

Contracting Red Flags: Should you be concerned?

- You are managing multiple contractors or a range of complex contract models with limited or unreliable management information
- Your projects are or have been subject to a high degree of change in contract scope, management team or completion date
- Supply chain incentives are not aligned to value for money
- Costs are escalating and you are not sure of the root cause and you have limited management information on project status including spend and costs to complete
- You receive slow or limited responses to information requests sent to your contractors / Project Management Consultants

Examples of our recent experience:

Major UAE-based real estate developer

We have recently completed contract reviews for a number of significant capital projects. The reviews were sanctioned following concerns that contractors had over-charged on the contracts and our client was seeking to understand the quantum and the extent to which funds could be recovered.

Regional construction company

We were engaged by our client to perform a contract review between construction parties. The purpose of the engagement was to conduct a review of one party's compliance with the contract terms and conditions. We also reviewed the calculation of billing rates compared with payroll costs to ensure that overhead costs billed were valid and in accordance with the contract.

Our team

Our multidisciplinary Contract Performance Management team in the Middle East includes engineers, consultants and finance specialists with extensive experience across a range of sectors.



Maria Lalousis – UAE
maria.lalousis@ae.pwc.com
+971 4 304 3036



James Hanson – UAE
james.hanson@ae.pwc.com
+971 2 694 6993



Chris Scudamore – Qatar
chris.scudamore@qa.pwc.com
+ 974 4419 2777



Richard Williamson – Oman
richard.williamson@om.pwc.com
+968 2455 9165



Jon Barnes – KSA
jonathan.barnes@sa.pwc.com
+966 50 772 9172

Capital Projects & Infrastructure

Contract Performance Management

Are you maximising value from your contracts and minimising cost leakage?

Contract Performance Management



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Where contracts have complex characteristics, savings of up to 15% of contract spend can often be identified.



We are regularly contacted by our clients who are concerned they are not maximising value for money from the supply chain. In supporting our clients some of the common issues we have identified and remediated in assessing contract performance include:

Contractor overcharging:

- Duplicate payments
- Incorrect rates applied to invoices
- Invoices for costs not covered by the contract
- Incorrect application of incentivisation mechanisms
- Non-compliance with contract specifications

Scope management:

- Scope changes and variations are not properly approved
- Inaccurate application of rate adjustments for contract changes
- Preliminary cost applications are not assessed in accordance with the contract

Contract administration:

- Limited reconciliation by the employer or its representatives of invoices against contractor performance
- Poor understanding of the practical applications of the contract

Stakeholder insight

The aforementioned common issues are typically symptoms of the following:

Inadequate contract establishment

- Commercial strategies and contract forms are not aligned to the works and services
- Owners do not effectively transfer their risks to the contractor
- Ineffective commercial incentives
- Insufficient scope and commercial definition within the contract

Poor contract management

- Owners and their representatives have limited access to supporting documentation
- Immature and weak project and contract management controls
- Poor understanding of contracts, specifically commercial terms of the contract
- Inefficient use of engineering and project management resources
- Cost blow-outs and delays
- Contractor and engineer claims and over-charging

Weak contract close mechanisms

- Owner and engineer fail to comply with contract closure requirements
- Contractors submit significant variations at the time of negotiating the Final Account
- Lessons learnt and improvement opportunities are not captured

Objective assessment

PwC has developed a focused strategy to review project contractual agreements with the aim of maximising employer returns

Our strategy focuses on :

- *Contract portfolio risk assessment* that identifies your high risk contracts
- *Major contract reviews* including reviews of entire contract portfolios or one-off large contracts
- *Assessment of current working practices* and recommendations to improve future working practices
- Providing you with *ongoing contract support*, including dispute resolution

and delivering benefits and savings to you through :

- *Retrospective recovery of monies* from contractors
- Supporting your *negotiations* with your contractors and Project Management Consultants following the identification of issues with contract compliance
- *On-going monitoring* of performance and contract management
- *Process improvement* recommendations following the identification of poor contract management
- *Transferring skills* to you and helping you to implement sustainable change
- *Renegotiation* of problematic contracts