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The 14 Cost Control Golden Rules

Project Cost Control is a specific discipline that requires following a set of principles. We have distilled those principles down in a set of Golden Rules that can be easily be used as a reference – and as a way to check if your Project Cost Control process and setup indeed responds to the basic requirements that will ensure that your projects remain under control.

The main objective of Project Cost Control is to enable the Project Manager to take decisions based on an accurate description of the project financial situation, based on the organization's current knowledge and understanding of reality.

From this broad objective, a number of Golden Rules can be derived to describe the basic requirements of Cost Control.
In all instances, the following 14 Golden Rules / Principles need to be followed:

1. **Accountability:** Budget Owners are ultimately accountable for their budget (including forecast and time-phasing). Cost Control supports budget reviews by providing the supporting documents and actual analysis of any deviations, and challenges Budget Owners.

2. **Forecasting focus:** The primary focus of Cost Control is Forecasting. An important part of forecasting is understanding where you are (Actual Cost of work performed compared to Budget). Equally important, and where Cost Control can really add value is on the Estimate at Completion (EAC) through the forecast of the Estimate to Completion (ETC).

3. **Maintenance of the reference *Project Cost Model*:** At all times, Cost Control maintains an updated overall *Project Cost Model* of the project (time-phased and in source currencies) that will be used as a basis for all financial modelling of the company's results. The *Project Cost Model* reflects at all times the latest knowledge, information and anticipation available.

4. **Project Scope & Schedule consistency:** At all times, the *Project Cost Model* is consistent, comprehensive and intrinsically linked with the two other sides of the Project Triangle: the project Scope, and the project Schedule. The project Scope is described in the Main Contract and Contractors' contracts (including Variation Orders and approved Changes, as well as compensation clauses), and the project Schedule is continuously updated by the Project Control team.

5. **Immediacy principle:** It is essential to reflect significant new costs and costs variances as soon as their occurrence is known (e.g. contractors', internal or Client's instruction to proceed), at least in terms of order of magnitude, even if their exact final value has not been fully assessed (the uncertainty can be shown in the sensitivity if there is a need for further investigation). Revenues need also to be immediately reflected in the sensitivity; please refer to the Chapter 6 on Time-phasing of revenue.

6. **Candidness principle:** cost acknowledgment and reporting must be candid and reflect the actual understanding of reality. Cost forecasting must reflect the latest understanding of the possible unfolding of events, based on the information available. Variances should not be hidden by unwarranted usage of contingency.

7. **Timeliness of reporting:** periodic cost reports shall be produced regularly on the expected date without exception, based on the knowledge to date. Many processes depend on the *project cost model* data and disregarding reporting deadlines is not acceptable.

8. **No surprises:** Quality of Cost Control is measured by a steady and converging Estimate At Completion and Sensitivity analysis for Cost and Revenue, and absence of sudden unexplained or unplanned variations. Variances should be exclusively caused by events that happen outside of the project and not by internal oversights.

9. **Commitment tracking focus:** commitment tracking is the key to Cost Control, payment control and to the avoidance of surprises. Cost Control is responsible to ensure that systems and processes are in place to identify and track commitments for all cost categories. This is valid for both internal and external commitments!

10. **Prudence principle for Estimate At Completion:** Cost Control errs on the prudent side on the Estimate At Completion, recognizing all costs to complete the project as soon as they are known irrespective of their indemnification by the client (client instruction to proceed, contractor claim, etc.) and not recognizing revenues unless they are certain.

11. **Realism principle for 'Achievable' Forecast:** Cost Control updates a realistic achievable performance of the project in the sensitivity analysis that accounts in particular, for achievable revenues.

12. **Accuracy over precision:** cost updates should be accurate but not necessarily precise. This important distinction should focus the effort of the Cost Control team.

13. **Data integrity principle:** Cost Control ensures the integrity and consistency of the cost data in the *Project Cost Model*:
    - It defines and updates the project cost breakdown structure throughout all project systems.
    - It ensures that all cost variances since the beginning of the project are properly traced, auditable and explained.
    - It implements appropriate data consistency checks throughout the *Project Cost Model* to avoid pure data-driven errors.

14. **Cost reconciliation principle:** While Cost Control maintains a *project cost model* independently from Accounting, costs ultimately will reconcile with Accounting at the end of the project, and proper reconciliation shall be done on a monthly basis at the relevant breakdown level, with differences explained, to ensure that the project cost model remains related to reality. Reconciliation will result in the determination of the accruals.

How do you fare when it comes to these basic rules?

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