

# Construction: Final Account Closing in Project Management Perspective



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## INTRODUCTION

The construction industry in Malaysia is a growing industry with non-residential and residential buildings contributing between 40% and 55% of the total industry between 2006 and 2009 (Leong, 2010)<sup>6</sup>. The market yields in construction reached an approximate RM7.21 billion in 2008 and RM6.67 billion in 2009. It will potentially hit the RM9 billion mark by 2015 (Leong, 2010)<sup>6</sup>.

However, delay is perceived one of the biggest problems faced by construction firms and it is claimed to be the reason for the increase in the number of the construction projects final account which were settled unreasonably late or far beyond the period stipulated in the contract (Zainon et al., 2011)<sup>2</sup>. Most standard contract forms contain provisions where the construction players are obliged to settle the final account and issue a final payment certificate to the contractor within a specified period of time after the receipt of the contractor's final account statement (PWD, 2010)<sup>7</sup>. Despite this, delays in final account closing continue to be a problem.

This article aims to appraise the closing of final account in construction projects from the project management perspective (rather than business and accounting perspectives) by closely looking at its contractual provisions and the factors that influence the successful final account closing. Disclosures from this article are significant in filling in the gap in the literature of final account closing from the project management perspective in the engineering education and eventually assisting future strategies for successful closing of final account by achieving the aspirations of World Class Construction (WCC) management.

## DEFINITION OF FINAL ACCOUNT IN CONSTRUCTION

Final account in construction project is an important document in project management process to show the final cost of a project that has been completed by the contractor (Van Der Westhuizen and Fitzgerald, 2005)<sup>8</sup>. Final account closing success in construction projects is defined as a certified statement of final cost which is effectively closed through systematic project administration procedures, where an on-time and within-budget construction is a major criterion of final account closing and project management success as a whole.

Final account includes the cost of defect liability period, all additions, alterations, deductions resulting from project changes and other related payment as stated in the contract (Zakaria et al., 2012)<sup>9</sup>. Final account should be prepared immediately after the project is completed, based on the condition of different type of contracts (PWD, 2007)<sup>7</sup>. It also frequently refers to the calculation and agreement of the final construction cost between the employer and contractor as well as incorporates a fair valuation of the works carried out. During this phase, since project initiation is apart of project management process, a decision-making team will identify if the final account can realistically be closed.

In addition, the project success in project management principle is measured based on the final outcome of the triple constraints in terms of cost, time and quality as well as a process (Van Der Westhuizen and Fitzgerald, 2005)<sup>8</sup>. However, this process, which is undertaken to achieve the project objective, is frequently neglected. On the other hand, in construction projects, the final contract amount shall include all additions, alterations and deductions resulting from the project changes.

When all the final closing of financial transaction/ dues are completed at the end of a project by fulfilling the satisfaction of the end users and all key stakeholders (including contractors), this eventually indicates that final account closing is successfully achieved. Therefore, the assessment and agreement of this final contract sum, i.e. the final account, is of the utmost important to both the client and contractor. It is also apparent that the final account also influences the success of a project where the successful closing of final account contributes to the

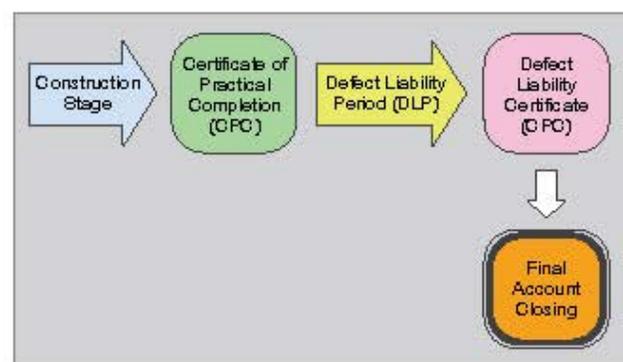


Figure 1: Procedures of closing the final account for conventional projects  
Source: Zakaria et al. (2013a)<sup>13</sup>

successful performance of a construction project. So any delay in the closing of final accounts should be avoided as this may cause problems to the contractor in obtaining working capital and may eventually lead to bankruptcy. The procedure of closing the final account for a conventional project is shown in Figure 1.

### **CONTRACTUAL PROVISIONS FOR FINAL ACCOUNT CLOSING**

As a principle in project management, forms of contract to be used should be understood by all parties involved in the construction projects to prevent any dispute or problem arising in the future, especially in the closing of final accounts. Most of the standard forms of civil engineering contract in Malaysia contain provisions upon which the engineer or quantity surveyor is obliged to settle the final account and issue a final payment certificate to the contractor within a specified period of time upon the receipt of the contractor's final account statement (PWD, 2007)<sup>7</sup>.

In basic terms, a final account in construction contracts is the agreed statement of the amount of money to be paid at the end of a project contract by the employer to the contractor. A final account brings about a sense of finality to the negotiations leading up to the agreement of the final account between the parties to the contract. The comparison of instructions for the closing of final account as mentioned in forms of civil engineering contract commonly used in Malaysia are described as follows:

**PWD Form 203A (Rev.2007):** The contract states that the Contractor shall submit full particulars complete with supporting documents within but **not than three (3) months** after the issuance of the Certificate of Practical Completion. The Superintendent Officer (S.O) shall issue the Final Certificate within **three (3) months** after the expiry of the Defect Liability Periods for the whole of the Works or three (3) months after the issue of the Certificate of Completion of Making Good Defects (Clause31) (PWD, 2007)<sup>7</sup>.

**PAM Contract 2006:** The contract states that the Contractor shall send to the Architect and Quality Surveyor, all documents with supporting of the draft final statement within **six (6) months** after Practical Completion of the Works (Clause 30.10) (PAM, 2006)<sup>6</sup>.

**FIDIC 1st edition RED BOOK:** The contract states that **within 56 days** after receiving the Performance Certification; the Contractor shall submit the draft of final statement with supporting documents showing in detail in a form approved by the Engineer (Clause 14.11) (FIDIC, 1999)<sup>2</sup>.

In summary, there are significant differences in the forms of contract in terms of time frame for the closing of final accounts in a particular project. From the project management perspective, the final account closing is deemed as successful or on-time if it can be resolved within the time period specified in the contract. It is also noteworthy to highlight that the similarity between the forms of contract

is the process of submitting the final payment claim after the Certification of Making Good Defect (CMGD) or Defect Liability Certificate (DLC) is issued. The succeeding section will extensively discuss various problems in the closing of final account which may impact its successful closing and eventually the management of the project as a whole.

### PROBLEM IN FINAL ACCOUNT CLOSING

With the construction industry moving fast in realising Vision 2020 as a developed nation country (Ibrahim *et al.*, 2010)<sup>4</sup>, various development projects are being rapidly implemented and these also increase the issue of payments. But the rapid increase of late payment issues nowadays has reached a point that it tends to diminish the good image of construction industry in Malaysia and tarnish the practice of Malaysian project management as a whole.

The major factor leading to the success of a project is the practice of efficient and timely payment in construction projects (Rourke and Gentry, 2002)<sup>9</sup>. The cause of the problem here may be mainly due to disputes.

While disputes are inevitable, they are manageable. Disputes, for instance, will happen when there is a conflict of interest and therefore, the management of dispute is to select a dispute resolution mode, such as confronting, compromising, smoothing, forcing and avoiding (Fenn *et al.*, 1997)<sup>1</sup>.

The cause of delay due to dispute in the closing of final account is summarised in Table 2.

Final account is available shortly after the contractor meets the obligations set in the contract. Therefore, from the project management perspective, the final account closing is claimed as successful if the final account is settled within the time frame and the project is completed in accordance with the provisions stipulated in the contract. Therefore, the effective and efficient closing of construction final account is increasingly regarded as of utmost importance to, in particular, the contractor who desires to achieve project success (Zakaria *et al.*, 2013b)<sup>14</sup>. Also, monies received from the final accounts can be used as capital to implement new projects.

Construction projects have a notorious reputation for being over-the-budget, late deliveries and being saddled with scope creep, despite entangled with poor communication protocols and inadequate controls around the scope of change management (Hwang and Lim, 2012)<sup>3</sup>. So, it is vital that the construction and/or project manager takes a proactive approach from the moment of his or her appointment. Project management plans, even for relatively modest construction projects, should exhibit a level of detail greater than might be deemed appropriate for other types (non-construction) of projects of equivalent cost and duration to ensure that the final accounts can be successfully closed as specified in the contract.

### CONCLUSION

From the project management perspective, a construction project is commonly acknowledged as successful when the aim of the project is achieved in terms of predetermined objectives that are mainly completed on time, within the budget and of specified quality in accordance with the specifications and to stakeholders' satisfaction (Wuellner, 1990)<sup>11</sup>.

In particular, the closing of final account is seen as one of the mechanisms to indicate that a particular construction project is successful. The instructions for its successful closing have been clearly stated in various civil engineering contracts commonly used in Malaysia, namely PWD Form 203A (Rev. 2007), PAM Contract 2006 and FIDIC 1st edition RED BOOK, yet with significant differences in terms of time frame for the closing in a particular project.

Therefore, three important factors should be avoided as these may lead to the occurrence of delay due to dispute in the closing of final account in construction projects i.e. contractor, management matters and contractual matters. It is essential that all the stakeholders – contractors, clients and management or administration team – play their effective roles in implementing holistic project management approaches to ensure the achievement of the final account closing success in construction project. ■