REQUEST TO TENDER

(RTT)

Regularity audit contract work for the period 2014-16 on behalf of the Auditor-General of South Africa

Bid number AGSA/2013/CWC/RA
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1. Definitions

**ABU:** Audit Business Units

All provincial audit offices and national audit business units of AGSA including Performance Auditing, Investigations and Information Systems Auditing (ISA).

**ACCA:** Association of Chartered Certified Accountants.

**Aggregate score:** The combined quality assessment scores allocated to an audit partner for audit work (both contracted in and contracted out) conducted in a particular region.

**AGSA:** Auditor-General of South Africa.

**APA:** Auditing Profession Act No. 26 of 2005.

**Attest audit partner:** A partner in a private audit firm registered with IRBA to perform the attest function.

**BBBEE:** Broad-based black economic empowerment.

**BE:** All business executives of the AGSA within the audit business units.

**CA Charter:** BEE Sector Charter of the Chartered Accountancy Profession.

**CE:** All corporate executives of the AGSA.

**Conflict of interest:** Where a firm’s interest is conflicted by current and previously provided assurance/consulting work to the auditee for the period less than the cooling off period.

**Contracted-in work:** Supply of various levels of staff by the private audit firm to work under the supervision of AGSA management.

**Contracted-out work:** Allocating full responsibility, up to draft audit report stage, for the performance of an audit to the private audit firm.

**Consortium:** A consortium is an association of two or more individuals, companies, organisations or governments (or any combination of these entities) with the objective of participating in a common activity or pooling their resources for achieving a common goal. Each participant retains its separate legal status and the consortium’s control over each participant is generally limited to activities involving the joint endeavour, particularly the division of profits. A consortium is formed by contract, which sets out the rights and obligations of each member.

**CWC MIS** Management Information System related to AGSA work involving private firms awarded work in terms of this tender process.

**Database:** A list of all approved private audit firms who will perform audits on behalf of the AGSA.

**Emerging firm:** An audit firm recently registered (first time registering with AGSA) with SAICA as a training office which has a minimum number of four (4) trainees and does not have public sector auditing experience.

**Group training office:** Head office and branches of a training office which are collectively accredited in
line with SAICA’s training regulations.

**Individual audit partner:** A partner who has performed contract work on behalf of the AGSA in a particular private audit firm.

**IRBA:** Independent Regulatory Board for Auditors.

**ISA** Information System Audit.

**IS audit work:** Evaluation of IT general and application controls as an input to regularity audit during the process of expressing an audit opinion in terms of the Public Finance Management Act and Municipal Finance Management Act.

**ISACA:** Information Systems Audit and Control Association.

**Internal Operations and Audit Support:** Business units report, who is also a member of Exco

**MFMA** Municipal Finance Management Act No. 56 of 2003.

**National Leader,** A national leader to whom all corporate executives of audit business units at 

**Audit Services:** AGSA report to, who is also a member of Exco.

**New firm:** A private audit firm that meets the eligibility and qualifying criteria of the tender but has not previously performed audits on behalf of the AGSA and has had insufficient public sector auditing experience (less than 3 years).

**Non-resident partner:** A partner who does not meet the definition and requirements of a resident partner.

**PAA:** Public Audit Act No. 25 of 2004.

**PPPFA:** Preferential Procurement Policy Framework Act No. 5 of 2000.

**Private audit firms:** Audit firms registered with IRBA.

**Private firms:** Refer to registered legal businesses that operate either an audit firm that is registered with IRBA or one that provides the services of IT Risk and IT Audit Work recognised by ISACA.

**Private Practitioners:** Individuals who are registered with IRBA

**Private Practitioners (ISA):** Individuals auditing independently with a CISA qualification/individuals who do not have CISA but has the qualification, experience and competencies determined by the AGSA.

**PFMA:** Public Finance Management Act No. 1 of 1999.

**RA:** Regularity audit.

**Regularity audit work:** Annual audits performed to report on financial statements, performance information and compliance with laws and regulations in accordance with the Public Audit Act and the applicable directive issued in terms thereof.

**Resident partner:** An attest audit partner who is linked to/responsible for the AGSA assignment(s) in a firm and is dedicated/allocated to one office in a particular province/region.

**SAICA:** South African Institute of Chartered Accountants.

SCMO: Supply Chain Management Office of the AGSA.

Stand-alone training office: A head office or a branch which has been separately accredited as a training office in terms of SAICA’s training regulations.

Sustainable office: A fully operational office of the private firm within the region/province registered with SAICA and carrying on the legal business of rendering of audit services. The office should include proper signage, dedicated office space, permanent staff, communications infrastructure including a permanent telephone number and a fixed address. In the event of rendering IS Audit work registration with SAICA is not required although other listed criteria apply.

Trainee Accountant: A person who will be subject to a minimum of three (3) years training programme registered by either ACCA/SAICA/SAIGA. Commonly referred to as “TA”.
2. Introduction

The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen the constitutional democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence. In order to deliver on its mandate, the Auditor-General of South Africa (AGSA) has embarked on streamlining the process for the appointment of private audit firms to which audit work will be contracted out and those that will be contracted in to supplement the AGSA’s internal capacity.

The purpose of this tender process document is to detail the criteria and the process to be followed by the AGSA, in selecting private audit firms that will be contracted in and out to conduct audits on behalf of the AGSA.

This document details the following:

- Primary criteria to be met by the private audit firms to be included on the approved database.
- Allocation of contracted-in and contracted-out audit work.
- Essential principles to be applied during the tender process.
- Maintenance of the approved database.

3. Background

In terms of section 12 of the Public Audit Act, 2004 (Act No. 25 of 2004), the Auditor-General can authorise one or more persons to perform or to assist in the performance of an audit.

Section 12(2) states that such a person must be:

(a) a member of the staff of the Auditor-General;
(b) a private practitioner who:
   (i) is registered as an accountant and auditor; or
   (ii) is not registered but has the qualifications, experience and competence as determined by the AGSA; and
(c) a person with a non-accountancy qualification, experience and competence to the extent that a person with such qualifications, experience and competence is necessary for any particular audit.

In order to comply with section 217 of the Constitution of 1996, which requires that all procurement should be done in a manner that is fair, equitable, transparent, competitive and cost-effective, the Auditor-General of South Africa (AGSA) should allocate work to private audit firms through a formal tender process.

The purpose of the contract work tender process is:

- to have a database of approved private audit firms;
- to maintain the database during the allocation period;
- to make allocations to the private audit firms on the database for contracted-in and -out regularity audits for the 2014-16 financial year.

No guarantee will be given of the amount of work to be allocated in any given year as the amount to be distributed depends on the final budget of the AGSA and vacancy levels.

Separate tenders will be invited for special investigations and performance audits, and this document applies to regularity audits only.
4. Eligibility and qualifying criteria

4.1 Eligibility criteria

The following criteria must be met to be eligible to conduct regularity audit work on behalf of the AGSA:

4.1.1 A private audit firm that is registered with IRBA with attest audit partners registered with IRBA.

4.1.2 An aggregate score of at least 85% in the latest results of the AGSA quality assessment by the AGSA engagement manager of all individual audit partners that have previously performed work on behalf of the AGSA; or the latest satisfactory IRBA firm level review results; or the resident partners’ latest satisfactory IRBA review score (attained in respect of the inspection conducted during the period of 1 April 2010 until tender closing date). Where IRBA review score is not available, the resident partner(s) must provide proof of public sector experience of at least three years in public sector which should include a cumulative period of 12 months obtained within the last three years plus proof of CPD hours attained for public sector training of at least 40 hours; and a commitment in the form of a letter from the firm indicating that the partner will receive support from the firm in executing work on behalf of the AGSA.

4.1.3 Audit firms should be registered as training offices, either as group or stand-alone training office, in accordance with SAICA’s training regulations and must indicate the name(s) of resident partners.

4.1.4 The audit firm should submit the original valid tax clearance certificate.

4.1.5 A private audit firm must have at least four (4) trainee accountants. The trainee accountants must be registered with either ACCA or SAICA or SAIGA.

4.1.6 The audit firm must provide their BBBEE certificate with verification standards of the Chartered Accountancy Sector Code.

4.1.7 Completion of all prescribed forms in terms section 5.

Please Note: Consortiums will not be allowed to tender and sub-contracting will not be permissible.

4.2 Qualifying criteria

Criteria for private audit firms that have previously conducted audits on behalf of the AGSA

4.2.1 Firms are also required to provide the latest satisfactory IRBA firm level review score, when available.

4.2.2 In cases where individual audit partners have failed to achieve the 85% aggregate score, such partners will not be allowed to conduct work on behalf of the AGSA, even under circumstances where they move from one audit firm to another. These partners will be subject to a 1-year exclusion from the database and will have to meet the requirements applicable to new audit partners for re-entry into AGSA database.

4.2.3 In cases where an audit firm has performed both contracted-in and contracted-out work for the AGSA, QC scores must be weighted, 30% for contracted-in and 70% for contracted-out, for obtaining the aggregate score of 85% – with the proviso that if the firm fails contracted-out for the particular province, they will be disqualified in that province and for the contract period.

4.2.4 In cases where an audit firm has performed only either contracted-in or contracted-out work, the QC aggregate score will be 85%.

4.2.5 Where AGSA quality assessment results are not available for work already performed on behalf of the AGSA, satisfactory IRBA file review results were accepted.

Criteria for private audit firms that were not on the AGSA database

4.2.6 New firms are required to provide:

(a) the latest satisfactory IRBA firm level review; OR
(b) the resident partners’ latest satisfactory IRBA review score. Where IRBA review score is not available, the resident partner(s) must provide proof of public sector experience of at least three years in public sector which should include a cumulative period of 12 months obtained within the last three years plus proof of CPD hours attained for public sector training of at least 40 hours; and
(c) a commitment in the form of a letter from the firm indicating that the partner will receive support from the firm in executing work on behalf of the AGSA.

Newly appointed partners of firms that have previously done work on behalf of the AGSA

4.2.7 The newly appointed resident partner(s) who do not have either an AGSA or IRBA score must comply with the requirements for new firms that are not on the AGSA database (paragraph 4.2.6 above).

5. Information to be submitted

5.1 Private audit firms who wish to tender to perform regularity audit work on behalf of the AGSA in a particular province will have to submit the following information:

5.1.1 The tenders will be invited per province and for Pretoria (national business units).

5.1.2 All firms must submit a complete company profile with the tender.

5.1.3 IRBA registration number of both the attest audit partner and the private audit firm they belong to.

5.1.4 The audit firms are to indicate each individual’s ID number and submit certified copies of identity documents in respect of the partners listed above.

5.1.5 The latest firm level review score where available and completion of the public sector experience form.

5.1.6 The private audit firm should submit BBBEE rating certificate issued in line with the standards of the Chartered Accountancy Sector Code from a DTI accredited verification agency per region or province or nationally at the firm’s discretion.

5.1.7 The private audit firm’s valid tax clearance certificate.

5.1.8 The physical address of the firm, confirmation that the firm is registered by SAICA as a training office and name(s) of resident partners. Trainee accountants from ACCA/SAIGA will also be considered.

5.1.9 The firm’s resource structure indicating all the names and race categories of trainee accountants as at the date of submission (SAICA/ACCA/SAIGA trainee numbers to be submitted) per province. Audit firms should provide a listing of Trainee Accountants with information on qualifications and trainee numbers. The firm will be required to provide confirmation from related institute that trainees are duly registered and belong to the firm.

5.1.10 Firms are to provide statistics of staff other than trainees (partners and managers) that will be performing work on behalf of AGSA per province/region. Such staff should have specific experience in internal/external auditing of the public sector of at least three (3) years (2009-2011), which should amount cumulatively to one year in public sector internal/external auditing at the time of submitting a tender. Such staff should be available to dedicate 50% of their time to AGSA audit work. The information to be submitted must indicate the experience, qualifications, names and race categories of such staff.

5.1.11 Abridged curriculum vitae of all attest audit partners certified copies of identity documents, clearly, indicating the office details of the private audit firm where they are resident.

5.1.12 Disclosure of the section 4(3) audit work by the firms. The disclosure of the section 4(3) audit work by the firms should include but not be limited to the audit fees charged and type of section 4(3) audit work.

5.1.13 Declaration of conflict of interest with respect to other public sector work performed must be submitted with the tender.

5.1.14 Declaration that they have a system of quality control as required by ISQC1, to give reasonable assurance that the firm and its personnel comply with the professional standards and regulatory and legal requirements, and that reports issued by the firm and its partners are appropriate in the circumstances.
5.1.15 Declaration of bidder’s past supply chain management practices.

6. Work allocation principles

6.1 Emerging firms

6.1.1 Emerging firms are to be considered for contracted-in audit work for a trial period of one (1) year, after which the firm will have gained sufficient experience in public sector auditing as determined by the BE and approved by the CE. The firm may then be considered for contracted-out work allocation subject to the normal qualifying quality control criteria. Private audit firms that have not previously performed audits on behalf of the AGSA and with insufficient public sector audit experience are considered for contracted-in audit work allocation only.

6.1.2 Emerging audit firms with trainee accounts which have no public sector experience may be provided the opportunity to second trainee accountants to the AGSA in order to gain experience and knowledge in public sector auditing. This is simply an elective initiative of the AGSA in support of capacity building and any benefit arising from this arrangement will be at the sole discretion of the AGSA with no expectations created whatsoever. The exact nature and extent of the initiative will be communicated by the AGSA to those firms that qualify.

6.2 Changes in the firm's structure/mergers/de-merging during the tender process and contract allocation period

6.2.1 If a firm absorbs another firm after the allocations have been completed, the allocations will be combined for the newly established firm.

6.2.2 In cases where the firms merge during the contract period, the allocations will remain the same and the initial individual allocations will be combined (tenders will not be re-evaluated).

6.2.3 In cases where firms de-merge, the remaining firm initially allocated the AGSA work will retain the allocations. The partner/s who have moved to a new firm will not be allowed to move with the audits. In cases where the remaining firm confirms that they are unable to perform the audit work, the work will be re-allocated through the AGSA’s normal CWC approval process.

6.3 Allocation of work in provinces

6.3.1 Tenders will be invited per province and the allocations for Gauteng and Pretoria (national business units) will be combined. In respect of the Eastern Cape BU, work will be allocated based on the stratification principle of 20% utilisation of Port Elizabeth firms and 80% utilisation of East London firms.

Allocation of work to firms in neighbouring and other provinces/regions

6.3.2 The private audit firms are required to have a sustainable office in the province to be eligible for work in that province. The AGSA’s provincial BEs reserve the right to perform physical inspections of offices. In cases where audit firms do not have sufficient capacity to perform audits; work may also be allocated to firms that have a sustainable office in immediate neighbouring provinces in exceptional cases, subject to the AGSA’s operational requirements.

6.3.3 Such firms in the immediate neighbouring provinces may be considered by the Tender Committee on recommendation by the BE and CE for approval by the National Leader. The table below would apply in terms of recognising neighbouring provinces that would qualify for work allocations as per the clause above.

<table>
<thead>
<tr>
<th>Province/Region</th>
<th>Neighbouring province/s recognised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>Free State/Kwa-Zulu Natal/Western Cape</td>
</tr>
<tr>
<td>Free State</td>
<td>Gauteng</td>
</tr>
<tr>
<td>Limpopo</td>
<td>Gauteng</td>
</tr>
</tbody>
</table>
6.3.4 Firms in the immediate neighbouring provinces will only be eligible for ad hoc allocations as per the above condition of not more than 5% of the BU budget. For Eastern Cape neighbouring firms will be considered after Port Elizabeth based firms.

6.4 Allocation time frames

6.4.1 Allocations of audit work to firms to be for a period of three (3) years in order to align to the strategic planning period.

6.4.2 Contract work will be allocated upfront to audit firms for a full three-year audit cycle. Firms will however be subjected to the AGSA QC requirements on an annual basis.

6.4.3 In cases where new firms will be used to perform contracted-in work during the contract period, such firms will be considered as and when ad hoc allocations become available.

6.4.4 Based on the AGSA’s operational and strategic objectives and BBBEE initiatives, the organisation reserves the right to change the allocation of audits at its sole discretion and without consultation with the private audit firm during the three-year period.

6.4.5 Changes on the database will be effected in cases where audit firms fail the QC assessment.

6.4.6 For the 2nd and 3rd allocations, the AGSA shall include all private audit firms that were on the 1st year’s allocations, with the exception of firms that fail the QC assessment.

6.4.7 In addition to the above, for the 2nd and 3rd year allocations, a firm is expected to maintain the same standards in terms of BBBEE contributor level and capacity. Firms will be required to submit certificates confirming their BBBEE contributor level and declaration for capacity, allocation of black trainees in the firm and the percentage spent on skills development in the public sector.

6.4.8 AGSA will annually review the status of the firms and will make revisions to the allocations in line with the new information submitted by audit firms

6.5 Disclosure by audit firms (conflict of interests/key auditees/section 4(3) audits

6.5.1 The AGSA will not contracted out audit work in cases where there is conflict of interest (independence issues) and for certain key auditees, for example SARS, National Treasury and etc.

6.5.2 Firms are to disclose section 4(3) audit work when submitting a bid. The AGSA will use its discretion in respect of the amount of work to be allocated to a firm, taking into consideration the amount of section 4(3) audit work already allocated to that firm.

6.5.3 The disclosure of the section 4(3) audit work by the firms should include but not be limited to the audit fees charged and type of section 4(3) audit work. In cases where conflict of interest arises after the allocation process, such a firm will forfeit the allocations at the sole discretion of the AGSA.

6.5.4 In cases where there are capacity changes that prohibit the firm from fulfilling its contract work deliverables, such firms will forfeit their allocations at the sole discretion of the AGSA.
6.6 Ethical and independence requirements

6.6.1 Senior management including pre-issuance reviewers must be rotated after a maximum of six years to ensure that independence and objectivity are maintained.

6.6.2 In the case of regularity audit work, the audit partners must be rotated after a maximum of six years to ensure that independence and objectivity are maintained.

6.6.3 Contracted-out firms should only be involved in the audit for a maximum of six years. A two (2)-year cooling-off period should be applied prior to the possible re-awarding of the contract to the audit firm.

6.6.4 During that period, the firm may not participate in the audit of the entity, perform pre-issuance review, consult with the engagement team or the client regarding technical issues or otherwise directly influence the outcome of the engagement.

6.7 Classification of firms

6.7.1 For the purpose of allocation the audit firms are classified according to the following criteria as determined by the AGSA. These classifications will be done on a national basis.

<table>
<thead>
<tr>
<th>National firm category</th>
<th>Number of attest audit partners</th>
<th>Number of TAs</th>
<th>Number of CAs</th>
<th>Maximum work allocation per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large firms</td>
<td>51+</td>
<td>81+</td>
<td>26+</td>
<td>40%</td>
</tr>
<tr>
<td>Medium firms</td>
<td>11-50</td>
<td>21-80</td>
<td>8-25</td>
<td>40%</td>
</tr>
<tr>
<td>Small firms</td>
<td>1-10</td>
<td>4-20</td>
<td>1-7</td>
<td>20%</td>
</tr>
</tbody>
</table>

NB Associate directors should be excluded in the statistics of attest audit partners

6.7.2 In order to enable the AGSA to classify the firms correctly, the firms will be required to provide a substantive explanation and supporting/registration/founding document of their registered enterprise type. The explanation should include an indication of the structural composition within the available categories provided for in the South African legal system. These categories may include the following:

- Sole proprietor;
- Partnership;
- Individual firm;
- Group firm with branches in various regions/provinces; and
- Firm individually/separately owned but using the brand name associated with other firms.

6.7.3 In the event of a firm migrating from one band to another (e.g. medium firms to large firms) due to corporate activity, the AGSA may review the above stratification in the context of its strategic objectives of Quality and Transformation which may result in a potential change in work allocated.

6.8 Qualifying minimum score for allocation of work per region

6.8.1 In order for a firm to allocated work, the following minimum score must be achieved (work will not be allocated to the audit firms that do not achieve the following minimum score):

- Gauteng and KZN – 50 points;
- North West and Limpopo – 33 points; and
- All other provinces – 40 points.

6.9 New Firms During the tenure of the Tender Period
6.9.1 Firms that are formed during the tenure of this tender period that wish to be allocated work by the AGSA will only qualify for ad-hoc work. These private firms will be required to complete the same tender documents as all private firms were required to in terms of this tender and will be subject to the same tender conditions or updated, at the discretion of the AGSA should market conditions or circumstances so decide. There will be specific time window which new private firms will be permitted to apply for work allocations, which will occur once annually.

6.9.2 Firms that de-merge will be considered to be new firms in the context of the allocations and should follow the requirements relating to new firms.

6.9.2 New firms that miss this time window will be required to wait for the next time window in the new year or the new three year tender, whichever is sooner. The AGSA does not to guarantee work allocation in the event that its quota for the year has been met or market conditions indicate otherwise. The QC process will apply to the partners of the new firm in the event that they have previously worked for private firms that were contracted by the AGSA via the CWC process.

7. Evaluation criteria

7.1 The AGSA contract will be allocated on the basis of the three criteria which will be allocated per region/province namely; (1) quality control; (2) Broad-based black economic empowerment (BBBEE) certificate with verification standards of the Chartered Accountancy Sector Code (this will be considered nationally where applicable); and (3) resources.

7.2 The above criteria will be evaluated and weighted in accordance with the table below.

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>WEIGHTING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quality control subject to the following:</strong></td>
<td>30%</td>
</tr>
<tr>
<td>• An aggregate of 85% or more on the results of the AGSA quality assessment (QC) by the AGSA engagement manager for audit firms that have previously performed audit work on behalf of the AGSA.</td>
<td></td>
</tr>
<tr>
<td>• Should there be no AGSA quality assessment results, satisfactory IRBA file review results will be considered, and will be allocated a score of 85%.</td>
<td></td>
</tr>
<tr>
<td>• For firms with no AGSA or IRBA scores, public sector experience and CPD hours will be allocated a total score of 60 per cent.</td>
<td></td>
</tr>
<tr>
<td>• QC scores (in respect of audit firms that have performed both contracted-in and contracted-out audit work on behalf of the AGSA) will be weighted, 30% for contracted-in and 70% for contracted-out work.</td>
<td></td>
</tr>
<tr>
<td><strong>Broad-based black economic empowerment (BBBEE)</strong></td>
<td>20%</td>
</tr>
<tr>
<td>• BBBEE status level contributor points (based on the certificates issued in line with the verification standards of the Chartered Accountancy Sector Code) = 100%, as indicated in 7.3 below.</td>
<td></td>
</tr>
<tr>
<td><strong>Resources</strong></td>
<td>50%</td>
</tr>
<tr>
<td>➢ Firms are to provide statistics of staff as indicated in 7.4 below per province/region. For partners and managers, such staff should have specific experience in internal/external auditing of the public sector of at least three (3) years (2010-2012), which should amount cumulatively to one year in public sector internal/external auditing</td>
<td></td>
</tr>
<tr>
<td>➢ The firm’s staff (partners and managers) should be available to dedicate 50% of their time to AGSA audit work</td>
<td></td>
</tr>
</tbody>
</table>
Partners (indicating all the names and race categories)

• Managers (indicating all the names and race categories)

➢ The audit firms are to indicate each individual’s ID number and submit certified copies of identity documents in respect of the partners listed above.
➢ For Trainee accountants, firms should supply information on qualifications, including trainee numbers (indicating all the names and race categories).

7.3 BBBEE per the Chartered Accountants (CA) score card.

7.3.1 The AGSA has adopted the Chartered Accountancy (CA) Charter scorecard, as it is committed to the skills development of the profession. The main focus of the AGSA currently is to enable the black audit firms to contribute towards wider transformation growth in the profession.

7.3.2 The transformation initiative below aims to develop black firms by following preferential procurement practices to enable the firms to gain public sector experience to prepare them for future allocations.

7.3.3 The new Regulations of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA) were gazetted on 8 June 2011 (No. 34350) and effective from 7 December 2011. These regulations require bidders to submit valid original or certified copies of their BBBEE status level certificates from a SANAS-accredited verification agency or accredited audit firm.

7.3.4 The AGSA recognises that the implementation of a BBBEE strategy is an essential mechanism in its efforts to meet the objectives as set out in the BBBEE Act to achieve sustainable and inclusive economic development, social stability and labour-absorbing economic growth.

7.3.5 The private audit firm should submit BBBEEE certificate issued in line with the standards of the Chartered Accountancy Sector Code from a DTI accredited verification agency and will be evaluated in accordance with the table below.

<table>
<thead>
<tr>
<th>BBBEE status level of contributor</th>
<th>Number of points</th>
<th>% allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>40</td>
<td>20%</td>
</tr>
<tr>
<td>2</td>
<td>35</td>
<td>15%</td>
</tr>
<tr>
<td>3</td>
<td>25</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
<td>5%</td>
</tr>
<tr>
<td>Non-compliant contributor</td>
<td>0</td>
<td>-</td>
</tr>
</tbody>
</table>

7.4 Resource/capacity

The scoring of the resources weighting will be based on two categories; (1) capacity building of HDI trainees which will be allocated a 20% weighting; and (2) numbers of partners and managers that have public sector experience in internal and/or external audit which will be allocated a weighting of 30%.

Category 1: Capacity building of HDI trainees will be evaluated as follows:
### Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>% allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;50 trainees</td>
<td>20%</td>
</tr>
<tr>
<td>&gt;31 to 51 trainees</td>
<td>16%</td>
</tr>
<tr>
<td>&gt;21 to 30 trainees</td>
<td>12%</td>
</tr>
<tr>
<td>&gt;11 to 20 trainees</td>
<td>8%</td>
</tr>
<tr>
<td>&gt;1 to 10 trainees</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Category 2:** Partners and managers that will be performing work on behalf of the AGSA, included in this criteria should have: (i) 3 years experience in public sector; (ii) cumulative period of 12 months between (2010 and 2012); and (iii) be available to dedicate at least 50% of their time on AGSA work. The allocation will be done on the basis of classification of firms as per section 6.7 as follows:

<table>
<thead>
<tr>
<th>Number of managers and partners meeting the above criteria</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large &gt;=50</td>
<td>&gt;=30</td>
</tr>
<tr>
<td>Medium 40 to 50</td>
<td>25 to 30</td>
</tr>
<tr>
<td>Small 30 to 40</td>
<td>20 to 25</td>
</tr>
<tr>
<td></td>
<td>15 to 20</td>
</tr>
<tr>
<td></td>
<td>10 to 15</td>
</tr>
<tr>
<td></td>
<td>7 to 10</td>
</tr>
<tr>
<td></td>
<td>4 to 7</td>
</tr>
<tr>
<td></td>
<td>3 to</td>
</tr>
<tr>
<td></td>
<td>5%</td>
</tr>
</tbody>
</table>

8. AGSA’s contribution towards the transformation in the profession (Carrot for Transformation)

**Background**

The Auditor-General South Africa (AGSA) recognizes that in order to achieve its constitutional mandate and strengthen the democracy of South Africa, there needs to be continuous support and acceleration of South Africa’s transformation initiatives. The AGSA has adopted the CA Charter scorecard as we are committed to the development of the profession and recognize the need to influence the profession in terms of transformation.

**Our Approach - Carrot for Transformation – Preferential Procurement**

To incentivize the acceleration of the transformation agenda, AGSA has included in the CWC allocation Blue-print, a special incentive – the Carrot of Transformation. This transformation initiative aims to develop and encourage growth in the accounting and audit profession. The AGSA will utilize the CWC process to reward firms who have committed to real transformation. For this initiative, a percentage of the total CWC allocation will be awarded to firms who meet the transformation criteria as per the blue print. This allocation is based solely on the private audit firms’ commitment to transformation and their B-BBEE performance. Specific emphasis is placed on ownership, employment equity and skills development. These are the areas, as specified in the CA Charter, which impacts and influences transformational growth. Thus, in order to qualify for the additional allocation, firms will have to
demonstrate real transformation in these areas.

8.1 Work Allocation Criteria

8.1.1 To be eligible for the Carrot of Transformation, audit firms should first comply with the requirements to be included in the database for regularity audit, i.e. they should be meet the eligibility criteria and evaluation criteria of this blue-print, as follows:

**Gate 1:**

Eligibility an qualifying criteria as per section 4 above.

**Gate 2:**

Evaluation criteria (QC, BBBEE and Resources) as section 7 above

**Gate 3:**

The BBBEE criteria and targets to be utilized for the Transformation Carrot work allocation holistically are as follows:

- +50% Black ownership;
- +50% Black management control (firms to submit staff composition of Black staff on the EXCO level as per tender document schedule);
- +30% Black women ownership (BBBEE certificate information) and;
- % spent on skills development in the public sector (Skills Development Expenditure on any programme specified in the Learning Programmes Matrix specifically in the public sector - declarations.

The above criteria is segmented into the 3 years as follows:

<table>
<thead>
<tr>
<th>BBBEE Criteria</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Black Ownership (Partners)</td>
<td>32%</td>
<td>40%</td>
<td>+50%</td>
</tr>
<tr>
<td>% Black Management Control</td>
<td>30%</td>
<td>35%</td>
<td>+50%</td>
</tr>
<tr>
<td>% Black Women ownership/Partners</td>
<td>20%</td>
<td>25%</td>
<td>+30%</td>
</tr>
<tr>
<td>% spent skills development in the public sector</td>
<td>0.5%*</td>
<td>0.7%*</td>
<td>+1%*</td>
</tr>
</tbody>
</table>

* Of the annual salary bill

8.1.2 The AGSA will review on an annual basis, the extent to which firms have met the above criteria and make the allocations of the Transformation Carrot accordingly.

*Work Allocation on a points basis*
Meet 4/4 of the criteria: 40 points
Meet 3/4 of the criteria: 30 points
Meet 2/4 of the criteria: 20 points
Meet 1/4 of the criteria: 10 points

Impact on capacity

8.1.2 It is possible that the allocation of the Transformation Carrot may result in allocations that are beyond the capacity of private audit firms, particularly small audit firms. AGSA may consider the impact of the allocations on a case by case basis. E.g. where the allocations from the Transformation Carrot exceeds 50 per cent of the regular allocations.

The transformation carrot will be allocated according to the classification of firms as detailed in 6.7 above.

9. Disqualification from the tender process:

The following conditions or circumstances will result in private audit firms being disqualified during the tender process:

- Failure to meet the tender process requirements.
- Submission of the tender bid documents and supporting documents after the closing date.
- Failure to comply with the code of professional conduct as prescribed by the AGSA and APA.
- Failure to respond timeously to requests for information and representations by the AGSA during the tender process.
- Private audit firms as well as individual audit partners that are found to be disqualified in terms of the APA.
- Fronting, even if uncovered after the tender award, will be grounds for disqualification.
- Misrepresentation of capabilities, skills, experience, capacity and track record.
- When firms de-merge, the de-merged firms will be disqualified and the work reallocated via the AGSA normal CWC approval process (This approach will reduce the risk to AGSA and remove any bias
from the allocation of work).

- If there is evidence of lack or a misrepresentation of a sustainable office.

10. Database maintenance

10.1. A database of private audit firms to perform regularity audit work on behalf of the AGSA for 2014-16 will be established as a result of the tender process (both for contracted-out and contracted-in audit work).

10.2. Where the audit firms that are already on the database open additional regional offices in other provinces during the tender period. Such new regional offices may submit the required tender documents and will be subject to evaluation processes by CWC unit before inclusion on the database.

10.3. Where a private audit firm ceases or merges at the time of submitting the tender, the audit firm will forfeit the current allocation. If they still wish to be included in the regularity audit work database, then the audit firm has to submit the required tender documents reflecting the details of the new private audit firm and these will be subjected to evaluation processes by CWC unit before inclusion on the database.

**It is the responsibility of all private audit firms to inform the AGSA of changes within 30 days.**

11. Removal from AGSA Database

11.1 The AGSA may remove audit firms and/or individual audit partners from the database if any of the following situations apply:

- Failure by an individual partner to comply with the code of professional conduct as prescribed by the AGSA and APA.
- Failure to comply with the applicable auditing standards and other requirements specific to the public sector which are to be applied in performing regularity and information systems audits.
- Where the private audit firm or individual audit partner is disqualified in terms of the APA.
- If a private firm ceases to exist (legally or otherwise).
- If private firms de-merge.
- Non-submission of IRBA QC (firm & partner level) scores.

12. General principles

12.1 Financial dependency

12.1.1 Private audit firms should not be materially dependent on the AGSA regularity or IS audit work for its revenue. It is understandable that smaller firms may at first have a dependency on AGSA in provinces where they may not have a physical office. Private firms are encouraged to rapidly grow their material dependency away from the AGSA in such instances.

12.2 Obligation of private firms to assist in collection of debt

12.2.1 The firm’s participation in debt collection will be embodied in the MOA as part of their obligation to assist the AGSA in collecting debt. Should the AGSA draw a conclusion that the private firm is not being pro-active in this process; AGSA may withhold payments to the private firm for those debts that remain uncollected for a period of not exceeding ninety (90) days.

12.3 Use of Partner/s in Contracted-in Work

12.3.1 For contracted-in work, the tender process should accommodate the use of a non-resident partner for contracted-in work. This is more for extreme cases and should not be the norm. The use of a partner/s is often required when an assignment requires the involvement of an ‘expert’ or a specialist in the field where the AGSA does not have such a resource available.
12.4 Obligation on audit firms to ensure that their BEE and Tax status does not deteriorate

12.4.1 Private firms are obligated to maintain or improve their BEE and Tax clearance status during the tenure of the contract period. This will be embodied in the MOA. Failure to inform the AGSA of this status may result in either payment being withheld and/or cancellation of the MOA.

12.5 Cooling off Period and Rotation of Partners

12.5.1 In the case of regularity audit work, the audit partners must be rotated after a maximum of six years to ensure that independence and objectivity are maintained.

12.5.2 Contracted-out firms should only be involved in an audit assignment for a maximum of six years. Private firms should take note that in the event that the six year period may occur during the allocation of work during this tender period, the AGSA will review the allocation of such affected work.

12.5.3 A two (2)-year cooling-off period should be applied prior to the possible re-awarding of the contract to the affected audit firm. During that period, the firm may not participate in the audit of the entity, perform pre-issuance review, consult with the engagement team or the client (auditee) regarding technical or industry-specific issues, transactions or events, or otherwise directly influence the outcome of the engagement.

12.6 Quality Control Assessments

12.6.1 A standard questionnaire is currently used by the AGSA to determine a score for each audit partner in a particular audit firm.

12.6.2 This questionnaire is agreed to between the AGSA and the individual audit partner, at the commencement of the audit.

12.6.3 The questionnaire is to be completed by the AGSA immediately after the audit has been completed.

12.6.4 The results of the score will be discussed with the individual audit partner. The questionnaire must be signed off by both the AGSA and the individual audit partner being reviewed.

12.6.5 Escalation principles will apply in the scoring of the questionnaire and the individual audit partner will have the opportunity to escalate any disagreement on a score to a higher level within the AGSA.

12.6.6 Instances of overall poor performance by a particular private audit firm will be evaluated by the business executive (BE) of the relevant audit business unit. Should the private audit firm dispute the BE’s decision, the matter should be referred to an independent reviewer. In these instances the firm’s fees may be adjusted for the time spent by the independent reviewer.

12.6.7 Where non compliance to audit standards and specific public sector audit requirements by the contracted private firm leads to a ‘non-comply’ assessment by the AGSA Quality Control BU (where applicable), such results will be considered in future work allocations. The QC scores as originally allocated (as described above) will be reassessed.

12.6.8 Firms are required to provide the IRBA scores (firm & partner level) to AGSA when they become available. Failure to do so may render the firm in breach of the tender rules.

12.7 Obligation of private firms to complete project close out report

12.7.1 Private firms are obligated to complete an audit close out report after every assignment/project reflecting on the level of ‘success’ or ‘failure’ of the assignment/project. This report should highlight reasons for the success or failure thereby facilitating better planning and informing the AGSA of issues and elements that may need to be considered in such future assignment/projects.
12.8 Specific Public Sector Audit Experience

12.8.1 Private Firms will be required to provide the AGSA with insight into their specific industry experience within the Public Sector.

This is aimed at:

- Understanding where their main experience lies.
- Should facilitate greater focus on specialisation within the Public Sector similar to the practice of private audit firms carry out in the Private Sector.
- Should assist AGSA with better planning of auditee allocations to private audit firm.
- Intended to stimulate private sector firm focus on specific sub sectors of the Public Sector versus Generalist Approach to Public Sector servicing.
- Facilitating avenues for AGSA to allow our TA's areas to obtain experience and build their skills in specific sub sectors of the Public Sector.
- Section 4(3) work allocation.
- Ad-hoc work allocation.

12.9 Audits taken back by AGSA

12.9.1 The AGSA maintains a list of auditees where it has opted not to perform the audits in terms of the Public Audit Act No. 25 of 2004. Generally, these auditees would select private audit firms to perform their audits in consultation with AGSA. AGSA periodically reviews this list of auditees and based on developments and other considerations, it may opt to perform these audits internally. To allow sufficient time to build capacity, it is possible that AGSA may take back these audits in a phased manner. Where such audits are taken back by the AGSA, such audits will be 'ring-fenced' and will not form part of the CWC budget allocations for the period.

12.10 Use of audit firms vis-à-vis the use of consultants

12.10.1 The use of audit firms is an integral part of AGSA strategy given the large audit base where AGSA is mandated to perform audits of the entities. In its use of audit firms, AGSA pays attention to principles that ensure the economical, efficient and effective use of consultants, by ensuring that:

(a) The appointment and use consultants is supported by adequate planning and appointment processes;
(b) The impact on the use of consultants on internal capacity;
(c) The arrangements with audit firms are aligned to ensure training and transfer of skills from consultants to employees, where applicable;
(d) There are adequate performance management and monitoring mechanisms of the work of consultants;
(e) Extension of contracts are adequately monitored; and
(f) A well defined process is in place and monitored in the closing and finalising of projects.

13. Memorandum of Agreement

The memorandum of agreement will be included in the tender document to private audit firms.