



Public Sector Contract Management

*Summary of The South African National Treasury
Framework & Guide*

“No Government entity that is serious about service delivery, accountability, governance and managing the funds entrusted into it, can ignore the benefits of contract management”



The Framework and Guide

The South African National Treasury Framework presents all Government entities with a set of requirements to comply with within a set timeframe. All Public Sector entities needed to complete this process by 2013.

The Auditor General specifically audits Departments on contract management, and many Departments either present with poor or non-existent contract management practices. Such findings can be avoided.

The Contract Management Framework (CMF) serves as a framework. The Contract Management Guide (CMG) explains how to practically carry out the framework. The CMF requires an organisation-wide approach, including:

- Identification of all contracts
- Classification of contracts for management purposes
- Management of all stages in the contract lifecycle
- Good financial management
- Improved service delivery

In Turn, poor contract management results in the following:

- Poor supplier, buyer and other stakeholder relationships
- Negative public perception
- Protracted legal disputes
- Cost overruns
- Goods and services outside of specification; and sometimes
- Complete service delivery failure

Contracts are often managed manually and by multiple managers without an enterprise-wide approach. A multitude of rules and complex decisions can lead to inflexibility, poor planning, extended lead times and below par services delivery (page 18).

CONTRACT MANAGEMENT (ECM) IN THE PUBLIC SECTOR

Efficient Contract Management

Public entities strive to ensure Governments interests are protected and gets value for money. Among many advantages with efficient contract management in place, the Private sector will undoubtedly become more interested in investment of resources. Other benefits include:

- Transparency and credibility (i.e. accountability) of information in annual financial reports, and
- Improved financial management and internal controls

Which, intern leads to:

- Improved information for making policy choices that concern allocation of resources to programs
- Efficient use of resources in delivering the chosen programmes; and
- Increased rate of the delivery of basic services and associated elimination of service delivery backlogs.

Also, improved contract management positively affects management practices and financial disclosure in the following ways:

- Increased awareness of all forms of contracts and their implications
- Identifying non-performing suppliers, buyers and other stakeholders who are either performance managed or replaced
- Development of strategic relationships with suppliers, buyers and other stakeholders, with the view of improving service delivery and reducing costs; and
- Value for money achieved in the acquisition and sales of goods and services.

And overall, sound 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
- Reduces the incidents of dispute and costly legal intervention
- Automated contract authoring and collaboration lessens the administrative burden, allowing for resources to be diverted to more value-added tasks.

Entities which have implemented contract management solutions have experienced a 90% increase in the efficiency of contract management staff (page 18).



CONTRACT MANAGEMENT (ECM) IN THE PUBLIC SECTOR

Contract Life Cycle

To put the Framework's Approach process into context, consider the contract life cycle, where contract management must be applied during every step:



ECM involves managing every contract in the institution through the Contract Management Life Cycle with a view to maximising value for money (page 20).



Framework Approach

The approach taken to develop a contract management framework is:



1. Planning stage refers to planning and budgeting activities
2. During creation, the contract author will decide on the best wording for intended outputs and outcomes
3. Collaboration: drafting and negotiation process of internal/external reviews ensuring legal effects of the contract
4. Execution: signing the contract and making the contract legally enforceable with T&C's
5. Administration: monitoring delivery under the contract, ensuring it achieves its objectives according to its terms
6. Close-out/Renewal: reviewing the process and performance on each level in detail according to the classification of the contract.

(Page 22-23).

CONTRACT MANAGEMENT (ECM) IN THE PUBLIC SECTOR

1: Identifying & Classifying Contracts

Governments are to compile an inventory list showing contracts in each classification and what contracts are responsible for what, and also identifying levels of management control.

The classification/identification must portray:

- Contract type or nature
- Strategic importance of the goods and services being purchased or sold;
- Contract value
- Contract duration
- Contract complexity

Policies and procedures must also then be established in order to deal with the management control requirements of each category.

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 (page 17).

2: Recognition, Measurement and Disclosure

Recognition, measurement and disclosure of the financial implications of contracts: treatment of transactions in the annual financial statements, disclosure notes and annexures. Good management leads to proper disclosure and improved decision usefulness of financial information.

Correctly accounting for contracts will ensure that assets, commitments and liabilities stemming from contracts are reflected transparently in a uniform manner throughout government (page 34).

3: Planning, Budgeting and Report Cycle

Reviewing contracts during planning and budgeting processes and in preparation of audited annual financial statements.

If contracts were not planned for and implemented accordingly, monitoring and controlling of financial performance would be difficult if not possible (page 44).

4: Oversight of Contract Management

Accounting authority of the institution must uphold appropriate responsibilities over contracts and contract life cycles.

The accounting officer is responsible for making sure those policies and procedures are in place in terms of the entire contract management process as listed here (page 51).

5: Resourcing Activities

Contracts must be appropriately resourced in line with their classification for management purposes.

Appropriate systems (manual or computerised) are necessary to ensure proper management control and monitoring of contracts (page 57).

6: Document and Information Management

The contract documentation and associated terms and conditions must be managed according to the requirements for the category of contract.

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 (page 62).

CONTRACT MANAGEMENT (ECM) IN THE PUBLIC SECTOR

7: Relationship Management

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

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 (page 66).

8: Performance Management

Management of suppliers buyers, other stakeholders, individual contracts and over-all contract management must be managed appropriately for the classification of contract.

Performance management information should be recorded on a single ECM software solution where most contracts are captured to ensure maximum advantage (page 71).

9: Payment, Collection, Incentives & Penalties

To be documented with appropriate timeframes and in accordance with the contract and commercial terms.

Repercussions for missed payments or collections can be wide-ranging and must be clearly documented and communicated (Page 80).

Incentive and penalty mechanisms must be clearly linked to desired outcomes and specifically to the strategic objectives of the organisation (Page 81).

10: Risk Management

Risk management must also be manage with risks identified, monitored and escalation procedures and mechanisms in line with the enterprises risk management plan. Opportunities and threats must be identified and for each issue raised, consider whether opportunity exists.

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 (Page 85).

11: Policies & Procedures

Must be developed, reviewed annually and adjusted as necessary with a view to continuous improvement in enterprise contract management; and procedure manuals must be developed and maintained up to date.

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



CONTRACT MANAGEMENT(ECM) IN THE PUBLIC SECTOR

Implementation Strategy

- Review the Contract Management Framework
- Work through the Contract Management Guide
- Complete Gap analysis in context of Contract Management Lifecycle
- Prepare action plan
- Implement action plan
- Continuous improvement

Phases for Contract Management Practices

Phase 1:

- Compare practices to CMF and CMG
- Prepare draft Policies and procedures
- Prepare draft contracts inventory

Phase 2:

- Approve CM policies and procedures
- Implement specific items required by the Accountant-General

Phase 3:

- CM practices fully compliant with CMF and CMG
- Continuous improvement mechanisms in place

Concluding Remarks

Contract Management is a key component for an effective and efficient State organisation.



Public Entities that have already adopted contract management solutions have achieved reduced costs; minimized contract administration burdens; improved compliance; standardised procedures for contract management; and overall reduction in contract risks