



New South Wales Government

NSW Government Procurement Guidelines

Risk Management

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These guidelines were prepared by the NSW Department of Commerce for the NSW Government. They are available from the procurement process maps on

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Related Guidelines

[NSW Government Procurement Policy](#)

[NSW Government Code of Practice for Procurement](#)

[NSW Government Tendering Guidelines](#)

[Total Asset Management \(TAM\) Guideline](#)

[Value Management Guideline](#)

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1 About this guideline

The [NSW Government Procurement Policy](#) establishes a comprehensive procurement framework which assists government agencies in the efficient delivery of services and ensures procurement strategies are consistent with the Government's wider policy objectives. The policy provides an overarching framework for government procurement and is supported by the [NSW Government Code of Practice for Procurement](#) and a suite of guidelines.

This guideline:

- provides government agencies and service providers with an appreciation of risk management, and why it is an important tool in procurement planning and management
- explains the risk management process
- provides examples of how risk assessment can be undertaken at each step in the procurement process
- encourages the application of quality assurance when assessing risks.

The risk management process detailed in this guideline is consistent with the framework contained in the NSW Government's [Total Asset Management Manual - TAM2003](#). The TAM manual sets out the Government's requirements for the adoption of improved asset management policies, standards and procedures by all government agencies and across government as a whole.

2 Managing risk

Managing risk is an integral part of good management. The application of a risk management process will improve procurement outcomes. It will provide opportunities to reduce costs, and to improve economic, social, environmental and technological outcomes.

Risk management does this through:

- identifying and reducing exposure to risk
- providing greater certainty and insight to support decision-making
- improving contingency planning for dealing with risks and their impacts.

What is risk?

Risk is the possibility that an expected outcome will not occur, or that an unforeseen event usually deleterious will occur.

Risk can arise from either:

- limited information, experience and knowledge on which to base decisions
- uncertainty of future events.

Risk is usually measured by:

- consequences - what will happen
- likelihood - the chances of it happening.

In procurement, risk may come from:

- factors under the control of an agency and its procurement personnel (eg ethics and probity, experience, expertise, competency, financial and technical skills, knowledge of the applicable procurement and contract system, identification of product and/or service requirements)
- factors under the control of the service provider (eg ethics and probity, experience, expertise, competency, materials, financial and technical skills, contract planning and

management, innovation, production processes, delivery, installation, service and maintenance)

- factors involved in the contractual relationship (eg contract planning, service delivery, communication, contract management, and liability for damages)
- factors outside the control of the parties (eg industrial disputes, changes in interest and exchange rates)
- the goods and services procured (eg documentation, serviceability, timeliness, reliability, compatibility, and quality).

What is risk management?

Risk management identifies potential risks, analyses their consequences, and devises and implements responses to ensure that procurement and service delivery goals are achieved. The aim is to achieve more reliable planning, improved decision making and greater certainty of outcomes.

By managing risk, agencies can identify potential problem areas that may adversely affect the desired procurement outcomes, improve the understanding of risk profiles of different procurement, and understand how future decisions may affect that profile. It reduces the uncertainty of outcomes and economic loss. Risk management is as concerned with identifying opportunities to improve the delivery of goods or services as it is with avoiding or mitigating losses.

Risk management activities should always add value to the procurement process. The effort expended in managing risk should be commensurate with:

- the nature of the procurement
- the cost of the procurement
- the complexity of the procurement
- the significance of the procurement to the agency or government program.

The risk management process is applicable to all stages of procurement, from identifying a need, satisfying that need, and ultimately through to disposal. It is an integral part of good procurement management. Effectively managing risk can lead to significant savings in resources, timely delivery and improved quality of services and relationships with clients.

3 Using risk management

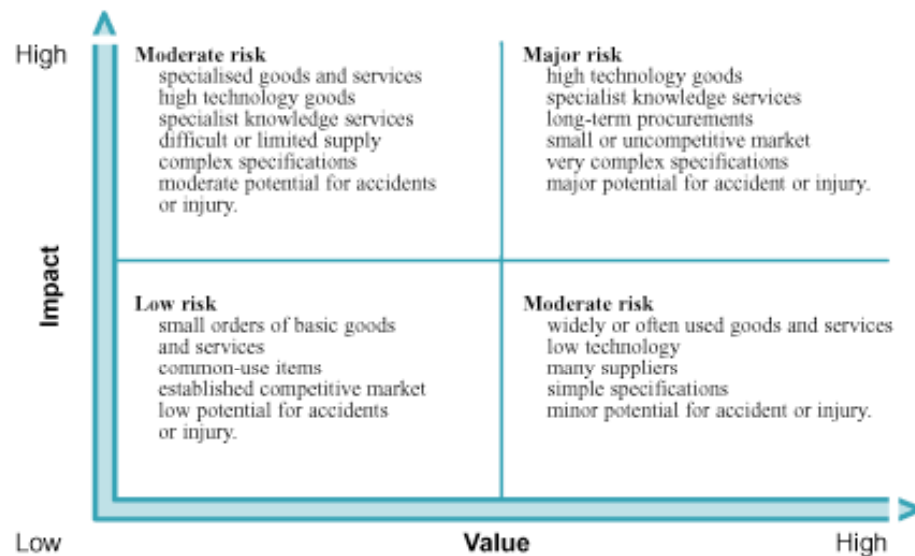
The [NSW Government Procurement Policy](#) defines 'procurement' as the process involving all activities following the decision that a good or service is required and involves the acquisition and disposal of goods and services. Risk management is essential in all stages of the procurement process from the initial planning stages and throughout the life of the procurement.

Risk management involves active consideration of each procurement and its associated risk. This also includes factors occurring prior to the decision to procure, for example decisions concerning service contracting. The use of service contracting does not abrogate agencies' legal and other managerial responsibilities.

Procurement personnel should assess the risk involved in procurement activities by evaluating the product or service, its relative value and how critical it is to the agency.

This should also include consideration of industrial relations, ecologically sustainable development, Occupational Health & Safety (OH&S) management, economic issues, regional development and workforce development. The matrix below provides a general guide to the level of risk management necessary for different procurement activities.

Managing risk in procurement can be achieved by using a checklist through to the development of a risk management plan. Appendix A is a checklist covering some of the potential risks in the procurement process.

Figure 1 – Risk Matrix

What is a risk management plan?

A risk management plan is a document outlining the potential risks for a complex procurement program, project or activity. It records the identified risks, the likely consequences of these risks, and the options to treat and monitor them.

A risk management plan should be undertaken when:

- the value of the purchase is high
- the procurement process is complex
- adverse consequences could significantly affect a government agency's operation
- delivering the agency's core business services to the community is significantly affected
- here are other mitigating factors, for example industrial relations, workforce development, environmental and OH&S.

Plans will vary from one government agency to another, depending on the needs of the particular organisation, its corporate goals, the services it intends to provide, and the specific strategies adopted.

Appendix B is a sample format for a risk management plan for a complex procurement program, project or activity.

Risk management monitoring

As risks may change during the course of a procurement program, it is necessary to periodically review the effectiveness of the initial risk provisions and adopted management course and amend the plan as circumstances and risk exposure change.

For complex procurement, several risk assessments may be needed. This may be at various stages, such as:

- concept development
- acquisition
- operation and maintenance
- disposal.

The continuing assessment of a risk management plan may be done as part of the performance reporting of a contract.

4 The risk management process

The process outlined in this guideline serves as a guide for both government agencies and service providers, and can be adapted on a case by case basis.

While the process is largely sequential, in practice it is often necessary to revisit previous stages as the process proceeds and to reconsider earlier decisions when new information becomes available.

Risk management involves seven stages:

1. Establishing the risk context

What is the activity to be considered or decision to be made?

What are the circumstances of the activity?

2. Identifying potential risks

What, why and how might things affect the action or decision?

3. Analysing the risk

How likely is each risk?

What could be the consequences?

What is the overall magnitude of the risk?

4. Assessing and prioritising the risk

Which risks are acceptable?

Which risks should be avoided?

Which risks require treatment?

5. Treating the risk

What are the potential treatment options?

What are the risk treatment plans?

6 Preparing and implementing treatment plans

What are the activities necessary to meet the risk events?

7 Monitoring and reviewing

Does the risk management plan specify and detail the review process?

5 Stage 1: Establishing the risk context

This is the preparatory stage. It results in familiarity with the proposed procurement, and identifies key parameters and assumptions.

Define the objectives

This involves defining the nature and scope of the procurement, its key objectives and outcomes.

Define the prevailing circumstances

Consider those factors which may influence performance of the procurement activity, and the risks that it will be exposed to, in particular:

- relevant agency, corporate and service delivery goals and strategies. Identify relevant goals and the strategies to achieve them. If the procurement relates to an agency's procurement plan, define the outcomes
- external factors that may affect the procurement. External factors often have a major impact on the procurement of goods and services and therefore need to be identified. These may include social, technical, economic, environmental and OH&S factors
- the expectations of stakeholders such as users, local communities, government agencies and service providers. Where appropriate, consult stakeholders to clarify their expectations and their attitude to risk (eg a local Council's expectations of probity or confidentiality).

Understanding these issues helps define the criteria by which it is decided whether a risk is acceptable or whether risk treatment options need to be considered.

Develop risk criteria

Define the criteria against which to judge identified risks. In the planning stages of the procurement, the criteria will reflect strategic concerns. In the procurement, maintenance and disposal stages, the criteria are likely to concern efficient completion, cost control, quality, compliance and so on.

Examples of risk criteria:

- achieving procurement outcomes
- delivering on time and budget
- maintaining high probity standards
- achieving high levels of competition.

Future decisions on whether risks are acceptable or not should be based on these types of criteria.

Break down the procurement activity into key elements

When identifying risk, it is often helpful to break the activity down into the major elements or stages. For example, procurement can generally be broken down into planning, documentation, tendering, and contract management stages. The stages will vary for each type of procurement, depending on the type and complexity of the activity and the nature of the risk.

Appendix A provides an example of the procurement cycle broken down into key stages, with possible risks associated with each.

6 Stage 2: Identifying potential risk

This stage identifies the risks that might affect each major element of the procurement process. The aim is to create a comprehensive list of the possible risks, and document what each involves.

Consider all risks, whether or not they are under the control of the agency. Ask two questions:

What can happen? Compile a list of the possible events that could have an unwanted or unintended effect on the procurement. Consider the full life-cycle of the good or service, and include problems that may arise after the goods are received or the service performed.

How and why could it happen? Explore the events identified in the first question for their possible causes and implications.

There are several ways to identify risks and their causes. As indicated above, it is helpful to break the activity down into key elements or stages and identify the risk for each element. Checklists also provide a useful starting point. Brainstorming or workshopping are also useful for procurement involving new or unusual risks, or for developing initial checklists. It may be appropriate to establish a risk management team with members having multi-disciplinary backgrounds.

Agencies carrying out many similar procurements may find it useful to develop checklists based on past experience. Examine the records of similar procurements. From these, you can develop:

- flow charts of the sequentially connected set of events with outcomes. A flow chart helps to clarify and understand the steps in the process by documenting in proper sequence the flow of events
- scenario analysis. This is a means for identifying what might happen in the future and developing responses.

When the list of risks is assembled, a preliminary analysis should be carried out to cull any low-impact risks from further consideration.

Sources of information

Use all the available data sources to understand the risk. These may include:

- relevant experience
- industry practice
- pilot schemes and prototypes
- past performance
- financial models
- specialist advice.

7 Stage 3: Analysing the risk

The next stage is to estimate the likelihood of a risk arising and its potential consequences.

Determine the overall risk level by combining estimates of likelihood, and consequence in the light of existing controls. These are the management and other systems that are already in place to control risk. For example, where community involvement in procurement is concerned, many agencies use consultation mechanisms to promote community awareness and manage possible concerns.

The analysis of likelihood and consequence may be undertaken to varying degrees of refinement, depending on the scale of potential risk and the data available. The greater the potential risk, the greater the level of analysis required. The main questions are:

- How likely is the event?
- What are the consequences of the event?
- What is the overall risk level?

How likely is the event?

The likelihood of an event can be described:

- in qualitative terms. Qualitative methods use words to describe the likelihood (eg low, medium, high)
- in semi-quantitative terms. These use numbers subjectively matched to qualitative scales to describe the likelihood. The number assigned need not have an accurate relationship to the magnitude of the likelihood. Rather, the objective is to produce a more analytical prioritisation of risk than is achieved through qualitative methods (eg rare = 0.1, unlikely = 0.3, moderate = 0.5, likely = 0.7, almost certain = 0.9)
- in quantitative terms, for example in terms of probability or frequency.

Qualitative and semi-quantitative methods are relatively simple to apply, and do not require extensive time and resources. They are useful when resources are limited or when data is not available for more rigorous analysis. Quantitative methods on the other hand require time, resources and extensive data. They are used most often to analyse financial and technical risk.

What are the consequences of the event?

As with likelihood, consequences can be described:

- in qualitative terms
- in semi-quantitative terms
- in quantitative terms.

Consequences should be expressed in terms of the risk criteria identified in Stage 1: Establishing the risk context.

What is the overall risk level?

Finally, combine the likelihood and consequences of the risk to produce a level of risk. An overall risk factor will be high if the risk is likely to occur or its impact large, and highest if both are present. A simple way to illustrate levels of risk for various events is to create a matrix, as illustrated below:

Figure 2 – Risk Matrix Example

		Consequence		
		Low	Medium	High
Likelihood	Low	Event 1		Event 2
	Medium		Event 3	
	High	Event 4		Event 5

8 Stage 4: Assessing and prioritising the risk

This step involves setting priorities against risks for further action. In most cases, there are three categories of risk: low, moderate, and high.

The allocation of priorities is the responsibility of the procurement manager.

Categories of risk

Low risks (designated P1) are usually involved with purchases of readily available and commonly used goods or services (eg office supplies). These risks can be accepted and managed by routine procedures.

Moderate risks (P2) usually come from purchases of commonly used goods or services, which involve a complex element such as technology or specialist knowledge. These risks should be monitored and managed by routine processes, so long as the situation is constant. They should be moved up to the high risk category if the likelihood or potential consequences increase.

High risks (P3) usually occur in procurements which involve high costs, long-term supply, innovative technology or services, or provide an essential good or service to the agency. These risks require a specific treatment plan.

Using the matrix demonstrated previously, a typical allocation of priorities and responses could be:

Figure 3 – Risk Treatment

		Consequence		
		Low	Medium	High
Likelihood	Low	P1		P2
	Medium		P2	
	High	P2		P3

Alternatively, using a semi-quantitative approach, an example of priorities can be determined as illustrated:

The assessment will vary from situation to situation, depending on individual circumstances.

The output of Stage 4 is a prioritised list of:

- risks to be treated
- risks to be accepted and monitored
- acceptable risks for the procurement.

Figure 4 – Risk Priority Table

Event	Likelihood		Consequence		Level	Priority
1	0.2	x	0.3	=	0.06	P1
2	0.3	x	0.9	=	0.27	P2
3	0.5	x	0.5	=	0.25	P2
4	0.7	x	0.3	=	0.21	P2
5	0.8	x	0.7	=	0.56	P3

Note to Figure 4: Likelihood is the risk likelihood measured on a scale 0 to 1; Consequence is the impact measured on a scale 0 to 1.

9 Stage 5: Treating the risk

Risk treatment must be appropriate to the significance of the risk and the importance of the activity.

For high priority risks requiring treatment, this stage involves:

- identifying potential treatment options
- evaluating and selecting appropriate options
- preparing and implementing risk treatment plans.

Risk treatment options may include:

Avoid the risk

Avoid risk by:

- deciding not to proceed with the activity that causes the risk
- seeking alternative means of achieving the outcome.

Transfer the risk

Transfer risk by shifting responsibility from the agency to another party, which ultimately bears the consequences if the risk arises. The agency will normally incur a cost for the other party assuming the risk.

Insurance is a common risk transfer strategy. Contracts and specific terms of a contract between an agency and its service providers are the primary means of allocating risks between the parties involved in procurement.

The general principle when considering whether to transfer a risk is that responsibility for the risk should be borne by the party best able to control and bear that risk.

Accept the risk

Accept risk when it cannot be avoided or transferred, or the cost of doing so would not be worthwhile. It is recommended that risk reduction or impact mitigation measures and monitoring be employed in these circumstances, as appropriate.

Reduce the likelihood of occurrence

Where the risk has to be accepted, minimise the likelihood of the risk occurring. Reduce the likelihood of risk by:

- clarifying the requirements, specifications and outcomes
- revising procedures
- specifying quality assurance (Appendix C provides further information on the application of quality assurance in risk management.)
- specifying product standards
- conducting product testing and inspection
- specifying professional accreditation
- including warranties and guarantees
- managing the relationship between customers and service providers.

Reduce the consequences

Measures to reduce the impact of risks include:

- contingency planning
- contract terms and conditions
- inspections and checks to detect compliance
- recovery programs.

Evaluate and select the appropriate options

Selecting the most appropriate option involves balancing the cost of implementing each option against the benefits derived from it. In general, the cost of managing risks must be commensurate with the benefits obtained.

In many cases a combination of options will give the best overall result. For example, it may be best to take steps to reduce the likelihood of risks, reduce their consequences, and then accept any residual risks.

10 Stage 6: Preparing and implementing treatment plans

Prepare treatment measures for moderate risks. Treatment measures are simple action statements that specify the activities necessary to meet the risk events.

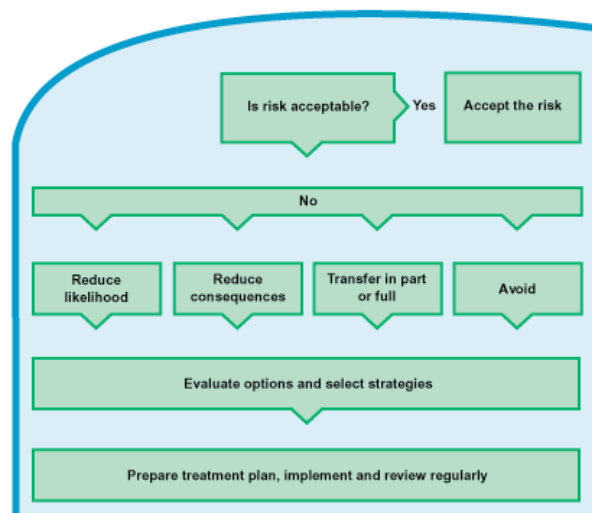
For high risks, draft a risk treatment plan to document how the risk will be managed. Typically the plan should show:

- actions and expected outcomes
- timetables
- resource budgets (personnel, costs and data)
- responsibilities
- reporting requirements
- monitoring requirements.

The most important task in risk management is implementation of the treatment plan. Planning for implementation requires particular attention to the resources required, management responsibilities, and the timing of tasks.

Record the risk treatment plan and implementation strategies in the risk management plan.

Figure 5 – Treatment Plan Process



11 Stage 7: Monitoring and reviewing

Few risks remain static. Consequently it is necessary to monitor the risk treatment plan and the effectiveness of its implementation.

It is not sufficient to simply prepare a risk management plan at the initial procurement decision. It must be regularly reviewed to ensure its ongoing relevance, and amended if circumstances change.

If the procurement is of high value, strategic or complex, the risk management plan should specify and detail the review process.

Appendix A – Checklist of potential risks in the procurement process

Identifying the need		
Risk	Likely consequences	Action
Understatement of the need	Purchase of unsuitable product or service Money wasted Need not satisfied Additional cost	Analyse need accurately Ensure industrial relations, environmental, OH&S, economic and workforce outcomes are considered
Overstatement of the need	Greater expense Poor competition	Analyse need accurately, include functional and performance requirements
Insufficient funding	Delay in making the purchase Additional costs for re-tender	Obtain appropriate approvals before undertaking process Improve planning
Impractical target dates	Inadequate service provider responses Reduced competition Delivery schedule not met	Improve forecasting, planning and consultation with users Improve communication with potential service providers
Probity failure	Increased procurement costs Misuse of resources Most suitable product not obtained Unethical conduct	Implement best practice policies, guidelines and practices Maintain ethical environment Improve training of personnel Put suitable controls and reviews in place Improve communication with potential service providers
Misinterpretation of user needs	Totally unacceptable purchase or not most suitable product or service Time lost Increased costs Possible downtime	Improve consultation with users Obtain clear statement of work and definition of need

Developing the Specification		
Risk	Likely consequences	Action
Narrow definition or commercial specification (eg brand name)	Fewer alternatives Most suitable product or service may not be obtained Increased costs	Define the required outcomes Develop functional or performance specifications
Definition of inappropriate product or service	Need not satisfied Time lost Increased costs Possible downtime	Ensure specification is consistent with needs analysis Market knowledge Functional or performance specifications
Biased specification	Inadequate service provider response Claims of unfair dealings	Use common use contracts Use functional or performance specifications Control mechanism to review specification before release
Inadequate specification or statement of work (for services)	Variety of offers Insufficient responses Products offered not meeting needs Difficult to evaluate	Be familiar with requirements Use functional or performance specifications Use expressions of interest or requests for information

Selecting the Procurement Method		
Risk	Likely consequences	Action
Failure to identify potential sources	Lack of offers from suitable service providers	Improve procurement planning and system selection Improve market knowledge Seek industry participation Use Industry Capability Network Develop Industry Impact Statements Require service providers to provide a Local Industry Participation Plan

Selecting the Procurement Method (cont.)		
Risk	Likely consequences	Action
Selecting inappropriate method	Need to seek offers again Possible cost variations Failure to obtain value for money Excessive number of inappropriate bids High cost to bidders High cost of evaluating tenders	Ensure IR, ESD, OH&S and workforce outcomes are considered Improve implementation of Code of Practice, procurement policies, guidelines and practices Improve knowledge and expertise in tendering methods Improve tender documentation and clearly identify in request for tenders the selection criteria Provide staff with appropriate training and experience

Contract Documents		
Risk	Likely consequences	Action
Terms and conditions unacceptable to service providers	Loading of costs in offers Having to modify tender terms and conditions Disruption Low response	Improve tender planning and procurement system selection Assess and allocate risks appropriately Gain commercial expertise Use commercially acceptable terms Assess conditions of contract and select appropriate conditions Provide staff with appropriate tender planning and procurement skills
Providing inadequate information method	Loading of costs in offers Variations in offers Having to provide clarifying information, causing delays in tender closing Additional costs tenders	Ensure staff have appropriate tender planning and documentation training and experience Improve tender planning and preparation Review tender documents before issuing them and ensure selection criteria contain the critical factors on which assessment of tenders will be based

Seeking, Clarifying and Closing Offers		
Risk	Likely consequences	Action
Failure to adequately address service provider enquiries	Claims of unfair practices Offers with qualifications by tenderers Withdrawal of offers	Implement standardised procedures for responding to enquiries Provide staff with appropriate tender management training and experience Respond in a timely manner to service provider enquiries Allow adequate time for tenderers to respond
Actual or perceived favouritism in providing information	Service provider complaints Withdrawal of offers	As above actions and Provide all service providers with any addendum that may be required
Actual or perceived breach of confidentiality	Service provider complaints Mistrust by service providers	Establish formal security procedures Train staff in their obligations Perform regular audits and reviews of security processes Advise service providers of measures
Insufficient number of responses	Need to undertake process again Increased costs Delayed delivery to the client Poor value for money due to limited competition	Use appropriate tender advertisement strategy to increase competition Provide service providers with advance notice of tender requests Improve tender documentation and specifications Allow sufficient time for tenderers to respond
No response from known quality service providers	Reduced competition Increased costs of products or services	As above actions for insufficient number of responses Improve your market knowledge Review specifications or conditions Seek feedback from known service providers on their non response

Evaluating Offers		
Risk	Likely consequences	Action
Failure to follow effective evaluation procedures	Inconsistent evaluations Possible service provider complaints Subjective not objective evaluation of offer	Provide staff with appropriate tender assessment and evaluation training and experience Improve tender assessment and evaluation processes Maintain, audit and review evaluation procedures
Breaches of security	Claims of unethical or unfair practices Loss of faith with service providers	Maintain, audit and review security procedures. Review and improve the agency's Code of Conduct as appropriate Provide staff with appropriate training and experience and monitor performance
Offers fail to meet needs	Need to call tenders again Additional costs Delay in delivery	Improve market knowledge Improve tender documentation Conduct market research Develop functional or performance specifications
Failure to identify a clear winner Decision made on subjective grounds	Claims of unethical and unfair behaviour Service provider complaints	Ensure selection criteria contain the critical factors on which assessment of tenders will be based and are clearly identifiable to tenderers in tender documents Ensure selection criteria are appropriate and measurable before tenders are called

Selecting the Preferred Service Provider		
Risk	Likely consequences	Action
Selecting an inappropriate service provider	Failure to fulfil the contract	Provide staff with appropriate tender evaluation, financial and technical skills training and commercial expertise Improve evaluation procedures Improve selection criteria and clearly identify to tenderers in tender documents Reject unacceptable offers Perform financial, technical and company evaluations before awarding contract
Selecting inappropriate product	Failure to meet the client's need Complaints	Ensure users are involved in the selection process/evaluation Improve technical evaluation procedures and train staff as appropriate

Seeking, Clarifying and Closing Offers		
Risk	Likely consequences	Action
Not matching the expectations of buyer and service provider	Contract disputes Delivery delays Cost variations Reduction in value for money Purchase of less suitable product Inefficient use of resources	Improve communication Provide staff with training in contract planning and management Define terms carefully Record each party's obligations Clarify all ambiguities before signing the contracts
Deadlock on details of agreement	Delays in delivery Need to restart procurement Possible cost of legal action.	Look at alternatives to share risk Distinguish between essential and non-essential goals and requirements

Seeking, Clarifying and Closing Offers (cont.)		
Risk	Likely consequences	Action
Failure to secure mandatory conditions	Inability to finalise contract Delays in delivery Variations in cost Inefficient use of resources	Establish baseline before negotiations Distinguish essential goals from others Consider variations to contract Provide negotiators with adequate training
Unfair or onerous requirements on the service provider in the contract conditions	Contract disputes Invalidity of contract Legal action Poor service provider/customer relationship	Provide negotiators with adequate training and support Negotiate commercial terms Terms should be fair and reasonable
Failure to reflect the terms offered and agreed in the contract	Contract disputes Legal action Poor service provider/customer relationship	Check final draft of contract with service provider Keep records of all negotiations and agreements
Inadvertently creating a contract without the delegate's prior approval Inappropriate product	Expense of negotiating out the contract and paying damages Committing to other associated work prior to main contract existing	Procedure in place to ensure delegate's approval obtained first Provide negotiators with adequate training

Contract Management		
Risk	Likely consequences	Action
Variations in price and foreign exchange	Cost overruns	Agree on prices and the basis of prices Agree on a formula for calculating variations Consider a Bill of Exchange or other appropriate means to reduce the risk of exchange rate fluctuations
Unwillingness of the service provider to accept the contract	Delays in delivery Need to restart procurement	Seek legal redress if non-acceptance causes loss Negotiate but retain integrity of the contract
Failure of either party to fulfil the conditions of the contract	Contract disputes Failure to satisfy needs Delays in delivery Downtime Legal action	Ensure good contract administration and performance management Hold regular inspections and ensure progress reports Ensure all staff know responsibilities and conditions Ensure good record keeping and documentation

Contract Management (cont.)		
Risk	Likely consequences	Action
Inadequately administering the contract	Cost increases Failure of contract Full benefits not achieved Delivery of unsatisfactory product Contract/supply disputes	Maintain up to date agency procedures and practices Ensure all staff are suitably trained and experienced in contract planning and management
Commencement of work by the service provider before contract is exchanged or letter of acceptance issued	Potential liability to pay for unauthorised work Possibility of legal action for perceived breach of contract	Confirm verbal acceptance of contract with written advice Accept all contracts in writing Ensure approvals are received before allowing work to start
Unauthorised increase in scope of work	Unanticipated cost increases Contract disputes	Ensure all contract amendments are issued in writing Record all discussions and negotiations Confirm instructions in writing
Loss of intellectual property	Loss of commercial opportunity Unwarranted reliance on service provider for product support	Ensure suitable clauses are included in the contract
Failure to meet liabilities of third parties (eg royalties or third party property insurance)	Legal action Damage to the agency's professional reputation	Check that all obligations are covered in the contract Agree on responsibilities Implement appropriate safety standards and programs
Loss or damage to goods in transit	Delays in delivery Downtime Liability disputes	Include appropriate packaging instructions in specification Agree on insurance cover for service provider to provide Accept delivery only after inspection Know when title of goods is transferred to buyer
Fraud	Misuse of resources Legal action Disruption to procurement activities	Maintain an ethical environment Follow and maintain fraud control procedures
Key personnel not available	Progress on project disrupted Less expertise	Include requirement in Expression of Interest, Request for Information, Request for Tender, and ensure compliance in post tender negotiation Know the market Accept risk and manage possible delay

Disposal		
Risk	Likely consequences	Action
Collusive bidding at auction	Not achieving best return Claims of unethical and unfair practices	Set reserve prices Deal with reputable firms Include disposal clause in initial contract Maintain ethical environment
Inadequate tender management	Claims of bias and favouritism to organisations or individuals Reduction in value for money	Sell by open tender Document reasons for decision Provide staff with appropriate training

Evaluating the Procurement Process		
Risk	Likely consequences	Action
Failure to evaluate procurement and management processes	Failure to improve procurement and management processes	Develop systematic evaluation methods, techniques and evaluation criteria
Failure to identify and address problems management	Procurement objectives not achieved Possible failure in the future	Agree on performance criteria (with service provider and customer) Develop good relationships with service providers Include evaluation clause in the contract Implement performance management strategies

Appendix B – Typical format of a Risk management Plan

Typical format of a Risk Management Plan

1. Procurement context

- 1.1 Description of the procurement
- 1.2 Identify the procurement environment and stakeholders
- 1.3 Identify the risk criteria of the procurement
- 1.4 Plan the major stages of the procurement

2. Risk identification

- 2.1 Identify and schedule potential risks and their effects

3. Risk analysis

- 3.1 Assess risk likelihood and consequences
- 3.2 Determine risk levels

4. Risk assessment

- 4.1 Undertake risk priority ranking
- 4.2 Determine risks to be accepted and monitored
- 4.3 Identify risks to be treated

5. Risk treatment

- 5.1 Evaluate and select risk treatment options
- 5.2 Prepare risk treatment plans and implementation strategies

6. Ongoing monitoring

- 6.1 Develop schedule for review

Appendix C – Quality Assurance in procurement

Quality assurance in procurement

Quality assurance is a risk treatment tool that can be used to reduce the likelihood of risks occurring and the consequence of some risks, and help deliver goods and services that are more consistent, reliable, conforming and better supported by the service provider.

Agencies decide on the quality assurance requirement for each procurement on a case by case basis, considering:

- the level and consequence of the risks involved
- the value of the purchase
- whether requiring quality assurance will add value to the purchase.

Agencies must ensure that quality assurance does not substantially reduce competition and that it adds value to the procurement of the goods and services.

Use quality assurance to:

- reduce the perception of risk (by providing confidence that service providers can consistently meet requirements)
- reduce the possible costs and consequences of risks (particularly in contract administration/management)
- obtain value for money for the Government.

As agencies establish more strategic supply arrangements, risk assessment and quality assurance become more critical. Operating quality programs helps to ensure service providers have systems in place that will provide goods and services to specification.

What level of quality assurance?

A recommended approach is to use the risk reduction matrix and consider the risk and value of a procurement. The means for assuring quality can cover the spectrum from international standard AS/NZS ISO9000 quality systems to guarantees and past performance. An agency must be confident that the goods and/or services it has procured will meet the specifications. Having assessed the risks associated with the procurement, the agency can determine what method of quality assurance would best address the risks identified. See below:

Figure 6 – Risk Matrix

