



CONSTRUCTION
INDUSTRY COUNCIL
建造業議會



ALERTS ON VARIATION MANAGEMENT


Alerts on Variation Management


Disclaimer


Whilst the Construction Industry Council (CIC) have made reasonable efforts to ensure the accuracy of the information contained in this publication, readers should seek appropriate independent advice from their professional advisers where appropriate and readers should not treat or rely on this publication as a substitute for such professional advice for taking any relevant actions.


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Preface

The CIC is committed to seeking continuous improvement in all aspects of the construction industry in Hong Kong. To achieve this aim, the CIC forms Committees, Task Forces and other forums to review specific areas of work with the intention of producing Alerts, Reference Materials, Guidelines and Codes of Conduct to assist participants in the industry to strive for excellence.

The CIC appreciates that some improvements and practices can be implemented immediately whilst others may take more time to adjust. It is for this reason that four separate categories of publications have been adopted, the purposes of which are as follows:

Alerts Alerts are reminders in the form of brief leaflets produced quickly to draw the immediate attention of relevant stakeholders to the need to follow some good practices or to implement some preventive measures in relation to the construction industry.

Reference Materials Reference materials for adopting standards or methodologies in such ways that are generally regarded by the industry as good practices. The CIC recommends the adoption of relevant Reference Materials by industry stakeholders where appropriate.

Guidelines Guidelines provide information and guidance on particular topics relevant to the construction industry. The CIC expects all industry stakeholders to adopt the recommendations set out in relevant Guidelines where applicable.

Codes of Conduct Codes of Conduct set out the principles for all relevant industry participants to follow. Under the Construction Industry Council Ordinance (Cap. 587), the CIC is tasked to formulate codes of conduct and enforce such codes. The CIC may take necessary actions to ensure compliance with the codes.

We encourage you to share your feedback with us. Please take a moment to fill out the Feedback Form attached to this publication for us to further enhance this publication for the benefit of all concerned. With our joint efforts, we believe our construction industry will develop further and will continue to prosper for years to come.

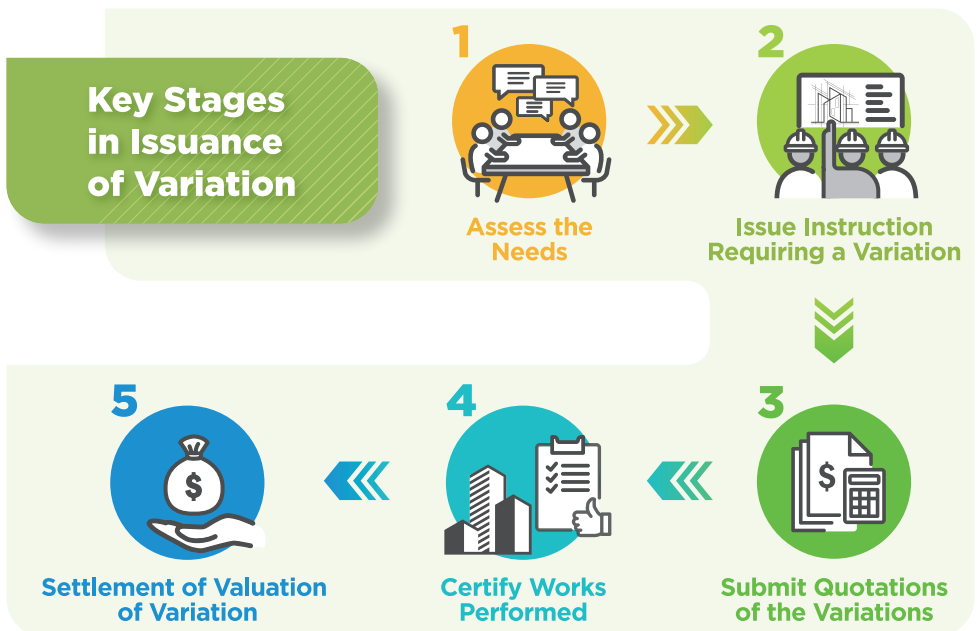
ALERTS ON VARIATION MANAGEMENT

Introduction

Construction contracts often involve substantial expenditure and it is not uncommon to have additional work or ad hoc assignments as the contracts go along. Improper management of variations throughout the construction stage might result in construction payment disputes. Contracting companies might be prone to liquidity issues which might lead to cash flow problems for subcontractors and delayed salary payments to workers.



To reiterate the spirit of mutual trust and co-operation for all parties involved in the construction contracts, the CIC issued the below Alerts on Variation Management with an aim to continue enhancing contract management during the course of the construction projects for betterment of all relevant parties.

As different forms of contract may have different approaches and constraints in handling variations, this Alerts is not intended to promulgate standard procedures of variations under different forms of Contract, but rather to promote some good practices in handling variations. The Alerts issued below shall be regarded as a supplement / reminder on variation management without violating the principles, rules and procedures regarding variations under the contract.






RECOMMENDED PRACTICES

in the Procurement of Variations

Common Loopholes	Recommended Practices	Responsible Parties
<div style="display: flex; align-items: center;"> 1  <div style="background-color: #f4a460; padding: 5px; border-radius: 5px; font-weight: bold; color: white;">ASSESS THE NEEDS</div> </div>		
<p>A. Lack of formal appraisal of the need to issue instruction requiring a Variation</p>	<ul style="list-style-type: none"> Fully define the work scope of the change so that all parties understand 	Employer / Consultant / Contractor
	<ul style="list-style-type: none"> Assess whether the additional work being outside the scope of the contract or would need a supplemental agreement and such assessment to be documented in writing by authorised personnel 	Consultant / Contractor
	<ul style="list-style-type: none"> Classify whether the change is essential or elective for the Employer to confirm and approve this designation 	Consultant / Contractor
<div style="display: flex; align-items: center;"> 2  <div style="background-color: #76b82a; padding: 5px; border-radius: 5px; font-weight: bold; color: white;">ISSUE INSTRUCTION REQUIRING A VARIATION</div> </div>		
<p>B. Inadequate / insufficient information in variation instructions</p>	<ul style="list-style-type: none"> Check if sufficient drawings and supplementary requirements are issued together with the written instruction 	Consultant / Contractor
<p>C. Works performed without proper authorisation</p>	<ul style="list-style-type: none"> Establish and review the procedures for approving variations with time and cost estimate done before issuance 	Employer
<p>D. Oral instruction without proper confirmation mechanism</p>	<ul style="list-style-type: none"> All instruction requiring a variation should be made in writing and shall be in accordance with the time frame stipulated in the contract conditions 	Consultant
	<ul style="list-style-type: none"> Contractor shall issue confirmation of verbal instruction (CVI) in writing as stipulated in the contract conditions List out all newly issued CVI in site coordination meetings to draw all parties' attention and for recording purpose 	Contractor

RECOMMENDED PRACTICES

in the Procurement of Variations

Common Loopholes	Recommended Practices	Responsible Parties
<div style="display: flex; align-items: center;"> <div style="font-size: 2em; margin-right: 10px;">3</div> <div style="margin-right: 10px;">  </div> <div> <h3>SUBMIT QUOTATIONS OF THE VARIATIONS</h3> </div> </div>		
<p>E. Untimely submission of quotation</p>	<ul style="list-style-type: none"> • Conduct regular cost review meetings to update the submission status of the quotations • Put in place an agreed time frame for Contractor's submission 	<p>Employer / Consultant / Contractor</p>
<p>F. Inadequate / unendorsed record of work done or resources spent for abortive works and daywork</p>	<ul style="list-style-type: none"> • Seek Consultant / Professional endorsed record as early as possible on : <ul style="list-style-type: none"> - the extent of works completed which becomes abortive - Contractor's resources deployed in the removal of the verified abortive works • The actual purchase order of the abortive material to be supplied shall be in-line with the quantity required and confirmed 	<p>Consultant / Contractor</p>
<div style="display: flex; align-items: center;"> <div style="font-size: 2em; margin-right: 10px;">4</div> <div style="margin-right: 10px;">  </div> <div> <h3>CERTIFY VARIATION WORKS PERFORMED</h3> </div> </div>		
<p>G. Prolonged process to gather substantiation to support the work done under variations</p>	<ul style="list-style-type: none"> • Conduct joint inspection on a regular basis with representatives from consultant, contractors and subcontractors upon completion of the variations work • Record the deficiencies found and follow up with the parties concerned 	<p>Employer / Consultant / Contractor</p>
<div style="display: flex; align-items: center;"> <div style="font-size: 2em; margin-right: 10px;">5</div> <div style="margin-right: 10px;">  </div> <div> <h3>SETTLEMENT OF VALUATION OF VARIATIONS</h3> </div> </div>		
<p>H. Lack of cost substantiation supporting the quotation</p>	<ul style="list-style-type: none"> • Keep all relevant records and cost substantiation in a good and traceable manner • Timely prepare all records (e.g. daywork) for proper endorsement, e.g. Architect 	<p>Contractor</p>
<p>I. Prolonged valuation of variations process</p>	<ul style="list-style-type: none"> • Carry out regular cost review meetings to update the progress of assessing variations and spot out insufficiencies on Contractor's quotation and follow up with parties concerned 	<p>Employer / Consultant / Contractor</p>

RECOMMENDED MEASURES

for VO management during the Construction Period

Common Loopholes	Recommended Measures	Responsible Parties
<p>A. Ineffective procedure to handling massive variations</p> <p>B. Lack of coordination among project team</p>	<ul style="list-style-type: none"> Establish clear procedure and specific time frame (to be specified by the Employer / Consultant) for requesting or initiating a variation, estimating the cost implication of variation, approval, decision making process and issuance of the variation 	Employer / Consultant / Contractor
	<ul style="list-style-type: none"> Use appropriate forms for documenting the variations (the scope, specification, time and cost implication etc.) 	Consultant / Contractor
<p>C. Excessive and significant additional work due to errors and insufficient design or requirement in the contract drawings and specification</p> <p>D. Late variation instructions</p>	<ul style="list-style-type: none"> Full and detailed design in the tender stage to minimise post contract variations 	Employer / Consultant
	<ul style="list-style-type: none"> Investigate any deficiency in the original tender document and identify areas susceptible to change as early as possible Notify the project team in regular meetings (site coordination meeting / early warning meeting) any other matter which has cost implication on the contract Sum 	Consultant / Contractor
	<ul style="list-style-type: none"> Streamline procedures in pre-approving the variation instructions 	Employer
<p>E. Lack of trackable records of issued / potential variation</p>	<ul style="list-style-type: none"> Prepare and update variation log (See Template 02) with review and approval by the Employer Compile periodic management reports on the issue of contract variations, including time and cost implications 	Consultant / Contractor
	<ul style="list-style-type: none"> Report and record in regular meetings the overall status of the issued variation and potential variation. Seek prompt response from corresponding party on the unresolved items of the variation 	Consultant

Project No. : _____ Project Name : _____

Contract : _____ Contract No. : _____

Contractor : _____

Contract Variation Order No. : _____

Reason of Variation [*To be filled in by Architect*] : _____

Brief Description of the Variation Order : _____

Document ReferenceCVI No. : _____ (*Ref No.*) Initiated by : _____ (*Name*) of _____ (*Company*) on _____ (*Date*)RFI No. : _____ (*Ref No.*) Initiated by : _____ (*Name*) of _____ (*Company*) on _____ (*Date*)

Item	Description of Variation Order	Addition Amount (HK\$)	Omission Amount (HK\$)

Net Estimated (Omission/Addition)* Amount for this Order :	HK\$
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Estimated Time Implication (+/-) :	
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* (*Delete as appropriate*)Initiated by _____
CONSULTANT / PROFESSIONAL _____ DATE _____Initiated by _____
QUANTITY SURVEYOR _____ DATE _____Reviewed by _____
PROJECT MANAGER (IF ANY) _____ DATE _____Approved by _____
EMPLOYER # _____ DATE _____

Net estimated amount > HK\$ _____ Million to be approved by _____

Net estimated amount > HK\$ _____ Million to be approved by _____

Project No. :	Project Name :	Contract No. :	Contract :
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Contractor : _____

VO No.	Description	Date			Net Amount (HK\$)	Accumulative Net Amount to date (HK\$)	Certified Percentage (%)	Certified Amount (HK\$)
		Initiated	Negotiated	Finalised				