



Hong Kong Institution of Certified Auditors
香港專業審核師學會



Seminar on project audit on NEC contracts

Co-organised by HKICA & HKIE civil division

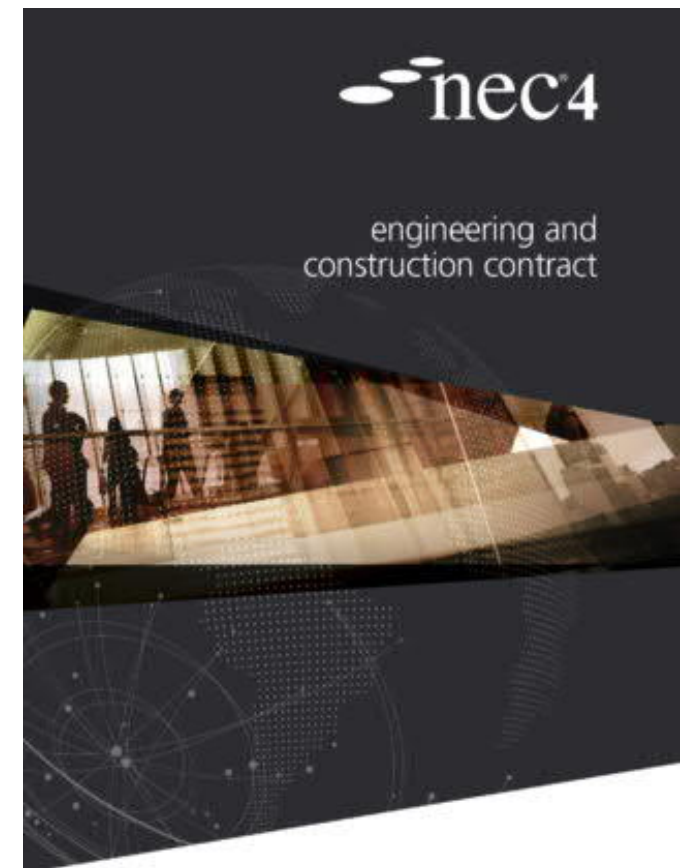
13 May 2023

Housekeeping (for those online)

- Audio must be connected via your computer audio
- Please disable your webcam and microphone
- Please ask your questions through the questions tab in your control panel
- Audience engagement – hands, chat and microphone

Welcome

- Welcome message
- Presentation – Project audit on NEC contracts
 - Why audit?
 - What does the contract provide for auditing/inspections?
 - What else should be audited/inspected?
 - How do we audit/inspect?
 - When do we audit/inspect?
 - Who audits/inspects?
 - What can we share and how can we improve?
 - What will AI bring to auditing/inspecting?
- Q&A
- End of talk formalities
- Close



Speaker

Robert Gerrard BSc(Hons), FRICS, FCInstCES, NECReg
Senior NEC Consultant and NEC Users' Group Secretary

- 40 years experience in setting up and managing contracts, 28 of those using NEC
- Based in Hong Kong
- NEC Users' Group Secretary since 2006
- Published NEC3 and NEC4 Compared, NEC2 and NEC3 Compared; joint author NEC4 Avoiding and Resolving Disputes, NEC4 Practical Solutions, NEC3 Practical Solutions
- Accredited Mediator and Dispute Resolution Adviser
- Honorary Advisor to the Hong Kong Adjudication Centre
- Senior Certified Adjudicator at the International Dispute Resolution & Risk Management Institute



Programme Highlight

Project audit is the means to provide assurance to clients that their NEC contract is being properly managed, that the parties are doing what the contract requires them to do. This seminar will look at what provisions NEC contracts provide for auditing and what other auditing needs to take place.

Why audit?

Auditing is important for several reasons:

- **Compliance:** Auditing ensures that organisations comply with laws, regulations, and industry standards. This helps prevent legal and financial penalties, and can also help maintain the reputation of the organisation.
- **Risk management:** Auditing helps identify potential risks and vulnerabilities in an organisation's systems and processes. This allows organisations to take proactive measures to mitigate those risks and prevent potential problems.
- **Financial reporting:** Auditing ensures the accuracy and reliability of financial statements, which is important for investors, creditors, and other stakeholders who rely on this information to make important decisions.
- **Operational efficiency:** Auditing can also help improve operational efficiency by identifying areas where processes can be streamlined or improved.

Overall, auditing is an important tool for ensuring the integrity, transparency, and accountability of organisations.

Let me confess to building some of this content through AI.....Sage Poe to be precise...

Why audit?

Assurance refers to the act of giving confidence or a guarantee about something. It can also refer to a feeling of certainty or confidence in something. In the context of business and finance, assurance typically refers to the process of providing independent and objective evaluations of financial or operational information to ensure its accuracy and reliability. This is often done through auditing, which involves the systematic review and examination of financial records, transactions, and processes to verify their accuracy and compliance with applicable laws and regulations. Overall, assurance is about providing confidence and trust in information and processes.

...Thank you AI. Again.....

What does the contract provide for auditing/inspecting?

- No auditing at all unless written into the Scope
- There is though the right to inspect cost records of the *Contractor*
- For the open book, cost reimbursement type contracts we have, for example in NEC4 ECC Option C (target contract with activity schedule):
 - The *Contractor* keeps these records
 - accounts of payments of Defined Cost,
 - proof that the payments have been made,
 - communications about and assessments of compensation events for Subcontractors and
 - other records as stated in the Scope (clause 52.2)

What does the contract provide for auditing/inspecting?

- And:

- The *Contractor* allows the *Project Manager* to inspect at any time within working hours the accounts and records which it is required to keep (clause 52.4)
- This is a financial aspect of the contract, but what do these provide for?
- The contract requires Defects to be notified immediately when found, which may be found as a result of an inspection but could also be an audit

What does the contract provide for auditing/inspecting?

- Also:
 - Until the *defects date*, the *Supervisor* may instruct the *Contractor* to search for a Defect. The *Supervisor* gives reasons for the search with the instruction (43.1)

What does the contract provide for auditing/inspecting?

I asked my AI friend is there a difference between auditing and inspecting and the reply was.....

“Yes, there is a difference between auditing and inspecting.

- Auditing is a systematic and independent examination of an organisation's processes, systems, and records to determine whether they conform to established criteria, and to identify areas for improvement. The focus of auditing is on evaluating the effectiveness of an organisation's internal controls and risk management processes, and providing assurance on the reliability of financial and non-financial information.
- On the other hand, inspecting typically involves a more detailed examination of specific aspects of an organisation's operations or products to ensure compliance with specific rules or regulations. The focus of inspection is on verifying compliance with established standards or regulations, rather than evaluating the effectiveness of an organisation's internal controls or risk management processes.

In summary, auditing is a broader and more comprehensive process that evaluates an organisation's overall performance and effectiveness, while inspection is a more specific and targeted process that verifies compliance with established standards or regulations.”

What else should be audited/inspected?

- An organisation's processes, systems and records
- Inspect time/cost/quality/safety operations
- What do you guys think?

How do we audit/inspect?

- Have a plan
- Have a purpose
- There is a place for spot audits/inspections but what chance you will stumble across a problem?

How do we audit/inspect?

- More specifically
 - Define the scope and the objectives of the audit
 - Plan and prepare for the audit
 - Conduct fieldwork
 - Analyse and evaluate the findings
 - Report the results
 - Follow up and monitor progress

When do we audit/inspect?

- Regularly
- Through AI – ongoing, permanently?
- At key stages of any contract
- Will depend upon a variety of factors, including the size and the complexity of the organisation, the requirements of particular laws and regulations, and the needs and expectations of the organisation's stakeholders
- What do we fear?

Who audits/inspects?

- The supplier (*Contractor* in ECC) should do their own audits/inspections
- Share your findings generously with your buyer (*Client* in ECC)
- But then the *Client* needs to look at this from their own perspective, but is probably unlikely to share some of this with the *Contractor* as may be confidential
- Remember as a result of an audit/inspection you are trying to achieve all the good outcomes we discussed earlier. Let's remind ourselves of these....

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What can we share and how can we improve?

- Share

- Public sector could/should share
- More difficult with confidential information, especially across competitors

- Improve

- Learn how to audit/inspect
- Get accredited or the like in auditing
- Join an appropriate professional body
- Don't just think you can do it without learning how to do it

What will AI bring to auditing/inspecting?

- Quite a lot I would imagine, but does AI think so....?
 - Yes, AI can assist with the auditing process, particularly in tasks that involve data analysis and processing. AI technologies such as machine learning and natural language processing can be used to automate certain aspects of the audit process, such as identifying potential risks, analysing large volumes of financial and operational data, and detecting patterns or anomalies in the data.
 - However, it's important to note that AI is currently not advanced enough to replace the need for human auditors altogether. Auditing requires not only the ability to process and analyse data, but also professional judgment, critical thinking, and communication skills. Additionally, AI systems are only as good as the data they are trained on, and there may be limitations or biases in the data that could affect the accuracy and reliability of the AI's output. Therefore, while AI can certainly be a useful tool in the auditing process, it should be used in combination with human expertise and oversight to ensure the accuracy and integrity of the audit findings.

Open forum – do you
have any questions
on today's topic?

works | services | supply

NEC Contracts, Official Group - developers and publishers of NEC3 & NEC4 suites of Contracts

Listed group

Start a post in this group

Photo Video Poll

All Recommended

Tim Panumas King • 2nd
Marketing Specialist at Institution of Civil Engineers
2w

https://lnkd.in/e_djDsfG

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NEC will be holding a 'Mock Dispute Resolution Process' webinar on Monday 4th October 2021. The session will look at the NEC contractual process for dealing with disagreements and how to effectively resolve and avoid disputes in order...see more

Upcoming Webinar
Mock Dispute Resolution Process
4th October 2021
11am-12pm GMT+1

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NEC Users' Group - Affiliate

- This is a complimentary membership designed for professional bodies and government departments to further their understanding of NEC contracts.
- Benefits include:
 - Presentation by senior NEC advisor on the Introduction to NEC4 Contracts
 - Introduction to NEC4 eLearning module
 - One hard copy of the NEC4 ECC contract bundle, with User Guides
 - 3 month e-Corporate license of the NEC4 box set of documents (Review purposes only)
 - Complimentary places to the NEC Users' Group events programme

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Get 50% off 1-year Individual membership with the code **IUG50**

- Provides a range of helpful support for individuals using NEC contracts globally.
- Benefits include:
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 - A Digital eView licence of NEC3 or NEC4 contract of your choice
 - 5 emails to the NEC Helpdesk per year
 - 2 x complimentary spaces to NEC events run throughout the year
 - NEC Users' Group newsletter containing event announcements, product launch information and NEC news and updates

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