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GENERAL NOTICE

Trade and Industry, Department of

General Notice

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GENERAL NOTICE

NOTICE 277 OF 2011

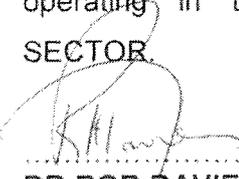
Issued in terms of Section 9 (1) of B-BBEE Act 53, 2003
(DEPARTMENT OF TRADE AND INDUSTRY)

CODES OF GOOD PRACTICE ON BROAD BASED BLACK ECONOMIC EMPOWERMENT

Whereas I, **Dr Rob Davies**, Minister of Trade and Industry:

- (a) Having issued the DRAFT CHARTERED ACCOUNTANCY CHARTER as a draft Sector Charter for public comments in terms of **Section 9 (5)** of the Broad-Based Black Economic Empowerment (B-BBEE) (Act No.53 of 2003) on the **30th October 2009**, in terms of which;
- (b) The public and interested persons were invited to comment on the Draft Sector Charter within a period of **60 days** from the date on which the Draft Sector having been published;
- (c) Now publish the CHARTERED ACCOUNTANCY CHARTER as a SECTOR CODE for black economic empowerment in terms of Section 9 (1) for B-BBEE Act, 53 of 2003.

This notice is effective from the date of publishing and means that the CHARTERED ACCOUNTANCY SECTOR CODE is binding on all stakeholders operating in the CHARTERED ACCOUNTANCY PROFESSION and SECTOR


.....
DR ROB DAVIES (MP)
MINISTER OF TRADE AND INDUSTRY
DATE: 9/3/11

THE CHARTERED ACCOUNTANCY PROFESSION SECTOR CODE

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SECTION A BACKGROUND

1 PREAMBLE

Our country requires an economy that can meet the needs of our economic citizens, our people and their enterprises – in a sustainable manner.

‘This will only be possible if our economy builds on the full potential of all persons and communities across the length and breadth of this country. Government’s objective is to achieve this vision of an adaptive economy characterised by growth, employment and equity by 2014.’

(Department of Trade and Industry, March 2003, South Africa’s transformation: a strategy for broad-based B-BBEE.)

The disempowerment systems and mechanisms used under apartheid purposefully restricted the majority of South Africans from meaningful participation in the economy. This has resulted in massive economic imbalances, with the majority of South African citizens being excluded from the economic mainstream and the creation of wealth being confined to a racial minority. The apartheid system literally imposed underdevelopment on black communities.

Over the past five years South Africa has experienced gross domestic product growth that is better than the world average. Despite this the growth factors have been small and the process of economic empowerment and the redress of economic inequalities have been much lower than desired. One of the most critical reasons stated for the disappointing pace of transformation is the scarcity of skills. In order to create an enabling environment in which economic growth may continue while allowing effective transformation to take place, the skills profile of the South African population needs to change and move towards reflecting the demographics of the country, while still meeting growth needs and maintaining standards.

2 VISION

The vision of the Chartered Accountancy (CA) Sector Code:

To grow the number of Black people in the CA profession to reflect the country’s population demographics, to empower and enable them to meaningfully participate in and sustain the growth of the economy, thereby advancing equal opportunity and equitable income distribution

3 SCOPE

The scope of the Sector Code is broad-based black economic empowerment (B-BBEE) for the Chartered Accountancy CA(SA) profession and sector. Employers and education institutions are only included in the scope of the Sector Code to the extent that they employ SAICA trainees or members of SAICA or offer accredited SAICA education and training programmes leading to the designation CA(SA)

While the Sector Code’s primary objective is the transformation of the CA profession and sector, for practical purposes all staff, partners and directors employed by firms in public practice are included in the ambit of this Sector Code.

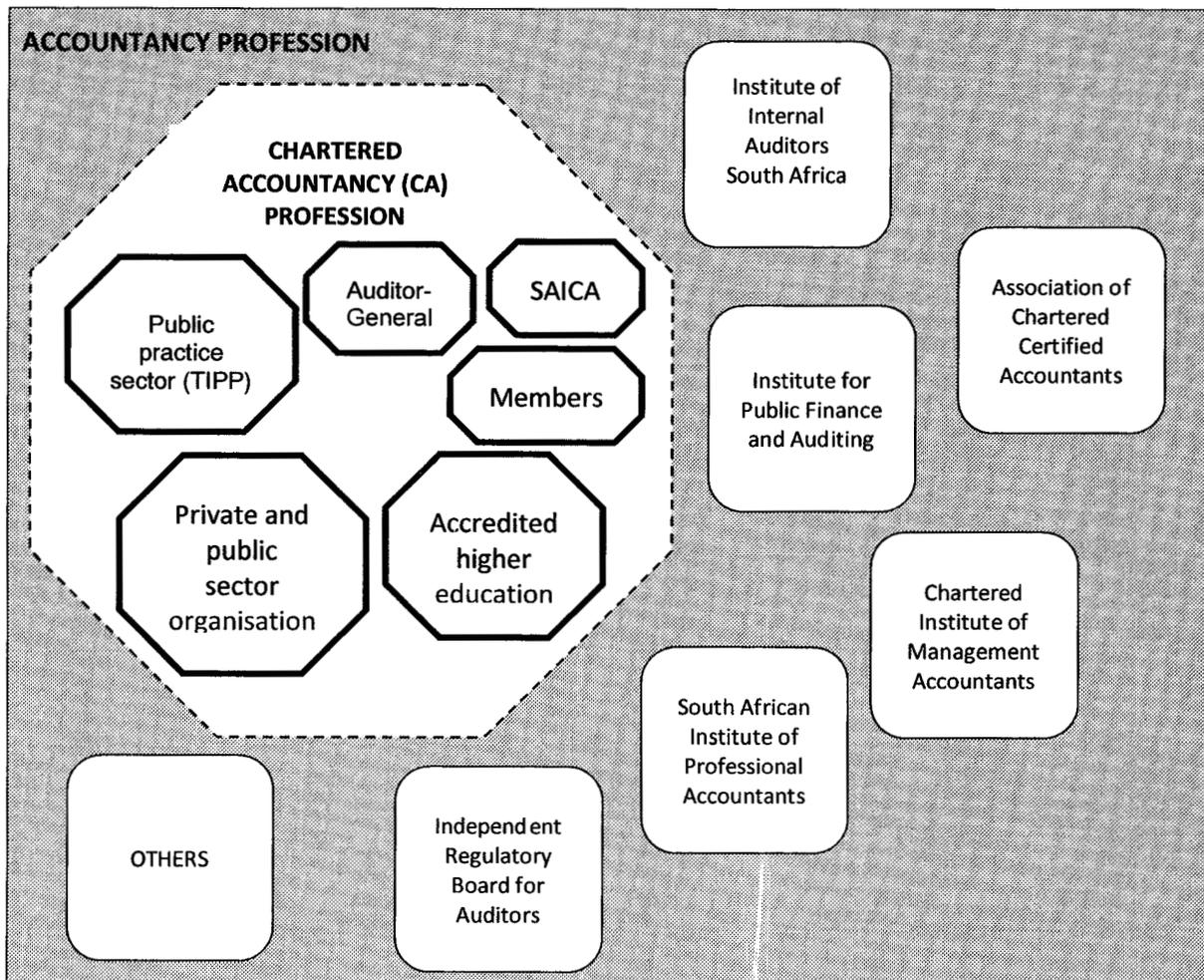
3.1 INTRODUCTION

The Accountancy profession comprises numerous organised membership bodies with members employed throughout the economy, including commerce and industry, the public sector, academia and those in public practice, either as owners or employees. Those non-members of organised accountancy membership bodies, but performing similar functions or offering similar services, are deemed to be part of the Accountancy profession.

The CA(SA) profession is one segment of the Accountancy profession. It comprises members of the South African Institute of Chartered Accountants (SAICA), firms in public practice offering training inside public practice (previously known as TIPP) organisations (in commerce and industry, government and parastatal organisations) offering training outside public practice (known as TOPP) to the extent necessary to obtain the CA(SA) designation, academic institutions offering under- and postgraduate education aimed at qualifications necessary for the CA(SA) designation, SAICA the institution to the extent necessary to obtain the CA(SA) designation. These groups shall be known as the CA(SA) profession sector (see figure 1).

The purpose of figure 1 is not to define each membership body, but to position the CA profession within the wider Accountancy profession. Furthermore, each octagon depicted in the figure (and indeed every organisation and institute) will break down into its own individual sub-sectors, such as for example membership body, practitioners and members in business.

Figure 1 Diagrammatic representation of the wider Accountancy profession



Bodies contemplated in the “others” octagon include organisations and institutes in the Accountancy profession such as the following:

- ABASA (Association for the Advancement of Black Accountants of Southern Africa)
- AWCA (African Women Chartered Accountancy Forum)
- BMA (Board of Municipal Accountants);
- IAC (Institute of Administration and Commerce);
- ICB (Institute of Certified Bookkeepers);
- ICSA (Institute of Chartered Secretaries and Administrators);
- IMC (Institute of Management Consultants);
- IMFO (Institute of Municipal Finance Officers);
- SAIBA (South African Institute of Business Accountants); and
- SAIGA (South African Institute of Government Auditors).

Note that the above list is not inclusive of all organisations and institutes in the Accountancy profession.

The scope of this Sector Code is the CA profession only. In developing a Sector Code (and scorecard) for the CA profession it is recognised that the primary focus should be on skills

development aimed at increasing the number of black (especially black women) CAs in South Africa.

Chartered Accountants are trained in commerce and industry, government and parastatal organisations (TOPP) and in public practice. Unlike other industry sector Sector Codes this Sector Code addresses a profession that not only spans a unique industry sector (public practice), but also reaches across many other industry sectors. This uniqueness is recognised in the Sector Code.

3.2 THE CA PROFESSION

As indicated in figure 1, the CA profession consists of the following:

3.2.1 THE CA SECTOR (PUBLIC PRACTICE) – REGISTERED AUDITORS

The IRBA was instituted in terms of the Auditing Profession Act (Act 26 of 2005) (the AP Act), and took over the functions of the Public Accountants and Auditors Board (PAAB) in 2006. It is the statutory body regulating that part of the Accountancy profession involved in statutory audits, a component part of what is referred to in this Sector Code as the CA sector, in the Republic of South Africa.

In terms of the AP Act a 'firm' means an RA, also known as an RA, a number of RAs in partnership or a company referred to in section 38(3) of the AP Act.

The IRBA is accordingly the body designated by the AP Act to determine who may or may not register as an auditor, to place his or her services at the disposal of the public for reward. One of the education and experience requirements for qualifying as a CA is that prospective members need to undergo a learnership at an approved training organisation in public practice. (This is known as Training Inside of Public Practice, or TIPP).

Thus an RA may engage in public practice by him- or herself or in partnership with other RAs. In addition persons registered in terms of the AP Act as auditors may in terms of the Companies Act, 1973 (Act 61 of 1973) form a company to engage in public practice through its members, provided that the company is incorporated with a share capital and that every shareholder of the company is a natural person, an RA and a director. Therefore only such a shareholder may be a director of such a company. The CA sector consists mainly of the big four firms, and numerous small and medium size firms as well as the Auditor-General.

As part of the determination process the IRBA may adopt an accreditation model whereby the IRBA recognises the qualification of members of other accountancy bodies for purposes of registration with the IRBA as RAs. However, in terms of the AP Act no person may engage in public practice as an auditor unless he or she is registered as an auditor with the IRBA.

At this point in time the only accountancy body whose members are recognised by the IRBA for purposes of registering as RAs, is SAICA. It is likely that members of other accountancy bodies may be accredited by the IRBA for purposes of registration as RAs in the future, subject to their meeting the requirements set by IRBA. One of these recognition requirements would be that such a body should have its own Sector Code or have agreed to adopt the CA Sector Code for B-BBEE purposes.

The direct link between the CA profession and the IRBA is based on the fact that CAs are accredited by the regulatory body to perform as RAs and the public practice firms serve as a training ground for future CAs.

3.2.2 THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS (SAICA)

Whereas the IRBA is the regulatory body for RAs, SAICA is the membership body for CAs. This membership body determines the pre- and post-education and experience requirements for CAs, and prospective members need to meet all the education and experience requirements before registration as a member will be permitted.

In terms of the Chartered Accountant Designation (Private) Act, no 67 of 1993 only persons who are registered with SAICA as a member may use the designation 'Chartered Accountant'.

The mission of SAICA is to serve the interests of the CA profession and society by amongst others delivering competent entry level members; running and facilitating programmes to transform the profession and facilitate community upliftment; and fulfilling a leadership role regarding relevant business related issues. Accordingly, one of SAICA's key strategic objectives is to transform the profession, the ultimate objective being that membership demographics reflect the country's population demographics.

The decision that SAICA should provide the underlying support structure and administration for the development of a Sector Code for the CA sector, on the one hand, and on the other to play an active role in helping the sector to achieve its transformation objectives, is influenced by a number of issues:

- The great diversity in the CA sector (with members working in public practice, in the public and private sectors and in education and many running their own businesses).
- SAICA is the common denominator in this diversity, being the organisation of which all CAs in South Africa are members.
- SAICA already provides support services to its members, and its role in furthering the objectives of the CA Sector Code could be a natural extension of this service.
- In agreeing to provide this function, SAICA will be working towards the fulfilment of its mission.

3.2.3 THE OFFICE OF THE AUDITOR-GENERAL

The Auditor-General conducts audits of government departments and other public sector bodies to provide assurance to Parliament that these entities have achieved their financial objectives and managed their financial affairs according to sound financial principles and in accordance with the legal framework created by Parliament.

The vision of the Office of the Auditor-General is to be the independent world-class provider of public sector audits and related value-adding services, and its mission is to provide independent and objective quality audit and related value-adding services in the management of public resources, thereby enhancing good governance in the public sector.

The Office of the Auditor-General is accredited by SAICA as a training office, within the TIPP framework.

3.2.4 TRAINING OUTSIDE OF PUBLIC PRACTICE (TOPP) ORGANISATIONS

One of the experience requirements is that prospective CAs must enter into learnership agreements with approved training organisations. Such organisations can be inside of public practice (see par. 3.2.1) or outside of public practice, generally known as Training Outside of Public Practice (TOPP). While TOPP organisations will have their own sector Sector Codes on which they will be measured, they do also play an important role in the transformation of the CA profession as a whole through their learnership programmes for the delivery of CAs.

3.2.5 MEMBERS

Members include all persons registered with SAICA and / or IRBA as members and who may consequently use the designation Chartered Accountants (South Africa) (CA(SA)) and / or RAs.

These members work in an array of sectors such as public practice, public sector, private sector and education.

3.2.6 ACCREDITED EDUCATION INSTITUTIONS

As part of the education requirements for becoming a CA, SAICA accredits higher education institutions through which the education programmes are delivered to prospective CAs.

At present there are 13 such accredited higher education institutions. These providers also play a critical role in the transformation of the CA profession. .

4 WHY A SECTOR CODE FOR SPECIFICALLY THE CA PROFESSION

In Statement 300 of code series 000 it is stated that there should be common commercial and other characteristics within the entities operating in the sector which would make it feasible to formulate a transformation Sector Code.

This is indeed the case in the CA profession, where the entities operating in the sector share a number of commercial and other characteristics which makes it feasible to formulate a common transformation Sector Code for this sector of the Accountancy profession.

The vision of this transformation Sector Code is to grow the number of black people in the CA profession to reflect the country's population demographics and to empower and enable them to meaningfully participate in and sustain the growth of the economy, in the process advancing equal opportunity and equitable income distribution.

The CA profession believes that this can be achieved by bringing together all the entities (indicated in paragraph 3.2) operating in this sector, by means of a transformation Sector Code in which all participants will contribute to the achievement of this vision.

Having people with proper financial and management skills is vital to any economy. CAs(SA) provide these much needed skills, but in South Africa at present there is a shortage of CAs(SA) and in particular black CAs(SA). This is on the agenda of National Treasury and the Auditor-General.

The development of a Sector Code for the CA(SA) profession in fact stems from the numerous interactions with the organs of state; specifically National Treasury, the Office of the Auditor-General, the IRBA (previously the PAAB), and the Financial Services Board.

CAs(SA), and particularly black CAs(SA), have been identified as being a critical skill which is in short supply and of national strategic importance. This situation needs to be rectified, hence the need to develop a Sector Code for the CA(SA) profession.

The CA profession currently runs numerous programmes to assist students from disadvantaged backgrounds with entry into the profession. However, since 1976 when the first African, Professor Wiseman Nkulu, qualified as a CA, only 912 Africans have registered as CAs.

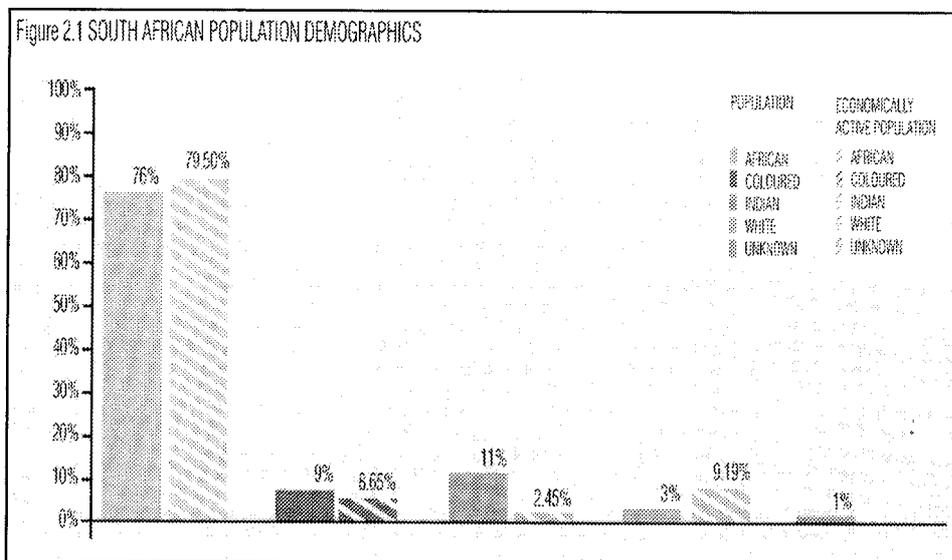
The CA sector has thus come to realise that transformation will take too long if left purely to economic forces, and that active intervention on a very large scale will be required to redress the situation so as to achieve a restructured business environment in which business and organisational composition reflect population demographics.

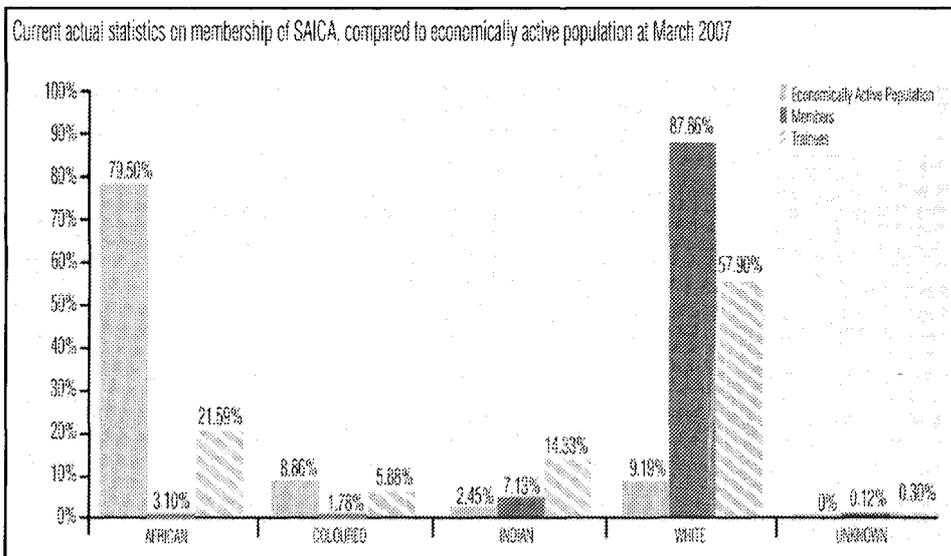
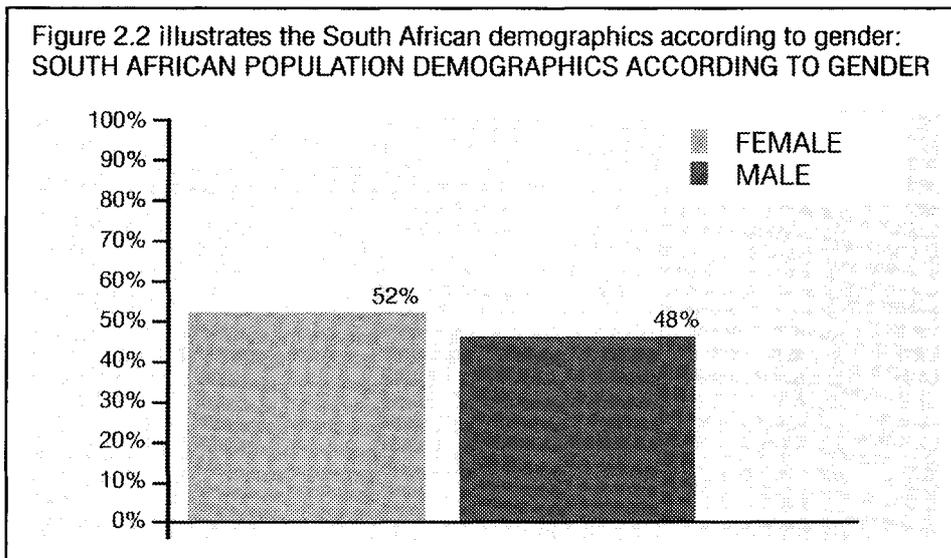
The aim of black economic empowerment (BEE) initiatives in the CA sector is therefore to significantly increase the number of black people that manage, own and control enterprises in the sector as well as to contribute to decreases in income inequalities in the country in general. This is to be achieved by means of an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa.

Within the CA sector, the first step and primary focus will be on dramatically increasing the numbers of all black participants (Africans, Indians and Coloureds) and particularly African CAs.

The figures below illustrate the population demographics of South Africa, according to population, in comparison to the economically active population, and the demographics of SAICA membership and trainees:

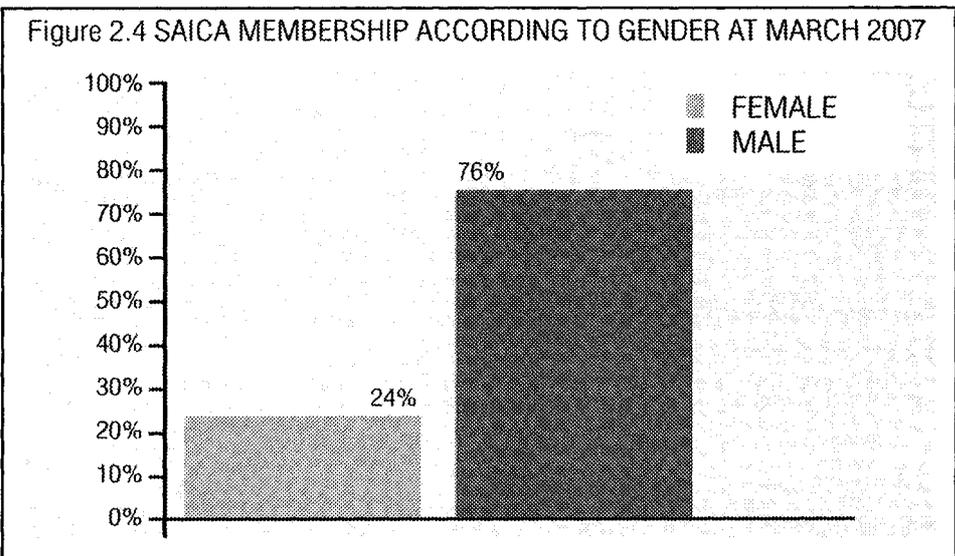
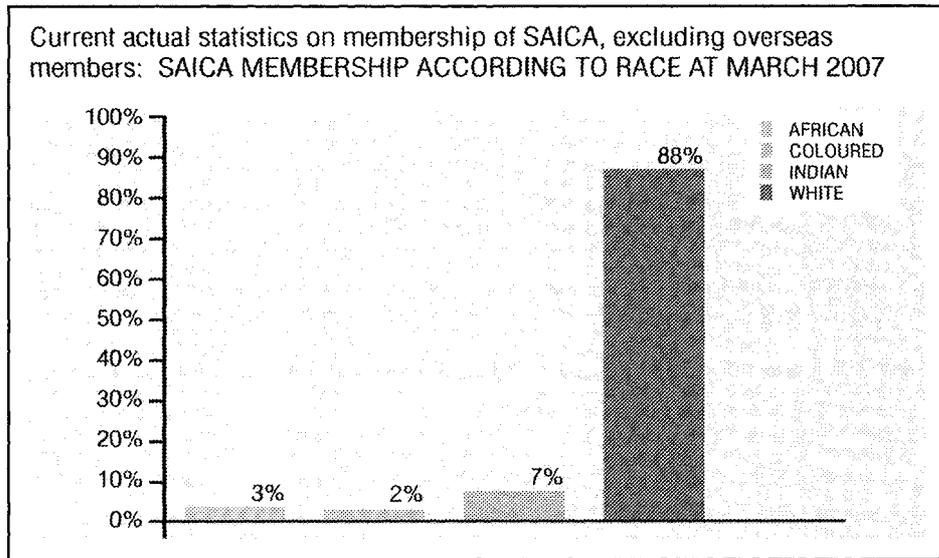
Figure 2.1 illustrates the economically active population as at March 2007: In the first graphic this is compared to the South African population and the second contains a comparison to membership of SAICA.



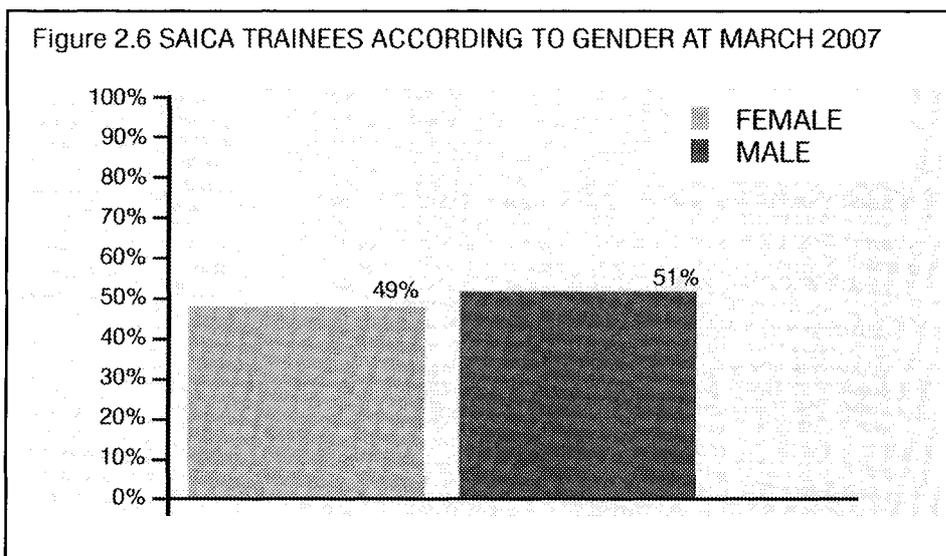
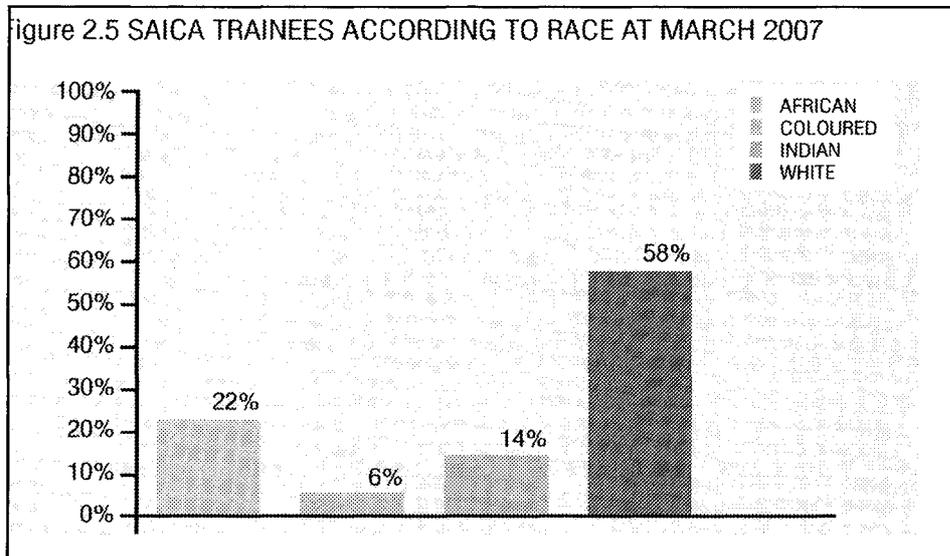


Current actual statistics on membership of SAICA, excluding overseas members, are represented in figure 2.3 according to race and in figure 2.4 according to gender:

Figure 2.3



The current actual statistics of trainees registered with SAICA as at the end of March 2007 are illustrated in figure 2.5:



The actual numbers bear witness to the extent of the challenge facing the CA profession, and hence, the South African economy.

We, as parties to the CA Sector Code, therefore commit ourselves to actively promoting a transformed, dynamic and globally competitive CA profession that will reflect the demographics of the South African population and contribute to the establishment of an equitable society by implementing a strategy that will –

- improve both access to the profession and progress towards becoming CAs; and
- uplift communities for the benefit of the South African society and the economy as a whole.

The Sector Code of the CA profession is characterised by the following:

- It embraces the spirit of what government intends to achieve with B-BBEE rather than being rules driven;
- The CA profession is unique in that it is directly involved in the development of CAs and RAs who often take up leadership positions in the economy and society as a whole;
- It was developed voluntarily;
- It is a Sector Code aimed to transforming the CA profession in accordance with the spirit of B-BBEE legislation;
- It constitutes a framework and establishes principles from which B-BBEE will be implemented in the CA profession and sector;
- It represents a partnership programme with government as outlined in the government's strategy for B-BBEE;
- It provides the basis for engagement with other stakeholders, including but not limited to, providers of education and training, regulators, government and labour;
- It establishes quantitative targets and qualitative responsibilities in respect of each indicator of the scorecard; and
- It outlines processes for implementing the Sector Code and mechanisms for monitoring, measuring and progress reporting.

We, as the CA profession and sector, have the skills to contribute to the transformation strategy as set out by government and as such also to contribute towards increasing equitable income distribution and equal opportunities.

5 OBJECTIVES

The overall objective of this Sector Code is to promote economic growth and transformation to enable meaningful participation of black people so as to increase equitable income distribution and bring about equal opportunities. In real terms, and given that our profession is that of Chartered Accountancy, this objective should find expression in the achievement of CA membership and sector composition that reflects the demographics of our country. To this end, the Charter has the following objectives:

CA profession

- The achievement of a meaningful change in racial and gender composition as well as throughput pass percentages of persons studying towards a CTA or equivalent at accredited higher education institutions, so that ultimately the membership of the CA profession will reflect the demographics of South Africa.
- Bringing about a meaningful change in both the racial and gender composition of persons on accountancy learnerships, so that ultimately the CA membership composition will reflect the demographics of the country.
- Supporting the development and upliftment of rural and local communities through wealth creation, by means of skills development (of school learners and educators as well as black businesses) on the one hand and socio-economic development projects on the other, thereby increasing equitable income distribution and equal opportunities for all.

CA sector

- Bringing about a meaningful change in the racial and gender composition of ownership and management structures within the CA sector so as to reflect the demographics of the country.
- Achieving meaningful change in the racial and gender composition of all persons employed in the sector, including the granting of bursaries to black students and learners on learnerships, by means of skills development programmes, so that ultimately the composition of the CA sector will reflect the demographics of South Africa.
- Promoting and using preferential procurement policies that will provide emerging black enterprises, and especially those in the CA sector, with opportunities to expand their output so as to attain sustainable development
- Supporting the development and upliftment of local and rural communities through socio-economic development projects, thereby increasing equitable income distribution and equal opportunities for all.

6 SECTOR CODE DEVELOPMENT PROCESS

1. The process commenced with discussions with organs of state in 2004/2005. This was followed by discussions at a board level of SAICA.
2. Following the decision in principle to draw up a Sector Code, all major shareholders (as listed in appendix 3) were consulted, through regional structures, where appropriate, within the profession. Agreement was reached on developing a Sector Code specifically for the CA profession.
3. The first step was to make the decision public, by statements in the press as well as in Accountancy SA and Communiqué and communicating with parties concerned via e-mail.
4. A meeting was set up at which the initiators of the Sector Code process proposed the setting of a mandate for a charter forum and determining the charter forum's overall objectives.
5. This was again followed up by a consultation process with the relevant stakeholders.
6. The next step was the formal agreement to set up a B-BBEE negotiation forum. All major stakeholders who attended the meeting were requested to put forward names of representatives to drive the Sector Code development process. It should be noted that these representatives, who were nominated by the relevant stakeholders, are senior and influential members of their organisations.
7. At the first meeting of the newly constituted B-BBEE Negotiation Forum a chairman and vice-chairman were elected. It was further agreed that SAICA would take on all the secretarial responsibilities of this process, to ensure that it was administered from a central point and in a co-ordinated manner.
8. In addition to the B-BBEE Negotiation Forum working groups, referred to as task teams, were set up to draft sections and put forward recommendations. Task teams, consisting of experienced members, were constituted for direct empowerment, indirect empowerment, human resource development, and definitions.
9. A steering committee was appointed to consolidate the work of the task teams and prepare the documentation for the B-BBEE Negotiation Forum meetings. Steering Committee meetings were held regularly, sometimes every two weeks, and the B-BBEE Negotiation Forum (usually) met on a monthly basis. Minutes of all the meetings are available from SAICA for inspection.

10. Numerous drafts of the Sector Code were produced, each draft being subject to comprehensive consultation and discussions.
11. A website was set up for the CA Sector Code, calling for comment from the public at large at critical times in the process.
12. Country-wide meetings and consultation have taken place with the relevant stakeholders.
13. A DVD, and TV coverage, has also been prepared with regard to the CA Sector Code.

SECTION B FRAMEWORK

7 APPLICATION AND IMPLEMENTATION OF THE SECTOR CODE

7.1 APPLICATION

1. This Sector Code applies to the CA profession in South Africa and therefore the South African firms making up the CA sector. The provisions specific to the CA sector Qualifying Small Enterprises (QSEs) are set out in paragraph 13.2. Unless expressly stated otherwise, the provisions stated here will apply to both general constituents of the CA sector and QSE constituents.
2. The Sector Code will be effective from the date it is approved as a Sector Code.
3. Five years after the date on which the Sector Code is published in the Government Gazette, the Charter Council will undertake a comprehensive mid-term review and make decisions regarding the implementation of the Sector Code in its second term so as to achieve its ten-year targets. While no mid-term targets have been set, the mid-term revision will entail an extensive overview of achievements and if necessary, re-assessment of activities that need to be undertaken to ensure that the ultimate targets are indeed met. Results of the final examination written in the year 2010 will be taken into account even if these results are only available the following year.
4. While this Sector Code is effective up to 31 December 2016, the parties to this Sector Code agree that the principles contained in the Sector Code may be relevant beyond 31 December 2016, which is to be determined by the Charter Council prior to this date.
5. All the provisions of this Sector Code are to be achieved in a manner consistent with sound business practice.
6. In the measurement of B-BBEE compliance, substance will take precedence over legal form.
7. All measurement of B-BBEE initiatives will be based on the actual level of B-BBEE compliance at the date of measurement.
8. Any representation made by an entity with respect to B-BBEE compliance will be supported by appropriate evidence or documentation.

7.2 GUIDING PRINCIPLES

The following key principles have been adopted by the CA profession with regard to the implementation of the Sector Code:

1. All B-BBEE initiatives of the CA profession will be measured and reported on an annual basis.
2. The fundamental principle that all measurement of B-BBEE initiatives is based on the actual level of B-BBEE compliance at the date of measurement, will be adhered to.
3. The CA profession will adhere to economic principles when implementing the B-BBEE initiatives so as to ensure the sustainability of the B-BBEE process.
4. The CA profession will account for and present all B-BBEE initiatives in accordance with the substantive and economic reality and not merely the legal form.

5. The CA profession will ensure that there is uniformity on how B-BBEE initiatives are recognised and measured so as to facilitate a comparison of B-BBEE progress between different constituencies.
6. The CA profession undertakes to promote information that is free from material error and bias and can be depended upon by users to be a faithful representation of that which it could reasonably be expected to represent. Any representations made will be capable of being supported by appropriate evidence and documentation.
7. The CA profession undertakes to provide information pertaining to the B-BBEE initiatives that is complete.
8. The CA profession undertakes to provide available information on a timely basis.
9. The Codes make provision for a transitional period where measurement may be undertaken in accordance with the Generic Scorecard or score achieved in respect of code 100 and 200 based on a formula. For purposes of the CA profession there will be no transitional period and measurement will be undertaken in accordance with the gazetted scorecards.

8 IMPLEMENTATION

8.1 SECTOR CODE COUNCIL

1. A Charter Council will be established as an independent body with a mandate to oversee the implementation of the Sector Code.
2. The Charter Council membership will be drawn equitably from stakeholders (see Appendix 3 for a list of stakeholders).
3. The Charter Council will consist of representatives from each of the following stakeholder groups:

	Members
Small practices	1
Large firms	1
Medium size firms	1
Black Firms Forum	1
IRBA	1
SAICA	1
ABASA	1
AWCA	1
Commerce and Industry	1
Academics	1
Trainees	1
Auditor-General	1
National Treasury	1
Total	13

4. The B-BBEE Negotiation Forum will set up the Charter Council by calling for nominations from the stakeholder groups. It will consider diversity in terms of gender, race and disability. The B-BBEE Negotiation Forum will dissolve once the Sector Code has been completed and signed and the first Charter Council has been established. The Charter Council will then take the process forward.

5. At the first Charter Council meeting members will determine amongst themselves a term of office ranging from one to three years, which could be renewable. The intention is that there will be rotation, on an annual basis, of one third ($\frac{1}{3}$) of the Charter Council members.
6. The Charter Council will operate on a part-time basis with secretarial and administrative support being provided by SAICA so as to keep any additional costs of running such a Charter Council at a minimum. All such costs will be borne by SAICA.
7. In the appointment of the chairman of the Charter Council, the need for independence from the CA sector will be considered.
8. The Charter Council will address issues of principle and in particular –
 - supply guidance on sector specific matters affecting B-BBEE to the entities within the sector;
 - compile reports on the status of B-BBEE within the sector;
 - share information with the national monitoring mechanism and approved accreditation agencies that may have specific relevance to B-BBEE in the sector;
 - undertake ongoing monitoring of the pipeline of undergraduates, postgraduates and trainees as they relate to the CA profession to ensure a positive shift in terms of race, gender and pass percentages; and
 - undertake ongoing monitoring of the achievement of targets as set out in the scorecard. If it is deemed appropriate, new targets will be set if these targets are achieved during the period.

8.2 ADMINISTRATION

1. The Charter Council will agree with the SAICA Executive President on an executive of SAICA to attend to its work and specifically to –
 - receive and consider audited scorecards and reports,
 - confirm ratings, where appropriate,
 - issue guidance notes on the interpretation and application of the Sector Code,
 - prepare an annual review which outlines progress and evaluates new areas of intervention,
 - submit the annual review to the B-BBEE Advisory Council, and
 - engage with government and the B-BBEE Advisory Council as well as regulatory agencies to promote the implementation of the Sector Code.
2. The Charter Council will ensure that the executive, through SAICA, has adequate resources and capacity and is supported in the fulfilment of its mandate as envisaged in the Sector Code.

8.3 REPORTING AND REVIEW

1. The Charter Council will report annually on the progress made by the CA sector to the Minister of Trade and Industry and to the B-BBEE Advisory Council.

The report shall outline the following:

- Baseline indicators for all the different elements of B-BBEE;
- Aggregate scores of all the indicators of the B-BBEE scorecard for all the entities reporting within the ambit of the Sector Code;
- Types of initiatives that are undertaken by the entities within the sector; and

- Any other relevant information that would be useful in assessing the state of B-BBEE within the sector.
2. Each entity will report annually within the stipulated time frames to the Charter Council on its progress and implementation of the provisions of the Sector Code.
 3. The reporting period will be 31 December of each year and an annual report will be submitted to the dti by 30 April of each year.

B.4 VERIFICATION OF COMPLIANCE

In terms of statement 000 of code series 000, verification of B-BBEE compliance is encouraged and to this end the dti will from time to time issue clear guidelines on the verification process.

The Charter Council will report to the dti annually (30 April of each year) on the consolidated position of the CA sector. It will thus be incumbent on the CA sector to provide the Charter Council with their individual scorecards. These scorecards must either have been verified by an accredited verification agency, or the relevant entities should be able to provide evidence or documentation to substantiate all measured items.

9 RISK MANAGEMENT

The following potential risks have been identified which may impact negatively on the successful implementation of this Sector Code. Additional risks and unintended consequences may arise during the implementation phase of the Sector Code. The Charter Council will need to monitor these and any other risks, ensuring appropriate strategies are put in place to mitigate any risks and unintended consequences.

For each potential risk identified possible mitigating actions have been recommended. These will need to be considered and adapted if necessary, rather than simply adopted without considering the circumstances at the time.

RISK	POSSIBLE MITIGATING ACTIONS
Certain constituencies may not buy into the Sector Code and either passively or actively not support its implications.	During the formulation process, we ensured all parties did participate regularly and fully and requested them to report back to and regularly consult with their respective constituencies. The Forum chairperson and / or steering committee engaged Forum members and / or constituencies to address any unresolved issues.
This Sector Code addresses only the CA profession, omitting many other accounting bodies, their members and others offering similar accountancy services.	A letter was sent to all other known accountancy related membership organisations advising them of the CA B-BBEE Negotiating Forum, and recommended they run similar processes. We offered experiences from this process and suggested that in due course it may be appropriate for a larger group to meet to share experiences and maybe work together.
Charters may be gazetted as Sector Codes or transformation charters. The latter has no legal status and are for informational purposes only. Sector Codes will have the same status as the Codes of Good Practice.	In order to have maximum impact, the Forum needs to ensure that the Charter is gazetted as a Sector Code. This requires a stringent process and close alignment to the Codes of Good Practice with any deviations being fully justified. Appropriate consultation with the Forum, with constituencies and with other professional advisers is necessary to ensure the Charter is gazetted as a Sector Code.

RISK	POSSIBLE MITIGATING ACTIONS
There are risks that different scorecards may be required or indeed used, for different geographic locations of a national business with multiple locations.	Where the ownership and management of a practice is regarded as being national a single scorecard should be applied. In the case of independently owned and managed franchise operations, each franchise should have its own scorecard.
There have been suggestions that different Sector Codes will need to be used for different service disciplines within a multidisciplinary firm (e.g. audit, tax, legal services may be different).	The philosophy of one firm one Sector Code / scorecard nationally and for all offerings has been strongly advocated.
The targets set in the scorecard must be challenging to make a difference, but some may regard them as unrealistic. In developing the Sector Code and scorecard, the assumption is that the economy will continue to grow at an average of 5% per annum or more. Growth makes the targets more achievable than when there is low or no growth.	Should the economy not reflect constant growth of 5% per annum or more, additional strategies may be required to ensure the targets are met.
The regulations flowing from the Companies Act No. 71 of 2008 will in all probability bring about a fundamental change with regard to the requirements for the audit of companies, in that audits will possibly no longer be mandatory for 'closely held' companies that do not meet the threshold requirements for a 'public interest' company designation.	A regulatory change of this nature will significantly reduce the number of audit trainees. The impact of this on the Sector Code goals and scorecard targets will need to be considered and factored into strategies agreed by the Charter Council.
The Codes of Good Practice have become increasingly complex, which will result in greater complexity in this Sector Code and scorecard. Small and medium enterprises will find it difficult and expensive to administer and move away from compliance.	Requirements for compliance with the Sector Code and scorecard must be kept as simple as possible, particularly for small and medium enterprises.
The role of the membership body, SAICA, must be clearly reflected together with the resource requirements to discharge any responsibilities it assumes.	The SAICA Board must approve any recommended role for SAICA during the implementation process.
The training platform for CAs is well defined as being training inside and outside of public practice. This platform could be significantly increased by extending training in the public sector.	SAICA should work in partnership with the public sector and the profession to develop a training model for implementation in the public sector.
Due to the length of time taken for a CA to qualify (minimum of seven years, assuming the correct school exit pass), there is a risk that after the ten-year period there may be a perception that not enough CAs have been trained.	As well as focusing on the number of CAs, the pipeline of trainees and post-graduate students must be monitored. This may also include relevant undergraduate students.
The definition of 'black people' includes African, Coloured and Indian groups. The ultimate objective of the Sector Code is to achieve equitable representation of the different race groups and gender in its membership. In the CA profession Africans and Coloureds are substantially underrepresented in the membership demographics and we would expect particular emphasis to be placed on these groups, including women in general.	The reason for the less inclusive focus is that in terms of the B-BBEE measures applied by the CA profession, and particularly membership, the Indian population group already satisfies the indicators. However, measures should be put in place to ensure that the situation is monitored, and any deterioration addressed by including the Indian group in the initiatives.

10 REGULATORY ISSUES

The regulatory environment and architecture of this sector must promote the empowerment objectives of this Sector Code, ensure appropriate standards of entry, operation and disclosure and facilitate competition.

It is the intention that this Sector Code be gazetted both as a Code of Good Practice under Section 9 of the B-BBEE Act and as a transformation charter under Section 12 of the B-BBEE Act. In doing so government will be bound by such a transformation charter and Sector Code.

SECTION C FROM THEORY TO PRACTICE: THE SCORECARD

11 GUIDING PRINCIPLES FOR THE PREPARATION OF THE SCORECARD

11.1 ADOPTION OF THE GENERIC SCORECARD

In the process of developing a scorecard specifically for the CA profession, the decisions of the participants were first and foremost informed by their determination to use this Sector Code, and the scorecard(s) included herein, to make a difference to the profession and the country in general.

Despite the fact that the CA profession has some unique characteristics that make comparison with other industries such as the IT, mining or financial services sectors incongruous, members of the CA profession were determined to conform to government guidelines regarding the scorecard and all the aspects related to it. The fundamental point of departure was thus to begin with the Generic Scorecard. Any deviations were supported by sound economic principles, unique sectoral characteristics or empirical research.

The most important of these is that while firms in the CA sector may be structured either as sole proprietorships, partnerships or companies, eligibility as an RA is strictly circumscribed by legislation. Ownership and management at the highest levels are bound together – neither responsibility nor ‘wealth’ (which would constitute equity interest in terms of the Codes) may be shared with or sold to individuals who are not RAs. This aspect finds expression in the definitions, which are tailored to circumstances unique to the CA sector.

The uniqueness of the CA sector also extends to its training and development focus: The sector lends itself ideally to being a ‘training ground’ for future CAs for the country, thereby enhancing the economy and not just the CA sector itself. Therefore, on the one hand, many of the definitions are aimed at building a pipeline of trainees and CAs. On the other hand, however, once qualified CAs choose from a wide variety of employment opportunities in commerce and industry. Although the CA sector may thus be offering opportunities for, and recruiting and training particularly the black CAs, this increase is not reflected in the numbers of qualified black CA(SA)s and RAs that remain in the sector.

A factor that could strongly impact on the goals and targets the CA sector has set for itself, is that the environment in which the CA profession operates is presently subject to far-reaching change. The introduction of two new acts could fundamentally change the way the profession and its constituents operate. The first of these is the Auditing Profession Act, which created a new regulatory organisation, the IRBA. The functions with which the IRBA has been charged have already resulted in changes to the regulatory environment of auditors in particular, and is likely to result in further changes. The profession’s response to these changes could in turn impact on the parameters of the CA Sector Code.

The second piece of legislation which is likely to change the environment and functioning of audit firms is the Companies Act No. 71 of 2008. The regulations flowing from this Act will in all probability bring about a fundamental change with regard to the requirements for the audit of companies, in that audits will possibly no longer be mandatory for ‘closely held’ companies that do not meet the threshold requirements for a ‘public interest’ company designation.

This is likely to have a fundamental effect on small audit firms, who currently employ the majority of trainees. If such firms no longer perform the audits of closely held companies, it could impact on their ability to comply with accreditation requirements regarding the depth and range of training experience that has to be provided to TIPP trainees. In terms of the CA Sector Code as it stands, small firms are expected to contribute significantly to the CA profession pipeline. Should this contribution decline appreciably, the profession will need to search for innovative ways of dealing with the challenge this will present.

11.2 THE APPLICATION OF TWO SCORECARDS

The CA sector can be stratified into the following main constituencies:

- Big four firms;
- Medium sized firms; and
- Small firms.

The majority of trainees (approximately 70%) are employed by small and medium sized firms with approximately 25% of the learnership contracts being held by black trainees. On the other hand the big four, who employ approximately 28% of all trainees, employ 36% of black trainees.

The Codes take cognisance of the fact that it would be difficult, and possibly unfair, to apply the same indicators to the evaluation of B-BBEE across the board to large, medium, small and micro enterprises.

Therefore statement 000 of series code 000 provides a framework for the measurement of B-BBEE for Qualifying Small Enterprises (QSEs). It contains the following definition, which will also be applied to QSEs in the CA sector:

‘Any enterprise with an annual total revenue of between R5 million and R35 million qualifies as a qualifying small enterprise.’

A further guiding principle of this Sector Code is thus that small firms in the CA sector to whom these indicators apply, will be measured in terms of the QSE Scorecard, as set out in paragraph 13.1, while all other firms will be measured in terms of the Generic Scorecard, which is set out in paragraph 12.1.

A micro enterprise is defined as an enterprise with an annual revenue of R5 million or less (statement 000, code series 000). Such a micro enterprise is deemed to have B-BBEE status of a level four contributor with a B-BBEE procurement recognition of 100%. The statement also sets out conditions that would enable it to qualify for a B-BBEE status of a level three contributor.

Start-up enterprises are measured as exempted micro enterprises for the first year following their formation or incorporation. This provision applies regardless of the expected total revenue of the start-up enterprise.

11.3 ELEMENT WEIGHTINGS

There are seven key Elements that form the pillars to B-BBEE. The Elements, which provide a common base for measuring the impact of policy objectives of B-BBEE across different entities and sectors within the economy, are the following:

- 1 Ownership
- 2 Management Control
- 3 Employment Equity

- 4 Skills Development
- 5 Preferential Procurement
- 6 Enterprise Development
- 7 Socio-Economic Development

In terms of the Codes of Good Practice it is recommended that the overall Weightings attached to the different Elements of the scorecard follow the Generic Scorecard as presented in statement 000 of the Codes of Good Practice as closely as possible with a minimum of deviation.

However, in terms of code series 000, statement 003, the following principles need to be applied in developing and gazetting Sector Codes:

1. There must be common commercial and other characteristics within those enterprises operating in the sector which would make it feasible to formulate a transformation charter subject to the proposed Sector Code.
2. The proposed Sector Code must firstly address all the Elements in the Generic Scorecard.
3. The proposed Sector Code must use the same definitions in respect of all beneficiaries as those used in the Codes.
4. The proposed Sector Code must use the same calculation methodologies to measure compliance as those used in the Codes.
5. The proposed Sector Code may deviate from Targets and Weightings used in the Codes only where the deviations are justifiable based on sound economic principles, sectoral characteristics or empirical research.
6. The proposed Sector Code may introduce a new additional Element for measurement where such addition is justifiable based on sound economic principles, sectoral objectives or empirical research.
7. The proposed Sector Code must clearly define its scope of application.

In paragraph 11.1 of the CA Sector Code it was stated that the aim of the guiding principles was to closely align the CA Sector Code with that of the Generic Scorecard. However, as highlighted above, the Codes do make provision for deviations based on sound economic principles or sectoral characteristics or empirical research. The CA sector has come to the conclusion that there are sound economic principles, sectoral characteristics and empirical research to justify deviations from Element Weightings and even certain Targets. The justification is based on the following:

1. Sound economic principles

- The South African economy needs more CAs and it is incumbent on the CA sector to meet the demands of the country by supplying sufficient numbers of these highly skilled individuals to the economy.
- As indicated in paragraph 4 of the Sector Code, not only growth in the number of African and Coloured CAs in general but also in female numbers is essential if the CA profession is to reflect the population demographics.

2. Sectoral characteristics

- A study of the statistics in appendix 4 clearly indicates that there is no growth in the 'pipeline' to deliver the CAs. In fact, in 2007 there was a decrease in the number of candidates presenting themselves for the Qualifying Examination.
- It takes seven years to qualify as a CA. The commitment required, in terms of entry requirements, time and level of difficulty, has a far-reaching effect on the ability of the sector to deliver the required number of CAs.

- The CA sector does not only serve its own interests in terms of education and training people for its own sector, but also provides financially and managerially skilled persons for other sections of the business world and the broader economy.
- The CA(SA) designation is internationally recognised as being of a very high standard. The reality of this is that it is a designation that is internationally transferable, as is endorsed by the fact that 20% of SAICA members reside outside the borders of the country.
- Limited or no capital is required to become an owner / partner in a firm of RAs. However, this is offset by the significant skills and experience required for partnership / ownership status.
- Member firms of global networks are required to procure in terms of global firm policies.

3. Empirical research

- In terms of an independent research report, the CA sector is experiencing an enormous shortage of trainees.
- A great deal of work and analysis has been done with regard to the 'pipeline' needs, which has to show a substantial growth if the CA sector is able to meet the demands of the economy.
- A research report was commissioned by the Human Sciences Research Council to identify the indicators / attributes required by learners to qualify as CAs. Two skills were identified as being essential, namely a proficiency in mathematics and literacy in English (numeracy and literacy skills).

As has already been stated, the vision of the CA Sector Code is to grow the number of Black people in the CA profession to reflect the country's population demographics, to empower and enable them to meaningfully participate in and sustain the growth of the economy, thereby advancing equal opportunity and equitable income distribution.

In order to achieve this vision and based on the economic principles and sectoral characteristics as well as the empirical research set out above, the focus of the CA Sector Code needs to be more on Employment Equity and Skills Development. Accordingly, five additional Weighting points were allocated to each of the Employment Equity and Skills Development scorecards. To balance the CA sector scorecard, ten Weighting points were then removed from the Preferential Procurement scorecard as this is not an area in which the CA sector can contribute greatly based on the nature of the CA sector business.

As a result, the Weighting points per the Codes of Good Practice compared to the CA Sector Code are as follows:

	Code	CA sector
Ownership	20%	20%
Management Control	10%	10%
Employment Equity	15%	20%
Skills Development	15%	20%
Preferential Procurement	20%	10%
Enterprise Development	15%	15%
Socio-Economic Development	5%	5%
Total	100%	100%

11.4 INDICATOR WEIGHTINGS

In addition to the Weighting points assigned to each Element, the Codes of Good Practice have attached Weighting points to different indicators within each Element. The main reasons for these indicator Weightings are to make the B-BBEE scorecards for different enterprises and sectors easier to understand and interpret as well as allow a comparison of progress across sectors and industries while working from an equitable baseline.

Based on the reasons set out in paragraph 11.3, the CA sector has adjusted the recommended indicator Weightings of the Codes to take account of the unique conditions of the CA sector and the advantages such an adjustment would have in the long run.

12 THE GENERIC SCORECARD FOR THE CA SECTOR

12.1 THE CA SECTOR SCORECARD

BEE Element	Code	Element Weighting		Indicator	Indicator Weighting		Compliance Target	
		Generic	CA Sector		Generic	CA Sector		
							10 years To 2016	
Ownership	100	20	20	Voting Rights				
				• Exercisable Voting Rights in the enterprise in the hands of Black People	3	5	32.5%	
				• Exercisable Voting Rights in the enterprise in the hands of black women	2	3	10%	
				Economic Interest				
				• Economic Interest of Black People in the enterprise	4	7	32.5%	
				• Economic Interest of black women in the enterprise	2	3	10%	
				• Economic Interest of the following black natural people in the enterprise: Black Designated Groups	1	2	2.5%	
				Realisation Points				
				• Ownership Fulfilment	1	0		
				• Net Value	7	0		
				Bonus points				
				Involvement in the ownership of Black New Entrants	2		10%	
				Involvement in the ownership of black Participants in	1		10%	
• Employee Ownership Schemes								
• Broad-Based Ownership Schemes								
• co-operatives								
Exercisable Voting Rights in the enterprise in the hands of Black People, for having achieved the following Targets:								
Between 32.5% and 39%; or		1	32.5–39%					
Between 40% and 49%; or		2	40–49%					
50% or more		3	50% or more					
Management Control	200	10	10	Board participation				
				Exercisable Voting Rights of black board members using the adjusted recognition for gender	3	3	50%	
				Black executive directors using the adjusted recognition for gender	2	2	50%	
				Top Management				
				Black Senior Top Management using the adjusted recognition for gender	3	3	40%	
				Black other Top Management using the adjusted recognition for gender	2	2	40%	
				Bonus points				
Black Independent Non-Executive Board Members	1	1	40%					
							5 years To 2011	10 years To 2016