



## 5x5 series: Insights and actions

# Where is your capital project governance?



Ask board members and C-suite executives if their company has a strong governance and assurance structure in place for mega-projects, and the answer is invariably "yes." However, despite the affirmative response, we often find that the governance and assurance frameworks in place are not effective or fit for purpose, which could result in financial losses, regulatory investigations, loss of investor confidence, and potentially the ousting of senior executives. This quick summary provides our five insights on areas that can materially affect the effectiveness of project governance and assurance; five actions organizations could take to improve the trust in, and resilience and security of, their capital projects; and our discussion of the potential impact of COVID-19 on these endeavors.

### 5 insights you should know

**Insight #1**—Some companies have a very respectful, deferential, and nonconfrontational culture. Governance and assurance teams essentially take what the project team presents at face value without digging too deeply.

**Insight #2**—Leading companies often supplement their internal assurance team with an external assurance provider. But sometimes, that external assurance process can become contaminated and conditioned; the project team may take exception to having such a provider, and they may go out of their way to disprove the assurance findings.

**Insight #3**—Terms of reference are often generic, causing some governance team members to not fully understand major capital projects or their roles and responsibilities. They are not equipped to ask insightful or proper questions, deferring to either their governance colleagues or the project team.

**Insight #4**—Mega-projects often have a multiyear ramp-up to the final investment decision (FID). Because of the time, effort, and money expended on this ramp-up and the momentum built during the process, there can be a built-in bias to make it work, including aspirational projections designed to meet hurdle rates and other decision factors that may be unachievable.

**Insight #5**—Toxic relationships between the project owner and engineering, procurement, and construction (EPC) contractors can cause projects to go astray and may often become worse over time if conflicts are not addressed.

### 5 actions to take now

1

**Action #1**—Despite the expectation that what a project team presents is factual, transparent, and reliable, the **mantra of governance and assurance teams should be "trust, but verify."**

2

**Action #2**—Internal assurance and external assurance teams should not be constricted or influenced by dissent from stakeholders. **Governance committee(s) should intervene promptly to preserve the sanctity of the assurance process.**

3

**Action #3**—Governance committees should include the **right people with the knowledge and willingness to demand transparency and dig into project issues.**

4

**Action #4**—**Governance and assurance should be prioritized both pre- and post-FID**, as there is a lot of time, effort, and money expended on the ramp-up to the FID.

5

**Action #5**—It's critical for the assurance team to **identify cultural and relationship issues early in the project so governance bodies can efficiently intervene** when required.

### The potential impacts of COVID-19 on capital projects

In the face of COVID-19's impact on capital project and construction programs, governance bodies and assurance teams can take important actions as projects restart. Considerations include reviewing insurance policies to understand whether impacts of the pandemic on your project and business are covered; reevaluating business and project objectives, priorities, targets, and success criteria; reconfirming the design basis and updating the risk mitigation plan around health, safety, completion, commercial, and contractual risk; interrogating the rebaselined project schedule and budget; and reassessing revised change, contract, and claims management programs to determine fit for purpose.

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