

AGA KHAN UNIVERSITY

Guidelines, Policies and Procedures

Policy Name	Construction Project Variance Handling
Policy Number	AKU-K/FIN/PL - 017
Approved by	Chief Financial Officer
Date of Approval	4th November 2022
Contact Office	Office of the University Registrar

1. **Purpose:**

- 1.1. This policy provide guideline to handle construction project variance handling process and approval requirements both before awarding and after awarding a construction contract.

2. **Scope:**

- 2.1. The policy is applicable to all units of The Aga Khan University Kenya (AKU-K). The word AKU-K is herein referred to as the "Institution".

3. **Responsibility:**

- 3.1. Project Manager is responsible to monitor the Project cost and report back to the Project Board for review and approval. Hence he will have to manage the variance approval process.
- 3.2. Cost Consultant/Project Cost Controller will work out/verify the variance costing for the variation proposals and orders.
- 3.3. Finance Department will evaluate the costing independently and sign off on the accuracy of the working, ensure that funds for variance is available in the budget or through other sources with the approval of Project Board and update the project cost for the reporting whenever require.

4. **Terms and Definitions:**

- 4.1. **"Variation"**: In construction projects the term 'Variation' means **any change to the original contract/plan**. These variations can be in a way of addition or omission to the original scope of work.
- 4.2. **"Engineer"** Engineer in this document means a person appointed as such by the Institution to coordinate with the contractor and communicate decisions about the project. Project manager can also be referred as Engineer when there is no separate appointment is made as Engineer for the project.

5. **Process / Procedure:**

5.1. **Observations and limitations**

5.1.1. Proposal for variation can come from:

- 5.1.1.1. End Users
- 5.1.1.2. Leadership of the Institution
- 5.1.1.3. Contractor
- 5.1.1.4. Project Team including Engineer.
- 5.1.1.5. Consultants

5.1.2. The reason of variations may be following:

- 5.1.2.1. Change in Quantity – such change may not necessarily be variation
- 5.1.2.2. Change to the Quality and other characteristics
- 5.1.2.3. Change to the level, positions and/or dimension
- 5.1.2.4. Omissions
- 5.1.2.5. Additional work, Plant Material or Services
- 5.1.2.6. Change to the sequence or timing of execution

5.1.3. No variation can be approved without identifying the source of funds for undertaking the variation proposal/order.

5.2. **Procedure for the approval of variations before awarding of construction contract**

5.2.1. The variation can come from following sources:

- 5.2.1.1. End Users
- 5.2.1.2. Consultants
- 5.2.1.3. AKU-K Leadership

5.2.2. Once the variation is identified it should be shared with Project Manager.

5.2.3. Project Manager will evaluate variation for:

- 5.2.3.1. Constructability
- 5.2.3.2. Efficiency
- 5.2.3.3. Cost Saving
- 5.2.3.4. Need

5.2.4. If Project Manager agree with the variation based on above criteria this will

be forwarded to Manager Design/Architect for concept design and to Cost Controller/Consultant to cost out the concept. And seeks Finance's consent for Financial feasibility and source of funding.

5.2.5. If the variation is less than \$ 5,000 Project Manager can approve the proposal for incorporation in the Project Cost and share this in the next project board meeting (consolidated basis) for Project Board's information.

5.2.6. If the variation is more than \$ 5,000 Project Manager will prepare a proposal for Project Board approval specifying the reason of variance, benefit, financial impact and source of funding for variation proposal.

5.2.7. If project board approve the proposal it is incorporated in the Project Cost.

5.3. Procedure for the approval of variation orders after awarding of construction contract

5.3.1. Variation request can be raised by:

5.3.1.1. Contractor

5.3.1.2. Engineer/Project Manager

5.3.2. When contractor raise the request for variation based on efficiency, gap in information, constructability etc. Engineer would ask to submit proposal (including technical aspect, reasons and cost impact) for review.

5.3.3. If Engineer got variation request from end users or his team or through AKU-K leadership, engineer would ask the contractor to prepare proposal for review.

5.3.4. Proposal must consist of technical detail for construction including design, revise cost and impact of time.

5.3.5. Based on this proposal Engineer/Project Manager will evaluate the proposal and source of funding based on efficiency, cost saving and need and coordinate with Finance for source of funding for the variance.

5.3.6. If the Engineer/Project Manager is satisfied and the amount is within \$50,000 he will raise the Variation Order Form (Annexure II) for approval as per institutional authority matrix through circulation.

5.3.7. If the value of Variation Order is more than \$ 50,000 this will be presented to Project Board for approval and then variation order is signed.

5.3.8. Once the variation order is approved the variation order amount is incorporated into contract value.

5.3.9. Contractor is informed through standard template (Annexure I) to authorized the work on the variation proposal.

6. **Review of Policy**

6.1. This policy document shall be reviewed every three year or as required.

7. **Reference(s):**

7.1. N/A

8. **Annexures:**

8.1. Annexure I – Template for Communication to Contractor

8.2. Annexure II – Template for Variation Order

Annexure I

The Aga Khan University Kenya (Letter Head)

Dated:

M/s. _____

Kampala

Subject: Additional work for Project

Dear Sir,

With reference to our agreement dated _____ we confirm that following adjustment in your Contract Sum due to addition of work as follows:

	Amount \$
a) Original Contract Value	_____
b) Value of Change Orders approved to date	_____
c) Amount for this Change Order – Under Process	_____
d) Revised Contract Amount (a + b + c)	_____

The agreed sum for the variation of the above work is \$ _____ (\$ _____ only) consequently Revised Contract Sum shall be \$ _____ (\$ _____ only).

Yours faithfully

Mr. _____
Project Engineer/Project Manager

Agreed & Accepted
Mr. _____
M/s _____