

# ENGINEERING & CONSTRUCTION RISK INSTITUTE

Document number: <b>ECRI-RQ-007 (DESC)</b>	<b>Definition &amp; Checklist for Establishing Components of Project Risk</b>	Page: 1 of 1
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**Purpose:** The purpose of this document is to provide a checklist, and to further provide terminology for various components of risk that are specific for use by the ECRI.

**Introduction:** The term **Risk** has been defined in the current International Standards Organisation - ISO/ IEC Guide 73 – Risk Management Vocabulary as the “Effect of uncertainty on objectives” and having “An effect which is a deviation from the expected – positive or negative “. This definition is quite generic and of little direct use for application to the E&C industry.

The Project Risk Analysis and Management - PRAM Guide definition of **Risk** as “An uncertain event or set of circumstances that, should it occur, will have an effect on the achievement of the project’s objectives “ is probably a more useful general definition.

While both of these terms might be acceptable for use in everyday language and discussions of risks in general, they are not specific enough for use by the Engineering & Construction community engaged in the more detailed application of risk awareness, allocation and management when quantifying the potential impact of risk in a Project Risk Management context.

As a consequence, more specific terms such as **1. Estimate Allowance**, **2. Contingency** (or cost / estimate contingency), **3. Risk Allowance** (or event-driven contingency) and **4. Funded Liability** are more commonly used by the global engineering and construction community to further define the sub-components of overall **Project Risk**. The basic purpose of this ECRI Practice therefore is to eliminate confusion and to provide further clarification of these different terms together with a checklist basis for their consistent application. It should be read in conjunction with ECRI–RQ–001/002.

As a fundamental premise, it is assumed that sound and well-proven estimating procedures and practices are being applied and that all basic costs have been considered as part of the Project estimate preparation.

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