

# How Can Suppliers Manage Counter-Party Risk During the Pandemic?

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*by Louise Jordaan and Minette Manna*

The outbreak of the COVID-19 pandemic has left public and private organisations with a host of new challenges. Many companies were not sufficiently prepared for this global crisis, especially the pace at which the business environment rapidly changed to an online, work-from-home environment and staff faced additional—and formidable—personal and business pressures. Such a sudden increase in personal and business pressure can result in otherwise effective policies, procedures and internal controls being relaxed or even ignored.

However, despite these challenges, organisations must ensure that they can continue to operate and, thus, the procurement of goods and services has adapted to our new normal. Due to pressures and instances where policies, procedures and internal controls have been relaxed or ignored, irregular procurement practices could easily emerge. Irregular procurement practices could manifest for example as irregular emergency procurement or single source supply, which raises the risk profiles for both the procuring organisation and its suppliers.

Suppliers might be approached by procuring organisations—for assistance with goods and/or services—and all appears above board. However,



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two-to-three years down the line, investigations and audits into procurement processes might be conducted, bringing the procurement process and supplier under scrutiny.

It is, therefore, important to ensure that existing policies and procedures are in place for the procurement process to withstand scrutiny in a few years' time.

How can suppliers manage their risk during the pandemic?

## **1 Conduct Risk Assessments:**

It is advisable that suppliers conduct proper risk assessments when approached by a prospective client. During troubled times, organisations often have the tendency to cut costs, especially those related to compliance. With travel restrictions, lack of day-to-day visibility and resources focused on response to the pandemic, risk assessments are even more challenging right now. However, at a time when risks are high, it is imperative that risk assessments are conducted, as significant reductions in compliance efforts always lead to compliance issues down the line.

*Considerations include:*

- Association risk and reputational risk due to the arrangement/agreement.
- The purpose and nature of the tender/request.
- Whether requested goods and/or services can be delivered. For example, considering any restrictions imposed by the Government due to COVID-19.
- Conduct enhanced due diligence procedures to understand who is

contacting you and follow up on any red flag items. For example, upon further review it may become clear that your new "client" is in fact an intermediary, with the Government your ultimate customer. Proper due diligence will help surface hidden risks so that they can be properly addressed, ideally well before any agreement is signed.

- Indications that procurement practices were circumvented by the prospective client.

## **2 Accurately Track the Sequence of Events:**

In instances where a supplier is comfortable to continue with the relationship, it is critical to ensure that robust records are kept of all-important facts surrounding the process.

Dates, times, persons dealt with and other facts are often lost three years down the line, if and when questions emerge surrounding the process.

*Examples of such information include:*

- Who from the prospective client approached the supplier?
- When and through what means was the supplier approached?
- Who was the relationship contact for the supplier?
- What was the process followed by the client?
- If subcontractors/partners were used by the supplier, how were they identified and vetted?

### 3 Document, Document, Document:

Supplying organisations should ensure that copies of all documentation and correspondence surrounding the process are securely stored and can be retrieved when required. This should be done in line with adequate documentation retention policies.

*Guidelines in this regard include:*

- If correspondence took place via WhatsApp or SMS, ensure that copies are made.
- All verbal correspondence should be followed up with a confirmation email to document what was discussed.
- Where timesheets are applicable based on the services rendered, ensure that these are also stored and accessible long-term.
- The tender documents/quotation prepared by the supplier, together with supporting documents and annexures should be stored.
- Rationale and assumptions applied in completing the tender documents/quotations, such as pricing, should be documented.

It is also imperative that a signed agreement exists between both parties and that a copy of the signed agreement is stored. If the agreement was signed electronically, retain the agreement as well as the correspondence relating to the signature process.

**4 Maintain Records on Service Delivery and Pricing:** Procurement processes under scrutiny will often pertain to service delivery;

whether goods or services delivered were in line with the contract. Typical questions will focus on pricing and value for money considerations.

Suppliers should ensure that adequate records of service delivery are maintained and stored. Service delivery records should detail sign-off by the client. Ensure that sign-off is done by the persons at the client with the appropriate authority.

Records of billing to support evidence of service delivery, including assumptions and calculations, should be also be documented.

Furthermore, suppliers should ensure that assumptions and rationale used to determine pricing per the tender documents are documented and can be supported. Pricing includes inter alia contract values, hourly rates and disbursements.

### Key Takeaways

Although the global pandemic has prompted many organisations—and the Government itself—to look outside of their typical supply chains to meet stakeholder needs, these new opportunities can potentially create compliance risks for suppliers and come with a hidden compliance price tag.

Just as organisations will likely conduct risk assessments and perform enhanced due diligence as new third parties are onboarded during the pandemic and beyond, suppliers should also take a proactive look before launching a new relationship with any organisation. Prudent risk management and robust documentation now can help avoid compliance issues down the line.



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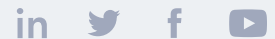
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