



ALFRED NZO
DISTRICT MUNICIPALITY

TERMS OF REFERENCE

**RISK BASED: INTERNAL AUDITING OF VAT MANAGEMENT PROCESSES
2023/24 FINANCIAL YEAR**

Issued and Prepared by:
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1. BACKGROUND AND OVERVIEW OF THE PROJECT

1.1 INTRODUCTION

Value Added Tax (VAT) returns, a critical component of Alfred Nzo District Municipality's financial operations, are subject to increasing scrutiny from tax authorities. Accurate and timely submission of VAT returns not only ensures legal compliance but also impacts a company's financial health and reputation. Recognizing the complexities and risks associated with VAT returns, internal audit focus becomes imperative to identify and rectify potential discrepancies. However, the intricacies involved in this process demand specialized expertise and resources, which often pose challenges to internal audit team. As organizations seek innovative solutions to streamline operations, co-sourcing arrangements for an experienced external provide emerge as a strategic option to enhance accuracy, reduce risk, and drive sustainable growth.

Municipalities strive to maintain robust internal control mechanisms to mitigate risks associated with financial operations, and Alfred Nzo District Municipality is no exception. VAT return processes are particularly sensitive due to their intricate nature, involving the accurate recording of input and output VAT calculations, and compliance with intricate tax codes. These processes necessitate meticulous attention to detail and an in-depth understanding of evolving tax regulations.

However, internal audit functions often face resource constraints and varying levels of expertise in taxation matters. Keeping pace with ever-changing tax laws and ensuring accurate VAT return submissions becomes an increasingly complex challenge.

To address these challenges, the Internal Audit Unit is considering co-sourcing arrangements with external service provider to complement the existing internal audit effort to audit the VAT returns processes. By engaging seasoned professionals with an in-depth understanding of tax regulations and a proven track record in auditing of accurate VAT return submissions, Alfred Nzo District Municipality can enhance their financial compliance while reallocating internal resources towards strategic initiatives. This co-sourcing model offers a range of benefits, including reduced risk of non-compliance,

expert insights into changing tax regulations, improved accuracy, and ultimately, the ability to foster sustainable growth in a rapidly evolving business environment.

In light of the critical role VAT returns play in financial operations, the subsequent sections of this proposal will delve into the advantages of co-sourcing with external service provider for internal audit of VAT returns processes, outlining the potential impact on compliance, risk mitigation, and overall Alfred Nzo District Municipality success.

Furthermore, section 165 (1), provides that each municipality and each municipal entity must have an internal audit unit, subject to subsection 3. Section 2 of the same Act, states that the Internal Audit Unit of a Municipality or Municipal Entity must-

- (a) Prepare a risk based audit plan and an internal audit program for each financial year;
- (b) Advise the Accounting Officer and report to the Audit Committee on the implementation of Internal Audit Plan and matters relating to-
 - (i) Internal Audit
 - (ii) Internal controls
 - (iii) Accounting procedures and practises
 - (iv) Risk and risk management
 - (v) Performance management
 - (vi) Loss controls; and
 - (vii) Compliance with this Act, the annual Division of Revenue Act, and any other applicable legislation;

Internal auditing is also defined as **an independent, objective assurance** and consulting activity designed to **add value** and **improve** an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of **risk management, control and governance processes**. The scope of internal auditing work encompasses a systematic, disciplined approach to **evaluating** and **improving** the **adequacy** and **effectiveness** of risk

management, control and governance processes and the quality of performance in carrying out assigned responsibilities. This is **Standard 2100-1 – Nature of work**.

1.2 OVERALL AND SPECIFIC OBJECTIVES OF THE PROJECT

1.2.1 Overall objective

The purpose and primary objective of this project is to test controls relating to ANDM VAT Returns processes, and also document recommendations to address any weakness identified during the execution of the internal audit. For the purpose of sustainable and continuous improvement, the following will also be performed.

1.2.2 Specific Objectives

- Raised audit observations, along with recommendations, through communication of audit findings pertaining to Risk Management processes.
- Solicit Management Comments / responses
- Analyze and evaluate submitted management responses
- Prepare draft internal audit report with management responses
- Table draft internal audit report to the Chief Audit Executive, and discuss key observations
- Prepare final report for tabling to management and audit and performance committee respectively.
- Skills transfer to capacitate ANDM internal auditors.

2 SCOPE & EXTENT OF WORK

Quotations are invited from suitably qualified professional service providers to prepare and submit proposals to undertake the following

- ❖ Test whether municipality maintains robust internal control mechanisms to mitigate risks associated with VAT returns,
- ❖ Test accurate recording of input and output VAT calculations and compliance with applicable tax codes,
- ❖ Test Compliance with: -
 - Income Tax Act, No. 58 of 1962
 - Value- Added Tax Act, No. 89 of 1991
 - Tax Administration Act, No. 28 of 2011
- ❖ Evaluate and comment on risk management processes in respect of VAT Returns
 - Evaluate and comment on assumptions that are used for VAT Refunds and review how refunded VAT is utilised.

3 FOLLOW UP

- The auditor is required to audit if the previous audit results and recommendations of the audit were implemented successfully by making a follow up audit, the follow ups will cover VAT Returns. **PROJECT TIME FRAME**

The project time frame will be 30 days from the date of appointment of the service provider.

5 KEY OUTPUTS/PROJECT MILESTONES/DELIVERABLES

- Raised audit observations, along with recommendations, through communication of audit findings

- Solicit Management Comments / responses
- Management responses
- Internal audit report with management responses
- Prepare final report for tabling to management and audit and performance committee respectively.
- Proof of skills transfer to ANDM internal auditors

6 STAKEHOLDERS CONSULTATION

- MANAGEMENT
- SCM UNIT
- BUDGET AND REPORTING SECTION

7 PROJECT MANAGEMENT

The entire project management exercise will be performed by Chief Audit Executive of Alfred Nzo District Municipality. Ongoing progress reports will be forwarded to the Chief Audit Executive.

8 REPORTING MECHANISM

It is expected that regular progress reports will be submitted to Chief Audit Executive of Alfred Nzo District Municipality. The Project Manager has the right to change the frequency of reporting as and when necessary.

9 SUBMISSION OF BIDS

Quotations must be emailed to tenders@andm.gov.za, referenced with bid number.

Failure to do so will lead to disqualification.

NB no Drop Box or Links will be accepted

10 CAPACITY TO EXECUTE THE WORK

Evaluation criteria of the Quotations;

The Quotations will be evaluated in two stages, namely:

- Stage 1- Capacity to Execute Work
- Stage 2- Price and Specific Goal

Only Bidders who score 70% or more on stage 1 would be evaluated further and therefore eligible for the award

ITEM	Scoring
STAGE 1 OF EVALUATION – CAPACITY TO EXECUTE THE WORK	100
• Previous Experience	50
• Capacity and Expertise	50
Total Scoring	100

Price and Preference

Quotations will be evaluated according to the 80/20 Point System in compliance with Preferential Procurement Policy Act (5/2000) and Preferential Procurement Regulations 2022.

Preferential Procurement Goals	Proof to be Attached to Claim full Points	Points
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Price	N/A	80
Specific Goal		20
Bidders will score Specific Goals as follows		
Empowerment of Women	Attach ID Certified Copies of Directors Claiming Specific Goals; for Bidders to obtain full points the percentage of equity held must be 51% or more	5
Youth	Attach ID Certified Copies of Directors Claiming Specific Goals; for Bidders to obtain full points the percentage of equity held must be 51% or more	4
Rural	Attach Proof of Residence of the Business or Lease Agreement	4
Disabled	Attach a Signed Letter from Health Practitioner	4
Black Owned Companies	Attach CK and ID Certified Copies of Directors Claiming Specific Goals; for Bidders to obtain full points the percentage of equity held must be 51% or more	3
Total Scoring		100

Previous Company Experience	Scoring
Note: The scoring in this section is not cumulative	

Traceable record for successful completion of 4 or more Risk Based Assurance Projects in public sector with a minimum value of R100 000.00 per project.	50
Traceable record for successful completion of 3 Risk Based Assurance Projects in public sector with a minimum value of R100 000.00 per project.	40
Traceable record for successful completion of 2 Risk Based Assurance Projects in public sector with a minimum value of R100 000.00 per project.	30
Traceable record for successful completion of 1 Risk Based Assurance Project in public sector with a minimum value of R100 000.00.	20
Total Scoring	50
<p>Note COMPULSORY attachments for verifying work done:</p> <p>1. The ANDM Assessment Bidder Form must be completed, stamped, and signed by the previous employer as a means of verifying references for each project undertaken. If 5 Projects were done, 5 Assessment bidder forms must be completed.</p> <p>2. In ADDITION to the above, a traceable record will be evaluated on the basis of:</p> <p>- An Appointment Letter or Official Purchase Order-</p>	

Capacity and Expertise to Undertake the Project	Scoring
Note: The scoring in this section is preferably cumulative, unless justifiable to the Specification Committee	
A Project Team with the following areas of expertise:	

The Team Leader of the project must have NQF Level 8 and above in Accounting or Internal Auditing with minimum of 5 years' experience in auditing in public sector.	25
Team members with NQF Level 7 Qualification in Accounting, Auditing/ Internal Audit or equivalent, coupled with minimum of 3 years' experience in the Risk Based Internal Auditing in public sector.	15
All Team members be registered with relevant professional body, anyone of the following: SAICA or IIA or ACCA or SAIPA or SAIT Proof of registration be attached.	10
Total Scoring	50
NB: Attach CV and certified copies not older than 3 months for all qualifications	

For any queries regarding this tender, please contact Mr. S. Nelani for project related queries; on (039) 254 5108 or; Supply Chain Management contact for SCM related queries at telephone number 039-254-5134 during office hours.

Alfred Nzo district Municipality

Erf 1400 Ntsizwa Street

Mount Ayliff

4735

Yours in municipal administration,



Mr N. R. Xolo

DIRECTOR: STRATEGIC GOVERNANCE

DATE 04/12/2023

Approved/Not ~~Approved~~



ZAMILE .H. SIKHUNDLA

MUNICIPAL MANAGER

Date of Approval 06/12/2023

Comments:

