

## TENDER SPECIFICATIONS – INTERNAL AUDIT SERVICES

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### 1. BACKGROUND

The Auditor-General of South Africa (AGSA) requires the service of a suitably qualified and experienced internal audit service provider to carry out the internal audit of AGSA and enter into a service level agreement for a period of three (3) years, extendable for a further 3-year term / terms.

### 2. SCOPE OF WORK: INTERNAL AUDIT SERVICES

The desired scope of work for internal audit services stems from the AGSA's internal audit charter (the charter); a document that guides the organisation's approach to the provision of internal Audit services. The charter is periodically reviewed and approved by the audit committee (AC). The charter, which is aligned to the requirements of the Institute of Internal Auditors (IIA), explains the purpose, mission and definition of internal audit which is outlined below – principles on which the scope of internal audit is built:

- 2.1 The **purpose of internal audit** (within the AGSA) is aligned with the **definition of internal audit**, which is to provide independent, objective assurance and consulting services designed to add value and improve the organisation's operations.
- 2.2 The **mission of internal audit** is to enhance and protect organisational value by providing risk-based assurance, advice and insight. This internal audit charter defines the authority and independence, scope, responsibility and accountability of and within the Internal Audit Activity (IAA).
- 2.3 Internal audit helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.4 Accordingly, **the scope of internal audit work entails**, but is not limited to, the examination, evaluation and conclusion on the adequacy and effectiveness of the organisation's governance, risk management, internal control processes and the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated objectives.
- 2.5 The appointed internal audit service provider will be required to:
  - 2.5.1 Provide effective value adding internal audit services that are innovative and responsive to circumstances of the AGSA and the environment it operates in.
  - 2.5.2 Assist management and the AC of the AGSA in the effective discharge of their responsibilities by **providing assurance** on various organisational processes, plans and programmes; thus, furnishing them with analyses, appraisals, recommendations, advice and

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information concerning the activities reviewed and by promoting adequate and effective controls.

- 2.5.3 Provide services in line with the IIA standards and King IV Report on Corporate Governance.
- 2.5.4 Review the reliability and integrity of financial and operating information and the means used to identify, classify and report such information.
- 2.5.5 Review systems established to ensure compliance with policies, plans, procedures, laws and regulations that could have significant impact on operations and reports and determining whether the organisation complies.
- 2.5.6 Review the systems of internal control to ascertain whether they are functioning as designed.
- 2.5.7 Review and appraise the economic, effectiveness and efficiency with which resources are employed.
- 2.5.8 Review specific programmes or initiatives to ascertain whether results are consistent with established objectives and goals; and whether the programmes or initiatives are being carried out as planned.
- 2.5.9 Perform annual risk assessments based on inputs from the risk and ethics business unit, the external auditors and their evaluation of environmental factors impacting the organisation, from which internal audit plans will be developed.
- 2.5.10 The above-mentioned coordinated approach shall be used to maximise internal audit resources and coverage and to ensure that the service provider provide greatest value to the AGSA. Matters to be considered in developing the internal audit plans shall include:
  - 2.5.10.1 Significant areas of potential risk of fraud.
  - 2.5.10.2 The accuracy and completeness of financial reporting.
  - 2.5.10.3 Major changes in operations, organisational structures, systems and controls.
  - 2.5.10.4 Safeguarding of assets.
  - 2.5.10.5 Compliance with laws, contracts, policies and procedures.
  - 2.5.10.6 Risk areas identified by management.
  - 2.5.10.7 Results of previous audits.
  - 2.5.10.8 Significant areas of risk related to reliability and integrity of financial and operational information or negative reputation exposure.

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- 2.5.10.9 The appropriateness of its staff mix and expertise, relative to the specific engagements.
- 2.5.10.10 Develop a three-year strategic rolling plan and an annual audit operational plan based on the risk assessment results for approval by the AC. The plan should include costing of all activities to be performed.
- 2.5.10.11 Perform risk-based internal audits based on the approved plans.
- 2.5.10.12 Coordinate with the external auditors and ensuring alignment with the external audit function processes and best practice.
- 2.5.10.13 Attend executive committee (exco) and AC meetings; and report periodically on the internal audit plan to both these structures.
- 2.5.10.14 As required by the AGSA Combined Assurance Model, the service provider shall:
  - 2.5.10.14.1 Evaluate / assess the combined assurance model and report to the AC on its effectiveness.
  - 2.5.10.14.2 Review / evaluate the assurance provided by the first and second line of defense.
  - 2.5.10.14.3 Perform assessments on the independent assurance providers on whom reliance would be placed on.
- 2.5.10.15 Periodically perform ad-hoc reviews as requested by exco and the AC.
- 2.5.10.16 Maintain a functional quality assurance and improvement programme that covers all aspects of the internal audit services AND, at least once during a three-year cycle or as determined by the AC, be subjected to an independent quality assurance review.

### **3. EXPERTISE AND CAPACITY**

The key criteria to be considered for the suitability of the service provider include the following: -

- 3.1 Have the necessary skill, knowledge, capacity and resources to meet the needs of the AGSA and to carry out their obligations, including the availability of:
  - 3.1.1 Forensic audit skills and tools.
  - 3.1.2 Information technology audit skills and tools.
  - 3.1.3 Information technology security capabilities.
- 3.2 Have knowledge and a comprehensive understanding of the public sector; and an understanding

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of the AGSA's enabling legislations.

- 3.3 The service provider must be able to demonstrate the ability to reach all South African regions within which the AGSA operates.
- 3.4 Have a minimum of two (2) directors including the engagement director. The engagement director must be directly involved in every engagement review undertaken at the AGSA. As the engagement director will fill the role of the Chief Audit Executive (“CAE”), the bidder needs to cite experience that the proposed engagement director has in this role. Note: While the CAE of the winning bidder will report functionally to the AC, and administratively to DAG who delegates this to Risk and Ethics business unit.
- 3.5 Have a quality control department responsible for ensuring the IIA standards are appropriately applied.
- 3.6 Demonstrate that they adhere to the IIA standards, particularly as they relate to:
  - 3.6.1 The application of a risk-based approach to auditing.
  - 3.6.2 The use of IT audit resources (Including the appropriate tools)
  - 3.6.3 The availability of resources that perform risk management and governance reviews.

### **4. PROFESSIONAL MEMBERSHIP**

- 4.1 It is mandatory for the senior resources of the preferred service provider (i.e., directors, senior managers and specialists) to have the appropriate professional qualification(s) enabling them to perform internal audit services. These must include, but is not limited to the following:
  - 4.1.1 Certified Internal Auditor (Certified by the Institute of Internal Auditors South Africa), or
  - 4.1.2 Chartered Accountant (SA) (Certified by the South African Institute of Chartered Accountants (SAICA)) and
  - 4.1.3 Certified Information Systems Auditor (Certified by ISACA).

All core members of the internal audit team must belong to a professional body that regulates the services they offer.

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### 5. BROAD-BASED BLACK ECONOMIC EMPOWERMENT

5.1 The following preference point systems 80 / 20 are applicable. Allocation of the B-BBEE points will be as follows:

B-BBEE	Status Level of Contributor	Number of points (80 / 20 system)
1		20
2		18
3		16
4		12
5		8
6		6
7		4
8		2
	Non-compliant contributor	0

**NB:** Original and valid B-BBEE status level verification certificate or a certified copy thereof, substantiating their B-BBEE rating issued by a verification agency accredited by the South African National Accreditation System (“SANAS”). In the case of Exempt Micro Enterprises (EMEs) and Qualifying Small Enterprises (QSEs), an affidavit is to be submitted.

5.2 In the event of a Joint Venture or Consortium(s) / primary bidder with a subcontractor, the following requirements will apply:

5.2.1 Bidders who wish to respond to this bid as a Joint Venture [JV] or consortium with B-BBEE entities / primary bidder with a subcontractor must state their intention to do so in their tender submission. Such bidders must also submit a signed JV / consortium / subcontracting agreement between the parties clearly stating the percentage [%] split of business (internal audit fee and work) and the associated responsibilities of each party.

5.2.2 If such a JV or consortium / subcontracting agreement is unavailable, the directors must submit confirmation in writing of their intention to enter into a JV / consortium / subcontracting agreement should they be awarded business by AGSA through this tender process. This written confirmation must clearly indicate the percentage [%] split of business (internal audit fee and work) and the responsibilities of each party. In such cases, before contracting, a signed copy of a JV / consortium / subcontracting agreement must be submitted to AGSA.

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5.2.3 A consortium or joint venture must submit a valid consolidated B-BBEE Status Level verification certificate.

### 6. PROPOSED EVALUATION CRITERIA

6.1 Evaluation of bids will be conducted in three (3) phases as follows:

Stage	Details
Phase 1	Eligibility / Pre-qualification criteria: The purpose of this criteria is to evaluate the bidders on their eligibility, largely based on their structure and organisational design.
Phase 2	Technical / Functional evaluation: The purpose of this criteria is to evaluate the bidders on their technical competencies.
Phase 3	Price and B-BBEE evaluation: The purpose of this criteria is to evaluate the bidders based on the bid price and B-BBEE status

#### Phase 1: Eligibility / Pre-qualification criteria

6.2 Bidders will be evaluated according to pre-qualification requirements which include the submission of mandatory information or documentation. Bidders that fail to meet the pre-qualification requirements of the bid will not be considered further for evaluation on technical requirements i.e., Phase 2.

Eligibility / Pre-qualification criteria
The bidder must be able to commit at least two (2) directors to the AGSA, including the engagement director. The engagement director responsible for AGSA's internal audit must be based in the Gauteng province.
In the event of a joint internal audit proposal, both service providers must have sufficient directors to meet the minimum of two (2) directors.
The bidder must have relevant public sector internal audit experience, which it has conducted in the past five (5) years. Bidders must be able to demonstrate the audits they have conducted and provide relevant client references. References should attest to the provision of value-added services.
The bidder must indicate if there are any services provided to the AGSA in the past two (2) years. This includes services provided through the contracts work committee allocations. If yes, the bidder must provide a letter that includes an assessment whether the services provided could impair the independence or objectivity of the bidder, in fact or appearance if any and indicate any mitigations

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applied thereof. This letter must be signed off by the Chief Executive Officer / Managing Director of the bidder.

The bidder must have a quality control department responsible for ensuring the IIA standards are appropriately applied

The bidder must have a resource plan that indicate the core team having the necessary skill, knowledge, capacity and resources to meet the needs of the AGSA (i.e., forensic audit skills and tools as well as the appropriate computer audit skills and tools)

### Phase 2: Technical/ Functional evaluation

6.3 The minimum qualifying score for functionality is 70%. All bids that fail to achieve the minimum qualifying score on functionality shall not be considered for further evaluation on Price and B-BBEE.

**NB:** The AC reserves the right to invite shortlisted bidders to give a presentation on their service offering.

Functional / Technical Evaluation criteria	Weighted score
<p>1. <u>Internal audit approach</u></p> <p>The bidder's approach to perform an internal audit, including internal audit methodology and Quality Assurance processes.</p> <p>Signed Letter of undertaking from the bidder to confirm that the bidder adopts a quality assurance improvement programme as per the International Standards for the Professional Practice of Internal Auditing.</p> <ul style="list-style-type: none"> <li>- 3 = all the expectations are met (10)</li> <li>- 2 = the response meets at least 70% of the expectations (6)</li> <li>- 1 = the response meets at least 50% of the expectations (2)</li> <li>- 0 = the response meets less than 50% of the expectations (0)</li> </ul>	10
<p>2. <u>Internal audit experience</u></p> <p>The bidders internal audit services experience in the public sector, including specialised skills, expertise and value-added services</p> <p>To demonstrate knowledge and experience, the bidder must submit a minimum of three (3) client references where the bidder has successfully concluded internal audit work within the public sector in terms of scope and complexity in the past five (5) years.</p>	20

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<ul style="list-style-type: none"> <li>- 3 client references, meeting defined expectations have been included = 20</li> <li>- 2 out of 3 client references, meeting defined expectations have been included = 15</li> <li>- 1 out of 3 client references, meeting defined expectations have been included = 5</li> <li>- None of the submitted client references meet defined expectations = 0</li> </ul>	
<p>3. <u>The qualification and experience of the professionals proposed to provide the services:</u>          Assessment of the condensed curricula vitae of personnel who will be assigned to the AGSA's account. (Qualification and experiences of proposed resources).</p> <ul style="list-style-type: none"> <li>- 3 = all the expectations are met (20)</li> <li>- 2 = the response meets at least 70% of the expectations (15)</li> <li>- 1 = the response meets at least 50% of the expectations (5)</li> <li>- 0 = the response meets less than 50% of the expectations (0)</li> </ul>	20
<p>4. <u>Internal audit objectives, scope of work and capacity of the bidder:</u>          A proposed three-year plan of action to achieve the objectives of the internal audit. This plan should cover short, medium and long-term objectives.</p> <p>The bidder must submit a resource plan, including the structure of the core team to be committed to the AGSA; as well as demonstrate that they have the appropriate tools to execute the plan.</p> <ul style="list-style-type: none"> <li>- Bidder meets all specification requirements = 30</li> <li>- Bidder meets some specification requirements = 15 Bidder does not meet specification requirements = 0</li> </ul>	30
<p>5. <u>Professional membership</u>          The bidder and its directors must submit evidence of its and their registration with a relevant professional body (latest proof of current annual IIA and ISACA Registrations).</p> <ul style="list-style-type: none"> <li>- The IIA and ISACA = 10 points</li> <li>- SAICA and IRBA, with relevant internal audit experience = 10 points</li> <li>- Other recognised professional membership (e.g., ACCA / RGA), with relevant internal audit experience = 6 points</li> </ul>	10

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<p>6. <u>Geographic reach of the service provider</u> The bidder must demonstrate by providing a work method plan that will be used to service the AGSA regional offices:</p> <p>7. Work <u>method</u> plan that will demonstrate that the bidder has an effective and well-practiced project management process and technology capabilities to audit remotely = (10)</p> <ul style="list-style-type: none"> <li>- Work method plan that will demonstrate that the bidder has some practiced project management process and some technology capabilities = (5)</li> <li>- Work method plan that will demonstrate that the bidder has no practiced project management process and no technology capabilities = (0)</li> </ul>	10
<b>Total</b>	<b>100</b>

### Phase 3: Price and B-BBEE evaluation

All bids that achieve the minimum qualifying score of 70% for functionality (acceptable bids) will be evaluated further in terms of price and B-BBEE, as follows:

<b>Price and B-BBEE score</b>	<b>Preference Points allocated</b>
1.1 Price: Bidders must submit a comprehensive and detailed line-item (VAT-inclusive) budget; as well as proposed hours and rates of personnel involved with reference to different levels of proposed resources to be utilised and an estimate of recoverable expenses.	80
1.2 The preference points, in terms of 5.1 above, will be awarded to bidders who provide valid proof of their B-BBEE status	20
<b>Total</b>	<b>100</b>