

# Project assurance solution for financiers

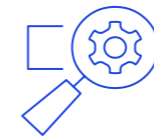
**Key challenges faced by project lenders  
and associated service offerings**

**May 2022**

[kpmg.com/ae](https://kpmg.com/ae)



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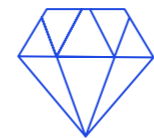
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# 1.1 Key challenges faced by lenders



## MIS reporting and single source of truth

- Inaccurate MIS reporting resulting in inefficient decision making and schedule overruns
- Inability to identify risk at the planning stage which may result in margin erosion



## Project review process

- An inefficient project review process – project information and performance data not secured through an integrated system before performing a qualitative review



## Project budget and funding

- Project budgets are not adhered to or monitored effectively, leading to budget overruns
- The completion cost is higher than the original budgeted cost
- Inadequate visibility on the possible siphoning/ diversion of funds by project owners
- An increase in the volume of claims due baseline time, cost and scope variances
- Different methods utilized for revenue recognition creating a mismatch in the revenue recognized and the cash collected



## Commercial closure and liabilities

- An inadequate final reconciliation process for commercial closures
- Inadequate administration of the project/asset guarantees, defect liabilities, etc.
- Contractors’ inability to timely obtain billing/invoice approvals from clients

# 1.2 KPMG service offerings

A **project health check** is typically conducted prior to project execution/funding/high value disbursement and is a proactive consideration of key project processes across an organization.

Our methodology supports **ongoing project monitoring** as it is designed to examine and monitor the underlying project management categories and sub-categories utilized by owners, consultants and contractors.



Our team provides ongoing transaction review services. These include the review of contractor invoices, contractual terms and conditions, inventories, the work performed and various other project documents.

## 2. How KPMG can help: solution offerings for lenders



### Project health check

Our evaluation process includes an initial comprehensive risk assessment and internal controls evaluation. This will help in gaining a thorough understanding of the project in terms of structure, stakeholders, management policies and procedures, project status and effectiveness of controls. It will also allow a quick development of a risk-based implementation plan that includes increased attention to high-risk areas.

**A health check is typically conducted prior to project execution and is a proactive consideration of key project processes across an organization. Our assessment will benchmark existing procedures against leading practices in project management.**



### Program/project monitoring

Our methodology supports ongoing project monitoring as it is designed to examine and monitor the underlying project management categories and subcategories utilized by owners, consultants, and contractors. Entities and projects with a robust project management framework can still be in distress if they do not apply in-depth monitoring techniques. **Monitoring techniques set up feedback loops to assess whether control processes are operating effectively. Otherwise, they would help reset control processes tailored to the specific project environment. Monitoring also ensures that unfavorable project trends are identified and mitigated by the project management team.**



### Periodic pre-project expenses, transactions and receivables review

Our teams provide ongoing transaction review services for unique and complex transactions. These include review of contractor invoices, contractual terms and conditions, review of works performed, review of inventories and various other project documents. The team also periodically performs an assessment of receivables and provides independent reporting. These teams are a mix of cost engineers and accountants with infrastructure, building and construction project management experience.



### KPMG also offers other major project advisory services:

- Program management office services
- Project time and cost optimization
- Project assurance reviews
- Integrated project management systems, policies, procedures and frameworks
- Contracts and claims management services
- Project process benchmarking
- Asset management and performance monitoring.



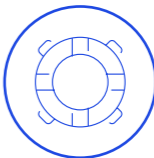


# 3. Benefits to lenders and financiers



## Cost recovery and savings

Payment concerns over a value of AED 37 million identified through a capital project assurance review on behalf of a lender.  
Recovery opportunities of AED 10 million identified through a capital project performance assessment.  
Potential savings of AED 27 million through procurement and contract reviews.



## Risk reductions

Modification of ambiguous or insufficient contract clauses to help reduce unnecessary contractual risk exposure and eliminate unnecessary project performance risk exposure.  
Conduct quantitative schedule and cost-based risk assessment to build up scenarios of time and cost completion forecasts (tool based).  
Proactive identifications and highlight anomalies in payment status, escrow statements and trade ledgers for all buyers.  
Identify any concentration risk on receivables.



## Third party assurance

Independent assessment of the contractor, project performance and the ability to meet established project goals and objectives.



## Process improvements

Improved project delivery methodology and project oversight through the implementation of in-house project monitoring tools.  
Offer recommendations focused on streamlining key controls, processes, and procedures.  
Identify shortcomings in the contractor's invoicing, accounting, reporting and project management processes.  
Identify and highlight other collection risks including low coverage of PDCs, non-responsive clients, non-uniform payment terms etc.

# 4. KPMG value propositions

## - project advisory

1

### **The right credentials:**

Enabling clients to systematize their processes and maximize performance while protecting against risk. This positions KPMG as a trusted advisor to owners.

2

### **Wide knowledge repository:**

The ability to leverage cumulative knowledge from capital projects, clients and assignments served locally and globally.

3

### **Tools and technology:**

Proprietary tools, templates and frameworks for better project insight:

- Dash-boarding and data analytics for construction
- Project improvement and visualization tools
- Project assessment against 195+ control parameters and global benchmarking.

4

### **A dedicated team:**

A cohesive team of 20 professionals in the UAE and Oman with practical, hands-on experience in lenders/financiers project advisory solutions.

5

### **Multi-dimensional skills:**

A diversified team of professionals:

- PMP® professionals
- Engineers, MBAs, postgraduate/master's in construction and project management
- Contract management professionals, RICS certified
- Chartered Accountants (CA), CFAs.



The following case studies showcase some of KPMG's experience in project assurance with banks across the UAE, Oman and India.

## 5. Case studies

### 5.1

#### Assurance through portfolio monitoring services for a national bank in the UAE



A leading organization required assistance to enable objective and transparent reporting on projects presented to banks in time with their portfolio overview and projects' comparative performance.

The portfolio monitoring services for the bank were undertaken in two phases:



**Planning and set-up** focused on finalizing the key project performance parameters that need to be measured, monitored, and reported for projects.

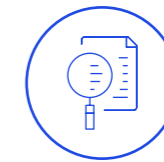


**Monitoring** included reporting on the agreed key project performance parameters:

- Reviewed the progress records against the contract, cash flow plan and bank records
- Performed independent data analysis of the progress for all the funded projects
- Generated comprehensive weekly and monthly progress updates based on the review of the funded projects
- Consolidated the portfolio view for the banks and summarized the project and portfolio report to the bank.

### 5.2

#### Recoverability assessment on behalf of a large bank in Muscat, Oman



- The bank required an independent review of payments, receivable balances of the client timeliness of project completions and reasons for delay, project governance and claims management process. The exercise needed to be conducted on behalf of prospective lenders and investors to the client.
- As part of this engagement, KPMG provided an independent, qualified summary case study report for 26 contracts along with providing a summary of the key parameters/conditions of the contract
- KPMG developed an unbiased opinion on recoverability and the amounts of recoverability of each of the balances of the receivables related to the 26 contracts in-scope. The opinion was provided under three scenarios (base case, pessimistic case and optimistic case) that reflected the contractual entitlement, negotiable amounts and certified amounts.
- KPMG's assessment also provided insight on the time needed for recoverability and whether the balances of the receivables are tenable from a technical, financial and/or contractual standpoint.
- Based on our review and entitlement analysis, we provided the project lenders with gaps and improvement opportunities in the receivables stated by contractors vis-à-vis the actual entitlement in addition to the potential recovery options.

# 5. Case studies

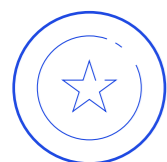
## 5.3

### Assurance over the quantum of the debt financing and management processes for a project funded by India's largest bank



As the lead lender of a consortium bank, the largest national bank in India appointed KPMG to provide a view on the adequacy of the debt funding requirement of a special purpose vehicle (SPV) company commissioned to develop large infrastructure projects. The lenders' sturdy requirements emanated from the fact that the debt disbursement was likely to be disproportionately higher to the remainder of the project, which was behind schedule.

KPMG's mandate included reviewing the genuineness of the funding sought by the SPV and to monitor their performance and commitment to the consortium bank. KPMG made specific recommendations on issues pertaining to the critical milestones of the project. The services included:



#### Client benefits

- The client and other members of the consortium were provided clarity on key bottlenecks affecting the project which was not previously communicated by the SPV
- A preliminary assessment of the scope of work was established
- The SPV's achievements were fulfilled as presented in the work program
- Progress recording was streamlined through the standard RFI system, DPR, QC reports, etc.
- Assurance was provided over the end use of the debt funding



#### Invoice verification and progress reconciliation

- Checking the criteria being adopted and their accuracy in running account bills
- Verifying the progress recording process leading to the creation of a single version of the progress metrics
- Checking the resource consumption at site and tracking their specific end use as per records



#### Advising on project management practices

- Checking adherence to work programs and commitment by concessionaires
- Identifying and flagging issues on quality, safety and other concerns that may have a bearing on progress
- Identifying potential bottlenecks and mitigation measures

# About KPMG

For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 227,000 professionals in over 146 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm is well established in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan and the Lebanon. Established in 1973, KPMG in the UAE and Oman employs 1,485 people across four offices, including about 100 partners and directors.

Our latest initiative, KPMG IMPACT, aims to help clients future-proof their businesses amid times of increasing focus towards issues such as climate change and social inequality. The goal is to help them achieve success across 17 major Sustainable Development Goals (SDGs) and become more

resilient and socially conscious. For FY21, the firm has earmarked a global budget of USD 1.43 million for the initiative.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. Our values are:



**Integrity:** We do what is right.



**Excellence:** We never stop learning and improving.



**Courage:** We think and act boldly.



**Together:** We respect each other and draw strength from our differences.



**For Better:** We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change. Our three pillars – exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams – are the foundation of our firm.

**Disclaimer:** Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

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