REQUEST TO TENDER

(RTT)

Regularity and Information systems audit contract work for the period 2013-16 on behalf of the Auditor-General of South Africa

Bid number AGSA/2013/CWC/ISA
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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

MFMA: Municipal Finance Management Act No. 56 of 2003

National Leader, Audits Services: A national leader to whom all corporate executives of audit business units at AGSA report to, who is also a member of Exco

National Leader, Internal Operations and Audit Support: A national leader to whom all corporate executives of support service business units 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 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

SAIGA: Southern African Institute of Government Auditors
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 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
(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 firms through a formal tender process.

The purpose of the contract work tender process is:

- to have a database of approved private firms
- to maintain the database during the allocation period
- to make allocations to the private firms on the database for contract work for information systems audits for the 2013-15 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 information systems audits only.
4. Eligibility and qualifying criteria

4.1 Eligibility criteria
The following criteria must be met to be eligible to conduct information systems audit work on behalf of the AGSA:

4.1.1 A private audit firm with individual audit partners with a CISA/CISM/CISSP qualification and ISACA membership.

4.1.2 Satisfactory results from an annual, ongoing quality assurance and improvement programme for IT audit engagements conducted by the private firm at its own cost (with quality assurance reviews of IT audit engagements conducted by independent, objective audit professionals who are at the time of review practicing IT auditors and in possession of a valid CISA certification). The onus is on the private firm to ensure that its quality assurance and improvement programme is comprehensive, consistently applied and objectively carried out and implemented. The AGSA reserves the right to review a firm’s quality assurance and improvement programme and the results thereof at any time to determine its suitability in meeting the AGSA’s needs – if found unsuitable, this may result in the firm not being eligible to perform work on behalf of the AGSA.

4.1.3 A private firm must have at least a Senior Manager/Managers with a CISA/CISM/CISSP qualification and the rest of team members being members of ISACA with IT audit experience.

4.1.4 The private firm’s original valid tax clearance certificate.

4.1.5 The private firm must provide their BBBEE rating certificate from a DTI-accredited verification agency.

4.1.6 The private firm will be required to make use of ISA staff members who may need experience and exposure.

4.2 Qualifying criteria

4.2.1 In order for private firms/private practitioners to be included in the ISA contract work database, the following criteria must be met:

- An aggregate score of at least 85% in the latest aggregate AGSA quality assessment results by the ISA engagement manager for all the projects that allocated to a private audit firm/private practitioner (where applicable), and

- A ‘comply’ rating on the latest AGSA quality assessment by the AGSA Quality Control business unit (where applicable).

4.2.2 Should there be no AGSA quality assessment results, independent file review results will then be considered; however under no circumstances shall the firms not on the database of the AGSA, meet these criteria without satisfactory majority independent file review results.

4.2.3 For private firms that have previously performed ISA work on behalf of the AGSA, the quality assessment score will comprise a score determined by the AGSA based on the quality control checklist.

4.2.4 The following principles apply:

- A standard quality control checklist is currently used by the ISA to determine a score for each audit project in a particular audit firm.

- This quality control checklist is agreed to between the ISA and the audit firm, at the commencement of the audit.

- The quality control checklist is to be completed by the ISA engagement manager immediately after the audit has been completed.
• The results of the score will be discussed with the individual audit partner. The quality control checklist must be signed off by both the ISA engagement manager and the audit partner of the audit firm being reviewed.

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

• Instances of overall poor performance by a particular private audit firm/private practitioner 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.

5. Information to be submitted

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

5.1.1 CISA/CISM/CISSP registration and ISACA membership numbers of the partners/directors.

5.1.2 The letter setting out the latest decision arising from the independent file review for all the audit firms currently not on the database of the AGSA.

5.1.3 The private audit firm’s/private practitioner’s BEE rating certificate from a DTI-accredited verification agency per region or province or nationally, at the firm’s discretion.

5.1.4 The private firm’s/private practitioner’s valid tax clearance certificate.

5.1.5 The physical address of the private firm/private practitioner.

5.1.6 The firm’s resource structure indicating all the names and race categories of resources on the CISA learnership programme and applicable experience

5.1.7 The list of all the non-trainee accountant resources (i.e. managers, supervisors, etc.) within the attest audit unit indicating each individual’s ID number and qualification, per province.

5.1.8 Abridged curriculum vitae of all audit partners in the private audit firm/private practitioner, clearly indicating all public sector experience (where applicable) and the office details of the private audit firm/private practitioner where they are resident.

5.1.9 A declaration of conflict of interest with respect to other public sector work performed must be submitted with the tender.

6 Work allocation and evaluation principle

6.1 Background

6.1.1 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.

Evaluation of tender submissions will therefore be subject to the AGSA’s BBBEE strategy.

6.2 Basis of work allocation

6.2.1 Contracted-in and -out audit work will be allocated based on the criteria as outlined below:

• Quality control(audit firms to be evaluated per region/province)
- Broad-based black economic empowerment (BBBEE) (audit firms to be evaluated per region/province or nationally)
- Capacity building (audit firms to be evaluated per region/province)

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>WEIGHTING</th>
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<tbody>
<tr>
<td>Quality control subject to the following:</td>
<td>30%</td>
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</table>
| • Results of the ISA BU quality assessment by the engagement manager for all the audit firms that had previously performed audit work on behalf of the AGSA, and  
  • A ‘comply’ rating on the latest AGSA quality assessment by the AGSA Quality Control business unit (where applicable).  
  • Should there be no AGSA quality assessment results; independent file review results will be considered. |           |
| Broad-based black economic empowerment (BBBEE)      | 50%       |
| The BBBEE evaluation will be confirmed through the BBBEE certificate as issued by the accredited BEE verification agencies:  
  1. Ownership  
  2. Management and Control  
  3. Skills Development  
  4. Employment Equity  
  5. Preferential Procurement  
  6. Enterprise Development  
  7. Socio-Economic Development |           |
| Capacity building                                   | 20%       |
| CISA learnership programme or any other programme in place to enhance the profession. |           |
| **Number of HDI CISA Learnerships / TISA:**        |           |
| 20+ trainees                                       | 20%       |
| 11 to 20 trainees                                  | 16%       |
| 4 to 10 trainees                                   | 12%       |
6.3 Work allocation principles

Quality control

In order for private firms/private practitioners to be included in the ISA contract work database, the following criteria must be met:

- An aggregate score of at least 85% in the latest aggregate AGSA quality assessment results by the ISA engagement manager for all the projects that were allocated to a private audit firm/private practitioner (where applicable), and
- A ‘comply’ rating on the latest AGSA quality assessment by the AGSA Quality Control business unit (where applicable).

Should there be no AGSA quality assessment results, independent file review results will then be considered; however under no circumstances shall the firms not on the database of the AGSA, meet these criteria without satisfactory majority independent file review results.

For audit firms that have previously performed ISA work on behalf of the AGSA, the quality assessment score will comprise a score determined by the AGSA based on the quality control checklist.

The following principles apply:

- A standard quality control checklist is currently used by the ISA to determine a score for each audit project in a particular audit firm.
- This quality control checklist is agreed to between the ISA and the audit firm, at the commencement of the audit.
- The quality control checklist is to be completed by the ISA engagement manager immediately after the audit has been completed.
- The results of the score will be discussed with the individual audit partner. The quality control checklist must be signed off by both the ISA engagement manager and the audit partner of the audit firm being reviewed.
- Escalation principles will apply in the scoring and the audit partner will have the opportunity to escalate any disagreement on a score to a higher level within the AGSA.
- Instances of overall poor performance by a particular private firm will be evaluated by the business executive (BE) of the relevant audit business unit. Should the private firm dispute the BE’s decision, the matter should be referred to an independent reviewer, appointed by the AGSA. In the event that the independent reviewer’s outcome supports the BE’s decision, the private firm will be liable for the time of the independent reviewer. In the event of the independent reviewer’s outcome not supporting the BE’s decision, the private firm performance will be reassessed and awarded the independent reviewer’s outcome. The time spent by the independent reviewer will be paid for by the AGSA.

6.4 Qualifying minimum score allocation of work per region

a) In order to be considered, the following minimum score of 50 points must be achieved (work will not be allocated to the audit firms that do not achieve minimum score):

b) Work will not be contracted out in cases of:

- conflict of interest (issues of independence), and
- For certain key auditees, e.g. SARS, the National Treasury.
6.5 Classification of firms
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 category</th>
<th>Number of IT audit staff</th>
<th>Number of CISAs</th>
<th>Number of CISAs Learnerships /TISAs</th>
<th>Maximum work allocation per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large firms</td>
<td>51+</td>
<td>25+</td>
<td>20+</td>
<td>40%</td>
</tr>
<tr>
<td>Medium firms</td>
<td>11-50</td>
<td>7-25</td>
<td>11-20</td>
<td>40%</td>
</tr>
<tr>
<td>Small firms</td>
<td>1-10</td>
<td>1-7</td>
<td>4-10</td>
<td>20%</td>
</tr>
</tbody>
</table>

7. Tender principles

7.1 General tender principles
In addition to the requirements set out in section 5 above, the following tender principles will be applied:

7.1.1 The tender will be invited for national and the work might be distributed provincially as when the need arises.

7.1.2 Individual audit partners must currently be registered as a member of ISACA.

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

7.2. Disqualification from tender process:

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

a) Failure to meet the tender process requirements.

b) Submission of the tender bid document and supporting documents after the closing date.

c) Failure to comply with the code of professional conduct as prescribed by the AGSA and APA.

d) Failure to respond timeously to requests for information and representations by the AGSA during the tender process.

e) Private audit firms as well as individual audit partners that are found to be disqualified in terms of the APA.

f) Fronting, even if uncovered after the tender award, will be grounds for disqualification.

8. Database maintenance

8.1 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).

8.2. Where the 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.

8.3. Where a private audit firm ceases or merges at the time of submitting the tender, the following will apply:

- 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.

8.4. The AGSA reserves the right to 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 the regularity audits.
   - Where the private audit firm or individual audit partner is disqualified in terms of the APA.

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

9.1 The use of private 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.

10. Audits taken back by AGSA

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.

11. Memorandum of Agreement

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