New construction program delivery trends
What does it mean for the CAE?
2018 EEI/AGA Chief Audit Executives Conference
Overview of KPMG global construction survey

1. **Talent and People**: “Shortage of quality and quantity of project human resources”
2. **Fraud and Misconduct**: “Invented and perpetuated in the projects industry”
3. **Sustainability**: “Are we leaders or followers? How can we avoid being order-takers?”
4. **Price/Cost**: “How can we better manager labor and material price volatility”
5. **Risk and Governance**: “Too many project are failing to meet intended objectives – we lack visibility”
Overview of KPMG global construction survey (continued)

Technology adoption spectrum

Scores based upon responses to level of adoption of a number of different technologies
Overview of KPMG global construction survey (continued)

Industry performance

- 91% Say their systems produce timely and accurate project and/or portfolio reporting.
- 82% Say they have confidence in their organization’s ability to deliver projects on time and budget.
- Over half admit adverse project performance significantly impacted their company.
- Just a quarter believe the industry as a whole has reached an acceptable level of performance in delivering capital projects on time and within budget.

Additionally, just a quarter believe the industry as a whole has reached an acceptable level of performance in delivering capital projects on time and within budget.
Industry performance

Project failures

Contractor failures
Project performance

Project complexity outpacing improvement in project governance and controls

- Lack of technology and innovation
- Underestimation of the human element
- Disaggregated company structure and supply chains
- Mega-projects, bundling of projects, more integration, higher scrutiny

Root causes
How is the industry responding?

- **Improve performance**
  - Assess
  - Rationalize
  - Rebuild

- **Evolve**
  - Innovate with technology
    - Technology diagnostic
    - Quick hits
    - Road map and strategy

- **Invest**
  - Optimize human performance
    - Change management
    - Talent Management
    - Soft controls

Source: *Three steps to closing the performance gap.* Developed by Geno Armstrong, Global Sector Leader, Engineering and Construction, KPMG International and Clay Gigo, Head of Major Projects Advisory, KPMG in the U.S.
U.S. utility company trends

What is it?

Delivery Strategy
- Your relationship with the parties who will perform the work
  - Design-Bid-Build
  - Construction Management
  - Engineer-Procure-Construct (EPC)

Compensation Strategy
- How you pay for the work
  - Lump Sum / Fixed Price
  - Unit Price
  - Cost Based
    - Guaranteed Maximum Price
    - Target Price
    - Cost Plus
    - Time and Materials

Award Approach
- The process for selecting the vendor
  - Direct Award
  - Competitive Bid
  - Open Book
  - Alliancing
  - Other

Examples

Hybrid
What does it mean for the CAE?

**Front end “pre-audits”**

- Delivery methods
- Contracting methods
- Governance and controls – focus on project reporting
- Auditing provisions
- Clarity of rates, overheads and multipliers

**Culture/tone/people**

**Project health checks**

**Data analytics/data quality**
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