Introducing Risk Based Audits into your Business

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The Skanska UK Audit Challenge

- Major Construction Business with £1.2 billion Revenue
- 5,000 personnel
- Two main Business Streams – Construction & Infrastructure with 9 Operating Units :

(1) Construction : PFI/PPP, Commercial Buildings, Specialist Contracting

(2) Infrastructure : Civil Engineering, Utilities, Piling & Foundations

Skanska UK

The Executive Team

David Fison
Business Unit President

EVP - Philip Carré
Finance, ITSD, Procurement

EVP - Trisha Jones
HR, Learning & Development, Pensions, Internal Communications

EVP - Mark Galloway
Legal, Insurance, CSU, Risk

Senior EVP - Peter Coote
Special Assignments

EVP - Mike Putnam
Infrastructure

EVP – David Tydeman
Construction

Business Improvement Activities

- Commercial Support
- Design Management
- EHS
- Skills & Training
- Procurement
- Risk Management

The Operations

Construction
- Ceilings & Decorative Plasterwork
- Construction & Fit-out
- Design
- Mechanical, Electrical, FM & Building Services
- PFI/PPP
- Steel Decking

Infrastructure
- Civil Engineering
- Piling, Foundations & Ground Engineering
- Utilities & Infrastructure Services

Development
- ModernaHus / Communities

The Business Need

In major E&C organisations - Business Risk = Project Risk

So don't count the beans back at the ranch - audit your <u>projects</u>

- **Obtain a verification of the project forecast end result**
- **Get a view on your teams performance**
- **Promote the spread of Best Practices**
- **Check that bid risk assessments were realistic**
- **Satisfy your corporate governance obligations**

What should you be concerned about on a project ?

- Stretching the forecast end position too far
- Drip feeding losses over time rather than taking them up front
- High churn on project team – especially commercial
- Over optimism – “it will turn the corner in next few months”
- Recognition of variation / claim income in advance
- Programme slippage
- Design creep / scope issues on lump sum contracts
- Transferring of costs between projects
- Unrealistic allowances for plant residuals
- “Deals” with subcontractors – promises of future orders

First - overcome 3 Key Obstacles

1 Credibility

- Team effort
- Expertise - Peer review approach– the audit team includes experts from other parts of the business
- The audit team and project team are professionally equals

2 Authority

- Risk Audits should be core to your business procedures
- Must carry top down support from the Board

3 Accountability

- The Director responsible must follow up & report back

How ?

- Group Risk Manager responsible for annual programme
- Suggest one audit per quarter
- Secondment of Audit team members from the business
- Audit team members cannot have a conflict of interests
- Must be senior managers / directors
- A few grey hairs work well
- Audit team members have to allocate their time – usually one week on site
- Project information required in advance

Project Audit Team – Minimum Requirements

- Audit Manager
- Commercial Manager
- Operations Manager
- Senior Accountant
- Planning / Programme Expert
- Any other expert if technology dictates

Project Audit Objectives

- Review the financial position and progress
- Comment on compliance with Policies & Procedures
- Risks identified at Bid Stage are being managed
- Tender profit is identified and targets for profit enhancement are realistic
- The project end profit is identified and benchmarked with the business plan
- Review cost and expenditure reporting processes
- Employees & Subcontractors recognise need for Code of Conduct / Business Ethics compliance

Types of Projects Audited in Skanska UK

- Contracts range from Traditional Lump Sum, Design & Build, ECI to PFI/PPP
- Projects range from Civil Engineering (Roads and Rail), Commercial Buildings, M&E, to PFI Hospitals and Schools
- Contract Values range from £15m to £1bn
- Major PFI / PPP's require more than one audit
- Joint Ventures – need a special approach
- Open Book / Target Cost contracts – need to engage the client in the process

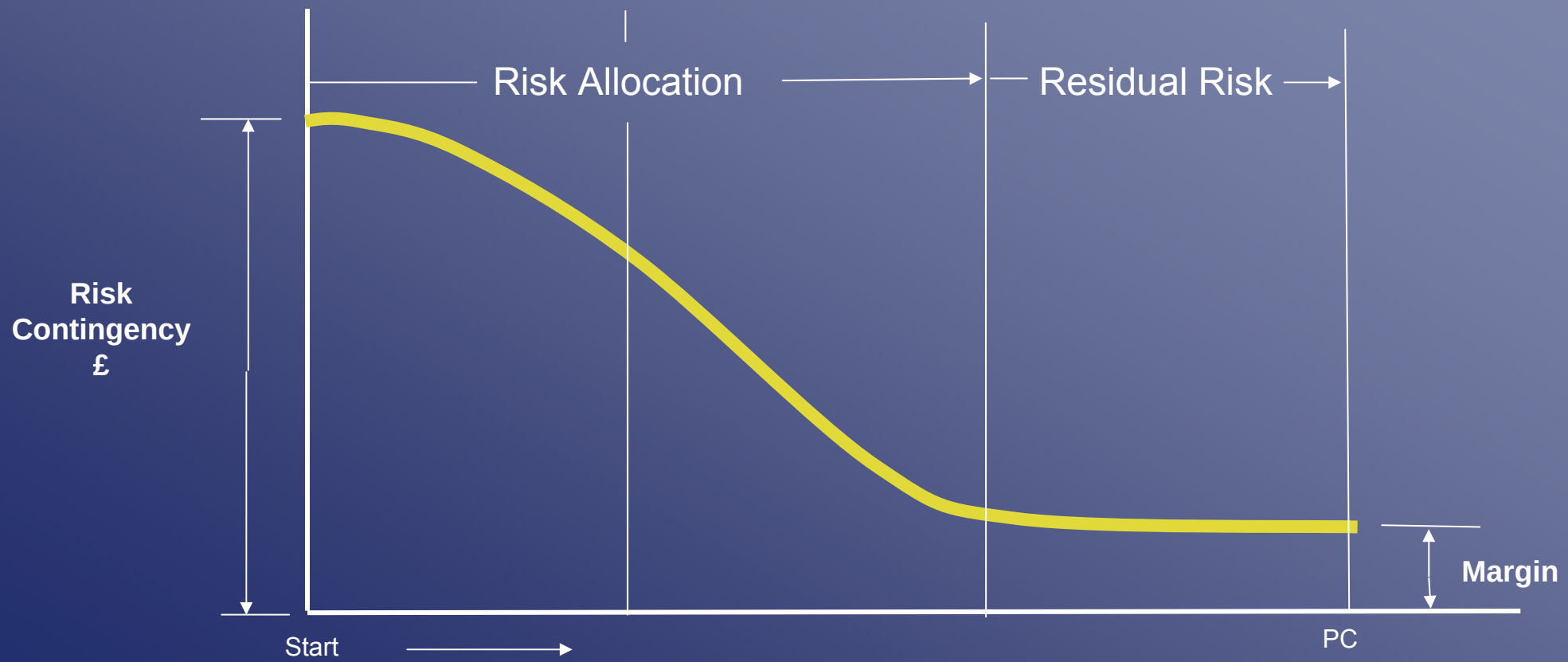
Project Audits – Annual Programme

- Ideally a mix of project size, type, technology and location
- An element of surprise is no bad thing
- Not random but sampled
- The good jobs aren't always so good
- The bad jobs are always quite bad !
- Don’t be steered – choose wisely
- There’s always a reason why its not the right time !
- So be firm and plan ahead

Timing of the Audit ?

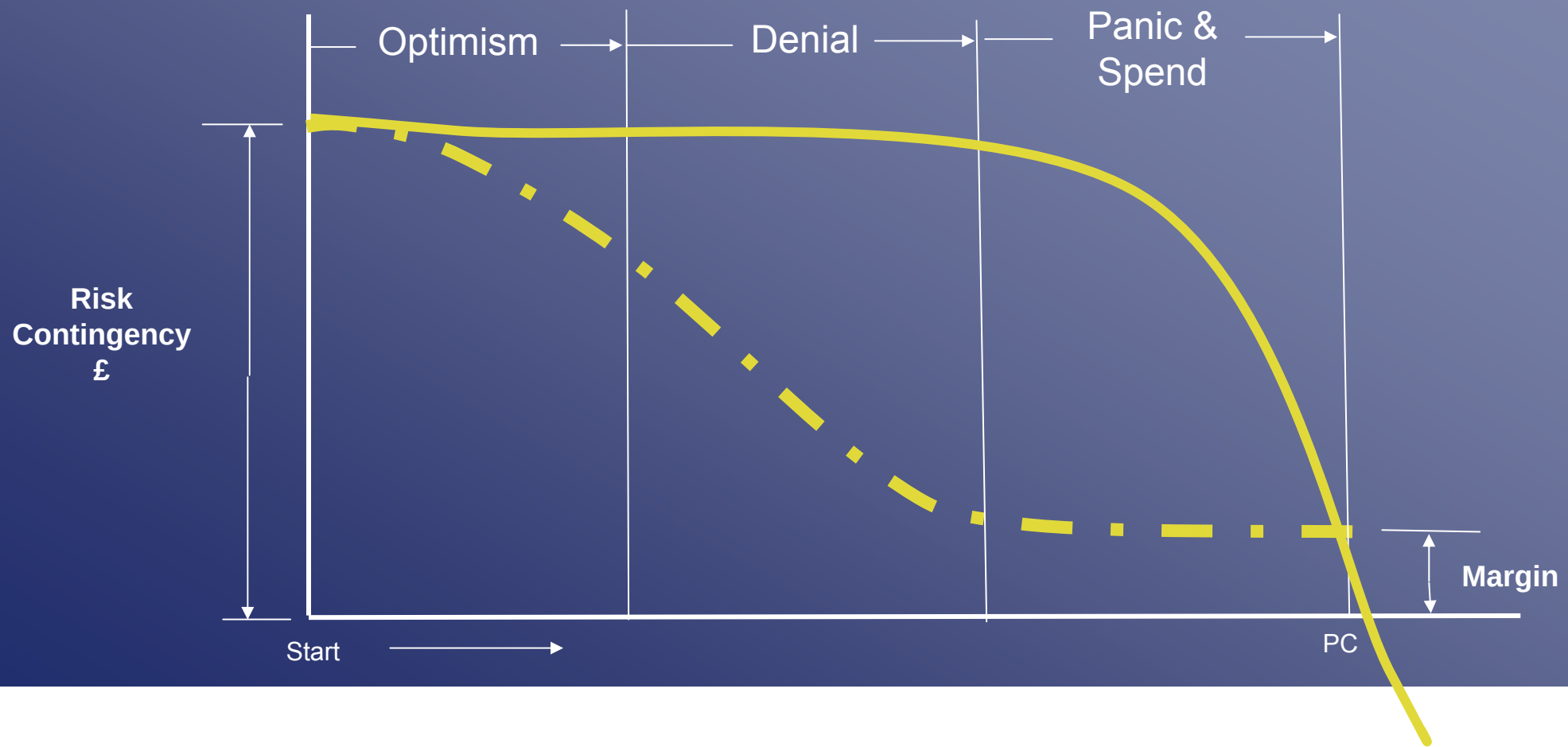
The Dream Risk Management Curve

Risk Contingency

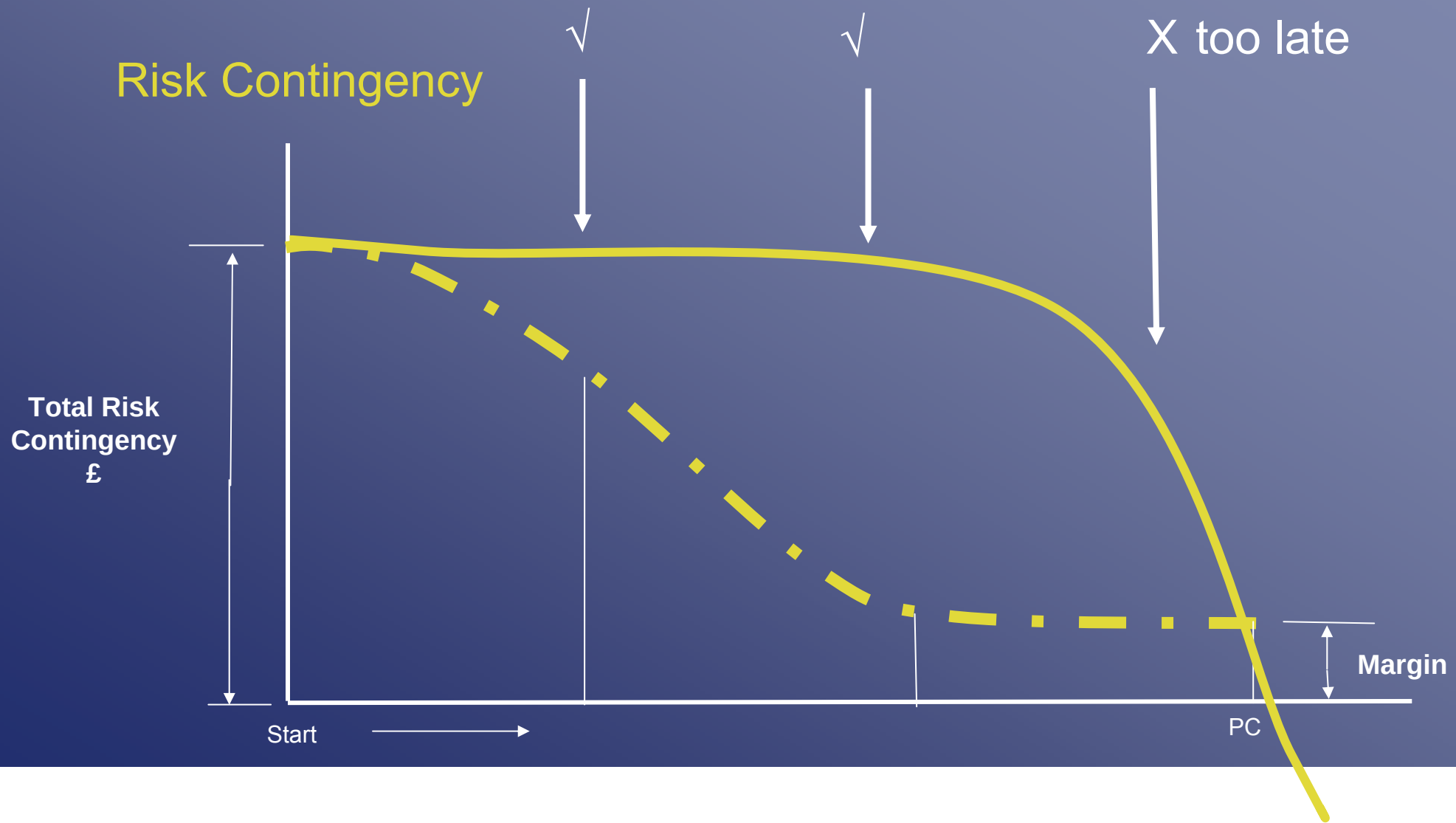


The Reality

Risk Contingency



So when should the audit take place ?



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Audit Reports
Formal Procedure is essential

- Group Risk Manager responsible for each Audit Report
- Each Report prepared in consensus with Project Team
- Report initially sent to MD
- MD comments within 21 days
- Final Report with MD's Comments issued to Board
- Board follows up action points after 3 months
- Reports by exception – not a tick sheet
- Level of detail varies depending upon project circumstances – we drill down deep if we need to

Some Benefits gained from the Audit process

- Audit Teams gain from the experience
- Project Teams appreciate the review process
- Promotes feedback and communication
- Satisfies the UK Board and Group Audit & Compliance requirements
- Gives early warnings of problems ahead
- Engages senior management

Risk Lifecycle

- Lessons learned from each audit fed back to the bidding teams
- Risk registers going forward reflect actual mitigation
- Risk Workshop opportunities post audit
- Continuous improvement in audit processes