

Tool: Checklist for post-award risk assessments of the contractor financial vulnerability

Purpose

- To facilitate procurement practitioners' task to screen contractors' financial resources in order to ensure the timely and pertinent delivery of supplies, services or works stipulated in the contract agreement.

Public Procurement
Principle: **Risk Management**

Procurement Stage:
Post-award

Audience: **Procuring Entity**

Description

It is advisable for procurement practitioners to adopt a proactive approach to risk management during periods of severe economic and financial uncertainty. Assessments of contractor providers' financial soundness are a standard component of a risk assessment during the tender process.

It is prudent for procurement practitioner to reassess the risk profile of their major contractors and consider strategies to mitigate risks in times of severe economic and financial uncertainty. During economic and financial crises the cash flow of many contractors is constrained as demand for their services decline.

Financial institutions are also likely to cut back credit advances to contractors. Thus, contractors that previously had adequate financial resources may be left with very thin balance sheets during financial crises raise concern for government agencies involved in major procurements.

In developing adequate contingency plans procurement practitioners may simply approach other suppliers. In some cases alternative strategies for meeting may need to be considered. Advice may also be necessary from government legal experts and the finance ministry/treasury. In some cases, the financial strain of the contractors may be eased by changing the payment schedules.

Escrow agreements and guarantees for information and communications technology, research and development and other knowledge based tenders may also be required to ensure that all necessary information and documentation is accessible to the government in the event that the originating organisation has gone out of business, or is no longer maintaining or interested in maintaining, modifying or supporting the goods, services or works.

Box: Checklist for post-award risk assessment of contractors financial vulnerability

- Have procurement practitioners updated their financial viability assessments of contractors, and their parent company and related entities, to ensure they have not fallen into financial stress?
- Have procurement practitioners developed contingency plans if a major contractor falls over — together with ensuring that they have sufficient resources available for the contingency plans?
- Have procurement practitioners identified any discretionary contractual rights that can be enforced to mitigate risk exposure of the government; *e.g.* guarantees by parent company or insurance certificate?
- Have payment regimes and invoices been reviewed to ensure payment for goods or services are not made in advance, where not required, or that additional charges have not accrued for incidental services?
- Is it possible to renegotiate more far-reaching arrangements, such as escrow arrangements or financial guarantees, thus varying the contract?
- Have all contract changes been made according to the procedure set out in the contract to ensure that the variation is enforceable?