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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.



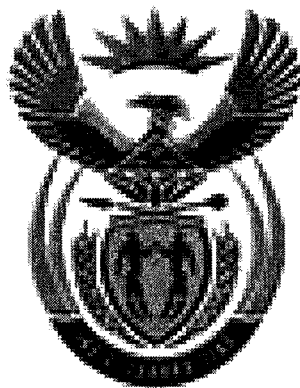
MANDISI MPAHLWA

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).

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.		

For A Level Three Contributor¹³

Certificate No: EME L3 / XXX / Date

<Insert Exempt Micro-Enterprise Entity Name>

Type of entity	Company / Close Corporation / Partnership / Trust / Sole Trader
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 A¹⁴ for the period ended < insert period> in determining the turnover/income levels and have not performed an audit of the financial statements.¹⁵

The audited/unedited⁹ financial statements of <insert Company / Close Corporation/ Entity Name> 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, turnover/income 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 beneficial owners (shareholders / members / partners / sole trader) were identified as 50% black owned or 50% black woman owned. (Appendix B¹⁶ sets out the agreed upon procedures performed to determine the ownership percentages held by black persons.)

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 Date:

¹³ This certificate is issued in terms of Government Gazette Vol. 500 No. 29617 dated 9 February 2007.

¹⁴ Agreed upon procedures not included.

¹⁵ Delete whichever is Not Applicable.

¹⁶ Agreed upon procedures not included.

METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 100: OWNERSHIP**1. Scope of this section**

- 1.1 This section deals with how a Verification Agency should execute its responsibility in relation to the verification of a measured entity's Ownership element of the B-BBEE Codes of Good Practice.

2. High Level Risks

- 2.1 The most significant risk that verification agencies face in verifying the ownership score is the overstatement of black beneficial ownership. This beneficial ownership includes both the economic interest and exercisable voting rights of black people in the measured entity.

3. Effective Date

- 3.1 This Verification Methodology will come into operation on the date of publication.

4. Objectives

- 4.1 The objectives of this methodology is to guide a Verification Agency to obtain sufficient and appropriate evidence on whether:
- 4.1.1 the enterprise has complied, in all material respects, with the key measurement principles for calculating the Ownership element of the B-BBEE Codes of Good Practice; and
- 4.1.2 the calculations for measuring the various types of enterprises, various types of equity instruments (including members interests in Close Corporations and partnership interests), voting rights and economic interest and realisation points and bonus points of the B-BBEE Codes of Good Practice (Code 100) are correct;

5. Requirements

- 5.1 To determine whether the measured entity meets the criteria under the Ownership element of B-BBEE the Verification Agency shall:
- 5.1.1 Obtain sufficient and appropriate evidence proving that the calculation of net equity value is accurate and prepare a report detailing the method used in the findings.
- 5.1.2 Obtain sufficient and appropriate evidence proving that the voting rights and economic interest in respect of shares carrying preferred rights are properly allocated and classified.
- 5.1.3 Obtain sufficient and appropriate evidence proving that the calculation of Designated Group is not misstated by the measured entity
- 5.1.4 Obtain sufficient and appropriate evidence proving that ownership in the hands of black people in relation to complex structures, sale of assets and equity equivalents is dealt with appropriately.
- 5.1.5 To establish proof as evidence the measured entity meets the criteria under the Ownership element of B-BBEE the Verification Agency shall:

- 5.1.5.1 Obtain a declaration by transferor of a Share from SARS for purposes of verifying the authenticity of the transfer of shares.
- 5.1.5.2 Obtain sufficient and appropriate evidence to determine whether ownership points attributable to any option or related instrument are properly allocated and classified.
- 5.1.5.3 Determine the existence and accuracy of Mandated Investments
- 5.1.5.4 Obtain sufficient evidence to determine that the calculation of Equity Interest excludes foreign operations.
- 5.1.5.5 Obtain a Tax clearance certificate from SARS in respect of foreign investments (e.g. FIA 001 Tax clearance)
- 5.1.5.6 Determine the accuracy and validity of the scorecard.
- 5.1.6 For beneficiaries that are listed as black trace beneficiaries to sufficient and appropriate evidence that the natural people who are beneficiaries qualify as black people in terms of the Codes of Good Practice
- 5.1.7 **For all trusts, employee ownership schemes and broad based ownership schemes:**
 - 5.1.7.1 Review trust or scheme deed to ensure that the stated benefit will always be flowing to black people based on either a fixed percentage or according to a formula; and
 - 5.1.7.2 Ensure that the trust or scheme meets the rules and additional criteria set for the Broad Based Scheme in terms of the Codes.
 - 5.1.7.3 For people who are unemployed, select a sample to trace the individual proof of unemployment in the form of Affidavits
 - 5.1.7.4 For youth, select a sample to trace that the individual is between the age of 18 and 35 in line with the B-BBEE Act.
 - 5.1.7.5 For people with disability, select a sample to trace the individual proof of disability status (e.g. valid disability certificate, evidence of registration to receive a Disability grant from the Department of Social Services)
 - 5.1.7.6 For black people living in rural or underdeveloped areas, select a sample to trace the individual proof of residence in such areas (e.g. letter from the tribal chief, proof of postal address).
 - 5.1.7.7 For black new entrants, obtain proof in the form of Affidavits and the transaction documents or Sales agreements, from the individuals who are identified as black new entrants to confirm that they have not been involved in B-BBEE deals in excess of R20 million, this value must be determined as at the date of purchase or transaction date and not at current market value for all prior B-BBEE deals.
- 5.1.8 **Before the Verification Agency continues with procedures to verify occurrence, accuracy, classification and validity of the entity's score, confirm:**
 - 5.1.8.1 the existence of a declaration in relation to beneficiaries / shareholders / members from SARS in order to verify the movement of shareholders interest.

- 5.1.8.2 if there is any ownership held directly by organs of state or public entities and exclude these from the verification process;
- 5.1.8.3 if there are any third party rights attached to the equity held by black people;
- 5.1.8.4 that the effect of the above mentioned third party rights on the equity held by black people has been established; and
- 5.1.8.5 if or not the equity held by black people has the characteristic of a debt or whether or not debt has been presented in the form of preference shares, debentures or other Ownership derivatives.

5.1.9 **B-BBEE Facilitators**

- 5.1.9.1 Inspect the Government Gazette for notice of the public entity being identified as a B-BBEE facilitator; and
- 5.1.9.2 Inspect the B-BBEE facilitator (e.g. the NEF, IDC, DBSA etc.) status and ensure that it is being applied correctly in the calculation.
- 5.1.9.3 Recalculate the Compliance formula for Voting Rights, Economic Interest, Deemed Net Value, Net Value and Recognition of Ownership after Sale or Loss of Shares by Black Participants.

5.2 **Considerations Specific to Qualifying Small Enterprises**

- 5.2.1 The Verification Agency should comply with all the requirements applicable to the Generic Scorecard including the following:
 - 5.2.1.1 exercisable voting rights and economic interest in black people;
 - 5.2.1.2 economic interest in:
 - 5.2.1.2.1 Black designated groups,
 - 5.2.1.2.2 Black participants in employee ownership schemes,
 - 5.2.1.2.3 Black beneficiaries of broad based ownership schemes
 - 5.2.1.2.4 Black participants in co-operatives
 - 5.2.1.2.5 Black women involvement in ownership
- 5.2.2 When determining the validity of involvement of ownership by black women in the measured entity the Verification Agency should determine the economic interest.
- 5.2.3 Confirm that a maximum of 10% of shareholding by black women can be considered when calculating this indicator.

6. **Application material**

- 7. When determining the level of ownership by the Black People, the Verification Agency can rely on the evidence set below and when determining the accuracy of the scorecard the Verification Agency may perform the following procedures:

7.1 **Voting Rights – Direct Shareholding**

- 7.1.1 Trace the exercisable voting rights in the hands of black people to the share certificates.
- 7.1.2 Trace the exercisable voting rights in the hands of black men and women to a

shareholders agreement or similar document if the entity is not a company.

- 7.1.3 Inspect the shareholders' agreements to identify clauses that can restrict voting rights.
- 7.1.4 Inspect shareholders' agreements to identify clauses regarding the rights of shareholders to appoint directors and any restriction on the voting rights of these directors.
- 7.1.5 Complex group structures may require the verification of the funding arrangements by looking at other entities like the B-BBEE partners audited annual financial statements or obtaining confirmation and supporting evidence of funding arrangements.
- 7.1.6 Interview a sample of the black shareholders to determine whether they understand their voting rights and whether they have exercised such voting rights independently.
- 7.1.7 Where the equity is held by a trust (or employee ownership scheme or broad based ownership scheme), interview the trustees (or equivalent representative of scheme) to ensure that they understand their fiduciary duties and the related exercisable voting rights in the measured entity. Review the election procedures in the first year of existence.
- 7.1.8 Inspect the minutes of the latest shareholders' meeting (or annual general meeting where applicable) to identify the trust's participation.
- 7.1.9 **Where the Flow Through Principle and Modified Flow Through Principle are applicable:**
 - 7.1.9.1 Inspect the organogram to determine the percentages and levels applicable to the black shareholding of the measured entity; and
 - 7.1.9.2 Apply the flow-through or modified flow through principle to calculate the exercisable voting rights of black people based on organogram;
 - 7.1.9.3 Inspect the organogram to confirm the actual black ownership in order to outline the real Voting rights that accrue to black individuals.
 - 7.1.9.4 The Flow through principle must be applied first before the verification agency is able to apply the Modified Flow Through principle in order to establish whether the structure has any entity that is black owned where black people hold more than 50% Economic Interest and black controlled where black people hold more than 50% of voting rights.
 - 7.1.9.5 The Verification agency must ensure that whether in the structure of the Measured Entity one or more of the entities is more than 50% black controlled the Modified Flow Through principle must only be used once in such a chain of ownership.
 - 7.1.9.6 **Mandated Investments**
 - 7.1.9.6.1 When determining that the validity of the mandated investment is included in the ownership calculation the Verification Agent shall obtain confirmation or competent persons report for all recognized mandated investments.
 - 7.1.9.6.2 When determining the validity of the mandated investment for exclusion of

Mandated Investments the Verification Agent should:

- 7.1.9.6.2.1 Obtain confirmation of all Mandated Investments;
- 7.1.9.6.2.2 Inspect share register for all mandated investments held by Collective Investment Schemes, for example Pension Funds, Unit Trusts.
- 7.1.9.6.2.3 Recalculating ownership excluded through mandated investments and ensuring that the ownership does not exceed 40%.

7.1.9.7 **Complex Structures**

- 7.1.9.7.1 Organisational structures of businesses are not always simple. Some entities have complex structures involving holding companies, subsidiaries and associated enterprises. Some entities may be involved in joint ventures.
- 7.1.9.7.2 When determining the validity of Complex structures the verification agent shall the following:
 - 7.1.9.7.2.1 The general rules for voting rights, economic interest and realisation points as detailed above may be used.
 - 7.1.9.7.2.2 The verification agent should enquire whether the measured entity is applying a consolidated B-BBEE scorecard or a Measured Entity level B-BBEE Scorecard.
- 7.1.9.8 For the Recognition of Ownership after sale or loss of shares by black participants the verification agency shall do the following when determining the validity of the continuing benefit:
 - 7.1.9.8.1.1 review transaction agreements to confirm that the holding period exceeds 3 years;
 - 7.1.9.8.1.2 Record the number of years that the transaction is in effect;
 - 7.1.9.8.1.3 Enquire from the black participant as to the circumstances of exit (sale or loss of share)
 - 7.1.9.8.1.4 If the shares are lost, review the agreement between the Measured Entity, Black Participant and a lender in order to ascertain the record of the loan or security arrangement, unless the Measured Entity is the lender and to ensure that recognition does not exceed the holding period.
 - 7.1.9.8.1.5 Recalculate continuing benefits and confirming that it is less than 40 percent of the score on the Ownership Scorecard.
- 7.1.9.8.2 For black participants who have lost or sold their shares, obtain proof of:
 - 7.1.9.8.2.1 acquisition date and the date when the shares were lost or sold;
 - 7.1.9.8.2.2 the percentage of shares held by the participant prior to the sale or loss of shares;
 - 7.1.9.8.2.3 the net value percentage undertaken for the equity instruments sold or lost by the black participant on the date of the sale or loss; and
 - 7.1.9.8.2.4 the most recent B-BBEE Recognition level of the measured entity.

7.2 Broad-based Ownership Schemes, Employee Ownership Schemes and Trusts:

- 7.2.1 To determine the points to award for the level of Participation the Black People in a Broad-Based Schemes and trusts the Verification Agent shall:
- 7.2.1.1 recalculate the participation by Black people in a Broad-based Schemes holding rights in a measured entity to ensure that it account for 40% or less of the total points awarded;
- 7.2.1.2 if it is found that the shareholding by Black people in a Broad-based Schemes accounts for 100% of their points and that the scheme it meet the additional criteria for Broad-Based Schemes and Employee Ownership Schemes as stated in the Codes, the verification agency should confirm that this effect is included in the calculation of voting rights held by the scheme to ensure that 100% of the total points on the ownership scorecard is recognized;
- 7.2.2 To determine compliance with additional rules set out in Annex 100(B) the verification agency shall:
- 7.2.2.1 review the Trust Deed or constitution of any B-BBEE scheme to ensure that the beneficiaries or class of beneficiaries are clearly named and that there is no discretion by the Trustees or executive of the Broad-based Scheme to change it;
- 7.2.2.2 review the latest Trust Deed to ensure that at least 50% of the trustees are black and that 25% of the trustees are black women and that the Chairperson is independent. Consider obtaining annual confirmation from the Master of the High Court in the province of registration.
- 7.2.2.3 Review the Audited annual Financial Statements of the Management Company or the Trust itself and ensuring that the total expenses do not exceed 15% of the total value received in that year by the Broad-based Scheme.
- 7.2.2.4 Review the Trust Deed or constitution of any B-BBEE scheme to ensure that the rules defining the distribution of economic interest are in line with the commercial rationale and that more than 85% of the economic interest is being allocated to Black people.
- 7.2.2.5 Review the trust deed to ensure that upon winding up of the trust all accumulated economic interest will be transferred to the beneficiaries of the scheme or an entity with similar objectives.
- 7.2.2.6 If the scheme accounts for 100% of the points claimed the verification agency should establish that the scheme meets the additional criteria set up for schemes in the Codes.
- 7.2.3 To determine compliance with the additional criteria for broad-based schemes the verification agency shall:
- 7.2.3.1 review the minutes of board meetings and ensure that the scheme is represented on the board and plays an active role as a shareholder; and
- 7.2.3.2 when determining the validity of the scorecard information the Verification Agent shall comparing employees who hold fiduciary roles in Broad-based schemes, trusts or

employee ownership schemes to the employee records supplied by the measured entity.

7.3 **Private Equity Funds**

7.3.1 When determining the ownership points of a Private Equity Fund the Verification Agent shall the following:

7.3.1.1 that the Private Equity Fund Manager must be a BEE Owned Company as defined in the Codes.

7.3.1.2 More than 50% of any exercisable voting rights associated with the equity instruments through which the Private Equity fund holds rights of ownership, be held by black people. (Refer to Interpretive Guide)

7.3.1.3 More than 50% of the profits made by the Private Equity Fund after realising any investment made by it must by written agreement accrue to black people.

7.3.1.4 More than 50% of the value of funds invested by any private equity fund must at all times be invested in black owned enterprises that were at least 25% black owned before the investment of the Private Equity fund. (Refer to Interpretive Guide)

7.4 **Section 21 Companies and Companies Limited by Guarantee**

7.4.1 When determining the validity of Section 21 Companies and Companies limited by Guarantee the Verification Agent shall the following:

7.4.1.1 A Measured entity may elect to include or exclude Section 21 Companies or companies limited by guarantee for the purposes of measuring ownership in terms of the Codes.

7.4.1.2 A Section 21 Company or company limited by guarantee that houses a Broad-Based Ownership Scheme or an Employee ownership scheme is subject to the provisions governing those types of schemes and not to this paragraph

7.4.1.3 If the Section 21 Company or company limited by guarantee is an exclusion the verification agent must recalculate the ownership to ensure that only up to 40% of the level of the measured entity's ownership has been excluded before calculating the effective voting rights or economic rights.

7.4.2 If the Section 21 Company or company limited by guarantee is an inclusion the verification agent must:

7.4.2.1 obtain a competent persons report estimating the extent of black voting rights originating from the Section 21 company or company limited by guarantee; and

7.4.2.2 apply the criteria as detailed under Broad-Based Ownership Schemes in the Codes.

7.5 **Options and Share Warrants (Ref Para 8 in the Ownership element of the Codes)**

7.5.1 Enquire whether the measured entity has any Options or Share Warrants, if so ascertain and document the details thereof.

7.5.2 Where the voting rights have been irrevocably transferred (i.e. when the rights have

been exercised), such rights will be included in the voting rights calculations for Ownership.

7.5.3 Inspect evidence that the option or share warrants irrevocably transfer the rights to economic interest (e.g. vendor having an option to acquire the B-BBEE shareholders stake at low or no value over time). Such limitation of economic interest must be included in the calculation of ownership score.

7.5.4 The Verification Agency must also recalculate the value of the option, share warrant or derivative instruments as at the date of measurement and add or deduct the value from the Net Economic Interest of the entity's ownership scorecard.

7.6 **For Equity Instrument with preferred rights:**

7.6.1 The entity which has black people holding preference shares should demonstrate the following:

7.6.1.1 The rationale for issuing preference shares as opposed to ordinary shares

7.6.1.2 The structure of the preference shareholding.

7.6.1.3 Are they structured as a debt?

7.6.1.4 If so how is the debt funded e.g. through the enterprise or a third party

7.6.1.5 How long will it take for the debt to be repaid

7.6.1.6 One should note that as a hybrid equity instrument the debt portion cannot be included as part of ownership

7.6.2 The conditions attached to those shares:

7.6.2.1 It is important that the black shareholders are able to exercise their Voting Rights as at the transaction date

7.6.2.2 It is also important to specify how the distribution of economic interest is carried out

7.6.2.3 It is also important to specify what conditions preclude the conversion of the preference shares to ordinary shares, and

7.6.2.4 At who's option are they convertible – if it is at the black shareholder's option then the shares may be taken into account as part of ownership

7.6.2.5 All the conditions above would have to be demonstrated in the form of a written agreement which would stipulate all the rights and restrictions of the black shareholders holding those non-redeemable convertible preference shares.

7.6.3 Enquire whether the measured entity has any equity instruments with preferred rights; if so ascertain and document the details thereof.

7.6.4 For equity instruments identified, inspect the relevant shareholder agreements to ascertain the voting rights and the residual income attributable to those instruments.

7.6.5 All instruments with preferred rights should be added onto the ordinary share capital for the calculation of voting rights, economic interest and net value. There are no blanket inclusions or exclusions of equity instruments with preferred rights under ownership.

7.6.6 Where an instrument illustrates debt characteristics (i.e. where the returns are expressed

as an interest rate similar to what the entity would be able to obtain in the open market), the equity instruments with the preferred rights will be regarded as debt rather than equity until such time as the debt portion is repaid. This affects the net value calculation (Ref Para 7 of the requirements).

7.6.7 In evaluating an instrument that has a hybrid nature including the characteristics of a debt, only that portion that represents a debt, will be measured under current equity interest. The remainder is measurable as an ordinary equity instrument.

7.7 **Economic Interest**

7.7.1 To determine whether the measured entity meets the criteria for calculating the economic interest points the verify agency has to:

7.7.1.1 Inspect the shareholders' agreements to identify any clauses that restrict economic interest (especially where it is disproportionate to shareholding).

7.7.1.2 In the case of the equity held by black people having the characteristics of a debt, inspect other supporting documents e.g. financing agreement, loan agreement to determine the repayment terms.

7.7.1.3 In the case where the acquisition of the shares by black people was through funding by a third party, determine the repayment terms as well as proof of how much of the loan has been repaid at the time of the verification.

7.7.1.4 Inspect the shareholders' agreements to identify any options (call vs. put options).

7.7.1.5 Enquire from the client the existence of any additional contracts that carry economic interest or options. Consider to obtain written management statement to confirm this.

7.7.1.6 Inspect the Shareholders' Agreements (and Financing Agreements where applicable) for exit clauses which can impact on economic interest for black shareholders.

7.7.1.7 Verify existence of, confirm and review evidence of the impact of all transaction documents on the economic interests of the black shareholders. Transaction documents could include, but is not limited to sales of share agreements, funding agreements, preference share agreement, cession, pledge and option agreement (to determine any possible impact of any of these on the economic interest of the black shareholders). Confirm that the transaction value, date of transaction, terms and conditions of transaction, funding of purchase consideration and conditions precedent have been met.

7.7.1.8 Inspect all transaction documents to ensure that the beneficiaries are entitled to economic interest that is proportionate to their shareholding.

7.7.1.9 In the case of dividend payments, verify existence of the relevant documents to evidence that such dividend payment was indeed paid to the black shareholders

7.8 **For Equity Instrument with preferred rights:**

7.8.1 In addition to the points above the entity which has black people holding preference

shares must demonstrate the following:

- 7.8.1.1 The rationale for issuing preference shares as opposed to ordinary shares
- 7.8.1.2 The structure of the preference shareholding. I.e. Are they structured as a debt
- 7.8.1.3 If so how is the debt funded e.g. through the enterprise or a third party
- 7.8.1.4 How long will it take for the debt to be repaid
- 7.8.1.5 One should note that as a hybrid equity instrument the debt portion cannot be included as part of ownership
- 7.8.2 The conditions attached to those shares:
 - 7.8.2.1 It is important that the black shareholders are able to exercise their Voting Rights as at the transaction date
 - 7.8.2.2 It is also important to specify how the distribution of economic interest is carried out
 - 7.8.2.3 It is also important to specify what conditions preclude the conversion of the preference shares to ordinary shares, and
 - 7.8.2.4 At who's option are they convertible – if it is at the black shareholder's option then the shares may be taken into account as part of ownership
 - 7.8.2.5 All the conditions above would have to be demonstrated in the form of a written agreement which would stipulate all the rights and restrictions of the black shareholders holding those non-redeemable convertible preference shares.
 - 7.8.2.6 Enquire if the measured entity has any equity instruments with preferred rights; if so ascertain and document the details thereof.
 - 7.8.2.7 For equity instruments identified, inspect the relevant shareholder agreements to ascertain the voting rights and the residual income attributable to those instruments.
 - 7.8.2.8 All instruments with preferred rights should be added onto the ordinary share capital for the calculation of voting rights, economic interest and net value. There are no blanket inclusions or exclusions of equity instruments with preferred rights under ownership.
 - 7.8.2.9 Where an instrument illustrates debt characteristics (i.e. where the returns are expressed as an interest rate similar to what the entity would be able to obtain in the open market), the equity instruments with the preferred rights will be regarded as debt rather than equity until such time as the debt portion is repaid. This affects the net value calculation (Ref Para 7 of the requirements).
 - 7.8.2.10 In evaluating an instrument that has a hybrid nature including the characteristics of a debt, only that portion that represents a debt, will be measured under current equity interest. The remainder is measurable as an ordinary equity instrument.

7.9 Realisation points

- 7.9.1 Realisation points are the points awarded on the Ownership scorecard as defined in the Codes.
- 7.9.2 Obtain or perform the valuation in accordance with standard valuation methodology.

- 7.9.3 Inspect the valuation for reasonability, which may include evaluating the following:
- 7.9.3.1 professional competence of the evaluator
 - 7.9.3.2 objectivity of the evaluator
 - 7.9.3.3 source data used
 - 7.9.3.4 assumptions and method used
 - 7.9.3.5 result of the evaluator in terms of the Verification Agency's knowledge of the business
 - 7.9.3.6 Document all steps taken to assess the reasonability of the valuation.
 - 7.9.3.7 Obtain written confirmation of outstanding liability from borrower.
 - 7.9.3.8 Recalculate net economic interest and compare to score provided by client.
 - 7.9.3.9 Confirm ownership fulfilment by awarding the one point based on whether the recalculation on the above yields a result that is greater than 7 and that there are no restrictions on the B-BBEE shares (i.e. that they are not pledged, ceded or in any other way hypothecated).
- 7.10 **Net value**
- 7.10.1 Net value is measured according to the real benefit realised by the black shareholder using preset requirements, rather than losing a large percentage to debt repayment.
 - 7.10.2 Calculating Ownership fulfilment:
 - 7.10.2.1 Obtain evidence that there are no restrictions on the date on which the shares can be sold by the black shareholder or whether the shares have been pledged or ceded to a third party.
- 7.11 **Standard Valuation Manual**
- 7.12 When determining the Standard Valuation of an Asset, Economic Interest or any other instrument or right relevant to measurement of Net value under statement 100 of the Codes using normal valuation methods that represent market practice the verification agent has to inspect the valuation for reasonability, which may include evaluating the following:
- 7.12.1 professional competence of the evaluator;
 - 7.12.2 objectivity of the evaluator;
 - 7.12.3 source data used;
 - 7.12.4 assumptions (ensure that the fair value of assets used is reasonable relative to the age and depreciation of the assets) and method used;
 - 7.12.5 confirmation that all the liabilities are taken into account and any replacement assets are factored into the calculation;
 - 7.12.6 result of the evaluator in terms of the Verification Agency's knowledge of the business; and
 - 7.12.7 document all steps taken to assess reasonability of the valuation.

7.13 Where a B-BBEE Consolidated scorecard is utilised the following may be applied:

- 7.13.1 The scorecard must list the names of the holding company as well as all its subsidiaries to which the B-BBEE scorecard pertains to.
- 7.13.2 Ownership score: only the holding company's B-BBEE ownership contributions count as measured in accordance with statements 100 or 103 as well as points arising from the sale of equity instruments in its subsidiaries in accordance with Statement 102.
- 7.13.3 Management control score (board only): only black members on the board of the holding company can count towards the score for black board participation
- 7.13.4 Management control/ employment equity score (top management and owner-managers only): calculation of the score for these aspects must measure black representation in the holding company as well as all measured subsidiaries
- 7.13.5 Skills development score: calculation of the score for this element must measure skills spend by the holding company as well as all measured subsidiaries
- 7.13.6 Enterprise development score: calculation of the score for this element must measure enterprise development spend by the holding company as well as all measured subsidiaries
- 7.13.7 Socio-economic development score: calculation of the score for this element must measure socio-economic development spend by the holding company as well as all measured subsidiaries
- 7.13.8 Preferential Procurement score: Calculations of the score for this element must measure procurement spend by the holding company as well as all measured subsidiaries.
- 7.13.9 Note that intra-group procurement in group structures cannot be counted as B-BBEE procurement

7.14 Where a B-BBEE Measured Entity Level scorecard is utilised the following may be applied:

- 7.14.1 The B-BBEE scorecard must list the details of the divisional structure and the company to which the division/ business unit belongs;
- 7.14.2 Ownership score: only the B-BBEE ownership contributions of the company to which the measured division/ business unit belongs count for measurement purposes. Contributions that count are those measured in accordance with Statements 100 or 103 as well as points arising from the sale of equity instruments in its subsidiaries in accordance with Statement 102;
- 7.14.3 Management control score (board only): only black members on the board of the company to which the measured division/ business unit belongs can count towards the score for black board participation;
- 7.14.4 Management control/ employment equity score (top management and owner-managers only): calculation of the score for these aspects must measure black representation in the

- measured division/ business unit only;
- 7.14.5 Skills development score: calculation of the score for this element must measure skills spend by the measured division/ business unit only;
- 7.14.6 Enterprise development score: calculation of the score for this element must measure enterprise development spend by the measured division/ business unit only;
- 7.14.7 Socio-economic development score: calculation of the score for this element must measure socio-economic development spend by the measured division/ business unit only;
- 7.14.8 Preferential Procurement score: Calculations of the score for this element must measure procurement spend by the measured division/ business unit only.
- 7.14.9 Note that incomes to an entity level B-BBEE scorecard for divisions, intra-group procurement with the enterprise to which the division or business unit belongs is measurable as per Statement 500.
- 7.15 **Where Exempted Small & Micro Enterprises and Qualifying Small Enterprises are Related Enterprises the following will apply:**
- 7.15.1 They MUST obtain either a consolidated B-BBEE scorecard as if they were a group structure or individual B-BBEE scorecards for each related enterprise if their combined turnover exceeds R5 million per annum;
- 7.15.2 But if their combined turnover is less than R5 million per annum, they can remain exempted from obtaining a B-BBEE scorecard.
- 7.16 **Related Enterprises that are Qualifying Small Enterprises**
- 7.16.1 If their combined turnover exceeds R35 million per annum, they MUST obtain either a consolidated B-BBEE scorecard as if they were a group structure or individual B-BBEE scorecards for each related enterprise;
- 7.16.2 But if their combined turnover is less than R35 million per annum, they can comply only with the requirements of the Qualifying Small Enterprises scorecard in their individual capacity.
- 7.17 **Unincorporated Joint Ventures**
- 7.17.1 Unincorporated joint ventures may obtain a consolidated B-BBEE scorecard as if they were a group structure, provided that such a consolidated B-BBEE scorecard is prepared for every separate venture.
- 7.17.2 Transfer of B-BBEE compliance data on B-BBEE scorecards
- 7.17.3 **The following types of B-BBEE initiatives attach to the underlying assets of the initiating entity:**
- 7.17.3.1 Historical contributions under Code series 600 and 700; and
- 7.17.3.2 Historical contributions arising from Statement 102.

7.17.3.3 Where a measured entity concludes any good faith transaction transferring ownership of all or part of its underlying assets, the measured entity may transfer benefit of those historical contributions to the new ownership of those assets. A written agreement recording the transaction must record:

7.17.3.3.1 The details of contributions transferred on a contribution-by-contribution basis;

7.17.3.3.2 The division between the parties if relevant; and

7.17.3.3.3 Such transfer can only take place once.

8. Statement 102 – Recognition in the Sale of Assets

8.1 When determining the validity of a Sale of Asset the Verification Agent has to determine whether the transaction meets the criteria for ownership recognition by:

8.1.1 analysing the previous years' annual financial statements in order to determine the Sustainability of the business opportunity;

8.1.2 ensuring that the transaction has been concluded at arms length and at market related basis in terms of the associated entities value from the previous year's Annual Financial Statements of the Measured Entity;

8.1.3 evaluating the Sales agreement or any other agreement between the measured entity and the associated enterprise to determine that there are no unreasonable limitations on trade or in determining its clients or customers;

8.1.4 establishing that a transfer of specialised skills has taken place in terms of the agreement between the Measured Entity and the associated enterprise;

8.1.5 determining the Voting Rights, Economic Interest and net value of the associated enterprise refer to the paragraphs detailing this above.

8.1.6 In valuating the associated enterprise as a percentage ownership equivalent in a Measured Enterprise by using this calculation:

8.1.6.1
$$\text{Value of an associated enterprise (resulting from a qualifying transaction)} / \text{value of the measured enterprise.}$$

8.1.7 For additional Methodology refer to the Interpretive Guide and the Codes

9. Statement 103 – The Recognition of Equity Equivalents for Multinationals

9.1 A Verification Agency must use the following process to determine the exclusion of Foreign Operations of Multinational Businesses and South African Multinationals:

9.1.1 obtain segmental report or confirmations of management accounts on the value of foreign operations;

9.1.2 obtain the Income tax on royalties certificate from SARS;

9.1.3 obtain the Income Tax Controlled Foreign Company return from SARS and verify against the annual financial statements for purposes of transfer pricing;

9.1.4 Where necessary, obtain an independent valuation of South African and foreign operations of the entity;

9.1.5 Recalculate foreign operation exclusions;

9.1.6 Express foreign operation as a percentage of the entire operation of the entity; deduct the foreign operation percentage from the denominator of all ownership calculations. (e.g. if the foreign operation represent 20 percent of the entire entity, the applicable ownership base used to calculate the ownership score is reduced from 100 percent to 80 percent) (Ref Para 8 of the requirements)

9.2 **Equity Equivalents**

9.2.1 Obtain and review the certificate of exemption issued by the DTI to the multinational.

9.2.2 Ensure that the certificate is valid by confirming its authenticity directly with the DTI

9.2.3 Review the business plan submitted as part of the application and approval process to the DTI. In particular ensure that the stated milestones have been achieved or exceeded. If they have not been met confirm that this has been communicated to the DTI and that the DTI is satisfied to continue with granting an exemption.

9.2.4 Verify through recalculation and review of supporting evidence that the total cumulative contributions made since the date the exemption were granted.

9.2.5 Obtain or perform the valuation in accordance with the standard valuation methodology as set out in the Codes. Standard Valuation Methodologies include but are not limited to the following:

9.2.5.1 **Discounted Cash Flow** (used where reasonable forecasts are available).

9.2.5.1.1 Inspect the valuation for reasonability, which may include evaluating the following:

9.2.5.1.1.1 professional competence of the evaluator

9.2.5.1.1.2 objectivity of the evaluator

9.2.5.1.1.3 source data used

9.2.5.1.1.4 assumptions (ensure that the forecasts are reasonable with regards to industry norms and historical performance) and method used

9.2.5.1.1.5 result of the evaluator in terms of the Verification Agency's knowledge of the business

9.2.5.2 Document all steps taken to assess reasonability of the valuation.

9.2.5.3 **Price earnings multiple (used when the business is profitable and is applied to sustainable earnings)**

9.2.5.3.1 Inspect the valuation for reasonability, which may include evaluating the following:

9.2.5.3.1.1 professional competence of the evaluator

9.2.5.3.1.2 objectivity of the evaluator

9.2.5.3.1.3 source data used

9.2.5.3.1.4 assumptions (ensure that the PE multiple used is reasonable relative to the equivalent of a listed company or sector average) and method used

9.2.5.3.1.5 result of the evaluator in terms of the Verification Agency's knowledge of the business

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- 9.2.5.3.1.6 Document all steps taken to assess the reasonability of the valuation.
- 9.2.5.4 **Net asset value of the business** (used when the business is in a capital intensive sector or the business is making a loss)
- 9.2.5.4.1 Inspecting the valuation for reasonability, which may include evaluating the following:
- 9.2.5.4.1.1 professional competence of the evaluator;
 - 9.2.5.4.1.2 objectivity of the evaluator;
 - 9.2.5.4.1.3 source data used;
 - 9.2.5.4.1.4 assumptions (ensure that the fair value of assets used is reasonable relative to the age and depreciation of the assets) and method used;
 - 9.2.5.4.1.5 confirmation that all the liabilities are taken into account and any replacement assets are factored into the calculation;
 - 9.2.5.4.1.6 result of the evaluator in terms of the Verification Agency's knowledge of the business; and
 - 9.2.5.4.1.7 document all steps taken to assess reasonability of the valuation.

METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 200: MANAGEMENT CONTROL**1. Scope of this section**

1.1 This section guides Verification Agency's on how to execute its responsibility to verify the measured entity's Management Control element of the B-BBEE Codes of Good Practice.

2. Effective Date

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

3. Objective

3.1 The objectives of this methodology is to guide a verification entity on how to obtain sufficient and appropriate evidence on whether:

3.1.1 The Measured Entity has complied, in all material respects, with the key measurement principles for calculating the Management Control element of the B-BBEE Codes of Good Practice; and

3.1.2 The calculation for measuring the Management Control scorecard does not contain material misstatements.

4. Requirements

4.1 The Verification Agency shall:

4.1.1 Read this statement in conjunction with the interpretive guide and the codes

4.1.2 Determine that the measured entity did not allocate a higher number of points than the weighting points as per the Management Control scorecard.

4.1.3 Obtain the EEA2 and EEA4 forms submitted to the Department of Labour by the measured entity in compliance with the Employment Equity Act or prepared in accordance with point 3.3 of Code 300 (when the measured entity does not fall within the scope of the Employment Equity Act).

4.1.4 Apply for confirmation in respect of the EEA2 from the Department of Labour

4.1.5 Establish the existence sufficient and appropriate evidence to determine whether the allocation and classification of:

4.1.5.1 race

4.1.5.2 gender

4.1.5.3 level of management; and

4.1.5.4 board appointment; are not materially misstated by the measured entity.

4.1.5.5 Determine the accuracy and validity of the scorecard.

5. Application material

5.1 When determining whether the measured entity allocated and classified employees to management accurately in terms of race, gender and level of management the Verification Agency may:

- 5.1.1 Establish whether the measured entity distinguishes between Top Management and Senior Management levels. In the case where a measured entity's management consists of Senior Management only, the weighting points for Top Management will be adjusted to 6 points for Senior Top Management and 4 points for Other Top Management with a compliance target of 60% respectively.
- 5.1.2 When the above is applicable, determine that the measured entity only scored points for senior management under Code 200 or 300 and not both, to avoid double counting.
- 5.1.3 Establish whether the measured entity distinguishes between Senior Top and Other Top Management levels. In the case of a measured entity that does not distinguish between these two management levels, the management levels will be collapsed into one level and the weighting points will be adjusted to 5 points while the target remains at 40%.
- 5.1.4 Agree a sample of directors and managers as classified in the information received from the measured entity to an ID document or certified copy thereof.
- 5.1.5 Obtain the CM27 (Contents of register of directors, auditors and officers) and CM29 (Consent to act as director or officer and other directorship) forms of the Measured Entity from the Company and Intellectual Property Registry Office (CIPRO) and ensure that the directors detailed on the registration forms correspond to the documents obtained from the Measured entity. For close co-operations, sole proprietors and partnerships obtain the relevant documents related to these specified entities.
- 5.1.6 To establish the existence corporate information the following steps may be followed:-
- 5.1.6.1 Contact CIPRO contact centre at 0861 843 384 or Visit CIPRO offices at 77 Meintjies Street, Sunnyside Pretoria;
- 5.1.6.2 Submit an application for the necessary files or information
- 5.1.6.3 Pay the required fee
- 5.1.6.4 Agree management to the EEA2 and EEA4 forms or the information prepared by the Measured Entity in terms of point 3.3 of Code 300.
- 5.1.6.5 Physically obtain Black Top Management and Black Executive and Non-Executive Directors in line with the EEA2 and EEA4 form or the information prepared by the measured entity in terms of point 3.3 of Code 300.
- 5.1.6.6 Interview a sample of directors and discuss their roles and responsibilities on the board to determine whether they are executive or non executive.
- 5.1.6.7 Agree the level of management information and board participation to the employee records, appointment records or information received from the Department of Labour to determine whether a director is executive or non executive.
- 5.1.7 Determine the responsibilities of directors and management by inspecting the following:
- 5.1.7.1 Overall packages of black directors/management compared to equivalent non black directors/management;
- 5.1.7.2 Performance evaluations of directors/management; or

- 5.1.7.3 Voting rights held by black board members and any restrictions that might be specific to the black directors.
- 5.1.8 When determining the accuracy of the scorecard the Verification Agency may:
- 5.1.8.1 Agree the total number of people on the board of directors and the number of black people and black women on the board including non-executive people (for the bonus point calculation) to the information received from the measured entity.
- 5.1.8.2 Agree the total number of people at Top management level and the number of black people and black women at Top management level to the EEA2 form or information prepared by the measured entity in terms of point 3.3 of Code 300.
- 5.1.8.3 Recalculate the percentage of black people and black women for each indicator of the Management Control Scorecard (items 2.1.1; 2.1.2; 2.2.1 and 2.2.2).
- 5.1.8.4 Agree the compliance targets and weighting points used by the measured entity in the formulae to the management control scorecard.
- 5.1.8.5 Recalculate the Adjusted Recognition for Gender for each indicator of the Management Control Scorecard (items 2.1.1; 2.1.2; 2.2.1 and 2.2.2)
- 5.1.9 When determining a score for Management Control, the Verification Agency should perform the following verification steps/ procedures:
- 5.2 **Considerations Specific to Qualifying Small Enterprises**
- 5.2.1.1 The Verification Agency should comply with all the requirements applicable to the Scorecard, but recalculate the formulae as follows:
- 5.3 Total Top Management = 10
- 5.4 Total Black People representation at Top Management = 5
- 5.5 Total Black Women representation at Top Management = 2

Appendix 4:**METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 300: EMPLOYMENT EQUITY****1. Scope of this section**

1.1 This section deals with how a Verification Agency's should carryout its responsibility to verify the measured entity's Employment Equity element of the B-BBEE Codes of Good Practice.

2. Effective Date

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

3. Objective

3.1 The objectives of this methodology is to guide a verification agency on how to establish the existence sufficient and appropriate evidence on whether:

3.2 The enterprise has complied, in all material respects, with the key measurement principles for calculating the Employment Equity element of the B-BBEE Codes of Good Practice; and

3.3 The calculation for measuring the Employment Equity scorecard does not contain material misstatements.

4. Requirements

4.1 The Verification Agency shall:

4.1.1 determine whether the measured entity achieved a sub-minimum of 40% for each Measurement Category (points 2.1.1 to 2.1.4) of the compliance targets for both of the five year periods in order to allocate points to the Employment Equity element of B-BBEE;

4.1.2 determine that the measured entity did not allocate a higher number of points than the weighting points as per the Employment Equity scorecard;

4.1.3 obtain the EEA2 and EEA4 forms submitted to the Department of Labour by the measured entity in compliance with the Employment Equity Act or prepared in accordance with point 3.3 of Code 300 (when the measured entity does not fall within the scope of the Employment Equity Act);

4.1.4 apply for confirmation in respect of the EEA2 from the Department of Labour;

4.1.5 obtain the completed EEA1 forms signed by the employee and documents from the relevant physician to substantiate the nature of disability for each employee that has been listed by the measured entity as disabled;

4.1.6 obtain the existence sufficient and appropriate evidence to determine whether the allocation and classification of:

4.1.6.1 race

4.1.6.2 gender

4.1.6.3 level of management, and

4.1.6.4 disabilities; are not materially misstated by the measured entity.

4.1.6.5 Determine the accuracy and validity of the scorecard.

5. Application material

- 5.1 Before the Verification Agency continues with procedures to verify occurrence, accuracy, classification and validity of the measured entity's score the Verification Agency must calculate 40% for each Measurement Category of the Compliance Targets for both of the five year periods. If the measured entity fails to achieve the sub-minimum for any one of the Measurement Categories, then no score may be allocated in that category on the Employment Equity scorecard.
- 5.2 When determining whether the measured entity allocated and classified employees to the management levels accurately in terms of race, gender, level of management and disabilities the Verification Agency may:
- 5.2.1 Determine whether the measured entity distinguishes between Middle Management and Junior Management levels. In the case where a measured entity's management only distinguishes between Senior Management and Junior Management, the weighting points for Middle Management will collapse into Junior Management and the weighting points will be adjusted to 8 points for Senior Management and 6 points for Junior Management with a compliance target remaining unchanged.
- 5.2.2 Agree the total number of management and people with disabilities to the EEA1, EEA2 and EEA4 forms as submitted by the measured entity to the Department of Labour
- 5.2.3 Obtain a sample of employee files and agree the correct allocation of management to the EEA forms. The employee file should as a minimum contain the employee's identity document, job description, employee band and letter of appointment and letter of promotion where applicable and any other relevant information.
- 5.2.4 Agree a sample of management as classified in the employee records to the EEA2 and EEA4 forms or information received from the Department of Labour to an identity document or certified copy thereof.
- 5.2.5 Physically obtain management from the employee records or the EEA2 and EEA4 forms.
- 5.2.6 Determine the correct allocation of the disability status to the employees who have been listed by the measured entity as disabled by comparing the employees to the EEA2 forms as well as the relevant EEA1 form i.e. Declaration by Employee and accompanying supporting documentation issued by the relevant doctor for each employee with disability.
- 5.3 When determining the accuracy of the scorecard the Verification Agency may :
- 5.3.1 Agree the number of total employees, black people and black female employees at the different management levels to the employee records or the EEA1, EEA2 and EEA4 forms submitted by the measured entity to the Department of Labour.
- 5.3.2 Recalculate the percentage of black people at each management level as per the measured entity's calculation.
- 5.3.3 Recalculate the Adjusted Recognition for Gender formula:

- 5.4 $A = B/2 + C$
- 5.5 A = the adjusted recognition for gender figure
- 5.6 B = the number of black employees divided by the total population of employees per scorecard items 2.1.1 to 2.1.4
- 5.7 C = the number of black women divided by the total population of all employees. The percentage of black women cannot be more than 50%
- 5.7.1 Recalculate the Compliance formula:
- 5.8 $A = B/C \times D$
- 5.9 A = the score per scorecard items 2.1.1 to 2.1.4
- 5.10 B = the adjusted recognition for gender percentage calculated above
- 5.11 C = the compliance target per scorecard items 2.1.1 to 2.1.4
- 5.12 D = the weighting points per scorecard items 2.1.1 to 2.1.4
- 5.13 Agree the compliance targets and weighting points used in the formulae to the employment equity scorecard points 2.1.1 to 2.1.5.
- 5.14 Determine whether the measured entity qualifies for the bonus points by comparing each Measurement Category level with the measured Economically Active Population (EAP) figures released by Statistics SA. The EAP must be obtained from Statistics SA at the date when the verification is performed, as the figure may change.
- 5.15 Example Calculations:
- 5.15.1 Refer to Requirement 4(a). The third column under compliance target year 0 – 5 and year 6 - 10 will be compared with the scorecard (including gender recognition) of the measured entity to determine whether the measured entity may allocate points to the scorecard:

Category	Compliance target yr 0 – 5			Compliance target yr 6 – 10		
	40% x	2% =	0.8%	40% x	3% =	1.2%
Disabled employees	40% x	43% =	17.2%	40% x	60% =	24%
Senior management	40% x	63% =	25.2%	40% x	75% =	30%
Middle management	40% x	68% =	27.2%	40% x	80% =	32%

- 5.16 In the case of measured entities that do not distinguish between Top and Senior Management levels and when the measured entity chose to measure Senior Management under the Management Control element, inspect that no score is allocated for senior management indicator in the Employment Equity element.
- 5.17 When determining the validity of the scorecard information the Verification Agency may:
- 5.17.1 Agree employee records to the EEA2 and EEA4 forms submitted to the Department of Labour (where applicable).
- 5.17.2 During physical verification of employees, agree the employee to the employee records.

5.17.3 When determining a score for Employment Equity, the Verification Agency should perform the following verification steps/ procedures:

5.18 **Considerations Specific to Qualifying Small Enterprises**

5.18.1 The Verification Agency should comply with all the requirements applicable to the Generic Scorecard excluding requirements for black people with disabilities and different levels of management and employees and should recalculate the formulae as per the Codes.

Appendix 5:**METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 400: SKILLS DEVELOPMENT****1. Scope of this section**

1.1 This section deals with how a Verification Agency's should carry out its responsibility to verify the measured entity's Skills Development element of the B-BBEE Codes of Good Practice.

2. Effective Date

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

3. Objective

3.1 The objectives of this methodology is to guide a verification agency on how to establish the existence sufficient and appropriate evidence on whether:

3.1.1 The enterprise has complied, in all material respects, with the key measurement principles for calculating the Skills Development element of the B-BBEE Codes of Good Practice; and

3.1.2 The calculation for measuring the Skills Development scorecard does not contain material misstatements.

4. Requirements

4.1 The Verification Agency shall determine whether the measured entity is entitled to allocate points to the Skills Development element of B-BBEE by obtaining sufficient and appropriate evidence on whether the measured entity:

4.1.1 Complies with the Skills Development Act and the Skills Development Levies Act.

4.1.2 Is registered with the South African Revenue Service (SARS) and that they have details of the applicable SETA; or

4.1.3 An exemption certificate from SARS for those companies under the R500,000.00 threshold.

4.1.4 Has developed a Workplace Skills Plan; and

4.1.5 Annual training reports submitted to the applicable SETA.

4.1.6 Implemented programmes targeted at developing Priority Skills generally and specifically for black employees using the Learning Programme Matrix.

4.1.7 In the case where all the requirements listed above are not met by the measured entity, no score shall be allocated for the Skills Development element of the scorecard.

4.1.8 Determine that the measured entity did not achieve a higher number of points than the weighting points.

4.1.9 Establish the existence sufficient and appropriate evidence to determine whether expenses are correctly allocated to Skills Development Expenditure for qualifying employees and the Learning Programme Matrix.

- 4.1.10 Determine the accuracy and validity of the weighting points of the skills development scorecard.

5. Application material

- 5.1 Before the Verification Agency continues with procedures to verify occurrence, accuracy, classification and validity of the measured entity's score, the Verification Agency shall:
- 5.1.1 Inspect administration documents and documents required to be submitted by the measured entity to the SETA's and to the South African Revenue Services to determine compliance with the Skills Development Act and Skills Development Levies Act. i.e. Workplace Skills Plan and Annual Training Report and other relevant documents detailing training.
- 5.1.2 Establish the existence proof through the AMP201 form that the Measured Entity has a skills development facilitator that assists the Measured Entity. i.e. Either Internal or External.
- 5.1.3 Obtain a letter of accreditation from the relevant SETA confirming the Measured Entities registration.
- 5.1.4 If the Measured Entity is a Workplace provider obtain relevant accreditation certificates issued by the applicable SETA.
- 5.1.5 Inspect the latest approved workplace skills plan.
- 5.1.6 Obtain proof that the Measured Entity has submitted the annual training reports and the Workplace Skills Plan to the relevant SETA.
- 5.1.7 Inspect proof of the measured entity's programmes implemented to develop Priority Skills generally and specifically for black employees.
- 5.1.8 Obtain proof from the SETA by way of an approval letter of a specific learnership programme.
- 5.1.9 The Verification Agency should determine whether scholarships and bursaries constitute Skills Development expenses by obtaining sufficient and appropriate evidence on whether any portion of the scholarships or bursary is recoverable by the measured entity. The following conditions however do not affect the recognition and should be included in Skills Development expenses:
- 5.1.9.1 The obligation for the employee to successfully complete their studies within the allocated time period , and/or
- 5.1.9.2 The obligation for the employee to continue employment with the measured entity for a period following successful completion of studies, such period not exceeding the period of studies
- 5.1.10 The Verification Agency should determine whether legitimate expenses are allocated to Skills Development expenses by obtaining sufficient and appropriate evidence on whether learning programme expenses are evidenced by an invoice or appropriate internal accounting record. The following may serve as evidence:

- 5.1.10.1 A sample of training descriptions for Skills Development Spend claimed by the measured entity falling into each category of the Learning Programme Matrix to determine whether the training has been allocated to the appropriate category.
- 5.1.10.2 A sample of learnership agreements for employees of the measured entity which have learnerships in progress.
- 5.1.10.3 A sample of attendance registers for internal training and relevant proof of attendance for external courses.
- 5.1.10.4 A sample of the invoices for Skills Development Spend e.g. invoices for items listed below.
- 5.1.11 Inspection of the Work Skills Plan and the Annual Training report to determine whether the training calculated by the measured entity is in line with the reports submitted to the SETA and if it meets the requirements as detailed in the Learning Programme Matrix.
- 5.1.12 Agreeing the training against the Learning Programme Matrix to determine under which category it falls – this is important to determine whether salaries or wages paid to an employee participating as a learner may be included in the Skills Development Spend and that the Category G learning programmes do not exceed 15% of the total skills development spend.

5.1.13 Skills Development Expenditure (refer to the Codes)

- 5.1.13.1 When determining the accuracy of the scorecard the Verification Agency may:
 - 5.1.13.1.1 Recalculate the percentage of Skills Development expenditure for black people and black women as a percentage of the leviable amount per the measured entity's calculation.
 - 5.1.13.1.2 Recalculate the percentage of Skills Development expenditure for black people with disabilities and black women with disabilities of the leviable amount as per the measured entity's calculation.
 - 5.1.13.1.3 Recalculate the number of black people participating in learnerships or category B, C and D using:
 - 5.1.13.1.3.1 Learnership agreements signed by both the learner and the measured entity
 - 5.1.13.1.3.2 The identity documents of the learners to substantiate the race and gender. The measured entity must have documents from the applicable SETA that substantiate that the learnership is registered with the SETA.
 - 5.1.13.1.3.3 Inspect that the Skills Development Spend is in line with the training stated in the measured entity's Annual Financial Statements.
 - 5.1.13.1.3.4 Inspect that the training is in line with the Annual Training Report and Section 7 of the EEA2 form.
 - 5.1.13.1.3.5 Determine the leviable amount and verify against the applicable payroll documents and the Annual Financial Statements. Inspect that this amount excludes the Skills Development Levy.

- 5.1.13.1.4 Agree the compliance targets and weighting points used in the formulae to the Skills Development Expenditure and Learnerships scorecard items 2.1.1.1; 2.1.1.2 and 2.1.2.1
- 5.1.13.1.5 Recalculate the Adjusted Recognition for Gender formula:
 $A = B/2 + C$
A = the adjusted recognition for gender figure
B = the number black employees divided by the total population of employees per scorecard items 2.1.1.1; 2.1.1.2 and 2.1.2.1
C = the number of black women divided by the total population of all employees.
The percentage of black women cannot be more than 50% Delete
- 5.1.13.1.6 Recalculate the Compliance formula:
 $A = B/C \times D$
A = the score per scorecard items 2.1.1.1; 2.1.1.2 and 2.1.2.1
B = the adjusted recognition for gender percentage calculated above
C = the compliance target per scorecard items 2.1.1.1; 2.1.1.2 and 2.1.2.1
D = the weighting points per scorecard items 2.1.1.1; 2.1.1.2 and 2.1.2.1

5.2 **Considerations Specific to Qualifying Small Enterprises**

- 5.2.1 The Verification Agency should comply with all the requirements applicable to the Generic Scorecard excluding requirements to comply with Skills Development Act, Skills Development Levies Act, SETA's and a Workplace Skills Plan and should recalculate as per the Codes.

Appendix 6:**METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 500: PREFERENTIAL PROCUREMENT****1. Scope of this section**

1.1 This section deals with how the Verification Agency's should carryout its responsibility in relation to the verification of a measured entity's Preferential Procurement element of the B-BBEE Codes of Good Practice.

2. Effective Date

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

3. Objectives

3.1 The objectives of this methodology is to guide a verification agency on how to obtain sufficient and appropriate evidence on whether:

3.1.1 The measured entity has complied, in all material respects, with the key measurement principles for calculating the Preferential Procurement element of the B-BBEE Codes of Good Practice;

3.1.2 The assertions relating to Preferential Procurement contributions and the assertions pertaining to beneficiaries of these contributions does not contain misstatements that materially affect the Preferential Procurement scorecard.

3.1.3 The calculation for measuring the Preferential Procurement scorecard does not contain material misstatements.

4. Requirements

4.1 The Verification Agency shall:

4.1.1 establish whether the measured entity has Procurement Spend from B-BBEE suppliers that meet the criteria as set out in point 2.1 of the Preferential Procurement element of the codes;

4.1.2 obtain sufficient and appropriate evidence to determine whether the calculation of Total Measured Procurement Spend (as per point 5 of the codes) is not materially misstated by the measured entity;

4.1.3 obtain sufficient and appropriate evidence to determine whether the calculation of Exclusions from Total Measured Procurement Spend is not misstated by the measured entity;

4.1.4 ensure that the entity only relies on suitable evidence or documentation to report preferential procurement;

4.1.5 obtain sufficient and appropriate evidence to determine whether the allocation and classification of B-BBEE Recognition Level of suppliers are not misstated by the measured

entity;

- 4.1.6 obtain sufficient and appropriate evidence to confirm the calculation of enhanced B-BBEE recognition through Value Adding Suppliers and Enterprise Development Spend;
- 4.1.7 determine the accuracy and validity of the scorecard, including all three indicators of preferential procurement

5. Application material

- 5.1 When determining whether the entity calculated total Measurable Spend accurately the Verification Agency may:
 - 5.1.1 obtain Audited Financial Statements or a signed copy of management accounts and detailed income statements;
 - 5.1.2 obtain confirmation from management on any additional information that may be necessary for the calculation of total measurable spend;
 - 5.1.3 agree goods and services relating to Cost of Sales, Operational Expenditures and Capital Expenditure incurred during the reporting period to audited financial statements, or a set of management account signed off by management;
 - 5.1.4 conduct cut-off test by tracing to a sufficient sample of goods received notes to confirm that the claimed procurement occurred during the reporting period;
- 5.2 When determining whether the applicable inclusions when calculating the total procurement spend have been applied the Verification Agency may select a sample of specific spend to inspect that only items that are listed as inclusions in paragraph 5 of Code 500 have been included. These may include:
 - 5.2.1 Procurement from Schedule 2 and Schedule 3 public sector entities as per the Public Finance Management Act
 - 5.2.2 Procurement from all monopolistic suppliers
 - 5.2.3 Procurement on behalf of a third party, where such procurement is reflected in the financial records of the entity
 - 5.2.4 Procurement from Labour Brokers
 - 5.2.5 All imported good and services
- 5.3 Recalculate Total Procurement Spend as per the entity's calculations
- 5.4 When determining whether the measured entity calculated exclusions accurately the Verification Agency may select a sample of specific spend listed below to confirm that all Procurement Spend listed as exclusions in paragraph 6 of Code 500 have been excluded. These may include:
 - 5.4.1 Procurement from Schedule 1 public sector entities as per the Public Finance Management Act;
 - 5.4.2 Procurement from a regulated monopolistic suppliers (identify and confirm legislation or regulation which regulate such monopoly);
 - 5.4.3 Procurement on behalf of a third party, where such procurement is not reflected in the

- financial records of the entity (trace spend to confirm that it is not included in financial records);
- 5.4.4 All investments or donations (Paragraph 6.5 of this code);
 - 5.4.5 All items comprised in salaries;
 - 5.4.6 For imported goods, obtain a list of Imports excluded from the total Measurable Spend and determine that the reasons for importing the goods are only the following:
 - 5.4.6.1 There are no local production (through a confirmation from management)
 - 5.4.6.2 The import represent component or raw material for value add (obtain evidence that the import is used in further value-adding process)
 - 5.4.6.3 The import differs from the locally produced substitute in terms of:
 - 5.4.6.3.1 Brand
 - 5.4.6.3.2 Technical Specifications
 - 5.4.6.4 Obtain a Value-Added Tax declaration in respect of Imported Services from SARS
 - 5.4.6.5 Obtain the Measured Entities Importer Registration Certificate from SARS
 - 5.4.7 Recalculate Exclusions as per entity's calculations
 - 5.4.8 When verifying the B-BBEE Recognition Spend calculated by the measured entity, the Verification Agency must ensure that the entity only uses verified B-BBEE status for its calculations.
 - 5.4.9 When verifying the accuracy and validity of the procurement calculation, the Verification Agency may:
 - 5.4.9.1 Obtain a schedule of all B-BBEE suppliers included in B-BBEE Procurement Spend, including total spend with the supplier, B-BBEE recognition status and proof of B-BBEE recognition status;
 - 5.4.9.2 Agree a sample of suppliers to invoices to determine that the amount included in the schedule is accurate;
 - 5.4.9.3 Agree a sufficient sample of suppliers to suitable evidence or documentation as proof of B-BBEE status;
 - 5.4.9.4 Determine whether the correct B-BBEE recognition level has been applied in the calculations of B-BBEE spend;
 - 5.4.9.5 Any representation made by an entity about its B-BBEE compliance must be supported by suitable evidence or documentation. An entity that does not provide evidence or documentation supporting any initiative, must not receive any recognition for that initiative.
 - 5.4.9.6 During the Transitional Period ending 31st August 2008, suppliers with only proof of narrow-based status may be accepted, but it must be subjected to the transitional scorecard conversion as contained in the Codes.
 - 5.4.9.7 Select a sample of suppliers and determine that the right recognition level is applied based on the supplier's B-BBEE status;

- 5.4.9.8 Agree a selected sample of QSE and EMEs recognised by the entity to suitable evidence as detailed in 2.6 of statement 000 in the Codes.
- 5.4.9.9 For EMEs only, agree a sufficient sample of suppliers to either a valid verification certificate or auditors or accounting officer's letter;
- 5.4.9.10 Agree the schedule of black-owned or black-women owned suppliers to suitable evidence as detailed in 2.6 of Statement 000 in the Codes.
- 5.4.9.11 Recalculate the total B-BBEE spend of the entity.
- 5.4.10 To determine whether the enhanced B-BBEE recognition status has been applied, the Verification Agency may:
- 5.4.10.1 Obtain a schedule of suppliers with enhanced B-BBEE recognition status due to its status as value adding supplier or as an enterprise development candidate of the entity;
- 5.4.10.2 Agree a sample of Value-adding suppliers to the entity's proof and calculation of value-adding status.
- 5.4.10.3 Agree a sample of enterprise development candidate to specific enterprise development programs, and evidence that benefit was provided to the enterprise.
- 5.4.10.4 In calculating the procurement spend from value adding suppliers; which also includes black owned professional service providers and entrepreneurs, the enhanced recognition of 1.25 must be taken into account and 1.2 for Enterprise development beneficiaries. ; and
- 5.4.11 In recalculating the application for service providers that are both value adding suppliers as well as enterprise development beneficiaries the enhanced recognition would be 1.25 multiplied by 1.2. To determine whether the scorecard is complete, the Verification Agency may:
- 5.4.11.1 Recalculate the B-BBEE recognition spend as per clause 5.4.9.1 above, over Total measurable spend and express as a percentage of target and weighting contained in the scorecard;
- 5.4.11.2 Recalculate total B-BBEE spend with QSE and EME and its application in the scorecard; and
- 5.4.11.3 Recalculate total B-BBEE spend with black-owned and black women owned entity and its application in the scorecards.
- 5.5 **Considerations Specific to Qualifying Small Enterprises**
- 5.5.1 The Verification Agency should comply with all the requirements applicable to the Generic Scorecard

Appendix 7:**METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 600: ENTERPRISE DEVELOPMENT****1. Scope of this section**

- 1.1 This section deals with how a Verification Agency's should execute its responsibility relation to an enterprise's compliance with the Enterprise Development element of the B-BBEE Codes of Good Practice.

2. Effective Date

- 2.1 This Verification Methodology will come into operation on the date of publication.

3. Objective

- 3.1 The objectives of the methodology is to guide a Verification Agency on how to obtain sufficient and appropriate evidence about whether:

3.1.1 The enterprise has complied, in all material respects, with the key measurement principles for calculating the Enterprise Development element of the B-BBEE Codes of Good Practice;

3.1.2 The assertions relating to Enterprise Development Contributions and the assertions pertaining to beneficiaries of these contributions does not contain misstatements that materially affect the Enterprise Development scorecard and therefore, the overall scorecard

3.1.3 The calculation for measuring the Enterprise Development element of the B-BBEE Codes of Good Practice does not contain misstatements that materially affect the overall scorecard.

4. Requirements

4.1 The Verification Agency shall determine whether the NPAT, cumulative average targets or turnover apply to the Enterprise Development calculations.

4.2 The Verification Agency shall evaluate the quantified amounts calculated by the entity using a standard valuation method to determine whether the Enterprise Development Contribution may be recognised.

4.3 The Verification Agency shall determine whether the cumulative recognition of Enterprise Development contributions is accurate.

4.4 The Verification Agency shall obtain sufficient and appropriate evidence to determine whether contributions should be included in Enterprise Development Contributions.

4.5 The Verification Agency shall obtain sufficient and appropriate evidence to determine whether contributions should be excluded from Enterprise Development Contributions.

4.6 The Verification Agency shall determine whether the entity is entitled to be allocated points for contributions to the Enterprise Development element of B-BBEE.

- 4.7 The Verification Agency shall determine that the entity did not achieve a higher number of points than the weighting points plus any bonus points that may apply.
- 4.8 The Verification Agency shall verify the B-BBEE status of Enterprise Development beneficiaries by obtaining sufficient and appropriate evidence to support claimed B-BBEE status.
- 4.9 Based on the above, the Verification Agency will determine whether these beneficiaries result in the classification of Enterprise Development Contributions as Category A or Category B Enterprise Development Contributions (see the definition of "Enterprise Development Contributions" as contained in Part 2 of Schedule 1 of the Codes of Good Practice). Should the beneficiary entity not be classifiable in terms of either of the aforementioned categories, the Verification Agency must determine whether or not the beneficiary entity qualifies as a beneficiary entity in terms of paragraph 3.2.4 of the Codes of Good Practice.
- 4.10 The Verification Agency shall ensure that Enterprise Development contributions were with the specific objective of contributing to the development, sustainability and financial and operational independence of those beneficiaries(to expand –going concern, liquidity and control of directors on ED beneficiary)
- 4.11 Should the Verification Agency not be able to confirm that the proposed beneficiary entity qualifies as a beneficiary entity in terms of the above statements; the Verification Agency should not confirm enterprise development contributions in favour of such entities.
- 4.12 The Verification Agency shall ensure that the inception date is not earlier than 5 years from the date of measurement.
- 4.13 The Verification Agency shall ensure that no portion of the value of the Enterprise Development contributions payable to the beneficiary after the date of measurement has been included in the calculation of Enterprise Development.
5. Application material
- 5.1 When determining a score for Enterprise Development, the Verification Agency may:
- 5.1.1 Obtain audited financial statements (possibly from the most recent audited financial statements going back up to five years, depending on the cumulative contribution claims being put forward by the entity)
- 5.1.2 Obtain appropriate and sufficient evidence to determine the B-BBEE Status of the beneficiary entity and qualifying category.
- 5.1.3 Obtain confirmation from the beneficiary entity asserting that the shareholders meet the definition of "black" as contained in the Codes of Good Practice.
- 5.1.4 Obtain an independent competent person's report confirming that the shareholders meet the definition of "black" as defined in the Codes of Good Practice.
- 5.1.5 Where the B-BBEE status of beneficiary entities cannot be substantiated, contributions to such entities may not be included in Enterprise Development Contributions.

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- 5.1.6 Inspect all of the Enterprise Development Agreements to ensure that it complies with the criteria as stated under Statement 600, Annexure 600 (A) as per agreement with the beneficiary.
- 5.1.7 The Verification Agency shall ensure that there is evidence that the Enterprise Development Contributions have actually been initiated and implemented.
- 5.1.8 Verification Agency shall confirm that VAT is not included where Enterprise Development Contributions may include VAT in amounts claimed
- 5.1.9 Reconcile claimed Enterprise Development Contributions with Invoices or other sufficient and appropriate supporting evidence to determine accuracy.
- 5.2 To determine whether the scorecard is complete, the Verification Agency may:
- 5.2.1 Recalculate the Enterprise Development contributions as per the Categories of beneficiaries defined in the Codes of Good Practice;
- 5.2.2 Recalculate the total Enterprise Development Contributions and express as a percentage of the targets and weightings contained in the scorecard.
- 5.3 **Considerations Specific to Qualifying Small Enterprises**
- 5.3.1 The Verification Agency should comply with all the requirements as per the applicable Scorecard.

METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 700: SOCIO-ECONOMIC DEVELOPMENT

1. Scope of this section

1.1 This section provides guidance on how a Verification Agency should carry out its responsibility relating to an enterprise's compliance with the Socio-Economic Development element of the B-BBEE Codes of Good Practice.

2. Effective Date

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

3. Objective

3.1 The objectives of this Methodology is to guide a Verification Agency on how to obtain sufficient and appropriate evidence about whether:

3.1.1 The enterprise has complied, in all material respects, with the key measurement principles for calculating the Socio-Economic Development element of the B-BBEE Codes of Good Practice;

3.1.2 The assertions relating to Socio-Economic Development Contributions and the assertions pertaining to beneficiaries of these contributions does not contain misstatements that materially affect the Socio-Economic Development scorecard and the overall scorecard.

3.1.3 The calculation for measuring the Socio-Economic Development element of the B-BBEE Codes of Good Practice does not contain misstatements that materially affect overall scorecard.

4. Requirements

4.1 The Verification Agency shall determine whether the NPAT, cumulative average annual targets or turnover apply to the Socio-Economic Development calculations.

4.2 The Verification Agency shall evaluate the quantified amounts calculated by the entity using a standard valuation method to determine whether the Socio-Economic Development Contribution may be recognised.

4.3 The Verification Agency shall determine whether the cumulative recognition of Socio-Economic Development Contributions is accurate.

4.4 The Verification Agency shall obtain sufficient and appropriate evidence to determine whether contributions should be included as Socio-Economic Development Contributions, by making reference to the definition of Socio-Economic Development Contributions in the Codes of Good Practice.

4.5 The Verification Agency shall obtain sufficient and appropriate evidence to determine whether contributions should be excluded from Socio-Economic Development Contributions.

- 4.6 The Verification Agency shall obtain sufficient and appropriate evidence that 75% of the value of the socio-economic development contributions accrue to black people. If this is not the case, then the Verification Agency shall confirm that the value of the contributions is multiplied by the percentage of the contributions that benefit black people, in accordance with Statement 700 of the Codes of Good Practice.
- 4.7 With reference to the above, the Verification Agency shall obtain sufficient evidence to be able to determine an approximate percentage of black beneficiaries
- 4.8 The Verification Agency shall determine whether the entity is entitled to be allocated points for contributions to the Socio-Economic Development element of B-BBEE.
- 4.9 The Verification Agency shall determine that the entity did not achieve a higher number of points than the weighting points.
- 4.10 The Verification Agency shall ensure that Socio-Economic Development contributions were carried out with the objective of facilitating sustainable access to the economy for the beneficiaries as defined in the Codes of Good Practice.
- 4.11 Should the Verification Agency not be able to confirm that the proposed beneficiaries qualify as beneficiaries in terms of the above statements; the Verification Agency should not confirm Socio-Economic Development contributions in favour of such entities.
- 4.12 The Verification Agency shall ensure that the inception date is not earlier than 5 years before the commencement date of Statement 700 and binds the measured entity for the duration of this statement.
- 4.13 The Verification Agency shall ensure that no portion of the value of the Socio-Economic Development contributions payable to the beneficiary after the date of measurement has been included in the calculation of Socio-Economic Development.

5. Application material

- 5.1 When determining a score for Socio-Economic Development, the Verification Agency may:
- 5.1.1 Obtain audited financial statements (possibly from the most recent audited financial statements going back up to five years, depending on the cumulative contribution claims being put forward by the entity)
- 5.1.2 Obtain appropriate and sufficient evidence to support the claimed percentage of black beneficiaries amongst beneficiaries of Socio-Economic Development Contributions, which may be in the form of a signed letter from the head of organization (e.g. clinic/ old-age home/ school etc) attesting to the percentage of black people which the organisation normally caters for.
- 5.1.3 Obtain an independent competent person's report confirming that the beneficiaries meet the definition of "black" as defined.
- 5.1.4 Where the beneficiaries cannot be identified and substantiated, contributions to such entities may not be included in Socio-Economic Development Contributions.
- 5.1.5 Inspect all of the Socio-Economic Development Agreements to ensure that they comply

with the criteria as stated under Statement 700, Annexure 700 (A) as per agreement with the beneficiary.

- 5.1.6 The Verification Agency shall ensure that there is evidence that the Socio-Economic Development Contributions have actually been initiated and implemented
- 5.1.7 The Verification Agency should confirm that VAT is not included in amounts claimed where Socio-Economic Development Contributions may include VAT.
- 5.1.8 Reconcile claimed Socio-Economic Development Contributions with Invoices or other sufficient and appropriate supporting evidence to determine accuracy.
- 5.1.9 To determine whether the scorecard is complete, the Verification Agency may:
 - 5.1.9.1 Recalculate the Socio-Economic Development contributions as per the Benefit Factor Matrix, under statement 700 of the Codes of Good Practice;
 - 5.1.9.2 Recalculate the total Socio-Economic Development Contributions and express as a percentage of the targets and weightings contained in the scorecard.
- 5.2 **Considerations Specific to Qualifying Small Enterprises**
 - 5.2.1 The Verification Agency should comply with all the requirements as per the applicable Scorecard.

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