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GOVERNMENT NOTICE

DEPARTMENT OF TRADE AND INDUSTRY

No. 776

18 July 2008

FRAMEWORK FOR ACCREDITATION AND VERIFICATION BY ALL VERIFICATION AGENCIES

By virtue of the powers vested in me by section 9(1) of the Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003), and pursuant to paragraph 10 (under the heading "STATEMENT 000: GENERAL PRINCIPLES AND THE GENERIC SCORECARD") of General Notice No. 112 of 2007 published in Government Gazette No. 29617 of 9 February 2007.

I, Mandisi Mpahlwa, Minister of Trade and Industry, hereby –

- (a) Issue the following Verification Manual;
- (b) Determine that the Verification Manual will come into operation on the date of this publication; and
- (c) That the use of this document is prescribed as part of the accreditation process and shall be used by all Verification Agencies when performing B-BBEE verification.



MANDISI MPAHLWA
MINISTER OF TRADE AND INDUSTRY
DATE: 11-07-2008

**VERIFICATION OF AND REPORTING ON BROAD-BASED BLACK ECONOMIC
EMPOWERMENT IN TERMS OF THE CODES OF GOOD PRACTICE**

VERIFICATION MANUAL



Department of Trade and Industry

JULY 2008

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Authority of the Verification Manual

This Verification Manual was prepared in terms of the provisions of Section 10.1 of Code Series 000 Statement 000 of the Broad-Based Black Economic Empowerment Codes of Good Practice issued in terms of Section 9(1) of Broad-Based Black Economic Empowerment (B-BBEE) Act 53 of 2003 ("The Act"). The "dti" derives the power to issue this Manual from the Act 53 of 2003 read with the Codes.

The Manual incorporates the relevant provisions of SANAS R47 as amended, a document developed by the South African national Accreditation System (SANAS) to clarify the functions of BEE Verification Agencies and to specify the criteria by which they are to be accredited by South African National Accreditation System (SANAS) on behalf of the Department of Trade and Industry (**the dti**). SANAS also derived its power to issue SANAS R47 as amended, from Act and the Codes.

Application of the Verification Manual

The use of this Verification Manual is prescribed and shall be used by Verification Agencies when performing a B-BBEE verification.

Any Verification Agent who issues a Verification Certificate without applying the Guidelines set out in the Verification Manual shall be guilty of unprofessional conduct and the "dti" may recommend that he lose his Accreditation with SANAS.

Structure of the Verification Manual

The Verification Manual is set out as follows:

- ☞ Chapters 1-7 Deal with Guidelines on general principles to be implemented by Verification Agencies
- ☞ Chapters 8-13 Deal with Guidelines and methodology to be followed in conducting Verification
- ☞ Appendix 1 Sets out Samples of Verification Certificates
- ☞ Appendices 2-8 Sets out the minimum verification procedures for each Element of the Codes that has to be met, and is based on the key measurement principles and calculations of the scorecard for each Element of the Codes
- ☞ At the end of each appendix reference is made to requirements applicable to Qualifying Small Enterprises (QSEs).

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Definitions

- 1.1 For the purposes of the Verification Manual the following terms have the meanings attributed below and all other definitions remain as detailed in the Codes:
- 1.1.1 **Admissible/Appropriate Evidence** refers to the measure of the quality of evidence in respect of its relevance and reliability in providing support for or detecting misstatements affecting individual scorecard elements. The reliability of evidence is influenced by its source and its nature and is dependent on the individual circumstances under which it is obtained.
- 1.1.2 **B-BBEE Codes** refers to Codes of Good Practice on Broad-Based Black Economic Empowerment gazetted on 9 February 2007 as part of the Broad-Based Black Economic Empowerment Act, Act No. 53 of 2003 and any amendments thereto.
- 1.1.3 **Black People** are defined as set-out in the Codes of Good Practice for B-BBEE.
- 1.1.4 **Control risk** The risk that a misstatement that could occur in an assertion from which the elements of the scorecard of the measured entity are derived and B-BBEE Status determined, will not be prevented or detected and corrected on a timely basis by the measured entity's internal control.
- 1.1.5 **Debt** An amount owed to a person or organisation for funds borrowed. Debt can be represented by a loan note, bond, mortgage or other form stating repayment terms and, if applicable, interest requirements. These different forms all imply intent to pay back an amount owed by a specific date, which is set forth in the repayment terms.
- 1.1.6 **Detection risk** refers to the risk that the Verification Agency's procedures will not detect a misstatement that exists in an assertion from which the elements of the scorecard of the measured entity are derived and B-BBEE Status determined
- 1.1.7 **Evidence** refers to all the information used to establish a fact in issue. Including information supplied by the Measure Entity and used by the Verification Agency in determining the scores allocated to individual B-BBEE Scorecard Elements and B-BBEE Status for the measured entity. Evidence includes the information contained in the accounting records underlying the financial statements and other information relating to the measured entity's B-BBEE Scorecard Elements obtained through inquiry, inspection of records or documents or written confirmations, recalculation and analytical procedures.
- 1.1.8 **Inherent risk** refers to the susceptibility material misstatement of an assertion from which the elements of the scorecard of the measured entity are derived and

B-BBEE Status determined to misstatement that could be material assuming that there were no related internal controls.

- 1.1.9 **Intended User'**: persons within, or external to the measured entity, for whom the Verification Agency prepares the Verification Certificate on the Scorecard elements and B-BBEE status report.
- 1.1.10 **Materiality"** refers the extent to which the omission or misstatement of information could influence the determination of the individual scorecard elements or the overall rating and B-BBEE status. Materiality depends on the impact of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.
- 1.1.11 **Professional scepticism"** refers to questioning approach coupled with critical assessment of information.
- 1.1.12 **Random Sampling"** means the application of verification procedures to less than 100% of items selected within a group or class of transactions in a manner which provides all units of a group ("the population") with an equal chance of selection. This will enable the Verification Agency to obtain and evaluate evidence about some characteristic of the items selected in order to form, or assist in forming, a conclusion concerning the population from which the sample is drawn.
- ☞ The "population" in a B-BBEE Engagement may refer to underlying information for each scorecard element being verified and may comprise financial or non-financial information.
 - ☞ Sampling can use either a statistical or non-statistical approach.
- 1.1.13 **Responsible Party"** refers to person/s in the Measured Entity responsible for the collation and preparation of the B-BBEE information to be verified.
- 1.1.14 **Sufficiency of evidence"** refers to the measure of the quantity and quality of evidence. The quantity of evidence required is affected by the risk of misstatement (the greater the risk of misstatement the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less evidence may be required).
- 1.1.15 **Verification Certificate"** refers to the B-BBEE Verification Certificate issued by the Verification Agency which reflects the overall B-BBEE Status of a Measured Entity and Scoring allocated for each Scorecard Element verified in respect of the

- measured entity (refer Appendix 1).
- 1.1.16 **Verification Report** refers to the Report issued by the Verification Agency which provides the detailed scores of each element reflected in the Verification Certificate and B-BBEE Status awarded to the measured entity.
- 1.1.17 **Verification Risk** The risk that the Verification Agency could arrive at an inappropriate conclusion in determining the scores based on one or more scorecard elements being materially misstated. This is the risk that the scorecard elements are materially misstated prior to verification and the risk that the Verification Agency will not detect such misstatement.
- 1.1.18 **Verification** means the process and activities conducted by a verification agency to assess, verify and validate that the score awarded to a Measured Entity is a result of individual scorecard elements supplied by a Measured Entity, and to evaluate BEE transactions in order to provide an indicative B-BBEE score and Certification based on the principles of the Broad-Based BEE Codes of Good Practice.

2. Scope of Application of this Manual

- 2.1 While there is no legal obligation for entities to subject themselves to BEE Status Evaluations in terms of B-BBEE Codes, it is important that those entities which do subject themselves to such evaluation by an accredited Verification Agency receive a certain level of Standard of Service.
- 2.2 The Guidelines set in this manual are applicable as a minimum standard to which all Verification Agencies are obliged to conform in conducting verification assessments and evaluations.⁴
- 2.3 The document was prepared in terms of the provisions of Section 10.1 of Code Series 000 Statement 000 of the Broad-Based Black Economic Empowerment Codes of Good Practice issued in terms of Section 9(1) of B-BBEE Act 53 of 2003. This Manual incorporates the relevant provisions of SANAS R47 as amended, directly or by reference.
- 2.4 The table below, sets out the basis for identifying criteria applicable to the measured entity, which are to be applied by a Verification Agency when providing assurance on the Scorecard Elements and B-BBEE Status:

⁴ Issued in Notice 112 of 2007

The following Criteria should be taken into account in verification engagements:
☞ The Eligibility of an Exempted Micro-Enterprise
☞ The Eligibility as a Qualifying Small Enterprise
☞ Start-up Enterprises
☞ The elements of B-BBEE in terms of the Generic Scorecard
☞ Scorecards governing Sector Codes
☞ The Eligibility of Specialised Enterprises

Table 1

3. Purpose of Verification

- 3.1 The overall aim of verifying is to give confidence to all parties that rely upon the score set out in the verification certificate that the information on which the certificate is based has been tested for validity and accuracy.
- 3.2 Verification is intended to reduce the risk of misstatement of individual scorecard elements to an acceptably low level, and to provide an assurance of the integrity of the information on which the Verification is based. An acceptably low level of risk is achieved if a reasonable person with sufficient knowledge of the Codes will be able to arrive at a similar conclusion based on the same set of information.

4. Effective Date

This Verification Manual will come into operation on the date of publication.

5. Objective

- 5.1 The objectives of Guidelines set in this Manual are to:
- 5.1.1 set acceptable minimum Standards of Ethical Conduct underpinning the responsibilities of Verification Agencies ("Verification Agencies") when performing verification and reporting on the B-BBEE Scorecard elements and overall B-BBEE status of a Measured Entity;
- 5.1.2 outline the responsibilities of the Verification Agency to its client in respect of quality control, contracting, conducting the verification and reporting on the scorecard;
- 5.1.3 set the requirements based on the key measurement principles and calculations for each element of the Code;
- 5.1.4 provide explanatory material and procedures to be followed in providing

assurance on whether the requirements of the Code have been met; and documentation requirements for the engagement.

6. Standards of Ethical Conduct & Requirements

In order to obtain and maintain confidence, a BEE Verification Agency has to be able to demonstrate that its decisions are based on objective evidence and that its decisions have not been improperly influenced by other interests or by other parties. Principles for inspiring confidence include:⁵

6.1 Impartiality

- 6.1.1 Impartiality and being perceived to be impartial, is necessary for a BEE Verification Agency to be able to deliver a verification that provides confidence. It is recognised that the source of revenue for a BEE Verification Agency is the client paying for its service and that this is a potential threat to impartiality.
- 6.1.2 Impartiality is manifested by actual and perceived presence of objectivity. Objectivity means that conflict of interest does not exist or is resolved so as not to influence adversely the subsequent activities of the BEE Verification Agency.
- 6.1.3 Synonyms that are useful in conveying the element of impartiality are: objectivity, independence, freedom from conflicts of interest, freedom from bias, lack of prejudice, neutrality, fairness, open-mindedness, even-handedness, detachment and balance.
- 6.1.4 Threats to impartiality include:
 - 6.1.4.1 Self-interest threats – threats that arise from a person or enterprise acting in their own interest, for example financial self-interest
 - 6.1.4.2 Self-review threats – threats that arise from a person or enterprise reviewing work done by themselves, for example evaluating the BEE compliance of a measured entity to whom the BEE Verification Agency provided consultancy services;
 - 6.1.4.3 Familiarity (or trust) threats – threats that arise from a person or body being too familiar with or trusting towards another person instead of seeking objective evidence on which to base the verification conclusion
 - 6.1.4.4 Intimidation threats – threats that arise from a person or enterprise having a perception of being coerced openly or secretly, such as a threat to be replaced or reported to a supervisor.

⁵ See SANAS R47-02 paragraph 9.1.3- page 5-6

6.2 **Competence**

- 6.2.1 Competence is the demonstrated ability to apply knowledge and skills effectively.
- 6.2.2 The competence of the personnel supported by the infrastructure of the Agency is necessary for the BEE Verification Agency to deliver a verification that provides confidence.

6.3 **Responsibility**

- 6.3.1 The measured entity, *not* the BEE Verification Agency, is responsible for conforming to the requirements for BEE Verification. The BEE Verification Agency is responsible for carrying out a factual, thorough evaluation of a measured entity's B-BBEE status and, based on the result, for determining a BEE score.

6.4 **Openness**

- 6.4.1 Openness is access to or disclosure of information. A BEE Verification Agency needs to provide public access to, or disclosure of, appropriate and timely information about the evaluation and verification process and about the verification status of any measured entity in order to gain confidence in the integrity and credibility of the BEE verification process.
- 6.4.2 The measured entity needs to provide access to or disclosure of appropriate information about the evaluation of its B-BBEE status.
- 6.4.3 A BEE Verification Agency needs to provide appropriate access to or disclosure of specific interested parties' non-confidential and non-proprietary information about the results of specific evaluations (e.g. evaluations in response to complaints) in order to gain and maintain confidence.
- 6.4.4 It is mandatory for all Accredited Verification Agencies to populate **the dti** BEE IT Portal with information underlying each Verification Certificate.

6.5 **Confidentiality**

- 6.5.1 In order to gain access to the privileged information that is needed for the BEE Verification Agency to assess adequately the requirements for BEE Verification, a BEE Verification Agency needs to keep any proprietary information about a measured entity confidential. However, a BEE Verification Agency may disclose a measured entity's actual verification result, without compromising the confidentiality of the information supporting the verification outcome.

6.6 **Resolution of complaints**

- 6.6.1 Parties that rely on the outcome of their verification status as assessed by accredited BEE Verification Agencies expect to have their complaints investigated. If these complaints are found to be valid, they need to have confidence that the

complaints shall be appropriately addressed and that a reasonable effort shall be made to resolve the complaints.

- 6.6.2 An appropriate balance between the principles of openness and confidentiality, including resolution of complaints, is necessary in order to demonstrate integrity and credibility.
- 6.7 The Verification Agency shall establish policies and procedures designed to provide it with reasonable assurance that its personnel comply with relevant ethical and legal requirements.
- 6.8 Where it is not possible to reduce the threat to its independence to an acceptable level the Verification Agency shall decline to accept or continue the B-BBEE Verification Engagement,
- 6.9 When an Accredited Verification Agency or its directors or top management are also members of another professional body, those directors or top management shall comply with that professional body's ethical requirements, in so far as they may affect such a verification engagement, provided they do not conflict with or diminish the ethical standards applicable in terms of the B-BBEE Act and *Codes of Good Practice and SANAS R47* as amended. Such ethical requirements are often contained in a Code of Professional Conduct.

7. **Quality Control**

- 7.1 The Verification Agency shall establish and implement appropriate quality control procedures for whole Verification Agency and for the individual B-BBEE verification engagements undertaken.
- 7.2 Elements of quality control that are relevant to individual verification engagements include leadership responsibilities for standards within the verification agency and on the verification engagement, compliance with ethical requirements, acceptance and continuation of client relationships and specific verification engagements, human resources, assignment of engagement teams, engagement performance, and monitoring.⁶

⁶ For Registered Auditors performing Verification Engagements, these requirements are set out in International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that perform audits and reviews of historical*

- 7.3 The quality control procedures shall be documented and communicated to the Verification Agency's personnel and policies and procedures shall be designed to provide reasonable assurance that the Verification Agency and its personnel comply with this requirement.
- 7.4 The Verification Agency shall document evidence of compliance with the quality control procedures.

8. Agreeing on Terms of Engagement

- 8.1 The Verification Agency shall agree on the terms of the B-BBEE verification engagement with the measured entity. To avoid misunderstandings, the terms agreed should be recorded and set out in a written engagement letter incorporating any other standard contract terms and conditions that the Verification Agency ordinarily applies to its engagements.
- 8.2 Engagement terms generally include rights of access to all relevant information at the measured entity and facilitate access to outside third parties for purposes of obtaining relevant evidence for purposes of the verification engagement, as well as billing arrangements.
- 8.3 The engagement letter may include a clause limiting the liability of the Verification Agency to actions brought by the measured entity arising from its negligent conduct in the verification. This flows from the fact that the verified Scorecard and B-BBEE Status Report could be distributed to third parties who were not party to the verification engagement and have no contractual relationship with the Verification Agency.
- 8.4 Acknowledgement of the terms and conditions of engagement by the measured entity's signatory provides evidence of the relationship with the Verification Agency, and also establishes a basis for a common understanding of the respective responsibilities of each party.
- 8.5 After having reviewed the request for verification, the Verification Agency shall notify the measured entity whether or not it is accepting the request for verification. The reasons for non-acceptance shall be conveyed to the applicant (e.g. resource constraints).

financial information and other assurance and related services engagements, and International Standard on Auditing (ISA) 220, Quality Control for Audits of Historical Financial Information.

8.6 The terms of engagement between the Verification Agency and the measured entity shall include provisions that:

8.6.1 require the measured entity to supply any information needed for its intended verification, and

8.6.2 requires the measured entity to conform to the requirements for verification.

9. Outsourcing⁷

9.1 The Verification Agency shall have a process by which it describes the conditions under which outsourcing may take place. The Verification Agency shall have a legally enforceable agreement covering the arrangements, including confidentiality and conflict of interests, with each outsourced body.

9.2 Decision-making regarding verifications shall never be outsourced.

9.3 The Verification Agency shall:

9.3.1 take full responsibility for all verifications outsourced to another body

9.3.2 maintain its responsibility for granting a B-BBEE score

9.3.3 ensure that the outsourced body uses individuals who conform to the applicable provisions of this document, including competence, impartiality, confidentiality, and B-BBEE status

9.3.4 ensure that the outsourced body uses individuals who are not involved, either directly or through any other employer, with any measured entity to be evaluated in such a way that impartiality could be compromised, and

9.3.5 obtain the consent of the measured entity being evaluated to use a given outsourced body.

9.3.6 The Verification Agency shall have documented procedures for the qualifications, monitoring and records of all outsourced bodies used for verifications.

⁷ See SANAS R47-02 paragraph 13.5 page 10

10. Guidelines for Performing Verification ⁸

10.1 Verification methodology

- 10.1.1 The Verification Agency shall verify, validate and evaluate all information concerning measured entities based on the principles set out in the B-BBEE Act and *Codes of Good Practice* and this document and shall include all relevant elements of the Broad- Based BEE scorecard. All verifications are to be based on information that has been verified by an on-site visit to the measured entity. No score can be given without an on-site assessment of the entity.
- 10.1.2 The Verification Agency shall verify the information provided in order to verify the B-BBEE status of a measured entity. Simple telephonic enquiries do not constitute verification.
- 10.1.3 In order to determine if the measured entity is classified correctly the Verification Agency shall obtain the audited financial statements and agree the amount recognised as revenue to the thresholds set by the Codes. When the measured entity is not audited the Verification Agency shall perform some or all of the following procedures as a minimum to verify the accuracy, completeness, occurrence and cut-off of revenue as shown in the financial statements:
- 10.1.3.1 Extract a schedule of monthly revenue and compare with prior years and budgets.
- 10.1.3.2 Calculate and analyse the gross profit percentage and obtain explanations from management for unusual fluctuations from previous years or from budgets.
- 10.1.3.3 Obtain a list of numerical sales invoices and inspect the list for missing numbers.
- 10.1.3.4 Follow missing numbers through to the physical invoice per invoice book and investigate the reason for omissions (or valid cancellation of the invoice).
- 10.1.3.5 Agree the total sales as per the general ledger with the totals as per the sales journal.
- 10.1.3.6 Agree the sales income for the year per the general ledger with the total sales income per the trial balance and the financial statements.

10.1.3.7 Select sales income transactions from invoices and:

- a. Confirm that prices are obtained from price lists or are authorised by management.
- b. Confirm that calculations and additions on the invoice are correct.
- c. Confirm that the invoices were posted to the correct general ledger and control accounts.
- d. Re-perform the castings and calculations of the sales journal (or in respect of cash sales, the sales column in the cash book and general ledger accounts).
- e. Agree the postings from the sales journal (or in respect of cash sales from the cashbook) to the general ledger account.
- f. Select invoices before and after year end and confirm that the revenue is accounted for in the correct accounting period.
- g. Inspect the monthly revenue declared on the VAT 201 returns to determine the reasonableness of the amount of revenue.
- h. Inspect the measured entity's income tax return to determine the amount of revenue declared.
- i. Obtain management representation that the amount declared is accurate and complete.
- j. In case of start up enterprises, obtain registration documents and review them to ensure that the entity has been in operation for less than 12 months.

10.2 Planning Verification Process

- 10.2.1 The Verification Agency shall ensure that a verification plan is established for each verification engagement to provide the specific terms and conditions of the agreement dealing with conducting and scheduling of the verification activities.
- 10.2.2 The Verification Agency shall determine, in accordance with documented procedures, the time needed to accomplish a complete and effective verification of the enterprise. The time determined by the Verification Agency, and the justification for the determination, shall be recorded.
- 10.2.3 In the determination of the verification programme and any subsequent adjustments, the size of the measured entity, and the scope and complexity of its structure, products and processes shall be considered, as well as its demonstrated level of commitment to B-BBEE and the results of any previous verification.
- 10.2.4 Where multi-site sampling is utilised for the verification of a measured entity, covering the same activity in various locations, the Verification Agency shall

- develop a sampling programme to ensure proper verification of the whole enterprise. The rationale for the sampling plan shall be documented for each measured entity.
- 10.2.5 The tasks given to the verification team shall be clearly defined and made known to the measured entity, and shall require the verification team:
- 10.2.5.1 to examine the structure, policies, processes, procedures and related documents and records of the client enterprise which are relevant to the B-BBEE requirements, and
- 10.2.5.2 to determine that these contain sufficient evidence to support the BEE verification.
- 10.2.6 The Verification Agency shall provide the name of, and make available background information on, each member of the verification team, giving sufficient time for the measured entity to object to the appointment of any particular analyst or expert and for the Verification Agency to reconstitute the team in response to any valid objection.
- 10.2.7 A Verification Plan shall be communicated and the dates of the verification shall be agreed upon, in advance, with the measured entity.
- 10.2.8 The Verification Agency shall have a process for conducting on-site verifications.⁹
- 10.2.9 At its first meeting with the proposed Measured Entity the Verification Agency shall require an authorised representative of the measured entity requiring verification to provide the necessary information to enable it to establish:
- 10.2.9.1 the general features of the measured entity, including its name and the address(es) of its physical location(s)
- 10.2.9.2 general information such as its activities, human and other resources, and its functions and relationships within a larger corporation, if any, and
- 10.2.9.3 information concerning the enterprise's use of consultancy relating to BEE.
- 10.2.10 Before proceeding with the verification, the Verification Agency shall conduct a review of the request for verification to ensure that:
- 10.2.10.1 the information is sufficient for the conduct of the review;
- 10.2.10.2 the requirements for verification are clearly defined, documented and have been provided to the measured entity;
- 10.2.10.3 any known difference in understanding between the Verification Agency and

⁹ See SANAS R47-02 Clauses 18.2.3-10

- the measured entity has been resolved;
- 10.2.10.4 the Verification Agency has the competence and ability to perform the service. The location and number of the applicant's operations, the time required to complete verifications, and any other points influencing activities or the verification process shall be considered (language, safety conditions, threats to impartiality, etc.). Based on this review, the Agency shall determine the competences it needs to include in its verification team; and its records of the justification for the decision will be maintained.
- 10.2.11 Where a Verification Agency will be taking account of verification or other evaluations already granted to the measured entity, it shall collect sufficient evidence to justify and record any adjustments to the verification programme.
- 10.2.12 The verification team shall be appointed and composed of verification analysts (and any other experts as necessary) who, between them, have the totality of the competences identified by the Verification Agency as being needed for the verification of the enterprise. The selection of the team shall be performed with reference to the designations of competence of verification analysts and experts and may include the use of both internal and external human resources.

10.3 Criteria to be used for Verification Engagement

- 10.3.1 The Verification Agency shall use the following as the criteria to evaluate the measured entity:
- 10.3.1.1 Broad-Based Black Economic Empowerment.
- 10.3.1.2 Generic and QSE scorecards of the Codes of Good Practice on Broad-Based Black Economic Empowerment.
- 10.3.1.3 Criteria for Exempted Micro Enterprises of the Codes of Good Practice on B-BBEE.
- 10.3.1.4 Sector Codes gazetted in terms of section 9 of the B-BBEE Act.
- 10.3.1.5 Broad-Based Black Economic Empowerment Act – The Code of Good Practice – Interpretative Guide June 2007.
- 10.3.2 Any other applicable guidelines issued by the Department of Trade and Industry.
- 10.3.3 Any other legislation or regulation, as provided for in the Codes including but not limited to:

- 10.3.3.1 Employment Equity Act 55 of 1998
- 10.3.3.2 Skills Development Act 97 of 1998
- 10.3.3.3 Skills Development Levies Act 9 of 1999
- 10.3.3.4 Skills Development Amendment Act 31 of 2003

10.4 Conducting the Verification Process

- 10.4.1 Verifications shall be done according to a Verification Plan.
- 10.4.2 The verifications shall take place at the site(s) of the measured entity. The purpose of the evaluation is to measure the B-BBEE progress or status.
- 10.4.3 The verification team shall conduct the evaluation to gather evidence to verify the measured entity in terms of B-BBEE.
- 10.4.4 The verification team shall sample a sufficient number of examples of the activities of the measured entity in relation to the B-BBEE criteria to arrive at a sound appraisal of the measured entity's B-BBEE status.
- 10.4.5 As part of the verification process, the verification team shall interview a sample of sufficient number of the staff, including top management and operational personnel of the measured entity, to provide assurance that the information gathered is sound.
- 10.4.6 The verification team shall analyse all the information and verification evidence gathered to determine the B-BBEE status of the measured entity.
- 10.4.7 The Verification Agency shall ensure that a detailed, written Verification Report is promptly provided to the verified measured entity.
- 10.4.8 Ownership of the Verification Report shall be retained by the Verification Agency.

10.4.9 B-BBEE verification decision

- 10.4.9.1 The information provided by the verification team to the Verification Agency for the decision shall as a minimum include:
 - 10.4.9.1.1 the information and verification evidence gathered to determine the B-BBEE status of the measured entity , and
 - 10.4.9.1.2 the verification recommendation from the verification team.
- 10.4.9.2 The individual or group that makes the decision shall include a level of knowledge and experience sufficient to evaluate the verification processes, results and recommendations of the verification team.
- 10.4.9.3 The Verification Agency shall make the decision on the basis of an evaluation of

the verification results and any other relevant information.

10.4.9.4 The Verification Agency shall ensure that the person(s) or committees that participate in the decisions are different from those who carried out the verification.

10.4.9.5 The Verification Agency shall confirm, prior to making a decision, that the information provided by the verification team is sufficient with respect to the verification requirements.

10.5 Special evaluations

10.5.1 It may be necessary for the Verification Agency to conduct evaluations of measured entities at short notice in order to investigate complaints or in response to changes. In such cases the verification agency shall:

10.5.1.1 describe and make known in advance to the measured entity the conditions under which these short-notice visits are to be conducted, and

10.5.1.2 exercise additional care in the assignment of the verification team because of the lack of opportunity for the measured entity to object to the verification team members.

10.6 Appeals¹⁰

10.6.1 The Verification Agency shall have a documented process for receiving, evaluating and making decisions on appeals.

10.6.2 A description of the process for handling appeals shall be made publicly available.

10.6.3 The Verification Agency shall be responsible for all decisions at all levels of the appeals-handling process.

10.6.4 Investigation of and decisions on appeals shall not result in any discriminatory actions against the appellant.

10.6.5 The appeals-handling process shall include at least the following elements and methods:

10.6.5.1 an outline of the process for receiving, validating and investigating the appeal, and for deciding what actions are to be taken in response to it, and

10.6.5.2 a procedure for tracking and recording appeals, including the actions undertaken to resolve them.

¹⁰ See SANAS R47-02 Clause 19 page 18

- 10.6.6 The Verification Agency shall acknowledge receipt of the appeal and provide the appellant with progress reports and the outcome.
- 10.6.7 The decisions to be communicated to the appellant shall be made by, or reviewed by, individual(s) not involved in the matter that is the subject of the appeal.
- 10.6.8 The Verification Agency shall give the appellant formal notice of the end of the appeals-handling process.
- 10.6.9 All appeals shall be resolved in a timely manner by the Verification Agency.
- 10.6.10 As a guide, an appeal shall be resolved within a maximum of 30 days of the initial lodging of the appeal.¹¹

10.7 Classification of Measured Entities

- 10.7.1. The Verification Agency shall ascertain the classification of the measured entity to determine which Codes of Good Practice for B-BBEE apply to the verification engagement. Such classification may be one of the following:
- 10.7.1.1 An Exempted Micro-Enterprise;
- 10.7.1.2 A Qualifying Small Enterprise to which the QSE Scorecard applies;
- 10.7.1.3 Enterprises to which the Generic Scorecard applies;
- 10.7.1.4 Enterprises to which the Sector Codes apply; and
- 10.7.1.5 Start up enterprises which will be treated as EMEs for transactions under or equal to R 5 million;
- 10.7.1.6 Specialised Enterprises to which the Adjusted Generic Scorecard applies;
- 10.7.1.7 Specialised Enterprises to which the Adjusted QSE Scorecard applies.

11. Professional Scepticism/ Due Diligence

- 11.1 The Verification Agency shall plan and perform an verification with an attitude of professional scepticism recognising that circumstances may exist that cause the measured entity information to be materially misstated. An attitude of professional scepticism means the Verification Agency makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations

¹¹ See SANAS 47-02 Clauses 18.3-20

by the responsible party.

- 11.2 Exercising professional scepticism during the verification requires the investigation of and reasonable questioning of documentation presented and management's representations to assess the effect of potential misstatements on scores awarded to individual Scorecard Elements. This includes comparing the documents and representations presented by the measured entity to ensure that there are no inconsistencies in the various pieces of evidence and if any, that such inconsistencies are properly addressed.

12. Materiality and Verification Risk

- 12.1 The Verification Agency shall consider materiality and the risk of misstatement when planning and performing verification.
- 12.2 The Verification Agency shall consider materiality when determining the nature, timing and extent of evidence-gathering procedures and shall base the materiality on the measured entity's underlying information which determines the individual scores for each Scorecard Element.
- 12.3 Materiality is considered in the context of quantitative and qualitative factors affecting the Scorecard Elements.
- 12.4 Materiality is considered qualitatively in respect of:
- 12.4.1 Ownership – voting rights and economic benefits to black shareholders;
 - 12.4.2 Management – board participation and those appointed in top management; and
 - 12.4.3 Employment equity in respect of black persons appointed to senior, middle and junior management positions.
- 12.5 Materiality is considered quantitatively in the context of the underlying information expressed in rand values (to which monetary sampling approaches may be applied) for:
- 12.5.1 Skills development spend;
 - 12.5.2 Preferential procurement in respect of Procurement Suppliers who claim to be Black Owned and thereafter B-BBEE Procurement Spend relative to total measured procurement spend for the period;
 - 12.5.3 Enterprise Development Qualifying Contributions; and
 - 12.5.4 Socio-Economic Development Qualifying Contributions.

13. Sampling

- 13.1 There are two main sampling approaches that may be used in verifications:
- 13.1.1 Attribute sampling; and
 - 13.1.2 Monetary unit sampling (MUS)
- 13.2 When designing verification procedures, the Verification Agency shall determine appropriate means for selecting items for testing so as to gather sufficient and appropriate evidence to meet the objectives of the verification procedures.
- 13.3 Verification procedures are concerned with amounts and include substantive tests of details and analytical reviews of classes of transactions and account balances. The purpose of verification procedures is to obtain evidence to detect material misstatements.
- 13.4 It may not be appropriate to select a sample for each Scorecard Element: for example, during the verification of complex shareholding structures, sampling would not be appropriate and the Verification Agency should obtain an understanding of the whole structure.
- 13.5 When designing a sample, the Verification Agency shall consider the objectives of the verification procedure and the attributes of the population from which the sample will be drawn.
- 13.6 In determining the sample size, the Verification Agency shall consider whether risk of misstatement is reduced to an acceptably low level in their opinion using their professional judgement.
- 13.7 The Verification Agency shall select items for the sample with the expectation that all sampling units in the population have a chance of selection. (random sampling)
- 13.8 The Verification Agency shall perform verification procedures appropriate to the particular B-BBEE Code Element Objective for each item selected.
- 13.9 The Verification Agency shall consider the sample results, the nature and cause of any errors identified, and their possible effect on the particular B-BBEE Code Scorecard Element and on other areas of the verification.
- 13.10 For tests of detail, where a MUS sample has been selected, the Verification Agency may project monetary errors found in the sample to the population, and shall consider the effect of the projected error on the particular B-BBEE Code Scorecard Element and on other areas of the verification.

14. Evidence

- 14.1 The Verification Agency shall obtain sufficient and appropriate evidence on which to base the Scores awarded to the Scorecard Elements. The Verification Agency shall consider the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative.
- 14.2 Verification rarely involves the authentication of documentation, nor is a verification agency expected to be an expert in such authentication. However, the Verification Agency shall consider the reliability of the information to be used as evidence, for example, photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.
- 14.3 Sufficient and appropriate evidence in a verification is reviewed and assessed as part of an interactive, systematic verification process involving:
- 14.3.1 Obtaining an understanding of the measured entity and other verification circumstances which including an understanding of internal controls in place;
 - 14.3.2 Based on that understanding, assessing the risks that the measured entity information may be materially misstated;
 - 14.3.3 Factoring in the assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures;
- 14.4 Evaluating the sufficiency and appropriateness of evidence.
- 14.4.1 Verification provides reasonable and not absolute assurance. Reducing assurance risk to zero is very rarely attainable or cost beneficial as a result of factors such as the following:
- 14.4.1.1 The use of selective testing;
 - 14.4.1.2 The inherent limitations of internal controls;
 - 14.4.1.3 The fact that much of the evidence available to the Verification Agency is persuasive rather than conclusive;
 - 14.4.1.4 The use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence; and

14.4.1.5 In some cases, the characteristics of the measured entity.

14.4.2 When the Verification Agency becomes aware of a matter that leads the Verification Agency to question whether a material modification should be made to the measured entity's scorecard, the Verification Agency should pursue the matter by performing other procedures sufficient to determine the appropriate score to be awarded.

15. Fronting

15.1 The Verification Agency assesses the risk of fronting by the measured entity and shall include the following minimum procedures when identified:

15.1.1 Review official ownership structure of the measured entity and understand the relationship between the measured entity and the holding company, affiliates and subsidiaries and related parties.

15.1.2 Review the organisational structure of the measured entity and the job descriptions of each position in the structure.

15.1.3 Inspect documentation which set out the responsibilities of the directors/management to determine who participates in the core activities of the measured entity.

15.1.4 Confirm that the responsibilities, accountabilities and reward of black directors/management do not differ from the non-black directors/management on the same level.

15.1.5 Review the minutes of the meetings of the board of directors and management and confirm who is responsible for making strategic decisions.

15.1.6 Inquire from directors or management what their role within the measured entity is.

15.1.7 Inspect personnel records and minutes for suspicious appointments and resignations of directors/management.

15.1.8 Inspect personnel records to determine significant differences in remuneration packages of black directors/management compared to the non black directors/management on the same level.

16. Documentation

- 16.1 The Verification Agency shall document matters that are significant in providing evidence that supports the verification result, and that the verification was performed in accordance with this guide.
- 16.2 Documentation shall include a record of the Verification Agency's reasoning on all significant matters that require the exercise of judgment, and related conclusions. The existence of difficult questions of principle or judgment requires the documentation to include the relevant facts that were known by the Verification Agency at the time the conclusion was reached.
- 16.3 It is neither necessary nor practical to document every matter the Verification Agency considers. In applying professional judgment to assessing the extent of documentation to be prepared and retained, the Verification Agency shall consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken (but not the detailed aspects of the verification) to another Verification Agency which has no previous experience with the verification where this does not conflict with the confidentiality requirements of the Verification Agency. The second Verification Agency may only be able to obtain an understanding of detailed aspects of the verification by discussing them with the first Verification Agency who prepared the documentation, and where possible such an understanding should be achievable by reference to documentation only.
- 16.4 Records On BEE-Verified Clients**
- 16.4.1 The Verification Agency shall maintain records on the verification process for all verified measured entities, including all measured entities that submitted requests for verification, and all measured entities verified.
- 16.4.2 Records on verified measured entities shall include:
- 16.4.2.1 request for verification information and initial and on-going verifications
 - 16.4.2.2 justification for the time determined for verification
 - 16.4.2.3 records of complaints and appeals, and any subsequent corrections or corrective actions
 - 16.4.2.4 deliberations and decisions, if applicable
 - 16.4.2.5 documentation of the decisions, and
 - 16.4.2.6 record of Verification Certificates issued.
- 16.4.3 The Verification Agency shall keep the records on verified measured entities in

such a way as to ensure that the information is kept confidential. When records are transported, transmitted or transferred, secured handling shall ensure that confidentiality is maintained.

- 16.4.4 The Verification Agency shall have a document policy and documented procedures on the retention of records

17. Reporting Requirements

- 17.1 The Verification Agency shall evaluate the conclusions drawn from the evidence obtained as a basis for determining the scores awarded to the individual Scorecard Elements reflected in the Verification Certificate. In reaching its conclusion, the Verification Agency shall consider whether sufficient and appropriate evidence has been obtained to reduce the risk of material misstatement in the scores awarded to the individual Scorecard Elements.
- 17.2 The Verification Certificate shall be in writing and shall reflect the scores awarded to the individual Scorecard Elements and the Overall Rating or B-BBEE status of the measured entity.
- 17.3 The Verification Agency shall also provide a schedule attached to the certificate to the Measured Entity to illustrate how the scores awarded were determined.
- 17.4 Accredited Verification Agencies are required to include the SANAS logo on the Verification Certificates issued by them.

18. Appendices- Certificates

- 18.1 The following example certificates are included in Appendix 1:
- 18.1.1 Sample 1 - The standard Verification Certificate for the 7 elements of the scorecard. (The scores allocated for the specific elements selected by a QSE for verification would simply be reflected for those elements of the Verification Certificate.)
- 18.1.2 Example 2 - The standard Verification Certificate for EMEs qualifying as level 4 contributors.
- 18.1.3 Example 3 - The standard Verification Certificate for EMEs qualifying as level 3 contributors.
- 18.2 As the Verification Certificate may be made publicly available by the measured entity, for example when engaging with third parties seeking confirmation of the B-BBEE status of the entity or in tenders submitted by the measured entity, it is advisable that the Verification Agency keeps a record of all Verification Certificates.

19. Other Reporting Responsibilities

- 19.1 The Verification Agency may be requested by the Measured Entity to verify specific elements of the B-BBEE Codes in terms of contracts between the Measured Entity and a third party. In these circumstances the Verification Agency shall follow the requirements of this guide bearing in mind the additional requirements included in the contract between the Measured Entity and the third party. For example the reporting requirements for these verifications might differ from the reporting requirements included in this guide.
- 19.2 The Verification Agency shall consider other reporting responsibilities, including the appropriateness of communicating relevant matters that came to the attention of the Verification Agency during the verification, in a report to the management of the Measured Entity.

20. Withdrawing from the Verification

- 20.1 After a verification engagement is accepted by the measured entity and the Verification Agency concludes that the scorecard rating of the measured entity is materially misstated, the Verification Agency shall require the measured entity to rectify the scorecard. If the measured entity refuses to do so the Verification Agency should allocate a zero to the scorecard item. Should the measuring entity who refuses to rectify a score dismiss the Verification Agency, such a verification agency may not withdraw from the verification without notifying DTI of the reasons for withdrawal.

21. Minimum Procedures

- 21.1 The minimum procedures for each element of the B-BBEE Codes of Good Practice that has to be performed are attached in Appendices 2 to 8:

**Appendix 1:
Sample Certificate 1**

Insert Verification Agency Name and Logo

*Broad Based Black Economic Empowerment
Verification Certificate #*

Certificate No: XXX/CI#/Date

Insert Measured Entity name

Registration no: xxxxxxxxxxxx

VAT no: xxxxxxxxxxxx

Head Office, Location: xxxxxxxxxxxx

Date of issue :

Expiry Date :

Authorized Signatory

CODE SERIES 100 : MEASUREMENT OF THE OWNERSHIP ELEMENT OF B-BBEE			
Weighting percentage	Category	Weighting points	Compliance target
	2.1 Voting rights:		
	2.1.1 Exercisable Voting Rights in the Enterprise in the hands of black people	3	25%+1 vote
	2.1.2 Exercisable Voting Rights in the Enterprise in the hands of black women	2	10%
	2.2 Economic Interest:		
	2.2.1 Economic Interest of black people in the Enterprise	4	25%
	2.2.2 Economic Interest of black women in the Enterprise	2	10%
	2.2.3 Economic Interest of the following black natural people in the Enterprise:	1	2.5%
	2.2.3.1 black designated groups;		
	2.2.3.2 black Participants in Employee Ownership Schemes;		
	2.2.3.3 black beneficiaries of Broad based Ownership Schemes; or		
	2.2.3.4 black Participants in Co-operatives		
	2.3 Realisation points:		
	2.3.1 Ownership fulfilment	1	Refer to Para 10.1
	2.3.2 Net Value	7	Refer to Annexure C Para 4
	2.4 Bonus points:		
	2.4.1 Involvement in the ownership of the Enterprise of black new entrants;	2	10%
	2.4.2 Involvement in the ownership of the Enterprise of black Participants:	1	10%
	2.4.2.1 in Employee Ownership Schemes;		
	2.4.2.2 of Broad-Based Ownership Schemes; or		
	2.4.2.3 Co-operatives.		

CODE SERIES 200: MEASUREMENT OF THE MANAGEMENT CONTROL ELEMENT OF B-BBEE				
Weighting percentage	Category & Management Control Indicator	Weighting points	Compliance Target	Score
10	2.1 Board participation:			
	2.1.1 Exercisable Voting Rights of black Board members who are black adjusted using the Adjusted Recognition for Gender	3	50%	
	2.1.2 Black Executive Directors adjusted using the Adjusted Recognition for Gender	2	50%	
	2.2 Top Management:			
	2.2.1 Black Senior Top Management adjusted using the Adjusted Recognition for Gender	3	40%	
	2.2.2 Black Other Top Management adjusted using the Adjusted Recognition for Gender	2	40%	
	2.3 Bonus points:			
	2.3.1 Black Independent Non-Executive Board Members	1	40%	

CODE SERIES 300: MEASUREMENT OF THE EMPLOYMENT EQUITY ELEMENT OF B-BBEE					
Weighting percentage	Measurement Category & Criteria	Weighting points	Compliance targets		Score
			Years 0 - 5	Years 6 - 10	
15	2.1.1 Black Disabled Employees as a percentage of all employees	2	2%	3%	
	2.1.2 Black employees in Senior Management as a percentage of all such employees using the adjusted recognition for gender	5	43%	60%	
	2.1.3 Black employees in Middle Management as a percentage of all such employees using the adjusted recognition for gender	4	63%	75%	
	2.1.4 Black employees in Junior Management as a percentage of all such employees using the adjusted recognition for gender	4	68%	80%	
	2.1.5 Bonus point for meeting or exceeding the EAP targets in each category under 2.1.1 to 2.1.4	3			

CODE SERIES 400: MEASUREMENT OF THE SKILLS DEVELOPMENT ELEMENT OF B-BBEE				
Weighting percentage	Skills Development Element	Weighting points	Compliance Target	Score
15	2.1.1 Skills Development Expenditure on any program specified in the Learning Programmes Matrix:			
	2.1.1.1 Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for black employees as a percentage of Leivable Amount	6	3%	
	2.1.1.2 Skills Development Expenditure on Learning Programmes specified in the Learning Programmes Matrix for black employees with disabilities as a percentage of Leivable Amount using the Adjusted Recognition for Gender	3	0.3%	
	2.1.2 Learnerships			
	2.1.2.1 Number of black employees participating in Learnerships or Category B, C and D Programmes as a percentage of total employees using the Adjusted Recognition for Gender	6	5%	

CODE SERIES 500: MEASUREMENT OF THE PREFERENTIAL PROCUREMENT ELEMENT OF B-BBEE

Weighting percentage	Criteria	Weighting points	Compliance Target	Score
	2.1.1 B-BBEE Procurement Spend from all Suppliers based on the B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	12	50% 70%	
	2.1.2 B-BBEE Procurement Spend from Qualifying Small Enterprises or Exempted Micro-Enterprises based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	3	10% 15%	
	2.1.3 B-BBEE Procurement Spend from any of the following Supplier as a percentage of Total Measured Procurement Spend: 2.1.3.1 Suppliers that are 50% black owned (3 out of 5 points); or 2.1.3.2 Suppliers that are 30% black women owned (2 out of 5 points)	5	15% 20%	

CODE SERIES 600: MEASUREMENT OF THE ENTERPRISE DEVELOPMENT ELEMENT OF B-BBEE

Weighting percentage	Criteria	Weighting points	Compliance Target	Score
15	Average annual value of all Enterprise Development Contributions and Sector Specific Programmes made by the Measured Entity as a percentage of the target	15	3% of NPAT	

CODE SERIES 700: MEASUREMENT OF THE SOCIO-ECONOMIC DEVELOPMENT ELEMENT OF B-BBEE

Weighting percentage	Criteria	Weighting points	Compliance Target	Score
5	Average annual value of all Socio-Economic Development Contributions by the Measured Entity as a percentage of the target	5	1% of NPAT	

Example Certificate 2

Insert Auditor or Accounting Officer Name & Firm Logo

Example Certificate 3

**Broad-Based Black Economic Empowerment
Exempt Micro-Enterprise Verification Certificate
For A Level Four Contributor⁹**

Certificate No: EME L4 / XXX / Date

<Insert Exempt Micro-Enterprise Entity Name>

Type of entity	<i>Company / Close Corporation / Partnership / Trust / Sole Trader</i>
Registration No.	
Address	

The above mentioned <Auditing Firm/Accounting Officer> is the <Auditor / Accounting Officer> of the above mentioned <Company /Close Corporation/other entity> appointed from <insert date>.

We completed our audit of the financial statements for the period ended <insert period> on which we expressed an <unqualified / modified> opinion on <insert date>. / We have performed the agreed upon procedures set out in Appendix A¹⁰ for the period ended <insert period> in determining the turnover/income levels and have not performed an audit of the financial statements.¹¹

The audited/unedited financial statements of <insert Company / Close Corporation/ Entity Name>⁵ for the period ended <insert period> reflected an annual turnover/income less than or equal to R 5 million.

Although the abovementioned is the current level of turnover/income and is closely related to the economic indicators, it may be more or less in future. Consequently, this Certificate does not serve as a guarantee that the income reflected will continue at the same levels.

The entity is a Value-Adding Enterprise as defined in the Codes of Good Practice on Broad-Based Black Economic Empowerment. (If applicable)

The entity is a start up enterprise and this Certificate is only valid for contracts with a single value of less than or equal to R 5 million. Should the contract value be higher than R 5 million please contact the auditor/accounting officer. (If applicable)

Auditor's/Accounting Officer's Signature

Name of Individual Registered Auditor/Accounting Officer

Professional designation (if applicable)

Registered Auditor (if applicable)

Address

Date of Issue:

Expiry Date¹²:

Insert Auditor or Accounting Officer Name & Firm Logo

**Broad-Based Black Economic Empowerment
Exempt Micro-Enterprise Verification Certificate**

⁹ This certificate is issued in terms of Government Gazette Vol. 500 No. 29617 dated 9 February 2007.

¹⁰ Agreed upon procedures not included

¹¹ Delete whichever is Not Applicable

¹² This Certificate is valid for one year from date of issue