

Khula Enterprise Finance Ltd ("Khula") is dedicated to the development and sustainability of small business enterprises in South Africa. A leader in its field, it has a proud history of more than 13 years of service of involvement in the rapidly growing and economically vital, small and medium enterprise (SME) sector.

The company is a wholesale and retail finance institution which operates across the public and private sectors, through a network of channels to supply much-needed funding to small business. Khula's channels include South Africa's leading commercial banks, retail financial institutions, specialist funds and joint ventures in which Khula itself is a participant. Its primary aim is to bridge the "funding gap" in the SME market not addressed by commercial financial institutions.

Established in 1996 and operating as an independent agency under the auspices of the Department of Economic Development, Khula is recognised for its reputation as a major force in the development of the SME sector - a status it has achieved through its ability to adapt to the ever-changing fabric and challenges presented by the SME sector.

Request for Proposal: Khula Group Internal Audit for 2011 / 2012

Tenders are hereby invited for the supply of **Internal** Auditing Services to the Khula Group for the period commencing on the approval of the Internal Audit Memorandum by the Khula Audit Committee, for a period of one year with an option to extend, on the discretion of the Committee.

Khula Enterprise Finance is seeking to appoint a Gauteng based Registered Firm of Internal Auditors as required by The Public Finance Management Act of 1999 (PFMA) and other regulatory policies and standards.

National firms with offices within South Africa, and have an established office in regional in Gauteng, may apply.

A three-year internal audit planning memorandum and budget is required for approval by Khula Audit Committee.

The purpose of internal audit is to assist the Khula to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. It must provide an independent, objective assurance and consulting activity designed to add value and improve Khula's operations.

Some of the requirements of an internal audit service provider are, and not limited to:

1. Facilitate Risk Assessment and Risk Management exercises;
2. Review and appraise the system of internal control throughout Khula;
3. Provide consulting and value add services to management;
4. Prepare, in consultation with, and for approval by the Audit Committee:
 - 4.1. A rolling 3 year strategic audit plan based on its assessment of key areas of risk for Khula, having regard to current operations, the operations proposed in its corporate plan and risk management strategy;
 - 4.2. A detailed internal audit plan for the first year of the rolling plan;
 - 4.3. Proposed scope and procedure in each area of the internal audit
 - 4.4. Quarterly evaluation reports and recommendations to the Audit Committee
5. Internal audit evaluations must cover a minimum all of the following areas:
 - 5.1. The effectiveness and efficiency of operations, investments and projects;
 - 5.2. The safeguarding of company assets;

- 5.3. The reliability and integrity of financial and non-financial information;
- 5.4. Processes regarding compliance with laws and regulations.

The written tender application should focus on the following aspects to qualify and to be considered:

- The firm or partnership must be registered with the Institute of Internal Auditors and/or Independent Regulatory Board for Auditors;
- Demonstration of the firm's substantial internal audit experience, including the experience and qualifications of the team to be assigned in the audit;
- Specialised skills, expertise and value added services in the field of internal audit, with emphasis on best practice methodology, tools and technology used;
- Availability of Forensic Audit skills and tools;
- Availability of Computer Audit skills and tools;
- Advanced understanding of, and sufficient exposure to, the Public Finance Management Act of 1999 and the Protocol on Corporate Governance for Public Entities;
- Experience in auditing of public entities and development finance institutions;
- Shareholding and Management structure;
- Employment Equity Policy;
- Fee Structure;
- External references, size of audits and size of client base.

In recognition of its endorsement of Black Economic Empowerment and Equity Employment and Best Practices, Khula, in its selection criteria, will procure a firm that meaningfully demonstrates this commitment.

The closing date for submissions will **Wednesday 17 August at 12h00**. Late proposals will not be considered. Short listed bidders *may* be requested to make presentations to the evaluation panel at a date determined by the panel. Tenders will be considered, and the award thereof will be final and no correspondence will be entered into. Tenders will be awarded on the absolute discretion of the Khula Board Audit Committee, in accordance with internal policies and statutory regulations governing Khula.

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Section 1. INFORMATION TO BIDDERS

CLOSING DATE IS WEDNESDAY 12h00 on 17 AUGUST 2011

1. Introduction

- 1.1. Khula invites bidders to submit a technical and financial proposal for the services described in the Terms of Reference included as Section 2, below. The Proposal will be the basis for a contract with the successful bidder.
- 1.2. The services shall begin when a contract is concluded with the successful firm.
- 1.3. Please note that (i) the costs of preparing the proposal and of finalising the contract are not reimbursable as a direct cost of the services; (ii) Khula is not bound to accept any of the Proposals submitted; (iii) this procurement will be decided on a combination of qualitative items and cost of services.
- 1.4. Background information on the structure and function of Khula is contained in the latest Annual Report available on our website on www.khula.org.za.

2. Clarification of the RFP

- 2.1. Bidders may request a clarification in respect of this RFP up to 09h00 on **Monday 15 August 2011**. Any request for clarification must be sent in writing by electronic mail to Khula, at the address set forth below.

Ms Relebogile Mogale, Internal Audit Manager: relebogilem@khula.org.za

Khula will respond by electronic mail to such requests. Interviews or discussions with Khula management, staff or the Board, in person, by telephone or otherwise, will not be granted.

- 2.2. All bidders must select a single designated contact person, through whom any and all communication between Khula and the firm will take place.
- 2.3. At any time before the submission of Proposals, Khula may, for any reason, whether at its own initiative or in response to a clarification requested by an invited firm, modify or amend the RFP documents. The amendments will be updated and highlighted in the Terms of Reference on the Khula website.
- 2.4. Khula may at its discretion extend the deadline for the submission of Proposals.

3. Preparation of Proposal

- 3.1 Bidders are requested to submit Technical and Cost Proposals, as described below.

Technical Proposal

- 3.2 In preparing the technical proposal, bidders are expected to examine the documents comprising this RFP in detail, particularly *Section 2: The Terms of Reference*. Material deficiencies in providing the information requested may result in rejection of a Proposal.
- 3.3 The technical proposal shall not include any financial information.

- 3.5 The technical proposal should provide the following:
- (i) A brief description of the firm's proposed approach to performing the tasks set forth in the Terms of Reference, including a proposed work plan and a staffing plan showing the approximate time that each member of the team would spend on the project. The time elements of the staffing plan are indicative only, to illustrate the firm's approach, and not binding.
 - (ii) Any comments or suggestions on the Terms of Reference.
 - (iii) CV's of the proposed professional staff and the authorised representative submitting the proposal. Key information should include qualifications, experience, number of years working for the firm, and degree of responsibility held in various assignments during the last ten (10) years.
- 3.6 The Technical proposal must also contain information on the firm's commitment to and practice of Employment Equity. This shall include, *inter alia*, a statement on the extent of equity ownership (actively involved in the enterprise) by historically disadvantaged individuals, a copy of the Employment Equity plan as submitted to the Department of Labour, a written Employment Equity policy (if one exists) and a description of initiatives implemented in the company to enhance BEE/EE actions. It must also include two tables showing the composition of the firm in South Africa and that of the proposed team. Please analyse your employment demographics as tabled in the example set below:

Rank	Female		Male	
	Black ¹	White	Black	White
Partner				
Senior Professional				
Junior Professional				
Admin & Support				
Totals				

Financial Proposal

- 3.7 It is understood that internal audits are based on hourly rates and that budgets are compiled once the appointed auditor has assessed the likely extent of the work. Financial proposals will be compared on the basis of hourly rates. Firms are required to submit a table of hourly rates as required in the table below. Rates should be inclusive of overheads **and** VAT. If a particular category does not exist in the firm it can be omitted.

¹ 'Black people' is a general term which means Africans, Coloureds and Asians (*Broad Based Black Economic Empowerment Act, 2004*)

Item (where applicable)	Hourly Rate (Including overheads) (incl. VAT)
Engagement Partner	R
Partner	R
Senior Manager	R
Manager	R
Assistant manager	R
Supervisor	R
Senior Auditor	R
Trainee Auditor	R
Specialists (Eg. Tax, Technical, etc)	R

- 3.8 It is recognised that it is difficult for a prospective bidder to be firm about the extent of the work solely on the terms of reference. However, to assist with assessments a firm must provide a typical distribution of time for members of the audit team on a job of this nature. This to be expressed in percentages of the total person-hours billed on a typical job. (See table below.) This will only be indicative and will not be binding on the firm.

Item (where applicable)	Typical percentage of total hours on project)
Engagement Partner	%
Partner	%
Senior Manager	%
Manager	%
Assistant manager	%
Supervisor	%
Senior Auditor	%
Trainee Auditor	%
Specialists	%
TOTAL	100 %

- 3.9 Proposals must remain valid from the submission date. During this period, you are expected to keep available the professional staff proposed for the services. Khula will make its best effort to complete negotiations within this period. If the Proposal validity period is extended, bidders have the right not to maintain their Proposals.
- 3.10 The Proposal must include an original Tax Clearance Certificate from SARS (as required by the Preferential Procurement Regulations of 2001), certifying that the firm's tax affairs are in order or that suitable arrangements have been made with SARS.
- 3.11 The Proposal must conclude with a declaration that the information is true and correct, that the signatory is duly authorised, and that documentary proof will be available if requested.

Verbal Presentation

- 3.12 Bidders *may* be required to make a verbal presentation and to answer questions of clarification where applicable. Where possible, these questions will be sent in advance. A maximum of 60 minutes per bidder will be allowed for the presentation, and details of minimum topics to be covered will be provided beforehand. A data projector will be made available if required.

4. Submission, Receipt, and Opening of Proposals

- 4.1 The 4 bound copies and an electronic copy (on CD or memory device) of the entire proposal document shall be placed in separate envelopes. Envelopes shall be bundled together (bearing the firm's name and return address) and addressed to:

The Company Secretary

Khula Enterprise Finance Limited

1st floor, Block G, the dti Group Campus

77 Meintjies Street, Sunnyside 0132

RFP: Internal Audit

- 4.2 The completed technical and financial proposals must be delivered to the submission address on or before the following date and time:

12h00 Wednesday 17 August 2011.

Khula reserves the right to accept or return any proposals received after the above deadline.

- 4.3 The proposals shall be opened in the presence of the Khula Company Secretary by the evaluation panel nominated for this procurement.

5. Proposal Evaluation

General

- 5.1 Bidders shall not contact Khula on any matter relating to their Proposal from the date of the opening of the proposals to the date the contract is awarded. If a firm wishes to bring additional information to the notice of Khula, it should do so in writing at the address indicated above, under par 2.1. Any effort by the bidder to influence Khula in the Proposal evaluation, Proposal comparison or contract award decisions may result in the disqualification of the bidder's proposal.

Evaluation of Proposals

- 5.3 The evaluation of technical proposals will be on the basis of their responsiveness to the Terms of Reference, applying the evaluation criteria and point system indicated below. Each responsive proposal will be given a technical score. A proposal considered to be unsuitable shall be rejected at this stage if it does not respond to important aspects of

the Terms of Reference. Khula shall notify bidders of the rejection of their technical proposal after completing the selection process.

5.4 Tenders will be awarded on the absolute discretion of the Board Audit Committee's decision, in accordance with internal policies and statutory regulations. The decision will be final and binding, no correspondence will be entered into.

5.5 Technical Proposal evaluation criteria and point system:

Criteria	Max Sub-score	Max per section
Workplan		25
Proposed approach (general)	6	
Proposed approach to Khula DFI mandate	4	
Proposed approach to identify major risks	4	
Proposed approach to enterprise IT governance	4	
Staffing schedule	4	
Comments on Terms of Reference	3	
Qualifications & Experience		40
Firm's experience in Public Entities subject to PFMA	5	
Firm's experience in Development Finance Institutions & Treasury	5	
Firm's experience in Enterprise Wide IT Governance	5	
Firm's experience in Taxation	5	
Qualifications and experience of team members	20	
Employment Equity		10
Company ownership profile	2	
Total staff profile	2	
Assignment team profile	4	
Demonstrated, concerted efforts made to promote employment equity	2	
TOTAL:		75

5.6 After completing the technical evaluation, the evaluation panel will then consider the Financial Proposals. The committee will consider total costs from the table specified in Section 3.8 above and will compute a financial score for each firm. The financial score (S_f) is derived from $S_f = 25 \times F_m/F$, where F_m is the lowest total cost and F the cost of the firm under consideration.

5.7 Each bidder's total final score will then be used to rank bids as follows: The technical score described above will represent 75% of the final score and the financial score will represent the other 25%. The firm with the highest score will be invited for discussions on an agreement to provide these services.

6. Finalisation of the contract

- 6.1 Discussions needed to reach agreement on all points will be held at Khula Offices.
- 6.2 Discussions will include the contents of the technical proposal, the proposed work plan, staffing and any suggestions made by the firm to improve the Terms of Reference. Khula and the successful bidder (now the supplier) will then work out agreed final Terms of Reference and staffing.
- 6.3 Discussions of finances will be confined to accommodating any agreed technical modifications and their impact on the cost of the services. Unless there are exceptional reasons, discussions will not involve the remuneration rates for staff.
- 6.4 Having selected the supplier on the basis of, among other things, an evaluation of proposed key professional staff, Khula expects to conclude a contract on the basis that the experts named in the Proposal will actually provide services in the first year. If it is established that key staff were offered in the proposal without confirming their availability, the supplier may be disqualified.
- 6.5 The discussions will conclude with the issue of a letter of appointment by KHULA. This will be followed up by a letter of engagement from the appointed firm. If, for any reason, the parties fail to reach an agreement, Khula will invite the bidder that received the next highest score to enter into discussions.
- 6.6 After issue of the letter of appointment KHULA will promptly notify other bidders submitting proposals that they were unsuccessful.

Section 2. TERMS OF REFERENCE

1. Introduction

Khula utilised the services of ORCA for the provision of co-sourced internal audit services for the past 3 to 4 years.

At the Board Audit Committee meeting held in February 2011, it was resolved that the service providers for Khula's internal audit functions should be put out to tender in line with Khula's commitment to good corporate governance practices. It further serves to ensure that the internal audit function is performed effectively and efficiently, and most importantly demonstrates that KHULA obtains a value added service from its incumbent internal auditors.

The *Protocol on Governance in the Public Sector* defines Internal Audit as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and Corporate Governance”.

KHULA is classified as a National Public Entity under **Part B** of **Schedule 3** of the Public Finance Management Act of 1999 (PFMA).

The PFMA requires that internal audit be under the control and direction of the Audit Committee. Internal Audit should report the Audit Committee and have unrestricted access to the Chairperson of the Corporation and to the Audit Committee.

The Internal Audit should act independently of the external auditors, but interact with them on matters of mutual concern and in areas of their work that overlap, to ensure efficiencies in the overall audit of the Corporation.

2. Objectives of the Internal Audit

The Internal Auditor is expected:

- a) To review and appraise the system of internal controls throughout the organisation.
- b) To review and appraise risk management systems in place in the organisation.
- c) To prepare a rolling three-year strategic internal audit plan, based on assessment of the key risk areas in the organisation and covering current operations, operations planned in the Annual Corporate Plan and the Risk Management Strategy of the Corporation.

- d) To prepare a detailed Internal Audit Plan for the first year of the rolling plan, to be presented to management and the Audit Committee together with the fee estimate, for the work to be undertaken.
- e) To provide a detailed scope of the work to be undertaken in each area of the operation as indicated in the annual plan for Internal Audit.
- f) To report to the Audit Committee on a quarterly basis, on the performance against the plan and on areas of concern. Management comments must always be obtained on areas of concern before the report is presented to the Audit Committee.
- g) To work pro-actively with management to contribute to the success of the organisation without losing the required independence.

3. Scope of Work

The appointment of the Internal Auditor relates to the procurement of internal audit services only.

Non internal audit related services would be contracted for separately, in terms of the Procurement Policy of the organisation.

3.1 The scope of internal audit work entails evaluating the adequacy and effectiveness of the organisation systems of internal control. This includes:

- 3.1.1 reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- 3.1.2 reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations that could have a significant impact on operations, and determine whether the organisation is in compliance;
- 3.1.3 reviewing the means of safeguarding assets and verifying the existence of assets;
- 3.1.4 appraising the economy and efficiency with which resources are employed and identifying opportunities to improve operating performance;
- 3.1.5 reviewing operations and investments to ascertain whether results are consistent with established objectives and goals and whether the operations or investments are being carried out as planned;
- 3.1.6 reviewing the planning, design, development, implementation and operation of major computer-based systems to determine whether:
 - i. adequate controls are incorporated in systems;
 - ii. thorough systems testing is performed at appropriate stages;

- iii. system documentation is complete and accurate, and
- iv. the needs of users are met.

3.1.7 Reporting to the Audit Committee in writing regularly on the scope of reviews of good governance and any significant findings. The report(s) will be tabled at an Executive Committee meeting prior to submission at the Audit Committee meeting.

3.2. SCOPE OF INTERNAL AUDIT SERVICES

The audit service will be an outsourced function. The scope of the internal audit service shall consist of:

3.2.1 the performance of the following assignments:

Assignment	Scope
A	Review and update the Internal Audit Charter and Audit
B	Carry out risk assessment and analysis
C	Prepare a Three Year Internal Audit Coverage Plan
D	Prepare an Annual Audit Plan
E	Perform Audit assignments
F	Perform Computer Audits/IT Security (applications and general)
G	Performance Finance and controls audits
H	Review governance processes and compliance with applicable
I	Review risk management
J	Develop a fraud prevention plan

3.2.2 the performance of such other assignments as the Audit Committee and Management may (from time to time) authorise, which will constitute an addition to the scope of services in clause 3.2.1 above.

3.3. DESCRIPTION AND EXTENT OF WORK

3.3.1 Performance of audit assignments

Assignments are to be performed in accordance with the appointed firm's internal audit procedures. However, each assignment should consist of the following tasks:

1. audit preparation;
2. preliminary survey;
3. review of internal controls;
4. audit testing;
5. development of findings and recommendations;
6. obtaining management responses, and
7. reporting.

All procedures and working papers must be made available on request within one working day, to Khula as well as the Audit Committee and the Auditor General of South

Africa on request.

3.3.2 Timing of assignments

The Audit Committee in consultation with Management shall approve the three-year audit coverage plan before implementation. The performance of each assignment that is not in the audit coverage plan shall be agreed to by the Audit Committee and Management by not later than 1 (one) month before work is due to commence.

3.3.3 Quality Assurance reviews of the work

All bidders are required to submit proof of External Quality Assurance Review having performed with positive results.

The successful Bidder shall ensure that all work conforms to the Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors).

3.3.4 Independence and objectivity of Audit Staff

In carrying out the work, the successful Bidder must ensure that their staff maintain their objectivity by remaining independent of the activities they perform. The service provider shall:

- Have no executive or managerial powers, functions or duties except those relating to the project.
- Not be involved in the day-to-day operation of Khula.

3.3.5 Monitoring progress of assignments

On a quarterly basis, the Successful Bidder shall meet with the Audit Committee to report on progress of the work.

3.3.6 Report of audit results

The report(s) on findings and recommendations should be sent to Khula's Internal Audit Manager responsible for implementing those recommendations for their review and comment. Within 10 (ten) working days of sending the report(s), the Successful Bidder shall meet with Khula's Internal Audit Manager to discuss the findings and obtain written responses to recommendations together with implementation dates. If the findings have not been addressed these shall then be incorporated into the relevant report. The reports shall be tabled at Khula's Executive Committee meeting for noting and discussion after the management comments have been received and prior to being tabled at the Audit Committee.

The structure of the report is to be as follows:

- Introduction;
- audit objective and scope;
- background;
- executive summary;

- findings, recommendations and management response (including implementation dates);
- conclusion, and
- method of proceeding.

3.3.7 Fraud and irregularities

In planning and conducting its work, the Successful Bidder should seek to identify serious irregularities, which might result in possible fraud; any such irregularities must be reported immediately to the Management of Khula as well as the Audit Committee without disclosing these to any members of the staff.

3.3.8 Authorised delegate(s)

Nothing as stipulated in these Terms of Reference may be amended without the written confirmation of the Management of Khula.

4. Role and Responsibility of Internal Auditors

In meeting the objectives set out above, it is the policy of Khula that no restrictions be placed on the Internal Auditors. The nature and extent of the audit strategy is the choice of the Internal Auditors in line with the plan provided.

Internal audit must ensure that the Corporation adheres to applicable legislation and statutory regulations, including, but not limited to, the Companies Act, PFMA, King III, the Protocol on Corporate Governance, Labour and Procurement Legislation.

4.1 Authority of Internal Auditors

The Internal Auditors have the right of access to all information and personnel within the Corporation on any matter necessary to fulfill their duties.

The Internal Auditors shall have direct access to the Chairperson of the Board and the Audit Committee, the Chief Executive Officer, Executives and their line managers in relation to their various responsibilities.

The Internal Auditors shall participate in executive sessions of the Audit Committee.

4.2 Audit Costs and Budgets

The internal audit budget must include the allocation of the audit hours and the fee, by major area of activity of Khula.

The Audit Committee usually approves the audit plan and the budget in July of each year, however this year's plan and budget will be approved as soon as this tender is concluded and a successful bidder is appointed by the Audit Committee.

4.3 Regular Involvement with External Audit

Regular liaison between internal and external audit will assist in keeping the External Auditors up-to-date as to developments in Khula and will assist the External Auditors in determining the

extent of their involvement during the year.

Khula external auditors are currently Sizwe Ntsaluba VSP.

4.4 Management Letters/ Audit reports

These letters should differentiate between significant matters for consideration by the Audit Committee, ie. those that could result in increased risk for Khula, and housekeeping matters for consideration by management.

These letters or reports should comment on important areas requiring professional judgement. Any deviations from the policies of Khula require to be reported.

All reports/letters must be discussed with management and comments from management included in the report. This report, with final comments from management, must be presented to the Chief Executive Officer for response.

The reports/letters must be finalised at least three weeks prior to the quarterly meetings of the Audit Committee.

4.5 Evaluation and Appointment of Internal Auditors

On an annual basis, the Audit Committee will evaluate the performance of the internal audit service.

This evaluation will impact on the continuance of the contract with the internal auditor.

5. Timeframe for Completion of Audit Function

The internal audit should be completed per approved annual plan by the end of each financial year. All issues arising during the year of audit, excluding those which can only be resolved at an Audit Committee level, should be resolved by that date. If there is a possibility of an adverse audit report, the matter must be brought to the attention of the Chief Executive Officer and the Chairperson of the Audit Committee as soon as possible.

A year-end audit timetable should be prepared which must be agreed with management. This timetable should set out in detail the deadlines for the completion of the relevant documents by management and for the completion of the audit thereof by the internal auditors.

6. Background Information

Background information in respect of Khula can be obtained by corresponding with the persons indicated in *2.1 of Section 1: Information to Bidders*. Additional information can be found in our website www.khula.org.za or the latest annual report.