

## Apet®360Pro™ Procurement Portal User Guide 22



### Assessing Risk

#### Overview

This User Guide provides information regarding the functions in 360Pro™ that enables you to attribute a quantitative value to risk so it can be integrated into the Value for Money (VFM) equation to accomplish a fairer and more transparent approach to ranking proposals from suppliers/providers.

#### Introduction

Policy on considering risk in procurement evaluation exists in many organisations but clear guidance and procedures about how to consistently apply risk when determining a preferred supplier is often missing. There is also confusion between the risks associated with a procurement activity and the risks associated with a specific offer and how these risks are considered. This User Guide seeks to explore how risks associated with a specific offer are considered when determining Value for Money.

#### What is risk?

The Australian/New Zealand Standard™ on Risk management—Principles and guidelines (AS/NZS ISO 31000:2009) defines Risk as *the effect of uncertainty on objectives*. It notes that an 'effect' is a deviation from the expected and can be positive and/or negative. Objectives can have different aspects (such as financial, health and safety, and environmental goals) and can apply at different levels (such as strategic, organization-wide, project, product and process). We name these aspects as Critical Success Factors in line with the previous version of the ISO.

This User Guide proposes two processes for incorporating Risk in the Value for Money Evaluation:

1. Cost mitigations to an acceptable risk level and add that cost to tendered prices
2. Undertake a qualitative risk analysis and attribute the impact on VFM

#### **Option 1. Cost the mitigations to an acceptable risk level and add to the price**

It entails the following process:

1. Identify the context for the Risks and determine the Critical Success Factors
2. Identify the risks
3. Analyse the consequences and likelihood for the risks
4. Identify the risk tolerance for the procurement/project
5. Determine effective treatments that will mitigate the risks to an acceptable level
6. Cost the treatments
7. Add the estimated cost of the treatments at the normalisation point and compare the VFM results

## Option 2. Undertake a qualitative risk analysis and attribute the impact on VFM

This option follows the guidance provided by many organisations but seeks to quantify risk as a factor in the VFM calculation. The process is easier and can be shortcut, but the results are less repeatable than option 1. It entails the following process:

1. Identify the context for the Risks and determine the Critical Success Factors
2. Nominate the impact (weighting) that risk should have on the evaluation
3. Identify the risks
4. Analyse the consequences and likelihood for the risks
5. Determine an aggregated risk level against each risk area or success factor for each offer/tender to provide an overall risk factor
6. Apply the aggregated risk factor to the VFM calculation

For more information on Setting up a job to incorporate Risk, see User Guide 12.

Once the Job is Closed, you can include a risk assessment as part of your evaluation process. Continue to complete the remainder of your Job details and publish as normal.

### What the values are behind the module

$$\text{VFM} = \frac{\text{Weighted Score X Risk factor (Rf)}}{\text{Tendered Price}}$$

where the Risk factor (Rf) is a value less than 1.0.

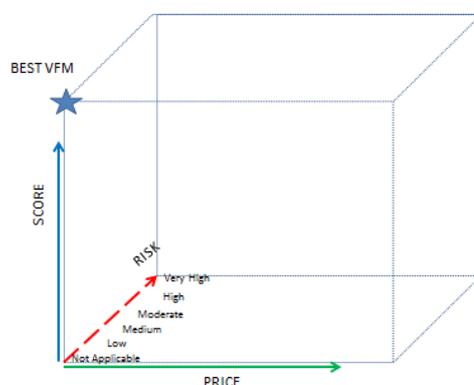


Figure 1 Diagrammatic view of the 3 axes of tender evaluation

The Risk Factor is calculated by the sum of the comparative weighting associated for each CSF. As an example, if there is only one Critical Success Factor identified and the Tender Managers sets the Impact of Risk on the VFM score as 'Medium' and assesses the Risk Level for that CSF as 'High' for a specific Tenderer's Response, then their utility score is affectively reduced by 12% (i.e. they are only receiving 88% of their overall weighted score).

The level of the risk and the extent that the risk has on the VFM evaluation can be seen in table 1.

Risk Factor Matrix		Risk Exposure factor						
		None	Low	Med	High	Significant	Extreme	
Impact of Risk on VFM	Weighted risk score section Weightings	10	8	6	4	2	0	
	Extreme	50%	1.00	0.90	0.80	0.70	0.60	0.50
	Severe	40%	1.00	0.92	0.84	0.76	0.68	0.60
	High	30%	1.00	0.94	0.88	0.82	0.76	0.70
	Med	20%	1.00	0.96	0.92	0.88	0.84	0.80
	Low	10%	1.00	0.98	0.96	0.94	0.92	0.90
	none	0%	1.00	1.00	1.00	1.00	1.00	1.00

Figure 2 Impact of Risk assessment on the Value for money score.

## 1. Evaluation

By including Risk in your Job, this is what the Evaluator will see when it comes time to evaluate Provider's Responses.

You must include a comment that justifies your risk assessment.

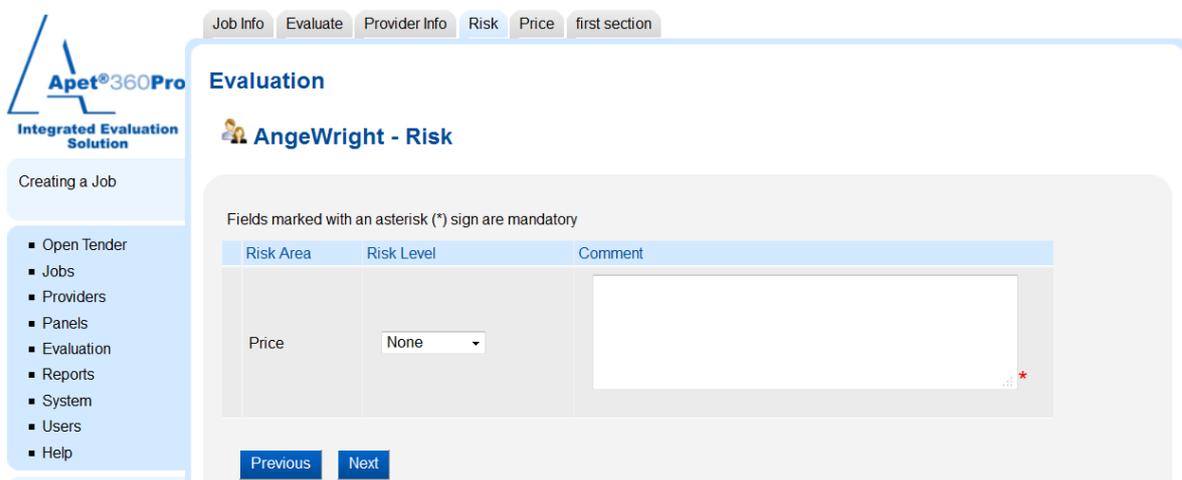


Figure 1 Evaluator's perspective - Risk Area

## 1. Reporting

The qualitative evaluation on Risk is incorporated into the 'Evaluation plus Risk' report. The risk levels are shown in the report and the summary table shows the values that are incorporated into the VFM Scores.

Risk									
Area of Risk	Safety	Comment	Quality	Comment	Schedule	Comment			
Impact of Risk on V	High								
Relative Importance	5		3		4				
Bundie Pty Ltd	20%	Low	ok	20%	Low	ok			
dave	0%	None	ok	0%	None	ok			
dave8	60%	High	poor conti	20%	Low	ISO 9001 cert			
Louise's Lovelies	60%	High	noted	60%	High	noted			
PEAK SLASHING	20%	Low	noted	40%	Medium	noted			
vertgio	0%	None	noted	0%	None	noted			

Figure 3 'Evaluation plus Risk' report

Results									
Providers	Non Price	Ranking	Risk Index	Ranking	Price	Price Score	Ranking	Final Rank	Score
dave	88.89%	1	1	1	\$677,890.00	n/a	5	3	72
dave8	88.89%	2	0.78	5	\$455,345.00	n/a	3	1	83
Louise's Lovelies	55.56%	3	0.68	6	\$453,333.00	n/a	2	4	46
Bundie Pty Ltd	55.56%	4	0.92	3	\$344,444.00	n/a	1	2	81
PEAK SLASHING	33.33%	5	0.89	4	\$567,000.00	n/a	4	5	29
vertgio	22.22%	6	1	2	\$789,000.00	n/a	6	6	15

Figure 4 VFM values on 'Evaluation plus Risk' report