Government of Western Australia
Department of Finance

Risk Management in the Procurement Context Guideline

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Risk Management in the Procurement Context Guideline

1. Introduction to managing risk in procurement

Risk management is an important process that enables good procurement outcomes for the WA Government. This guideline provides an overview of key terminology and concepts relevant to managing risk in the procurement context. The information in this guideline is general in nature and is not intended to substitute subject matter specific guidance or specialist advice given in the context of an individual procurement process.

1.1 What is risk management?

The International Standard ISO 31000:2018 defines risk as “the effect of uncertainty on objectives”, however in simple terms, risk is the likelihood of deviation from the planned outcome. Refer to Appendix 1 for more information about key risk management terminology and concepts used in this guideline and the template Risk Workbook.

Risk management refers to the processes of identifying, analysing and evaluating risks. Risk management plays a role in every stage of the procurement lifecycle and should be considered in all government buying from ‘every day’, low value purchases to high value, strategic contracts and projects.

Risk management is an ongoing process. Risk should be considered as early as possible during the procurement planning stage and revisited during the contract development stage and the contract management stage. Or in the case of a project, risk should be considered throughout the project lifecycle.

Risks in the procurement context are found in at least two different places. There is risk related to the contract and contract deliverables (i.e. goods, services or works), but also, risk related to the procurement process itself. When thinking about risks in a procurement context it is important that you think of both of these areas.

Often, a procurement exists as part of a broader project and consequently the risk management process for the project may address procurement risks (e.g. as part of a project plan for works procurement). However, where the project planning process has not covered procurement risks, it is highly recommended that the principles of risk management are applied as part of the procurement process stage as well.

1.2 Why manage risk as part of the procurement process?

The Western Australian Procurement Rules require agencies to establish processes for managing risks associated with the procurement process and the resultant contract (Procurement Rule C2.6).

There are many other important reasons for managing risk as part of the procurement process. Some of these reasons include:

- enabling value for money procurement outcomes;
- identifying insurable risks and including appropriate insurance requirements in the contract;

- maintaining contractual liability cover provided by the Insurance Commission of WA (**ICWA**);
- early identification of potential issues that may occur during the life of the contract;
- increased probability of a successful contract outcome;
- minimising the agency's exposure should problems occur;
- enabling more efficient use of resources;
- promoting teamwork by all stakeholders; and
- making decisions based on priorities and quantified assessment of risks.

1.2.1 Value for money

Contract terms and conditions set out which party, the WA Government or the supplier, is responsible for certain risks or risk mitigation strategies, like insurance policies. When suppliers are allocated risk, they are likely to include this within their offered price. Therefore, how you allocate risk can impact on the value for money is achieved.

Some of the ways that risk allocation can impact value for money include:

- suppliers may include the cost of obtaining insurances within their offers, particularly if the contract insurance requirements are greater than industry standard;
- insurance requirements, liability and/or indemnity clauses may dissuade a supplier from submitting an offer if they cannot meet those requirements or consider them to be unfair; or
- the agency accepts risks that are outside of its control and is liable for issues that occur during the life of the contract, resulting in additional costs being incurred.

An effective risk management process can be used to determine which party is best able to manage different types of risk and this will help to achieve a value for money outcome.

1.2.2 Identifying insurable risks

Insurance is a commonly used risk management strategy. The risk assessment process can help to determine which risks can be insured, either by the supplier or the agency.

Standard insurance requirements are included within the Department of Finance's approach to market templates, such as the goods and services Request templates. The best way to determine whether these standard insurance requirements are suitable for your procurement process is to use the information gained from a detailed risk assessment. If your agency needs advice on changing these insurance requirements, based on a risk assessment process, seek advice from ICWA.

For more information on government and supplier insurances, refer to the Procurement Insurance Requirements Guideline.

1.2.3 Contractual liability cover

ICWA provides contractual liability cover to agencies as part of the RiskCover Fund. This cover ensures that the State will pay for losses that occur as a result of government contracts and it applies automatically unless:

- the agency waives or limits its right of recovery (i.e. agrees to cap liability) or indemnifies another party; or

- the contract establishes a joint venture or partnership in which the State is one party of the joint venture or partnership.

Agencies should notify ICWA if any of the above situations arise, and ICWA will evaluate reinstating cover.

Where further information is required about contractual liability cover, contact ICWA or visit the website at: https://www.icwa.wa.gov.au/.

1.3 Agency risk management practices

When reading these guidelines, it is important to be aware that each agency has its own risk management guidelines and processes that are outlined in its risk management framework. Procurement and project risk management must be aligned with your agency's risk management framework.

Each agency has a Risk Coordinator who will be able to provide information about risk management guidelines. The Risk Coordinator will often be someone within the agency's corporate services area. If you are unable to ascertain who your agency's Risk Coordinator is, contact ICWA for assistance.

1.4 When to undertake a risk assessment

It is best practice to undertake some form of risk assessment for all government purchases, regardless of value. Most government procurement processes or projects have an element of risk and would benefit from a risk assessment process being undertaken.

If a purchase is routine, low value and low risk by nature, it may not be necessary to undertake a formal risk assessment process as outlined in section 2 of this guideline.

While contract value is one indicator of how risky a procurement or project might be, it is not the only indicator. A low value purchase does not mean it will be a low-risk procurement. It is therefore important to consider risk for purchases of all values.

There are a number of factors that make it necessary to undertake a detailed risk assessment process regardless of the contract value, including but not limited to:

- the agency intends to cap the supplier's liability;
- the procurement is for a whole-of-government contract or a multi-user cooperative procurement arrangement;
- the procurement is for a strategic project or capital works;
- the procurement has complex specifications or requirements;
- Government, media or political interest;
- the procurement is likely to require complex negotiations;
- potential for fraud or corruption.

If your procurement has one of these aspects, it is recommended that you undertake a detailed risk assessment as outlined in section 2 of this guideline. This is not an exhaustive list and there are many other factors that may also require a procurement to undergo a detailed risk assessment.

1.5 Example risk profiles

A number of common factors can assist in determining whether a procurement is routine and low risk or whether it is likely to be higher risk and will benefit from a formal risk assessment process.

The example risk profiles in this section provide guidance on what risks associated with procurement processes or contract deliverables may look like. The tables suggests factors that may cause a risk to be classified towards the lower or higher end of the risk spectrum for each risk category. Proper classification of risks across the risk spectrum will be driven by the factual circumstances of each procurement.

This information is provided for example only and is not intended to be an all-encompassing list of the potential risks. It is also not intended to be a substitute for a thorough risk assessment, and you should ensure that your agency's risk management requirements are met.

1.5.1 Procurement process risks

The table below lists examples of risks directly associated with the procurement process itself, together with factors that may result in the risk being classified towards the lower or higher end of the risk spectrum.

Process Risks	Lower risk	Higher risk
Budget / funding	Funding is available for the full term of the contract.	Funding has not been secured for the full term of the contract.
Nature of the market	Competitive market.	Limited or restricted market.
Timelines	No requirement to complete the procurement by a certain date.	Restrictive or tight timelines to complete the procurement.
Stakeholders	Small group of stakeholders that are supportive of the procurement.	Numerous stakeholders with opposing requirements. High level of political, community or media sensitivity.
Scope / Specification	Requirements are simple and easily defined, e.g. 'off-the-shelf' goods or services that do not require customisation.	Requirements are complex and require detailed specifications, e.g. a product or service that requires a high degree of customisation.
Data	Accurate and reliable data is available to estimate the contract value.	Accurate and reliable data is not available to estimate the contract value.
Advertising time	Respondents have adequate time to develop a competitive offer.	Respondents do not have adequate time to develop a competitive offer.
Evaluation panel	Evaluation panel members are available and unlikely to have conflicts of interest.	Difficult to form an evaluation panel that is free from conflicts of interest.
Evaluation	The requirements can be adequately evaluated via a desktop assessment.	Trialling, testing and/or a demonstration is required to

Process Risks	Lower risk	Higher risk
		evaluate the suitability of the requirements.
Negotiations	Contract negotiations are very unlikely to occur.	Negotiations are likely to be complex.
Approvals	Single approver. Unlikely to be delays in approval.	Multiple approvals required. Likely to add significant time to the process.
Contract management	The contract will have a dedicated contract manager. Contract management requirements are simple and require minimal effort.	The contract will not have a dedicated contract manager. Contract management requirements are complex and require moderate to significate effort.

1.5.2 Goods and services risks

The table below lists examples of risks that commonly arise when the contract deliverables are goods or services, together with factors that may result in the risk being classified towards the lower or higher end of the risk spectrum.

Good / Service Risks	Lower risk	Higher risk
Nature of the good or service	'Off-the-shelf' good or service with no customisation required.	Complex requirements that need to be designed specifically for the customer.
New or emerging technology	No requirement to use new or emerging technology.	Requirement to use new or emerging technology.
Priority	The good or service is not related to the agency's core operations or strategic plan.	The good or service is related to the agency's core operations or strategic plan.
Interdependency	No interdependencies with other projects, systems, goods or services.	Interdependency with other projects, systems, goods or services.
Agency capability and experience	The agency has recent experience and capability with the good and/or service.	The agency does not have recent experience and capability with the good and/or service.
Supply chain	The agency has a good understanding of the supply chain. There are alternative sources of the good and/or service, available if required.	The supply chain is not well known. There are limited or no alternative sources of the good and/or service.
Supplier location	Local suppliers and/or personnel.	No local suppliers and/or personnel. International suppliers with foreign exchange risk.

Good / Service Risks	Lower risk	Higher risk
Delivery location	Single delivery location.	Multiple delivery locations.
Disruption of supply or services	End users or the agency's core business is unlikely to be impacted if there is a disruption to supply of the good or service.	Ender users or the agency's core business is likely to be negatively impacted if there is a disruption to supply of the good or service.
Education and training requirements	There is no requirement for education and training.	There is a requirement for personnel or end users to undertake education and training.
Health, welfare and safety of personnel, customers, end users or citizens	The contract or a problem arising from it is highly unlikely to impact health, welfare and safety of agency personnel, customers, end users or citizens.	The contract or a problem arising from it may impact health, welfare and safety of agency personnel, customers, end users or citizens.
Government, media or political interest	Very unlikely to attract government, media or political interest.	May attract government, media or political interest.
Government policy, priority or objective	The good and/or service will not impact any government policies, priorities or objectives.	The good and/or service will impact government policies, priorities or objectives.
Confidentiality	No confidential information.	Confidential information involved.

1.5.3 Works risks

Generally, capital works projects will involve complex risks and a detailed risk assessment will be undertaken as part of the project management process. This is particularly relevant to any strategic projects and capital works projects. The risk assessment will be driven by facts and circumstances of each works project.

1.5.4 Maintenance services risks

The classification of risks associated with maintenance services will depend on the nature of the services required, including determination of whether the procurement is for minor works (e.g. replacing a damaged window) or a service (e.g. cleaning a window).

The table below lists examples of risks that may arise when the contract deliverables are maintenance services, together with factors that may result in the risk being classified towards the lower or higher end of the risk spectrum.

Maintenance Risks	Lower risk	Higher risk
Requirements	'Everyday' maintenance services that involve a single trade (e.g. a painter, glazier, electrician or plumber).	Maintenance services requiring the involvement of multiple trades.
Complexity	Requirements are simple and easy to define.	Requirements are complex and require a detailed specification.

Maintenance Risks	Lower risk	Higher risk
Disruption of supply or services	End users or the agency's core business is unlikely to be impacted if there is a disruption to supply or services.	Ender users or the agency's core business is likely to be negatively impacted if there is a disruption to supply or services.
Duration	One-off requirement for services.	Services required over a period of time.
Subcontracting	Subcontractors not involved.	Subcontractor arrangements required.
Materials	No hazardous materials or difficult to source materials required for the service.	Hazardous materials or difficult to source materials required for the service.
Site requirements	Possession and control of the site is not required by the supplier.	Supplier requires exclusive possession and control of the site at which the services are to be provided.
Prequalification	Supplier has been prequalified for maintenance work.	Supplier has not been prequalified.
Presence of public on site	Maintenance will not take place while members of the public are on site.	Maintenance will take place while members of the public are on site.

2. Procurement Risk Management Process

It is recommended that the risk management process for government procurement is based on the International Standard 31000:2018 Risk Management – Guidelines.

The diagram below shows the steps involved in the risk management process:

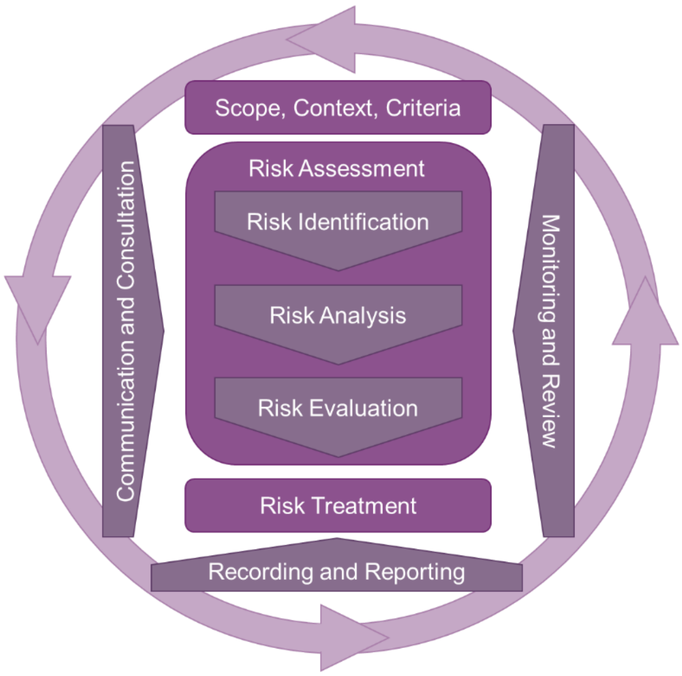

Diagram 1 – The Risk Management Process - Adapted from Risk Management: ISO 31000:2018

The key elements of this diagram are discussed in the sections below.

Consult your agency's risk management team if you require more detailed information about risk management in general.

2.1 Communication and consultation

The risk management process cannot be effectively undertaken by one person. Even in the case of routine, low risk procurements, the results of a risk assessment likely need to be communicated to another person within the agency.

ISO 31000:2018 recommends that communication and consultation with stakeholders should occur throughout the risk management process.

Communication and consultation in procurement risk management may be important for:

- seeking approval to make a purchase;
- completing a risk assessment with internal and external stakeholders;
- allocating risks to relevant parties within the agency or to a supplier; and
- ensuring that risk owners are aware of their responsibilities.

It is important to involve the right people in the risk assessment process. It is likely that people from different areas within an agency will need to be involved to provide the necessary context for an effective risk management process.

The areas of expertise that may need to be involved in the risk management process include:

- procurement expertise for procurement related risks;
- subject matter experts for risks related to the goods, services or works being purchased;
- risk management expertise to assist with the risk management process;
- legal expertise to assist with liability and indemnity clauses; and
- ICWA to provide advice on insurable risks.

2.2 Scope, context, criteria

No two procurement processes are likely to be the same and contract deliverables vary widely across the public sector. For this reason, it is important to ensure that your risk management process considers the scope and context of the procurement or project within your agency's risk management process.

2.2.1 Scope

The scope of the risk assessment process should include the whole procurement lifecycle from procurement planning, contract development, through to contract management.

In the case where the procurement is part of a larger project that is being project managed, the risk assessment process is likely to be much broader in scope.

2.2.2 Context

The context should consider how both internal and external factors will impact the procurement or project. Common examples of the factors that impact WA government procurement or projects include:

- the Western Australian Procurement Rules;
- State Government policies such as the Aboriginal Procurement Policy, the WA Buy Local Policy, the Western Australian Industry Participation Strategy, the Delivering Community Services in Partnership Policy, Priority Start etc;
- sector and industry procurement frameworks such as the WA Social Procurement Framework and the ICT Procurement Framework;
- your agency's core business and objectives as outlined in its strategic plan;
- your agency's risk management framework;
- the stakeholders that will be impacted by the procurement process and/or the contract deliverables;
- the market conditions that may impact your procurement;
- the expertise available to assist with the procurement process and establishing a contract; and
- previous contracts for similar requirements or in similar markets.

It is important to understand the context of the procurement or project as a whole as this will help to identify potential sources of risk.

2.2.3 Criteria

Each agency should have a risk management framework that includes criteria for evaluating risk. This includes levels of risk tolerance and risk appetite. These criteria may be different for each agency and therefore generic criteria has not been discussed in these guidelines.

2.3 Risk assessment process

The risk assessment process has three key steps:

- risk identification;
- risk analysis; and
- risk evaluation.

ISO 31000:2018 recommends that these steps are conducted collaboratively and are revisited based on the best available information. It is critical to involve/include subject matter experts who have a good understanding of the business impacts.

In the procurement context, it is recommended that the risk assessment is revisited at each of the key stages of the procurement lifecycle; procurement planning, contract development and contract management.

For strategic procurement, your agency may consider engaging a risk management expert to assist with facilitating the risk assessment process. If your agency does not have access to risk management expertise, risk management consultancy services can be sourced from the Common Use Arrangement for Audit and Financial Advisory Services (CUAAFA2018).

2.3.1 Risk identification

The information gained in establishing the context of the procurement is useful for identifying relevant sources of risk. You should consider risks that are within and outside of your agency's control.

In addition to current risks, it is also important to consider emerging and future risks in the risk identification process. Emerging and future risks may not impact on a procurement or project in the short term, but will potentially become a risk over the life of the contract.

The 'Examples of Risks' worksheet in the template Risk Workbook also provides a list of common risks related to procurement.

2.3.2 Risk analysis

Once risks have been identified, they should be analysed to gain a better understanding of how the risks will impact upon your procurement or project. The most common method of analysing risk is to consider the likelihood of each risk event occurring and the magnitude of the consequence of each risk event occurring.

The likelihood rating describes how likely it is that a risk event will eventuate. Likelihood can be defined in terms of probability or frequency, depending on what is most appropriate for your agency's purposes. The consequence is the outcome or impact of an event, e.g. late delivery causes significant service delivery disruption.

Your agency will have tables that define likelihood and consequence ratings based on your agency's risk management framework.

A risk that eventuates may impact your agency across several different areas, to a greater or lesser extent. When analysing the consequences of a risk event, you need to consider the level of impact in relation to each of the consequence categories defined in your agency's consequence rating table.

For example, a risk may have an impact of 5 for 'financial loss' and 4 for 'reputation and image' and little or no impact in the other areas. Both ratings may be recorded, as this demonstrates that your consideration of the risk has been thorough. Where there are multiple ratings for a risk, the highest combination of consequence/likelihood is taken as the level of risk.

When selecting the likelihood and consequence rating, this must consider the existing controls for the particular risk. For example, if considering the consequence of a fire in a building which has, and will continue to have, effective controls to stop fire spreading from one room to another, the loss is the value held within a single room, not the entire building.

It can also be helpful to consider how risks affect each other, particularly if risks are likely to occur at the same time and become more severe as a result. Analysing the interdependence of risks and including this in a risk assessment can assist with managing risks that may occur in the same period.

Your agency should quantify consequences in financial terms wherever possible. The financial cost of a loss, known as maximum probable loss, is used for setting insurance and indemnity limits in a contract. This is discussed further in the Procurement Insurance Requirements Guideline.

The results of a risk analysis should be recorded. Your agency can use the templates provided in the template Risk Workbook.

2.3.3 Risk evaluation

Once the risks have been analysed, the next step is to determine what additional actions, if any, should be taken. This can include:

- considering treatment options, which are discussed in the next section;
- relying on existing controls that your agency has in place; and/or
- undertaking further analysis of the risks.

2.4 Risk treatment

Once risks have been identified, analysed and evaluated, it may be necessary to explore treatment options.

The International Risk Management Standard ISO 31000:2018 identifies several options for treating risks:

Treatment	Description	Example
Avoidance	The agency decides not to take an action to avoid a risk occurring (i.e. remove the risk source or not undertake a risk-producing activity). This option may not always be possible if the risk relates to a fundamental part of the procurement process or the contract deliverables.	The agency chooses to delay the advertising of a Request from late-December to late-January to avoid the risk of receiving no or insufficient offers due to supplier shutdowns over the year-end holiday period.
Opportunity	The agency accepts the risk to pursue an opportunity.	The agency decides to procure new medical technology as the potential benefits to the WA public outweigh the risks of introducing new training and processes.
Removing the source of the risk	The agency decides to remove the source of the risk so it cannot occur. This option may not always be possible if the risk relates to a fundamental part of the procurement.	The agency includes a contract requirement for cloud-based services to be hosted in Australia to remove the risk of hosting data overseas.
Changing the likelihood	The agency puts actions in place to reduce the likelihood of a risk occurring.	The agency releases a Request for longer than the minimum advertising period required under Procurement Rule D4.1.A to increase the likelihood that suppliers will have adequate time to develop a quality offer.
Changing the consequence	The agency puts actions in place to reduce the	The agency develops a panel arrangement for catering services to reduce the consequence of catering

Treatment	Description	Example
	consequence of a risk occurring.	being unavailable if one supplier is fully booked on the day of a catered event.
Sharing the risk	The agency shares the risk with a contracted supplier through liability, indemnity and insurance clauses.	The agency includes a contract requirement for cyber security insurance to transfer the risk of a security breach to the supplier as they are the party best able to manage the risk.
Retaining the risk	The agency makes an informed decision to accept the risk and the consequences.	The agency decides not to exercise an extension option with a contracted supplier as the benefits of retendering outweigh the risk of the relationship with the supplier being impacted.

Risk treatments should be assessed to ensure that the cost of implementing the treatment does not exceed the likely benefits. The treatment options should also be evaluated to ensure that the desired result is being achieved. For example, actions intended to transfer risk to other parties through insurances or contract conditions usually only succeed in sharing the risk.

2.4.1 Indemnity and liability clauses

Indemnity and liability clauses in contracts can be used to mitigate risk by transferring it to the supplier or limiting liability.

An indemnity clause in a contract can be used to transfer some or all risk from one contract party to another in the event of loss or damages that arise out of the contract.

For example, in the context of goods and services procurement, the indemnity clause in the General Conditions of Contract (**GCOC**) states that the Contractor (the supplier) will indemnify the Contract Authority (the State) against all losses or claims made by a third party arising from a breach of contract. This clause shifts the risk of losses arising from third party claims in connection with the contract from the State to the supplier. This explanation is a summary of the relevant clause, refer to the current version of the Request Conditions and General Conditions of Contract for the detailed clause.

The GCOC indemnity and liability clauses do not apply to ICT procurement. The 'Request – ICT, CUA, Group Buy or Panel Arrangement' template includes alternative liability and indemnity clauses for use with ICT contracts.

If an agency is considering altering the indemnity and liability clauses in the relevant procurement templates (approach to market document or contract terms) prior to the release of the documents to the market or during contract negotiations, it is important to seek ICWA's advice, otherwise contractual liability cover will be voided. It is also recommended that legal advice is sought.

If indemnity and liability limits are included in the contract, they should reflect the risks and maximum probable loss values calculated as part of the risk assessment process.

2.4.2 Capping liability

Suppliers may seek to limit their liability to a specified amount or to a value of cover based on the contract value or a multiple of the contract value. This will usually be negotiated during the procurement process in return for the supplier offering a lower price or other value-added benefit. Liability caps may also encourage small and medium business engagement.

However, agencies should exercise caution when entering negotiations to cap liability as it can result in an increased exposure if a liability eventuates. This includes understanding the parameters of a liability cap to see if it is limited to specific categories of loss, for example a liability cap may only apply to consequential loss as opposed to any loss arising from the supplier's liability.

It is important to ensure that if a liability cap is proposed by a supplier, a thorough risk assessment is undertaken to ensure that it considers the likelihood of all relevant risks and the resulting financial consequences that may arise.

Please note that any liability cap imposed on a contract will void contractual liability cover and a request for reinstatement will need to be made. See section 1.2.3 above and the Procurement Insurance Requirements Guideline for more information on contractual liability cover.

2.5 Monitoring and review

Your agency should monitor the risks throughout the procurement or project lifecycle and take corrective action where appropriate. The risk monitoring, reviewing, and reporting process should include:

- revisiting and reviewing the risks and risk treatment methods during the evaluation stage and contract commencement stage to ensure the assessment remains current and as accurate as possible;
- monitoring and reviewing the risk register throughout the life of the contract to ensure it includes all of the relevant risks, that the likelihood or consequence of risks occurring has not changed, and that the treatment options continue to be effective;
- monitoring and reviewing the supplier's insurance coverage to ensure it remains current and meets the contract requirements; and
- monitoring and reviewing the performance of the contract against contract objectives to ensure that identified risks do not occur.

Managing risks is one of the key roles of a contract manager or project manager. The level of risk associated with a contract can also be an important factor in guiding the allocation of resources required to manage it. Contract management guidance is available on wa.gov.au.

2.6 Recording and reporting

Part of good risk management practice is ensuring that the risk management process is recorded and reported.

The templates contained in the template Risk Workbook can assist you with recording the risk management process. As this is an Excel workbook, it is recommended that a PDF copy of the 'Risk Assessment Details', 'Risk Identification Form' and 'Risk Register' worksheets are saved at each contract milestone or approval stage to keep a record of the risk assessment process at that point in time.

Any changes to the risk management process should be communicated to the relevant people within your agency.

3. Applying a Risk Assessment in a Procurement Process

The findings from a risk assessment should inform each stage of the procurement process. The outcome of the risk assessment can impact the recommended approach to various aspects of the procurement.

The table in Appendix 2 of this guideline illustrates this point by providing detailed guidance showing how the overall level of risk associated with a procurement impacts on different aspects of the procurement process.

4. Further information

This guideline has been published by the Department of Finance to provide an overview of risk management concepts for practitioners working in procurement across the public sector. It is general in nature and should be read together with related resources, including:

- the Procurement Insurance Requirements Guideline, Risk Workbook, and other Procurement Guidelines, and
- relevant online and workshop training, such as Risk Management in the Procurement Context Training and related modules, and other training for buyers.

You are also encouraged to seek further information and guidance, relevant to the type of procurements conducted by your agency, from sources including but not limited to:

- your agency's risk management policies, procedures or guidance
- industry or risk category specific information (e.g. cyber (technology) insurance guidance under the CUAICTS2021 buyers guide or advice from the Office of Digital Government's Cyber Security Unit)
- your agency's subject matter experts (e.g. works practice advisors), risk management advisors or legal team, and
- external experts such as ICWA or risk consultancy services sourced from CUAAF2018, and SSO for legal matters.

Appendix 1 – Risk Management Terminology

Key risk management terminology and concepts used in this guideline are described below. These terms are also used the template Risk Workbook.

Term	Description
Action	An action is the step or steps that will be undertaken to treat the risk. These are new actions that will be undertaken in addition to existing controls that may already be in place.
Causes	The cause is the event or action that results in a risk occurring. For each risk, you should identify possible causes of the risk event. Each risk may have one or more causal factors which can either directly or indirectly contribute to the risk event occurring. Identifying the range of causes will assist in understanding the risk, identifying controls, evaluating the adequacy of existing controls and designing effective risk treatments. There are often several contributing factors which lead to a risk occurring. There may be both internal and external causes of a risk. Identified causes provide a better understanding of the risk and assist in the process of identifying controls later in the risk management process.
Consequence	The consequence is the outcome or impact of an event, e.g. late delivery causes significant service delivery disruption.
Controls	A well-managed risk will have effective controls for each identified cause. The absence of controls for identified causes highlights gaps in management of the risk and thus areas for improvement. Controls are an existing process, policy, device, practice or other action that acts to minimise negative risk or enhance positive opportunities. Controls are the measures that are currently in place, i.e. at the time of the risk assessment, that reduce the consequences and/or likelihood of the risk. It is useful to cross-reference your controls with the identified causes and confirm there are controls in place for each potential cause of a risk. All controls are looked at as a whole in terms of their adequacy in managing the risk. The adequacy of the controls is assessed on a common sense, qualitative basis. This can be viewed as a reasonableness test: are you doing what is reasonable under the circumstances to manage (prevent or minimise) the risk? The recommended rating scale is as follows: **Excellent** Doing more than what a reasonable person would be expected to do in the circumstances. **Adequate** Doing what a reasonable person would be expected to do in the circumstances. **Inadequate** Doing less than what a reasonable person would be expected to do in the circumstances. If it is reasonably foreseeable that a risk may impact your agency, then you should ensure controls are in place to manage the risk. These controls should be in line with what a reasonable person would do to avoid the unwanted effects of the risk. To assist in determining what is reasonable, the following should be considered: • the likelihood of the unwanted consequence/s occurring if no action was taken

Term	Description
	• the likely severity of the consequence • the availability, suitability and cost (financial and other) associated with implementing the control • the overall need to engage in a risk creating activity • the extent of knowledge about the risk, its elimination or mitigation. The above five points should be equally considered and guide agencies in implementing controls that would be expected of a reasonable person. It is important to remember that the adequacy of controls are considered in terms of doing “all things reasonable” to manage a risk rather than all things possible. If budgets, resources and time were unlimited then doing “all things possible” is achievable. However in reality, budgets are capped and resources are limited.
Critical success factors	The critical success factors are the factors that are essential for the successful performance of a key activity or event.
Maximum **possible** loss	The maximum possible loss is the financial estimate of any costs / damages that could be incurred if a risk eventuates *without* controls or treatments in place.
Maximum **probable** loss	The maximum probable loss is the financial estimate of any costs / damages that could be incurred if a risk eventuates and there are controls and treatments in place to mitigate the effects of the loss.
Likelihood	The likelihood is a general description of probability or frequency of an event, e.g. frequency of late deliveries that cause a significant service delivery disruption.
Residual risk	Residual risk is risk remaining after implementation of risk controls and treatment, e.g. the risk of lateness after selecting the most appropriate supplier.
Risk	A risk is the chance of something happening that will have an impact on objectives, e.g. an event such as late delivery.
Risk acceptance	Risk acceptance is a risk treatment that involves the informed decision to accept the consequences and likelihood of a particular risk.
Risk event or activity	A risk event or activity is the event or activity related to the contract where risks can occur. Risk events or activities can include: • the key activities in each phase of the procurement process; and • the specification of the goods or services being procured.
Risk management	Risk management is the iterative process of managing risk. Risk management encompasses the following elements (as described by ISO 31000:2018): • communication and consultation; • scope, context, criteria; • risk assessment; • risk treatment; • monitoring and review; and

Term	Description
	• recording and reporting. To ensure that all key risks within an organisation are being addressed, a structured, systematic approach to identifying risks is essential. The identification process considers each activity, looks at what is critical to the success of that strategy, activity or function, and then considers what may go wrong.
Risk rating	The level of risk, or risk rating, is the product of consequence and likelihood ratings. For any risk, there may be a number of different consequence/likelihood scenarios. Within each category there may be multiple scenarios ranging from “minor but likely” to “catastrophic but rare”. It is important to rate what is the realistic worst-case scenario, which is the worst-case level of risk considering both consequences and likelihood. Where there are multiple ratings for a risk, the highest combination of consequence/likelihood is taken as the level of risk.
Risk reduction	Risk reduction is the actions taken to reduce either likelihood of an occurrence or its consequences or both.
Risk reference	The risk reference is a number to identify the risk to assist with discussions. There is no standardised method of referencing risks and the risk reference can be unique to each contract or agency.
Risk register	A risk register is a tool used to record information derived from performing a risk management process (see the ‘Risk Register’ worksheet in the template Risk Workbook).
Risk transfer	Shifting responsibility or burden for loss to another party through legislation, contract, insurance or other means.

Appendix 2 – Guidance based on overall risk rating

The table below provides detailed guidance showing how the overall level of risk associated with a procurement process drives different recommended actions throughout the procurement process. Monetary values in this table are calculated using the Total Estimated Value of the Procurement (as defined in the Western Australian Procurement Rules), which includes any extension options and GST.

	Low Risk Procurement	Medium Risk Procurement	High / Extreme Risk Procurement
Risk assessment process	Generally, a detailed risk assessment is not required due to the routine nature of the procurement. Please note that your agency's risk management framework may require a detailed risk assessment due to the estimated value of the contract or other factors. If a detailed risk assessment is required and the Department of Finance (**Finance**) is involved in the relevant procurement process, Finance can provide input in relation to procurement risks.	A detailed risk assessment may not be required if the procurement is routine in nature and your agency has previously undertaken a risk assessment process for the deliverables and put appropriate mitigation strategies in place. It is recommended that you review the risk assessment process for previous iterations of the contract to ensure it is adequate and properly captures the current risk profile. If your agency has not procured the deliverables before, a detailed risk assessment process should be undertaken. It is recommended that the Risk Workbook template is used to document the risk assessment. Please note that your agency's risk management framework may require a detailed risk assessment due to the estimated value of the contract or other factors. If Finance is involved in the relevant procurement process, Finance can provide input in relation to procurement risks.	A detailed risk assessment process should be undertaken. It is recommended that the Risk Workbook template is used to document the risk assessment. Consider engaging a risk specialist (e.g. consultant or in-house subject matter expert) to assist with the risk assessment process. If Finance is involved in the relevant procurement process, Finance can provide input in relation to procurement risks.
Mitigation strategies	Generally mitigation strategies (in addition to those already incorporated in the relevant template documents) will not be required, due to the routine nature of the procurement. Please note that if your agency's risk management framework requires you to undertake a detailed risk assessment, that process should include the identification of controls and actions to ensure that the risks are effectively managed.	If the nature of the procurement process or your agency's risk management framework requires a detailed risk assessment, that process should include the identification of controls and actions to ensure that the risks are effectively managed.	The development of mitigation strategies, including the identification of controls and actions, should be carried out to ensure that the risks are effectively managed. Consider engaging a risk specialist (e.g. consultant or in-house subject matter expert) to assist with the risk management process.

	Low Risk Procurement	Medium Risk Procurement	High / Extreme Risk Procurement
Department of Finance involvement in procurement process	**Goods and services** • **Procurement valued below $250,000:** In accordance with Procurement Rule C1, Finance involvement is not required. • **Procurement valued $250,000 and above:** Finance involvement is required, unless otherwise specified in Procurement Rule C1. Under Rule C1, Finance involvement is not required for certain purchases under Standing Offers (unless required by the relevant buying rules) or purchases in accordance with an Agency Specific Procurement Direction issued under the *Procurement Act 2020*. If your agency has suitable procurement expertise, it may consider asking Finance to provide a review service rather than procurement facilitation.	**Goods and services** • **Procurement valued below $250,000:** Consider engaging Finance to facilitate or review the procurement process even though involvement is not required under Procurement Rule C1. • **Procurement valued $250,000 and above:** Finance involvement is required, unless otherwise specified in Procurement Rule C1. Under Rule C1, Finance involvement is not required for certain purchases under Standing Offers (unless required by the relevant buying rules) or purchases in accordance with an Agency Specific Procurement Direction issued under the *Procurement Act 2020*.	**Goods and services** • **Procurement valued below $250,000:** Consider engaging Finance to facilitate or review the procurement process even though involvement is not required under Procurement Rule C1. • **Procurement valued $250,000 and above:** Finance involvement is required, unless otherwise specified in Procurement Rule C1. Under Rule C1, Finance involvement is not required for certain purchases under Standing Offers (unless required by the relevant buying rules) or purchases in accordance with an Agency Specific Procurement Direction issued under the *Procurement Act 2020*.
	Community services In accordance with Procurement Rule C1, Finance involvement is not required.	**Community services** In accordance with Procurement Rule C1, Finance involvement is not required.	**Community services** Consider engaging Finance for advice or assistance with the procurement process even though involvement is not required under Procurement Rule C1.
	Works Finance involvement is required for all works procurements, unless your agency is listed in Procurement Rule C1 or is authorised by an Agency Specific Procurement Direction (issued under the *Procurement Act 2020*) to undertake the works procurement without Finance's involvement.	**Works** Finance involvement is required for all works procurements, unless your agency is listed in Procurement Rule C1 or is authorised by an Agency Specific Procurement Direction (issued under the *Procurement Act 2020*) to undertake the works procurement without Finance's involvement.	**Works** Finance involvement is required for all procurements, unless your agency is listed in Procurement Rule C1 or is authorised by an Agency Specific Procurement Direction (issued under the *Procurement Act 2020*) to undertake the works procurement without Finance's involvement.

	Low Risk Procurement	Medium Risk Procurement	High / Extreme Risk Procurement
Approach to market	**Goods and services** • **Procurement valued below $50,000:** Use the Very Simple Purchase Template as a minimum, unless using a purchasing card. • **Procurement valued between $50,000 and up to, but not including $250,000:** Use the Written Quote Template Suite as a minimum. • **Procurements valued $250,000 and above:** Use the relevant Request template. **Community services** Use the community services Request templates. **Works** If the procurement is for works, use your agency's works templates or, if Finance is undertaking the procurement on behalf of your agency, Finance's works templates. If the procurement is for maintenance services: • **Procurement valued below $50,000:** Consider using the Very Simple Purchase Template or use your agency's maintenance templates depending on the nature of the service. • **Procurement valued between $50,000 and up to, but not including $250,000:** Consider using the Written Quote Template Suite or use your agency's maintenance templates. • **Procurements valued $250,000 and above:** Use your agency's works templates.	**Goods and services** Regardless of the estimated value of the procurement, the most appropriate procurement template to use is likely to be one of the Request templates. **Community services** Use the community services Request templates. **Works** Use your agency's works templates or, if Finance is undertaking the procurement on behalf of your agency, Finance's works templates.	**Goods and services** Regardless of the estimated value of the procurement, the most appropriate procurement template to use is likely to be one of the Request templates. It may be necessary to seek legal advice to assess whether a bespoke contract is appropriate to manage the risks. **Community services** Use the community services Request templates. It may be necessary to seek legal advice to assess whether a bespoke contract is appropriate to manage the risks. **Works** Use your agency's works templates, or, if Finance is undertaking the procurement on behalf of your agency, Finance's works templates. It may be necessary to seek legal advice to assess whether a bespoke contract is appropriate to manage the risks.

Insurance requirements	Consider accepting the insurance cover provided by the market, noting that this may void contractual liability cover under the RiskCover Fund (as described in 1.2.3 of this Guideline). A detailed risk assessment must be provided to ICWA for contractual liability cover to be reinstated, however, your agency may be comfortable accepting the risk of not having contractual liability cover if the risks are considered to be very low.	Use the insurance clauses contained in the relevant approach to market template and applicable contract terms. The templates published by Finance contain standard insurance clauses (including any specialty insurances that may be required, such as cyber security insurance, maritime insurance etc), as recommended by ICWA. Those clauses should be used, unless research suggests these clauses will impact the value for money outcome. Contact ICWA if the risk assessment suggests the standard insurance clauses in the relevant Finance template or agency template should be changed or supplemented. A detailed risk assessment must be provided to ICWA for contractual liability cover to be reinstated.	Insurance requirements should be determined by the risk assessment process. Contact ICWA if the risk assessment suggests the standard insurance clauses in the relevant Finance template or agency template should be changed. A detailed risk assessment must be provided to ICWA for contractual liability cover to be reinstated.
Liability and indemnity clauses	Use the standard liability and indemnity clauses in the appropriate form of contract (refer to Procurement Rule D1.2).	Use the standard liability and indemnity clauses in the appropriate form of contract (refer to Procurement Rule D1.2). Consider whether there is value in capping liabilities and whether capping liability is appropriate. Any liability caps must reflect the risks and maximum probable loss values calculated as part of the risk assessment process. The liability and indemnity clauses should not be altered without advice from ICWA and the State Solicitor's Office or your agency's legal team. For the avoidance of doubt this includes the capping of liability.	Use the standard liability and indemnity clauses in the appropriate form of contract (refer to Procurement Rule D1.2). The liability and indemnity clauses should not be altered without advice from ICWA and the State Solicitor's Office or your agency's legal team.
Negotiations	Procurement processes categorised as low risk should not involve complex negotiations. If your process requires negotiation, particularly of contract terms and conditions, the procurement should be treated as higher risk and a risk assessment undertaken. Review / update the risk assessment and mitigation strategies if impacted by the negotiations.	Seek advice from Finance (if Finance is involved in the procurement), the State Solicitor's Office, or your agency's legal team, as applicable. Seek advice from ICWA if the negotiations may result in changes to the insurances, liability or indemnity clauses. Review / update the risk assessment and mitigation strategies if impacted by the negotiations.	Seek advice from Finance (if Finance is involved in the procurement), the State Solicitor's Office, or your agency's legal team, as applicable. Seek advice from ICWA if the negotiations may result in changes to the insurances, liability or indemnity clauses. Review / update the risk assessment and mitigation strategies if impacted by the negotiations.

Contractual liability cover	**Goods and services** • **Procurements valued below $250,000:** When using the appropriate form of contract (refer to [Procurement Rule D1.2](#)), it is not necessary to contact ICWA to reinstate contractual liability cover if the agency deems the supplier's insurance meet the standard insurance requirements. • **Procurements valued above $250,000:** Consult ICWA before agreeing to any deviations from the standard insurance, liability or indemnity requirements. Negotiation of these provisions may void contractual liability cover. If the risks are very low, your agency may be comfortable accepting the risk of not having contractual liability cover. If contractual liability cover is required, a detailed risk assessment, together with a description of any relevant deviations, must be provided to ICWA. Request reinstatement of contractual liability cover and a certificate of reinstatement from ICWA. **Community services and works** Consult ICWA before agreeing to any deviations from the standard insurance, liability or indemnity requirements. Negotiation of these provisions may void contractual liability cover. If the risks are very low, your agency may be comfortable accepting the risk of not having contractual liability cover. If reinstatement is required, a detailed risk assessment, together with a description of any relevant deviations, must be provided to ICWA. Request reinstatement of contractual liability cover and a certificate of reinstatement from ICWA.	Consult ICWA before agreeing to any deviations from the standard insurance, liability or indemnity requirements. Negotiation of these provisions may void contractual liability cover. A detailed risk assessment, together with a description of any relevant deviations, must be provided to ICWA for contractual liability cover to be reinstated. Request reinstatement of contractual liability cover and a certificate of reinstatement from ICWA.	Consult ICWA before agreeing to any deviations from the standard insurance, liability or indemnity requirements. Negotiation of these provisions may void contractual liability cover. A detailed risk assessment, together with a description of any relevant deviations, must be provided to ICWA for contractual liability cover to be reinstated. Request reinstatement of contractual liability cover and a certificate of reinstatement from ICWA.