



Risk Management

Purpose of the Checklist

- To guide and support public procurement practitioners in reviewing, developing and updating their procurement framework, according to the 12 principles of the Recommendation of the Council on Public Procurement.
- To encourage self-assessment and providing a starting-point for implementing the Recommendation.
- To provide more detailed information and guidance for each of the 12 principles as well as actions that can be taken to improve the strategic use of public procurement.

Public Procurement
Principle: **Risk Management**

Procurement Stage:
All phases

Audience: **Policy Maker,
Procuring Entity, Private
Sector, Civil Society**

Description

Risk Management can be strengthened by following proposed steps below, while also improving other closely-linked principles (please refer to the box below). Suggestions and comments on the content and format of the Checklist can be sent to: public.procurement@oecd.org.

Main linkages between risk management and other principles of the Recommendation

- Integrity: Risk management systems contribute to identify and address threats to the proper functioning of the public procurement system, including risks of fraud, misuse of public funds or corruption.
- Efficiency: Risk management tools contribute to identify potential mistakes in the performance of administrative tasks and bring them to the attention of relevant personnel, providing an intervention point where prevention or mitigation is possible.
- E-procurement: E-procurement systems can contribute to the development of risk management systems, such as red flags and data produced by e-procurement systems can be used to undertake risk assessments.
- Capacity: Risk management strategies, related implementation plans and measures set up to deal with the identified risks need to be known and understood among the procurement workforce in order to be effective.
- Integration: Multi-year financing options can contribute to take purchasing decisions that properly allocate risks and achieve long-term efficiency.

(A) Risk assessment tools to identify and address threats to the proper function of the public procurement system

Develop risk assessment tools to identify and address threats to the proper function of the public procurement system. Where possible, tools should be developed to identify risks of all sorts – including potential mistakes in the performance of administrative tasks and deliberate transgressions – and bring them to the attention of relevant personnel, providing an intervention point where prevention or mitigation is possible.

A.1 Adherents should develop and employ a risk management system (including a strategy) for assessment, prevention and mitigation of risks throughout the public procurement cycle. In order to achieve this end, adherents could consider:

- Identifying an entity in charge of developing and monitoring the risk management system, which includes:
 - Developing risk management guidelines, tools and templates for the public procurement entities
 - Specifying the roles of the different stakeholders responsible for supervising public procurement processes and ensuring effective coordination
- Defining clear risk management frameworks, strategies and implementation plans according to relevant international standards, tailored to public procurement,
- Monitoring and periodic evaluation of risk management frameworks, strategies and implementation plans,
- Covering the different types of risks related to public procurement,
- Assessing sector related risks (e.g. expenditure, competition, environmental impact, socio-economic risks, etc.) and opportunities to influence sector markets and engaging sector market participants in support of procurement policy objectives,
- Including specific measures to actively manage risks related to large events and large infrastructure projects.

A.2 Adherents should develop and implement risk assessment tools to identify and address the greatest risks (that exceed risk tolerance) to the proper function of the public procurement system. This can include:

- Tools that identify risks of all sorts, including:
 - Risks of errors and anomalies in all aspects of the procurement process due to a lack of awareness on the part of the stakeholders involved or due to an objective difficulty in the case of complex projects,
 - Financial risks, particularly during periods of severe economic and financial uncertainty,
 - Risks of fraud, misuse of public funds or corruption, in case of misappropriation,
 - Reputational risks/potential damage to the image of contracting authority.

- Tools that identify the risks and/or illustrate risks that are already identified across positions, activities and particular projects using the following techniques:
 - Risk register,
 - Risk heat map,
 - Survey and questionnaires,
 - Interviews and focus groups,
 - Discussions with key stakeholders across auditable unit,
 - Research of relevant publications,
 - Analysis of historical data.
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A.3 Adherents should assess risks associated with each of the procurement stages. This can include:

- Evaluating the likelihood and impact of the identified risks,
 - Determining the level of risk tolerance and risk appetite,
 - Examining the suitability of existing controls and prioritising residual risks,
 - Documenting the risk profile.
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A.4 Adherents should bring greatest procurement risks (that exceed risk tolerance) to the attention of relevant personnel. In order to achieve this end, adherents could consider:

- Establishing red flag or other systems that provide warning signals or hint of something that needs extra attention to exclude or confirm potential fraud/corruption. Red flags can include:
 - Complaints from bidders
 - Multiple contracts below procurement thresholds
 - Unusual bid patterns
 - Seemingly inflated fees
 - Suspicious bidder
 - Lowest bidder not selected
 - Repeated awards to the same contractor
 - Changes in contract terms and value
 - Multiple contract change orders
 - Poor quality works and/or services
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A.5 Adherents should develop and implement risk mitigation mechanisms, reducing the likelihood and impact of the greatest procurement risks (that exceed risk tolerance). In order to achieve this end, adherents could consider:

- Protecting vulnerable public procurement entities against political interference through measures such as:
 - Appeal mechanisms through which a public procurement entity can appeal against a decision of dismissal
 - Ensuring secure, accessible and confidential whistle-blower system, effectively protected by the legal system, for the public reporting of cases of fraud, corruption or other prohibited practices or behaviour

- Human resource policies that recruit public procurement experts based on a merit-based system and require strong integrity commitment from the public procurement entities
- Ensuring an adequate segregation of duties by:
 - Separating the responsibilities for requisitioning, purchasing and receiving functions from the invoice processing, accounts payable and general ledger functions
 - Separating purchasing function from requisitioning and receiving functions
 - Separating invoice processing and accounts payable functions from the general ledger functions
 - Separating cash disbursement records entries functions from general ledger entries function
 - Avoiding excessive fragmentation of procurement functions
- Applying electronic technology on public procurement system for:
 - Preventing direct contact between public procurement entities and potential suppliers,
 - Standardising procurement processes.
- Engaging regularly with the identified risk owners (entities or individuals) through:
 - Appraisal of public procurement entities,
 - Mandatory disclosure of interests, assets, hospitality and gifts.

(B) Promotion of risk management strategies

Publicise risk management strategies, for instance, systems of red flags or whistleblower programmes, and raise awareness and knowledge of among the procurement workforce and other stakeholders about the risk management strategies, their implementation plans and measures set up to deal with the identified risks.

B.1 Adherents should publicise risk management strategies and raise awareness and knowledge of the public procurement entities and other stakeholders about the integration of risk management processes within the procurement cycle and measures set up to mitigate the identified risks. In order to achieve this end, adherents could consider:

- Engaging in communication to strengthen trust between stakeholders and control activities,
- Organising awareness campaigns and events on the importance of integrating risk management activities into daily business practices,
- Providing trainings sessions and workshops to inform relevant public procurement entities about their risks and ways to handle the identified risks,
- Circulating periodic messages using various media (e.g. newsletter, promotional poster, brochures, videos, handbook, etc.) to relevant stakeholders on the existing risk management strategies,
- Disseminating best practices of risk management case studies from leading organisations,
- Inviting public procurement entities to relevant conferences and seminars on risk management strategies.