

Strategic suppliers: Understanding and managing the risks of service disruption

The Office of the Auditor-General (OAG) recently released (June 2021) its report *Strategic suppliers: Understanding and managing the risks of service disruption*.

<https://oag.parliament.nz/2021/strategic-suppliers>

This article provides a brief outline of the report from the viewpoint of an interested risk practitioner.

Strategic suppliers provide goods and services that are of critical importance and often not easily sourced elsewhere. Given the importance of strategic suppliers to the delivery of public services, the OAG carried out a performance audit to understand how well public organisations, including central agencies and local government, understand and manage strategic supplier risk.

The audit looked at practices across the public sector to assess:

- The extent to which suppliers are key strategic suppliers is known
- What processes are in place for identifying, assessing and mitigating the risk of important public services being disrupted by strategic supplier failure
- What reporting is provided to senior leaders on strategic supply risks

Of particular concern was service disruption from a strategic supplier failing to deliver contracted goods and services (for example, because of supply chain issues, a major outage, financial collapse, or the supplier leaving the market). The audit did not look at other supplier risks such as a privacy breach, cybersecurity risks, or failure to meet health and safety requirements.

Key findings from the audit include:

- Public organisations generally know which of their suppliers are strategic suppliers
- There is no system-wide visibility of government strategic suppliers
- Roles, responsibilities and processes for assessing and managing strategic supply risks are unclear
- There is no system level reporting to Ministers
- Supplier relationship management is a key strategy for managing risk

The report sets out a number of recommendations. For public organisations, it is recommended that they:

1. Regularly assess which of their suppliers are strategic suppliers, the resilience of these suppliers, and how they manage their relationships with them, both in normal circumstances and in emergencies; and
2. Have adequate processes in place for reporting strategic supply risks to their senior leaders and governing bodies.

Other areas for improvement are:

- Ongoing risk assessment of their strategic suppliers
- Attention to supply chain risks
- Appropriate allocation of risk in contracts
- Building procurement capability

Public organisations are required to report their significant service contracts to the Ministry of Business, Innovation and Employment (MBIE). In relation to this requirement, another recommendation is that MBIE improve the reporting tool to expand information available on these

contracts. Also identified was a need for a co-ordinated approach across central and local government, particularly for suppliers who provide services to many public organisations.

In his overview, the Controller and Auditor General notes that Covid-19 has highlighted New Zealand's vulnerability to global supply chains, as well as the need for the public sector to strengthen the resilience of service delivery. He also considers important public services will remain vulnerable to unexpected failure unless the public sector makes improvements to the way it manages strategic suppliers.

This focus on strategic suppliers is highlighted here as another opportunity for risk practitioners to demonstrate their value helping organisations understand and manage risks.

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Sue Trezise has over 14 years experience providing risk expertise and advice for government and organisations on strategic, enterprise and operational risk management. An experienced facilitator, Sue assists communication between technical experts and non-technical stakeholders and makes managing risk practical and effective.

