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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 –

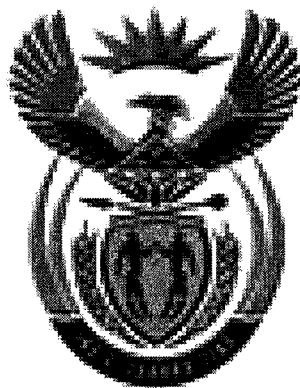
- (a) Issue the following Verification Manual;
- (b) Determine that the Verification Manual will come into operation on the date of this publication; and
- (c) That the use of this document is prescribed as part of the accreditation process and shall be used by all Verification Agencies when performing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