CONTRACT MANAGEMENT GUIDE

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

August 2010
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# Terms and definitions

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<th><strong>Accounting Officer</strong></th>
<th>The Accounting Officer or in the case of public entities the Accounting Authority as defined in the PFMA.</th>
</tr>
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<tbody>
<tr>
<td><strong>Buyer</strong></td>
<td>The other party on a sales side contract (opposite of supplier).</td>
</tr>
<tr>
<td><strong>Contract</strong></td>
<td>Agreement (explicit or implied) legally binding two or more parties to the terms of the agreement.</td>
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<tr>
<td><strong>Contract Life Cycle</strong></td>
<td>The stages of a contract encompassing: planning, creation, collaboration, execution, administration and closeout.</td>
</tr>
<tr>
<td><strong>Contract Management (CM)</strong></td>
<td>The activities necessary to manage a contract throughout all stages in the Contract Life Cycle.</td>
</tr>
<tr>
<td><strong>Enterprise CM (ECM)</strong></td>
<td>A strategic model providing a holistic view over, and an institutional culture for, the activities necessary to manage all contracts in the institution throughout all stages in the Contract Life Cycle.</td>
</tr>
<tr>
<td><strong>Contract Manager</strong></td>
<td>The person within the institution responsible for monitoring the contract trigger points, and delivery under the contracts terms and conditions.</td>
</tr>
<tr>
<td><strong>Contract Owner</strong></td>
<td>The person within the institution benefitting from the contract. From goods or services being procured or sold, or from other relationships established by the contract.</td>
</tr>
<tr>
<td><strong>Government Institution/s</strong></td>
<td>National and provincial departments, constitutional institutions, and public entities (municipalities and municipal entities are excluded for the purposes of the CMF).</td>
</tr>
<tr>
<td><strong>GRAP</strong></td>
<td>Generally Recognised Accounting Practice.</td>
</tr>
<tr>
<td><strong>SCM</strong></td>
<td>Supply Chain Management encompasses management of: demand, acquisition, logistics, disposal, and supply chain performance.</td>
</tr>
<tr>
<td><strong>Stakeholder</strong></td>
<td>Any other stakeholder to a contract. Note that some contracts do not involve suppliers or buyers.</td>
</tr>
<tr>
<td><strong>SCM Framework</strong></td>
<td>Legislation, regulations, treasury instructions and guiding material issued by government pertaining to SCM.</td>
</tr>
<tr>
<td><strong>SCM Unit</strong></td>
<td>Supply Chain Management Units in any government institution referred to in Treasury Regulation 16A4.1.</td>
</tr>
<tr>
<td><strong>Supplier</strong></td>
<td>The individual or organisation providing goods or services to the government institution (opposite of buyer).</td>
</tr>
<tr>
<td><strong>Treasury Regulation/s</strong></td>
<td>Regulations to the Public Finance Management Act.</td>
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2 Introduction to the CMG

2.1 Purpose and scope of the CMG


The CMG is intended for managers and practitioners in national and provincial government departments and public entities who are involved in policy making, strategic planning, management, and day to day contract management functions.

The guide will contribute to social and economic transformation by equipping managers and practitioners with a model and tools for contract management which, should translate into better use of resources and improved delivery of services.

The CMF and CMG intends to move government institutions in South Africa towards an enterprise wide contract management approach (ECM) leading to better coordinated and more streamlined practices for contract management throughout the Contract Life Cycle and across the entire institution.

The scope of this guide covers contract management in national and provincial departments and public entities.

Enterprise contract management (ECM) can be seen as a strategic management model encompassing:

- contract management practices; and
- accounting for, or financial disclosure of, transactions resulting from contracts.

All transactions, including those for internal service provision, result in a contract whether explicit or implied and fall within the scope of the CMF.

Management practices should ensure that parties meet their obligations under the contract, and these obligations are appropriately recorded and disclosed in financial statements.

At the time of writing, national and provincial departments are transitioning from cash accounting principles towards full accrual and prepare their financial statements with certain additional disclosures and annexures.

The CMF and CMG do not delve deeply into the technical application of accounting standards or the specifics of contract law. The focus is on developing a strategic management model.
which provides for adoption of appropriate management and accounting: policies, procedures and practices.

This guide focuses on good management practices and it is assumed that practitioners already have knowledge of accounting and legal issues where appropriate.

Although contract management practices are diverse across government entities there are many similarities with regard to approaches. The CMF is generic and will apply to all national and provincial departments and public entities. Each institution must develop and approve its own policies and procedures based on the CMF.

There are substantial regulations and guidelines on the “Procurement” phase of the supply chain including requirements for bidding and award of contracts. These can be viewed at [www.treasury.gov.za/divisions/sf/sc](http://www.treasury.gov.za/divisions/sf/sc). The CMF and CMG cover management practices relating to contracts in general and do not provide detailed discussion of the procurement phase of contracting.

Technical accounting guidance is provided in the relevant accounting standards and the Preparation Guide released annually by the Office of the Accountant General.

**2.2 Implementation of enterprise contract management**

Each government institution and each division or section within each institution is at a unique stage of development in terms of contract management. Therefore tailored approaches will be required. The CMF, CMG and the Contract Management Self Assessment (provided separately) will assist institutions to determine their own implementation strategy.

The CMF requires national and provincial departments and public entities to approve and implement policies and procedures for contract management activities within the general requirements of the CMF. The proposed implementation strategy for doing so is illustrated in Diagram 2a below.
Diagram 2a: CMF Implementation Strategy

1. Review the Contract Management Framework
2. Work through the Contract Management Guide
3. Complete gap analysis in context of Contract Life Cycle
4. Prepare action plan
5. Implement action plan
6. Continuous improvement

Institutions should first review the CMF and work through the GMG before completing the Self Assessment questions provided as a separate document.

When working through the Self Assessment, it is important to keep in mind the processes for each classification, type or individual contract throughout the Contract Life Cycle. Reference to the checklists in Annexure A will facilitate identification of gaps throughout the entire Contract Life Cycle.

Refer to Annexure A and briefly review the example checklists before proceeding.

The implementation strategy recognises that institutions will need to plan for continuous improvement in contract management practices.

Institutions are encouraged to collaborate and create peer learning opportunities.
2.3 Guide outcomes (Specific Objectives – SO’s)

On completion of this guide, you should be able to:

- Understand the role of enterprise contract management in the public sector [SO 1]
- Understand identification & classification of contracts for management purposes [SO 2]
- Understand recognition, measurement and disclosure of contracts [SO 3]
- Understand how CM fits into the planning, budgeting, and reporting cycle [SO4]
- Evaluate & implement appropriate oversight of CM [SO 5]
- Evaluate & implement appropriate resourcing of CM activities [SO 6]
- Evaluate & implement document and information management [SO 7]
- Evaluate & implement appropriate relationship management for CM [SO 8]
- Evaluate & implement performance management for contracts and stakeholders [SO 9]
- Evaluate & implement systems for payment, collection, incentives and penalties [SO 10]
- Evaluate & implement risk management for CM processes and procedures [SO 11]
- Contribute to ensuring policies and procedures are compliant with the CMF [SO 12]

2.4 Guide content

- Contract management framework
- Identification and classification of contracts
- Recognition, measurement and disclosure
- Planning, budgeting and reporting cycle
- Oversight of contract management
- Resourcing contract management activities
- Document and information management
- Relationship management
- Performance management
- Payment, collection, incentives and penalties
- Risk management
- Policies and procedures
- Contract Life Cycle Checklists
2.5 **Guide approach**

The guide has been designed to be worked through systematically to assist practical implementation of the CMF.

It would be helpful if the most recent documents listed below were available when working through the guide:

- supply chain management policies and procedures;
- contract management policies and procedures;
- training plans for contract owners, contract managers and other relevant staff;
- budget;
- operational plan;
- annual financial statements;
- annual report; and
- in-year management reports.

2.6 **References**

- Public Finance Management Act, No 1 of 1999, as amended
- Public Finance Management Act, 2005, Treasury Regulations
- Supply Chain Management – A Guide for Accounting Officers / Authorities
- Preparation Guide to Annual Financial Statements issued by the OAG
- Public Sector Risk Management Framework, National Treasury, April 2010
- GRAP 11, Construction contracts
- GRAP 19, Provisions, contingent liabilities and contingent assets
- GRAP 13, Leases
- GRAP 25, Employee benefits
- IAS 20, Government grants
- Contract Management (MFMA) Learner Guide, PALAMA 2010
3 Contract management framework

3.1 Learning outcomes
- Understand the role of enterprise contract management in the public sector [SO1]

3.2 Key concepts
- Importance of contract management and accounting for contracts
- Public sector relevance
- Legislative framework
- Contract management framework
- Enterprise contract management (ECM)
- Contract Life Cycle

3.3 CMF Overview
The CMF is a separate document which covers the following:

- Introduction to the CMF
  - Purpose and scope of the CMF
  - Importance of contract management
  - Managing contracts
  - Correctly accounting for contracts
- Contract management in the public sector
  - Why manage contracts in the public sector?
  - Legislative and regulatory framework
- Contract management framework (CMF)
  - Identification and classification of contracts
  - Recognition, measurement and disclosure
  - Planning, budgeting and reporting cycle
  - Oversight of contract management
  - Resourcing contract management activities
  - Document and information management
  - Relationship management
  - Performance management
  - Payment, collection, incentives and penalties
  - Risk management
  - Policies and procedures
- Implementation strategy
3.4 For review
Read the CMF and complete the review to enhance your understanding of the concepts.

Review 3.1
Describe what is meant by managing contracts.

Review 3.2
Describe what is meant by correctly accounting for contracts.

Review 3.3
Why would government institutions want to improve contract management?
Review 3.4
Describe the legislative framework governing contract management for national and provincial departments, and public entities?

Review 3.5
Explain the term ECM and indicate the potential benefits to the institution of this model for contract management.
Review 3.6

Explain the stages of the contract life cycle in terms of the CMF. Briefly explain each stage and indicate which stages are currently the least attended to in your institution.

Review 3.7

Briefly explain the components of the CMF.
3.5 Learning checklist

Successfully completing and understanding Section 3 will ensure that you can:

- Demonstrate an understanding of the contract management framework
- Demonstrate an understanding of the legislative framework for contract management
- Define contract management in the public sector context
- Define Enterprise Contract Management and Contract Life Cycle
4 Identification and classification of contracts

4.1 Learning outcomes
- Identification and classification of contracts for management purposes [SO2]

4.2 Key concepts
- Definition of contracts
- CM in context of supply chain management and project management
- Enterprise Contract Management (ECM)
- Contract Life Cycle
- Classification of contracts for management purposes
- Contracts Inventory
- Identification of contracts by type or nature
- Classification of suppliers, buyers and other stakeholders

4.3 Importance of good contract management
Recent policy, legislative and regulatory reform in South African government institutions is focused on enhancing service delivery to all South Africans. Good practice contract management has the capacity to increase revenue opportunities, decrease costs and enhance service delivery.

Recent regulatory frameworks promise strong punitive measures for managers who are found to have been negligent or purposely fraudulent in their duties. Initial enforcement efforts have been gradual and can be expected to increase significantly in the medium term.

Importantly, as competencies of managers and the resources at their disposal increase, it is essential that they strengthen their efforts to make compliance central to strategic objectives.

A contract is a legally binding agreement between one or more parties. All transactions are the result of a contract whether explicit or implied and in most cases contracts are written legal documents. Contracts usually consist of terms and conditions presented in legally binding language and terminology.

In the past contracts may have been viewed as simple agreements to protect the parties from worst case scenarios. More and more contracts are seen as vehicles for achieving value for money and fostering good relationships with partner and stakeholder organisations.
Contract management for the purposes of the CMF and CMG covers all forms of agreements whether formally documented or not.

Contracts are often managed manually and by multiple managers without an enterprise wide approach. A multitude of rules and complex decision making can lead to inflexibility, poor planning, extended lead times and below par service delivery.

Section 4.6 will introduce the concept of identification and classification of all contracts. It is important to consider all transactions and record all types of contracts in use including those that may not have any formal written documentation. Once identified and classified the appropriate level of management intervention can be applied.

While significant effort has recently been directed towards improving procurement and Supply Chain Management in general, management of contracts often remains fragmented across the institution. In the private sector, executives are beginning to realise the potential savings and opportunities which can be achieved through examining contract management and implementing an enterprise wide approach. Documentation of recent improvements in this area in the private sector suggests that there are benefits to be gained by the public sector as well.

Good contract management:

- optimises delivery of large capital projects;
- specifies management techniques and processes for all types of contracts;
- encourages achievement of value for money and continuous improvement;
- identifies savings and additional revenue opportunities;
- enhances risk management;
- provides clear and complete records for audit; and
- encourages communication between all parties to contracts.

Failure to implement adequate contract management could result in:

- paying for goods and services which do not meet the standards set out in the contract;
- significantly higher costs;
- revenue collection delays;
- customer and supplier dissatisfaction;
- overcharges by suppliers or underpayments by buyers;
- erroneous payments;
• service delivery issues;
• missed savings opportunities;
• failed compliance with regulatory provisions;
• increased risk;
• complications associated with audits;
• accidental renewal of goods or services;
• no verification of timeliness and accuracy of payments, receipts or deliverables;
• no monitoring of use of discounts or rebates;
• no monitoring of contract management processes and mechanisms;
• no monitoring of supplier performance across contracts; and
• no enforcement for non-performance or violation of regulations or other terms and conditions.

4.4 Contract management in context
At the outset it is useful to consider contract management processes in the context of other processes. Contract management processes interact with supply chain management (SCM) processes and project management as well as others.

The specifics of SCM and Project Management are outside the scope of this guide.

4.4.1 Supply chain management
Supply Chain Management (SCM) is concerned primarily with acquiring, utilising and disposing of goods and services and can be split into the following components:

• demand management;
• acquisition management;
• logistics management;
• disposal management; and
• supply chain performance.

The following attributes of good SCM are also important for contract management:

• achieving value for money;
• promoting open and effective competition;
• achieving the highest standards of ethics and fair dealing;
• supporting preferential procurement
• delivering on government’s social and economic policies;
• education of buyers and suppliers; and
• measuring performance.

4.4.2 Contract management
Contracts relating to acquisition and disposal of goods and services will need varying levels of management intervention depending on their value, duration, complexity and the strategic importance of the goods and services. Contract management should ideally feed information into demand management, logistics management, and supply chain performance systems.

Contract management is also required outside of SCM. For example, employment contracts must be managed and this is generally done outside of SCM by the Human Resources division. Contracts for borrowing would also be considered to be outside of SCM and typically the responsibility of the Finance or Treasury division. Contracts for sales of goods and services and even for stakeholder agreements where there is no purchase or sale also need to be considered.

4.4.3 Project management
Project management involves managing a task from planning through inception and implementation to completion. Project management techniques can be applied to managing contracts where appropriate and may also be required where there is no contract.

EXAMPLE:

An internal continuous improvement project to review business processes and enhance customer service may not involve contracts but can still be delivered using project management techniques.

4.5 Enterprise contract management
Enterprise contract management (ECM) involves managing every contract in the institution throughout the Contract Life Cycle with a view to maximising value for money through:

• identifying and maximising opportunities;
• maximising revenue;
• minimising costs through efficient operations;
• minimising risk;
• ensuring compliance with policies, procedures regulations and terms and conditions; and
• monitoring and evaluating performance of parties to the contract.
Types of contracts include but are not limited to:

- purchasing agreements;
- sales agreements;
- service agreements (external and internal);
- insurance policies;
- warranties;
- loans;
- leases;
- non-disclosure agreements; and
- collaboration agreements.

Different types of contracts will require more management intervention than others.

Further to the discussion in section 2.2 on implementation, it is important to keep the Contract Life Cycle in mind when assessing contract management activities.

For the purposes of the CMF the life cycle of a contract includes the stages shown in diagram 4a below:

**Diagram 4a: Contract Life Cycle**

1. Planning
2. Creation
3. Collaboration
4. Execution
5. Administration
6. Closeout / Renewal
4.5.1 Planning
The planning stage refers to planning and budgeting activities. During this time, strategic objectives are converted into approved budgets and operational plans. Budgets and operational plans will have sufficient detail to identify the need for contracts to carry out the approved operations.

Institutions must incorporate processes into their planning and budgeting to identify the need for contract creation and thus plan for when contract creation should take place to ensure delivery can occur as approved in the budget.

EXAMPLE:

*The legal section at the South African Broadcasting Corporation (SABC) manages many of the institution’s contracts and will not create a contract unless the activities encompassed in the contract are contained in an approved business plan.*

4.5.2 Creation
During creation, the contract author will decide on the most appropriate wording to give effect to the intended outputs and outcomes.

This step involves preparing the first draft of the contract documentation.

4.5.3 Collaboration
Collaboration is the drafting and negotiating process which includes internal and external reviews to ensure that the contract will give legal effect to the requirements of all parties to the contract. Internal review may include, but is not limited to, review by the following stakeholders:

- legal;
- finance;
- risk management;
- audit; and
- insurance.

External review will include one or more rounds of negotiation to arrive at a mutually agreeable set of terms and conditions that give effect to the requirements of all parties.

4.5.4 Execution
Execution is the act of signing the contract, making it legally enforceable and formalising the terms and conditions agreed to.
4.5.5 Administration
The goal of contract administration is to monitor delivery under the contract to ensure that it achieves its original objectives and includes tracking and auditing of contract terms such as:

- pricing and discounts;
- timeliness of payments and or receipts;
- performance in delivering agreed service level or specification of goods and services; and
- amendments.

NOTE:
Research and consultation with selected stakeholders during July and August 2010 suggests that this is one area needing significant attention throughout government institutions in South Africa. While some institutions seem to have reasonably advanced systems in place for planning, creation and execution, they appear to be lacking in administration and closeout, and in particular, monitoring and evaluation of performance.

4.5.6 Closeout / renewal
Contract closeout is a very important stage and one that often receives the least amount of attention.

Regardless of whether a contract is being closed or renewed, a review process should be undertaken to various levels of detail depending on the classification of the contract.

This review will focus on performance under the contract and consider at least the following:

- actual quantities, prices, total values vs. budgeted quantities, prices, total values;
- actual timeliness of delivery under the contract vs. contracted timeframes;
- actual service levels or specifications of goods and services vs. those contracted;
- review of procurement or sales methods;
- future budgets;
- change supplier, buyer or other stakeholder;
- outsourcing opportunities; and
- risk strategies.

Section 11 on performance management provides further discussion.
4.6 Classification of contracts

To facilitate good contract management it is useful to classify contracts or groups of contracts according to the level of management intervention required. Such a classification system should take into account:

- contract type or nature;
- strategic importance of the goods and services being purchased or sold;
- contract value;
- contract duration; and
- contract complexity.

Policies and procedures should then be established and implemented to deal with the management control requirements for each classification and contract type. Each contract and/or each group of contracts should be listed by classification in a Contracts Inventory.

Each contract owner should maintain an inventory listing of the contracts they are responsible for. It is recommended that each institution select the lowest level of management that may be designated as contract owners. For example, the level chosen may be chief director level or equivalent. In this example, the chief director may delegate certain activities but would be accountable for maintaining the Contracts Inventory for their area of responsibility.

A simple Contracts Inventory system which provides for recording classifications will capture the information reflected in the bullet points below. For each contract, record the ID number, description, type, Rand value and duration in months. Give the contract a rating of High, Medium or Low for the perceived level of complexity and strategic importance. Using the available information, provide an overall classification of High, Medium or Low management intervention required.

- Contract ID
- Contract description
- Contract type
- Contract value
- Contract duration
- Perceived complexity (H/M/L)
- Perceived strategic importance (H/M/L)
- Overall level of management intervention required (H/M/L)
For the contracts requiring High and Medium levels of management intervention, assign a level of effort rating for each of the following:

- oversight;
- resources required (including people and systems);
- document and information management;
- relationship management;
- performance management;
- payment, collection, incentives and penalties; and
- risk management.

A 5 point level of effort rating is recommended as follows.

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
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<tbody>
<tr>
<td>1</td>
<td>no effort</td>
</tr>
<tr>
<td>2</td>
<td>limited effort</td>
</tr>
<tr>
<td>3</td>
<td>moderate effort</td>
</tr>
<tr>
<td>4</td>
<td>considerable effort</td>
</tr>
<tr>
<td>5</td>
<td>very high effort</td>
</tr>
</tbody>
</table>

The rating could be applied generally to the contract type rather than each individual contract. Any contracts that required management intervention different than the overall type could be identified by exception.

### 4.7 Contract identification by type or nature

For completeness, all contractual agreements should be identified and referenced in the contract management policies. Some references may be minor and refer to other existing policies.

The Economic Reporting Format (ERF) produced by the National Treasury and discussed below should be used in the first instance to classify contracts by type or nature. Institutions should add additional types as required.

**Receipts**

- Tax receipts
- Sales of goods and services (excluding capital assets)
- Transfers received
- Fines, penalties and forfeits
- Interest, dividends, and rent on land
- Sales of capital assets
- Transactions in financial assets and liabilities
4.7.1 **Tax receipts**
Contracts between tax payers and tax receivers are generally set out in the laws and policies of the tax receiver organisation. The tax receiver is obliged to provide certain services in return for payment of the tax. Policies and procedures will almost certainly be already in place together with processes for review and updating. The policy on contract management should merely indicate where to find these laws, policies and procedures.

4.7.2 **Sales of goods and services (excluding capital assets)**
This area may be more relevant for a public entity with a significant own revenue component. Take for example the sale of advertising slots by the South African Broadcasting Corporation (SABC). Another example would be sale of electricity by ESKOM. However, even government departments may sell a small amount of goods and services and it is important to identify each revenue source and classify the associated contracts.

4.7.3 **Transfers received**
This area may include transfers from: government, universities, foreign governments, international organisations, public corporations, private enterprises, non-profit institutions and households.

Transfers from government come with specific requirements relating to holding, spending and reporting of transfers received. Relevant laws and the particular conditions and terms of each transfer set out the obligations of the transferring and receiving parties.

In most cases, the other types of transfers would have relevant documentation setting out obligations of transferring and receiving parties. Consider, for example, a memorandum of understanding between an international donor organisation and a government department to implement certain reforms in exchange for a grant and technical assistance.

Typically the Chief Finance Officer (CFO) would be the contract owner and transfers received may require a substantial amount of management, depending on the size of the transfer, to carry out such activities as:

- monitoring of transfers received and monies spent; and
- reporting for grant acquittal purposes.

*Note that the annual Preparation Guide requires details of transfers received as annexures.*
4.7.4  **Fines, penalties and forfeits**
Similar to tax receipts, obligations will often be covered by laws and policies. Where there is not likely to be significant contract management intervention required, the policy on contract management should merely indicate where to find relevant laws, policies and procedures.

4.7.5  **Interest, dividends and rent on land received**
This item could involve contracts for investing funds where interest and or dividends are paid, and rent received from land investments. Typically the CFO would be the contract owner. Contract management issues include but are not limited to:

- funds invested (including capital invested in land for rent);
- term of investment or lease;
- interest rate (variable / fixed);
- dividend policy; and
- rental payment amount, frequency and review.

An investments register must be maintained (manual or electronic) with sufficient information to manage the contracts and to comply with any other relevant legislative and regulatory requirements. Investment policies and procedures may already exist in which case the Contracts Inventory should refer to the relevant policies and procedures.

4.7.6  **Sales of capital assets**
The level of management intervention will depend on the type of assets being disposed of. For example, contract management procedures may be straight forward for sales of fleet vehicles and minor plant and equipment. The sale of surplus land may require significantly more management intervention.

The contract owner will most likely differ depending on the asset.

4.7.7  **Transactions in financial assets and liabilities**
Potential contracts here could be for:

- loans and advances to public corporations; and
- equity investments in public corporations.

*Note that the Preparation Guide requires disclosure of these contracts as annexures.*
Payments

- Current payments
  - Compensation of employees
  - Goods and services
  - Interest and rent on land
- Transfers and subsidies
- Payments for capital assets
- Payments for financial assets

4.7.8 Compensation of employees
This area is usually the domain of Human Resources and involves employee contracts. The Human Resources manager would typically be the contract manager and would seek advice from legal specialists where appropriate.

Contract management issues include but are not limited to:

- induction and ongoing training and development;
- performance review;
- remuneration including benefits and performance bonuses;
- career development and performance management; and
- termination.

4.7.9 Goods and services
This area is the domain of the Supply Chain Management (SCM) Unit and covers a wide range of goods and services. As this area often comprises a significant percentage of an institution’s annual spend and / or a significantly large value, the potential for identifying savings through improved contract management is substantial. Especially with this category of contracts it is necessary to further classify each contract according to at least:

- contract type or nature;
- strategic importance of the goods and services being purchased;
- contract value;
- contract duration; and
- contract complexity.

Some contracts while of substantial value may be very simple agreements for everyday consumables, and consequently these would need comparatively less management
intervention. However, it is still critical to identify and classify all contracts and indicate the level of management intervention that will be applied.

EXAMPLE:

An example might be a contract for the supply of photo copy paper and other office consumables. Procedures should still be in place to monitor delivery under the contract including quantity, quality and timing although these processes will be less rigorous and detailed than for other key contracts. Regardless of the strategic importance of the goods or services, poor performance should not be left unchecked and opportunities for savings should be explored.

Individual contracts for consultants and advisors may have a comparatively low value, but due to the strategic nature and the political sensitivity often associated with use of consultants, these contracts require a reasonably high level of contract management.

Complex contracts and contracts for goods and services of strategic importance may require formation of multi-disciplinary contract management teams and substantial management processes and controls.

EXAMPLE:

An example of a complex or strategic contract might be a contract between a private electricity generator and Eskom for the supply of electricity. Another example might be the Service Level Agreement (SLA) between South African Airways Limited and the Airports Company of South Africa Limited.

4.7.10 Interest, and rent on land paid

This item could involve, amongst others, contracts for borrowing funds where interest is paid, and rental of land.

Typically the CFO would be the contract owner and possibly contract manager for loan contracts. Contract management issues include but are not limited to:

- funds borrowed;
- term of loan or other debt instrument; and
- interest rates (variable / fixed) and other finance charges.

A borrowing or debt instrument register must be maintained (manual or electronic) with sufficient information to manage the contracts. Borrowing policies and procedures may already exist, in which case the Contracts Inventory should refer to the relevant policies and procedures.
Rental of land contracts would usually fall under the responsibility of the property manager or CFO as contract owner or possibly contract manager. Contract management issues include but are not limited to:

- term of lease; and
- rental payment amount, frequency and review.

The related item of “Financial Guarantees” is currently required by the Preparation Guide to be disclosed in an annexure to the financial statements.

### 4.7.11 Transfers and subsidies paid

This area may include transfers to: government, universities, foreign governments, international organisations, public corporations, private enterprises, non-profit institutions and households.

Transfers to government institutions are regulated by relevant legislation which sets out specific requirements and responsibilities relating to managing transfers.

In most cases, the other types of transfers would have relevant documentation setting out obligations of transferring and receiving parties.

Typically the Chief Finance Officer (CFO) would be the contract owner and possibly the contract manager. Transfers paid may require a substantial amount of management, depending on the size of the transfer, to carry out such activities as:

- monitoring of transfers paid; and
- monitoring compliance of recipients with transfer conditions.

**Note that the annual Preparation Guide requires details of transfers paid as annexures.**

### 4.7.12 Payments for capital assets

The contract owner, contract manager, and level of management intervention for items in this category are likely to differ depending on the type of asset and whether the acquisition involves purchase or construction. The ERF lists the following as types of assets:

- buildings and other fixed structures;
- machinery and equipment;
- heritage assets;
- specialised military assets;
- biological assets;
- software and other intangible assets; and
• land and sub soil assets.

This classification includes large construction type projects. These are typically subject to comprehensive project management procedures.

EXAMPLE:

For example, the South African National Roads Agency (SANRAL) embarks on major construction projects to improve national highway networks. Each project has an internal project manager appointed who will manage all prime contracts associated with construction activities in line with international project management procedures for construction. Finance and treasury will manage contracts associated with funding all construction projects including but not limited to the single transfer received from National Treasury and raising capital through bond issues.

4.7.13 Payments for financial assets

This area is the opposite of the receipt side and potential contracts here could be for:

• loans and advances to public corporations; and
• equity investments in public corporations.

Typically the CFO or treasurer would be the contract owner and potentially the contract manager.

Note that the annual Preparation Guide requires disclosure of these contracts as annexures.

4.7.14 Other contracts and contractual issues

When identifying and classifying contracts, institutions should consider all other possible contracts which could include but are not limited to:

• leasing of plant and equipment (e.g. vehicles);
• guarantees / sureties (employee housing etc.);
• Internal SLAs between business units within the institution;
• PPPs;
• outsourcing; and
• public entities and any other external service delivery mechanisms.

PPPs, public entities and other external service delivery mechanisms will require substantial contract management activities and it is likely that multi-disciplinary teams will be established.
4.8 Supplier, buyer and other stakeholder classification
Supplier, buyer and other stakeholder classification is a useful extension to contract classification. Good contract management practices will identify, classify and proactively manage relationships as appropriate.

This will be considered in detail in section 10 on Relationship Management.

For example, consider that there may be combinations of suppliers providing goods and services including:

- a single supplier delivers several types of goods and services;
- a single type of good or service is delivered by multiple suppliers; and
- a single type of good or service is delivered by a single supplier.

Useful management reporting would indicate such things as:

- suppliers with a substantial share of annual spend;
- suppliers delivering goods and services of strategic importance;
- buyers with a poor payment history; and
- other stakeholders of strategic value to the institution.

4.9 For review

Review 4.1

Other than for purchase of goods and services, list the areas where management of contracts is important in your institution.
Review 4.2

Compile a (or review your existing) Contracts Inventory and classify (or review existing classifications of) the contracts in your organisation using a template similar to the one discussed in section 4.6 on classification of contracts. This may require liaising with multiple line managers throughout the institution.

The CMF requires that this review is carried out at least annually in each institution.

4.10 Learning checklist

Successfully completing and understanding Section 4 will ensure that you can:

- Prepare and review a Contracts Inventory
- Classify contracts for management purposes
5 Recognition, measurement and disclosure

5.1 Learning outcomes
- Understand recognition, measurement and disclosure of contracts [SO3]

5.2 Key concepts
- Accrued revenue and expenditure
- Contingent liabilities and assets
- Commitments
- Employee benefits
- Lease commitments

5.3 Importance of recognition, measurement and disclosure
Recognition, measurement and disclosure of contracts refer to treatment of transactions in the financial accounts and annual financial statements (statements, disclosure notes and annexures).

It is critical for matters of transparency and credibility for all government institutions to apply a consistent approach towards disclosure of transactions. Public entities are currently applying accrual accounting according to relevant standards. Other government institutions are applying a modified cash accounting approach with certain disclosures that would otherwise be in the financial statements. This section is concerned with recognition, measurement and disclosure of obligations resulting from contracts.

As discussed earlier, each transaction is represented by a contract whether explicit or implied. Furthermore, contracts are becoming more and more complex requiring greater attention to ensure obligations are understood and taken into account in strategic and operational decision making.

Correctly accounting for contracts will ensure that assets, commitments and liabilities stemming from contracts are reflected transparently in a uniform manner throughout government.

Timely and accurate reporting of the institution’s obligations contained in contracts is essential for management purposes to understand the cost of services, fees and taxes charged for those services, and the financial health of the institution. Information about the costs of inputs to a product or service is useful for evaluating the service and modeling potentially more efficient ways of delivering the service.
5.4 Phase-in of GRAP and accrual accounting

Public entities already apply accrual accounting in-line with relevant accounting standards. However, public entities must still ensure that all contracts throughout the institution are actively managed throughout their life cycle and all obligations embodied in those contracts are appropriately recorded in the financial statements.

The phase-in provisions for the CMF require national and provincial departments to be applying GRAP and accrual accounting for the 2012/13 budget. Departments must continue to implement procedures and systems to facilitate compliance.

In 2010/11 and 2011/12 modified cash accounting may be applied in accordance with the Preparation Guide although earlier compliance with GRAP is encouraged. The Office of the Accountant General (OAG) provides guidance on disclosures each year in the Preparation Guide.

This guide will not consider the detailed technical accounting requirements. However, the sub sections that follow provide an overview of some key considerations for contract management.

5.5 Contingent assets and liabilities

5.5.1 Contingent assets

This relates to a possible asset that may arise from the occurrence or non-occurrence of one or more uncertain events. Such an asset is disclosed but not recognised in the financial statements because it is not probable (less than 50% likely) or cannot be reliably measured.

It is important to indicate contracts which may give rise to contingent assets. Examples include:

- claims instituted by the government institution; and
- occupational specific dispensation (OSD) overpayments.

The Preparation Guide provides details for treatment as disclosures in the Annual Financial Statements of Departments.

Regular reviews of contracts should include a focus on whether or not each contract is likely to give rise to contingent assets.

Good practice contract management should minimise the possibility of claims instituted by the government institution. For example, if communication channels are clear and conflict resolution mechanisms and escalation routes are well known, it is less likely for issues to proceed as far legal action.
5.5.2 Contingent liabilities

This relates to a possible obligation that may arise from the occurrence or non-occurrence of one or more uncertain events. Such an obligation is disclosed but not recognised in the financial statements because it is not probable (less than 50% likely) or cannot be reliably measured.

It is important to indicate contracts which may give rise to contingent liabilities. Examples include:

- motor vehicle guarantees;
- housing guarantees;
- claims instituted against the government institution;
- environmental rehabilitation liability; and
- occupational specific dispensation (OSD) underpayments.

The Preparation Guide provides details for treatment as disclosures in the Annual Financial Statements of Departments.

Regular reviews of contracts should include a focus on whether or not each contract is likely to give rise to contingent liabilities.

Again, good practice contract management should minimise the possibility of claims instituted against the government institution.

5.6 Commitments

Commitments, on the purchase side, generally represent goods and services that have been ordered but where delivery has not yet taken place.

Commitment accounting provides information to decision makers on the value of goods and services:

- already ordered but not yet delivered; and
- budgeted for, but still to be ordered.

Both of the above pieces of information are useful contract / project management tools.

The provision to account for commitments is available on most computerised financial management systems. Where this is available, government institutions should utilise the functionality and implement appropriate procedures and controls.
Implementing commitment accounting involves integration (or interfacing) between the purchasing system and the accounts payable system and can facilitate administrative efficiencies through process improvement.

**EXAMPLE:**

For example, correct ledger account numbers on the purchase order can be used to process payments so there is no need to identify the ledger number when the invoice arrives. More sophisticated systems allow authorised officers to enter goods and services received directly in the purchasing system.

When the invoice is received, with the order number displayed, accounts payable staff can call up the order number on the system. Provided electronic receipting against the order has occurred, they are able to process the invoice for payment subject to authorisation by the relevant authorised officer in finance. That is, the paper invoice does not need to be sent to the receipting officer for verification.

When implementing commitment accounting, it is highly recommended to review all purchasing and accounts payable processes (from contract / order through to authorising delivery and payment) with a view to streamlining administrative tasks to free up time for more value adding activities such as supplier and spend analysis.

A suggested method for reviewing accounts payable and purchasing systems and processes is as follows.

- Rank suppliers in terms of total annual spend and group them into the top 20 suppliers, the next 100 and so on. The numbers of suppliers in each group will differ depending on each institution’s circumstances. For example, one institution may have 12 suppliers which account for 30% of annual spend.

- Investigate all related processes for a selection of suppliers representing the top annual spenders, document the processes and identify internal procedural improvements and joint improvements with the suppliers.
  - Review contracts or agreements
  - Review how purchase orders are raised. Electronic? Commitments raised?
  - Review how receipts of goods and services are authorised. Electronic? Accruals raised?
  - Review how invoices are received and payment is made. Electronic? Efficient invoicing system?
  - Review whether in-year reports are provided to managers showing committed amounts (goods ordered but not yet received), and amounts for goods received but not yet paid.

- In addition to selecting the suppliers representing top annual spend, select individual suppliers based on workload generated. Some suppliers representing lower spend may in fact be creating large workloads for your institution due to inefficient processes. For
example, two proxy indicators for workload could potentially be the number of orders and the number of invoices annually.

EXAMPLE:

<table>
<thead>
<tr>
<th>Example: An institution receives 56 separate invoices every two weeks from a particular supplier. The invoices arrive in one envelope. The mail room opens the envelope and places a date stamp on each and forwards them to accounts payable. Accounts payable place an authorisation template stamp on each invoice and send through internal mail to the appropriate department for authorisation. The authorised officer, looks at each invoice, writes the correct ledger code on each stamp and signs where indicated to authorise payment. Every invoice is coded to the same ledger account.</th>
</tr>
</thead>
</table>

Examining this process could lead to a number of improvements. Supplier relationship can be very important in this example.

**Possible improvements in the manual system**

- It would be worthwhile requesting the supplier to send one invoice with multiple lines instead of 56 separate invoices.
- Because all invoices are being coded to the same ledger code it is not really necessary to write it 56 times. Only 1 signature is required rather than 56. The single signature must be accompanied by a statement that all invoices or lines have been verified. This authorisation statement could be in the form of a stamp.

**Introduction of commitment accounting**

Possible improvements using commitment accounting with online purchase orders and online receipting could address the following.

- An order is raised with multiple deliveries.
- The authorising officer receipts quantities received online, thereby authorising that the goods and services were delivered according to the requirements of the order and contract. Once this online authorisation is completed, the invoice is ready for payment subject to final authorisations from the finance division.
- The trigger point for the authorising officer to carry out the receipt authorising function may be receipt of a delivery note or the invoice.
- Issue of electronic invoices by the supplier may be worth exploring to further streamline processes.
5.7 **Accrued revenue and expenditure**

Accrued revenue and expenditure is concerned with recognising amounts in the financial records as soon as a legal obligation arises.

### 5.7.1 Accrued revenue

Accrued revenue represents revenue earned but not yet received. A contract for renting land and earning rental revenue can lead to a situation where the tenant has been invoiced, the amount is due and they have not yet made payment.

Tracking accrued revenue on management reports is useful to show at a glance whether all relevant invoices have been raised. Staff in charge of rental properties and appropriate finance staff should be aware of the revenue amount that should appear if all invoices have been raised. Cash flow reports will indicate receipts and outstanding debtor’s reports will highlight collection issues.

### 5.7.2 Accrued expenditure

Accrued expenditure represents the value of goods and services that have been received but where an invoice has not yet been received and entered for payment.

In a legal sense, an obligation to pay arises when the goods or services are received in line with the contracts terms and conditions.

In most government institution financial management systems, when an invoice is received and entered into the accounts payable system, the amount is recognised as expenditure. There can be substantial time lags between receipt of the goods or service and recognition of expenditure.

The reasons for this vary and include but are not limited to:

- the supplier was late in delivering the invoice;
- the invoice was lost in the internal mail system; and
- the invoice was incorrect and had to be reissued.

Processing accruals for large and or repetitive items can lead to greatly enhanced financial information for decision makers within and external to the institution.

**EXAMPLE:**

> Large monthly electricity bills should be accrued as it is possible to estimate monthly usage based on past usage and future requirements including seasonal fluctuations. Monthly management reports will be more useful if they reflect amounts for the correct electricity usage in each month, ensuring greater forecasting accuracy and prompt investigation when variances are reported.
Implementing commitment accounting supports the processing of accruals. As goods and services are ordered, the value is shown as committed. As goods and services are received, the commitment is reduced and the value is shown as expenditure. At this point there is an obligation (liability) to pay the supplier which is reduced upon payment of the invoice.

Implementing commitment and accrual accounting inherently strengthens controls in relation to managing the contract from order through to payment and provides enhanced information to decision makers.

5.8 Employee benefits
This area relates to obligations to pay employees amounts in the future based on conditions of employment contained in employment contracts or agreements. Under the previous cash based accounting system, applied by national and provincial departments, these obligations would not have been recognised in the financial statements or disclosed. Currently, under the modified cash accounting system these obligations are shown in disclosure notes and eventually full compliance with GRAP will require recognition in the financial statements.

The following areas, amongst others, should be considered:

- leave entitlement;
- thirteenth cheque (service bonus); and
- performance bonuses.

5.9 Lease commitments
Under full cash accounting practices, future obligations for lease commitments would not have been recognised in the financial statements or even shown in disclosure notes. The current modified cash system requires disclosure notes and eventually full compliance with GRAP will require recognition in the statements.
5.10  For review

Review 5.1

Explain the link between good contract management practices and recognition, measurement and disclosure of obligations.

Review 5.2

Referring to the audited AFS of your institution, list the contingent assets and liabilities and briefly explain the contractual agreements relating to each one. Who is responsible for these contractual agreements?

This may require discussion with the Chief Finance Officer and other line managers.
Review 5.3

In your institution, describe and document the process for:

- ordering goods and services;
- authorising receipt of and payment for goods and services;

Include whether processes are manual or electronic and whether commitments or accruals are used in management reports.

This may require discussion with purchasing staff and line managers authorised to receive goods and services. A discussion with relevant finance and IT staff may provide insight as to potential system functionality for: electronic authorisation of purchase orders and authorisation of receipts; commitments and accruals.

5.11 Learning checklist

Successfully completing and understanding Section 5 will ensure that you can:

- Understand the usefulness of recognition, measurement and disclosure of obligations embodied in contracts
- Conduct or initiate a review of current systems in place for ordering and receipting of goods and services, and for commitments and accruals.
6 Planning, budgeting and reporting cycle

6.1 Learning outcomes
- Understand how CM fits into the planning, budgeting and reporting cycle [SO4]

6.2 Key concepts
- Budgeting in the public sector
- Aggregate fiscal discipline
- Allocative efficiency
- Operational efficiency
- Planning, budgeting and reporting cycle

6.3 Budgeting in the public sector
In general terms budgeting is the act of compiling a plan to get resources (planned revenue), and to use those resources (planned expenditure) to meet the objectives of an institution. The objectives contained in contracts must be consistent with the strategic objectives of the institution.

Public sector reforms in South Africa include a move towards focusing on non-financial as well as financial targets. That is, service delivery promises are included in budgets so that the institution can be held accountable for delivering service promises within budget.

In a public sector context, budgeting is no longer about simply tracking expenditure and revenue over the period of one year. It is now about maximising service delivery to the community and other stakeholders within the constraints of available resources with a focus on sustaining this over time.

In other words, governments are charged with delivering services according to constitutional and legislative objectives while being responsible for the efficient management of public funds.

Budgets play a role in achieving:
- aggregate fiscal discipline;
- allocative efficiency; and
- operational efficiency.

Let us now briefly consider each of these in the context of planning and budgeting for contracts.
Aggregate fiscal discipline

Aggregate fiscal discipline refers to the process of monitoring and controlling financial performance at a summary level. It ensures that revenue and expenditure targets in the budget are realistic and that actual performance is managed to meet targets.

Proper planning and budgeting for contracts contributes to the credibility of expenditure targets for purchase and receipt of goods and services, revenue targets and cash requirement targets. If contracts were not planned for and implemented accordingly, monitoring and controlling of financial performance would be difficult if not impossible.

Allocative efficiency

Allocative efficiency is concerned with doing the *right thing* whereas operational efficiency is concerned with doing the *thing right*.

In the context of public sector budgeting, doing the *right thing*, means allocating the available resources in line with government’s priorities and the service needs of communities. Even though public entities may operate like the private sector, they also have overarching policy directives, some of which are tied to government policy.

Proper budgets for contracts are essential to provide accurate cost information to decision makers to consider policy options for service delivery.

Furthermore, deliverables associated with contracts must be consistent with the institution’s strategic objectives. That is, the terms and conditions of contracts must be such that compliance will contribute to the strategic objectives of the institution.

EXAMPLE:

Consider again the example of the contract management approach adopted at the South African Broadcasting Corporation. Before a contract will be approved by the legal section, the activities encompassed in the contract must be contained in a business plan. As such, allocative efficiency is being enforced through the contract creation and internal approval mechanisms.

Operational efficiency

As introduced above, operational efficiency is about doing the *thing right*. Assuming that allocative efficiency has been achieved, operational efficiency now focuses on delivering the priorities in the most cost-effective or efficient manner.

Budgeting for contracts provides information which can be used to assess the efficiency of contract management activities as well as whether the goods and services being procured could be sourced more efficiently.
Furthermore, good contract management will identify and maintain operational efficiency through, but not limited to, the following:

- identifying and classifying all contracts and related obligations;
- managing contracts based on their classification;
- streamlining and automating processes;
- identifying opportunities for consolidating contracts;
- better price negotiation based on consolidation and better information;
- ensuring discounts and rebates are utilised where possible; and
- managing poor performance and changing suppliers or buyers where appropriate.

6.4 Planning, budgeting and reporting cycle

It is important to integrate contract management activities into each of the following activities in the planning, budgeting and reporting cycle:

- planning and budgeting (strategic plan and budget);
- budget implementation;
- management reporting and other in-year reporting (monthly, quarterly, mid-year); and
- annual reporting (Audited AFS and Annual Report).

6.4.1 Strategic plans and budgets

During the strategic planning and budgeting process undertaken each year, a comprehensive review of all existing and proposed contracts must be undertaken. The review of all contract types would highlight and serve as a reminder at budget time of the current and future commitments embodied in existing and proposed contracts.

EXAMPLE:

For example, an institution may have a multi-year agreement regarding receipt of government transfers relating to a specific capital construction project. At budget time it would be important to review the status of the grant and the project including, but not limited to, the following:

- transfer (grant) acquittal documentation and processes up to date;
- funds received to date;
- physical progress achieved on the capital project;
- work in progress capitalised;
- funds required to be carried over to the next budget;
- funds expected to be received in the budget year and future years; and
- planned project completion date.
EXAMPLE:

A second example may be a review of contracts relating to leased vehicles. At budget time it would be useful to review the status of each contract including, but not limited to, the following:

- note dates for reviewing heads of agreement contracts;
- review assets under lease in terms of usage and other lease conditions;
- list leases expiring during the budget year and indicative outer years;
- consider implications of renewing lease, purchase, assets no longer required; and
- diarise lease renewals, extensions or other decisions for the coming year;

During planning and budgeting activities, regard should be given to appropriate resourcing of contract management activities.

A further dimension is the reliability of estimating costs of individual contracts. Contract management activities should incorporate an aspect of reviewing the accuracy of original estimates and feeding that intelligence into future budgeting activities.

6.4.2 Budget implementation

During budget implementation, it is critical that contracts are enforced such that delivery and subsequent payment are carried out in accordance with the contract. For purchase side contracts, processes must be in place to authorise delivery on the contract and make payments. For sales side contracts, processes must be in place to ensure the institution delivers according to the contract and monies are received within contract terms and conditions.

6.4.3 Management reporting

From a contract management perspective this involves more than monitoring whether actual expenditure is within budget. Some information may be able to be provided direct from the purchasing and accounts payable systems. Additional information may be required from various contract management systems. Reports useful for managing contracts could include but are not limited to:

- budget approved, contract not awarded (planned date of award, start and completion);
- contract awarded, not yet commenced (planned date of start and completion);
- per contract - amount contracted, no order;
- per contract - amount committed, goods or services not yet received;
- per contract – value of goods or services received, not yet paid for;
- per supplier, per contract – amounts not paid within terms;
- breaches of conditions or service delivery targets (either party);
- significant price variations or other variations in conditions; and
- compliance with contract management oversight policies.

Management or “in-year” reporting may be structured differently depending whether it is for monthly, quarterly, mid-year or annual reporting. Monthly reporting may be purely exception based. Quarterly reporting would tend to be more thorough and mid-year and annual reporting would generally involve an extensive review process. The mid-year review can often be combined with strategic planning and budget preparation.

6.4.4 Annual reporting (Audited AFS and Annual Report)

Annual reporting in relation to contracts requires:

- all contractual obligations are recorded in the annual financial statements; and
- a comprehensive review of all existing contracts is carried out.

6.5 For Review

Review 6.1

How does properly planning for, budgeting for and implementation of contracts contribute to aggregate fiscal discipline?
Review 6.2
Describe two ways better contract management can improve operational efficiency.

Review 6.3
In your institution, are contracts reviewed during
  - Strategic planning and budgeting processes
  - In-year reporting
  - Annual reporting (including AFS and Annual Report)
Describe the processes currently in place and comment on how they could be improved.
6.6 Learning checklist
Successfully completing and understanding the section will ensure that you can:

- Understand how CM fits into the planning, budgeting and reporting cycle.
- Understand how good contract management improves effectiveness and efficiency.
- Review and improve processes for planning for and reporting on contracts.
7 Oversight of contract management

7.1 Learning outcomes
- Evaluate and implement appropriate oversight of CM [SO 5]

7.2 Key concepts
- Legislative framework
- Oversight of contract management
- Governance structure

7.3 Legislative framework
At this point it is useful to review the legislative framework as already set out in section 2.2 of the CMF.

Sections 38, 44 and 45 of the PFMA details the responsibilities of the accounting officer and other officials for finance management functions. Sections 51, 56 and 57 repeat these responsibilities in relation to public entities. In particular the legislation requires:

- effective, efficient, economic and transparent use of resources; and that
- all contractual obligations are settled and monies owing are paid within terms.

The Treasury Regulations, 2005, issued in terms of the PFMA have limited provisions relating to contract management including the following:

- 8.2.3 requires creditors to be settled within 30 days from receipt of invoice or settlement date or court judgement in the case of civil claims;
- 15.10.1.2 states that sound cash management includes avoiding prepayments for goods and services unless required by the contractual agreements with the supplier;
- 16.7.1 states that the accounting officer or accounting authority of the institution that is party to a Public Private Partnership (PPP) agreement is responsible for ensuring that that PPP agreement is properly implemented, managed, enforced, monitored and reported on, and must maintain mechanisms and procedures for –
  - measuring the outputs of the PPP agreement;
  - monitoring the implementation of the PPP agreement and performances under the PPP agreement;
  - liaising with the private party;
  - resolving disputes and differences with the private party;
  - generally overseeing the day-to-day management of the PPP agreement; and
  - reporting on the PPP agreement in the institution’s annual report.
- 17.2 sets out retention periods for documents including contracts, and all other documents relating to purchase of goods and services.
7.4 **Oversight of contract management**

Given the above legislative framework and having regard to international good practice in contract management, to facilitate appropriate oversight of contract management the accounting officer must take all reasonable steps to ensure that:

- contracts are properly enforced;
- contracts are classified according to the level of management intervention required;
- contracts are monitored appropriately according to their classification;
- a single person and or committee structure is responsible for driving institution wide contract management performance;
- roles for contract owners, contract managers and other advisors are clearly defined;
- appropriate delegations are in place to allow role players to carry out their responsibilities;
- clear procedures for handover from contract award to contract management are in place;
- contract management plans are implemented where appropriate, and focussed on outputs and performance;
- contract management processes and procedures are aligned with organisation wide governance and risk management processes, and performance is reported through established governance channels;
- ongoing contract management training is provided during induction and regular refresher training;
- there is an annual review and adjustment of contract management policies, procedures and guidance with a view to continuous improvement in contract management;
- there is regular assessment and evaluation of the effectiveness and efficiency of contract management activities including an assessment of the costs of the contract management function; and
- policies and procedures are in place in terms of:
  - identification and classification of contracts;
  - recognition; measurement and disclosure of contracts;
  - planning and budgeting for contracts;
  - oversight of contract management;
  - resourcing contract management activities;
  - document and information management regarding contracts;
  - relationship management in terms of parties to contracts;
  - performance management of contracts and parties to contracts;
  - payment, collection, incentives and penalties; and
  - risk management relating to contracts.
7.5 Governance structure
Governance arrangements will set out where accountability sits in the government institution. A governance process chart for contract management should be constructed with associated procedural documentation describing at least:

- composition, roles and responsibility of each unit or function and relation to the institution’s overall governance structure;
- where different types of decisions are made and the workflow sequence of decisions;
- relevant delegations required to enable decisions discussed above; and
- reporting mechanisms.

7.6 For review
Review 7.1
Briefly explain the governance arrangements for contract management in your institution and include

Is there an oversight committee for contracts? Or is a single person responsible?
Are delegations related to all contracts contained in a single policy?
What are the reporting channels, requirements and frequency of reports?

7.7 Learning checklist
Successfully completing and understanding the section will ensure that you can:

- Document and review existing oversight mechanisms for contract management and implement improvements
8 Resourcing contract management activities

8.1 Learning outcomes
- Evaluate and implement appropriate resourcing of CM activities [SO 6]

8.2 Key concepts
- Contract management systems
- Human resources and competency levels
- Roles in contract management

8.3 Introduction
To ensure appropriate contract management takes place it is important to consider:
- people;
- processes; and
- systems.

The type and level of resources required for contract management will vary for different types of contracts.

Different levels of skills and competencies will be required for different types of contracts. Some will require establishment of a contract management team while others will be managed by a single person.

Processes will be driven largely by competencies and systems in place.

Some contracts will be tracked using specialised software systems while others will be managed with hard copy registers.

8.4 Human resources and competency levels
Contract managers, owners, and other team members must have appropriate skills and qualifications to carry out the contract management activities required for the classification of contracts they are dealing with.

Skills and qualifications must be accurately detailed in job descriptions, which should be reviewed regularly and ideally in conjunction with annual staff appraisals. Accurate job descriptions contribute towards ensuring duties are carried out properly by appropriately skilled staff.
Salaries must be appropriate for the duties being carried out and competency of staff must be suited to the duties. Inappropriate salaries can lead to lack of motivation, staff turnover and staff without the requisite competencies performing duties outside of their abilities.

Appropriate training and support must be provided to contract owners to assist in their dealings with the contract management team and other stakeholders. This should include training as part of new staff induction as well as annual refresher training. For example, the annual training plan may include a “pre budget preparation” session to raise awareness regarding the review of existing contracts and considerations for proposed contracts. The training plan should also allow for follow up sessions with staff that appear to not be following procedures. A note should be placed on the staff members file to be raised during the annual staff appraisal process. Introduction of new systems and procedures may also feature on the annual training plan.

If contract managers are not involved during the tendering / contract award process, there must be a handover from staff involved with the tendering and award. Staff managing the bid and award process should have an understanding of the contract management requirements and the implications that awarding the contract will have on managing the contract over its life.

8.5 Roles in contract management

8.5.1 Contract owners
The contract owner is the person who is requesting the goods and services and is often a line manager. Contract owner’s need a good understanding of the contract and may call on specialist advice depending on the level of complexity of the contract. Ultimately the contract owner should be making judgments about whether deliverables have been achieved.

Contract owners will be involved in at least the following:

- specification development including deliverables for timing, quantity and quality;
- agreement of measurement mechanisms for the contract deliverables; and
- regular communication with contractor and assessment of performance.

8.5.2 Contract manager
A contract manager’s role is to ensure that:

- the legal contract correctly stipulates requirements in line with the contract owners request and the institution’s strategic objectives;
- the goods and services are delivered according to standards set out in the contract; and
- contract documentation and information is managed throughout the Contract Life Cycle.
As such, a range of abilities is required. In particular, the following skills should be considered:

- communication and negotiation at all levels. Ability to ensure excellent communication and where necessary to prevent and repair situations of poor communication;
- financial skills sufficient to be able to understand financial implications of contracts;
- change management skills to successfully manage changing relationships and contract modifications;
- analytical skills to ensure sufficient analysis and reporting of contract progress and judgement regarding escalation of issues;
- risk management;
- performance management; and
- legal issues around contracts.

The contract manager may sometimes be the same as the contract owner. Often for supply of goods and services, the SCM Unit will carry out the contract management function. For employee contracts, the Human Resources Manager will be the contract manager.

In the case of major construction projects, a project manager will generally be appointed to perform the functions of contract manager.

**EXAMPLE:**

> At the South African National Roads Agency Ltd (SANRAL) a project manager is appointed for each major construction project. The project manager applies international project management standards and manages all of the prime contracts associated with the project. *Sub contractors are managed by the prime contractor.*

In some institutions the legal section may perform the role of contract manager for many contracts due to their role in understanding and negotiating complex terms and conditions.

**EXAMPLE:**

> At the South African Broadcasting Corporation (SABC) the legal division is responsible for managing SCM contracts and others, but is not currently responsible for contracts relating to sales of advertising slots on radio and television. As contract manager, the legal division employs an automated workflow and document management system to facilitate contract creation, collaboration and execution.

### 8.5.3 Finance

Finance will provide advice on budgeting and assist with preparation of in-year and annual reports and in particular with amounts committed and accrued. The role of finance also includes payments and collections and usually the systems and processes for authorisation. Finance may also be contract owner and or contract manager for certain types of contracts such as financing instruments.
Financial support may include but is not limited to advice on the following:

- development and review of the financial model;
- calculation of payments including penalties, incentives and terminations;
- efficient processing of payments according to the contract; and
- indexation and price variations.

8.5.4 Legal
The legal division may perform the role of contract manager for many contracts due to their role in understanding and negotiating complex terms and conditions. In other cases, legal’s role may be to provide expert advice to the contract owner and manager.

In-house or outside specialist legal advisory services may be required, from time to time, to establish and manage contracts. Legal is normally called upon to develop general conditions of contract for the majority of circumstances and special conditions where required. They may also be called upon in the following circumstances:

- dispute resolution;
- implementation of variations;
- implementation of contract changes (contractor ownership, nominated sub contractors etc.);
- contractor distress;
- refinancing;
- certification of deliverables;
- breach of contract, penalties and termination; and
- enforcement of indemnities, guarantees and contractual claims.

8.5.5 Executive Authority / Accounting Officer
Overall accountability for all contractual agreements entered into by the institution resides with the executive authority or accounting officer. Hence, they are required to have a general understanding of the contract classifications and associated exposure contained in the Contracts Inventory. They must ensure that a comprehensive delegations system is in place and that staff with delegated authority have the necessary skills and qualifications to carry out their tasks and provide appropriate and timely advice.

See section 7 on contract management oversight for further discussion.
8.5.6 Risk Management / Internal Audit
Risk management should provide input into:

- risk management plan templates for each classification of contract;
- the risk management component of training plans; and
- the internal audit plan.

Internal audit should review existing contracts and contract management systems and processes as part of the audit plan.

8.5.7 Audit Committee
As stated in the Public Sector Risk Management Framework:

“The Audit Committee is an independent committee responsible for oversight of the Institution’s control, governance and risk management.”

Their role will include an independent assessment of the adequacy of contract management systems and processes in terms of control and risk management.

8.6 Contract management systems
Appropriate systems (manual or computerised) are necessary to ensure proper management control and monitoring of contracts.

In a situation with unlimited resources, every contract in an institution would be recorded on a single Enterprise Contract Management software solution. Workflow processes would be automated and alert reporting and other regular reporting would be generated by predetermined parameters.

Given the level of savings that could be generated, and the ability for such systems to focus contracted activities towards strategic objectives, all government institutions should be planning to move towards this level of enterprise contract management.

Section 9 on document and information management deals with the components and benefits of contract management systems in more detail.
8.7 For review

Review 8.1

Pick 3 types of contracts from your institution’s Contracts Inventory (refer to Review 4.2). For each type, describe the activities of the relevant role players and whether current resources (People / Processes / Systems) are sufficient to manage these contracts.

With respect to the People component, focus on whether the right competencies are available for the required tasks).

8.8 Learning checklist

Successfully completing and understanding the section will ensure that you can:

- Evaluate and implement appropriate resourcing of contract management activities
9 Document and information management

9.1 Learning outcomes
- Evaluate and implement appropriate document and information management [SO 7]

9.2 Key concepts
- Document and information management
- Information systems
- Change management for contract documentation and information
- Enterprise contract management (ECM) software solutions

9.3 Document and information management
Document and information management is concerned with managing the actual contract documentation as well as the information contained in those documents throughout the Contract Life Cycle. Information contained within contract documents includes milestones, deliverables, and payment or revenue billing schedules.

Management processes and procedures for document and information management will vary according to the requirements for the category of contract.

Manual and or computerised systems must be in place to ensure secure storage of and easy access to all contract documentation and the information contained in those documents. It is important to note that not all documentation will necessarily be stored in the same file or computerised system. However, ideally and given available resources, there would be a single enterprise contract management software solution capturing most contracts.

Contract documentation must be identified for each contract and may include but is not limited to:
- specification;
- request for proposals and requests for tenders;
- advertisement;
- bids and bid correspondence;
- selection and award process and results;
- contract;
- quote;
order;
delivery and acceptance / authorisation documentation; and
payment documentation (invoices and authorisations).

EXAMPLE:

In the case of a major construction project it is likely that the project manager will keep all the above documentation together including duplicate information from the financial system. Some or all of the information may be stored electronically.

EXAMPLE:

Take for example the purchase of consumables with no contract in place. There could be three quotes and a purchase order on file either electronically, physically or both. A delivery note authorised as received in accordance with the order may be kept on file by the receiving officer with a copy forwarded to accounts payable. In an electronic environment, all of the above could potentially be stored electronically including an audit trail of electronic authorisation by the receiving officer.

9.4 Information systems

In addition to managing the documentation itself, the information contained in the documentation must be managed.

Contract management information systems range from simple spreadsheets through to comprehensive enterprise contract management (ECM) software solutions. It is critical to document all current systems and processes and embark on a systematic progression towards improving processes and implementing an ECM solution. The following example is contained in the Contract Management Self Assessment (provided separately) and demonstrates how to begin documenting current systems and processes for types of contracts. Refer specifically to the underlined text.
EXAMPLE:

a. Contracts for employee compensation are separated into 3 categories. Senior Management Performance Based Contracts, Other Performance Based Contracts, and Non Performance Based Contracts. All categories are managed by Human Resources using the HRM system with advice as required from Legal as set out in the attached policy and procedure for Managing Employee Contracts.

b. Contracts for supply of goods and services: are separated into 3 categories (A, B & C) – see attached policy and procedure detailing rules for classification and specific treatment of each category. Details for Category A and B contracts are maintained on the computerised contract management system managed by the SCM Unit. Category A contracts are assigned a contract manager from the SCM Unit and are carefully managed through structured and formally scheduled meetings between the contract manager, contract owner, and supplier as appropriate. Category B contracts are also assigned a contract manager but require less attention. Category C contracts are minor, are not actively managed and no details are maintained on the computerised contract management system.

c. Contracts for leased vehicles (approx 20 vehicles): are managed by the CFO’s delegate with advice provided by the SCM unit as required. A lease register is kept on an excel spreadsheet and key trigger points are diarised to provide advance notice. See the attached policy and procedure for Managing Leased Vehicles.

d. Contracts for loans (10 debentures with a combined value of R2b): are managed by the CFO’s delegate with advice provided by the SCM Unit as required. A loans register is kept on an excel spreadsheet and key trigger points are diarised to provide advance notice. See the attached policy and procedure for Managing Loan Contracts.

e. Contracts for transfers to be received (9 grants with a combined value of R200m): are managed by the CFO’s delegate. Transfer documentation is kept on an excel spreadsheet in the format required by National Treasury. Key trigger points are diarised to provide advance notice. See the attached policy and procedure for Managing Transfers including grant acquittal processes and procedures.

9.5 Change management

Procedures and systems need to be in place to manage changes to contract documentation and information due to changes in circumstances and subject to mutual consent. The contract itself should specify change control procedures and the circumstances under which they can be utilised.

Change control procedures include but are not limited to:

- circumstances under which a contract may and may not be changed;
- process for affecting change including authorisation;
- roles and responsibilities of all parties in the change control process; and
- impact of the change on all parties.

9.6 Enterprise contract management (ECM) software solutions

In very recent times there has been increased interest in automation of contract management processes. Enterprise Contract Management (ECM) solutions focus on contract life cycle management. The objective is to automate and streamline all aspects of contract management throughout the life of the contract. They do this through introducing and enabling:
• consistent and efficient contracting processes and controls;
• clear identification of risks and opportunities in the context of the institution’s enterprise
  risk management and governance structures;
• compliance with regulatory requirements; and
• compliance with financial accountability requirements.

ECM solutions may provide functionality including but not limited to:

• document management, workflow, audit trails and version control;
• contract authoring and configuration including wizards with templates for modification;
• contract collaboration workflow;
• resource planning functionality to plan tasks and track actual resources used;
• management of and reporting on performance with regard to terms and conditions; and
• integration or interfacing with other key systems.

Government institutions with a multitude of contracts ranging from standard to complex stand to
gain significantly from the implementation of an ECM solution. Furthermore, in government
there are substantial benefits to be gained by implementing a standardised system across
multiple institutions. This would provide significant benefits around treatment of like contracts
and may also assist in developing intelligence on suppliers and contracts for like goods and
services.

Benefits of ECM solutions may include but are not limited to:

• reduction of goods and services costs;
• reduction of process cycle time – freeing up time to spend on value add activities; and
• decreased risk and increased opportunities.

An ECM solution provides a link between:

• supplier relationship management;
• procurement;
• customer relationship management;
• sales and distribution;
• accounts receivable and accounts payable; and
• planning and budgeting.

Diagram 9a below illustrates how an ECM provides links between various sub-systems.
Diagram 9a: ECM Solution Links with Sub-systems

9.6.1 Enhanced visibility
By identifying, classifying and recording information about contracts in a standard way, an ECM solution increases visibility of contract objectives and conditions, enhancing decision making. For example, it may become clear that several contracts are in use for the same goods and services. Efficiencies could be achieved through consolidation, leading to contract management savings, and the opportunity to negotiate better prices. A proactive approach to management is facilitated as decision makers are alerted to upcoming key trigger points and breaches in terms and conditions. Preventative and remedial action can be initiated earlier leading to reduction of overall risk and ultimately interventions which successfully avoid more serious breaches.

9.6.2 Reducing costs and increasing revenue
As discussed above, contract consolidation can lead to cost savings through reducing contract management workload as well as through negotiation of better prices.

Notification of renewal dates and other key trigger points, including automatic renewals and deviations from agreed terms and deliverables, can amongst other things:

- reduce the risk of overpayment;
- reduce payment of penalties;
- reduce acceptance of goods and services outside of specifications; and
- ensure that non-performing contractors are coached to performance or replaced.

 Appropriately implemented ECM systems can reduce the cost of internal and external audits and reduce the risk of penalties for non compliance with legislation and regulatory frameworks.
Appropriate automation of contract authoring and collaboration lessens the administrative burden and frees up parties to concentrate on negotiating better contracts. Resources can be diverted to value added tasks. For example, the legal team may be released to review more complex issues in contracts.

Document management functionality can provide for a “single active version” where older versions are archived and access and action is restricted based on authority. Automation of policies and procedures regarding document retention, access and disposal further ensures appropriate document protection and access.

Paper versions of contracts can be reduced with a significant amount of work carried out on electronic versions. Workflow functionality maintains version control and tracks the person who made each particular change to the contract. Storage of contracts in multiple locations, lost and duplicate contracts can be reduced.

Linking key trigger dates in the contract document and contract management process to electronic calendars and reminders can provide powerful alert reports for contract owners, managers and other stakeholders.

On the sales side, automated alerts can:

- potentially facilitate timely and accurate invoicing for accounts receivable;
- ensure follow ups are performed to minimise outstanding debtors; and
- ensure collection of penalties and interest due.

9.6.3 Compliance with regulations and procedures

As mentioned in the above section, ECM systems can reduce the cost of internal and external audits and reduce the risk of penalties for non compliance with legislation and regulatory frameworks.

Solutions for ECM can use standard templates for contract clauses, alerts and regular reports. Internal policy and procedure requirements as well as requirements for compliance with external regulatory frameworks can be built into these templates.

In addition to allowing quicker contract drafting and ensuring timely regular reporting and alerts by exception, an ECM can encompass the relevant internal and external rules and facilitate uniform and comprehensive compliance.
9.7 For review

Review 9.1
Refer to Review 8.1 and, if not already provided, identify the processes and systems in use for each contract type.

9.8 Learning checklist
Successfully completing and understanding the section will ensure that you can:

- Evaluate existing document and information management in relation to contracts
- Evaluate and implement new systems and processes for contract document and information management
10 Relationship management

10.1 Learning outcomes
- Evaluate and implement appropriate relationship management [SO 8]

10.2 Key concepts
- Relationship management
- Classification of relationships
- Accreditation of suppliers, buyers and other stakeholders
- Monitoring and evaluation of suppliers, buyers and other stakeholders

10.3 Introduction
The focus of relationship management is on individual suppliers, buyers or other stakeholders. The activities encompassed here involve proactive management of relationships to benefit both the institution and its stakeholders. Strategic sourcing and strategic buying rely on development of sound relationship management.

Relationship management looks to integrate the objectives of two or more parties with a view to creating greater value for money for the purchaser and enhanced margin for the provider. This can be achieved through activities including but not limited to:

- aligning objectives of the institution and stakeholder organisation;
- streamlining processes and accessing technological improvements;
- reduction of duplication between the institution and stakeholder organisation; and
- reduction of lead times.

When looking at relationship management, the institution should consider all possibilities including:

- external suppliers and buyers;
- internal service providers and receivers; and
- all other relevant stakeholders.

A collaborative situation might look at the relationship between multiple government institutions and a single supplier, buyer or other stakeholder.
Key factors of effective relationships include but are not limited to:

- understanding of and respect for each party’s point of view;
- shared knowledge and objectives and desire for contract to succeed;
- sound understanding of the contract and contractual documents;
- good flow of information and open channels of communication;
- willingness to resolve issues by all parties;
- effective decision making processes;
- mutual trust and understanding; and
- joint approach to managing delivery under the contract.

10.4  Classification framework for relationship management

As initially discussed in section 4.8, it is useful to classify suppliers, buyers and other stakeholders for relationship management purposes.

The table below provides an example classification framework for suppliers. Note that similar tables could be produced for buyers and other stakeholders. Each institution should develop its own framework for relationship management purposes.

EXAMPLE PRESENTED ON THE FOLLOWING PAGE
EXAMPLE: Classification Framework for Relationship Management

<table>
<thead>
<tr>
<th>Prime</th>
<th>The top X suppliers in terms of importance to institution’s strategic objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key</td>
<td>Business critical supplier in terms of institution's strategic objectives</td>
</tr>
<tr>
<td>Approved</td>
<td>Non business critical suppliers approved for repeat business subject to performance</td>
</tr>
<tr>
<td>Test</td>
<td>New and ad-hoc suppliers</td>
</tr>
<tr>
<td>Potential</td>
<td>Suppliers identified for potential future business</td>
</tr>
<tr>
<td>Exit</td>
<td>Suppliers to be managed out of future business</td>
</tr>
</tbody>
</table>

Adapted from the Category Management Toolkit – Supplier Classification, UK Office of Government Commerce

**Prime & Key**

The first two classifications are essentially the same except they are differentiated by selecting the top few suppliers with the highest impact on the institution’s strategic objectives.

These relationships may be characterised by but are not limited to the following:

- focus on value enhancement for all parties and shared risk and reward;
- senior management and or board level engagement;
- designated relationship managers from all parties; and
- highly developed communication channels and proactive issue resolution.

**Approved**

This classification of supplier, although not business critical, will have proved itself as a valuable supplier and will consider the institution as a valuable customer. They will be sought out to apply for repeat business through the normal competitive processes.

**Test**

The “Test” classification is for first time or ad-hoc suppliers. New suppliers need to prove themselves, and ad-hoc suppliers may be used as alternatives when “Approved” suppliers are not available.

**Potential**

Potential suppliers will usually be formally identified through normal competitive processes.

**Exit**

The CMF in its approach to enterprise contract management, to manage all contracts through all stages in the Contract Life Cycle, requires more focus on performance of individual contracts, suppliers, buyers, and other stakeholders. Poor performing stakeholders need to be managed to perform or managed out of future business.
10.5 Stakeholder accreditation and classification
For the purposes of discussion let’s continue with the classification framework for suppliers shown above.

For each of the classifications from “Test” up to “Prime” there will be increasing accreditation requirements.

EXAMPLE:

For example, “Test” and “Approved” suppliers will need to comply with all basic requirements for doing business with a government institution such as tax clearance and compliance with other regulatory frameworks.

Additional requirements may be introduced for “Key” suppliers including alignment of policies relating to issues such as the environment and customer service.

Given the strategic importance of “Prime” suppliers, accreditation may involve mutual agreement of strategies and policies by all parties.

Depending on the operations of the institutions it may be important to have accreditation programmes for suppliers, buyers and other stakeholders. Supplier, buyer and other stakeholder education programmes may need to be established to facilitate upward progression on the classification framework. Demotion could also be a potential ramification of poor performance.

10.6 Approach to relationship management
Each government institution should consider at least the following in its approach to relationship management:

- consideration given to continuity of supplier and buyer staff for appropriate classifications of contracts;
- regular contract management reviews consider existing and potential strategic relationships with a view to deliver benefits for all relevant parties;
- roles and responsibilities of the contract manager, contract owner and supplier or buyer are clearly defined and differentiated in contract documentation and well understood by all parties;
- policies, procedures, contract clauses and practices promote and demonstrate actual formal and informal communication channels where appropriate;
- policies, procedures, contract clauses and practices promote and demonstrate clear problem and conflict resolution mechanisms including well defined and known escalation routes; and
- communication between parties should be peer to peer. For example, operational issues should be resolved by staff at the operational level.
10.7 For review

**Review 10.1**

Briefly describe your institution’s approach to relationship management.

- Is it formally documented?
- Are there frameworks such as the one discussed in Section 10.4?
- Are there processes for stakeholder accreditation and education?
- Suggest improvements including contract types needing a classification framework.

10.8 Learning checklist

Successfully completing and understanding the section will ensure that you can:

- Evaluate existing policies and frameworks for management of relationships with parties to contracts
- Evaluate and implement new policies and framework for management of relationships with parties to contracts
11 Performance management

11.1 Learning outcomes
- Evaluation & implementation of performance management [SO 9]

11.2 Key concepts
- Contract performance;
- Supplier, buyer or other stakeholder performance;
- Contract management performance
- Performance reporting

11.3 Contract performance
Regardless of whether contracting with external or internal parties, all contracts should be subject to various levels of performance management depending on the classification of the contract based on the following criteria as discussed in section 4.6:

- contract type or nature;
- strategic importance of the goods and services being purchased or sold;
- contract value;
- contract duration; and
- contract complexity.

The relationship with the provider, purchaser or other stakeholder should also be considered when determining the extent of performance management intervention required.

Contract management policies and procedures must set out performance management monitoring systems for categories and types of contracts.

Performance management information on different types of contracts may be recorded in different systems. While there is no requirement for all contracts to be recorded on the same system, there are advantages in doing so. As discussed in sections 8.6 and 9, an ideal situation would see a single enterprise contract management (ECM) software solution capturing most contracts.

As an interim step it may be satisfactory for a contract manager to be responsible for managing one or more types of contracts and provide summary and exception reports for each type as part of overall contract performance monitoring.
Performance management and assessment should ideally occur at regular intervals throughout the life of the contract.

Each institution needs to evaluate information needs relating to each classification and type of contract. However, information should also be provided at a summary level to provide a view of institution wide performance. From a generic standpoint, and at a summary level, the contract manager and contract owner should be interested in at least the following per contract:

- Supplier, buyer or stakeholder ID and Name (unique supplier, buyer, stakeholder ID);
- Contract ID and Description (unique contract ID);
- Contract type (select from a pick list);
- Value (Rand);
- Contract duration (start and end date);
- Contract classification (select from a pick list);
- Value for money assessed prior to contract execution (Y/N);
- Corrective action required (Y/N)
- Good performance acknowledged (Y/N)
- Performance rating (1-5)
- Value for money achieved (Y/N);
- Would this supplier / buyer be considered for future contracts? (Y/N)

With the information above, summary and exception reports can be prepared based on different sorting orders and exception parameters. For example, a listing of the performance of the top 20 contracts by value, or a listing of all purchase side contracts where corrective action was initiated.

Each of the above points will now be briefly discussed. Bear in mind that this is an example of the type of summary information that contract managers and owners would want at their disposal to manage contract performance. Further detailed information will exist and may be required to assist explanation. Detailed information will vary from one contract type to the next and is not explored in this guide.

11.3.1 Supplier / buyer and Contract ID

A unique identification number would be assigned to each supplier, buyer or other stakeholder and general information recorded. This would allow reports to be sorted by supplier, buyer and other stakeholders to gain a view of their overall performance across multiple contracts.
11.3.2 Contract type, value, duration and classification

The contract type, value, duration and classification would allow further sorting and provide useful management information. For example, reports may indicate that several contracts of the same type could be consolidated.

11.3.3 Value for money

The information system should hold two pieces of information in relation to value for money. The first field would record whether value for money was assessed prior to the award of the contract. The second would record whether value for money was actually achieved and would be dependent on the performance rating.

The following should be considered as part of a checklist to confirm that value for money was assessed prior to engagement:

- prices are within reasonable limits for the type of good or service;
- procurement and other procedures were adhered to; and
- previous performance, where applicable, was considered.

To confirm that value for money was achieved for each contract, the performance rating for the contract should be considered.

11.3.4 Corrective action / good performance acknowledged

During the contract’s life it is important to communicate any issues requiring remedial action as soon as possible and these need to be recorded. Equally, it is good practice to communicate good performance and this should also be recorded.

11.3.5 Performance rating

Each supplier, buyer or other stakeholder should be awarded a rating for performance under each contract and this may be done at regular intervals during the contract’s life and should always be done at contract closeout or renewal.

A simple performance rating system is suggested which captures information from an evaluation form to be completed by the contract owner, contract manager, supplier, buyer or other stakeholder. The suggested approach below may be a summary rating with more detailed performance ratings completed for particular classifications and types of contracts. In this example, each of the items A to C is given a score according the 5 point rating system below. While assessment of the total score is useful, each rating from 1 to 5 should be assessed individually to determine if it is a limiting factor for achieving value for money.
EXAMPLE:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>The objectives (deliverables) of the contract were achieved to specification [1-5]</td>
</tr>
<tr>
<td>B</td>
<td>The contract deliverables were achieved within budget [1-5]</td>
</tr>
<tr>
<td>C</td>
<td>The contract deliverables were achieved on time [1-5]</td>
</tr>
</tbody>
</table>

Ratings

1. Significant problems
2. Some progress but major issues
3. Moderate progress but some outstanding issues
4. Achieved target
5. Exceeded target

When assessing performance it is important to consider which parties were responsible for performance or the lack thereof. Notes can be provided to explain issues but it is critical to provide an accurate assessment of the performance of the contract.

In the suggested model, an overall score of 12 or above out of a possible total of 15 would be an initial indication that value for money was achieved. However, total score should not be the only guide.

After completing the performance rating, and considering whether or not value for money was assessed prior to contracting, it would be possible to evaluate whether value for money was actually achieved.

11.3.6 Would this supplier / buyer be considered for future contracts?
This question should be considered carefully. If there were problems outside of the supplier or buyers control it would be unfair to answer “no” here.

The performance management system should be brought to the attention of, and potentially negotiated with, the supplier or buyer prior to commencement of the contract. This is good practice in terms of managing expectations about how performance will be measured and how performance may affect chances of repeat business.

11.4 Supplier, buyer performance
As part of the contract performance management process, institutions should consider the performance of suppliers, buyers and other stakeholders who may be party to more than one contract with the institution.
Broader obligations of the supplier may also be considered, including such things as:

- Compliance with broader legal framework (health and safety, environment, etc.); and
- Compliance with other policy initiatives (BEEE, Proudly South African, etc.).

11.5 Contract management performance

Reports on contract management performance can be sorted in a variety of ways and combinations including but not limited to the following:

- Contract category and or type;
- Supplier, buyer or other stakeholder; and
- Contract owner, contract manager, or legal advisor.

Institutions should devise reports suitable for purpose and consider the following discussion as a useful starting point.

The contract management system can be viewed as adding value to:

- the institution;
- contract owners; and
- contract management.

11.5.1 Institution

Examples of metrics useful for evaluating value to the institution are:

- cost of contracting function;
- breaches of contract;
- number and cost of litigations;
- number and severity of issues identified in audits; and
- shorter cycle time for delivery of services (plan-budget-procure-deliver).

11.5.2 Contract owners

Examples of metrics useful for evaluating value to contract owners are:

- % of total spend under contracts;
- % of total spend under contracts by contract classification, supplier, buyer etc.;
- suppliers, buyers with multiple contracts;
- goods and services with multiple suppliers / buyers; and
- survey contract owners, procurement staff, finance, legal, audit and other internal stakeholders regarding their opinion of:
- efficiency;
- user friendliness; and
- accessibility of contracts.

### 11.5.3 Contract management function

Examples of metrics useful for evaluating value to the contract management function are:

- average number of contracts managed per contracting professional;
- average number of new contracts executed per contracting professional;
- average number of amendments executed per contracting professional;
- average time to author a new contract (by category);
- average time to negotiate a contract;
- average time to get internal approval to execute a contract;
- average time to execute a contract;
- total cycle time from contract creation to contract execution;
- % of contracts with non standard terms;
- % of non standard contracts not approved;
- % of contracts with penalties for non compliance;
- % of contracts with auto renewal clauses;
- % of contracts with standard terms and or based on standard template;
- % of contractual obligations fulfilled;
- lost contracts; and
- survey stakeholders as per 11.5.2 above.

As part of the annual review of contract management policies, the performance of each contract management area, system or set of procedures and processes must be reviewed. The internal audit function is ideally placed to conduct an independent review. Performance should be measured in terms of at least the following:

- efficiencies achieved in reducing total annual contracting costs;
- direct and indirect administrative overheads applicable to contract management activities;
- accuracy and timeliness in recording, filing and accessing contract documentation;
- correct operation of computerised systems (software functioning properly);
- accuracy and timeliness of contract management reports;
• compliance with procedures; and
• retraining and / or removal of staff due to procedural breaches.

11.6 Performance reporting
At the core of performance reporting is a consideration of the decision usefulness of the information. To be useful for decision making, information must be:

• relevant;
• accurate; and
• timely.

Keep the above in mind for the discussion that follows.

Performance reporting will occur in the following stages:

• Contract inception;
• In-year reporting (monthly, quarterly, mid-year);
• Annual reporting (Audited AFS and Annual Report).
• Planning and budgeting (strategic plan and budget); and
• Contract closure.

Information useful during each of these stages will now be discussed.

11.6.1 Inception report
Inception reporting involves deciding on:

• metrics;
• measurement systems; and
• measurement and reporting format and frequency.

11.6.2 In-year reporting
Frequency of reporting should be determined taking into account the factors shown below:

• classification of the contract for management purposes;
• classification of the supplier taking into account the relationship status;
• decision useful information for contract owners and contract managers; and
• material events reported by exception when they occur.
Monthly reports should as much as possible be reserved for:

- notification of material events such as contract breaches and service delivery failure;
- action taken or proposed in response to breaches; and
- updates on contracts placed on watch due to previous performance issues.

The following could be reported on quarterly unless more frequent reporting is determined necessary for specific types or classifications of contracts:

- notification of key trigger points and milestones contained in contracts;
- notification of impending contract end dates;
- notification of contract commencements and impending contract commencements;
- contracts budgeted for and not yet contracted;
- value committed (ordered) and not yet delivered;
- payments to contractors outside of contract terms;
- action taken as a result of contract breaches – summary for the quarter; and
- action taken to commend exceptional performance – summary for the quarter.

11.6.3 Annual reporting, strategic planning and budgeting
Undoubtedly, contract life cycles will straddle end of year and planning and budgeting processes. During both preparation of the annual report and the strategic plan and budget, a comprehensive review of existing, recently completed and proposed contracts should be undertaken.

11.6.4 Completion report
Completion reports should be prepared for all contracts to ensure formal evaluation of delivery under the contract. Issues include but are not limited to:

- overall performance; and
- cost of service.
11.7 For review

Review 11.1

Document your institutions approach to monitoring and evaluating performance of:

- Contracts (buy, sell or other contracts);
- Stakeholders (suppliers, buyers or other stakeholders) and
- Contract management function.

This will require analysis of all manual and electronic systems used to store data which could be useful to assess performance and also all reporting mechanisms throughout the Contract Life Cycle for each type of contract.

11.8 Learning checklist

Successfully completing and understanding the section will ensure that you can:

- Evaluate existing performance management of contracts, stakeholders and the contract management system itself
- Implement new performance management systems in relation to the above
12 Payment, collection, incentives & penalties

12.1 Learning outcomes
- Evaluate & implement payment, collection, incentives & penalties [SO 10]

12.2 Key concepts
- Payment policies, procedures and systems
- Collection policies, procedures and systems
- Incentives and penalties linked to strategic objectives

12.3 Introduction
Payments and collections depend largely on policies, procedures and systems to ensure:

- good record keeping;
- financial billing and payments systems;
- streamlined and well documented procedures; and
- staff performance in carrying out routine tasks and timely escalation.

It is critical that outstanding amounts in terms of both accounts payable and accounts receivable are followed up immediately and escalated to management as soon as possible. Repercussions for missed payments or collections can be wide ranging including but not limited to:

- loss of revenue due to missed collections;
- increased costs due to not taking advantage of supplier discounts;
- cash flow issues requiring unnecessary overdrafts;
- breach of contract terms;
- negative supplier or buyer relations; and
- negative perception of the general public.

Payment and collection procedures, conditions and timeframes must be clearly documented and communicated to suppliers and buyers (milestones, documentation required, documentation submission channels, incentives, penalties, etc.).
12.4 Payments
Payments must always (100% of the time) be made in accordance with the general conditions of contract and or any special conditions after receipt of the invoice and provided the goods or services comply with specifications. The Treasury Regulations require that payments must be made within 30 days of receipt of invoice (based on the date stamped on the invoice when it is physically received). It is good practice to always pay within terms and strive to pay well within terms when government institutions are paying businesses.

EXAMPLE:

| The UK government undertakes to pay suppliers within 10 days of receipt of invoice to demonstrate its commitment to organisations wishing to do business with government. |

The Treasury Regulations state that sound cash management includes avoiding prepayments for goods and services unless required by the contractual agreements with the supplier.

Whether included in the contract or not, discounts indicated on invoices in return for early payment should be accessed through ensuring prompt payment within the discount period. Mechanisms must be put in place so that any discounts included in contracts are noted on such computerised or manual systems to ensure the discounts are taken when invoices are paid.

12.5 Collections
Receipt of monies due must be actively monitored and where monies are not received within terms, immediate action must be initiated to recover outstanding amounts. Management should pay close attention to receivables ensuring accuracy of reports and focussing on minimising outstanding debtors. Where buyers (debtors) are slow to pay, and depending on other circumstances, there are good grounds for providing formal notification of breach of contract terms and potentially contract termination. In the past government institutions have not sufficiently enforced punitive measures on slow payers and this is an area which needs strengthening.

12.6 Incentives and penalties
Incentive and penalty mechanisms must be clearly linked to desired outcomes and specifically to the strategic objectives of the organisation. These mechanisms are designed to encourage contracting parties to act in the interests of the objectives of the contract and contracts must be aligned to the institution’s objectives. The principles of allocative efficiency as discussed in section 6.3 are satisfied when terms and conditions of contracts are in-line with the strategic objectives of the institution.
It is important that incentives and penalties included in contracts are awarded and enforced uniformly. This will provide legitimacy and weight to the mechanisms as parties will see that the mechanisms are in fact used.

12.7 For review

Review 12.1

Document your institution's approach to payments

- Are 100% of payments made within terms of the contract?
- What is the perception of your suppliers regarding timeliness of payment?
- Are all discounts offered taken advantage of? Explain how this works.

Review 12.2

Document your institution's approach to collections

- Do 100% of debtors pay within terms?
- What processes are in place to escalate issues of non-payment? Does this work?
Review 12.3

Document your institution's approach to incentives and penalties

- Is there an explicit link between incentives / penalties and strategic objectives?
- Are incentives and penalties included in contracts uniformly enforced?

12.8 Learning checklist

Successfully completing and understanding the section will ensure that you can:

- Evaluate and implement policies, processes and systems for payment, collection, incentives and penalties
13 Risk management

13.1 Learning outcomes
- Evaluate & implement risk management for contract management [SO 11]

13.2 Key concepts
- Risk identification and assessment for contract management
- Risk response for contract management

13.3 Introduction
Contractual relationships do not always go to plan. For example, parties may not act in good faith during negotiations, terms and conditions may be ambiguous, or contract management may be sub standard. Therefore, it is extremely important to conduct a risk analysis process during contract planning to identify potential problems in the contract life cycle and provide mechanisms to limit the risk and deal with the issues as they arise.

Inadequate identification and assessment of, and response to risk, may lead to:

- increased costs;
- reduced revenues; and
- complications associated with audits.

Planning to manage risk for contract management should be undertaken within the scope of enterprise risk management as per the Public Sector Risk Management Framework, National Treasury, April 2010.

13.4 Risk identification and assessment
Risk management involves identifying opportunities as well as threats. For each issue raised, consider whether opportunities exist.

Some risks that are inherent in current contract management practices in government institutions include:

- diverse contract management activities;
- time consuming manual processes;
- lack of monitoring or performance management during the contract life cycle; and
- lack of review and analysis during contract closeout or renewal.
Many areas of the institution may be involved in contract management activities. Contracts may be stored in several places with no overview or summary of all contracts and risks involved.

Contract management activities may be manual with paper based filing systems, multiple copies and double handling.

Research suggests that government institutions tend to focus more on contract creation and procurement processes and little or no attention is given to monitoring performance from execution (signing) to closeout or renewal.

Potential risks and opportunities relating to contracts and contract management include, but are not limited to:

- alignment of objectives of parties to the contract;
- aligning authority with responsibility;
- incentive for partner to minimise risk;
- relationship resilience to unexpected events;
- approach to relationship (arm’s length v partnering);
- adequacy of monitoring;
- business continuity;
- overcharging by suppliers;
- automatic renewals of contracts for unwanted goods and services;
- verification of accurate and timely delivery of goods and services;
- monitoring of actual spend v budget;
- enforcing discounts or rebates
- monitoring of contract management costs;
- supplier, buyer performance across contracts and in wider market; and
- efficiency of processes for authoring, editing, negotiating, and monitoring contracts.

13.5 Risk response

Identification of mitigating actions could set out clear contract conditions regarding each of the above dot points including but not limited to:

- identify all parties likely to have an impact or interest in the contract outcome;
- set out clear conditions in the contract regarding each of the above;
- specify what will happen in the case of non and late deliveries;
• specify that only complete orders may be delivered unless otherwise agreed;
• clearly define the quality requirements of the goods and services and how they will be measured;
• specify what will happen if the goods or services do not meet quality requirements;
• maintain a common understanding of risks and how they will be managed;
• compile a joint risk register and allocate risk ownership;
• risk payments placed in an incentive fund;
• insuring key project risks;
• ensure partner’s governance and risk management arrangements are adequate; and
• include risk as an agenda item for meetings and performance reviews.

Risk management plans will also identify corrective actions to be taken if risks eventuate and these could include but are not limited to:

• apply agreed informal and formal dispute resolution and escalation;
• enforce conditions including penalty clauses, incentive plans, withholding payment;
• terminate contract;
• restriction of supplier; and
• legal action.

13.6 For review

Review 13.1
Document your institutions approach to risk management for contracts and contract management
13.7 Learning checklist
Successfully completing and understanding the section will ensure that you can:

- Evaluate and implement risk management for contracts and contract management
14 Policies and procedures

14.1 Learning outcomes
- Contribute to ensuring policies and procedures are compliant with the CMF [SO 12]

14.2 Key concepts
Contract management policies in relation to:
- Identification and classification of all contracts
- Management intervention of contracts based on classification
- Recognition, measurement and disclosure for financial reporting
- Planning and budgeting for contracts
- Oversight of contract management
- Resourcing contract management activities
- Document and information management
- Relationship management
- Performance management
- Payment, collection, incentives, and penalties
- Risk management
- Procedure manuals covering the Contract Life Cycle for all contracts

14.3 Introduction
Contract management policies must be developed, approved, reviewed annually and adjusted as necessary with a view to continuous improvement in contract management.

Policies are high level and are usually approved / endorsed by the council, board, or legislature as appropriate. Procedures on the other hand are operational, provide a detailed description on the carrying out of tasks and may be approved by the accounting officer, accounting authority or other officers as delegated. Policies may stipulate the operations that the procedures must cover.
At least the following should be reviewed each time the contract management policies are reviewed.

- Identification and classification of all contracts
- Management intervention of contracts based on classification
- Recognition, measurement and disclosure for financial reporting
- Planning and budgeting for contracts
- Oversight of contract management
- Resourcing contract management activities
- Document and information management
- Relationship management
- Performance management
- Payment, collection, incentives, and penalties
- Risk management
- Procedure manuals covering the Contract Life Cycle for all contracts

The minimum requirements for each of the policies listed above will now be discussed.

14.4 Identification and classification of contracts
The policy must state that all contracts are to be identified and classified for management control purposes based on at least the following attributes:

- contract type or nature;
- strategic importance of the goods and services being purchased or sold;
- contract value;
- contract duration; and
- contract complexity.

It must indicate the level of manager that is responsible for maintaining Contracts Inventories and the consolidated Contracts Inventory for the entire institution with reference to the official delegation.

Certain key contract types may be specifically mentioned in the policy.

The classification methodology and appropriate management control mechanisms may be detailed in procedure manuals.
14.5 **Recognition, measurement and disclosure**
The policy will state how contracts will be measured for reporting in the annual financial statements and associated disclosures and will be included in the accounting policies to the Annual financial Statements. This will either be according to accrual accounting concepts and the relevant accounting standards or according to the Preparation Guide provided annually by the Office of the Accountant General.

Specific reference must be made to the phase-in approach being applied.

The Policy on recognition, measurement and disclosure must also state that a full review of obligations and potential obligations of all relevant parties arising from all existing contracts must be undertaken as part of preparation of the Annual Financial Statements and Annual Report.

14.6 **Planning, budgeting and reporting cycle**
The policy must state that a comprehensive review of all existing and proposed contracts must be undertaken during the strategic planning and budget process and that:

- operational plans must specify contracting requirements;
- objectives of each contract are linked to the strategic objectives of the institution;
- contracting requirements are communicated to internal and external stakeholders;
- contracts are linked to the annual procurement or sales plan; and
- the contract management function is reviewed.

The policy must require appropriate reporting mechanisms for in-year and end of year reporting.

14.7 **Oversight of contract management**
The policy must set out the oversight and governance structure for contract management including reference to official delegations and reporting structures and mechanisms.

The policy will set out the frequency of review of policy and procedures and contract management function.
14.8 Resourcing contract management activities
The policy must state the competency requirements for all staff dealing with contracts, that an annual training plan must be in place, and outline the roles for:

- contract owners;
- contract managers;
- finance;
- legal;
- executive authority / accounting officer;
- risk management / internal audit; and
- audit committee.

The policy should also refer to frequency of review of processes and systems (manual and computerised).

14.9 Document and information management
The policy must state that all documents and information contained in those documents must be appropriately recorded and filed according to the procedures in place for each contract or contract type. It will also state the approach and time frame for moving document and information management to electronic systems.

Detail regarding information to be recorded, filing, document changes, and document distribution will be contained in the relevant procedure manuals.

14.10 Relationship management
The policy must set out the classification frameworks for relationship management for purchasing, sales, and any other contracting areas. It must also set out the approach for stakeholder education and accreditation in terms of the frameworks.

Detail regarding specific processes to follow for accreditation and monitoring and evaluation of stakeholders will be contained in the relevant procedure manuals.
14.11 Performance management
The policy must require that performance management systems and processes are in place for:

- contract performance;
- supplier, buyer and other stakeholder performance; and
- contract management performance.

Detail regarding reporting structure, content, frequency and recipients will be contained in the relevant procedure manuals.

14.12 Payment, collection, incentives & penalties
The policy must state that:

- all payments are made within contract and commercial terms unless there is a dispute;
- every endeavour is made to collect moneys owing within terms;
- disputes must be resolved as quick as possible with a view to maintaining good stakeholder relations;
- where disputes appear irresolvable, every effort should be made to make early decisions to avoid protracted legal action and relationships should be discontinued where the other party is at fault; and
- incentives and policies must be linked to the outcomes of the contract and the strategic objectives of the institution.

Consideration should be given to paying substantially quicker than contract or commercial terms to encourage businesses to work with government and raise the public perception of government operations.

Detail regarding procedures for payment, collection and measurement of incentives and penalties will be contained in the relevant procedure manuals.

14.13 Risk management
The policy must state that appropriate risk analysis, identification, assessment and proposed risk response is conducted during contract planning to identify potential problems and provide mechanisms to limit risk and deal with issues as they arise.

The policy should also require attention to risk analysis during contract review, closeout and or renewal.
Detail regarding the risk analysis, identification, assessment and response for each contract or contract type will be contained in the relevant procedure manuals.

14.14 Procedure manuals
The policy must state that procedures must be documented and maintained up to date for at least the following:

- contract classification methodology;
- reviewing existing and proposed contracts during the strategic planning and budgeting process;
- annual training plans and competency assessments;
- records and document management;
- recording of key contract information;
- stakeholder education and accreditation within relationship management frameworks;
- performance reporting structure, content, frequency and recipients;
- payment and collection;
- incentive and penalty schemes;
- risk analysis, identification, assessment and response; and

- management controls for each classification, type or individual contract covering the entire Contract Life Cycle.

- Planning
- Creation
- Collaboration
- Execution
- Administration
- Closeout / renewal

When evaluating procedures for each classification, type or individual contract, consider the example checklists provided in Annexure A.

Procedures must be specific for a particular function carried out by particular staff to facilitate accountability.

All procedure manuals must be approved by the accounting officer / authority or delegate.

All procedure manuals must be reviewed at least annually to ensure they are up to date with policy requirements.
Practice must not deviate from the approved procedure for any reason. If it is found that practice should be changed, it must first be approved in an updated procedure manual before actual practice is changed. Any departure from approved procedure must invoke disciplinary action including as appropriate such measures as retraining, formal warnings and dismissal. This requirement may seem quite strict. However, it is critical to ensure continuous improvement towards international good practice in contract management that all actions follow approved procedures and that procedures are formally updated when practice needs to be changed.
Annexure A “Contract Life Cycle Checklists”

The diagram below illustrates how the Contract Management Framework (CMF) encompasses the Contract Life Cycle (CLC). For each stage of the CLC an example checklist is provided. As you apply each checklist in the institution, ensure that all components of the CMF have been considered and the relevant policies and procedures are in place.
Checklist – Planning

✓ Strategic planning and budgeting processes provide for review of contracts
  ➢ Existing contracts continuing through or concluding during the budget year
  ➢ Proposed contracts commencing in the budget year
  ➢ Advance planning for contracts required in future years

✓ Operational plans developed at budget time specify contracting requirements
  ➢ Suppliers, buyers, stakeholders identified – refer to relationship management framework
  ➢ Time frames specified for
    ▪ Creation
    ▪ Collaboration
    ▪ Execution and commencement
    ▪ Reviews
    ▪ Closeout / renewal
  ➢ Objectives of each contract linked to strategic objectives of the institution
  ➢ Communication to relevant internal and external stakeholders regarding contracting requirements
  ➢ Link to annual procurement plan on the purchasing side
  ➢ Link to annual sales and distribution plan on the sales side

✓ Strategic planning and budgeting processes provide for review of contract management function
  ➢ Issues identified during year and from AFS and Annual Report
  ➢ Contract management policies and procedures
    ▪ Identification and classification
    ▪ Recognition, measurement and disclosure
    ▪ Planning budgeting and reporting
    ▪ Oversight
    ▪ Resourcing contract management
    ▪ Document and information management
    ▪ Relationship management
    ▪ Performance management
    ▪ Payment, collection, incentives and penalties
    ▪ Risk management
Checklist – Creation

✓ Contract ID assigned
✓ Contract classification for management purposes
✓ Budget, implementation and in-year monitoring structures in place
✓ Contract oversight structures in place
  ➢ Supplier / buyer / stakeholder induction completed
  ➢ Contract manager appointed
  ➢ Steering group and other advisory and oversight structures in place
  ➢ Handover from bid and award stage to contract management
  ➢ Contract management plan in place
✓ Contract management resources appropriate for classification
✓ Contract documentation systems in place
  ➢ Original signed hard copy contract on file
  ➢ Electronic copy of original signed contract on file (PDF)
  ➢ Key information and trigger points recorded in the contract management system
✓ Appropriate supplier relationship structures in place
  ➢ Roles and responsibilities of supplier, contract owner, and contract manager defined
  ➢ Formal and informal communication channels clear
  ➢ Conflict resolution mechanisms and escalation routes identified
  ➢ Regular meeting dates set (monthly / quarterly / annually)
✓ Performance management systems in place
  ➢ Performance management processes and metrics agreed with stakeholders prior to contract commencement
  ➢ Performance measurement metrics consistent with institution’s strategic objectives
  ➢ Performance reviews set (monthly / quarterly / annually) and documentation defined
✓ Payment, collection, incentive and penalty systems in place
  ➢ Payment or collection processes and remedial action understood by all parties
  ➢ Incentive or penalty provisions linked to outcomes and strategic objectives of institution
✓ Risk management plan in place
  ➢ Risk identification, and assessment completed
  ➢ Potential risk response documented
  ➢ Risk management plan is in line with institution wide Risk Management Plan
Checklist – Collaboration

- Parties for collaboration are appropriate
  - Contract owner
  - Legal
  - Finance
  - Risk management
  - Audit
  - Insurance
  - External parties to contract

- Timeframes for collaboration take into consideration operational deadlines for service delivery

- Version and change control is maintained in an efficient manner

- Delivery mechanisms are appropriate
Checklist – Execution

- Signing parties (including witnesses) are aware of timing and availability requirements well in advance
- Required collaboration is complete and execution is in line with agreed terms and conditions
- Legal requirements are in order
- Execution and final terms and conditions communicated to all relevant internal and external parties
  - Contract owner
  - Contract manager / administrator
  - External parties to contract
- Executed documents appropriately filed
Checklist – Administration

✓ Maintenance of Contracts Inventory
✓ Stakeholder ID (e.g. supplier or buyer ID and name)
✓ Contract ID, and description
✓ Contract value (total and annualised)
✓ Contract duration
✓ Classification for management purposes and appropriate management intervention required
  ➢ Oversight
  ➢ Resources
  ➢ Document and information management
  ➢ Relationship management
  ➢ Performance management
  ➢ Payment, collection, incentives and penalties
  ➢ Risk management
✓ Stakeholders to receive reports
✓ Frequency of review and reporting
✓ Reporting requirements defined including documentation format and information content
  ➢ Contracts likely to give rise to contingent assets or liabilities
  ➢ Recently closed contracts
  ➢ Recently renewed contracts
  ➢ Impending contract commencement
  ➢ Key trigger points
  ➢ Tax clearance maintained and other statutory and compliance requirements
  ➢ Risk management issues
  ➢ Performance issues by exception (good and poor)
Checklist - Closeout / Renew

- Contract ID, description and classification
- Contract closeout
  - Early termination
  - Normal termination
- Contract renew
  - Auto renew
  - Competitive process
  - Other
- Deliverables reviewed (actual v budget)
  - Quantities
  - Prices
  - Total values
  - Timeliness of delivery
  - Service levels or specifications
- Performance review completed
  - Performance rating (1 – 5)
  - Value for money achieved (Y/N)
  - Considered for future contracts (Y/N)
- Relationship management framework informed
- Change supplier, buyer or other stakeholder
- Future budgets informed
- Risk management plan informed