

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.