



**Government
of South Australia**

State Procurement
Board

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Risk Management Guideline

Version	5.2
Date Issued	July 2018
Review Date	September 2018
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Overview

This guideline provides information and practical advice regarding risk management in the procurement of goods and services.

This guideline describes:

- what risk management in procurement is
- requirements of the across-government risk management framework
- the risk management process
- the risk management plan.

Public authorities **must** refer to their risk management frameworks to understand the organisational risk environment in which the procurement is being undertaken, and any internal processes to adhere to.

What is Risk Management in Procurement?

The Australian/New Zealand Standard *AS/NZS ISO 31000:2009, Risk management – Principles and guidelines* describes risk as the effect of uncertainty on the achievement of objectives. Risk management is defined as the coordinated activities to direct and control an organisation with regard to risk.

Risk management in procurement is about ensuring the risks associated with the procurement of goods or services are identified, assessed and managed to ensure unexpected or undesirable outcomes are minimised whilst achieving the objectives of the procurement.

Risk management is an essential part of good procurement. Where procurement risk is well managed, project outcomes and objectives are more likely to be achieved.

Across-Government Risk Management

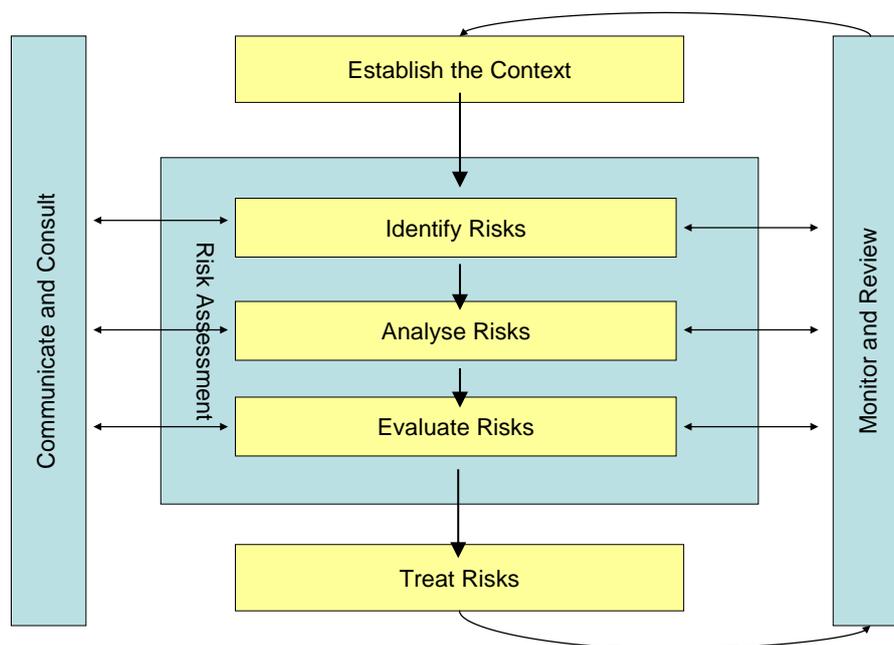
The *Government of South Australia Risk Management Policy Statement* gives accountability to principal officers of public authorities for the development and implementation of risk management frameworks specific to their organisation's business and context, in accordance with the Australian/New Zealand Standard AS/NZS ISO 31000:2009.

The *Government of South Australia Risk Management Policy Statement* recognises that risk management contributes to the creation of sustainable value, and requires that public authorities integrate risk assessment into planning and all activities of the agency, including significant proposals and cabinet submissions.

The Risk Management Process

The level of analysis and detail required in the management of risk will vary depending on the value, complexity and scope of the procurement. The risk management process identifies, and plans for, the potential risks that impact on a project's procurement objectives. Planning for risk needs to occur at the earliest stages of planning for a procurement project.

The figure below is based on AS/NZS ISO 31000:2009 and depicts the risk management process:



The following provides overview of the key elements of the risk management process and explains how each element relates to procurement activities.

1. Communication and Consultation Throughout the Process

Appropriate communication and consultation with internal and external stakeholders (including end-users and suppliers) throughout the risk management process promotes a common understanding of stakeholder interests, risks identified and the process for managing them. A consultative approach with stakeholders will bring together different areas of expertise in the risk management process.

2. Establish the Procurement Context

The first step in establishing the procurement context is to ensure that the key objectives are clarified to ensure there is a common understanding of what the procurement is aiming to achieve.

Once the key objectives are clarified, it is important to understand the environment in which the procurement is being undertaken and determine the contextual elements that are relevant to the procurement.

Issues to consider in establishing the risk management context include:

- legislation, standards and policies that are relevant to the procurement objectives
- external elements including the economic and competitive environment
- cross-agency, lead agency or individual agency responsibilities
- timeframes required to undertake the procurement activity
- stakeholders impacted by the procurement decision and their involvement in the risk assessment
- specialist professional or other knowledge required
- lessons learnt from previous similar procurements.

Clarifying the objectives of the procurement within a clearly defined context provides a strong basis for the identification of the risks.

3. Identify Risks

Potential risks that may impact on the achievement of the procurement objectives need to be identified. Effective risk management is contingent on the proper identification of risks.

The source of the risk against each objective needs to be identified, as well as the events, causes, and potential consequences on the objective.

Appendix 1 lists examples of common potential risks associated with the procurement process. The list is not exhaustive and not all risks will apply to all procurements.

In addition to the common potential risks at Appendix 1, risks that are specific to the procurement project (and impact on the specific key objectives) need to be identified and assessed.

When identifying the potential risks, it is important to involve people with appropriate knowledge, as successful risk management is contingent on the proper identification of relevant risks. In procurements considered high value, or of a specialised or complex nature, the advice and assistance of appropriately experienced and qualified experts (for example, technical specialist, risk expert, researcher or lawyer) is strongly recommended.

4. Analyse Risks

In understanding the risk level associated with procurement transactions, each identified risk is analysed by determining the consequences or impact if the risk were to occur and the likelihood of the risk arising. Public authorities are to refer to their own risk management framework and policies for guidance on how to analyse risk within the context of their organisation.

In line with the definition of risk as “the effect of uncertainty on objectives”, only those risks that are deemed to have the potential to impact on the objectives of the procurement and business are required to be analysed further for consequence and likelihood.

When rating risks for consequences and likelihood, the effect of controls built into existing procedures needs to be taken into account.

5. Evaluate Risks

The main objective of evaluating risks is to make decisions on which risks need treatment and the priority for treatment. In most cases, there are three categories of risk: low, moderate and high.

For risks that fall into a relatively low risk category, these may be accepted with no or minimal further treatment. However, for risks that fall into higher categories, an assessment will need to be made on what is an acceptable risk level within the overall risk management context of the public authority.

6. Treat Risks

Risk treatment involves a cyclical process of:

- assessing current controls
- deciding whether the residual risk levels (the risk remaining after considering the current controls in place) are tolerable
- if not tolerable, generating a new risk treatment
- assessing the effectiveness of that treatment.

The type and level of risk treatment will depend on the significance of the risk and its impact on the procurement objectives.

Action	Application	Example Treatment
Accept or Retain the Risk	When the risk impact is minimal to insignificant and exceeds the cost of controlling or eliminating the risk. When the risk cannot be avoided or transferred or the cost to do so is prohibitive.	Employ appropriate risk mitigation strategies to manage the risk.
Avoid the Risk	When the impact of the risk is unacceptable and must be avoided.	Do not commence or continue to undertake the activity that gives rise to the risk. Seek alternative ways to achieve the outcome.
Transfer the Risk	Shift responsibility from the organisation to another party who will bear the consequences if the risk arises. Note that responsibility should be borne by the party best able to control and bear that risk.	Insurance policies and/or contractual agreements with third parties.
Reduce the Consequences and/or Likelihood of Occurrence	When the risk has to be accepted, implement changes or alternatives to minimise the consequences and likelihood of the risk occurring.	Clarify contract terms, requirements and specifications. Specify professional accreditation. Upgrade supervisory requirements.

With respect to government contract insurance and liability issues, public authorities need to familiarise themselves with the Government's liability requirements, as outlined in the *Acquisition Planning Policy*.

In particular, low to medium risk procurements that use the standard goods and services contract are to include a default liability limit selected at between one and five times the value of the contract, as determined by the risk of the procurement.

Where the *Standard Goods and Services Contract* is not appropriate, e.g. for high risk procurements, the Crown Solicitor's Office is to be consulted to develop a bespoke contract with appropriate liability provisions. Advice may also be required from the public authority's procurement staff.

7. Monitor and Review Risks on an Ongoing Basis

Public authorities need to monitor risks and the effectiveness of treatments throughout the procurement lifecycle. The nature of risk can change throughout the course of the procurement and it is likely that the risk management process may need to be repeated or revised to ensure appropriate action is taken.

In all cases, there is a need to record risks along with the treatment applied.

Developing A Procurement Risk Management Plan

Depending on the value and risk profile of the procurement, the risks and the treatment applied are to be documented and recorded. The level of detail to be recorded will be commensurate with the value and risk of the procurement as outlined below.

Simple Procurements

For procurements valued at above \$33,000 and up to and including \$550,000 (GST Inclusive), a risk assessment **must** be undertaken and project risks documented in a *Simple Acquisition Plan* or a *Simple Procurement Report*, in accordance with the *Simple Procurement Policy*. Information to be documented includes the identified risk, the potential impact of the risk and the likelihood of the risk occurring, a risk rating, and the proposed mitigation or treatment of the risk.

Procurements greater than \$550,000

Procurement practitioners **must** undertake a risk assessment for all procurements greater than \$550,000, including the identified risk, the potential impact and the likelihood of the risk occurring and proposed treatment of the risk related to the objectives of the procurement.

Where the procurement is assessed as being low or medium risk **and** is valued at up to and including \$4.4 million, the risk assessment is to be documented in the *Acquisition Plan* to an appropriate level of detail.

Where the procurement is assessed as high risk **or** is valued at greater than \$4.4 million, a separate *Procurement Risk Management Plan* **must** be prepared and attached to the *Acquisition Plan*.

The procurement risk management plan is to include:

- information on the procurement context including the objectives, scope, procurement strategy and key stakeholders; risk management responsibilities (who does what)
- an outline of how risks were identified and analysed (including extent of involvement of appropriate discipline or risk experts)
- a register of identified and prioritised risks requiring treatment, including:
 - risk description (what could happen and why)
 - current controls (how the risk is currently managed)
 - impacts / consequences if the risk eventuates and the likelihood of the risk arising
 - risk level or rating (based on assessment of consequences and likelihood)
 - proposed treatments to mitigate the risks (further controls to reduce the risk rating), including responsibilities and timeframes for implementation of treatments.
- how risks will be monitored and managed on an ongoing basis.

A *Risk Management Plan* template may be used.

The *Procurement Risk Management Plan* may be part of the project's overall risk management plan.

Where appropriate, demonstrate that subject matter experts have contributed to the risk management process.



The procurement risk management plan should be revised as appropriate to ensure it reflects changes in the nature and treatment of risks throughout the procurement lifecycle.

Related Policies and Guidelines

SPB Board Procurement Reporting Policy

SPB Acquisition Planning Policy

SPB Supplier Selection Policy

SPB Contract Management Policy

SPB Simple Procurement Policy

Australian New Zealand Standard AS/NZS ISO 31000:2009 *Risk management – Principles and guidelines*

Government of South Australia *Risk Management Policy Statement*

Templates

Risk Management Plan

Further Information

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Appendix 1: Common Procurement Risk Categories

Risk Category	Examples
Planning and Preparation	<ul style="list-style-type: none"> - Unrealistic time/cost expectations - Inadequate analysis of the supply market, organisational requirements, stakeholder needs and issues - Conflict with existing contracts/supply arrangements - Limited capacity to access necessary information - Legal complexities - Delays in obtaining approvals - Incorrect market approach selected
Product / Service	<ul style="list-style-type: none"> - Limited availability - Complex to manufacture/ source - Integration of the product into existing environment - Delays in delivery, installing and testing - Unsafe use of hazardous materials or practices - Final product/service does not meet expectations / requirements
Procurement Process	<ul style="list-style-type: none"> - Lack of probity/unethical behaviour - Changes to scope and/or specifications - Specifications prepared in a manner that discriminates for or against particular suppliers - Proper processes are not followed - Risks are not adequately managed - Procurement process does not achieve objectives and/or value for money - Government policies not followed
Industry and Suppliers	<ul style="list-style-type: none"> - Lack of interest in response to tender - Limited number of potential suppliers - Industrial disputes - Lack of capacity of individual contractors - Complacency in long term supplier relationships - Non-performance of contractors
Management	<ul style="list-style-type: none"> - Inappropriately qualified or inadequate personnel - Lack of communication amongst team/facilitators - Responsibilities of project staff not clearly defined - Expectations and objectives unclear - Contract is poorly managed - Loss of corporate knowledge relating to the contract - Unethical behaviour and/or conflict(s) of interest
Stakeholders	<ul style="list-style-type: none"> - Public sensitivity / high level of media scrutiny - Conflict among stakeholders - Change in government policy / political demands - Ineffective communication and consultation



Risk Category	Examples
Contract	<ul style="list-style-type: none">- Offer lapses before execution- Errors/omissions in the contract- Default by the supplier / termination of the contract- Payments made in advance of goods/services received- Acceptance of suppliers' terms and conditions- Bank guarantees- Procurement objectives not realised- Unplanned changes to scope and/or technology- Lack of properly maintained records- Mismanagement of subcontractors- Unjustified contract extension or amendment- Fraud