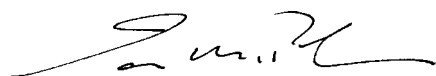# Management of Contracted Business Support Processes

Canberra ACT
14 October 1999

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken an across-agency Financial Control and Administration audit in accordance with the authority contained in the *Auditor-General Act 1997.* I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Management of Contracted Business Support Processes.*

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage —http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Acting Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

Contents

Results in brief

The ability of Commonwealth Government organisations to manage the delivery of goods and services provided under contract is increasingly under scrutiny by stakeholders as organisations pursue avenues for improving outcomes without compromising accountability obligations.

The ANAO has undertaken a range of audits (refer Appendix 1) which have focussed on contract management issues and has published a guide *Choosing Suppliers—Managing the Risk*.[1] The Office has received strong support for its focus on contract management from the Joint Committee of Public Accounts and Audit and the Senate Finance and Public Administration References Committee.

This audit examined aspects of contract management in eight organisations, particularly in relation to day-to-day administration of the contract, performance management and contract succession. This audit examined the management of contracts for provision of internal services that supported the organisations' delivery of outputs—namely, internal audit, finance services, security and other business support processes.

The audit found elements of the control framework operating over the contract administration, monitoring and succession phases of the contract lifecycle require improvement. In particular, management attention and action is required in relation to aspects of risk management, the control environment, information and communication, and monitoring and review components

The performance of service provision in the contracts examined, in terms of the timeliness and cost of service delivery, was considered satisfactory. However, performance measures for the quality of service delivery were not established in many instances. Consequently, this aspect of contract performance was less likely to be effectively monitored.

As a result, there remains considerable room for improvement in the management of the quality of service delivery under these contracts. International better practice suggests that establishing and monitoring quality performance measures is a key criterion for contract management success.

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[1]   Better Practice Guide, Australian National Audit Office, October 1998

Better practice in contract management suggests a contract's success depends on establishing a relationship, or contract management style, which is sympathetic to the contracting environment and allows managers to effectively manage the risks associated with the contract.

Selection of the appropriate contract management style is based on a clear understanding of the contract management environment and a realistic assessment of risks associated with the management of the contract. With a trend towards contracting-out critical business support processes, such as finance and personnel services, the identification, assessment and treatment of risks through the adoption of an appropriate contract management style represents a significant challenge to an organisation's senior management.

In addition to this public report, a comprehensive report has been provided to each organisation subject to the audit that provided an individual assessment of their performance against the audit evaluation criteria described in Appendix 1.

Summary and Recommendations

Audit Summary

Background

1. The introduction of Competitive Tendering and Contracting, as part of the 'Performance Improvement Cycle' has increased the potential for Government services to be delivered by the private sector under contracted arrangements.

2. The ability of Commonwealth Government organisations to manage and monitor the delivery of goods and services provided under contract is increasingly under scrutiny, as stakeholders and the government consider value for money issues and the relationships between an organisation's outputs, outcomes and performance requirements.

3. The use of contracted arrangements for the delivery of services is not new to the Commonwealth. Many public sector organisations have, for a number of years, relied on contracted arrangements for the delivery of internal services (referred to in this report as 'business support processes'). These contract arrangements can be a useful source of knowledge for the development and transfer of skills and practices in the management of all contracts.

4. Given the increasing number of contracts and the total monetary values involved[2], their management represents a growing element of administration for many organisations. More importantly, as they deal with the delivery of key internal services; such as the finance function, payroll processing, and internal audit; they also present new operational risks that could impact directly on the delivery of goods and services to the public.

Audit objectives

5. The objectives of this audit were to:

- provide assurance on the effectiveness of the management of contracted business support processes in selected organisations; and

- identify and disseminate better practices in related contract management.

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[2] Unaudited figures supplied by the Office of Government Online show the number of relevant business support process contracts notified in 1998-99 to be 67 705 (1997–98—58 879) with a total value of $4232 million (1997–98—$4024 million). Against total notified expenditure of $7911 million (1997–98—$8801million), business support process contracts represent approximately 53 per cent (1997–98—47 per cent) of total notified contracts, by value.

Audit scope—contracted business support processes

6. This audit examined the management of contracts for business support processes in eight Commonwealth organisations—six operating under the *Financial Management and Accountability Act 1997*, and two operating under the *Commonwealth Authorities and Companies Act 1997*. That is, contracts for provision of internal services that supported the organisations' delivery of outputs. The contracted business support processes examined included:

- building and facilities maintenance;
- cleaning services;
- security services;
- finance and/or travel services;
- advertising; and
- internal audit.

7. This audit complements the ANAO's previous audits that included consideration of contract management issues. A list of recent such audits is contained in Appendix 1.

Audit focus—ongoing management and evaluation and succession planning

8. Competitive Tendering and Contracting (CTC) is a process, or a tool, organisations may choose to use as part of the overall Performance Improvement Cycle (PIC). The Department of Finance and Administration (DoFA) explain the PIC as:

> *The cycle is an approach that will assist managers to strategically manage their business. The cycle encourages managers to actively question the relevance of their activities in meeting the Government's objectives and to test whether the current arrangements for their activities use resources in the most effective and efficient way.*[3]

9. CTC is one way of testing the cost and effectiveness of the activity and determining the most efficient way for the Commonwealth to be involved in the activity. The CTC process may result in a decision to use contract arrangements for the delivery of services. In their guide on CTC, DoFA stress CTC should only be used after an organisation has decided it is the best tool to improve an activities performance.

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[3] *The Performance Improvement Cycle—Guidance for Managers*, Department of Finance and Administration, March 1998

10. CTC is a seven step process[4]:

- specifying the activity—developing a statement of requirements (SOR);

- selecting the acquisition strategy—determining the most appropriate tender process to use—selective or open; single-staged or multi-staged;

- developing and releasing the tender documentations –the final SOR, instructions to bidders, contractual terms and conditions, evaluation or selection criteria and methodology, the timetable for evaluation and a nominated contact;

- evaluation of the tender bids—assessment of the tenders on the basis of quality and value for money for the service being offered;

- decision and implementation—making the decision and advising the bidders and staff of the outcome of the process

- ongoing management—monitoring and manageing the performance of the contract and building a constructive relationship; and

- evaluation and succession planning—reviewing the contract arrangements and managing transition at its completion.

11. The first five phases of the lifecycle—those leading to signing a contract—have been subject to considerable scrutiny, inquiry and research in the public sector in recent times. The following publications are relevant:

- *Selecting Suppliers—Managing the Risk*[5]

- *The Performance Improvement Cycle—Guidance for Managers*[6]

- *Competitive Tendering and Contracting: Guidance for Managers*[7]

- *Competitive Tendering and Contracting by Public Sector Organisations*[8]

- *Before You Sign the Dotted Line—Ensuring Contracts can be Managed*[9]

12. However, there has only been limited review and guidance on the last two phases—ongoing management and evaluation and succession phases. These phases are critical if organisations are to achieve efficient and effective delivery of contracted services over time.

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[4] *Competitive Tendering and Contracting—Guidance for Managers,* Department of Finance and Administration, March 1998

[5] Better Practice Guide, Australian National Audit Office, October 1998.

[6] Department of Finance and Administration, March 1998.

[7] Department of Finance and Administration, March 1998.

[8] Industry Commission, January 1996

[9] Management Advisory Board/ Management Improvement Advisory Committee (MAB/MIAC), Report 23, May 1997

Audit evaluation criteria

13. Audit evaluation criteria were developed to assess the effectiveness of contract management within an internal control framework. Management is responsible for establishing an internal control framework with cohesive policies, processes and procedures which collectively ensure risks are well managed and business objectives are met in an effective, efficient and ethical manner.

14. The audit evaluation criteria were developed for contract management against the five key components of the internal control framework proposed in the ANAO's *Better Practice Guide to Effective Control*[10]. In summary, they covered the following aspects:

- Risk assessment—implementation of an effective risk management framework.
- Control environment—a demonstrated understanding of contract responsibilities and the application of pro-active management and continuous improvement.
- Control activities—management of contract changes and variations is effective.
- Information and communication—purchaser and provider communication is effective.
- Monitoring and review—performance and financial monitoring is implicit in contract management.

15. The audit evaluation criteria are detailed in Appendix 1 to this Report.

Audit opinion

16. Elements of the control framework operating in respect of the contract administration, monitoring and succession phases of the contract lifecycle are considered to require improvement in most of the organisations examined. In particular, management attention and action are required in relation to aspects of risk management, the control environment, information and communication, and monitoring and review components

17. The performance of service providers under the contracts examined, in terms of the timeliness and cost of service delivery, was considered satisfactory. However, performance measures for the quality of service delivery were not established in many instances. Consequently, this aspect of performance was less likely to be effectively monitored.

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[10] Better Practice Guide to Effective Control, *'Controlling Performance and Outcomes'*, Australian National Audit Office, 1997

18.   As a result, there remains considerable room for improvement in the management of the quality of service delivery under these contracts. International better practice suggests that establishing and monitoring quality performance measures is a key criterion for contract management success.

19.   These opinions are formed on the basis of the audit findings, summarised below.

Summary of audit findings

Risk assessment

20.   The audit found that the organisations' risk management activities mostly focussed on those phases leading to signing the contract. Only a limited number of organisations formally recognised and assessed the risks associated with the ongoing management of contracts.

21.   There was limited documented evidence of risk assessments at the commencement, or during the life, of contracts.

Control environment

22.   Contract management policies, an essential component of an effective control environment, were considered inadequate across the selected organisations, particularly in relation to:

- risk assessment;
- the contract management and performance monitoring phase; and
- the contract succession phase.

23.   In most organisations, policies and guidance focussed on pre-contract signing requirements and the early phases of the contract lifecycle.

24.   It was also noted that, where it occurred, the devolution of contract management led to a lack of consistency in related policies and in the application of those policies in practice.

25.   Contract management training and continuous improvement initiatives were found, in most instances, to be informal. Many organisations relied on the skills and experience of their current contract managers and had not developed a formal training or development program that recognised the changing contracting environment.

Control activities

26. The majority of business support process contracts adopted a formal management approach, focussing on management through controls and compliance with contract provisions. Minimal guidance was provided to contract managers to assist in the facilitation of continuous improvement of contracted services.

27. While general contract administration practices were found to be satisfactory, planning for, and management of, contract succession was generally poor. There was limited evidence of organisations considering options other than the rolling over of contracts.

28. Financial controls and monitoring of contracted business support processes were satisfactory in the organisations reviewed.

Information and communications

29. In general, contract managers had established effective and professional working and communication relationships with service providers. A number of instances were found of poor documentation supporting the day-to-day contract administration and negotiations with providers. Guidance on essential contract documentation, protocols, ethical behaviour and dispute resolution was minimal.

Monitoring and review

30. Monitoring of time and cost-related performance measures was satisfactory. However, the contracted service performance requirements relating to quality issues were often so generic, or broad in nature, they were unable to be adequately measured or assessed and, as a consequence, did not contribute to improved contract performance. In most instances, the measures used for performance management were not formally reviewed to ensure they were still appropriate.

31. The procedures and processes in place to record and monitor contract commitments were generally manually based and separate from the financial management information systems.

32. Stakeholder participation in assessing provider and/or contract service performance was often restricted to reporting poor performance.

33. A review of the 35 business support process contracts examined as part of this audit revealed that only two contracts referred to possible access by the Auditor-General. None of the contracts reviewed, entered into since the ANAO's advice, contained the recommended access provisions. The level of consideration given to the inclusion of such access provisions in these contracts was not clear.

Recommendations

The following recommendations are made in response to the findings of the audit and reflect the ANAO's research into better practice in contract management generally. The audit findings and issues which lead to these recommendations are discussed in detail in the following chapter.

Risk assessment

Recommendation No.1 Para. 1.10

It is recommended that organisations review and strengthen risk frameworks to address the risks associated with the performance and management of the contracted service

Control environment

Recommendation No.2 Para. 1.27

It is recommended that organisations:

- strengthen policies to ensure they address all phases of the contract lifecycle, including contract management and performance monitoring, and succession planning phases. Up-to-date and comprehensive policies will promote consistent and effective contract management;

- develop contract management expertise through structured training and skills acquisition programs; and

- strengthen continuous improvement mechanisms to ensure contract lessons learnt are reflected in policies and practices and form part of the organisation's corporate knowledge.

Control activities

It is recommended that organisations strengthen the:

- formal assessment, justification and costing of contract changes; and

- processes required **prior to** the completion of contracts to ensure the continuing efficiency and effectiveness of contracted services and/or the seamless provision of such services where there is a change in provider.

Information and communications

It is recommended that organisations:

- develop and promulgate guidance to address communication protocols;

- document contract communication requirements to ensure a complete management trail is maintained; and

- establish formal processes for handling disputes.

It is recommended that organisations strengthen ethical statements and codes of conduct pronouncements to address the unique risks associated with procurement and contractual relationships.

Monitoring and review

It is recommended that organisations:

- identify clearly the processes for establishing, monitoring and review of contract performance measures;

- involve all stakeholders in establishing contract performance measures, particularly the identification of performance targets; and

- ensure financial management mechanisms link to the organisation financial management systems and the full cost of the contract includes in-house costs such as administration overheads.

Recommendation No.7 Para. 1.85 Organisations should include, as appropriate, standard access clauses in contracts that allow the organisation, and the Auditor-General, to have sufficient access to fulfil their respective accountability obligations.

The above generic recommendations are directed at **all** Commonwealth organisations that have significant contract arrangements for the provision of key business support processes.

As part of the audit, comprehensive reports, including recommendations for improved performance, were provided to each organisation reviewed. The reports detailed assessments of the organisations' performance against each of the audit criteria. Organisations responded positively to the recommendations made.

Better practice noted in this audit

34. A number of organisations exhibited examples of better practices in contract management which are summarised in Table 1. More guidance on better practice can be found in the publications: *Selecting Suppliers—Managing the Risk*[11] and *Before You Sign the Dotted Line—Ensuring Contracts can be Managed*[12]

35. The ANAO also undertook research into better practices operating in the private sector and other public sector jurisdictions. Better practices identified as part of this research are included in Appendix 2 to this Report. It is intended that a more detailed Better Practice Guide on this topic will be released later this year.

Table 1

Examples of better practices noted in contract management

Control framework component	Better practice
Risk assessment	Comprehensive risk matrix has been developed
Control environment	Contract policies are linked to organisation's strategic purchasing direction
	Comprehensive guidance on identifying and managing risks was in place
	Policy manual addressed establishing and setting of performance targets
	Policies addressed training responsibilities
Control activities	Centralised contracts unit established, which promoted continuous improvement and provided an overall management/administrative role for organisation contracts
	An upper dollar limit was specified for contract variations after which extended evaluation processes commenced
	Independent verification of provider viability for material contracts was undertaken
Information and communication	Comprehensive dispute resolution procedures were included in the standard contract
Monitoring and review	Comprehensive statements of performance measures were developed Mechanisms to ensure regular reporting on contract performance were in place

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[11] Australian National Audit Office, Better Practice Guide, October 1998

[12] Management Advisory Board/Management Improvement Advisory Committee (MAB/MIAC), Report 23, May 1997

Detailed Findings
and Recommendations

Detailed Findings and Recommendations

This part discusses the findings and recommendations of the audit against each component of the control framework.

Risk assessment

Introduction

1.1 A documented framework of policies and procedures covering identification, analysis and assessment of the risks to contracted activities provides the basis for effective risk management for contracts. Risk management activities generally depend on high quality policies and procedures and, in their absence, risk management practices are prone to be inadequate and applied inconsistently. However, as noted in the MAB/MIAC publication[13]:

In managing risks you need to strike a balance between the cost of managing the risk and the benefits to be gained. Recognising that a risk-free environment is impossible (if not uneconomic) to achieve, you need to decide what level of risk is acceptable.

1.2 It is therefore important that the assessment and management of risks in business support process contracts balances the cost of control against the likely benefits.

Business benefits of risk assessments

1.3 Undertaking risk assessments, against an established risk framework that takes accounts of the costs and benefits on controls, assists contract managers apply consistent and defensible approaches to contract risk management. Risk assessments also enable appropriate management procedures and resources to be applied to contract management.

1.4 Selection of the most appropriate contract management style reflecting the risk assessment will assist in the efficient and effective management of business support process contracts and help build the most appropriate relationship with suppliers.

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[13] *Guidelines for Managing Risk in the Australian Public Service*, Management Advisory Board/ Management Improvement Advisory Committee (MAB/MIAC), Report No.22, October 1996.

Audit findings

Table 2

Implementation of an effective risk assessment framework

Principle	Implementation of an effective risk assessment framework
Audit evaluation criteria	Management ensure the risks associated with contracts are identified, assessed and adequately managed
Audit findings	Of the 8 organisations reviewed, the audit found: • in all 8 organisations, overall risk assessment practices were not adequate, and • 7 organisations did not adequately document their risk assessments.
Better practice noted	The audit noted: • 1 organisation with a comprehensive risk matrix • 1 organisation which produced high-quality documentation of their risk assessments, and • 1 organisation that recognised the inherent risk of business process contracts in their standard form contract.

1.5. These findings relate primarily to risk management practices and activities that were observed during the audit. The adequacy of contract management risk assessment polices and procedures, is discussed in the findings under the heading control environment.

1.6. Overall risk assessment activities and practices were considered to be inadequate. The audit observed organisations generally only considered risk in the context of the initial procurement decision and in the tendering and contract evaluation and negotiation stages. Consequently, the audit found there was minimal consideration of the contract management risks associated with the final two phases of the contract lifecycle—contract administration and performance monitoring, and contract succession.

1.7. A framework of policies and procedures requiring risks to be identified, assessed and managed throughout all phases of the contract lifecycle was noted in only a small number of organisations. With the lack of a comprehensive corporate framework, organisations appeared to place a high reliance on the experience and knowledge of contract managers to minimise the possible risks. While this approach does assist in minimising the possible risks, it also can create exposure to application of inconsistent and ineffective contract management practices.

1.8. There was limited evidence of risk assessments having been made, either at the commencement, or during the life, of business support process contracts examined. The ANAO was unable to establish, in some instances, whether the approach to the management of contracts was based on a proper assessment of the contract risks.

1.9. Most organisations advised that contracted business support processes were considered to be low risk, particularly from a financial perspective. Risks were considered to be implicit in the nature and dollar value of the service being contracted. The ANAO acknowledges this represents a balanced approach to addressing the risk associated with the establishment of contractual arrangements. However, the ANAO found little consideration had been given to the risks inherent in the day to day administration of business support process contracts.

Risk assessment—recommendation

Recommendation No.1

1.10. It is recommended that organisations review and strengthen risk frameworks to address the risks associated with the performance and management of the contracted service

Implementing the recommendation

1.11. Procurement and contracting risk frameworks need to be determined from an overall organisation perspective; addressing contracted services for program delivery and business support processes.

1.12. Establishing a risk profile for all procurement and contracting activity or categorising contracts based on financial, business and ethical exposures are two options available to organisations. It is important that management establish a culture which supports an environment of risk consciousness and assists in managing the risk inherent in contract management.

Control environment

Introduction

1.13. A critical component of an effective control environment is management's commitment and attitude to the implementation and maintenance of an effective internal control structure. The level of positive support by management strongly influences the design and operation of control policies and procedures.

1.14. Senior management needs to establish a control environment that clearly sets out contract management responsibilities, and promotes principles of pro-active management and continuous improvement. Comprehensive and up-to-date policies are fundamental to achieving such an environment.

1.15.   Senior management should also ensure contract managers are appropriately equipped to manage contracts in a professional and accountable manner. Mechanisms to promote the alignment of contract management with corporate objectives and directions include:

- establishing comprehensive policies and procedures;
- providing contract managers with appropriate training and skills; and
- ensuring appropriate legal and technical advice is readily available.

1.16.   Senior management should promote continuous improvement in contracting and contract management. It is through this process that policies and practices will align with, and result in, better practice over time.

Business benefits of an effective control environment

1.17.   An effective control environment will ensure contract management polices and processed are aligned with the overall corporate objectives and directions.

Audit findings

1.18.   The audit findings in this section, summarised in Tables 3 and 4, deal with:

- a demonstrated understanding of contract responsibilities; and
- proactive management and continuous improvement.

1.19.   The audit found that contract management policies were inconsistent in content and detail across organisations. To some extent this was not unexpected as organisations continue to devolve responsibility for contract management to program and administrative support areas. However, in the absence of comprehensive corporate policies, this approach increases the risks associated with contract management.

1.20.   Policies and procedures addressing the assessment, documentation and management of risks were inadequate. As noted in the risk assessment section above, managing the risks associated with contracts relies on a sound framework of policies and procedures. A poor framework will lead to poor management practices and inconsistent treatment of risk. This, in turn, will leave the organisation exposed to unnecessary risks or mean it is committing unnecessary resources to managing risks.

Table 3
A demonstrated understanding of responsibilities

Audit evaluation criteria	Policies are established that cover management for the whole contract lifecycle Contract managers are provided with an appropriate level of training and skills Professional advice is utilised
Audit findings	Of the 8 organisations reviewed, the audit found: • in 7 organisations, policies relating to the assessment, documentation and management of contract risks were inadequate • in all organisations, policies did not adequately address the contract administration and performance management phases of the contract lifecycle • in all organisations, policies did not adequately address the contract succession phase of the contract lifecycle • 6 organisations needed to improve the level of training and guidance provided, and • all organisations utilised an appropriate level of professional advice.
Better practice noted	The audit noted: • 1 organisation in which contract policies are linked to organisation's strategic purchasing direction • 1 organisation which provided comprehensive guidance on identifying and managing risks • 1 organisation with policies on establishing and setting performance targets, and • 2 organisations with policies address training responsibilities.

1.21.   The audit also observed policies were directed at the "front end" of the procurement and contracting process—up to the point of signing the contract. Comprehensive guidance on the management of contracts that reflected better practice was found in only a small number of organisations.

1.22.   To support the corporate policies and reduce the risk of their inconsistent application in a devolved environment, an effective training and continuous improvement framework also needs to be in place. However, the audit found training and continuous improvement were generally driven by informal and exception-based processes.

1.23.   Training was found to be unstructured and usually the responsibility of individual contract managers. However, some organisations have identified the required contract management skills and were addressing training needs through in-house and/or external training programs.

Table 4

Proactive management and continuous improvement

Audit evaluation criteria	Contractual problems are anticipated and resolved promptly at the lowest practicable level Continuous improvement is included as an essential part of the contract management process
Audit findings	Of the 8 organisations reviewed, the audit found: • there were no formal mechanisms for managing the treatment and resolution of problems with contracts, and • generally, all organisations had no framework to support continuous improvement initiatives.

1.24. The audit found most organisations' business support process contract management processes did not incorporate regular review and monitoring mechanisms. Most contractual and service provision problems were managed on an exception basis (as they arose).

1.25. While the audit observed sound management of day-to-day contract administration issues, there was an absence of pro-active management to ensure the timely identification and resolution of contractual issues. Contract managers did not routinely monitor the providers' service and performance levels to facilitate the reduction of the likelihood of contract performance issues emerging.

1.26. Continuous improvement mechanisms were generally unstructured, informal and/or exception-based. Some organisations utilised a central contracts officer/unit as the coordinating point for all contracting activity and for dissemination of contract lessons learnt.

Control environment—recommendation

Recommendation No.2

1.27. It is recommended that organisations:

• strengthen policies to ensure they address all phases of the contract lifecycle, including contract management and performance monitoring, and succession planning phases. Up-to-date and comprehensive policies will promote consistent and effective contract management;

• develop contract management expertise through structured training and skills acquisition programs; and

• strengthen continuous improvement mechanisms to ensure contract lessons learnt are reflected in policies and practices and form part of the organisation's corporate knowledge.

Implementing the recommendation

1.28. Contract management policies, guidance and training requirements should be considered from an overall organisation perspective; addressing contracted services for program delivery and business support processes.

1.29. Mechanisms to address pro-active management and continuous improvement need to be considered in the light of the risks faced by the organisation from its overall contracting activities. The costs and benefits of formal instruments need to be weighed against those of current informal and/or exception-based mechanisms.

Control activities

Introduction

1.30. Control activities in an effective control framework mitigate unacceptable risks and assist the achievement of business objectives.

1.31. Contract control activities require policies and procedures which facilitate the continuing relevance and "effectiveness and efficiency" of services. Organisations should ensure that contracts continue to reflect and meet user needs and requirements. They also should address planning and management issues arising at the conclusion of contracts, which contribute to the continuous "seamless" provision of contracted services to users. These activities represent the final phase of the contract lifecycle.

Business benefits of control activities

1.32. Contract control activities facilitate the continuing relevance, effectiveness and efficiency of delivery of contracted services.

Audit findings

1.33. The audit findings in this section, summarised in Table 5, deal with the effectiveness of the management of contract changes and variations.

Table 5

Effective management of contract changes and variations

Audit evaluation criteria	Management ensure contract variations are not improperly utilised to escalate price and/or diminish services There is sufficient flexibility in contracts and procedures to manage changes in response to user needs Contract succession is appropriately planned and managed
Audit findings	Of the 8 organisations reviewed, the audit found: • while there were no examples of changes or variations being improperly used to escalate prices or diminish services, 7 organisations could improve guidance and practice in this area, and • contract succession is not planned but generally handled in an ad-hoc manner.
Better practice noted	The audit noted: • 1 organisation in which the policies and practices comprehensively addressed management of contract change and variation • several organisation which used a centralised contracts unit, which promoted continuous improvement and provided an overall management/administrative role for organisation contracts • 1 organisation specified an upper dollar limit for contract variations after which extended evaluation processes commenced, and • 1 organisation that used independent verification of provider viability for material contracts.

1.34. The audit found contract variations were supported and documented, particularly in relation to variations of timings and cost. However, limited guidance was provided in the organisations reviewed for the assessment, justification and costing of contract changes. Guidance assists in minimising inconsistent practices across the organisation, in turn reducing business, financial and ethical risk exposures.

1.35. Contract succession planning and management, the final phase of the contract lifecycle, should ensure the continuing provision of efficient and effective contracted services over time.

1.36. The audit found limited succession planning for contracted business support processes. Most organisations did not provide guidance on the planning and management of contract completion and succession to ensure "seamless" provision of services.

1.37. For the contracts reviewed, contract variation approvals, segregation of contract payment processing duties and other financial monitoring controls were found to be sound in all organisations.

1.38. In a number of organisations, succession planning and practices were limited to the rolling-over of contracts as they expired. The audit found minimal evidence of justification for contract continuation or completion options; such as market testing, renegotiation, re-tendering, discontinuing the service and/or bringing the service back in-house.

Control activities—recommendation

Recommendation No.3

1.39. It is recommended organisations strengthen the:

- formal assessment, justification and costing of contract changes, and

- processes required **prior to** the completion of contracts to ensure the continuing efficiency and effectiveness of contracted services and/or the seamless provision of such services where there is a change of provider.

Implementing the recommendation

1.40. In establishing guidance on contract variations, organisations should consider an approach, which compares the additional financial cost and deliverables in the contract together with a reassessment of the risks associated with the contract.

1.41. Contract succession planning and management policies need to identify the renewal options available to organisations and provide guidance on timeframes for ensuring service continuity.

Information and communication

Introduction

1.42. Information and communication are critical to ensure adequate and competent contract management, including performance monitoring, decision making and dispute resolution, both by the organisation and the service providers.

Business benefits of effective information and communication

1.43. Effective communication underpins efficient, effective and ethical achievement of delivery of contracted services.

Audit findings

1.44. The audit findings in this section, summarised in Table 6, deal with whether the communication between the purchaser and provider was effective.

Table 6

Effectiveness of communication between purchaser and provider

Audit evaluation criteria	There are formal protocols for written and verbal communication There is regular communication between the contracting parties There is ethical and honest behaviour Disputes are resolved promptly and in a professional manner
Audit findings	Of the 8 organisations reviewed, the audit found: • all organisations should improve the level of documentation maintained in relation contract management discussions • all organisations should enhance the documentation of communication protocols • while there was no evidence of unethical or dishonest behaviour detected, there was also limited guidance on what constituted ethical behaviour, and • while there was no evidence of contract disputes being poorly handled, the contracts did not necessarily provide the best approach to managing and resolving disputes.
Better practice noted	The audit noted: 1 organisation which used comprehensive dispute resolution procedures in their standard contract.

1.45.   Open and professional lines of communication between all parties are essential to ensure the achievement of contracted outputs and services. To achieve effective contract purchaser and provider communication, organisations should:

• establish appropriate communication protocols;

• ensure regular formal communication between all parties; and

• demand ethical and honest behaviour at all times from all parties.

1.46.   Established "ground rules" for communication are important to clarify the nature of the relationship between purchaser and provider.

1.47.   While the audit observed sound purchaser and provider communication practices in the contracts reviewed, policies (or specific contract references) on communication protocols between the purchaser and provider were present only in a small number of organisations.

1.48.   Organisations, in general, provided limited guidance to contract managers on the documentation to be maintained when administering contracts. The audit noted limited documentation of day-to-day contract administration and negotiations with the service provider.

1.49.   The recording of key contractual events and the maintenance of appropriate documentation over the life of the contract are essential. Sound contract management and administration, relies on maintenance of a complete audit trail, particularly if there is a dispute, or change in the organisation's contract manager.

1.50. Only a small number of organisations provide specific guidance on ethical requirements in procurement and/or contracting. Whilst most organisations have general ethical pronouncements in their codes of conduct pronouncements (or they refer to the public sector-wide standards), a direct "linkage" to the high risks inherent in purchaser/provider contractual relationships was not often made.

1.51. Contractual disputes have the potential to disrupt the efficient, effective and continuous provision of services. Organisations should promote resolution of disputes in a structured manner and without unnecessary escalation of the dispute by empowering staff at the lowest practical level to deal directly with the issues of concern.

1.52. While the audit did not find any occurrences of poorly handled disputes, dispute resolution policies and practices were poorly developed by most organisations; in terms of clauses included in contracts, internal procedures and/or protocols agreed with providers.

1.53. For most organisations, dispute resolution processes were limited to standard contract clauses that gave the purchaser the option to terminate the contract. Contract termination, in many instances, may not result in a solution that is in the organisation's best interests or guarantees the continued provision of services.

Information and communication—recommendations

Recommendation No.4

1.54. The ANAO recommends that organisations:

- develop and promulgate guidance to address communication protocols;

- document contract communication requirements to ensure a complete audit trail is maintained; and

- establish formal processes for handling disputes.

Recommendation No.5

1.55. It is recommended that organisations identify clearly ethical statements and codes of conduct pronouncements to address the unique risks associated with procurement and contractual relationships.

Implementing the recommendations

1.56. Policies addressing communication protocols, documentation principles and ethical requirements need to be consistent from an overall contracting activity perspective; addressing contracted services for program delivery and business support processes.

1.57. Establishing a dispute resolution (and escalation) framework with a hierarchical approach to resolution responsibilities and delegations, are important in a structured approach to successful dispute resolution.

Monitoring and review

Introduction

1.58. Management should monitor and review its operations to ensure business support processes necessary to achieve program objectives are being achieved efficiently and effectively.

1.59. Monitoring and review should be ongoing during the course of contracts. Senior management should establish appropriate contract performance and financial monitoring policies and practices to regularly gauge a contract's progress against specified objectives and performance requirements.

1.60. Essential to performance monitoring is the input of, and assessment by, stakeholders of the contracted services in fulfilling organisation needs and requirements.

Business benefits of contract performance monitoring

1.61. Monitoring and review will ensure acceptable standards of service delivery and accountability for contract performance.

Audit findings

1.62. The audit findings in this section, summarised in Tables 7 and 8, deal with:

- performance monitoring of contracted service delivery; and
- financial monitoring of contracted service delivery.

Table 7
Performance monitoring of common business process contracts

Audit evaluation criteria	Performance measures are stated in contracts and address the key criteria of time, cost and quality All relevant parties participate in setting, management, monitoring and review of performance measures Ongoing performance monitoring and reporting occurs over the life of contracts Performance measures are regularly reviewed to ensure their continuing applicability
Audit findings	Of the 8 organisations reviewed, the audit found: • for most organisations, while performance measures for time and cost were clear, measures in relation to quality were stated generically and difficult to measure • 1 organisation needed to improve its practices in relation to performance monitoring, and • all organisations needed to review and improve the performance measures used.
Better practice noted	The audit noted: • 1 organisation with comprehensive statements of performance measures, and • 1 organisation with regular reporting on contract performance.

1.63. For an organisation to be sure it "gets what it paid for", provider performance should be adequately monitored over the duration of the contract.

1.64. Effective performance monitoring can be achieved through:

• establishing appropriate performance measures and targets in consultation with the provider and key stakeholders;

• as part of the contract specifications, routinely and efficiently capturing the right information at the right level, on each performance measure and target;

• analysing performance and reporting the results to an appropriate level of management; and

• periodically reviewing the continued relevance of performance measures and targets over the life of the contract.

1.65. The United Kingdom's Treasury Taskforce—Private Finance Projects Team stated that performance monitoring:

… should not mean ticking off, supervising or approving the [provider's] activities: it means confirming the [provider's] objective performance against outputs promised under the contract[14].

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[14]   United Kingdom Treasury Taskforce—Private Finance Projects Team.

1.66.   The audit found policies dealing with establishing, monitoring and reporting of contract performance measures were limited. The ANAO observed only a few organisations where comprehensive policies and guidance were provided to contract managers.

1.67.   While the nature of business support process services would usually result in "unsatisfactory" performance being readily identified, clear policies on performance measurement and monitoring ensure management will get regular, consistent and objective assessments of the performance of the organisations' contracted services.

1.68.   The audit found there was minimal stakeholder involvement in establishing and monitoring contract performance measures. Stakeholder participation was generally limited to reporting poor performance, although instances were noted where organisations utilised surveys to assess the performance of contracted services.

1.69.   Contracts reviewed commonly included detailed time and cost performance measures. Quality service measures, however, were generally stated in broad and/or generic terms that were difficult to measure, either qualitatively or quantitatively.

1.70.   Typically, performance measurement targets were not established to clarify acceptable contract performance. Reassessment of performance measures over the life of contracts was observed to be on an ad-hoc basis.

1.71.   Review and reporting on business support process performance was generally exception-based. Only a few organisations had policies and practices in place which require the regular formal monitoring of contracts and subsequent reporting to senior management.

Table 8

Financial monitoring of common business process contracts

Audit evaluation criteria	Purchaser and provider obligations are clear, concise and understood by all parties Mechanisms for monitoring contract obligations are in place Budget and cost monitoring systems are established The financial control procedures and practices are effective Financial commitments and expenditure are monitored and reported
Audit findings	Of the 8 organisations reviewed, the audit found: • overall financial monitoring practices were considered adequate • 4 organisations needed to improve the quality of their budget and cost monitoring activities • 4 organisations needed to improve their financial reporting activities, and • all organisations need to improve the means by which contract commitments and the total cost of contracts are monitored and reported.

1.72. Contract obligations and costs must be controlled over the duration of contracts. Financial monitoring of contracts includes:

• ensuring all parties clearly understand their contractual obligations;

• establishing appropriate contract tracking and monitoring systems;

• ensuring effective budgetary, cost monitoring and financial control procedures are in place; and

• regularly reporting contract commitments and expenditure to management.

1.73. Financial monitoring of contracted business support processes was found to be satisfactory in **all** organisations reviewed.

1.74. The audit found tracking of contract costs and obligations against budgets was generally a manual process performed by the contract managers. Most organisations' management information systems did not record contract milestones nor due dates, with some organisations not maintaining overall contract commitment details.

1.75. The ANAO noted that none of the organisations reviewed currently recognise the cost of contract management as an integral part of the "full cost" of a contracted service. Financial recognition was strictly limited to direct costs associated with the provision of contracted services. Knowing the full cost of the services provided under contract will assist organisations to correctly identify their output costs.

1.76. Reporting of business process contract commitment and expenditure to management was limited, reflecting the relatively low dollar value of such contracts to overall organisation activities. Reporting was usually on an aggregated basis with only exception-based reporting of specific contracts.

Monitoring and review—recommendation

Recommendation No.6

1.77. It is recommended that organisations:

- strengthen the processes for establishing, monitoring and review of contract performance measures;
- involve all stakeholders in establishing contract performance measures, particularly the identification of performance targets; and
- ensure financial management mechanisms link to the organisation financial management systems and the full cost of the contract includes in-house costs such as administration overheads.

Implementing the recommendation

1.78. Performance targets need to be capable of ready measurement. Information on performance measures and targets should be captured and reviewed on a regular and cost effective basis.

Other aspects of performance monitoring—access to contract information

1.79. Closely related to the consideration of the level and nature of information to be supplied under contract is whether organisations require access to any contractor's records directly related to the contract, or Commonwealth assets held on the premises of the contractor, for the purpose of monitoring the performance of the contract.

1.80. The ANAO considers it is important contracting organisations ensure the contract allows for:

- sufficient access to records and information of the contracting parties, and any Commonwealth assets held on the premesis of the contractor, to allow them to ensure their own, and ultimately their Ministers', accountability expectations are met; and
- the Auditor-General to have sufficient access to ensure the accountability requirements of the Parliament are met.

1.81. For its purposes, the ANAO considers access to contract-related records, information and Commonwealth assets would generally be equivalent to that which would reasonably be specified by the contracting organisation in order to fulfil competent performance management and administration of the contract.

1.82. In September 1997, the Auditor-General wrote to heads of Commonwealth organisations recommending the adoption of appropriate standards access clauses in contracts, and provided example clauses which would ensure sufficient access to information directly relevant to contract performance.
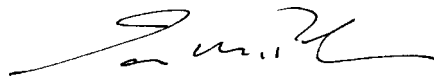
1.83. The JCPAA and the Senate Finance and Public Administration References Committee have also recently recommended organisations include standard contract provisions to ensure there is adequate access to information maintained by the contractors that may be required for contract management and accountability requirements.[15]

1.84. A review of the 35 business support process contracts examined as part of this audit revealed that only two contracts referred to possible access by the Auditor-General. None of the contracts reviewed, entered in to since the ANAO's advice contained the recommended access provisions. The level of consideration given to the inclusion of such provisions in these contracts was not clear.

Recommendation No.7

1.85. Organisations should include, as appropriate, standard access clauses in contracts that allow the organisation, and the Auditor-General, to have sufficient access to fulfil their respective accountability obligations.

1.86. In practice this will require consideration of the risk and significance of the contracted activity to the organisation's outputs.

Canberra ACT   Ian McPhee
14 October 1999   Acting Auditor General

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[15] Recent relevant reports include:

- Joint Committee on Public Accounts and Administration

  —Report 368, *Review of Audit Report No.34 1997-98 New Submarine Project, Department of Defence*, Canberra, June 1999, p.43

- Senate Finance and Public Administration References Committee

  – *Contracting out of Government Services, First Report*, November 1997, Chapter 7

  – *Contracting out of Government Services, Second Report*, May 1998, Chapter 4

Appendices

Appendix 1

About the audit

Introduction

1.   Financial Control and Administration (FCA) audits are concerned with improving the quality of public sector administration.[16] Key features of this form of audit include:

- they are 'across-the-board' reviews;
- they focus on particular corporate functions or processes which support the delivery of government programs;
- they seek to identify or develop better practices in aspects of financial management and administration; and
- they report generically, in as much as individual organisations included in the review are not identified in the public report.

Audit objectives

2.   This audit was designed to provide APS organisations with an insight into the effectiveness of the design and operation of those elements of each organisations' internal control structure that impact on contract management. Specifically, the objectives were to:

- provide assurance on the effectiveness of the management of contracted business support processes in selected organisations; and
- identify and disseminate better practices in contract management.

Audit scope

3.   The audit was specifically limited to contracts for the provision of business support processes. It did not examine all types of contracts in the Commonwealth public sector.

4.   The ANAO's performance audits of organisation's program activities includes consideration of contract management issues where relevant to a particular program. This audit is designed to **complement** that coverage. However, it is expected the lessons learned from this audit, and the better practices identified, can be readily transferred and, to the extent relevant, applied to management of most contracts.

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[16] FCA audits are general performance audits undertaken and reported under the provisions of Sections 18 and 19 of the *Auditor-General Act 1997*, respectively.

5. The business support processes reviewed included:

- building and facilities maintenance;
- cleaning services;
- security services;
- finance and/or travel services;
- advertising; and
- internal audit.

Audit focus

6. While the focus of the audit was management of contracts 'post-signing', implications in regard to other phases of the contract life cycle were considered during the course of the audit. In particular, the relationships between:

- contract performance monitoring and the provisions of the contract (general, specific and/or schedules);
- contract performance monitoring and dispute settlement mechanisms/ protocols; and
- the assessment of provider delivery and performance and the decision to renegotiate, re-tender, bring in-house, or finalise a contract at its completion.

7. The audit did not evaluate compliance with other aspects of the contract lifecycle or Commonwealth Competitive Tendering & Contracting (CTC) and/or Performance Improvement Cycle (PIC) requirements.

Audit approach

8. The audit considered contract management in terms of:

- the completeness and appropriateness of the contract management policies established and promulgated the organisations; and
- the quality of contract management practices, based on a sample of contracts, for consistency with the policies.

9. Contract management policies and practices were evaluated against a 'model' of effective control expressed in the form of audit evaluation criteria. These criteria were established through research into 'best practice' approaches and by reference to models of an effective internal control structure.

The internal control structure

10.   The ANAO's Better Practice Guide to Effective Control discusses the following five components of the internal control structure:

- Risk assessment—management's awareness of, analysis and mitigation of risks which impact upon an organisation.

- Control environment—reflects management's commitment and attitude to ensuring well controlled business operations.

- Control activities—established by management to assist an organisation achieve its objectives.

- Information and communication—management ensure relevant information is communicated throughout the organisation to assist in the achieving its objectives.

- Monitoring and review—management review and monitoring operations to ensure that program objectives and control activities are achieved efficiently, effectively and ethically.

11.   Audit evaluation criteria were developed to assess contract management against each component of the internal control structure.

Audit evaluation criteria

12.   Table 1 shows the audit evaluation criteria mapped against the components of the internal control framework. The organisations' management of contracts was assessed against these criteria.

Table 1

Audit evaluation criteria

Control framework component	
• *Associated principles*	• *Audit evaluation criteria*
Risk assessment • Implementation of an effective risk management framework	• Risks associated with contracts are identified, assessed and adequately managed
Control environment • A demonstrated understanding of contract responsibilities	• Policies are established that cover management for the whole contract lifecycle • Contract managers are provided with an appropriate level of training and skills • Professional advice is utilised
• Pro-active management and continuous improvement	• Contractual problems are anticipated and resolved promptly at the lowest practicable level • Continuous improvement is included as an essential part of the contract management process

Control framework component • Associated principles	• Audit evaluation criteria
Control activities • Management of contract changes and variations is effective	• Management ensure contract variations are not improperly utilised to escalate price and/or diminish services • There is sufficient flexibility in contracts and procedures to manage changes in response to user needs • Contract succession is appropriately planned and managed
Information and communication • Communication between purchaser and provider is effective	• There are formal protocols for written and verbal communications • There is regular communications between the contracting parties • There is ethical and honest behaviour • Disputes are resolved promptly and in a professional manner
Monitoring and review • Performance monitoring is implicit in contract management	• Performance measures are stated in contracts and address the key criteria of time, cost and quality • All relevant parties participate in setting, management, monitoring and review of performance measures • Ongoing performance monitoring and reporting occurs over the life of contracts • Performance measures are regularly reviewed to ensure their continuing applicability
• Financial monitoring is implicit in contract management	• Purchaser and provider obligations are clear, concise and understood by all parties • Mechanisms for monitoring contract obligations are in place • Budget and cost monitoring systems are established • The financial control procedures and practices are effective • Financial commitments and expenditure are monitored and reported

13.   Better practice in contract management was also investigated as part of development of the audit evaluation criteria. This is discussed in detail in Appendix 2.

Recent ANAO audit reports reviewing contract management

14.   The ANAO has undertaken several performance audits of management of contracts for the direct delivery of outputs. They include:

- Audit Report No.28, 1995–96 *Jindalee Operational Radar*—Department of Defence;

- Audit Report No.21, 1996–97 *Management of IT Outsourcing*—Department of Veterans' Affairs;

- Audit Report No.34, 1997–98 *New Submarine Project*—Department of Defence;

- Audit Report No.24, 1997–98 *Matters Relevant to a Contract with South Pacific Cruise Lines Ltd*—Department of Employment, Education, Training and Youth Affairs; and

- Audit Report No.2, 1998–99 *Commercial Support Program*—Department of Defence.

Performance Information

15.   Planning for this audit commenced in June 1998 with research into contract administration better practice and identification of subject matter experts. Fieldwork in the eight organisations included in the audit was completed in December 1998.

16.   The elapsed time from the commencement of the audit to tabling this Report was 15 months.

17.   The total cost of the audit was $285 237. The average cost of fieldwork in each agency was $21 875. A better practice guide on contract administration, including features identified in some of the organisations included in this audit, will be issued shortly.

Appendix 2

Better practice in contract management

1. As part of the research into, and development of, the audit criteria, the following elements of better practice in relation to aspects of contract administration were identified.

2. Better practice in contract management suggests a contract's success depends on establishing a relationship, or contract management style, which is sympathetic to the contracting environment and allows managers to effectively manage the risks associated with the contract.

3. Selection of the appropriate contract management style is based on a clear understanding of the contract management environment and a realistic assessment of risks associated with the management of the contract. Whether adopting a partnership approach, or a more formal approach to contract management, an organisation should endeavour to develop and move toward better practice.

Contract management environment

4. The contract management environment affects the nature of the purchaser-provider relationship. It is this relationship that drives the performance of contracted services over time, and ultimately determines the success of the contract.

5. The United Kingdom Treasury has identified the following issues for consideration in deciding between contract management styles [17]:

Table 2

Contract Management Styles

Issues	Tendency towards partnership	Tendency towards distant relationship
Service type	Business critical	Non-core support
Benefits—critical success factors	Business improvement	Cost saving only
Agreement type	Shared benefits	Fixed price
Agreement duration	Long term	Short term
Nature of relationship sought	Continuing and developing trust	Formal and arm's length
Stability of the requirement	Liable to change	Fixed throughout the contract
Performance measurement	Difficult to identify and assess	Easy to measure— unambiguous to quantify

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[17] Contracting for Strategic Services, No.61: *Contract Management*, HM Treasury [United Kingdom] Central Unit on Procurement, May 1997

Managing contract risks

6. All organisations, regardless of size or type of business, encounter some form of risk that can adversely impact on the achievement of its objectives. Management needs to be aware of, assess, analyse and mitigate risks that impact upon its goals and objectives at the overall organisation, program, function and task levels.

7. Risks associated with contract management include:

- business—failure to deliver services in accordance with contract specifications;
- financial—unexpected variations to the contracted price or bankruptcy/insolvency of the provider; and
- ethical—breaches of ethical, conduct and/or probity standards.

8. In its guidance on contract management, the United Kingdom Treasury indicates there are five elements to risk assessment [18]:

- identify potential problems and their causes;
- assess the probability of occurrence;
- assess the impact on the organisation's operation and standing;
- identify which party is best able to manage the risk; and
- devise strategies to reduce the risk.

9. An assessment of risk is normally performed in the initial phases of the contract lifecycle. This enables procedures to be established which 'manage down' the risks in the post contract signing phases.

10. Effective contract risk management will:

- reduce the impact of risk on the performance of the contract;
- reduce contract management costs and lead to effective utilisation of resources;
- yield maximum benefits for the organisation and more productive relationships with end-users and suppliers; and
- increase the reliability of the service.

11. Once risks have been identified and assessed, they can be managed and, where necessary, reduced to an acceptable level. Contract managers need to apply a consistent and defensible approach to risk management over the entire contract lifecycle.

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[18] Contracting for Strategic Services, No.61: *Contract Management*, HM Treasury [United Kingdom] Central Unit on Procurement, May 1997

Contract management styles

12. An organisation's understanding of the contract management environment, together with an assessment of risks associated with individual contracts, forms the basis for determining whether to use a:

- partnership contract management style—based on forming and promoting an effective and mutually beneficial relationship between the purchaser and service provider; or

- formal, or compliance-based, contract management style—a more distant or formal relationship between the purchaser and service provider.

Partnership contract management style

13. A partnership contract management style reflects an outputs/outcomes and continuous improvement focussed relationship.

14. Better practice organisations gain significant value added services when a partnership contract management style is adopted. Developing long term strategic partnerships with business support process suppliers encourages the sharing of risks and rewards. Both purchaser and provider will be prepared to invest time and resources to add value and/or assist in cost reduction.

15. These types of relationships are based on developing trust and commitment, rather than control and compliance.

Formal, or compliance-based, contract management style

16. In contrast, a compliance based contract management style is utilised where deliverables are predetermined and/or fixed, with reliance placed on existing control structures within an organisation to monitor contract performance.

17. This approach is generally applied in the contracting of routine services and activities where *'competitive markets for their provision exist, imposing discipline on costs and protecting agencies against capture—dependence on one supplier in the absence of practical alternatives'*[19].

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[19] Senate Finance and Public Administration References Committee *Contracting out of Government Services Second Report*, May 1998.

Access to contract records and information

18.   Contracts should include standard access provisions allowing sufficient access for their own contract management activities and to ensure there is sufficient access for the organisation and the Auditor-General have appropriate support contract management and to fulfil the accountability requirements of the Parliament.

Future challenges

19.   With a trend towards contracting-out business critical business processes, such as finance and personnel services, the identification, assessment and treatment of risks through the adoption of an appropriate contract management style represents a significant challenge to an organisation's senior management.

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