiveness of the control environment and identifies inappropriate cost overcharges.

In creating the contract (the binding agreement between the owner and all parties involved in the construction process), many owners place their trust in the knowledge of the General Contractor/CM and Architect to include all the appropriate provisions in the contracts. Most owners will then seek legal counsel to review the contract focusing on the insurance and indemnification sections. Additionally, the General Contractor/CM and Architect are often relied upon to track and control project costs. The result is an agreement which may not contain the necessary terms and conditions to adequately protect the interests of the owner, may not establish an effective system of internal controls, and may not establish a systematic means of monitoring contract compliance.

The American Institute of Architects (AIA) provides standard construction contracts, such as the:

- AIA A101 for stipulated sum projects
- AIA A111 and A121 agreements for cost reimbursable projects
- A201 which contains the related General Conditions to the agreement

However, even these contract provisions require modification to fully protect the interest of the owner. For example, the Accounting Records or "Right-to-Audit" clause should be strengthened, and the Changes or "Change Order" clauses often require clarification. These modifications improve the owner's control over project costs, and allow for recoveries.

An effective "Full-scope" audit program utilizing the construction audit services of Vonya Global establishes an effective control environment, defines expectations for all parties, reduces the potential for conflict, reduces total project costs, and reduces the owner's risk. Performing a "Full-scope" construction project audit is a best practice, and the earlier a qualified Construction Auditor is involved in the project life-cycle, the greater the benefits to the project owner.

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