

DOI: 10.36719/AEM/2007-2020/53/146-150

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IMPORTANCE OF COST CONTROL IN TENDER CONSTRUCTION PROJECTS

Keywords: *government procurement, vendor, shareholders, tender offer, take over bid, proportionality formation, legal penalties, public contracts, construction project, legal basis, future perspectives*

Açar sözlər: *dövlət satınalmaları, satıcı, səhmdarlar, tender təklifi, satınalma təklifi, mütənasiblik formalaşması, qanuni cəzalar, ictimai müqavilələr, tikinti layihəsi, hüquqi əsaslar, gələcək perspektivlər*

Ключевые слова: *государственные закупки, продавец, акционеры, тендерное предложение, предложение о поглощении, формирование пропорциональности, юридические санкции, государственные контракты, строительные проекты, правовые основы, перспективы на будущеею*

To tender is to invite bids for a project or accept a formal offer such as a takeover bid. Tendering usually refers to the process whereby governments and financial institutions invite bids for large projects that must be submitted within a finite deadline. The term also refers to the process whereby shareholders submit their shares or securities in response to a takeover offer. The term tender usually refers to the process whereby governments and financial institutions invite bids for large projects that must be submitted within a finite deadline. A tender offer is a public solicitation to all shareholders requesting that they tender their stock for sale at a specific price during a certain time. The term tender also refers to the process whereby shareholders submit their shares or securities in response to a takeover offer. For projects or procurement, most institutions have a well-defined tender process, as well as processes to govern the opening, evaluation, and final selection of the vendors. This ensures that the selection process is fair and transparent. Regarding tender offers related to takeover attempts, the conditions of the offer are clearly listed and include the purchase price, the number of shares requested, and a deadline for a response. A request for tender (RFT) is a formal and structured invitation to suppliers to submit competitive bids to supply raw materials, products, or services. Because this is a public and open process, laws were created to govern the process to ensure fair competition among bidders. For example, without laws, bribery and nepotism may flourish. Tender services are available for potential bidders and include a wide range of tenders from private and public sources. These services include crafting suitable bids, coordinating the process to ensure deadlines are met, and ensuring compliance with applicable laws. Bidding often follows a double or triple-envelope system, which requires technical, financial, and certification aspects of bids be submitted separately. This supports the independent assessment of each aspect of all bids. Failure to correctly separate bid aspects can lead to disqualification. As technical and the financial aspects vary significantly by sector, contract and company, this chapter focuses on the certification system. Be aware, however, that technical and financial aspects of the bid are usually what distinguish one bidder from another. For assistance in compiling a technical or financial bid, consider using a local specialist. It is worth noting that submitted bids are legally binding. If a bid is accepted, the bidding firm may be subject to legal penalties if it withdraws. The technical bid should list specifications and details on the quantity or quality of the work, etc. This information is specific to every sector and is often one of the longest and most time-consuming aspects of bidding for public contracts. The award criteria, contained in the tender documents or the contract notice, inform bidders of the relative importance of various aspects. Bidders should use these criteria to maximize their chances. The financial bid includes overall cost, which the contracting authority is likely to rank highly. This section lists any required certifications. These may include evidence of no criminal record, never having filed for bankruptcy protection, proof of identity and proof of fiscal compliance. It may also include certificates of quality assurance and environmental or labour management. A new system, the European Single Procurement Document (ESPD), simplifies some aspects of this process. Bidders can use eCertis to learn more about which documents are required. Note, however, that not all national and regional systems follow the same certification requirements. Prior to the ESPD, every bidder had to provide all certification required by national legislation prior to submitting a tender. The European Single Procurement Document (ESPD) changes this requirement by allowing for company self documentation for preliminary evidence, as part of the government-procurement bidding process. Only the winning bidder has to supply all the certification documents. This new system is intended to reduce required paperwork, which can vary from Member State to Member State. The ESPD makes one single pre procedur-

al document applicable in all Member States. Unless otherwise specified by the contracting authority, the ESPD is accepted as a temporary replacement for all certification requirements. The Government Procurement Agreement (GPA) of the WTO encourages countries to use international standards whenever possible to minimize trade disruption. Authorities can, however, still apply regional and national standards when international standards do not exist. CETA encourages convergence, but does not specify any central standards. The rules exist in the EU Directives rather than in the GPA. This means that a contracting entity can impose the quality-assurance standards of its country (possibly making it difficult for Canadian suppliers to comply). A tenderer unable to obtain a certification required in an EU country can submit evidence that the Canadian certification it does have is equivalent. The tenderer might show that the Canadian certification involves similar metrics, verifications and issues. If the bidder can prove equivalency and that it is impossible to obtain requested EU certification, the contracting entity is theoretically obliged to accept the substitute. Similarly, an equivalent certificate from another EU state should also be accepted. For certification of environmental-management standards, EU contracting entities must refer to the Eco-Management and Audit Scheme (EMAS) of the EU, or other management standards established by the EU or international bodies. For more information, consult Article 62 of 2014 Directive on Public Procurement. Search the document for “Quality assurance standards” and review the second of the four results presented. In the private sector, requests for tenders are referred to as requests for proposals (RFP); an RFT allows potential bidders to respond to the defined needs of the issuer. A tender offer is a public solicitation to all shareholders requesting that they tender their stock for sale at a specific price during a certain time. To entice shareholders to release a specific number of shares, the offer typically exceeds the current market value of the shares. In the U.S., tender offers are highly scrutinized and subject to extensive regulation. Since the deal targets shareholders directly, it effectively removes upper management from the process, unless those members of management are also substantial shareholders. If the company looking to take over already has a notable share of the target company, referred to as a foothold block, a minority of the remaining shareholders may be enough to allow the company making the offer to become the majority shareholder. However, if the requested shares are not released by the deadline, the deal is often considered void, effectively allowing shareholders to block the deal. A tender offer is a type of public takeover bid constituting an offer to purchase some or all of shareholders' shares in a corporation. Tender offers are typically made publicly and invite shareholders to sell their shares for a specified price and within a particular window of time. The price offered is usually at a premium to the market price and is often contingent upon a minimum or a maximum number of shares sold. To tender is to invite bids for a project or accept a formal offer such as a takeover bid. An exchange offer is a specialized type of tender offer in which securities or other non-cash alternatives are offered in exchange for shares. The cost control is a process that should be continued through the construction period to ensure that the cost of the building is kept within the agreed cost limits. The cost control can be divided into major areas: the control of cost during design stages and the control of cost by the contractors once the construction project has started. According to Nunnally (1998), cost control of projects involves the measuring and collecting the cost record of a project and the work progress. It involves the comparison of actual progress with the planning. The main aims of the cost control: a) To gain the maximum profit within the designated period within the budget; b) To keep the total expenditure within the amount agreed by client, frequently based on approximate estimate of cost prepared by the quantity surveyor in the early stages of the design process. There is a need for strict cost discipline thought all stages of design and execution to ensure that the initial estimate, tender figure and final account sum all are closely related. c) To give the building client good value for money a building which is soundly constructed, of satisfactory appearance and well suited to perform the functions for which it is required, combined with economical construction and layout. d) To achieve a balanced and logical distribution of the available funds between the various parts of the building. The cost controlling system we can use as a tool for estimating the new projects based on previous experience. As a quantity surveyor for a construction company to research this project, I have started with reading text books to get theoretical understanding of the subject. Thereafter I have discussed the technique of cost control with my colleague and managers to get practical knowledge of this application. The main objective of cost control of a project is to gain the maximum profit within the designated period within the budget. To monitor and control actual expenditure against the estimated project budget. The project budget is represented by the tender price or contract sum. According to Nunnally (1998), cost control of a project involves the measuring and collecting the cost record of a project and the work progress. It also involves the comparison of actual progress with the planning. The main objective of cost control of a project is to gain the maximum profit within the designated period and satisfactory quality of work. A systematic procedure of cost control will give a good result in collecting important data in estimating and controlling of the cost of the coming projects in

future. After preparing the reports based on the actual costs, it is important to distribute the remaining budget for the future periods and estimate or re-estimate the cost of the work yet to be completed. Any new information must take into account since the commencement of contracts. It is important to ensure that there should not be any under claim or over claim of the work done. This is required to maintain a steady cash flow. Also it helps the client and the contractor to manage their expenditure and income. Controlling how much is spent on a certain item on project. Anything above a certain amount needs approval of higher authority. The process of controlling the expenses of cost in a project, from the starting of client idea to the completion and final payment on site. An active process to control the causes of the cost changes, to document those cost changes, and to monitor cost fluctuations within the project.

The Future of Standard Costing:

According to Cheatham and Cheatham (1996), many accountants do not know that a redesigned standard costing system can provide the important information that they need and updating their system is an easier process than adopting a new system. The accurate and reliable determination of tender price for projects remains a critical problem which has saddled the construction industry this problem is more acute in developing countries. Likewise, one persistent problem in Ghana is that, the quality and reliability of estimates provided by Quantity Surveyors sometimes are doubtful. Thus, most projects in developing countries, including projects in Ghana, end up grossly over-budgeted and over-time. Furthermore, reiterated that, the inability of Quantity Surveyors to provide quality and reliable estimates at all times is as a results of lack of effective cost planning in the industry. However, this problem can also be attributed to the lack of tender price index in the Ghana construction industry. Similarly, as cited by argued that in most developing countries such as Ghana, there are no organisations that have endeavoured to compiled and published construction data and the unavailability of such information has hindered effective planning and pricing of projects. Consequently, if a construction firm fails in wining contracts, then resources invested are wasted. On the other hand, if clients lack the knowledge on how much they are expected to invest in a project, they become reluctant to invest. More importantly, if consultants also fail to give realistic price for tender, they lose credibility. Therefore, it is important for construction stakeholders to offer suitable tender prices for intended projects based on previous tenders. However, in developed countries, such as United Kingdom, Hong Kong and United States of America, there are established institutions who engage in the development of tender price index: for instance, the Building Cost Information Service of United Kingdom, Architectural Service Department of Hong Kong and Engineering News Records of United States of America are examples of such institutions. Notwithstanding, construction professionals in developing countries are not able to adopt these indices because of the extent of influence that cultural difference have on various decisions making. These cultural differences are related to the values, attitudes and norms which will not work in developing countries such as Ghana . Similarly, opined that it is even more difficult to adopt or maintain a scientific strategy to measure decisions that work in one country to another due to the diversity and complexity of construction organizations that exist in different countries. These cultural indicators are mainly due to variations in market conditions that exist in different geographic contexts . Drawing from this, these cultural differences in terms of tender price are classified as micro and major in terms of their impact on the development of tender price index. For instance the micro indicator differ from one country to the another thus the type of building, standard form of measurement, level of professional competence and pricing strategies while the macro indicators includes: gross domestic product, inflation, exchange rate, interest rate, prime building cost index and consumer price index. These micro and macro indicator are interrelated, having linked with one another. Similarly, there are changers which have greater impact on both the micro and macro indicators, thus depending on the level of growth of economy within particular country understudy, these are political, corruption, procurement and unemployment. As aforementioned, tender price is imperative in the successful delivery of projects and TPI is more important in decision making right from the inception stage. However, the establishment of tender price is highly fluctuating in the construction industry and there has been a wide disparity between annual rates of tender price and building costs . Tender Price Index (TPI) therefore, is used to track the historical trends in the movement of tender price levels of construction contracts let out during the respective periods. In addition, to reflecting the changes in material and labour costs, TPI also takes into account the elements of competition in the market, the risks and the profit factored in the Contractors' bids . Besides being used to establish historical cost trends, TPI also serve as a useful tool for providing an indication of future cost trends. Accordingly, future research seeks to develop tender price index as means for forecast tender price. This findings will help most clients to know how much to spend on a project. They also point out that standard costing system combines managerial, financial and operations accounting, which make it as a control system. But the possible replacement is only cost accumulation system. Critics against

the standard costing system questioned whether the system is useful in the manufacturing system of today. As we demonstrated above, it is still a widely used method, due to the fact that it provides cost information for many different ways in addition to cost control. A lot of companies adapted their standard costing system to report on these variables that particularly important to them. In companies where an activity-based system is implemented, standard costing is still essential when it comes to controlling the costs of unit-level activities. Other criticism comes from that overemphasis is on the price and efficiency, which would make quality aside. Also, volume variance to measure utilization of capacity ignores overproduction and unnecessary build-up of inventory. In this situation the fact that variance analysis is not “locked in” to a set of variables is ignored. Used variables can be changed when the need arises. Examples of this are presented below. (Cheatham & Cheatham, 1996). To use standards on the functions of raw material ordering and inventory levels, which give information about the effectiveness of suppliers. Because the objective is to deliver orders as placed, any variances are undesired. Price variances can be combined with a quality variance to prevent purchasing managers from only focusing on price but do not pay attention to quality. Raw materials inventory variances indicate an inventory build-up, because more material purchased than used, by reverted conditions. This is in line with a just-in-time theory. Further criticism is about the non-focus of continuous improvement. But, standards based on engineering studies or historical data are not a necessary part of a standard costing system because standards can be changed by a lot of methods. (Cheatham & Cheatham, 1996) Use last period’s results as standards. The last period’s result has to be representative; otherwise it needs to be revised. It is also achievable to use a base period that comparisons are made. Use benchmark as something outside companies. To compare with competitors or with the leader of the industry. Use predetermined cost reduction by reducing the standard cost for every period by a predetermined amount to achieve constant improvement. The development of tender price index as abovementioned in the above discussion raised a lot of cost planning development issues in the construction industry. The need to sojourn the already known phenomena of cost overruns juxtaposing with unrealistic tendering figures compounded with the syndrome of under and over pricing in most developing countries, which Ghana is not an exception leaves much to be desired. Thus, is it imperative that stakeholder takes a key interest in the development of such an important tool. From the survey, it could be clearly opined that most consulting quantity surveying firms are inadequately equip with knowledge on tender price index. For instance, level of understanding on TPI was very low, thus only 10percent indicated they have been monitoring movement of price. Arguably, they could not give any specific techniques adopted. Agreeing that, monitoring of tender prices can done by comparing previous projects with current projects, it can therefore be interpreted that effective cost analysis cannot be made. Thus, quantity surveyors in the construction industry have relinquished its authority in providing the best approach in forecasting tender price movement. This suggests that is there an ineffective cost planning techniques to tender pricing in most developing countries; the need for tender price index becomes more urgent. Furthermore, the implication is that tender price index development remains a critical issue in the construction industry, hence the need for this research. This study presents a call for stakeholders including academia, practitioners and governments to join forces in developing such effective tool for the advancement of construction industry as a whole. Finally, the reporting system of the standard costing system may be revised. In the traditional way internal completion often arises. By revising the reporting system, cooperation among workers, managers and departments can be supported.

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Tender tikinti layihələrində xərclərə nəzarətin əhəmiyyəti

Xülasə

Mövcud məqalə digər bir təşkilatın mal və xidmətlər tədarükünə aid məlumat və ya qiymət sorğusuna cavab verən bir təşkilat olan Avropa Birliyindəki tender prosessindən bəhs edir. Məqalədə tender prosessinin növləri, xüsusiyyətləri, imkanları, həmçinin tender prosessində həyata keçirilən çoxsaylı layihələr xüsusilə tikinti layihələri geniş təhlil edilir.

Важность контроля затрат на тендерные строительные проекты

Резюме

В настоящей статье рассматривается процесс торгов в Европейском союзе, который является организацией, ответившей на запрос информации или ценообразования, связанных с поставкой товаров и услуг от другой организации. В статье анализируются виды, особенности, возможности тендерного процесса, а также многочисленные проекты, реализованные в тендерном процессе, особенно строительные проекты.

Rəyçi: dos. N.Fərzəliyeva

Göndərilib: 27.04.2020

Qəbul edilib: 29.04.2020