

TENDERING CONDITIONS AND STATEMENT OF REQUIREMENTS

RFT 18/2018 – External audit of Hunter Water Corporation

Tender Issue Date: 4 October 2018
Closing Date: 5 November 2018
Closing Time: 5:00pm

Contact Officer

Tenderers should refer requests for information or advice regarding this RFT to:

CONTACT NAME	Peter Coulogeorgiou, Chief Financial Officer
CONTACT POSTAL ADDRESS	The Audit Office of NSW, GPO Box 12, SYDNEY NSW 2000
CONTACT PHONE	9275 7460
CONTACT EMAIL ADDRESS	procurement@audit.nsw.gov.au

Any information given to a tenderer to clarify any aspect of this RFT will also be given to all other tenders if in the opinion of the Audit Office of NSW it would be unfair not to do so.

COPYRIGHT

This RFT is protected by Crown copyright.

All rights reserved. No part of this RFT may be produced by any process, electronic or otherwise, in any material form or transmitted to any other person or stored electronically in any form, without the prior written permission of the State of New South Wales, except as permitted under the *Copyright Act 1968*.

Contents

RFT OVERVIEW	1
1. Scope of RFT	1
2. RFT Structure	1
3. Performance Framework	2
TENDERING CONDITIONS	3
4. Tender Preparation	3
5. Eligibility to Tender	3
6. Tender Process	4
STATEMENT OF REQUIREMENTS	10
7. Background and Auditing in the Public Sector	10
8. Description of Services	11
9. Engagement team and working papers	13
10. Quality Assessments	13
11. Expectations of Audit Service Providers	13
12. Performance Measures	14
13. Professional Referees	14
14. Staffing, Independence and additional services	14
15. Confidentiality and Conflict of Interest	15
16. Insurance and Indemnity	15
17. Payment Terms	16
SCHEDULE 1	17
SCHEDULE 2	18
Evaluation criteria	18

RFT OVERVIEW

1. Scope of RFT

1.1 Purpose

- 1.1.1 This RFT 18/2018 – External audit of Hunter Water Corporation seeks tenders from qualified audit firms capable of delivering external audit services to the Auditor-General of NSW (Auditor-General) for the audits listed in Schedule 1, and as described in the Statement of Requirements in the Tendering Conditions.

1.2 Contract and Duration

- 1.2.1 The Auditor-General (the Principal) will enter into a contract in the form of the 'Agreement to Provide Auditing Services' (the Head Agreement) with the successful tenderer to provide external audit services to the Principal.
- 1.2.2 The contract will cover the audits of the financial years ending 30 June 2019 to 30 June 2022, with an option to extend for the 30 June 2023 and 30 June 2024 financial years.

1.3 Payment for auditing services

- 1.3.1 Tenderers will be required to provide a fixed price for the external audit for the year ending 30 June 2019. Tenderers must indicate the proposed method of escalation, if any, over the life of the agreement.
- 1.3.2 It is not envisaged the price for the audit services will deviate from the agreed prices over the life of the contract, unless the scope of the audits change and the Principal agrees to the changes.

1.4 NSW Government requirements

- 1.4.1 The successful tenderer must comply with applicable NSW Government policies, guidelines, and Standards, as listed in the Head Agreement.

1.5 NSW Government Procurement Reforms

- 1.5.1 The NSW Government is overhauling its system for purchasing goods and services. The objective of the reform program is to ensure that the NSW Government has a world class procurement system which delivers value for money, is aligned with business needs, leads to service delivery improvement and supports a competitive and innovative NSW economy.
- 1.5.2 In November 2012, the NSW Procurement Board issued the NSW Government's Strategic Directions Statement. The three overarching procurement reform objectives in the Strategic Directions Statement are value for money, delivering quality government services and alignment with business needs.
- 1.5.3 The NSW Government's Strategic Directions Statement recognises that an effective procurement system will deliver value for money for government. Procurement activity needs to consider the total value derived by government over the life of a contract/strategy.

2. RFT Structure

2.1 Tendering Conditions and Statement of Requirements

- 2.1.1 This provides the terms, conditions and processes governing the tender phase of the RFT. The Statement of Requirements is a detailed description of the external audit services to be provided by the successful tenderer including technical specification, service levels and performance framework. Taken together with the accepted parts of the tenderer's response, this will form part of the Head Agreement.

2.2 Tender Response

- 2.2.1 This is the response prepared by the tenderer to enable the Principal to evaluate the tenderer's offers. The tenderer must also complete Attachment A 'Supplementary Tender Response' and Attachment B 'Audit hours and fees' as part of their response.

2.3 Head Agreement

This is the '[Agreement to Provide Auditing Services \(Head Agreement\)](#)' (dated 4 September 2018) which is available on the Audit Office of NSW (the Audit Office) website and via the above link.

It contains the terms and conditions of the contractual arrangement between the successful tenderer and the Principal to enable the supply of the external audit services.

3. Performance Framework

The Principal is committed to engaging audit firms who are able and willing to continually improve their performance during the term of the proposed Head Agreement.

TENDERING CONDITIONS

4. Tender Preparation

4.1 Tenderer to inform itself

- 4.1.1 Before submitting its tender, a tenderer must:
- a) examine all information relevant to the risks and contingencies and other circumstances having an effect on its tender
 - b) satisfy itself:
 - i) that the tender, including the price offered is correct
 - ii) that it is financially and practically viable for it to enter into and perform the proposed Head Agreement.
- 4.1.2 Tenderers must not contact the auditee before the close of tenders without the approval of the Audit Office.

4.2 Assumptions made by Tenderer

- 4.2.1 Where a tenderer has made assumptions in preparing its tender, such assumptions must be set out in a supporting statement and submitted with the tender.

4.3 Information Supplied

- 4.3.1 The information contained in the Statement of Requirements has been provided with due care and is intended only for the tenderer's guidance, but is not guaranteed as being accurate for future needs.

5. Eligibility to Tender

5.1 Legal Entity of Tenderer

- 5.1.1 Tenders must be submitted by a legal entity with the capacity to contract. The Principal will only enter into a Head Agreement with such legal entity.
- 5.1.2 The Principal may ask a tenderer to provide evidence of its legal status or capacity to contract. If tenders from entities propose to contract in their capacity as trustees, such evidence may include copies of the relevant trust deeds. Any evidence requested is to be provided within 3 working days of the request.

5.2 Financial Capacity of Tenderer

- 5.2.1 The Principal reserves the right to reject any tender if the Principal judges the tenderer not to have appropriate financial capacity. The financial capacity of a tenderer includes, but is not limited to, the following factors in relation to the tenderer, its parent or associated entities:
- a) Significant events, matters or circumstances affecting the operations of the tenderer
 - b) Mergers or acquisitions occurring within the past twelve months
 - c) Bankruptcy actions against a director within the past five years
 - d) De-registration actions
 - e) Other factors that impacts on the financial capacity of the tenderer.
- 5.2.2 Where the Principal forms the view that the tenderer does not have the appropriate financial capacity, the Principal reserves the right to make acceptance of any tender conditional upon the tenderer entering into a bank, parent company or personal guarantee, or an unconditional performance bond in a form satisfactory to the Principal.

5.3 ABN Requirements

- 5.3.1 The Principal will not enter into an Agreement with an audit firm that does not have an Australian Business Number and is not registered for GST. Tenderers must be registered for GST and state their ABN in their tender.

5.4 Pricing

- 5.4.1 Fixed pricing of the external audit services for financial year ending 30 June 2019 must be provided:

- a) by hours and hourly rates for each staff level
- b) by each phase of the audit.

Tenderers must also indicate the proposed method of price escalation, if any, over the life of the agreement and option period. This is to be done by completing Attachment B 'Audit hours and fees'.

- 5.4.2 The tenderer must disclose its engagement resourcing and pricing information separately from the main tender response. The Tender Evaluation Committee will evaluate the tender against the technical criteria in Schedule 2 before opening and considering the audit hours and price.

- 5.4.3 Pricing for the external audit services will need to incorporate any expected expenses such as transport, airfares, accommodation and per diem.

6. Tender Process

6.1 Provisional RFT Program

- 6.1.1 Below is the Principal's provisional RFT program. The Principal may, at its absolute discretion, amend the provisional RFT program.

Milestone	(dd/mm/yyyy)
RFT issued	04/10/2018
Information pack available from	05/10/2018
Information session	16/10/2018
RFT Close Date	05/11/2018
Tender evaluation committee meeting	Before 12/11/2018
Execution of Agreement (estimated)	By 30/11/2018

6.2 Conformity of Tenders

The Principal seeks Conforming Tenders. Non-Conforming Tenders may be excluded from the tender process without further consideration at the Principal's discretion.

6.3 Alternative Tenders

- 6.3.1 Tenderers may, if they choose, submit an Alternative Tender. Alternative Tenders will only be considered if submitted in conjunction with a Conforming Tender. An Alternative Tender must be clearly marked 'Alternative Tender'.

6.4 Tender Lodgement

- 6.4.1 Tenders (including all supporting information, if any) must be received by the Closing Date and Closing Time. Tenderers must also complete Attachment A 'Supplement Tender Response' and Attachment B 'Audit hours and fees' as part of their response and not amend any of the questions provided. Prices, responses and other information provided in the tender must be in writing and in English. The tender price must be in Australian dollars.
- 6.4.2 The Tender must be submitted electronically to the electronic tender box for this RFT via the NSW Department of Finance, Services and Innovation tenders website at: www.tenders.nsw.gov.au (Login in as a system user, locate the web page for this RFT, and follow the on screen instructions to lodge the tender). The lodgement can only be made by a registered system user of the NSW Government eTendering system.
- 6.4.3 Tenderers should notify the Contact Officer in writing on or before the Closing Date and Time if they find any discrepancy, error or omission in this RFT.

6.5 Electronic Tenders

- 6.5.1 A tender submitted electronically will be treated in accordance with the *Electronic Transactions Act 2000* (NSW), and given no lesser level of confidentiality, probity and attention than tenders lodged by other means.
- 6.5.2 A tenderer, by electronically lodging a tender, is taken to have accepted conditions shown in the Conditions and rules on the NSW Department of Finance, Services and Innovation tenders website at www.tenders.nsw.gov.au
- 6.5.3 Electronically submitted tenders may be made corrupt or incomplete, for example by computer viruses. The Principal may decline to consider for acceptance a tender that cannot be effectively evaluated because it is incomplete or corrupt.
- 6.5.4 To reduce the likelihood of viruses, a tenderer must not include any macros, applets, or executable code or files in a tender response.
- 6.5.5 A tenderer should ensure that electronically submitted files are free from viruses by checking the files with an up to date virus-checking program before submission.
- 6.5.6 The Principal will not be responsible in any way for any loss, damage or corruption of electronically submitted tenders.

6.6 Tender Validity Period

- 6.6.1 The Tender will remain open for acceptance by the Principal for a period of three months from the Closing Date and Closing Time for tenders.

6.7 Late Tenders

- 6.7.1 Late tenders will not be considered, except where the Principal is satisfied that the integrity and competitiveness of the tendering process has not been compromised. The Principal will not penalise any supplier whose tender is received late if the delay is due solely to mishandling by the Principal.

6.8 Extension of Closing Date and Closing Time

- 6.8.1 The Principal may, at its discretion, extend the Closing Date and Closing Time.

6.9 Corruption or Unethical Conduct

- 6.9.1 Tenderers must comply with the requirements in the Audit Office's Statement of Business Ethics and must disclose any conflicts of interests in the Tender Response.

- 6.9.2 If a tenderer, or any of its officers, employees, agents or sub-contractors is found to have:
- a) offered any inducement or reward to any public servant or employee, agent or subcontractor of the Principal, or the auditee in connection with this RFT or the submitted Tender
 - b) committed corrupt conduct in the meaning of the *Independent Commission Against Corruption Act 1988*
 - c) a record or alleged record of unethical behaviour; or not complied with the requirements of the Audit Office's Business Ethics Statement available at:
http://www.audit.nsw.gov.au/ArticleDocuments/100/Statement_Of_Business_Ethics_Audit_Office_NSW.pdf.aspx?Embed=Y

this may result in the tender not receiving further consideration.

- 6.9.3 The Principal may, at its discretion, invite a relevant tenderer to provide written comments within a specified time before the Principal excludes the tenderer on this basis.
- 6.9.4 If the Principal becomes aware of any improper conflict of interests by a successful tenderer after an Agreement has been executed, then the Principal reserves the right to terminate the Head Agreement.

6.10 Goods and Services Procurement Policy Framework

- 6.10.1 In submitting its tender, the tenderer signifies agreement to comply with the NSW Government's Goods and Services Procurement Policy Framework.
- 6.10.2 Failure to comply with the NSW Government's Goods and Services Procurement Policy Framework may be taken into account by the Principal when considering the tenderer's tender or any subsequent tender, and may result in the tender being passed over.

6.11 Addenda to RFT

- 6.11.1 If, for any reason the Principal, at its sole discretion, requires the RFT to be amended before the Closing Date and Time, an Addendum will be issued. In each case, an Addendum becomes part of the RFT. The Principal, during the tender period may issue Addenda altering the RFT. In such cases, it is the obligation of the tenderer to verify if any Addenda were issued prior to the Closing Date, even if a tender has already been submitted.
- 6.11.2 Tenderers must check the web site address, <https://tenders.nsw.gov.au/>, and download the Addendum.

6.12 Costs of Tenderer participating in the RFT

- 6.12.1 The tenderer acknowledges that the Principal will not be liable to it for any expenses or costs incurred by it as a result of its participation in this RFT, including where the RFT is discontinued.

6.13 Ownership of Tenders

- 6.13.1 All tenders become the property of the Principal on submission. The Principal may make copies of the tenders for any purpose related to this RFT.

6.14 Discontinuance of Tender Process

- 6.14.1 Where the Principal determines that awarding a contract would not be in the public interest, the Principal reserves the right to discontinue the tender process at any point, without making a determination regarding acceptance or rejection of tenders.

6.15 Variations to Tenders

- 6.15.1 At any time after the Closing Date of tenders and before the Principal accepts any tender received in response to this RFT, a tenderer may, subject to 6.15.2, vary its tender:
- a) by providing the Principal with further information by way of explanation or clarification
 - b) by correcting a mistake or anomaly, or
 - c) by documenting agreed changes negotiated.
- 6.15.2 Such a variation may be made either:
- a) at the request of the Principal, or
 - b) with the consent of the Principal at the request of the tenderer; but only if:
 - i) in the case of variation requested by the tenderer under clause 6.15.1 a)-b), it appears to the Principal reasonable in the circumstances to allow the tenderer to provide the information or correct the mistake or anomaly
 - ii) in the case of variation 6.15.1 c), the Principal has confirmed that the draft-documented changes reflect what has been agreed.
- 6.15.3 If a tender is varied in accordance with 6.15.1 a) or 6.15.1 b), the Principal will provide all other tenderers whose tenders have similar characteristics with the opportunity of varying their tenders in a similar way.
- 6.15.4 A variation of a tender under clause 6.15.1 will not be permitted if in the Principal's view:
- a) it would substantially alter the original tender
 - b) in the case of variation under 6.15.1 a) or 6.15.1 b), it would result in the revising or expanding of a tender in a way that would give a tenderer an unfair advantage over other tenderers.

6.16 Evaluation Process

- 6.16.1 Tenders will be assessed against the evaluation criteria listed in Schedule 2. Tenders will be assessed against the technical specifications before the tender evaluation committee opens and considers the audit hours and pricing information. Information supplied by the tenderer in the Tender Response will contribute to the assessment against each criterion.
- 6.16.2 Tenderers are advised to respond clearly to all the evaluation criteria listed in this RFT by providing information as requested in Attachment A. Tenders:
- a) that do not comply with Section 4 General Compliance of Attachment A
 - b) that do not contain sufficient information to permit a proper evaluation to be conducted
 - c) submitted electronically that cannot be effectively evaluated because the file has become corrupt
- may be excluded from further consideration at the Principal's discretion.
- 6.16.3 The Principal may assess an Alternative Tender against the evaluation criteria where submitted with a Conforming Tender.

6.17 Evaluation Criteria

- 6.17.1 The evaluation criteria for this RFT is set out in Schedule 2.

6.18 Reference Checks

- 6.18.1 The Principal may undertake the following activities as part of the evaluation process:
- a) conduct reference checks by approaching referees nominated by tenderers
 - b) consider past performance for those tenderers that have previously worked with the Audit Office by conducting internal reference checks.

6.19 Presentations by Tenderer

- 6.19.1 The Principal may at its discretion, and as part of the evaluation process, invite any or some of the tenderers to make a presentation regarding their tender. The tenderer shall make any presentations at its own cost. However, receiving a presentation by a tenderer in no way represents a commitment by the Principal to accept any aspect of the tender. All information obtained during the course of presentation may be taken into consideration in the evaluation of tenders.

6.20 Acceptance or Rejection of Tenders

- 6.20.1 The Principal is not bound to accept the lowest priced tender.
- 6.20.2 If the Principal rejects all the tenders received it may invite fresh tenders based on the same or different criteria.
- 6.20.3 The Principal expressly reserves the right to accept, at its discretion, either or both of the following:
- a) any Alternative Tender or part of an Alternative Tender, when submitted with a Conforming Tender
 - b) any other Non-Conforming Tender or part of a Non-Conforming Tender (not, in either case, being an Alternative Tender or part of an Alternative Tender) that, in the Principal's opinion, is substantially a Conforming Tender.

6.21 Post Tender Negotiations

- 6.21.1 Before making any determination as to acceptance or rejection of tenders the Principal may, at its discretion, elect to conduct limited negotiations with preferred tenderers, including those who have submitted Alternative Tenders or who have submitted Conforming Tenders, to mutually improve outcomes. The Principal will not enter into negotiations to amend the Head Agreement.
- 6.21.2 If the Principal considers that none of the tenders are fully acceptable either because of non-conformance or because they do not represent sufficient value for money, but considers that full conformity is achievable, negotiations may be conducted with the tenderer that submitted the most conforming tender based on the evaluation criteria. The purpose of the negotiations will be advised by the Principal and made clear to the participants before the commencement of negotiation.
- 6.21.3 The Principal may at its absolute discretion elect to conduct post tender negotiations under 6.21 with more than one tenderer in the event that it decides that the closeness of the tenders or timing constraints warrants doing so.
- 6.21.4 The Principal reserves the right to unbundle the audits listed in Schedule 1 and negotiate two or more separate packages of works. This may occur when:
- a) the Principal believes better value for money can be achieved, or a perceived or actual conflict of interests exists between a tenderer and one or more audits
 - b) the Principal believes the preferred tenderer does not have the capacity to deliver all the audits.

Where this occurs, the Principal may directly negotiate with one or more of the tenderers or other audit firms that have tendered for similar works in the past.

6.22 Exchange of Information between government agencies

- 6.22.1 By lodging a tender, the tenderer will authorise the Principal to make information available, on request, to any NSW Government agency. This includes information dealing with the tenderer's performance on any prior contract that has been awarded. Such information may be used by the recipient NSW Government agency for assessment of the suitability of the tender for pre-qualification, selective tender lists, expressions of interest or the award of a contract.

- 6.22.2 The provision of the information by the Principal to any other NSW Government agency is agreed by the tenderer to be a communication falling within section 30 of the *Defamation Act 2005* (NSW), and the tenderer shall have no claim against the Principal and the State of New South Wales in respect of any matter arising out of the provision or receipt of such information, including any claim for loss to the tenderer arising out of the communication

6.23 Method of Acceptance

- 6.23.1 Acceptance of a tender or part tender will be subject to the execution of a Head Agreement. Until the Principal and the successful tenderer(s) execute a formal Head Agreement, there will be no legally enforceable agreement concluded between them.

6.24 Disclosure Information

- 6.24.1 Following the Principal's decision, all tenderers will be notified in writing of the outcome of their Tenders.
- 6.24.2 Details of this tender and the outcome of the tender process will be disclosed in accordance with the *Government Information (Public Access) Act (NSW) 2009*.

6.25 Complaints Procedure

- 6.25.1 It is the Audit Office of NSW's objective to ensure that tenderers are given every opportunity to win tenders. Should any tenderer feel that it has been unfairly excluded from tendering or unfairly disadvantaged by the Head Agreement or the Statement of Requirements, it is invited to write to:

Director, Office of the Auditor-General
Audit Office of NSW
Level 15, 1 Margaret Street
SYDNEY NSW 2000
Email: complaints@audit.nsw.gov.au

STATEMENT OF REQUIREMENTS

7. Background and Auditing in the Public Sector

- 7.1. The Auditor-General of NSW (the Auditor-General) is an important pillar of the accountability framework for the public sector in New South Wales. The Auditor-General is accountable to the NSW Parliament and is responsible for audits and related services.
- 7.2. The Auditor-General conducts financial and performance audits, principally under the *Public Finance and Audit Act 1983* (PF&A Act) and the *Local Government Act 1993* (LG Act), and examines allegations of serious and substantial waste of public money under the *Public Interest Disclosures Act 1994*. The Auditor-General is supported by the Audit Office, a statutory authority established under the PF&A Act.
- 7.3. The Auditor-General must act in the public interest without fear or favour to maintain public and Parliamentary confidence. The powers and duties of the Auditor-General are primarily set out in the PF&A Act. However, other Acts, such as the LG Act and the Corporations Act may also give rise to powers and duties.
- 7.4. The PF&A Act provides that the Auditor-General is appointed by the Governor and may hold office for a period not exceeding eight years. The office of Auditor-General is an independent appointment, free from ministerial control.
- 7.5. The Auditor-General has the functions conferred or imposed on the Auditor-General by law. They include:
 - a) to audit the consolidated financial statements, the general government sector financial statements and any other financial reports that the Auditor-General is required or authorised to audit by law
 - b) to provide any particular audit or audit-related service to Parliament at the joint request of both Houses of Parliament
 - c) to provide any particular audit or audit-related service to the Treasurer at the request of the Treasurer or to any other Minister at the request of that other Minister
 - d) to report to Parliament as required or authorised by law
 - e) to do anything that is incidental to the exercise of the Auditor-General's functions
 - f) to conduct an audit of all or any particular activities of an auditee to determine whether it is carrying out those activities effectively and doing so economically and efficiently and in compliance with all relevant laws.
- 7.6. The Audit Office's vision is 'Our insights inform and challenge government to improve outcomes for citizens' and its purpose is 'To help parliament hold government accountable for its use of public resources'. More information about the Audit Office, its operating environment, its strategic risks and how it wants to operate can be found in the 2017-2020 Corporate Plan at <https://www.audit.nsw.gov.au/about-us/our-corporate-plan>.
- 7.7. Public sector audits provide important checks and balances to our system of government. They ensure there is accountability, integrity and transparency in the management and use of public resources, which is fundamental to building community trust.
- 7.8. The successful tenderer will be appointed as an Audit Service Provider (ASP). More information about the role and responsibilities of an ASP are set out in the 'Agreement to Provide Auditing Services' (i.e. the Head Agreement) and the ASP Manual. These documents can be accessed at <https://www.audit.nsw.gov.au/audit-service-providers>. The Principal reserves the right to amend the ASP Manual at any time during the contract period to meet new or revised statutory obligations or central NSW Government policy directives.
- 7.9. The external audit services provided by the successful tenderer will be subject to oversight by the Audit Office.

- 7.10. The Principal seeks to ensure contracts with ASPs are outcomes focused, and encourage rather than inhibit efficiency or innovation from internal or external providers. The Principal needs to demonstrate to New South Wales Parliament that all public sector financial audits:
- a) provide value for money to Parliament and the audited entity
 - b) are sensitive to risks and needs relevant to the sector
 - c) comply with professional standards and legal requirements.
- 7.11. To assist with the tender preparation, a copy of the Auditee's Annual Report and the audited financial statements can be found on their website.
- 7.12. The following information will be available to tenderers from 5 October 2018:
- a) the 2018-19 budget
 - b) any known changes to accounting systems/processing arrangements during the term of the Head Agreement
 - c) the anticipated 2018-19 financial reporting timetable.
- 7.13. To access the information listed above, tendering firms will be required to sign a confidentiality and non-disclosure agreement.
- 7.14. The Audit Office will arrange an information session where tenderers can obtain more specific information about Hunter Water Corporation.
- 7.15. The tenders will be evaluated by a Tender Evaluation Committee (TEC) comprising representatives from the Audit Office. The auditee will provide input to the TEC during the evaluation process, but will not be a voting member. Tenders will be assessed against the evaluation criteria listed in Schedule 2. Information supplied by the tenderer in the Tender Response will contribute to the assessment against each criterion.

8. Description of Services

- 8.1. The external audit services provided shall include an attest audit coverage which can be defined as the audit work necessary to enable an opinion to be expressed as to whether a financial report is presented fairly in accordance with the requirements of:
- a) PF&A Act and Regulation
 - b) other applicable statutory requirements
 - c) Australian Accounting Standards (including Australian accounting interpretations)
 - d) other mandatory professional reporting requirements forming part of the financial reporting framework.
- 8.2. When forming an opinion on financial information, the ASP must consider the auditee's compliance with statutory and other requirements.
- 8.3. The external audit services include collating information for the preparation of the Auditor-General's Report to Parliament. A copy of this year's report can be accessed at <https://www.audit.nsw.gov.au/publications/financial-audit-reports/2018-reports>.
- 8.4. As a general rule, the ASP is expected to attend audit and risk committee meetings held by the auditee throughout the year. This may be via physical presence at the meeting or through teleconference or video conference facilities.
- 8.5. In addition to the attest audit coverage, the services provided should also include reasonable services which a professional auditor would normally supply as part of an audit. These could include services such as evaluating the effectiveness and efficiency of internal control and accounting systems, reviewing management procedures, providing interpretations of relevant new or revised accounting standards, legislation, etc. The Auditing Services to be

provided by the ASP may include such other services as agreed to in writing between the ASP and the Principal.

- 8.6. The broader mandate of a public-sector audit means balancing audit efficiency with audit effectiveness. Achieving the latter can mean investing more time on certain procedures, focusing on key areas or themes each year, and applying lower thresholds when determining the scope of our audits.
- 8.7. In providing the external audit services, the ASP shall:
- a) have regard for evaluating an auditee's system of internal control, which includes considering: the control environment; the risk management framework; control activities; the quality and effectiveness of information and communications; and monitoring of activities
 - b) test the design, implementation of relevant controls (including information technology controls) and where deemed appropriate the operating effectiveness of key internal controls implemented by an auditee to manage its risks
 - c) review the governance and practices of specific areas of focus each year, as determined by the Audit Office through its annual work plan e.g. project management, procurement practices, use of credit cards
 - d) assess compliance with key legislation and central agency policy directives
 - e) have regard for financial prudence, significant waste and probity.
- 8.8. Where practical, the ASP shall implement innovative practices to achieve continuous improvements in the efficiency and effectiveness of each audit.
- 8.9. Audit innovation is considered to be changes to the way we work that improve efficiency and/or effectiveness. Audit innovation is not restricted to technology such as automation and machine learning. It can be the way audit teams are structured, how teams work and the way work is allocated and executed.
- 8.10. When setting planning materiality for each audit, there is an expectation the materiality level will not exceed the amount set by the Audit Office for audits of a similar nature and size.
- 8.11. The ASP shall report only to the Audit Office. All reports and formal correspondence with management and those charged with governance of the auditee must be prepared using Audit Office templates. The Audit Office templates contain instructions on content, timing, recipients, addressees, and other guidance and background information. The ASP is responsible for:
- a) proposing the content of written auditee communications and discussing it with the Audit Office
 - b) drafting the correspondence, while allowing sufficient time for review by the Audit Office. The Audit Office will send all formal written communications to the auditee. These communications will be signed by the Audit Office, not the partner or other staff member at the ASP.
- 8.12. The ASP shall provide to the Principal and the Audit Office:
- a) a Contractor Representation Letter, including recommending the form and content of the audit opinion to be expressed on the auditee's financial report
 - b) reporting material which will be used by the Auditor-General in the Auditor-General's Annual Report to Parliament or other reports issued by the Auditor-General in accordance with legislative requirements
 - c) a recommendation on the form and content of the Statutory Audit Report required by section 43(2) or section 45(2) of the PF&A Act.

9. Engagement team and working papers

- 9.1. No changes to Specified Personnel will be permitted unless prior written approval has been issued by the Principal. Where it may become necessary for the successful firm to replace Specified Personnel, the ASP will be required to notify the Principal in writing, provide relevant skills and qualifications, and give reasons for the proposed change. The Principal may accept or refuse nominated replacement personnel. The ASP will be responsible for handover and knowledge transfer to new Specified Personnel to minimise the disruption to the Principal and the auditee.
- 9.2. The Principal will require the successful firm to demonstrate the Specified Personnel have been cleared by a National Police Check prior to commencing any work on behalf of the Principal.
- 9.3. The working papers from the external audit services will be the property of the Principal and the Audit Office.
- 9.4. The ASP will need to provide the Principal and the Audit Office with timely access to its working papers at all times during the agreement period. Within 30 days after finalising the Independent Auditor's Report, the working papers will be delivered to the Audit Office in an electronic format for retention.

10. Quality Assessments

- 10.1. The ASP will co-operate fully with independent Quality Assessments of the performance of the External Audit by the Audit Office. This includes the monitoring program administered by the Audit Office's Quality Audit Review Committee (QARC).
- 10.2. The Audit Office QARC monitors audit quality. Where an audit is selected for review, the QARC will appoint a qualified professional auditor, independent of the engagement team to conduct the review. The quality reviewer will notify the ASP of any findings in writing at the conclusion of the review.

11. Expectations of Audit Service Providers

- 11.1. ASPs are expected to:
 - a) acknowledge the Auditor-General as the appointed auditor
 - b) understand and act in accordance with the principles set out in the Audit Office's Statement of Business Ethics, available on the Audit Office's website
 - c) have quality assurance systems that comply with Auditing Standard ASQC 1 'Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements' and APES 320 'Quality Control for Firms'
 - d) use an audit methodology that complies with the requirements of Australian Auditing Standards (ASAs) and Australian Pronouncements of Ethical Standards
 - e) observe ethical standards and professional independence requirements including APES 110 'Code of Ethics for Professional Accountants'
 - f) observe the requirements of applicable legislation including the *Corporations Act 2001* (Corps Act) where applicable, the PF&A Act and LG Act
 - g) adhere to the requirements in the Agreement to Provide Auditing Services
 - h) adhere to the requirements in the Audit Service Provider's Manual
 - i) have the necessary skills, competence and experience to undertake a public sector audit as an agent for the Auditor-General
 - j) ensure staff assigned to engagements have appropriate professional qualifications, skills, competence and experience
 - k) resource the audit team sufficiently so it can perform the engagement within the agreed timetable

- l) communicate with, follow the instructions of, and report to the group auditor where the engagement is a component within a group (i.e. for auditees that are consolidated into an economic entity)
- m) consult with the Audit Office:
 - i) on difficult and contentious issues
 - ii) on the form and content of formal written communications with the auditee using the Audit Office templates and stationery
 - iii) at agreed stages of the audit and under agreed conditions
 - iv) on any intention to subcontract, outsource or 'off-shore' any component of a contracted audit.

12. Performance Measures

- 12.1. The ASP's performance will be regularly assessed during the course of the external audit services in accordance with the Head Agreement and the ASP Manual.
- 12.2. At the end of each financial audit, the Audit Office will assess the ASP's performance using the performance evaluation framework in the ASP Manual. The Audit Office will also seek formal feedback from the auditee on the ASP's performance. The annual performance assessment will be used to identify areas of compliance, areas requiring further improvement and any disciplinary matters.

13. Professional Referees

- 13.1. Tenderers to the RFT will be required to provide contact details of at least two professional referees where they have provided external audit services for similar organisations.

14. Staffing, Independence and additional services

- 14.1. Tenderers to this RFT must specify the Specified Personnel and subcontractors who will provide the external audit services in Attachment A. The Specified Personnel are those individuals who will fulfil the roles of engagement partner and engagement quality control reviewer (where applicable).
- 14.2. Tenderers to this RFT must specify subcontractor arrangements in Attachment A.
- 14.3. The external audit services will be delivered in accordance with the Australian Auditing Standards, Australian Pronouncements of Ethical Standards, and where applicable the PF&A Act and the LG Act and any other relevant professional requirements.
- 14.4. Tenderers should provide details of services they provided to the auditee over the last two financial years, including internal audit, accounting assistance and advice, contract staff and consulting. Tenderers should also explain why the previous services do not create a conflict of interest in the context of the requirements and principles in APES 110 'Code of Ethics for Professional Accountants'.
- 14.5. The successful audit firm will be allowed to provide additional services to the Auditee outside the approved external audit services contract, subject to the audit firm:
 - a) demonstrating that the additional work enables ongoing compliance with APES 110 'Code of Ethics for Professional Accountants'
 - b) obtaining the Principal's prior approval.
- 14.6. The Principal has a policy that Specified Personnel should generally not spend more than five to seven years on any assurance engagement. Following rotation, a period of two years should elapse before the Specified Personnel is involved again on that engagement. This five to seven year period includes any previous contract arrangements with the Principal immediately before this arrangement.

- 14.7. The Principal is prepared to grant an exemption regarding the tenure of Specified Personnel in exceptional circumstances. Where the audit firm is proposing to go beyond the five to seven year period, they should outline in their tender the safeguards they will put in place to mitigate against the familiarity threat.
- 14.8. The Auditor-General is only mandated to perform audit or audit related services for auditees. However, ASPs engaged by the Audit Office are not constrained by our mandate and may undertake additional non-audit related services. The Auditor-General's (or their delegate's) written approval is required before commencing an engagement to provide:
- a) other audit and audit related services
 - b) non-audit related services.
- 14.9. The Auditor-General's approval to provide any additional service is required, regardless of whether the work will be performed directly or indirectly, for the auditee or, in the case of a group audit, another component entity within the group.

15. Confidentiality and Conflict of Interest

- 15.1. The ASP will be required to maintain the confidentiality of all information provided to perform the external audit services.
- 15.2. All Specified Personnel will sign a Conflict of Interest Statement prior to commencing work, and then a Conflict of Interest Statement each year thereafter.

16. Insurance and Indemnity

- 16.1. The ASP shall effect and maintain during the currency of the Head Agreement, an indemnity insurance policy with a covering amount in accordance with the Regulations of Chartered Accountants Australia and New Zealand or CPA Australia's By-law.
- 16.2. The ASP be required to maintain insurances for the term of the contract of:
- a) Public Liability Insurance of \$20 million
 - b) Professional Indemnity Insurance with a covering amount in accordance with the Regulations of Chartered Accountants Australia New Zealand or CPA Australia's by Laws
 - c) Workers Compensation Insurance to the extent required by law.
- 16.3. The ASP's aggregate liability in relation to the performance of the external audit services, including any indemnity in the Head Agreement, shall be limited by the application of the Institute of Chartered Accountants Australia and New Zealand Professional Standards Scheme (NSW) approved under the Professional Standards Act (NSW) 1994 (PSL) or other such applicable scheme approved under the PSL.
- 16.4. Prior to commencement and each year thereafter, the ASP will be required to provide insurance Certificates of Currency to the Audit Office.
- 16.5. Under the Head Agreement, the ASP will indemnify the Principal, the Audit Office, its employees and agents against liability in respect of all claims, costs and expenses and for all loss, damage, injury or death to persons or property caused by the ASP in connection with the provision of the external audit services, except to the extent the Audit Office caused the relevant loss, damage or injury.
- 16.6. The ASP must, at its expense, make good the amount of all claims, loss, damage, costs and expenses the subject of the indemnity in section 16.3, and the Audit Office may deduct the amount, or any part of it, from any moneys due or becoming due to the ASP.

17. Payment Terms

- 17.1. The Audit Office will pay ASP invoices when the ASP demonstrates completion of the relevant stages of the audit. Invoices will only be paid once the stage of work has been completed to the satisfaction of the Audit Office.

SCHEDULE 1

- Hunter Water Corporation

SCHEDULE 2

Evaluation criteria

Criteria	Proposed Weighting
Working with the Auditor-General and the Audit Office: <ul style="list-style-type: none"> Understanding of the Auditor-General's role Proposed approach to working with the Auditor-General and Audit Office Ability to contribute to the Audit Office's vision of 'Our insights inform and challenge government to improve outcomes for citizens' Extent of public sector audit experience and/or experience in performing audits of similar size and complexity Audit firm quality practices and audit methodology. 	20
Auditee knowledge and industry risk assessment Understanding of the auditee, their environment and key areas of business risk.	10
Engagement risk assessment Identification of key areas of audit risk, the relationship (if any) to business risks and how these will be addressed.	15
Team resourcing Total hours allocated to the audits and the mix of hours between different staff levels, and the opportunity to create employment opportunities for Aboriginal people ¹ .	10
Innovation Proposed application of innovative audit practices, including data analytics.	10
Sub-Total	65
Price	35
Total	100

¹ The NSW Government's Aboriginal Procurement Policy (released in May 2018) aims to create opportunities for Aboriginal owned businesses and encourages Aboriginal employment through the supply chain of NSW Government contracts.