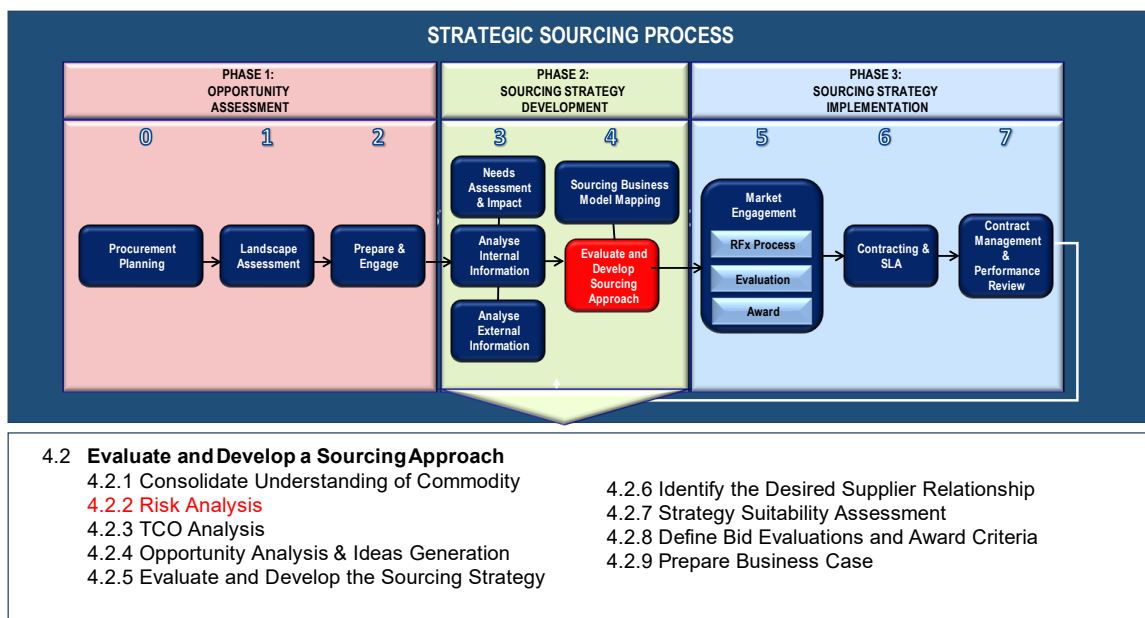> **Using this guide**
> This guide accompanies the National Treasury's Strategic Procurement Framework (SPF) for Strategic Sourcing in the Public Sector. For more information, visit the National Treasury website at http://ocpo.treasury.gov.za/
> The SPF can be found here:
> http://ocpo.treasury.gov.za/Resource_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf

RISK ANALYSIS

STRATEGIC SOURCING PROCESS

4.2 **Evaluate and Develop a Sourcing Approach**
   4.2.1 Consolidate Understanding of Commodity
   4.2.2 Risk Analysis
   4.2.3 TCO Analysis
   4.2.4 Opportunity Analysis & Ideas Generation
   4.2.5 Evaluate and Develop the Sourcing Strategy
   4.2.6 Identify the Desired Supplier Relationship
   4.2.7 Strategy Suitability Assessment
   4.2.8 Define Bid Evaluations and Award Criteria
   4.2.9 Prepare Business Case

1.0 Introduction

i.   There are risks inherent with the commodity which the selected sourcing model must be used as a mechanism to mitigate such risks and ensure service delivery and the value for money goals are met.

ii. The following good practice guides and templates are applicable to this stage of risk analysis;

   a. Sources of risk in procurement

   b. Risk analysis process

   c. Risk register (template)

    d. Risk rating matrix (template)

    e. The risk scorecard (template)

1.1 The objective

i.   To assess and identify any risks associated with the project and develop mitigating actions to minimise possible delays and disruptions.

1.2 Output

i.   Risk scorecard and mitigating action list

2.0 Good practice guides

2.1 Sources of risk in procurement

i.   The figure below illustrates the various sources of risk in procurement.
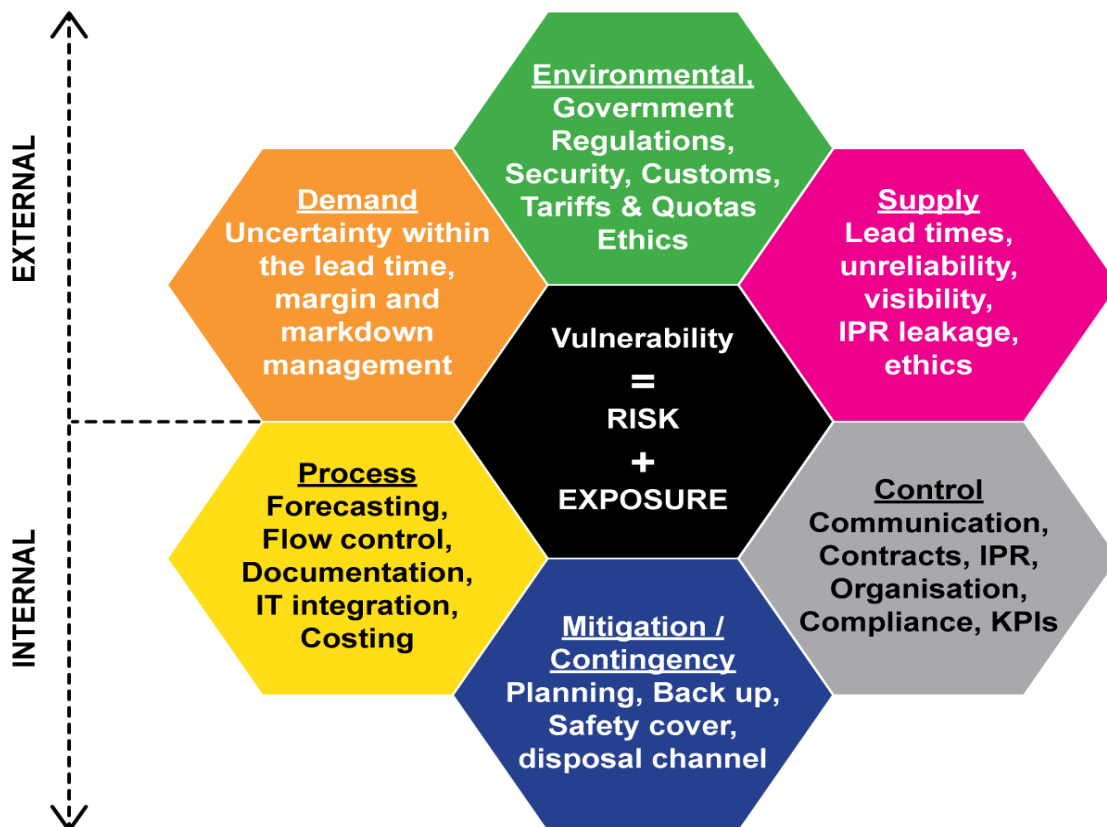
ii.   Risk can be internal or external

Figure 1: Sources of Risk in Procurement

2.1.1 Risks associated with procurement and supply

i.   The following factors may contribute to supply risk:

     a.   Poor planning

     b.   Poor contract management

     c.   Insufficient competent resources

     d.   Unrealistic timescales

     e.   Ever-evolving technology

     f.   Poor communication

     g.   Poor definition of roles and tasks

     h.   Financial restrictions

     i.   Legislative requirements

     j.   Supplier reliability

     k.   Supplier performance risk

     l.   Price risk, supplier constantly changing the prices during the life of the contract.

2.2 Risk analysis process

i.   All risk management processes follow the same basic steps, although sometimes different terminology is used to describe these steps.

ii.   Together these five risk management process steps combine to deliver a simple and effective risk management process.

2.2.1 Step 1: Identify the risk

i.   You and your team uncover, recognise and describe risks that might affect your project or its outcomes.

ii.   Risk identification forms an integral part of risk management.

iii. There are a number of techniques you can use to find project risks.

iv.   The risk register can be used as a tool for identifying risk.

v.   Risks are identified by the key commodity stakeholders, usually in a workshop environment:

a. Define the worst-case scenario.

b. Examine the context and the scope of the contract.

c. Consider all knock-on effects.

i.   Table 1 shows different types of risk.

Contract risk	Mitigation actions	Corrective actions
Non and late deliveries	Comprehensive contract stipulations Penalty clauses in contracts Comprehensive SLA where applicable Effective monitoring of suppliers performance	Enforcement of contract conditions Enforcement of penalty clauses in contract Applying dispute resolution actions Termination of contract Restriction of supplier
Inferior quality	Comprehensive specifications and terms of references Approving subcontractors where applicable Effective quality control on product/service	Enforcement of contract conditions Enforcement of penalty clauses in contract Applying dispute resolution actions Termination of contract Restriction of supplier
Inability of supplier to perform as required	Pre-qualification of suppliers	Ensuring that performance securities are received
Non contractual price adjustments	Comprehensive contract stipulations regarding pricing.	Enforce the pricing structure as per the contract.
Sub-contractors not performing	Approve sub-contractors in advance	Enforcement of contract conditions Enforcement of penalty clauses in contract Applying dispute resolution actions Termination of contract Restriction of supplier

Table 1: Risk Identification

2.2.2 Step 2: Analyse the risk

i.   Once risks are identified, the next step is to assess the impact of risk in terms of likelihood and impact should it occur.

ii. To determine the likelihood and consequence of each risk requires a defined approach.

iii. You develop an understanding of the nature of the risk and its potential to affect project goals and objectives. Include this information in your Project Risk Register.

iv. Risk assessment involves the use of different colour coding to classify the risk.

v.   The risk assessment tool can be used to analyse the risk.

vi. Figure 2 indicates how the risk can be assessed.

1. **When to do it?** This should be part of the strategy development and revisited at agreed intervals.										

2. **Strategies to manage HIGH risk elements:**
   - Accept the risk because nothing can be done
   - Transfer / share the risk via insurance etc.
   - Eliminate the risk via exit strategy or change

This tool from Category Strategy Selection supports users to evaluate and rank identified contract management risks.

3. Ranking Criteria:

IMPACT	CONSEQUENCES						INCREASE PROBABILITY			
							0	1	2	3
	People	Assets	Environment	Reputation	Cost	Business Performance	No probability	Never heard of in industry	Heard of in industry	Incident has occurred in our company
5	Multiple fatalities	Extensive damage	Massive effect	International effect	Massive impact	Massive impact		(yellow)		(red)
4	1 to 3 fatalities	Major damage	Major effect	National effect	Large impact	Large impact		(yellow)		(red)
3	Major health effect injury	Localised damage	Localised effect	Considerable impact	Considerable impact	Considerable impact		(yellow)		(red)
2	Minor health effect injury	Minor damage	Minor effect	Limited impact	Limited impact	Limited impact	(green)			(yellow)
1	Slight health effect/ injury	Slight damage	Slight effect	Slight impact	Slight impact	Slight impact	(green)			(yellow)
0	No health effect / injury	No damage	No effect	No impact	No impact	No impact	(green)			(yellow)

Figure 2: Risk Assessment Tool

2.2.3 Step 3: Evaluate or rank the risk

i.   You evaluate or rank the risk by determining the risk magnitude, which is the combination of likelihood and consequence (impact/severity).

ii.   You make decisions about whether the risk is acceptable or whether it is serious enough to warrant treatment.

iii. These risk rankings are also added to your Project Risk Register.

iv.   The Risk Rating Matrix is a tool (refer to the templates)to present the evaluated risk.

v.   Figure 3 shows how the risk is classified.

Figure 3: Risk Evaluation Grid

2.2.4 Step 4: Manage the risk

i.   The management of risks in procurement may take different forms.
ii.   Some of the risk measures could be preventative, others about risk avoidance or transfer.
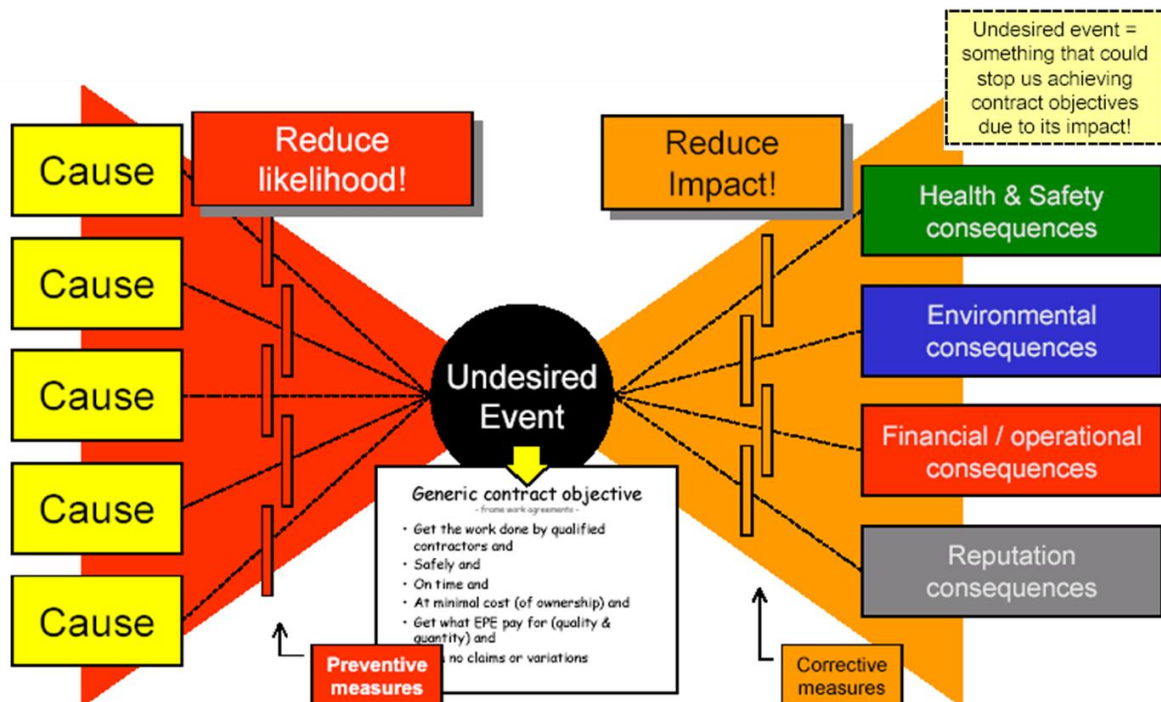iii. Figure 4 indicates different approaches to managing risk, either by preventative or corrective measures.

Figure 4: Risk Management Approach

2.2.4.1 Risks management approaches

i.   There is no one best method for managing risk. Different approaches are informed by the magnitude and the impact of risk on the procurement objectives.

ii. The four approaches can be classified as the 4Ts.

iii. The various approaches can be applied to different commodity strategies.

    a. Tolerate risk

        i.   This is the type of risk that has low probability and the impact may be managed by the institution.

        ii. This risk can be associated with the commodities classified as routine with no immediate impact on service delivery should they not be delivered.

    b. Treat risk

        i.   This is the type of risk that the institution can mitigate or reduce its severity.

        ii. The institution takes a deliberate approach to reduce the impact and severity of the risk should it occur.

iii. An example: where a supplier fails to supply a commodity classified as a strategic commodity.

iv. The institution may opt to undertake closer supplier relationship management and improved communication to mitigate the risk of failure and enhance continuity of supply.

c. Transfer risk

i. Identified risk can also be moved to a third party which is better placed to manage it.

ii. This approach is not ignoring the risk but is about a deliberate approach to have it managed by those better suited to do so.

iii. This could be in the form of insurance or developing the contractual terms that transfer the risk and liability to a supplier.

iv. The type of specifications can be applied as an example for transferring the risk and liability.

v. For example: a performance-based specification transfers the risk to the supplier and a conformance specification transfers the risk to the procuring institution.

d. Terminate risk

i. The procuring institution must develop a risk strategy designed to eliminate any risk around a commodity that is classified as critical, high on both impact and likelihood.

ii. The risk can have a huge impact on service delivery, at the same time being costly should an error be allowed to happen.

iii. Building closer relationships or adopting a vested model approach can eliminate some of the risks associated with the commodity.

iv. The risks scorecard can be used to profile and understand the risks associated with the commodity.

2.2.5 Step 5: Monitor and review the risk

2.2.5.1 Monitoring and review of the risk management plan

i. To ensure effective risk management, the procuring institution must:

a. Measure risk management performance against pre-agreed indicators, that are periodically reviewed for appropriateness.

b. Regularly monitor and measure progress against the risk management plan.

c. Regularly review whether the risk management plan, policy and plan are still relevant and applicable, due to the ever-changing nature of risks and business operations.

d. Regularly report on risk, progress with the risk management plan and how well the risk management policy is being followed.

e. Regularly review the effectiveness of the risk management plan.

ii. This is the step where you take your Project Risk Register and use it to monitor, track and review risks.

iii. The Team must allocate all identified and documented risks to owners, who will monitor and ensure that the correct mitigation technique is adopted and the necessary contingency measures are put in place to minimise the impact of risk.

iv. Where a risk is allocated to another party, e.g. a contractor, the Team should make sure that they still monitor its management, or at least ensure that the other party is monitoring it at an appropriate level.

2.2.5.2 Communication and Consultation

i. Communication and consultation with external and internal stakeholders is an important part of the risk management process.

ii. A communication plan must be developed and managed accordingly.

iii. A culture of risk identification, assessment and management must be cultivated through effective communication.

iv. Communication enhances the ability to manage risk through:

a. A consultative team approach.

b. Understanding the stakeholder interests and priorities.

c. Leveraging the team's expertise to manage the risks.

d. Implementing effective change management.

e. Ensuring that the decisions are based on accurate information.

3.0 Templates

3.1 Risk register

Sr No	Date Raised	Risk Description	Likelihood of the risk	The impact of the risk occurs	Severity	Owner	Mitigating Action	Contingency Plan	Progress on Action	Status	Resource
1	22 Sep 2023	Lack of communication causes lots of issues.	High	High	High	Project Manager	Create a proper communication plan and have it followed seamlessly.	Correct misunderstandings immediately by clarifying all doubts. Take help from the project sponsor.	Communication plan in progress.	In Progress	Communication Plan
2											
3											
4											
5											
6											

Legend: Red (high), Yellow (moderate), Green (acceptable)

Table 2: Risk Register

Last Updated: February 2024

3.2 Risk rating matrix

		Probability / Likelihood				
		1 **Rare**	**2** **Unlikely**	**3** **Possible**	**4** **Likely**	**5** **Almost Cetrtain**
Consequence (impact/severity)	1 Negligible	1	2	3	4	5
	2 Low	2	4	6	8	10
	3 Moderate	3	6	9	12	15
	4 High	4	8	12	16	20
	5 Extreme	5	10	15	20	25

Legend: Red (high), Yellow (moderate), Green (acceptable)

Table 3: Risk Rating Matrix

Look at the probability/likelihood of the risk happening and place this on a scale ranging from:

1 = 'rare';   2 = 'unlikely';   3 = 'possible';   4 = 'likely';   5 = 'almost certain'

Look at the consequences (impact/severity) that will follow if the risk materialises and is placed on a scale ranging from:

1 = 'negligible';   2 = 'low';   3 = 'moderate';   4 = 'high';   5   = 'extreme'.

Score each risk to determine the risk rating.

3.3 The Risk Scorecard

Use all the information assessed in the previous steps and complete the Risk Scorecard.

Risk Scorecard												
	Low	Probability / Likelihood			High		Low	Practicality				High
	Score	1	2	3	4	5		**Score**	1	2	3	4	5
Low	1	1	2	3	4	5	High	1	1	2	3	4	5
Impact/ Severity	2	2	4	6	8	10	Business Cost (R and or Resource)	2	2	4	6	8	10
	3	3	6	9	12	15		3	3	6	9	12	15
	4	4	8	12	16	20		4	4	8	12	16	20
High	5	5	10	15	20	25	Low	5	5	10	15	20	25

Risk Assessment					Mitigation Strategy				
Risk Statement	**Impact / Severity**	**Probability / Likelihood**	**Risk Score**	**Cost Impact**	**Action Statement**	**Business Cost**	**Practicality**	**Mitigation Score**	**Positive / Negative**
Resistance from User Departments to participate in arrangement	4	3	12		Include top spend departments in CFST	3	4	12	p
Lack of data to support strategy (Municipal and Public Entities spend)	3	3	9		Manual data collection	2	3	6	p
Incorrect assumptions due to spend information lacking at Municipal and Public Entities	4	3	12		Manual data collection to enhance assumptions	2	3	6	p
Difficulty in dealing with a closed industry system of 4 players that drive pricing	5	3	15		Meetings with industry players/ stakeholders to manage risk	4	5	20	p
			0					0	0
			0					0	0
			0					0	0
			0					0	0
			0					0	0

Legend: Red (high), Yellow (moderate), Green (acceptable)

Table 4: Risk Scorecard