

SCM RISK ASSESSMENT

1. Creating a sound SCM environment

	Risk	Likely consequences	Action needed	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Inadequate SCM structures unit	Inability to meet service delivery needs Non compliance to pre-scripts No seperation of duties	Establish SCM Unit per institution Demarcate and separate duties					
	Lack of policies and procedures	Uncoordinated SCM practices Fraudulent practices	Development and implimentation of policies Alignment of policies with National Treasury					
	Inappropriate SCM delegations	Decisions taken on to low a level Lack of accountability Increase in irregular expenditure	Analyse institutional ability Propose set of SCM delegations that will support service delivery but will ensure accountability					
	Inadequate Bid Committee Structures	Non-compliance to National Treasury prescripts Unsuitable officials on bid committees Risky decision-making	Revamp bid committee structures Program managers to take responsibility to appoint specification and evaluation committees					
	Lack of knowledge on procurement process and prescripts	Non compliance to National Treasury prescripts Error ridden bid documents Incorrect award of contracts Increase in litigation Irregular expenditure	Centralise all procurement above R30000 Appointment of appropriate staff Training of SCM Officials					

2. Identifying the need and planning the procurement

Risk	Likely consequences	Action needed	Risk Assessment			
			Likelihood	Impact	Risk Severity	Risk Owner
Understatement of the need	Purchase of unsuitable product or service Money wasted Need not satisfied	Analyse need accurately				
Overstatement of the need	Greater expense Poor competition	Analyse need accurately Use functional and performance requirements				
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				
Insufficient funding	Delay in making the purchase Additional costs for re-tender	Obtain appropriate approvals before undertaking process Improve planning				
Impractical timeframe	Inadequate responses from bidders Reduced competition Delivery schedule not met	Improve forecasting, planning and consultation with users Improve communication with potential bidders				
Unethical Behaviour	Increased procurement costs Misuse of resources Most suitable product not obtained	Implement best practice policies, guidelines and practices Maintain ethical environment Improve training of personnel Put suitable controls and reviews in place Consider using a probity adviser Improve communication with potential bidders				

3. Developing the specification

	Risk	Likely consequences	Action	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Narrow definition or commercial specification (eg. Use of brand name)	Fewer alternatives Most suitable product or service may not be obtained Increased costs	Define the specification in terms of required outputs Use functional and performance specifications					
	Definition of inappropriate product or service	Need not satisfied Time lost Increased costs Possible downtime	Ensure specification is consistent with needs analysis Improve market knowledge Use functional and performance specifications					
	Biased specification	Inadequate responses from bidders Claims of unfair dealings	Use functional and performance specifications Implement a control mechanism to review specification before release					
	Inadequate statement of requirements	Variety of offers Insufficient responses Products offered not meeting needs Difficult to evaluate	Be familiar with requirements Use functional and performance specifications Use an Expression of Interest or Request for Information to clarify requirements (be careful not to infringe intellectual property rights or copyright)					

4. Selecting the procurement method

	Risk	Likely consequences	Action	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Failure to identify potential sources	Lack of offers from suitable bidders	Improve procurement planning processes Improve market knowledge Seek industry participation					
	Selecting inappropriate method	Need to seek offers again Possible cost variations Failure to obtain value for money	Improve implementation of procurement policies, guidelines and practices Improve bid documentation and clearly identify the evaluation criteria in Request for Tenders Provide staff with appropriate training and experience					

5. Bid documentation

	Risk	Likely consequences	Action	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Terms and conditions unacceptable to tenderers	Loading of costs in offers Having to modify bid terms and conditions Disruption Low response	Use standard documentation Select appropriate documentation for purchase type (ie. Goods, services, goods and services, or information technology related) Improve bid planning Assess and allocate risks appropriately Use commercially acceptable terms Provide staff with appropriate bid planning and procurement skills					
	Providing inadequate information	Loading of costs in offers Variations in offers Having to provide clarifying information, causing delays in bid closing Additional costs	Ensure staff have appropriate tender planning and documentation training and experience Improve bid planning and preparation Review tender documents before issuing them and ensure evaluation criteria contain the critical factors on which assessment of bids will be based					

6. Inviting, clarifying and closing offers

Risk	Likely consequences	Action	Controls implemented / required in mitigating risk			
			Likelihood	Impact	Risk Severity	Risk Owner
Failure to adequately address enquiries from bidders	Claims of unfair practices Offers with qualifications by bidders Withdrawal of offers	Implement standardised procedures for responding to enquiries Provide staff with appropriate bid management training and experience Respond in a timely manner to enquiries Allow adequate time for bidders to respond				
Actual or perceived favouritism in providing information	Complaints from bidders Withdrawal of offers	As above Answer queries in writing and provide copies to all potential bidders Ensure that all potential bidders are provided with any addenda				
Actual or perceived breach of confidentiality	Complaints from bidders Mistrust by bidders	Establish formal security procedures Train staff in their obligations Perform regular audits and reviews of security processes Advise bidders of security 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 bid advertisement strategy to increase competition (eg. consider advertising tenders in other publications as well as the local paper) Provide potential bidders with advance notice of bid requests Improve bid documentation and specifications Allow sufficient time for bidders to respond				
No response from known quality suppliers	Reduced competition Increased costs of products or services	Actions as above for insufficient number of responses Improve your market knowledge Review specifications or conditions Seek feedback from known suppliers on their non-response				

7. Evaluating offers

	Risk	Likely consequences	Action	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Failure to follow effective evaluation procedures	Inconsistent evaluations Possible complaints from bidders Subjective not objective evaluation of offers	Provide staff with appropriate tender assessment and evaluation training and experience Improve bid assessment and evaluation processes Maintain, audit and review evaluation procedures Ensure that Evaluation Committee members declare any conflicts of interest					
	Breaches of security	Claims of unethical or unfair practices Loss of faith with bidders	Maintain, audit and review security procedures Provide staff with appropriate training and experience and monitor performance Ensure that Evaluation Committee members understand and sign Confidentiality Agreements					
	Offers fail to meet needs	Need to call bids again Additional costs Delay in delivery	Improve market knowledge Improve bid documentation Conduct market research Develop functional and performance specifications					
	Failure to identify a clear winner	Claims of unethical and unfair behaviour	Ensure evaluation criteria contain the critical factors on which the assessment of bids will be based and that they are clearly identifiable to bidders in bid documents					
	Decision made on subjective grounds	Complaints from bidders	Ensure evaluation criteria are appropriate and measurable Ensure that Evaluation Committee members sign Declaration of Conflict and Confidentiality Agreements					

8. Selecting the successful tenderer

	Risk	Likely consequences	Action	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Selecting an inappropriate supplier	Failure to fulfil the contract	Provide staff with appropriate bid evaluation, financial and technical skills training and commercial expertise Improve evaluation criteria and clearly identify them to bidders in bid documents Reject unacceptable offers Perform financial, technical and company evaluations before awarding contract Perform Review Committee to review bid and selection process prior to awarding contract					
	Selecting inappropriate product	Failure to meet the client's need	Ensure users are involved in the evaluation/selection process Improve technical evaluation procedures and train staff as appropriate Procurement Review Committee to review bid and selection process prior to awarding contract					

9. Negotiations

	Risk	Likely consequences	Action	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Not matching the expectations of buyer and bidder	Contract disputes Delivery delays Cost variations Reduction in value for money Purchase of less suitable product Inefficient use of resources	Improve communication, including ensuring that Conditions of Contract form part of the Request for bid Provide staff with training in contract planning and management Define terms carefully Record each party's obligations Clarify all ambiguities before signing the contract					
	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					
	Failure to reflect the terms offered and agreed in the contract	Contract disputes Legal action Poor supplier/customer relationship	Check final draft of contract with successful tenderer Keep records of all negotiations and agreements					

10. Contract management

	Risk	Likely consequences	Action	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Variations in price and foreign exchange	Cost overruns	Agree on prices and the basis of prices Agree on a formula for calculating variations					
	Unwillingness of the supplier 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 / meetings and ensure progress reports Ensure all staff know responsibilities and conditions Ensure good record keeping and documentation					
	Inadequately administer and management of the contract	Cost increases Failure of contract Full benefits not achieved Delivery of unsatisfactory product Contract/supply disputes	Maintain up-to-date procedures and practices Ensure all staff are suitably training and experienced in contract planning and management					
	Commencement of work by the supplier 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 or damage to goods in transit	Delays in delivery Downtime Liability disputes	Include appropriate packaging instructions in specification Agree on insurance cover for supplier to provide Accept delivery only after inspection Know when title of goods is transferred to buyer					
	Key contract management personnel not available	Progress on project disrupted Less expertise	Include requirement in specification and ensure compliance in post-tender negotiation Know the market Accept risk and manage possible delay					

11. Development of a SCM Fraud Risk Strategy

	Risk	Likely consequences	Action	Risk Assessment				Controls implemented / required in mitigating risk
				Likelihood	Impact	Risk Severity	Risk Owner	
	Absence of a SCM fraud risk strategy to guide officials	Relaxed approach in combatting fraud Inability of officials to define fraudulent activities Transgressing of SCM prescripts Collusion between officials and between officials and suppliers Conflict of interest Officials using procurement for personal gain	Document key fraud indicators Identify key SCM functions susceptible to fraud Develop template for reporting fraudulent activities Encourage an anti fraud culture Ensure ownership of the relevant SCM code of ethics and codes of conduct Take action against offenders Prevent further business with suppliers that default Conduct investigations					