



The Chartered Institute of Government Finance, Audit & Risk Officers (CIGFARO) in Collaboration with the CFO Foundation and the South African Local Government Association (SALGA) presents:

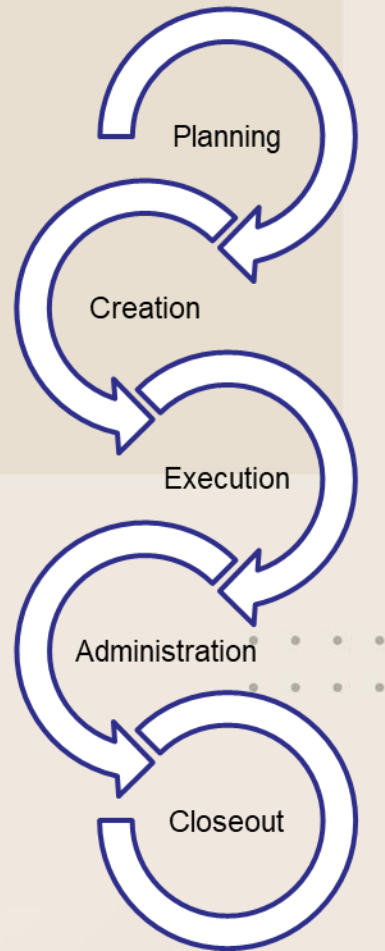
# THE LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT CAPACITY BUILDING PROGRAMME



## Contract Administration & Risks



# Contract management lifecycle



# Different types of contracts

**IT service level agreement** – usually used in the procurement of an IT system.

**Sale of land agreement** – used where the organisation sells land.

**Availability of land agreement** – used where the organisation makes land available for a specific purpose, such as the building of a retirement village.

**Services agreement** – used when the organisation needs to make services, such as water, access roads and electricity, available to a developer.

**Transversal contract** – used when one organisation invites tenders for more than one organisation, for example, the Treasury goes out on tender and concludes a contract to procure textbooks and all education organisations use this contract.

**Public-private partnership (PPP)** – used when the state and the private sector enter into a long-term contract where the private sector may include infrastructure financing contributions.

# Administrative aspects of contracts

- contract performance monitoring, evaluation and reporting;
- Payment administration;
- clearly define contract stipulations and quality control;
- contract amendment and variations;
- extensions and/or renewals;
- price adjustments / discount requirements;
- transfer and cession of contracts;
- warranties;
- dispute resolution process;
- termination of contracts; and
- record management.

# Contract administration approach

The most effective way to ensure efficient contract administration is to approach the task in a systematic manner

- The system must be communicated to all the role players
- The duties must be effected by competent individuals
- Any non-performance must be reported and rectified immediately
- All too often, poor performance is not documented and, therefore, the institution will have a difficult time if it becomes necessary to take steps to cancel a contract.

# Payment Administration

## Payment Administration

- Payments may only be made against **valid tax invoices** that have been checked and approved by the responsible official, together with a **proof of receipt** of items or services.
- The supplier's **delivery note** should clearly state exactly what has been delivered and verified against the official order, before payment is processed.
- Payments must be made promptly and according to the **payment terms**

# Amendments and Variations

## Amendments

- National Treasury has issued circulars and instruction notes
  - Variation orders may not exceed R15 million or 15%, whichever is the lesser, in terms of goods and service contracts and R20 million or 20%, whichever is the lesser, for building and construction contracts.
- Amendments must be reduced to writing as addendums to the contract
- Each addendum must receive a unique number
- Record of **all** changes, with the relevant dates, to specific contracts
- Amendments include variation orders –
  - Caution VO are red flags for overruns in time and money which impacts budgets and service delivery . . . .

## Variations

# Extensions and Renewals

## Extensions

- All options should be explored prior to selecting an extension / renewals
- National Treasury has issued circulars and instruction notes
- Caution - Extension become an opportunity for a supplier to re-negotiate terms
  - increase their prices, relax on the quality, delivery of goods
- The contract management system should be used for alerts for the timeous renewal or new tender process to commence.

## Renewals



# Price adjustments

When may price adjustments be necessary...

- non firm pricing in the bid process, which allows periodic increases, mostly for contracts longer than 12 months.
- foreign currency fluctuations
- wage determinations, which do not allow for general CPI increases e.g. bargaining council determinations

All requests for increases must be approved and authorised by the responsible official or committee

# Cessions

Clause 19 of GCC 2010 states: “The supplier shall not assign, in whole or in part, its obligations to perform under the contract, except with the purchaser’s prior written consent”



# Contract administration

Other areas to note in the contract administration process:

- Contract enforcement
- Warranties
- Dispute resolution
- Termination of contracts

# Documentation

Documents required as part of the contract administration process

- Copy of the contract;
- Any cost data related to the contract;
- Copies of any amendments to the contract;
- Copies of written correspondence from both parties;
- Notes and minutes of meetings, especially items the contract manager has agreed to
- Notes on phone and electronic conversations that affect the contract;
- Records and reports of progress or deliverables;
- Inspection reports;
- Reviews and audits conducted;
- Copies of invoices or a payment schedule reflecting all payments that were made against the contract;
- For specific problems – a log sheet that identifies the problem, attempted solutions and the results;
- Particulars of supplies delivered or services rendered; and all meetings



# THANK YOU

