



**Appointment of an independent external auditor for the provision of external audit services to the NHFC and its wholly-owned subsidiaries.**

**RFP ZA/08/2017**

**Bid closing date: 26 September 2017**

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## **1. INTRODUCTION**

The Companies Act 71 of 2008, section 90 requires a State Owned Entity to annually appoint an independent external auditor.

In line with general notice 839 of 2011, published in the Government Gazette of 28 November 2011, a Public Entity may proceed to appoint its own auditor if it was not notified by the Auditor-General (“AG”) that he will perform the audit.

The National Housing Finance Corporation SOC Limited (NHFC) received notification that the AG will not be conducting the March 2018 audit and that the NHFC could proceed with the process of consultation for the appointment of auditors.

The incumbent independent external auditor’s term of office expires after the performance of the external audit for the March 2017 performance period (i.e. financial year-end). Consequently, NHFC is inviting audit firms that comply with the tender criteria set out below, to submit bids for the external audit services required for a period of 5 years commencing in the March 2018 financial year-end, subject to annual re-appointment in line with the Public Audit Act.

## **2. PURPOSE**

The purpose of this document is to table the tender specification for the appointment of an independent external auditor to provide external audit services to the NHFC and its wholly owned subsidiaries.

## **3. TERM OF THE APPOINTMENT**

The term of the appointment is for a period of 5 years subject to annual re-appointment in line with the Companies Act 71 of 2008, Public Audit Act 25 of 2004 and the annual performance review by the Audit Committee.

## **4. BACKGROUND**

The NHFC, a Schedule 3A Development Finance Institution (DFI) of the National Department of Human Settlements, was established in 1996 with the principal mandate

of broadening and deepening access to finance for the low to middle income South African households.

The target market of the NHFC is the low-to-middle income housing market which typically includes households who earn between R3 500 and R15 000 per month. The NHFC mandate requires the company to make housing and housing finance accessible and affordable to facilitate this objective.

This is done through:

- providing wholesale funding to housing development projects for ownership, social housing and private rental, including inner cities, and for incremental housing purposes;
- partnering with banks and other non-banking retail financial intermediaries to increase their sustained lending and innovation in the target market served; and
- leveraging private sector funding for the sustainable development of human settlements.

More specifically, NHFC's strategic priorities are to:

- Expand housing finance activities, through the effective provision of housing finance solutions, enabling low-to-middle income households to have the choice of renting, owning or incrementally building to meet their housing needs;
- Facilitate increased and sustained lending by financial institutions to the affordable housing market;
- Mobilise funding into the human settlements space on a sustainable basis, in partnership with a broad range of institutions;
- Conduct the business activities of the NHFC in an ethical manner that ensures the continued economic sustainability of the NHFC, while promoting sustainable social and environmental development; and
- Stimulate the low-to-middle income housing sector by providing robust, relevant and timely research and market analysis to practitioners and housing customers.

*(As reference and for further information, kindly refer to the NHFC website: [www.nhfc.co.za](http://www.nhfc.co.za) for a view of past Annual Reports)*

## **5. IMMINENT CONSOLIDATION OF THE HUMAN SETTLEMENTS DFIS - ESTABLISHMENT OF HUMAN SETTLEMENTS DEVELOPMENT BANK**

The National Department of Human Settlements (NDOHS) is currently supported by three DFIs, the NHFC, the Rural Housing Loan Fund SOC NPC (RHLF) and the National Urban Reconstruction and Housing Agency SOC NPC (NURCHA).

The drive to scale housing finance provision, to greater leverage private sector contribution and thus significantly grow the human settlement development impact, became the strategic rationale for the consolidation of the three DFIs. The expected consolidation outcome would be such that the whole is greater than the sum of its parts. This strategic rationale is also supported by the National Treasury's review of the DFIs.

The Ministry of Human Settlements has committed itself to the establishment of a Human Settlements Development Bank (HSDB) in support of the entire human settlements delivery value-chain

The NHFC will serve as a consolidated platform for the establishment of the HSDB. In order to implement the consolidation, NURCHA and RHLF will transfer their respective assets and liabilities to the NHFC at no charge through donation agreements; and thereafter NURCHA and RHLF will be dissolved by way of a winding-up or a deregistration process. It is envisaged that the NHFC will continue in its existing legal format but will change its constitution documents to conform to the HSDB requirements.

The HSDB establishment will include, among others, the Policy, Enabling Legislation, Business Case and Capitalisation, leading to a fully integrated HSDB.

The remaining factors impacting the effective date of the Consolidation are the fulfilment of the various suspensive conditions including obtaining the requisite approvals in terms of the Public Finance Management Act No 1 of 1999 (PFMA) and the necessary approvals from the respective funders.

Every effort is being applied towards completion of all the processes for the earliest effective date for the Consolidation, within the 2017/18 financial year.

The timeframe for the final integration (HSDB) is likely to extend over the next twelve months due to the legislative process involved. Notwithstanding the aforementioned, there is an urgency and the related support from the Ministry, for both these processes to be concluded expeditiously.

#### 5.1. **NURCHA**<sup>[ZA1]</sup>

The main business of NURCHA is to facilitate the delivery of housing and related community facilities and infrastructure to low and middle-income communities.

To give effect to their vision and mission, and in pursuit of their business purpose, NURCHA has focused on programmes that provide bridging finance for projects that deliver fully subsidised housing, infrastructure and community facilities and affordable housing for ownership and rental. NURCHA has been active in one or more of these programmes since its inception in 1995. Over the past 9 years, NURCHA has delivered on all 3 financing programmes on an annual basis. In addition, NURCHA has not only provided bridging finance, but has also been involved in contractor/enterprise development and programme management initiatives, since these are important elements in facilitating the delivery of human settlements.

Bidders can refer to the organisational structure of the NHFC provided.

*(As reference and for further information, kindly refer to the NURCHA ([www.nurcha.co.za](http://www.nurcha.co.za)) websites for a view of past Annual Reports.)*

## 5.2. **RHLF**<sup>[ZA2]</sup>

The mandate of RHLF is to facilitate funding to enable rural low income earners to better their living conditions through improving their housing situation.

RHLF's target market is low income earners who want to improve their housing and living conditions in rural areas. This is broadly defined to include rural areas and small towns in South Africa. Therefore, the broader definition of RHLF's geographic focus is non-metropolitan areas with the general understanding that rural areas under traditional leaders in some metropolitan areas do fall within the RHLF mandate.

As a wholesale institution, RHLF relies on its approved intermediaries to deliver incremental housing loans to its mandated population. Existing intermediaries continue to establish loan distribution channels in deep rural areas, usually through developing relationships with building merchants in these areas. In addition, RHLF continues to pursue and develop a number of smaller commercial entities in the deep rural areas of various provinces with the objective of enhancing our ability to deliver to these areas, and provide an economic boost to small wholly black owned housing finance retail lenders. In addition, RHLF continues to identify community based organisations in rural areas that can access RHLF funds and on-lend to their members.

*(As reference and for further information, kindly refer to the RHLF ([www.rhlf.co.za](http://www.rhlf.co.za)) websites for a view of past Annual Reports.)*

## 6. **SCOPE OF WORK**

The independent external auditor will be required to:

- Perform an audit in accordance with the Public Audit Act of South Africa (Act No. 25 of 2004), the General Notice issued in terms thereof, International Standards on Auditing and the Companies Act 71 of 2008.
- In accordance with the Public Audit Act of South Africa, and the General Notice issued in terms thereof, report on the findings relevant to performance against

predetermined objectives, compliance with laws and regulations and other reports required by the Companies Act;

- Communicate audit findings to management and ensure they are fully aware of the implications to business operations;
- Provide a final report with recommendations to management; and
- Attend and provide input to the Audit Committee meetings, where necessary.

Furthermore, the independent external auditor would be expected to provide services in line with the International Audit Standards and prepare an audit plan, including a fee budget for approval by the Audit Committee, amongst others. Bidders can refer to the organisational structure of the NHFC provided to view the number of subsidiaries that will form part of the audit universe.

In view of the imminent DFI Consolidation as explained in section 3 and the effective date thereof, the audit for the March 2017/18 will potentially be that of the Consolidated NHFC.

The independent external auditor will therefore be required to submit a proposal of the following basis:

- NHFC and its wholly subsidiaries (in the event that the consolidation is not completed within the March 2017/18 financial year); and
- Consolidated NHFC (in the event that the consolidation is completed within the March 2017/18 financial year)

## **7. EXPERTISE AND CAPACITY**

The key criteria to be considered for the suitability of the independent external auditor include the following:

- 7.1. Have knowledge and a comprehensive understanding of the public sector; and an understanding of the NHFC's regulatory universe.

- 7.2. The independent external auditor must demonstrate that they:
- Have sufficient in-house capacity to perform statutory audits for the NHFC.
  - Will not be over-reliant on NHFC audit fee (i.e. audit fees from NHFC must not exceed 15% of its total revenue). In other words, the independent external auditor should be a going concern without depending on NHFC's audit fees.
- 7.3. Have a minimum of five (5) partners including the engagement partner.
- 7.4. The independent external auditor must be prepared to forsake any non-audit services for the duration of the audit appointment. The independent external auditor is therefore required to declare its interest.
- 7.5. The bidder must provide evidence of satisfactory results (i.e. latest IRBA review results) of the partner(s) committed on the assignment.
- 7.6. Independence and Objectivity – No conflict of interest. A firm where any of the Board members, management or staff of NHFC are partners or part-owners in will not be eligible for appointment.
- 7.7. The independent external auditor will not, and has no right to, assign the audit contract to third parties.
- 7.8. The independent external auditor will be bound to the Code of Conduct and confidentiality as per the International Auditing Standards in the course of their duties.
- 7.9. In line with the company's transformation strategy, which is guided by the BBBEE Codes of Good practice, the company will give preference to businesses certified as level 1 and level 2. In addition companies that are black owned and companies owned by women will have an added advantage. The 90:10 point system will be applied in term of the Preferential Procurement Policy Framework Act.

## 8. PROFESSIONAL MEMBERSHIP AND REGISTRATION

It is mandatory for the audit engagement partner of the preferred independent external auditor that will be in charge of the NHFC's account to be a Registered Auditor (RA) with the Independent Regulatory Board for Auditors (IRBA). Similarly, the preferred independent external auditor (audit firm) must also be registered with the IRBA.

## 9. CONTENT OF THE PROPOSAL

### a) The Technical Proposal must include the following:

- Company profile and relevant experience.
- Proposed methodology and approach to be used in keeping with the scope of works.
- Full and comprehensive description of similar work undertaken in the past 3 years.
- A list of client references where the bidder has successfully concluded similar audit work within the public sector in terms of scope and complexity.
- Composition of the project team.
- Abridged CV of each member of the proposed team (qualifications, experience, expertise etc.).
- Evidence of registration with IRBA.
- Evidence of satisfactory IRBA rating for the audit engagement partner (s) proposed for the audit.
- Detailed statement on the independence of the bidder and the proposed external audit team.

*Additional compliance documentation requirements are set out in Section 12.*

### b) Financial Proposal (to be submitted in a separate envelope)

The Financial Proposal must indicate the proposed annual cost for the service which gives an indication of the following:

- Overall fixed price inclusive of VAT and disbursements;
- Breakdown of anticipated out-of-pocket expenses (disbursements); and

- Fees must be quoted at an inclusive rate for the different levels of proposed resources to be utilised, as listed below.

<b>Category</b>	<b>No of audit personnel</b>	<b>Rate per hour</b>	<b>Hours</b>	<b>Total</b>
Engagement partner				
Second partner review				
Engagement Quality Control reviewer				
Senior Audit Manager				
IT Audit Manager				
Audit Senior				
Audit Assistant				
Other (specify)				
Average rate per hour				
Total excluding VAT				
Vat @ 14%				
Disbursements including VAT				
<b>Total audit costs inclusive of VAT</b>				

## 10. BID EVALUATION CRITERIA

The proposal will be evaluated in terms of the Preferential Procurement Policy Framework regulations of 2011.

The evaluation of bid responses will be conducted in three (3) phase as follows:

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

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. Please refer to section 11 for the eligibility and pre-qualification criteria.

## Phase 2: Technical/ functional evaluation

The minimum qualifying score for functionality is 70% (70 points). All bids that fail to achieve the minimum qualifying score on functionality shall not be considered for further evaluation on Price and BEE.

Category	Functional / Technical Evaluation Criteria		Weighting
1.	<p><b>External Audit Approach (Applies to firm or engagement partner)</b></p> <p>The bidder's demonstration of the knowledge and a comprehensive understanding of the public sector generally.</p> <p>The bidder's demonstration of the knowledge and a comprehensive understanding of the audit of public entities specifically.</p> <p>The bidder's demonstration of the knowledge and a comprehensive understanding of the audit of lending financial institutions.</p> <p>To demonstrate knowledge and experience, the bidder must submit a minimum of three (3) client references where the bidder has successfully concluded similar audit work within the public sector in terms of scope and complexity.</p>	10 10 10	30
2.	<p><b>The qualification and experience of the personnel proposed to provide the services.</b></p> <p>Assessment of the condensed curricula vitae of personnel who will be assigned to the NHFC's account. (Qualification and experiences of proposed resources, In-house capacity at least 5 RA's; with the audit engagement partner being based in Gauteng).</p> <p>Public sector and financial industry experience in the field of external auditing. A list of references of external audit appointments should be provided.</p>		30
3.	<p><b>Independence and objectivity:</b></p> <p>The proposed audit fee does not exceed 15% of the independent external auditor's total turnover.</p>		15

Category	Functional / Technical Evaluation Criteria		Weighting
4.	<p><b>Results from IRBA</b></p> <p>The independent external auditor must submit evidence of registration with the IRBA; including evidence of each audit partner's registration with the IRBA.</p> <p>Furthermore, evidence of a "satisfactory" IRBA rating for the audit engagement partner/partners proposed for the AGSA audit must be submitted.</p>		15
5.	<p><b>Developmental strategy</b></p> <p>The independent external auditor subcontracts between 5% and 10% of the fee to a small black owned IRBA registered firm without experience in the public sector.</p>		10
	<b>TOTAL</b>		<b>100</b>

### Phase 3: Price and BBEE evaluation

All bids that achieve the minimum qualifying score of 70% (70 points) for Functionality, (acceptable bids) will be evaluated further in terms of the 90/10 preference point system.

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.

## 11. ELIGIBILITY / PRE-QUALIFICATION CRITERIA

The bidder must meet the following pre-qualification requirements:

- a) The bidder must be registered with the Independent Regulatory Board for Auditors (IRBA).
- b) The bidder must have a minimum of five (5) partners including the engagement partner.
- c) The independent external auditor must be prepared to forsake any non-audit services for the duration of audit appointment. The independent external auditor is thus required to declare its interest.

- d) The bidder must provide evidence of satisfactory results (i.e. Latest IRBA review results) of the partner(s) committed on the assignment.
- e) The audit engagement partner of the preferred independent external auditor that will be in charge of the NHFC's account to be a Registered Auditor (RA) with the Independent Regulatory Board for Auditors (IRBA).
- f) Bidders are required to submit a tax clearance certificate (TCC) and their unique personal identification number (pin) issued by SARS to enable the NHFC to view the bidders tax status.
- g) The firm must be registered on the National Treasury supplier database at the time of submitting the proposal.

Failure to comply with the above pre-qualification requirements will lead to the disqualification of the bid.

## **12. COMMERCIAL OBLIGATIONS**

This section of the document outlines the general commercial process and obligations of the service provider.

### **12.1. Contracting**

A contract will be concluded between NHFC and the successful service provider which will incorporate the following:

- The letter of acceptance to the successful bidder;
- The original tender documents;
- The proposal of the successful service provider, and
- Terms and conditions as stipulated above and general contract terms and conditions.

### **12.2. Material Rights**

The product of this project will be confidential information, and will be the property of the NHFC and no disclosure of information to other parties will be made without prior written approval of the NHFC.

### 12.3. Rules of Bidding

- The NHFC reserves the right to amend or cancel this RFP at any time, at its sole discretion.
- The NHFC is not bound to accept any of the proposals submitted, and reserves the right to call for best and final offers from the short-listed bidders before final selection.
- The NHFC reserves the right to call for interviews / oral presentations with short-listed bidders before final selection.
- The NHFC reserves the right to negotiate price with the preferred bidder.
- An eligible Bidder, if requested, must be prepared to present evidence of experience, ability, service facilities, and financial standing necessary to satisfactorily meet the requirements set forth or implied in this proposal.
- NHFC reserves the right to award a contract in part, to reject any and all quotations in whole or in part, to waive technical defects, irregularities and omissions, at its sole discretion.
- Late submissions will not be considered.
- There will be no briefing session for this bid.
- All enquiries in relation to this tender must be sent to the NHFC in writing by end of business (17:00) on **Friday, 15 September 2017**. NHFC reserves the right not to respond to any queries received after this date. NHFC reserves the right to circulate and place responses to such enquiries on its website and may do so within three (3) days from the last day of enquiries.

### 13. PROPOSAL COMPLIANCE REQUIREMENTS

This section contains the requirements for Proposal Compliance; all submissions must consist of a Technical and a Financial Proposal as explained below:

**i. Documents to be submitted:**

- Technical Proposal
- Financial Proposal (must be submitted separately )
- BBBEE Credentials Certified copy of Valid BEE Certificate or Affidavit, if wanting to be scored on B-BBEE
- Original Valid Tax Clearance Certificate. Bids where consortium / joint-ventures / sub-contractors / partners are involved, each party must submit a separate proof of Tax Clearance Certificate / Unique PIN.
- Proof of banking details
- Copy of the current memorandum of incorporation of the company, if a company
- Partnership agreement, if a partnership
- ID copies of Partners / Shareholders / Directors
- VAT registration evidence
- Declaration of interest
- Declaration of Bidders Past Supply Chain Practices
- Central Supplier Database Registration Report
- Signed SBD forms

**ii. Copies**

One original and four hard copies and a soft copy (CD/USB) must be submitted in two sealed envelopes, one for the technical aspects and the other for financial and B-BBEE aspects, appropriately addressed. The original must be signed in ink by an authorised employee, agent or representative of the bidder and initialled on all pages.

**iii. Submission Address**

Proposal, endorsed with RFP ZA/08/2017: Appointment of an independent external auditor for the provision of external audit services to the NHFC and its wholly-owned subsidiaries, must be hand delivered to:

NHFC Tender Box  
The Isle of Houghton  
Old Trafford 3, 1st Floor

11 Boundary Road  
Houghton, Johannesburg

Attention Mrs. Pumza Nsukwini

**iv. Submission Date**

The Proposal with quotation must reach the NHFC **by Tuesday 26 September, 11:00 am.**

**v. Proposal Cost**

The cost of compiling a Proposal is and remains the prospective service provider's own cost and will not be paid for by NHFC.

**vi. Contacts**

The contact person for information pertaining to the RFP proposal is Mrs. Pumza Nsukwini, telephone numbers 011-644 9800 fax number 011 484 0204 and e-mail [pumzan@nhfc.co.za](mailto:pumzan@nhfc.co.za).

No bid shall be accepted if submitted in any manner other than as prescribed above.

BSC members:

\_\_\_\_\_  
E. Radinne  
NHFC

\_\_\_\_\_  
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NHFC

\_\_\_\_\_  
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