TERMS OF REFERENCE

CBE 7/2019

APPOINTMENT OF AN INTERNAL AUDITOR FOR A PERIOD OF THREE YEARS FOR THE COUNCIL FOR THE BUILT ENVIRONMENT

Acronyms

ARC	Audit and Risk Committee
BEPCs	Built Environment Professions Councils
BBBEE	Broad Based Black Economic Empowerment
CBE	Council for the Built Environment
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGICT	Corporate Governance of ICT
COBIT	Control Objectives for Information Technology
Council	Appointed members of the fourth term CBE Council
FMPPI	Framework for Managing Programme Performance Information
GRAP	Generally Recognised Accounting Principles
IIA	Institute of Internal Auditors
PFMA	Public Finance Management Act
SAICA	South African Institute of Chartered Accounts

1. BACKGROUND

The Council for the Built Environment (CBE) was established in terms of Act No 43 of 2000, with the primary objective of protecting public interest and facilitating participation by the built environment professions in integrated development in the context of national goals.

The CBE is a Schedule 3A Public Entity reporting to the National Department of Public Works as its Executive Authority, with the CBE Council (Board), as its Accounting Authority.

As a regulatory body, the CBE is mandated to promote sound governance of the built environment professions thus promoting liaison, efficiency and effectiveness in the built environment professions.

2. GOAL AND OBJECTIVES OF THE PROJECT

The overall goal is to appoint a company to provide internal audit services in line with National Treasury Regulations, to undertake the following responsibilities for the duration of a three (3) year contract:

2.1 To provide assurance and consulting services in order to assist the CBE Council to accomplish its objectives;

2.2 To assist Council and the Audit and Risk Committee (ARC) to provide a systematic and disciplined approach to evaluate and improve the effectiveness of risk management; and

2.3 To assist Council and the ARC to monitor controls and governance processes with a mission to add value and improve the operations.

The appointed Internal Audit service provider may be called upon to provide advice on controls and related matters; however, this will be subject to an identified need to maintain objectivity and to consider resource constraints. The appointed Internal Audit service provider will have no executive role, nor will it have any responsibility for the development, implementation or operation of systems.

Any internal audit input to systems development work will be undertaken as specific assignments, and as such will be part of a separate and further negotiated specification.

In order to preserve independence and objectivity, any such involvement in systems development activities will be restricted to the provision of advice and ensuring key areas in respect of control and risks are addressed. The appointed Internal Audit service provider will not be expected to take the lead.

Furthermore, the appointed Internal Audit service provider's scope of work will not include questioning of appropriateness of policy decisions made by CBE Executive Management.

However, the Internal Audit service provider may draw to the attention of the CBE Audit and Risk Committee instances where there are illegal acts or contraventions of Standing Orders, Standing Financial Instructions or Statutory powers and Regulations. The Internal Audit service provider may also examine the management arrangements for making, monitoring and reviewing all such policy decisions.

3. EXPERTISE AND CAPACITY

The appointed internal audit service provider must have the following competencies:

3.1 Knowledge and understanding of CBE and its business

3.2 Knowledge and experience working with public entities

3.3 Technical proficiency in Generally Recognised Accounting Principles (GRAP)

3.4 Knowledge and practical understanding and implementations of the Public Finance Management Act (PFMA), National Treasury Regulations, the Framework for Managing Programme Performance Information (FMPPI), GRAP, King IV and governance principles

3.5 Knowledge and practical understanding of information and communication technology in the public sector i.e.: Control Objectives for Information Technology (COBIT), Corporate Governance of ICT (CGICT), disaster recovery and business continuity

3.6 Knowledge and practical understanding of cursory investigations for tip offs received

3.7 The service provider must be registered with Institute of Internal Auditors (IIA) or South African Institute of Chartered Accounts (SAICA).

3.8 **In line with the company's transformation strategy, which is guided by the Broad Based Black Economic Empowerment (BBBEE) Codes of Good practice, the CBE will be targeting businesses certified as level 1 and level 2**.

4. PLANNING

The Audit Committee shall approve an audit risk assessment; including an audit universe of auditable systems before internal audit work is commenced. The audit risk assessment will be reviewed annually and updated for changes in systems, in the organisation and in the National Treasury Internal Audit control framework.

Audit plans, based on risk assessment, should be drawn up by the Internal Audit Service Provider, and agreed with the Chief Financial Officer (CFO) prior to submission to the Audit and Risk Committee.

The CBE's ARC and CFO will endeavour to ensure management's perspective of internal audit is positive and that a participative approach is adopted. Therefore, the Internal Audit service provider will be expected to actively involve, and keep auditees informed during all stages of internal audit assignments. This is particularly crucial during the testing and evaluation stages when it would be more appropriate to inform management of the emerging findings in a report at a later date. The circumstances where this approach would be appropriate would be:

1. Where there may be a material loss to the organisation unless action is taken quickly; and
2. Where there is a serious breach of law/regulations.

There will be occasions when this approach is, however, not appropriate (i.e. where fraud or irregularities are suspected) and involvement of the CFO must be sought.

The appointed Internal Audit service provider will be responsible for delivering an economic and efficient quality audit, whilst ensuring that the internal audit service is delivered according to the terms of this specification. The service provider will also have a responsibility to the ARC, Chief Executive Officer (CEO) and CFO. Broadly, this encompasses the following areas:

1. Planning logical and comprehensive coverage that reflects the degree of risk associated with each business process;
2. Determining standards;
3. Monitoring delivery and quality assured work produced;
4. Effecting appropriate changes;

5. Promoting the work of internal audit and the ARC as a contribution to the control environment within the CBE;
6. Audit reporting; and
7. Attendance at all ARC and Council meetings as well as other regular meetings with statutory auditors.

The audits that will need to be taken into account at CBE are amongst others:

1. IT governance and implementation audit
2. Human resources management
3. Corporate governance
4. Legal compliance and reviews
5. Fraud and risk management
6. Finance management
7. Supply Chain Management
8. Performance information
9. Follow-up on previous external and internal audit findings
10. Managing requests for unplanned work for the CEO, CFO, ARC or Management members
11. Investigations on tip-offs received, if applicable.
12. Consulting services if required
13. Annual review of Risk -, Fraud policies, Frameworks, strategies and applicable charters.
14. Audits on strategic and operational risk registers
15. Review of Annual Financial Statements
16. Verification of levy income received by the six Built Environment Professional Council (BEPC)'s at their premises on behalf of the CBE
17. Probity audit of tenders

5. REPORTING

5.1 Purpose

The main purpose of Internal Audit reports is to provide management and the Audit and Risk Committee with information on effectiveness of systems of internal controls, compliance with laws and regulations, conclusions and recommendations. Full Internal

Audit reviews of systems must be carried out as part of the identified annual audit programme.

5.2 Structure of report

The structure of the report is to be as follows:

5.2.1 Introduction;
5.2.2 Audit objective and scope;
5.2.3 Background;
5.2.4 Executive summary, highlighting significant findings;
5.2.5 Findings, recommendations and management response (including implementation dates);
5.2.6 All audits as carried out according to the Internal Audit Plan and as approved by ARC; and
5.2.7 Conclusion.

5.3 Progress Reporting

The CFO will receive periodic reports detailing progress against the agreed annual plan, together with notification of any significant breaches of the timescales within the approved reporting protocol. For each individual assignment within the plan, the following will be reported:

5.3.1 Planned days;
5.3.2 Actual days to date;
5.3.3 Planned start date;
5.3.4 Date of each milestone; and
5.3.5 Audit opinion (where applicable).

Progress reports will also be presented to each ARC in an agreed format.

6. QUALITY CONTROL AND QUALITY MEASUREMENTS

The appointed service provider will be held accountable by the ARC for performance, and is therefore responsible for ensuring that quality standards are defined, agreed, monitored

and reported. These aspects of quality should be enshrined in the Quality Plan, and reported within the Annual Internal Audit report.

7. LIAISON WITH EXTERNAL AUDITORS

Chapter 6, Section 58 of the PFMA provides the accounts of the CBE to be audited by auditors appointed by the Minister of Finance of the Republic of South Africa.

The Internal Audit service provider will be expected to maintain a close working relationship with the Statutory Auditors on matters of mutual interest, and to provide them with copies of all formal internal audit reports. The Statutory Auditor must be allowed access, on request, to all internal audit working papers and Final/Draft reports.

As part of their remit, the Statutory Auditors will make an annual assessment and report on the performance of internal audit, based on the objectives set out in the strategic audit plans. The Statutory Auditors will decide whether to place reliance on the work of internal audit and consequently whether to reduce the scope and/or coverage of their own work based on this assessment.

8. VALUE FOR MONEY AUDITS

It will be the responsibility of the appointed service provider, as part of the general review of systems of internal control, to review, appraise and report to management the extent to which the CBE's assets and interests are accounted for and safeguarded against losses of all kinds arising from fraud and other offences, waste, extravagance and inefficient administration, poor value for money or other cause.

This shall be achieved by the inclusion of, within the audit space (and therefore the strategic audit plan), those systems of service monitoring and performance measurement that are critical for the attainment of value for money, including the systems for best value and cost reduction.

9. DURATION OF CONTRACT

The tenure of the contract is three (3) years, commencing on the date of signing the contract.

10. TECHNICAL PROPOSAL

The written tender application should focus on the following aspects to qualify and be considered. Please submit proof of the information listed below, according to the specified appendices (i.e.: A, B, C, D):

A. The firm's experience in internal audit services, including specialised skills, expertise and value-added services.

i. Demonstration of the firm's substantial internal audit experience.
ii. Specialised skills, expertise and value-added services in the field of internal audit, with an emphasis on best practice methodology, tools and technology used.
iii. Availability of forensic audit skills and tools.
iv. Availability of ICT audit skills and tools.

B. Firm's experience in internal audits of public entities.

i. Five years' experience in the auditing of public entities, with a minimum of three reference letters.
ii. External references, the size of audits and the size of the client base.

C. *Qualifications and experience of team members*.

i. The relevant individuals must be registered with the IIA or SAICA.
ii. Detailed CVs of the auditor/s who will be responsible for managing the internal audits, and the person who will be signing the audit plan and reports. Bidders must note that the proposed engagement partner and engagement audit manager will be the contracted resources. The project team must at least have the following experience:

Team member	**Qualification/Experience**
Engagement Partner	Registered Internal Auditor, 10 years' experience
Engagement Audit Manager	Registered Internal Auditor, 5 years' experience

D. Ability to provide the services and adequate institutional support.

i. Professional staff numbers.
ii. The latest satisfactory IIA firm-level quality review results

E. Other information

i. ID copies of the shareholders/directors
ii. CIPC documents

Note: A contract will be entered into with the successful bidder, and the audit plan and execution will be in line with the internal audit charter.

11. FINANCIAL PROPOSAL

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

11.1 Overall fixed price for the three year period must be inclusive of VAT and disbursements. Prices for this contract are firm for the first year, and subject to a maximum escalation rate of 5.0% for the next two years. The 5.0% escalation is based on the current average three year CPI forecast as per the latest MTEF National Treasury Guidelines.

11.2 A breakdown of these anticipated out-of-pocket expenses (disbursements) must be provided.

11.3 The pricing must be based on a total number of 1 660 hours per year (Average actual hours for the last two financial years and the budgeted hours for the current financial year). The split of the hours for the different levels of proposed resources can be determined by the bidder.

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

Category	No of audit personnel (A)	Hours per resource (B)	Total Hours (C=AxB)	Rate per hour (D)	Total Cost (CxD)
Partner					
Senior Audit Manager					
IT Audit Specialist					
Senior Auditor					
Junior Auditor					
Other (specify)					
Total excluding VAT			**1 660**		
Disbursements					
Vat @ 15%					
Total audit costs inclusive of VAT - Year 1			**1 660**		
Total audit costs inclusive of VAT escalated at maximum of 5% - Year 2					
Total audit costs inclusive of VAT escalated at maximum of 5% - Year 3					
TOTAL					

The hours indicated above will be split as follow:

Description of service	Total hours per year
Basic audits outlined in par 4	1 052
Ad hoc management requests	40
Audits on risk registers	160
Investigations	120
Consulting	88
Risk -, Fraud policies, Frameworks, strategies and applicable charters	40
Probity audits on tenders	160
Total	**1 660**

12. EVALUATION PROCESS

After the closing date, an appointed Bid Evaluation Committee will evaluate the proposals received. The following evaluation process shall be followed:

12.1 Pre-qualification criteria:

Bidders will be required to meet the following pre-qualification criteria. Failure to meet these requirements will result in the disqualification of your proposal.

a) Potential service providers must be registered on the National Treasury's Central Supplier Database (CSD); The CSD registration report must be submitted. Prospective bidders must be tax compliant. **This proposal will not be awarded to any bidder who is not registered on the CSD, whose tax matters are not in order and is a restricted supplier.**

b) Only **B-BBEE Level 1** and **Level 2** contributors must submit a response to this bid. An original or originally certified copy (it must be fresh ink and not a copy) of a correct and valid B-BBEE certificate (**only SANAS accredited certificates will be accepted**) OR valid original sworn affidavit (whichever is applicable) must be submitted to confirm your Level 1 or 2 status. Failure to submit a B-BBEE certificate or sworn affidavit will result in the disqualification of your bid. Failure to submit a correct and valid certificate or sworn affidavit will result in the disqualification of your bid. Any enquiries in respect of B-BBEE Status Level Verification Certificates may be directed to the Department of Trade and Industry (DTI) at 0861 843 384. Bidders must note that sworn affidavits need to adhere to the requirements set out in The Broad Based Black Economic Empowerment Practice Guide 1 of 2018, Determining the validity of a Broad-based Black Economic Empowerment verification certificate, B-BBEE certificate and sworn affidavit, par 17.

   Special Note: Bidders must please ensure that sworn affidavits indicate the title of the deponent and the full financial year, not only the calendar year.

c) **Audit partners must be registered with the IIA or SAICA and proof of registration must be submitted with the proposal.**

d) **Detailed statement confirming the independence of the bidder and the proposed internal audit team as per Annexure A.**

12.2 **Evaluation Phases:**

- Phase 1: Functionality Evaluation

The service provider's proposal will be evaluated against the set criteria indicated under paragraph 12.3 below. A form will be used which will reflect the name of the service provider and the different criteria with space provided to record the points awarded and motivation for points awarded. The allocation of points will not be effected on a basis of consensus.

The following scoring matrix will be used:

Unable to evaluate	**Does not comply with the requirements**	**Partially complies with the requirements**	**Fully complies with requirements**	**Exceeds requirements**	**Exceptionally exceeds requirements**
0	1	2	3	4	5

The following formula will be used to convert the points scored against the weight:

$$Ps = \left(\frac{So}{Ms}\right) x100$$

Where:

Ps = Percentage scored for functionality by proposal under consideration

So = Total score of proposal under consideration

Ms = Maximum possible score

Service providers will be expected to achieve a minimum threshold score of 65% in order to proceed further in the evaluation.

A due diligence process will be conducted in respect of all short-listed bidders to determine the capability and ability of short-listed bidders to execute this contract. This may include a presentation by bidders with pre-determined questions being posed by the CBE, an investigation by the CBE of the bidder's previous contracts carried out, availability of skills or knowledge, existing work load, etc. Should negative feedback be obtained from the aforementioned, that will render the bidder unsuitable to execute the assignment, their proposal will be disregarded at this point and they will not proceed for further evaluation.

Should a presentation be required a set of pre-determined questions based on the submitted proposal will be posed. This will be evaluated based on a grading scheme of either consistent or not consistent with the proposal. Should more than 20% of the responses not be consistent to the bidder's proposal their proposal will be disregarded.

Should the bidder meet the requirements of due diligence, their proposal will proceed to Phase 2.

- Phase 2: Calculation of points

Please note that the proposals will be evaluated using the 80/20 preference point system where:

- 80 points are allocated for price and 20 points are allocated for the service provider's B-BBEE Level of Contribution.

During phase 2, points for price will be calculated for all shortlisted service providers in accordance with the following formula:

$$Ps = 80\left(1 - \frac{Pt - P\min}{P\min}\right)$$

Where:

Ps	=	Points scored for price of proposal under consideration
Pt	=	Rand value of proposal under consideration
Pmin	=	Rand value of lowest acceptable proposal

The final points will be calculated as follows:

Points for price:	80 points
B-BBEE Status Level of Contribution:	20 points
Final points:	100 points

A recommendation for award will then be formulated for approval by the relevant delegated authority.

12.3 **Evaluation Criteria**

The following criteria and weights shall apply when considering bids during Phase 1 of the evaluation process:

CRITERIA FOR FUNCTIONALITY	WEIGHT	SCORING GUIDELINE
Experience and methodology relevant to the assignment Bidders must submit a company profile illustrating the following information:	35	
• Provide a detailed proposal of the methodology/ approach to be used to carry out the scope of work, conforming to International Standards for the Professional Practice of Internal Auditing, outlined above and clearly demonstrate how the audit deliverables will be achieved. (15)		5 = Excellent (Meets and exceeds the expected level in terms of understanding the problem, proposed approach to achieve the end result, and displaying the ability to perform the necessary project administration functions) 4 = Very good (Above average understanding of the technical aspects and proposed solution of the project and displaying the ability to perform the necessary project administration functions) 3 = Good (Satisfactory in terms of understanding the technical requirements and should be adequate to achieve the end result but do not display the ability to perform the necessary project administration functions) 2 = Fair (Compliance with some of the technical and administrative requirements) 1 = Poor (Unacceptable, does not meet set criteria)
• Provide evidence of an information systems audit unit and functions of the unit within the proposed approach (10)		0= No information in respect of an Audit Information Systems unit 1 = Insufficient evidence of an existing Audit Information Systems unit 3 = Evidence of existing contracted outsourced Audit Information Systems function 4 = Evidence of a singular capacitated in house Audit Information Systems unit 5 = Evidence of a fully functioning Audit Information Systems unit within the operational structure of the firm

• Provide evidence of capacity to perform cursory/forensic investigations (10)		0= No information in respect of a forensic unit 1 = Insufficient evidence of an existing forensic unit 3 = Evidence of existing contracted outsourced forensic function 4 = Evidence of a singular capacitated in house forensic unit 5 = Evidence of a fully functioning forensic unit within the operational structure of the firm
Firm's Experience in internal audits of public entities • Minimum of 5 years' experience in the public sector (10) • Provide a minimum of **three** signed reference letters where the bidder has successfully concluded similar audit work in the public sector in terms of scope and complexity. (10)	20	0 = No experience 1 = Below 3 years 2 = 3-4 years 3= 5 years 4 = 6-9 years 5 = Above 10 years 0 = No letters 1 = List of contactable references 2 = Below 3 reference letters relevant to the assignment 3 = 3 letters relevant to the assignment 4 = 4 letters relevant to the assignment 5 = 5+ letters relevant to the assignment
Qualifications and experience of team members The bidders must submit, as part of its proposal the following: • The structure and composition of the proposed team, clearly outlining the main disciplines/ specialities (qualifications) of this audit and the key personnel responsible for each speciality. ○ Engagement Partner (10)	30	Qualification of Engagement Partner & Manager 3 = Registered internal auditor 4 = Registered internal auditor and one other relevant Registration i.e. ACFE, ISACA etc.

<table>
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<td>
Engagement Audit Manager (5)
Experience of senior project team members.
Engagement Partner (10)
Engagement Audit Manager (5)
Submit the condensed CV’s of the key resources to work on the project.
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<td></td>
<td>
5 = Registered internal auditor and two other relevant Registrations i.e. ACFE, ISACA etc.
<table>
<tr><th>Score</th><th>Experience of Engagement Partner</th><th>Experience of Engagement Manager</th></tr>
<tr><td>0</td><td>No Evidence of experience</td><td>No Evidence of experience</td></tr>
<tr><td>1</td><td>Below 5 years</td><td>Below 3 years</td></tr>
<tr><td>2</td><td>5 – 9 years</td><td>3-4 years</td></tr>
<tr><td>3</td><td>10 years</td><td>5 years</td></tr>
<tr><td>4</td><td>11-14 years</td><td>6-8 Years</td></tr>
<tr><td>5</td><td>15+ years</td><td>9+ years experience</td></tr>
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Ability to provide the services and adequate institutional support

The bidders must submit, as part of its proposal the following:

• Evidence of the latest satisfactory IIA firm-level quality review results. (10)

• Evidence of at least two partners (5)
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<td>15</td>
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0 = Unsatisfactory review result / No evidence
3 = Satisfactory internal quality review result
4 = Satisfactory external quality review result

0 = No evidence of number of registered partners
2 = 1 partner
3 = 2 partners
4 = 3-5 partners
5 = 5+ partners
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<tr><td>Total</td><td>100</td><td></td></tr>
<tr><td>Threshold Score</td><td>65</td><td></td></tr>
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Important Conditions of Bid:

- Prices for this contract are firm for the first year, and subject to a maximum escalation rate of 5.0% for the next two years.
- Pricing must be inclusive of VAT (if VAT registered).
- All Supply Chain Management compliant (required) documents must be completed in full and submitted. These include: SBD 1, 4, 6.1, 8 & 9.
- The General Conditions of Contract (GCC) are to be acknowledged and returned with your bid.
- All parties forming a joint venture or consortium for the purpose of this assignment must submit a separate CSD report for each party and all SBD forms and GCC must be completed by each party to the joint venture or consortium and submitted accordingly.
- Proposals must be hand delivered to 169 Corobay Avenue, Corobay Corner (Block A – 2nd Floor), Menlyn, Pretoria and deposited into the bid box.
- It is the responsibility of prospective bidders to ensure that their bid documents are submitted before the closing date and time of the bid.
- Proposals received after the closing time and date will not be considered for evaluation.
- The CBE reserves the right not to award this contract.
- The CBE reserves the right to disregard a bidders' proposal should it be found that work was previously undertaken for the entity to which poor performance was noted during the execution of such contract in the last 5 years.
- The CBE will enter into a formal contract with the successful bidder.
- Any change of information provided in the bid document that may affect service delivery by the successful bidder must be brought to CBE's attention as soon as possible. Failure to comply may result in the contract being terminated.
- Should the bidder present information intentionally incorrectly/fraudulently their proposal will be disqualified.
- Although adequate care has been given in the drafting of this document, errors such as those of a typographical nature may occur which the CBE will not be responsible for.
- The closing date for submission of bids is **28 February 2020** at **11:00am**.

**** Special Note: The CBE reserves the right not to award two contracts that are in direct conflict with each other to the same service provider.**

Written enquiries:

Supply Chain Management

Procurement Specialist: Mrs R Nanthlall Ganesh

Tel: 012 346 3985

Email: renusha@cbe.org.za

Technical

Manager: Finance: Mrs S Treeby

Tel: 012 346 3985

Email: sarie@cbe.org.za

ANNEXURE A: Confirmation of Independence

Council for the Built Environment
2nd Floor Corobay Corner
169 Corobay Ave
Waterkloof Glen

Date

To Whom it May Concern,

Letter of confirmation of independence from the Council for the Built Environment

[Insert Firm name] hereby confirms that independence and ethical requirements by all team members proposed for this assignment, are communicated during the planning, field work and finalisation phases of the audit and are monitored on a continuous basis.

I hereby confirm that our firm is independent with regard to the Council for the Built Environment and its related parties. I further confirm that all proposed members of the above engagement are in compliance with independence requirements as set out in the Internal Auditing Standards and the Quality Control Policies and Procedures of the firm and no matters have occurred during the duration of the financial year ending 31 March 2020 and the pre-planning phase of the audit which may impair the firm's independence.

I hereby confirm that [insert Firms name] currently does not do, nor have we done any work for the Council for the Built Environment which may result in a direct conflict of interest.

I hereby confirm that there is no conflict of interest between the Council for the Built Environment and any of the staff members involved in the audit. The capabilities and competence of the staff assigned to the audit was also assessed and found to be sufficient.

I further confirm that none of the directors of our firm sit on any audit or advisory committees of the Council for the Built Environment.

I hereby confirm that [Insert Firms name] has not been subject to any issues regarding ethical misconduct and the firm is currently not involved in any scandals which may impact our reputation.

Yours sincerely,

_____

Name of audit Partner