



# Impact of Financial Statements on Construction Projects: *Principles, Processes, Common Problems, and Approaches in the Nigerian Quantity Surveying Practice.*

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*THEME: UPSKILLING QUANTITY SURVEYORS' EFFICIENCY IN FINANCIAL MANAGEMENT OF BUILDING, ENGINEERING, AND INFRASTRUCTURE DEVELOPMENTS".*

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ROADMAP

# Presentation Outline

An eleven-part structured analysis covering core concepts, comparative frameworks, multidisciplinary processes, Nigerian industry challenges, and a proposed implementation model for Quantity Surveying practice.

1 Introduction

2 Key Components

3 Financial Statements Across Disciplines

4 Financial Statements Across the Built Environment

5 The Process – A Forensic Lifecycle of Reconciliation

6 Proposed Approaches & Best Practices to Tackle the Problems

7 Recommendations

8 Conclusion

# Introduction

Financial statements are critical tools for monitoring, controlling, and reporting financial performance in construction projects. However, in practice, many of the financial challenges experienced on projects originate much earlier, at the budgeting and project conception stage, where the Quantity Surveyor is often not adequately engaged.

This early exclusion leads to unrealistic cost projections, weak financial structures, and poor alignment between design intent and available funding. As a result, financial statements later become corrective tools, used to resolve cost overruns, cash flow issues, and valuation discrepancies that could have been avoided with proper cost leadership from inception.

This presentation therefore highlights the need to reposition the Quantity Surveyor as a central financial integrator from the earliest stages of project development, ensuring that budgets are realistic, cost data is reliable, and financial systems are properly structured.

By strengthening the role of the QS and improving the use of financial statements, from planning through execution to final account projects can achieve greater cost certainty, transparency, and overall performance.

# Key Components

## Variation/Change Orders

To deal with variations, the QS must not wait for the Final Account; they must be valued progressively to keep the client informed of the project's current financial trajectory.

**Interim Valuation:** Every variation, whether an addition or omission, must be given a "provisional value" based on the best available information until the final measurement is agreed upon.

**The Audit Trail:** The statement must clearly separate "authorized" variations from "pending" instructions to maintain a transparent record of contractual entitlement.

## Fluctuations (Price Adjustments)

In hyperinflationary markets like Nigeria, fluctuations are the most volatile component of the statement.

**Isolation of Risk:** Fluctuations must be calculated separately from the physical value of work. This involves tracking changes in the "Basic Prices" of materials and labor as specified in the contract or using recognized price indices.

**Forecasting Inflation:** The statement should not only reflect *past* cost increases but also include a "reserve" for anticipated future inflationary shocks to prevent sudden budget breaches.

## Provisional and Prime Cost (PC) Sums

Dealing with these involves a constant "Omit and Replace" exercise.

**Provisional Sums:** These represent work that was undefined at the tender stage. As the work is defined and executed, the original sum is "omitted" and replaced with the actual measured value.

**Prime Cost Sums:** These are handled by deducting the original allowance for nominated subcontractors/suppliers and adding the actual net cost incurred plus the contractor's profit and attendance.

**Status Tracking:** The statement must reflect how much of the original "unallocated" budget has been consumed by converted sums.

## Claims and Contingencies

This is the highest form of risk management within the statement.

**Quantifying Claims:** For potential claims (delays, disruptions), the QS should include a "range of liability" rather than a single figure to manage client expectations during ongoing negotiations.

**Contingency Management:** The Contingency Sum is a "buffer" for unforeseen items. As the project nears completion, this sum is gradually reduced, releasing "saved" capital back to the client.

COMPARATIVE ANALYSIS

# Project vs. Corporate Financial Statements

Distinguishing the financial reporting requirements of temporary project entities from perpetual corporate organizations.

 ENTITY NATURE

### Project Entity

Temporary; formed for a specific endeavor.

### Corporate Entity

Going concern; perpetual existence.

 FINANCIAL FOCUS

Contract revenue, direct site costs, and gross profit.

Total revenue, overheads, and net profit.

 CASH FLOW PROFILE

Paramount; dynamic and cyclical based on work stages.





Important; diversified sources and stable patterns.

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Project Lifecycle (Start to Handover).

Perpetual (Annual reporting cycles).

# Financial Statements Across Disciplines

-  Views the statement as a Reconciles physical engineering reality with contractual entitlement to forecast the Anticipated Final Cost (AFC).
-  Views the statement as a Tracks historical expenditure, debt, and liquidity across a company-wide portfolio, regardless of physical site progress.
-  Views the statement through the lens of Verifies that corporate balance sheets represent a "true and fair" view for tax and regulatory purposes
-  Views the statement as a Relies on the QS's progressive valuations as the primary evidentiary document to dismantle inflated claims in a dispute.

# Financial Statements Across the Built Environment

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## Architect

### FINANCIAL INPUT

Drawings, design changes & specifications.

### IMPACT

Variations significantly affecting contract value.



## Engineers

### FINANCIAL INPUT

Site instructions and dayworks records.

### IMPACT

Discrete financial events requiring valuation.



## Project Manager

### FINANCIAL INPUT

Programme updates & delay analysis.

### IMPACT

Prolongation costs and liquidated damages.



## Contractor

### FINANCIAL INPUT

Labour, plant, and material site records.

### IMPACT

Defines the cost component of the CVR.



## Consultant QS

### FINANCIAL INPUT

Synthesizes and audits all disciplinary inputs.

### IMPACT

Generation of unified, decision-grade financial statements.

**Table 2: Summary of Financial Statements Across Built Environment Disciplines**

<b>M18243e</b>	<b>Financial Input</b>	<b>Impact on Project Financial Statements</b>	<b>Quantity Surveyor Action</b>
<b>Architect</b>	Drawings, specifications, design changes, variations	Defines scope baseline; design changes directly affect contract value and final account	Integrate design-driven cost implications; value variations before physical work proceeds
<b>Structural, Mechanical, Electrical &amp; Civil Engineers</b>	Detailed designs, engineer's instructions, site instructions, technical approvals, dayworks	Generate significant cost components; instructions create variations and daywork events requiring valuation	Capture all instructions; value variations promptly; document dayworks with labour, plant, material records
<b>Project Manager</b>	Master programme, schedule updates, delay analysis, progress reporting	Schedule delays trigger prolongation costs and liquidated damages affecting cash flow forecasts and claims	Quantify prolongation costs; reflect anticipated liquidated damages in CVR as provisions
<b>Contractor (Site Management)</b>	Labour hours, plant utilization, material deliveries, subcontractor invoices, site diaries	Provides cost data that populates the "Cost" side of the CVR; enables cost-to-complete forecasting	Reconcile site cost records against valuations; validate resource consumption against measured quantities
<b>Consultant QS</b>	Synthesized inputs from all disciplines	Acts as central hub receiving and integrating all financial inputs	Prepare unified cash flow forecasts, CVR, interim valuations, and final account; ensure coherence across all statements

# The Processes — A Forensic Lifecycle of Reconciliation

## Stage 1: Data Capture (Site Level)

*Inaccurate Site Data:* Missing delivery notes, unverified labor/plant records, and poor dayworks documentation.

## Stage 2: Cost Event Capture (Variations)

*Unapproved Variations:* Work executed without formal orders, verbal instructions, and retrospective valuations.

## Stage 3: Data Processing & Reporting

*Manual Processes:* Heavy reliance on Excel, formula errors, and broken version control.

## Stage 4: System Integration & Control

*Absence of Digital Integration:* No automated quantity extraction or real-time cost-design linkage (BIM).

## Stage 5: Cost Structuring & Reconciliation




*Poor Cost Structuring:* Inconsistent coding, misallocated costs, and weak valuation-to-cost linkage.

# Format of a Financial Statement

Description	Amount (Add)	Amount (Deduct)	Running Total
<b>Original contract sum</b>			<b>[Base Value]</b>
Add Authorized variations	(+) X		
Deduct Omissions		(-) Y	
<b>Net addition/omission</b>			<b>[Sub-total 1]</b>
Add Estimated value of variations not yet authorized	(+) X		
<b>Sub-total</b>			<b>[Sub-total 2]</b>
Deduct Contingencies		(-) Y	
<b>Sub-total</b>			<b>[Sub-total 3]</b>
Add Fluctuations (if applicable)	(+) X		
<b>Sub-total</b>			<b>[Sub-total 4]</b>
Add Estimated value of loss and expense claims	(+) X		
<b>Sub-total</b>			<b>[Sub-total 5]</b>
Deduct Prime cost/provisional sums (Original)		(-) Y	
Add Value of work executing prime cost/provisional sums (Actual)	(+) X		
<b>Anticipated Final Cost</b>			<b>[Final Value]</b>

# Proposed Approaches & Best Practices to Tackle the Problems


Deploying targeted frameworks to neutralize commercial threats.

Category	The Problem (Nigerian Practice)	The Solution (Forensic Governance)
 <b>Systemic &amp; External</b>	<b>Economic &amp; Market Volatility:</b> Inflation and FX changes render periodic statements obsolete.	<b>Fluctuation Mathematics:</b> Enforce index-linked adjustments to objectively isolate true inflation from contractor inefficiency.
	<b>Funding &amp; Contractual Gaps:</b> Poor baseline documentation and chronic payment delays starve the site.	<b>Project Bank Accounts (PBAs):</b> Ring-fence project liquidity via escrow to prevent cross-subsidization and secure cash flow.
 <b>Process &amp; Data Integrity</b>	<b>Manual Systems Reliance:</b> Excel dependency and lack of integration increase critical spreadsheet errors.	<b>5D BIM &amp; Automated Modeling:</b> Transition to integrated digital cost tracking to eliminate manual calculation risks.
	<b>Timing &amp; Frequency Issues:</b> The administrative lag in preparing periodic reports destroys their decision-making value.	<b>Continuous EVM:</b> Implement Earned Value Management to shift from delayed reporting to real-time, predictive tracking.
	<b>Hidden Risk of Rejected Claims:</b> Claims excluded from the ledger may later become valid, causing sudden financial shocks.	<b>Provisional Risk Register:</b> Quantify the probability of pending/rejected claims within the statement to prevent year-end ambushes.
 <b>Cross-Disciplinary</b>	<b>Stakeholder Misinterpretation:</b> Technical statements issued without context lead to disastrous strategic decisions.	<b>The Commercial Executive Summary:</b> Front every statement with a non-technical summary that translates data into actionable advice.
	<b>Siloed Information Flow:</b> Delayed data sharing (AIs, design changes) across project phases creates financial blind spots.	<b>Common Data Environments (CDE):</b> Centralize project data to force real-time logging of instructions and liabilities.

PROBLEMS AND SOLUTIONS

# Proposed Approaches & Best Practices to Tackle the Problems (Cont'd)

Deploying targeted frameworks to neutralize commercial threats.


Category	The Problem (Nigerian Practice)	The Solution (Forensic Governance)
 <b>Professional &amp; Human</b>	<b>Contingency &amp; Risk Allowance:</b> Subjective underestimation or overestimation of contingencies creates weak forecasting.	<b>Probabilistic Risk Analysis:</b> Replace subjective guesses with mathematically justified risk modeling (e.g., Monte Carlo simulations).
	<b>Skill Gaps &amp; Ethical Pressures:</b> Technical gaps in financial modeling and intense pressure to validate front-loaded rates.	<b>Institutional Upskilling:</b> Mandate advanced training (QSRBN/NIQS) and enforce firm-level peer reviews to back the QS against unethical pressure.

THE 6-LAYER GOVERNANCE MODEL


# Conceptual Framework

Integrated Financial Statement Governance in Construction Projects


01

 **Layer 1: Input Variables (Data Sources):** Site records, design information, instructions, and delays.


02

 **Layer 2: Moderating Factors (The Constraints):** Economic instability, funding gaps, poor documentation, and siloed data.


03

 **Layer 3: Core Process (The Engine):** Cost capture, CVR, interim valuation, and forecasting.


04

 **Layer 4: Control Mechanisms (The Interventions):** 5D BIM, PBAs, fluctuation modeling, and risk registers.

05

 **Layer 5: Financial Outputs:** Accurate CVRs, reliable cash flow forecasts, and transparent audit trails.

06

 **Layer 6: Project Outcomes:** Dispute reduction, financial stability, and protection against "dead capital."

# Recommendations

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## Individual Practitioners

- CPD in financial analysis and digital tools.
- Maintain rigorous and accurate site records.



## QS Firms

- Invest in specialized cost-management technology.
- Standardize internal reporting protocols.



## The QSRBN & AAQS

- Publish and mandate a standardized framework.
- Strengthen advocacy for QS leadership roles.



## Other Built Environment Professionals

- Recognize QS as the central financial authority.
- Provide timely site information for valuations.

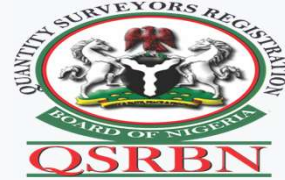


## Clients & Government

- Ensure timely payment of certified valuations.
- Mandate integrated project financial reporting.

# Conclusion

The era of the Quantity Surveyor as a passive reporter of historical costs is decisively over. In a Nigerian market defined by hyperinflation, supply chain volatility, and a \$900 billion dead capital deficit, reacting to an outdated ledger is no longer enough. By embracing Forensic Financial Governance, the QS evolves into a proactive financial engineer. The Project Financial Statement is not merely an administrative document—it is the ultimate commercial and legal shield. Mastering its predictive power is how we neutralize disputes, prevent contractor insolvency, and secure the absolute financial viability of our national infrastructure.



THANK YOU 

QUESTIONS & DISCUSSIONS 

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