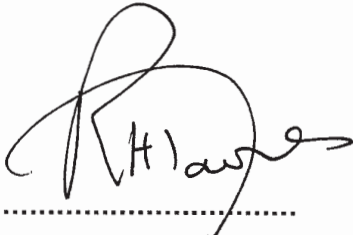

GENERAL NOTICES • ALGEMENE KENNISGEWINGS

**DEPARTMENT OF TRADE AND INDUSTRY
NOTICE 1055 OF 2015****AMENDED B-BBEE VERIFICATION MANUAL**

I, Dr. Rob Davies, Minister of Trade and Industry; hereby

Issues the Verification Manual for a 30 day Public Commentary Period effective from 01 November 2015 to 30 November 2015 pursuant to the provisions of Section 9 (1) and 14 (2) of the Broad – Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003) as amended by the Act No 46 of 2013



.....
DR. ROB DAVIES, MP

MINISTER OF TRADE AND INDUSTRY

DATE: 30 October 2015

**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

October 2015

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Authority of the Verification Manual

This Verification Manual was prepared and issued in terms of the provisions of Section 9(1) and 14(2) of Broad-Based Black Economic Empowerment (B-BBEE) Act No. 53 of 2003 as amended by Act No. 46 of 2013 ("The Act").

Application of the Verification Manual

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

Any B-BBEE Verification Professional 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 the loss of accreditation of the Verification Agency or approval of B-BBEE Verification Professional.

B-BBEE Verification Professional

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.

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/ Registered Auditors
- ☞ 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).

TABLE OF CONTENTS

1. Definitions	5
2. Scope of Application of this Manual	8
3. Purpose of Verification	9
4. Effective Date	10
5. Objective	10
6. Standards of Ethical Conduct & Requirements	10
7. Quality Control	13
8. Agreeing on Terms of Engagement	14
9. Outsourcing	15
10. Guidelines for Performing Verification	15
11. Professional Scepticism/ Due Diligence	21
12. Materiality and Verification Risk	22
13. Sampling	23
14. Evidence	24
15. Fronting	25
16. Documentation	26
17. Reporting Requirements	27
18. Appendices- Certificates	28
19. Other Reporting Responsibilities	28
20. Withdrawing from the Verification	28
21. Minimum Procedures	29

Appendices

Appendix 1:	CERTIFICATION AND AFFIDAVIT SAMPLES
Appendix 2:	METHODOLOGIES FOR VERIFICATION OF B-BBEE CODES OF GOOD PRACTICE 100: OWNERSHIP
Appendix 3:	METHODOLOGIES FOR VERIFICATION OF B-BBEE CODES OF GOOD PRACTICE 200: MANAGEMENT CONTROL
Appendix 4:	METHODOLOGIES FOR VERIFICATION OF B-BBEE CODES OF GOOD PRACTICE 300: SKILLS DEVELOPMENT
Appendix 6:	METHODOLOGIES FOR VERIFICATION OF B-BBEE CODES OF GOOD PRACTICE 400: ENTERPRISE AND SUPPLIER DEVELOPMENT
Appendix 7:	METHODOLOGIES FOR VERIFICATION OF B-BBEE CODES OF GOOD PRACTICE 500: SOCIO-ECONOMIC DEVELOPMENT

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 B-BBEE Act and Amended 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 **"Amended Codes"** refers to B-BBEE Codes of Good Practice, as amended on 10 October 2013, gazette 36928 and the subsequent amended sector codes Gazetted in alignment therewith.
- 1.1.3 **"B-BBEE Act"** refers to the Broad- Based Black Economic Act, Act No. 53 of 2003 as amended by the the Broad- Based Black Economic Act, Act No 46 of 2013 and any amendments thereto.
- 1.1.4 **"B-BBEE Codes"** refers to Codes of Good Practice on Broad- Based Black Empowerment gazetted on 9 February 2007 and the subsequent sector codes gazetted in alignment therewith, as part of the Broad- Based Black Empowerment Act, as amended and any amendments thereto.
- 1.1.5 **"B-BBEE Verification Professional"** – a person who performs any work in connection with rating the status of enterprises in terms of Broad-Based Black Economic Empowerment compliance, on the authority of, or for a rating agency accredited by, a B-BBEE Verification Professional Regulator.
- 1.1.6 **"B-BBEE Verification Regulator"** a body appointed by the **Minister of Trade and Industry** for the accreditation of rating agencies or the authorisation of B-BBEE Verification Professionals.
- 1.1.7 **"Black People"** are defined as set-out in the Act as amended and the Amended Codes of Good Practice for B-BBEE of 2013.
- 1.1.8 **"Certificate Date"** The date on which the certificate was issued and therefore the start of the 12-month validity period of that certificate.
- 1.1.9 **"Debt"** An amount owed to a person or organisation for funds borrowed. Debt can be represented by a loan note, bond, mortgage, preference

share 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.

- 1.1.10 **"Evidence"** refers to all the information used to establish a fact in issue, including information supplied by the Measured Entity and used by the B-BBEE Verification Professional 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.
- 1.1.11 **"Intended User" means** persons within, or external to the Measured Entity, for whom the B-BBEE Verification Professional prepares the Verification Certificate on the Scorecard elements and B-BBEE status report.
- 1.1.12 **"Learnership"** for the purpose of this document, refers to Learnership, Apprenticeships and Internships defined by the Amended codes.
- 1.1.13 **"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.
- 1.1.14 **"Measurement Date"** means the last day of the Measurement Period or such a date agreed upon with the Measured Entity that is close as practically possible to the verification date. The term "Date of Measurement" has a corresponding meaning; The "Ownership" and "Management Control" elements must be measured as at the Measurement Date. For the avoidance of doubt, these two elements to be measured on the same date.

- 1.1.15 **“Measurement Period”** means, the financial period of the Measured Entity, subject to the following:
- a) the period of 12 consecutive calendar months’
 - b) where, however the Measured Entity amended its financial reporting period from one year to another the financial period may, for that particular year in question, must be 12 consecutive months. In such exceptional cases the Measured Entity may at its discretion elect to be measured for the amended financial period (however many months it may include) or the 12 months ending on the last day of the amended financial period. For purposes of determining it’s classification as an EME. QSE or Generic enterprise the Measured Entity must however, irrespective of election it exercises above, do so with reference to the 12 months ending on the last day of the amended financial period. In the case where audited financial statements are not available for the Measurement Period, management accounts for the same period will be used.
- 1.1.16 **“Professional Scepticism”** refers to questioning approach coupled with critical assessment of information.
- 1.1.17 **“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 B-BBEE Verification Professional 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.
- 1.1.18 **“Responsible Party”** refers to person/s in the Measured Entity responsible for the collation and preparation of the B-BBEE information to be verified.

- 1.1.19 **"Sufficiency of Evidence"** refers to the measure of the quantity and quantity 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).
- 1.1.20 **"Verification"** means the process and activities conducted by a B-BBEE Verification Professional 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.
- 1.1.21 **"Verification Certificate"** refers to the B-BBEE Verification Certificate issued by the B-BBEE Verification Professional 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).
- 1.1.22 **"Verification Date"** Verification Date is defined as the date of the commencement of the on-site verification
- 1.1.23 **"Verification Report"** refers to the Report issued by the B-BBEE Verification Professional who provides the detailed scores of each element reflected in the Verification Certificate and B-BBEE Status awarded to the Measured Entity.
- 1.1.24 **"Verification Risk"** The risk that the B-BBEE Verification Professional 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 B-BBEE Verification ProfessionalB-BBEE Verification Professional will not detect such misstatement.

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 a B-BBEE Verification Professional 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 B-BBEE Verification Professionals are obliged to conform in conducting verification assessments and evaluations.
- 2.3 The document was prepared in terms of the provisions of Section 9(1) and 14(2) of the Broad-Based Black Economic Empowerment (B-BBEE) Act No. 53 of 2003 as amended by Act No. 46 of 2013 ("The Act"). The table below, sets out the basis for identifying criteria applicable to the Measured Entity, which are to be applied by a B-BBEE Verification Professional B-BBEE Verification Professional B-BBEE Verification Professional when providing assurance on the Scorecard Elements and B-BBEE Status:

Table 1

1.	The following criteria should be taken into account in verification engagements:
☞	The Eligibility of an Exempt 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

3. Purpose of Verification

- 3.1 The overall aim of verification 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

- 4.1 This Manual will be effective for B-BBEE Verification Certificates issued on the Amended Codes.

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 B-BEE Verification Professionals 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional have to be able to demonstrate that its decisions are based on objective evidence and that their decisions have not been improperly influenced by other interests or by other parties. Principles for inspiring confidence include:

6.1 Impartiality

- 6.1.1 Impartiality and being perceived to be impartial, is necessary for a B-BBEE Verification Professional to be able to deliver a verification that provides confidence. It is recognised that the source of revenue for a B-BBEE Verification Professional 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 B-BBEE Verification Professional.
- 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 B-BBEE Verification Professional / Registered Auditor 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.
- 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 Verification Agency / auditing practice is necessary for the B-BBEE Verification Professional to deliver a verification that provides confidence.
- 6.3 **Responsibility**
- 6.3.1 The Measured Entity, *not* the B-BBEE Verification Professional, is responsible for conforming to the requirements for BEE Verification. The BEE B-BBEE Verification Professional is responsible for carrying out a thorough factual evaluation of a Measured Entity's B-BBEE status and, based on the result, for determining a B-BEE score.

6.4 **Openness**

The B-BBEE Verification Professional is obligated to take into account Section 1(e) of the B-BBEE Act as amended, with specific reference to “knowing, Knowingly or Knows” , which may have a significant impact in terms of Fronting.

- 6.4.1 Openness is access to or disclosure of information. A BEE B-BBEE Verification Professional 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 B-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 B-BBEE Verification Professional 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.

6.5 **Confidentiality**

- 6.5.1 In order to gain access to the privileged information that is needed for the B-BBEE Verification Professional to assess adequately the requirements for B-BEE Verification, a B-BBEE Verification Professional needs to keep any proprietary information about a Measured Entity confidential. However, a B-BBEE Verification Professional 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 B-BEE Verification Professionals expect to have their complaints investigated. If these complaints are found to be valid, the complainant 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional shall decline to accept or continue the B-BBEE Verification Engagement,
- 6.9 When an Accredited B-BBEE Verification Professional 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. Such ethical requirements are often contained in a Code of Professional Conduct.

7. Quality Control

- 7.1 The B-BBEE Verification Professional shall establish and implement appropriate quality control procedures for the verification engagements undertaken.
- 7.2 Elements of quality control that are relevant to individual verification engagements include leadership responsibilities for standards within the organisation of the B-BBEE Verification Professional 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.⁴

For SANAS Accredited B-BBEE verification agencies, refer to SANAS R47 (Accreditation of B-BBEE verification agencies)

- 7.3 The quality control procedures shall be documented and communicated to the B-BEE Verification Professional, the policies and procedures shall be designed to provide assurance that the B-BEE Verification Professionals comply with this requirement.
- 7.4 The B-BBEE Verification Professional shall document evidence of compliance with the quality control procedures.

8. Agreeing on Terms of Engagement

- 8.1 The B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BEE Verification Professional.
- 8.4 Acknowledgement of the terms and conditions of engagement by the Measured Entity's signatory provides evidence of the relationship with the B-BEE Verification Professional, 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional 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. Outsourcing

- 9.1 The B-BBEE Verification Professional shall have a process by which it describes the conditions under which outsourcing may take place. The B-BBEE Verification 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional shall have documented procedures for the qualifications, monitoring and records of all outsourced bodies used for verifications.

10. Guidelines for Performing Verification

10.1 Verification methodology

- 10.1.1 The B-BBEE Verification Professional 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 B-BBEE Verification Professional shall verify the information provided in order to verify the B-BBEE status of a Measured Entity. Simple telephonic enquiries do not constitute verification.

10.2 **Planning Verification Process**

- 10.2.1 The B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BEE Verification Professional, 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional shall have a process for conducting on-site verifications.
- 10.2.9 At its first meeting with the proposed Measured Entity the B-BBEE Verification Professional 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.
- 10.2.9.4 Before proceeding with the verification, the B-BBEE Verification Professional shall conduct a review of the request for verification to ensure that:
- 10.2.9.5 the information is sufficient for the conduct of the review;
- 10.2.9.6 the requirements for verification are clearly defined, documented and have been provided to the Measured Entity;
- 10.2.9.7 any known difference in understanding between the B-BBEE Verification Professional and the Measured Entity has been resolved;
- 10.2.9.8 The B-BBEE Verification Professional 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 it records the justification for the decision.

- 10.2.10 Where a B-BBEE Verification Professional 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.
- 10.2.10.1 The verification team shall be appointed and will comprise of verification analysts (and any other experts as necessary) who, together have the requisite competences identified by the B-BBEE Verification Professional 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 Engagements**

- 10.3.1 The B-BBEE Verification Professional 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.
- 10.3.2 Any other applicable guidelines issued by the Department of Trade and Industry or Sector Charter Council.
- 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, as amended from time to time;
- 10.3.3.2 Skills Development Act, as amended from time to time;
- 10.3.3.3 Skills Development Levies Act, as amended from time to time;

10.4 **Conducting the Verification Process**

- 10.4.1 Verifications shall be done according to a Verification Plan.

- 10.4.2 The verifications shall apart from collecting, filing and reviewing of the original documentary evidence (submissions), take place at the site(s) of the Measured Entity. The purpose of the evaluation is to measure the B-BBEE compliance 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 B-BBEE Verification Professional 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 organisation of the B-BEE Verification Professional.
- 10.5 **B-BBEE Verification Decision**
- 10.5.1 The information provided by the verification team to the B-BBEE Verification Professional for the decision shall as a minimum include:
- 10.5.2 the information and verification evidence gathered to determine the B-BBEE status of the Measured Entity , and
- 10.5.3 The verification recommendation from the verification team.
- 10.5.4 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.
- 10.5.5 The B-BBEE Verification Professional shall make the decision on the basis of an evaluation of the verification results and any other relevant information.
- 10.5.6 The B-BBEE Verification Professional shall ensure that the person(s) or committees that participate in the decisions are different from those who

carried out the verification.

- 10.5.7 The B-BBEE Verification Professional shall confirm, prior to making a decision, that the information provided by the verification team is sufficient with respect to the verification requirements.

10.6 **Special evaluations**

- 10.6.1 It may be necessary for the B-BBEE Verification Professional to conduct evaluations of measured entities at short notice in order to investigate complaints or in response to changes. In such cases the B-BBEE Verification Professional shall:

- 10.6.1.1 describe and make known in advance to the Measured Entity the conditions under which these short-notice visits are to be conducted, and
- 10.6.1.2 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.

10.7 **Appeals**

- 10.7.1 The B-BBEE Verification Professional shall have a documented process for receiving, evaluating and making decisions on appeals.
- 10.7.2 A description of the process for handling appeals shall be made publicly available.
- 10.7.3 The B-BBEE Verification Professional shall be responsible for all decisions at all levels of the appeals-handling process.
- 10.7.4 Investigation of and decisions on appeals shall not result in any discriminatory actions against the appellant.
- 10.7.5 The appeals-handling process shall include at least the following elements and methods:
- 10.7.5.1 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
- 10.7.5.2 A procedure for tracking and recording appeals, including the actions undertaken to resolve them.
- 10.7.6 The B-BBEE Verification Professional shall acknowledge receipt of the appeal and provide the appellant with progress reports and the outcome.

- 10.7.7 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.
- 10.7.8 The B-BBEE Verification Professional shall give the appellant formal notice of the end of the appeals-handling process.
- 10.7.9 All appeals shall be resolved in a timely manner by the B-BEE Verification Professional.
- 10.7.10 As a guide, an appeal shall be resolved within a maximum of 30 days of the initial lodging of the appeal.

10.8 **Classification of Measured Entities**

- 10.8.1 The B-BBEE Verification Professional 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:
 - 10.8.1.1 An Exempted Micro-Enterprise; **No Verification required** (only a sworn affidavit or a CIPC Certificate is required)
 - 10.8.1.2 A Qualifying Small Enterprise to which the QSE Scorecard applies; however, no Verification is required for QSE's that are 100% or 51% Black Owned (only a sworn affidavit or a CIPC Certificate is required)
 - 10.8.1.3 Enterprises to which the Generic Scorecard applies;
 - 10.8.1.4 Enterprises to which the Sector Codes apply; and
 - 10.8.1.5 Start-up enterprises which will be treated as EMEs for transactions under or equal to R 10 million;
 - 10.8.1.6 Specialised Enterprises to which the Adjusted Generic Scorecard applies;
 - 10.8.1.7 Specialised Enterprises to which the Adjusted QSE Scorecard applies.

11. **Professional Scepticism/ Due Diligence**

- 11.1 The B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 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 B-BBEE Verification Professional shall consider materiality and the risk of misstatement when planning and performing verification.
- 12.2 The B-BBEE Verification Professional 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 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 from suppliers who claim to be Black Owned or Black Women 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional should obtain an understanding of the whole structure.
- 13.5 When designing a sample, the B-BBEE Verification Professional 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 B-BBEE Verification Professional shall consider whether risk of misstatement is reduced to an acceptably low level in their opinion using their professional judgement.
- 13.7 The B-BBEE Verification Professional 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 B-BBEE Verification Professional shall perform verification procedures appropriate to the particular B-BBEE Code Element Objective for each item selected.
- 13.9 The B-BBEE Verification Professional 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 B-BBEE Verification

Professional 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 B-BBEE Verification Professional shall obtain sufficient and appropriate evidence on which to base the Scores awarded to the Scorecard Elements. The B-BBEE Verification Professional 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 B-BBEE Verification Professional expected to be an expert in such authentication. However, the B-BBEE Verification Professional shall consider the reliability of the information to be used as evidence, for example, photocopies, and 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional becomes aware of a matter that leads the B-BBEE Verification Professional to question whether a material modification should be made to the Measured Entity's scorecard, the B-BBEE Verification Professional should pursue the matter by performing other procedures sufficient to determine the appropriate score to be awarded.

15. Fronting

- 15.1 The B-BBEE Verification Professional assesses the risk of fronting by the Measured Entity and shall include the following minimum procedures when identified:
- 15.1.1 Review the 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 that sets 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 nonblack directors/management on the same level.

16. Documentation

- 16.1 The B-BBEE Verification Professional 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 B-BEE Verification Professional'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 B-BBEE Verification Professional at the time the conclusion was reached.
- 16.3 It is neither necessary nor practical to document every matter the B-BBEE Verification Professional considers. In applying professional judgment to assessing the extent of documentation to be prepared and retained, the B-BBEE Verification Professional 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 B-BBEE Verification Professional which has no previous experience with the verification where this does not conflict with the confidentiality requirements of the B-BEE Verification Professional. The second B-BBEE Verification Professional may only be able to obtain an understanding of detailed aspects of the verification by discussing them with the first B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional shall have a document policy and documented procedures on the retention of records
 - 16.4.5 The B-BBEE Verification Professional shall provide the relevant information pertaining to the certificate to the **dti** containing the information underlying each verification certificate issued. The dti will provide more information regarding a link where all certificate will be uploaded and the time.

17. Reporting Requirements

- 17.1 The B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional must ensure that the discounting is recorded and included in the report. The Verification Professional must also ensure that the Discounting Level appears on the face of the certificate.
- 17.3 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.
- 17.4 The B-BBEE Verification Professional shall also provide a verification scorecard attached to the certificate to the Measured Entity to illustrate how the scores

awarded were determined.

- 17.5 Accredited Verification Agencies are required to include the SANAS accreditation Symbol on the Verification Certificates issued by them.

18. Appendices- Certificates

- 18.1 The following example certificates are included in Appendix 1:

18.1.1 Example 1 - A standard Verification Certificate for the 5 elements of the scorecard. Example 2 - A standard Affidavit for EMEs qualifying as Level 4 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 B-BBEE Verification Professional keeps a record of all Verification Certificates issued by it.

19. Other Reporting Responsibilities

- 19.1 The B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional shall consider other reporting responsibilities, including the appropriateness of communicating relevant matters that came to the attention of the B-BBEE Verification Professional 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, when the B-BBEE Verification Professional concludes that the scorecard rating of the Measured Entity is materially misstated, the B-BBEE Verification Professional shall require the Measured Entity to rectify the scorecard. If the Measured Entity refuses to do so the B-BBEE Verification Professional should allocate a zero to the scorecard item.

Should the Measuring Entity that refuses to rectify a score and dismisses the B-BEE Verification Professional, the B-BBEE Verification Professional may not withdraw from the verification without notifying DTI of the reasons for the 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:

Element	Weighting	Code series reference
Ownership	25 points	100
Management Control	19 points	200
Skills Development	20 points	300
Enterprise and Supplier Development	40 points	400
Socio-Economic Development	5 points	500

B-BBEE RECOGNITION LEVELS

B-BBEE Status	Qualification	B-BBEE recognition level
Level One Contributor	≥100 points on the Generic Scorecard	135%
Level Two Contributor	≥ 95 but <100 points on the Generic Scorecard	125%
Level Three Contributor	≥90 but <95 points on the Generic Scorecard	110%
Level Four Contributor	≥80 but <90 points on the Generic Scorecard	100%
Level Five Contributor	≥75 but <80 points on the Generic Scorecard	80%
Level Six Contributor	≥70 but <75 points on the Generic Scorecard	60%
Level Seven Contributor	≥55 but <70 points on the Generic Scorecard	50%
Level Eight Contributor	≥40 but <55 points on the Generic Scorecard	10%
Non-Compliant Contributor	<40 points on the Generic Scorecard	0%

B-BBEE Element	Indicator	Description	Weighting Points	Compliance Target
Ownership	1.1 Voting Rights	1.1.1 Exercisable Voting Rights in the Entity in the hands of Black people	4	25%+ 1 Vote
		1.1.2 Exercisable Voting Rights in the Entity in the hands of Black women	2	10%
	1.2 Economic Interest	1.2.1 Economic Interest in the Entity to which Black people are entitled	4	25%
		1.2.2 Economic Interest in the Entity to which Black women are entitled	2	10%
		1.2.3 Economic Interest of any of the following Black natural people in the Measured Entity		
		2.2.3.1 Black designated groups;	3	3%
		2.2.3.2 Black participants in Employee Share Ownership Programmes;		
		2.2.3.3 Black people in Broad-based Ownership Schemes;		
	2.2.3.4 Black participants in Co-operatives			
	1.2.4 Black New Entrants	2	2%	
1.3 Realisation Points	1.3.1 Net Value	8	Refer to Annex C	

Measurement Category & Criteria	Weighting points	Compliance targets
2.1 Board participation:		
2.1.1 Exercisable voting rights of black board members as a percentage of all board members	2	50%
2.1.2 Exercisable voting rights of black female board members as a percentage of all board members	1	25%
2.1.3 Black Executive directors as a percentage of all executive directors	2	50%
2.1.4 Black female Executive directors as a percentage of all executive directors	1	25%
2.2 Other Executive Management:		
2.2.1 Black Other Executive Management as a percentage of all Other Executive Management	2	60%
2.2.2 Black female Other Executive Management as a percentage of all Other Executive Management	1	30%
2.3 Senior Management		
2.3.1 Black employees in Senior Management as a percentage of all senior management	2	60%
2.3.2 Black female employees in Senior Management as a percentage of all senior management	1	30%
2.4 Middle Management		
2.4.1 Black employees in Middle Management as a percentage of all middle management	2	75%
2.4.2 Black female employees in Middle Management as a percentage of all middle management	1	38%
2.5 Junior Management		
2.5.1 Black employees in Junior Management	1	88%

as a percentage of all junior management		
2.5.2 Black female employees in Junior Management as a percentage of all junior management	1	44%
2.6 Employees with disabilities		
2.6.1 Black employees with disabilities as a percentage of all employees	2	2%

Category	Skills Development Element	Weighting points	Compliance Target
2.1. Skills Development Expenditure on any programme specified in the Learning Programme Matrix for black people as a percentage of the Leivable Amount			
1.1.1.1	Skills Development Expenditure on Learning Programmes specified in the Learning Programme Matrix for black people as a percentage of Leivable Amount.	8	6 %
1.1.1.2	Skills Development Expenditure on Learning Programmes specified in the Learning Programme Matrix for black employees with disabilities as a percentage of Leivable Amount.	4	0.3%
1.1.2	Learnerships, Apprenticeships, and Internships		
1.1.2.1	Number of black people participating in Learnerships, Apprenticeships and internships as a percentage of total employees	4	2.5%
1.1.2.2	Number of black unemployed people participating in training specified in the learning programme matrix as a percentage of number of employees	4	2.5%
Bonus points:			
2.1.3	Number of black people absorbed by the Measured and Industry Entity at the end of the Learnerships programme	5	100%

Criteria	Weighting points	Compliance targets
2.1 PREFERENTIAL PROCUREMENT		
2.1.1 B-BBEE Procurement Spend from all Empowering Suppliers based on the B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	5	80%
2.1.2 B-BBEE Procurement Spend from all Empowering Suppliers that are Qualifying Small Enterprises based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	3	15%
2.1.3 B-BBEE Procurement Spend from all Exempted Micro-Enterprises based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	4	15%
2.1.4 B-BBEE Procurement Spend from Empowering Suppliers that are at least 51% black owned based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	9	40%
2.1.5 B-BBEE Procurement Spend from Empowering Suppliers that are at least 30% black women owned based on the applicable B-BBEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	4	12%
Bonus points		
B-BBEE Procurement Spend from Designated Group Suppliers that are at least 51% Black owned.	2	2%
2.2 SUPPLIER DEVELOPMENT		
2.2.1 Annual value of all Supplier Development Contributions made by the Measured Entity as a percentage of the target.		2% of NPAT

	10	
2.2 ENTERPRISE DEVELOPMENT		
2.3.1 Annual value of Enterprise Development Contributions and Sector Specific Programmes made by the Measured Entity as a percentage of the target.	5	1%of NPAT
2.4 Bonus Points		
2.4.1 Bonus point for graduation of one or more Enterprise Development beneficiaries to graduate to the Supplier Development level.	1	
2.4.2 Bonus point for creating one or more jobs directly as a result of Supplier Development and Enterprise Development initiatives by the Measured Entity.	1	

Criteria	Weighting Points	Compliance Target
Annual value of all Socio-Economic Development Contributions by the Measured Entity as a percentage of the target.	5	1% of NPAT

Information required on the face of the certificates is as follows:

- Name and Physical address of entity
- Registration number
- VAT number
- For consolidated certificates all subsidiary and division names, registration numbers and VAT numbers
- Unique Certificate number
- Weighting points for each element and total points
- B-BBEE Status Level (if discounting was applied only the Discounting Level must appear)
- Empowering Supplier: Y/N
- Designated Group Suppliers: Y/N
- Generic / QSE
- 50% Black Owned (as defined): Y/N (for Revised Codes 51% Black-Owned)
- 30% Black Women Owned (as defined): Y/N
- SANAS Verification Agency name or approved B-BBEE Auditor name, registration number, telephone number and name of signatory / auditor signing
- SANAS Accreditation symbol (including accreditation number) / IRBA registration number
- Issue and Expiry date
- Specify the name or number of the Codes used to verify the Measured Entity (including whether it is generic or sector specific).
- Note if Modified Flow Through principle was used in the calculation of ownership

Where a certificate is issued for the Ownership Element of a Measured Entity only, then the weighting points displayed for each element should be replaced with a display of the ownership scorecard of the Measured Entity containing the sub-indicators and their weightings together with the ownership percentage and score achieved for each indicator. Other items listed above may also not be necessary in the event of a Ownership only certificate

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

--

SWORN AFFIDAVIT – B-BBEE EXEMPTED MICRO ENTERPRISE

I, the undersigned,

Full name & Surname	
Identity number	

Hereby declare under oath as follows:

1. The contents of this statement are to the best of my knowledge a true reflection of the facts.
2. I am a member / director / owner of the following enterprise and am duly authorised to act on its behalf:

Enterprise Name	
Trading Name	
Registration Number	
Enterprise Address	

3. I hereby declare under oath that:
 - The enterprise is _____% black owned;
 - The enterprise is _____% black woman owned;
 - Based on the management accounts and other information available on the _____ financial year, the income did not exceed R10,000,000.00 (ten million rands);
 - Please confirm on the table below the B-BBEE level contributor, **by ticking the applicable box.**

100% black owned	Level One (135% B-BBEE procurement recognition)	
More than 51% black owned	Level Two (125% B-BBEE procurement recognition)	
Less than 51% black owned	Level Four (100% B-BBEE procurement recognition)	

4. The entity is an empowering supplier in terms of **the dti** Codes of Good Practice.
5. I know and understand the contents of this affidavit and I have no objection to take the prescribed oath and consider the oath binding on my conscience and on the owners of the enterprise which I represent in this matter.

6. The sworn affidavit will be valid for a period of 12 months from the date signed by commission.

Deponent Signature: _____

Date: _____

Commissioner of Oaths
Signature & stamp

METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 100: OWNERSHIP

1. General

- 1.1. This section deals with how a B-BBEE Verification Professional should execute its responsibility in relation to the verification of a Measured Entity's Ownership element of the B-BBEE Codes of Good Practice.
- 1.2. The most significant risk that verification agencies face in verifying the ownership score is the overstatement of black beneficial ownership. This beneficial ownership includes the economic interest, exercisable voting rights and net equity value of black people in the Measured Entity.
- 1.3. This Methodology is effective for B-BBEE verification certificates issued on the amended codes.

2. Objectives

The objectives of this methodology are to guide a B-BBEE Verification Professional to obtain sufficient and appropriate evidence on whether:

- 2.1. 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
- 2.2. The calculations for measuring the various types of enterprises, various types of equity instruments (including member's interests in Close Corporations and partnership interests), voting rights and economic interest and realisation points of the B-BBEE Codes of Good Practice (Code 100) are correct.

3. Requirements

To determine whether the Measured Entity meets the criteria under the Ownership element of B-BBEE the B-BBEE Verification Professional shall:

- 3.1. Obtain sufficient and appropriate evidence proving that the calculation of Net Value is accurate and prepare a report detailing the method used in the findings.
- 3.2. Obtain sufficient and appropriate evidence proving that the Exercisable Voting Rights and Economic Interest in respect of shares carrying preferred rights are properly allocated and classified.
- 3.3. Obtain sufficient and appropriate evidence proving that the calculation of Designated Group is not misstated by the Measured Entity
- 3.4. 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.
- 3.5. To establish proof as evidence the Measured Entity meets the criteria under the Ownership element of B-BBEE the B-BBEE Verification Professional shall inter alia:
 - 3.5.1. Obtain sufficient and appropriate evidence to ensure transfer or issue of equity rights can be verified through appropriate legal and statutory documentation.
 - 3.5.2. Obtain sufficient and appropriate evidence to determine effect of any third party rights that may be attached to the equity instruments held by the black participant.
- 3.6. Determine the accuracy of the scorecard.
- 3.7. For beneficiaries that are listed as black trace the 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.

4. General Measurement principles

- 4.1. Flow through and Modified Flow Through Principles
 - 4.1.1. Multiple application of the modified flow through principle or application of the modified flow through principle in conjunction with the exclusion principle has been identified as a potential fronting risk and especially in complex structures the B-BBEE Verification Professional shall obtain

appropriate evidence and conduct all necessary tests to ensure that this is not the case.

- 4.1.2. Where the Flow Through Principle and Modified Flow Through Principle are applicable the B-BBEE Verification Professional shall inter alia inspect the organogram to determine the percentages and levels applicable to the black shareholding of the Measured Entity and flow through level of participation that accrue to Black People.
- 4.1.3. The Flow Through principle must be applied first before the B-BBEE Verification Professional is able to apply the Modified Flow Through principle in order to establish whether the ownership structure contains any entity that is a B-BBEE Controlled and / or B-BBEE Owned Company.
- 4.1.4. The B-BBEE Verification Professional must ensure that notwithstanding the amount of B-BBEE Controlled and/ or B-BBEE Owned Companies in the structure of the Measured Entity, that the Modified Flow-Through principle is only applied once in the entire ownership structure.
- 4.1.5. Apply the flow-through or where applicable the modified flow through principle to calculate the Rights of Ownership of Black People based on the Ownership organogram;

4.2. Exclusion Principle

The Exclusions Principle is a measurement principle used when calculating the points for the various indicators of the Ownership scorecard that allows for the deduction of a number of Rights of Ownership (whether it be Exercisable Voting Rights or Economic Interest), from the total of such rights issued by the Measured Entity, before expressing those rights of ownership held by black Participants, as a percentage of all such rights of ownership issued. The Codes and its statements allows for the exclusion of four categories of Rights of Ownership:

- those held by South African Organs of State and Public Entities;
- those held as South African Mandated Investments;
- those held by Non-Profit Companies;
- Rights of Ownership that equates to the value of the foreign operations of a Measured Entity;

4.2.1. **South African Organs of State and Public Entities**

The B-BBEE Verification Professional must apply the exclusion principle with respect to those Rights of Ownership held by Organs of State and Public Entities notwithstanding the application of the Modified Flow-Through Principle in the ownership calculation. In doing so the B-BBEE Verification Professional must:

- 4.2.1.1. Inspect the security register of the Measured Entity and confirm whether there are any Rights of Ownership held directly by organs of state or public entities;
- 4.2.1.2. Exclude those Rights of Ownership held by Organs of State and Public Entities from the total Rights of Ownership in issue, before expressing the Rights of Ownership held by black Participants, as a percentage of all remaining Rights of Ownership in issue.

4.2.2. **South African Mandated Investments**

When determining the validity of the Mandated Investment for exclusion of Mandated Investments the Verification Agent / Registered Auditor/ Registered Auditor should:

- 4.2.2.1. Obtain confirmation of all Mandated Investments;
- 4.2.2.2. Inspect security register for all South African Mandated Investments held by Collective Investment Schemes, for example Pension Funds, Unit Trusts.
- 4.2.2.3. Recalculate ownership for exclusion of Mandated Investments and ensure that only South African Mandated Investments are excluded; and the Mandated Investments excluded do not exceed 40% of the total Rights of Ownership issued by the Measured Entity. the Modified Flow Through Principle has not been applied in the Measured Entity's ownership calculation

4.2.3. **Non-Profit Companies**

If the Non-Profit Company is an exclusion the B-BBEE Verification Professional must recalculate the ownership to ensure that the rights of Ownership excluded do not exceed 40% of the total Rights of Ownership issued by the Measured Entity and that the Modified-Flow through Principle has not been applied in the ownership calculation.

4.2.4. Value of Foreign Operations

A Measured Entity's ownership is only measurable against the value of its South African operations. The exclusion principle must therefore be applied with respect to the value of its foreign operations when calculating the Rights of Ownership held by Black People. The exclusion principle must be applied to the value of foreign operations notwithstanding the use of the Modified Flow Through Principle. In doing so the B-BBEE Verification Professional must:

- 4.2.4.1. Confirm the percentage that the value of the foreign operations of the Measured Entity is to its total value with reference to the segmental analysis of the Measured Entity in its audited financial statements or a valuation obtained or performed independently in accordance with standard valuation methodology;
- 4.2.4.2. Apply the percentage calculated to the number of issued Rights of Ownership remaining, after having first applied the Exclusion Principle in respect of Organs of State and Public Entities, Mandated Investments and Non-Profit Companies where applicable, to determine the number of shares to be excluded from the remaining issued Rights of Ownership.
- 4.2.4.3. Exclude those Rights of Ownership representing the value of foreign operations from the total remaining Rights of Ownership in issue, before expressing the Rights of Ownership held by black Participants, as a percentage of all remaining Rights of Ownership in issue.

4.3. General Measurement of Economic Interest

4.3.1. Highlight specific fronting risks

Economic interest is the claim against an entity representing a return on ownership of the Measured Entity similar in nature to a dividend right. A potential fronting risk is the abuse of this definition since it does not accommodate for payments outside distributions directly linked to ownership in a sufficient manner. Therefore the actual distributable income may be diluted through excessive management fees, partner drawings, and profit share agreements, etc., which will leave a potential black investor with a diluted return on ownership.

- 4.3.2. To determine whether the Measured Entity meets the criteria for calculating the economic interest points the B-BBEE Verification Professional shall inter alia:
- 4.3.2.1. Review the Memorandum of Incorporation (MOI) of the Measured Entity to determine the Economic Interest attached to each class of equity instruments.
 - 4.3.2.2. Trace the Economic Interest in the hands of Black People to a shareholders agreement or similar documents. Note that a shareholders agreement is not a compulsory document in terms of the Companies Act and can only be requested where it exists.
 - 4.3.2.3. Determine whether the Economic Interest are vested or whether their vesting are contingent on some future event. The rights of Economic Interest which are vested but payable at some future date e.g. in the case of some deferred ordinary shares, cannot be recognised at the same value as those rights of Economic Interest which are payable upon declaration of dividends.
 - 4.3.2.4. Where the audited or reviewed financial statements are available review the description of the classes of shares and securities as per those statements and compare with MOI and shareholders agreements where applicable for accuracy.
 - 4.3.2.5. Trace the Economic Interest in the hands of Black People to the share certificates or security certificates held by those Black People.
 - 4.3.2.6. Compare the share certificates or security certificates held by Black People with the security register to ensure accuracy.
 - 4.3.2.7. Compare total number of shares and securities in issue as per the security register with the total shares and securities in issue as per the audited or reviewed financial statements, if they are available.
 - 4.3.2.8. Interview a sample of the black shareholders, or fiduciaries representing them, to determine whether they understand their rights to Economic Interest.
 - 4.3.2.9. 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.
 - 4.3.2.10. 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.

- 4.3.2.11. Inspect the shareholders' agreements to identify any options (call vs. put options).
- 4.3.2.12. 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.
- 4.3.2.13. Inspect the Shareholders' Agreements or similar agreements and Financing Agreements where applicable for exit clauses which can impact on Economic Interest for black shareholders.
- 4.3.2.14. 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.
- 4.3.2.15. Inspect all transaction documents to ensure that the beneficiaries are entitled to Economic Interest that is proportionate to the class of shares held by them.

4.4. Voting rights

4.4.1. Highlight specific fronting risks

Voting rights will allow the BEE Participants meaningful participation in the company at shareholder level. The B-BBEE Verification Professional shall determine whether these rights exist, whether the BEE Participants are fully aware of them and whether they can actually exercise these rights.

4.4.2. In order to assess the existence of voting rights the B-BBEE Verification Professional shall inter alia:

- 4.4.2.1. Review the Memorandum of Incorporation (MOI) of the Measured Entity to determine the Exercisable Voting Rights attached to each class of shares.
- 4.4.2.2. Trace the Exercisable Voting Rights in the hands of Black People to a shareholders agreement or similar document. Note that a shareholders agreements is not a compulsory document in terms of the Companies Act and can only be requested where it exists.
- 4.4.2.3. Inspect the shareholders' agreement or similar document to identify clauses that can restrict voting rights and inspect shareholders' agreements or similar documents to identify clauses regarding the rights of shareholders to appoint directors and any restriction on the voting rights of these directors.
- 4.4.2.4. Determine whether the voting rights are vested or whether their vesting are contingent on some future event. Only recognise those voting rights that are vested and therefore exercisable.
- 4.4.2.5. Where the audited or reviewed financial statements are available review the description of the classes of shares and securities as per those statements and compare with MOI and shareholders agreements for accuracy.
- 4.4.2.6. Trace the Exercisable Voting Rights in the hands of Black People Compare the share and security certificates held by Black People with the security register to ensure accuracy.
- 4.4.2.7. Compare total number of shares and securities in issue as per the security register with the total shares and securities in issue as per the audited or reviewed financial statements, if they are available.
- 4.4.2.8. Interview a sample of the black shareholders, or fiduciaries representing them, to determine whether they understand their voting rights and whether they are able to exercise such voting rights independently.
- 4.4.2.9. Inspect the minutes of the latest shareholders' meeting (or annual general meeting where applicable) of the Measured Entity to identify participation of holders of Black Rights of Ownership.

5. Acquisition debt

- 5.1. Potential fronting risk: Inflated costs of debt poses significant fronting

risk and may result in the face value of debt being understated. The B-BBEE Verification Professional must satisfy itself that the value attributable to acquisition debt is a fair value and that all debt that meets the definition of acquisition debt is included in the calculation. Debt incurred as part of a refinancing of a BEE transaction must be included as acquisition debt.

- 5.2. In measuring Acquisition debt, the B-BBEE Verification Professional shall inter alia:
 - 5.2.1. Obtain a full explanation through interview of the construct of the sale of equity interest or sale of shares or securities.
 - 5.2.2. Obtain a declaration from the Measured Entity whether debt of any kind of nature, whether real or notional debt, was incurred in the sale of equity instruments to black participants, or in the sale of assets.
 - 5.2.3. Obtain a declaration from the black participants whether debt was incurred in the sale of equity instruments to the black participants or in the sale of assets.
 - 5.2.4. Review all deal documents to establish whether any debt was incurred in the sale of equity instruments to black participants or in the sale of assets and to confirm the terms attached to financial instruments used in the structuring of the acquisition debt.
 - 5.2.5. Where a legal entity such as a special purpose vehicle was used to structure the sale of equity to black participants, confirm whether debt was incurred in the sale of the equity instruments to black participants.
 - 5.2.6. The outstanding acquisition debt as at measurement date must be determined through, where a third party is involved, a financiers' confirmation, or where the Measured Entity or related party is involved, the financial statements of the funder. The amount of outstanding acquisition debt must be agreed the financial statements of the Measured Entity, group entity or related entity.
 - 5.2.7. Where preference shares or other financial instruments are used as part of the acquisition debt, obtain an independent competent persons' report confirming the fair value of the preference shares as at measurement date.
 - 5.2.8. The independent competent persons' report referred to above is not required, if the debt instrument is reflected at fair value in the financial

statements of the Measured Entity or related entity or if the declaration by the financier confirms the fair value of the debt instrument.

6. Equity Instruments and Net Value

- 6.1. Potential fronting risk: An overstatement of value of equity instruments held by black participants is common and poses significant fronting risk. Measured entities often ignore impairments for marketability when assessing the value of equity instruments held by black participants. Different classes of shares also poses fronting risk and should be considered as part of the value held by black participants as well as the value of the Measured Entity in total.
- 6.2. Net value is measured according to the value of assets, economic interest and any financial instruments or rights of ownership in the hands of black participants net of acquisition debt as at the measurement date.
- 6.3. The B-BBEE Verification Professional must take into account all outstanding debt including notional debt associated with the acquisition of such shares.
- 6.4. Before the B-BBEE Verification Professional continues with procedures to verify occurrence, accuracy, classification and validity of the entity's score, confirm:
 - 6.4.1. if there are any Third Party Rights attached to the equity held by Black People;
 - 6.4.2. that the effect of the above mentioned Third Party Rights on the equity held by Black People has been established; and
 - 6.4.3. If or not the equity held by Black People has the characteristic of debt or whether or not debt has been presented in the form of preference shares, debentures or other ownership derivatives.
- 6.5. The analyst needs to identify all rights of ownership that may have an impact on the value attributable to black participants. These may include various types or classes of equity instruments, e.g. ordinary shares, preference shares, options and/or other derivatives.
- 6.6. Each of the equity instruments must be valued applying standard valuation methodology.
- 6.7. A Measured Entity must obtain a report from an independent competent person stating the objective of the valuation performed, confirming that

the methodology applied is relevant, has been tested for reasonability against other appropriate valuation approaches e.g. discounted cash flow, market approach, net asset value approach or any other appropriate standard valuation approach.

- 6.8. The report from the independent competent person must as a minimum state the qualifications and experience of the independent competent person who conducted the valuation, the valuation approaches applied and why they are appropriate and the concluded value of the equity instruments valued.
- 6.9. In some instances it may be reasonable to use a recently performed independent valuation of equity instruments as a fair representation of value. In such instances, management representation must be obtained stating why the recently performed independent valuation can be deemed to be a fair representation of value.
- 6.10. Where an entity is a publicly traded entity, the listed share price may be used as an indicator to assess the fairness of an independent valuation.
- 6.11. The analyst needs to apply professional judgment regarding the validity of the management representation or market data.
- 6.12. In some instances the publicly traded equity instruments held by black participants may not have any restrictions, in which case the publicly traded price may be a fair reflection of value. In such instances no independent valuation would be required.

7. BEE Participants

- 7.1. The following section deals with the various types of BEE participants through which a Measured Entity can obtain BEE Ownership recognition. BEE Participant in this sense should be interpreted in the widest sense as it will include not only individual BEE Investors and black natural persons, but also Mandated investments (if and when the inclusion of such shareholding is selected) and black juristic persons and others such as for example black private equity funds.
- 7.2. **Fronting risks inherent to BEE Participants**
The most significant risk that verification agencies face in verifying the ownership score is the overstatement of black beneficial ownership. This

beneficial ownership includes the economic interest, exercisable voting rights and Net Value of black people in the Measured Entity.

With regards to the various BEE Participants the B-BBEE Verification Professional shall verify that the initiative does ultimately benefit black people as defined in the Codes and not directly or indirectly undermine or frustrate the achievement of the objectives of the BEE Act or the implementation of any of the provisions of the BEE Act.

7.3. Natural persons

7.3.1. Individuals

The B-BBEE Verification Professional shall use professional judgement and confirm through appropriate evidence such as interviews, ID documents or birth certificates that an individual BEE participant is black as defined in the Codes

7.3.2. New Entrants

7.3.2.1. 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 R50 million and the B-BBEE Verification Professional shall apply professional judgement to these affidavits.

7.3.2.2. Examples of appropriate evidence to confirm the status of a black new entrant include sworn affidavits or interviews with the relevant individual or representative (in the case of Broad-Based Ownership schemes, Employee Share Ownership Programmes and similar vehicles, a fiduciary, such as a trustee, may attest to collective status of the scheme).

7.3.2.3. The determination of whether a BEE Participant falls within the definition of a "black new entrant" with reference to a particular Measured Entity, must be done as at the transaction date or date of purchase of Rights of Ownership in that Measured Entity and not at date of measurement.

7.3.2.4. The status of a "black new entrant" is to be established at an individual level and not for juristic persons or groups of individuals

7.3.3. Designated groups

- 7.3.3.1. The determination of whether an individual falls within any of the Black Designated Groups categories with reference to a particular Measured Entity, must be done as at the transaction date or date of purchase of Rights of Ownership in that Measured Entity and not at date of measurement.
- 7.3.3.2. Sufficient proof of Designated group status includes a signed affidavit or interviews with the relevant individual or representative (in the case of Broad-Based Ownership Schemes, Employee Share Ownership Programmes and similar vehicles, a fiduciary, such as a trustee, may attest to the collective status of the scheme)
- 7.3.3.3. For Black People who are unemployed confirm unemployment and black status. Examples of appropriate evidence to confirm the status of this designated group include interviews, UIF records, bank accounts records or employment history.
- 7.3.3.4. For black youth, confirm that the individual is between the age of 18 and 35 in line with the National Youth Commission Act of 1996. Examples of appropriate evidence to confirm the status of this designated group include interviews and the viewing of ID documents.
- 7.3.3.5. For Black People with disability, trace the individual proof of disability status. Examples of appropriate evidence to confirm the status of this designated group include interviews, medical records confirming the medical condition which leads to the designated status or evidence of registration to receive a Disability grant from the Department of Social Services.
- 7.3.3.6. 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 residence).

7.4. Juristic persons

7.4.1. Companies

The B-BBEE Verification Professional shall inter alia:

- 7.4.1.1. Confirm the identity, registered name and registration number of the Measured Entity with reference to the entity's registration

documentation provided by CIPC.

7.4.1.2. Verify Economic interest, Voting rights and Net Value as per this Annexure, or if the B-BBEE Verification Professional puts reliance on an existing BEE verification certificate, then the B-BBEE Verification Professional shall confirm:

7.4.1.2.1. Ensure that the certificate is valid

7.4.1.2.2. To what extent, the Modified Flow Through Principle had been applied, and

7.4.1.2.3. To what extent the exclusion principle had been applied

7.4.2. Non-Profit Companies

When determining the Rights of Ownership of Black People through Non-Profit Companies, the Measured Entity may elect to include or exclude Non-Profit Companies, Section 21 Companies or Companies limited by guarantee for the purposes of measuring ownership in terms of the Codes.

7.4.2.1. A Non-Profit Company 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. In such cases the Measured Entity may contribute:

7.4.2.1.1. A maximum of 40% of the total points on the Ownership scorecard of the Measured Entity if they meet the qualification criteria for Broad-Based Ownership Schemes and Employee Share Ownership Programmes set out in Annexe 100(B) and Annexe 100(C) respectively.

7.4.2.1.2. 100% of the total points on the Ownership scorecard of the Measured Entity if they meet the additional qualification criteria set out for Broad-Based Ownership Schemes and Employee Share Ownership Programmes in Annexe 100 (B) and Annexe 100 (C) respectively.

7.4.2.2. If the Measured Entity elects to treat the Non-Profit Company, as an inclusion and it does not house a Broad-Based Ownership scheme as contemplated in 7.4.2.1 above, then the B-BBEE Verification Professional:

7.4.2.2.1. obtain a competent persons report estimating the extent of black Rights of Ownership originating from the Non-Profit Company, ;

- 7.4.2.2.2. Inspect the report to determine whether the person and or the team responsible for the drafting therefore are indeed competent to express an opinion on the black ownership through Non-Profit Companies.
- 7.4.2.2.3. Inspect the report to determine whether the methodology applied in reaching a conclusion is coherent and free from any patent errors that could expose a lack of competence.
- 7.4.2.2.4. Ensure the limitations to the contributions to the total points on the Ownership scorecard as per 7.4.2.1 above are applied.
- 7.4.3. Trusts, Employee Share Ownership Programmes and Broad-Based Ownership Schemes
- 7.4.3.1. The B-BBEE Verification Professional shall review trust 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
- 7.4.3.2. Ensure that the trust or scheme meets the rules and additional criteria set for the trust, Employee Share Ownership Programme or Broad-Based Ownership Scheme in terms of the Codes.
- 7.4.3.3. There are significant fronting risks associated with the awarding of further points for compliance with the additional criteria, and the onus rests on the B-BBEE Verification Professional to ensure that he/she is adequately satisfied that the additional criteria have in fact, been duly complied with.
- 7.4.3.4. In order to achieve the levels contemplated above, a higher level of accountability is implicitly required from trustees. The risk exists that such trustees may not fully understand the implications of their involvement in the scheme, by virtue of their appointment
- 7.4.3.5. Where the equity is held by a trust (or employee share ownership scheme or broad based ownership scheme), interview a sample of 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. The beneficiaries of these schemes do not have direct voting rights apart from the occasional right to nominate or vote for fiduciaries (although such instances are mostly limited to Employee Share Ownership Schemes). Voting Rights are

however attributed to the beneficiaries, notwithstanding the actual lack of such tangible rights, on the basis that the fiduciaries of the scheme exercises tangible and real voting rights on behalf of the beneficiaries as a collective. The B-BBEE Verification Professional therefore need to ensure that it calculates and attributes the racial and gender demographic of the beneficiaries of the scheme when calculating the flow through of voting rights, and not the racial and gender demographic of the fiduciaries.

- 7.4.3.6. To determine the points to award for the level of participation of Black People held through a Broad-Based Ownership Scheme (BBOS), Employee Share Ownership Programme (ESOP) and Trusts the B-BBEE Verification Professional shall
- 7.4.3.6.1. review the Trust Deed or constitution of any such scheme to ensure that the beneficiaries or class of beneficiaries are clearly named; and
 - 7.4.3.6.2. the proportion of entitlement of the beneficiaries as individuals or as a class are clear; and
 - 7.4.3.7. that there is no discretion by the Trustees or executive of the Scheme to change it;
 - 7.4.3.8. Recalculate the participation by Black people in a BBOS, ESOP or Trust holding Rights of Ownership in a Measured Entity to ensure that it accounts for 40% or less of the total points awarded; if it is found that the Rights of Ownership by Black People through BBOS's, ESOP's or Trust's meet the additional criteria for BBOS's, ESOP's or Trusts as stated in the Codes, the B-BBEE Verification Professional should confirm that the calculation recognises 100% of the Rights of Ownership held by Black People through the BBOS, ESOP or Trust in the Measured Entity;
 - 7.4.3.9. In the case of a BBOS review the latest constitution 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.
 - 7.4.3.10. Review the annual financial statements of the Management Company or the scheme itself ensuring that the total Economic Interest received in any year less the proportion distributed to or

- applied for benefit of beneficiaries; and the proportion reserved for future distribution to or application for beneficiaries
- 7.4.3.11. Review the annual financial statements of the Management Company or the scheme itself ensuring that the total expenses do not exceed 15% of the total value received in that year by the Broad Based Ownership Schemes (BBOS).
- 7.4.3.12. Review the trust deed or constitution of the BBOS to ensure that more than 85% of the economic interest is being allocated to Black people.
- 7.4.3.13. Review the trust deed or constitution to ensure that upon winding up of the scheme all accumulated economic interest will be transferred to the beneficiaries of the scheme or an entity with similar objectives.
- 7.4.4. If the scheme accounts for 100% of the points claimed the B-BBEE Verification Professional should establish that the scheme meets the additional criteria set up for such schemes in the Codes.
- 7.4.5. To determine compliance with the additional criteria for BBOS the B-BBEE Verification Professional shall:
- 7.4.5.1. Each trustee must be subjected to a formal interview process, during which such trustee verifies, and the B-BEE Verification Professional is satisfied, that the trustee understands the implications of their involvement in the scheme, and the benefits and/or responsibilities which will flow through to them as a result of their involvement. In particular, trustees must be made be probed with respect to :
- 7.4.5.1.1. Their fiduciary duties and obligations to act in the best interests of the beneficiaries of the scheme;
- 7.4.5.1.2. The rules applicable to Broad-based Ownership Schemes; and
- 7.4.5.1.3. What constitutes 'fronting' in terms of BEE legislation and the consequences associated therewith for the Entity.
- 7.4.5.1.4. During the interview process, the B-BEE Verification Professionals must also be able to clearly establish whether economic benefits are flowing through to the scheme and the beneficiaries thereof, and if not, that *bona fide* reasons exist for the failure to do so;
- 7.4.5.1.5. Subsequent to the interview process, each such trustee interviewed must complete an independent trustee representation letter, which constitutes a clear acknowledgement and confirmation by such

trustee of the aforementioned aspects discussed during his/her interview; and

- 7.4.5.2. When determining the validity of the scorecard information the B-BEE Verification Professionals shall compare employees who hold fiduciary roles in Broad-Based Ownership Schemes, trusts or Employee Share Ownership Programmes to the employee records supplied by the Measured Entity.

7.5. Others

7.5.1. **Mandated Investments**

When determining the validity of the Mandated Investments for inclusion in the ownership calculation the B-BEE Verification Professional shall:

- 7.5.1.1. obtain a competent person's report for recognized mandated investments;
- 7.5.1.2. Inspect the report to determine whether the person and or the team responsible for the drafting therefore are indeed competent to express an opinion on the mandated investments.
- 7.5.1.3. Inspect the report to determine whether the methodology applied in reaching a conclusion is coherent and free from any patent errors that could expose a lack of competence.
- 7.5.1.4. Investigate to what extent the Mandated investments have impact on economic interest, voting rights and net value

7.5.2. **Private Equity Funds**

When determining the ownership points of a Private Equity Fund the B-BEE Verification Professional shall determine the following:

- 7.5.2.1 That the Private Equity Fund Manager must be a BEE Owned Company as defined in the Codes.
- 7.5.2.2 At least 51% of the Private Equity fund Managers' Exercisable Voting Rights associated with the Equity instruments through which the Private Equity Fund holds Rights of Ownership are held by Black People.
- 7.5.2.3 At least 51% of the Private Equity Fund's Executive Management and Senior Management must be Black People
- 7.5.2.4 At least 51% of the profits made by the Private Equity Fund Manager after realising any investment made by it must by written agreement, accrue to Black People

7.5.2.5 The Private Equity Fund manager has sought to invest at least 51% of the value of funds under management in companies that have at least 25% direct black shareholding using the Flow Through Principle

7.5.2.6 The B-BBEE Verification Professional must be satisfied that the private equity fund holds all requisite and applicable licences and accreditations in order to operate, and in particular, licences required by the Financial Services Board

7.5.2.7 When addressing Private Equity Funds, a B-BBEE Verification Professional must consider whether the Private Equity Fund Manager has achieved ownership targets pertaining to Black women, Black designated groups, black participants in Employee Share Ownership Programmes, Broad-Based Ownership Schemes, Black participants in Co-operatives and/or New Entrants, and afford due recognition in this regard to the Measured Entity.

7.5.3. **Equity Equivalent Programme**

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

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

7.5.3.3. 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.

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

7.5.3.5. 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:

7.5.4. **BEE facilitators**

7.5.4.1. Inspect the Government Gazette for notice of the public entity being identified as a B-BBEE facilitator; and

- 7.5.4.2. Inspect the B-BBEE facilitator (e.g. the NEF, IDC, DBSA etc.) status and ensure that it is being applied correctly in the calculation; and
- 7.5.4.3. Collect appropriate evidence to confirm the BEE facilitator status.

7.5.5. **Sale of Assets**

When determining the validity of a Sale of Asset the B-BEE Verification Professionals have to determine whether the transaction meets the criteria for ownership recognition by:

- 7.5.5.1. analysing the previous years' annual financial statements in order to determine the Sustainability of the business opportunity;
- 7.5.5.2. ensuring that the transaction has been concluded at arm's 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;
- 7.5.5.3. 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;
- 7.5.5.4. establishing that a transfer of specialised skills has taken place in terms of the agreement between the Measured Entity and the associated enterprise;
- 7.5.5.5. Determining the Voting Rights, Economic Interest and net value of the associated enterprise refer to the paragraphs detailing this above.
- 7.5.5.6. In evaluating the associated enterprise as a percentage ownership **equivalent in a Measured Enterprise by using this calculation:**
- 7.5.5.7.
$$\text{Value of an associated enterprise (resulting from a qualifying transaction)} / \text{value of the measured enterprise}$$
- 7.5.5.8. The B-BBEE Verification Professional shall ensure that the denominator when calculating the value of the business must include the value of the asset being disposed of and/or previously disposed of. By excluding the asset disposed of, the Measured Entity receives an inflated BEE score that does not fairly represent the level of transformation actually achieved by the Measured Entity.

8. **Other considerations**

8.1. Complex structures

8.1.1. 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. When determining the validity of Complex structures the B-BEE Verification Professional shall the following:

8.1.1.1. The general rules for voting rights, economic interest and realisation points as detailed above may be used.

8.1.1.2. The B-BEE Verification Professional should enquire whether the Measured Entity is applying a consolidated B-BBEE scorecard or a Measured Entity level B-BBEE Scorecard.

8.2. Recognition of Ownership after sale or loss of shares by black participants

For the Recognition of Ownership after sale or loss of shares by black participants the B-BBEE Verification Professional shall do the following when determining the validity of the continuing benefit:

8.2.1. review transaction agreements to confirm that the holding period exceeds 3 years;

8.2.2. record the number of years that the transaction is in effect;

8.2.3. enquire from the black participant as to the circumstances of exit (sale or loss of share)

8.2.4. 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.

8.2.5. Recalculate continuing benefits and confirming that it is less than 40 percent of the score on the Ownership Scorecard.

8.2.6. For black participants who have lost or sold their shares, obtain proof of acquisition date and the date when the shares were lost or sold;

8.2.7. the percentage of shares held by the participant prior to the sale or loss of shares;

- 8.2.8. 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
- 8.2.9. The most recent B-BBEE Recognition level of the Measured Entity.
- 8.2.10. Ensure that the period over which the continued recognition points are allocated or recognised will not exceed the period over which the shares were held. The period of continued recognition will commence, in the case of a loss of shares from the date of the loss of shares, and in the case of a sale of shares from the later date of the commencement of the revised codes of good practice (1 May 2015) or the date of sale of the shares.

8.3. Consolidated Scorecards

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

- 8.3.1. The scorecard must list the names of the holding company as well as all its subsidiaries to which the B-BBEE scorecard pertains to.
- 8.3.2. 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 asset or equity instruments in its subsidiaries in accordance with Statement 102.
- 8.3.3. Management control): only black members on the board of the holding company can count towards the score for black board participation
- 8.3.4. Management control score (Other Management): calculation of the score for these aspects must measure black representation in the holding company as well as all measured subsidiaries unless substance over form dictates that the 'Other Executive Management' of the holding company is indeed the 'Other Executive Management' for the group of companies. In such cases 'Other Executive Management' at subsidiary level will need to be reclassified for purposes of the consolidated verification of the group.
- 8.3.5. Skills development score: calculation of the score for this element must measure skills spend by the holding company as well as all measured subsidiaries
- 8.3.6. Enterprise and Supplier Development score: calculation of the score for this element must measure enterprise development spend by the

holding company as well as all measured subsidiaries

8.4. 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

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

- 8.4.1. The B-BBEE scorecard must list the details of the divisional structure and the company to which the division/ business unit belongs;
- 8.4.2. 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 asset or equity instruments in its subsidiaries in accordance with Statement 102;
- 8.4.3. Management control score (Board Participation): 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;
- 8.4.4. Management control (Other Management): calculation of the score for these aspects must measure black representation in the measured division/ business unit only;
- 8.4.5. Skills development score: calculation of the score for this element must measure skills spend by the measured division/ business unit only;
- 8.4.6. Enterprise and supplier development score: calculation of the score for this element must measure enterprise development spend by the measured division/ business unit only;
- 8.4.7. Socio-economic development score: calculation of the score for this element must measure socio-economic development spend by the measured division/ business unit only;
- 8.4.8. When it comes to 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.
- 8.4.9. Where Exempted Micro Enterprises and Qualifying Small Enterprises are Related Enterprises and it is found that they were split into separate business units with the intent of falling under lesser turnover

thresholds the following will apply:

- 8.4.10. They MUST obtain either a consolidated B-BBEE scorecard as if they were a group structure; or
- 8.4.11. If they elect to obtain an individual B-BBEE scorecards for each related enterprise, the related enterprise so measured will be classified as either a QSE or Generic enterprise with reference to the combined turnover of the group of related enterprises and not its own turnover;
- 8.4.12. Unincorporated Joint Ventures
- 8.4.12.1. Unincorporated joint ventures may be verified and obtain a consolidated B-BBEE certificate as if they were a single entity. Alternatively, the measurement of Unincorporated Joint Ventures, where the separate partners already have valid verification certificates or affidavits in the case of EMEs and 51% Black Owned or 100% Black Owned enterprises,
- 8.4.12.2. The measurement of Unincorporated Joint Ventures may be done as follows:
- 8.4.12.3. Unincorporated Joint Ventures are required to compile a consolidated verification certificate. A consolidated verification certificate will consolidate the verified compliance data of joint venture partners as if those Measured Entities were a single Measured Entity
- 8.4.12.4. The consolidation of compliance data shall be based on a weighting in accordance with the joint venture agreement relevant to the specific joint venture. Therefore, should two entities enter into an Unincorporated Joint Venture their respective scores will be weighted according to their proportionate share in the joint venture and added together for a combined score out of 100
- 8.4.12.5. 51% Black Owned or 100% Black Owned EME's and QSE's will qualify for a score of 95 and 100% respectively, whilst other EME's will qualify for a score of 85.
- 8.4.12.6. Where all the partners in the joint venture are Empowering Suppliers the Unincorporated Joint Venture will also qualify as an Empowering Supplier. If not, the compliance of the Unincorporated Joint Venture with the Empowering Supplier requirements must be measured as though it is a single Measured Entity with each partner contributing, to the categories of measurement for Empowering Supplier status, in

proportion to its share in the joint venture.

- 8.4.12.7.** The expiry date of the Unincorporated Joint Venture certificate will be 12 months from the issue date thereof notwithstanding the expiry date of any of the certificates of the joint venture partners utilized in the compilation thereof.

- 9** **Considerations Specific to Qualifying Small Enterprises**
The B-BBEE Verification Professional 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 200: MANAGEMENT CONTROL

1. Scope of this section

1.1 This section guides B-BBEE Verification Professionals 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 B-BBEE Verification Professional shall:

4.1.1 Read this statement in conjunction with the amended 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 Review the claim schedule from the Measured Entity for the subcategories of Management Control claimed.

4.1.4 Obtain the EEA2 and EEA4 forms submitted to the Department of Labour by the Measured Entity in compliance with the Employment Equity Act (to be used as a reasonability test).

4.1.5 Obtain payroll as at the Measurement Date

4.1.6 Confirm confirmation of submission of the EEA2 to the Department Of Labour. Establish that the Measured Entity where required, complied regulatory requirements of the Employment Equity Act, Labour. This is not pre-requisite for awarding points for Management Control but it is pre-requisite for the

Measured Entity to qualify as an Empowering Supplier.

- 4.1.7 Establish the existence of sufficient and appropriate evidence to determine whether the allocation and classification of:
 - 4.1.7.1 race
 - 4.1.7.2 gender
 - 4.1.7.3 level of management; and
 - 4.1.7.4 Board appointment; are not materially misstated by the Measured Entity.
 - 4.1.7.5 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 B-BBEE Verification Professional may:
 - 5.1.1 Establish whether the Measured Entity distinguishes between Other Executive Management and Senior Management levels. In the case where a Measured Entity's does not distinguish between Other Executive Management and Senior Management, the Other Executive Management is measureable as a single indicator with the weighting points of 6 under paragraphs 2.2.1 and 2.2.2 split as 4 and 2 points respectively.
 - 5.1.2 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 5 points for Junior Management with a compliance target remaining unchanged for Junior Management.
 - 5.1.3 When both of the above, (5.1.1 and 5.1.2) are applicable, determine that the Measured Entity only scored points for Other Executive Management and Junior Management under Code 200 to avoid double counting.
 - 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 current Company and Intellectual Property Commission's (CIPC's) COR39, certificate of Director Amendments from the Measured Entity and ensure that the claim for Board Participation correspondence to the CIPC documents oobtained from the Measured Entity. For close co-operations, sole proprietors and partnerships obtain similar relevant documents related to these

- specified entities.
- 5.1.6 Obtain a sample of employee files and agree on the correct allocation of management to the information submitted by the Measured Entity (latest Payroll). The employee file should as a minimum contain the employee's identity document, job description, Job grading mechanism (where an entity does not have one it must be developed and maintained) and the employment contract / letter of appointment and letter of promotion where applicable as well as any other relevant information.
 - 5.1.7 Agree a sample of management as classified in the employee records to the EEA2 and EEA4 forms against payroll as at the Measurement Date
 - 5.1.8 Interview a sample of directors and managers and discuss their roles and responsibilities on the board to determine whether they are executive or non-executive.
 - 5.1.8.1 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.
 - 5.1.8.2 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 or occupational health practitioner for each employee with disability.
 - 5.1.9 Determine the responsibilities of directors and management by inspecting the following:
 - 5.1.9.1 Overall packages of black directors/management compared to equivalent non-black directors/management;
 - 5.1.9.2 Performance evaluations of directors/management; or
 - 5.1.9.3 Voting rights held by black board members and any restrictions that might be specific to the black directors. The MOI of the measured Entity is a key source to determine those rights.
 - 5.1.10 When determining the accuracy of the scorecard the B-BBEE Verification Professional may:
 - 5.1.10.1 Agree the total number of people on the board of directors and the number of black people and black women on the board and their respective voting rights.

- 5.1.10.2 Agree the total number of people at Other Executive Management level and the number of black people and black women at Other Executive Management level to the information prepared by the Measured Entity in terms of 2.2.1 and 2.2.2 of Code 200
- 5.1.10.3 Agree the total number of people at Senior, Middle and Junior Management level, and the number of African, Coloured and Indian people and women to the information prepared by the Measured Entity in terms of 2.3, 2.4 and 2.5 of Code 200.
- 5.1.10.4 Agree the total number of employees and the total number of black disabled people and black disabled women to the payroll and information prepared by the Measured Entity in terms of 2.6 of Code 200.
- 5.1.10.5 Recalculate the percentage of black people and black women for each indicator of the Management Control Scorecard (items 2.1.3; 2.1.4; 2.2.1 and 2.2.2).
- 5.1.10.6 Recalculate the percentage of African, Coloured and Indian people and women for each indicator of the Management Control Scorecard (items 2.3.1; 2.3.2, 2.4.1, 2.4.2, 2.5.1, 2.5.2)
- 5.1.10.7 Recalculate the percentage of black disabled people and terms of 2.6.1 of Code 200.
- 5.1.10.8 Agree the compliance targets and weighting points used by the Measured Entity in the formulae to the management control scorecard.
- 5.1.10.9 Determine the correct EAP statistics to apply. The Measured Entity may elect to use either the National EAP statistics or the Provincial EAP statistics. It may only select a particular provincial EAP statistics if the biggest portion of its employees are based in that province

5.2 **Considerations Specific to Qualifying Small Enterprises**

Where possible, the B-BBEE Verification Professional should comply with all the requirements as per the Generic Scorecard, excluding requirements for black people with disabilities. Under the Qualifying Small Enterprise scorecard, Executive Management and Other Executive Management are contained in one indicator (3.1.1.1 Executive Management), while Senior, Middle and Junior Management are combined into another indicator (3.1.1.2) as per Statement 602.

Appendix 4:

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

- 1.1 This section deals with how a B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 B-BBEE Verification Professional 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 an applicable Sector Education and Training Authority ("SETA"); or have an exemption certificate from SARS;

4.1.3 Has developed a Workplace Skills Plan; and

4.1.4 Has submitted Annual Training Reports to the applicable SETA.

4.1.5 Implemented some programmes targeted at developing Priority Skills generally and specifically for Black People using the Learning Programme Matrix.

4.1.6 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.

4.1.7 Determine that the Measured Entity did not achieve a higher number of points

than the weighting points.

- 4.1.8 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.
- 4.1.9 Ensure that no Mandatory Sector Training has been claimed as a skills development expense.
- 4.1.10 Determine the accuracy and validity of the target and weighting points of the Skills Development scorecard.
- 4.1.11 Determine whether the subminimum of 40% of the total weighting points (excluding the bonus points) has been achieved. In order for the Measured Entity to avoid being discounted by one recognition level.

5. **Application material**

- 5.1 Before the B-BBEE Verification Professional continues with procedures to verify occurrence, accuracy, classification and validity of the Measured Entity's score, the B-BBEE Verification Professional shall:
 - 5.1.1 Inspect 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 of proof that the Measured Entity has a Skills Development Facilitator that assists the Measured Entity, (whether internal or external).
 - 5.1.3 Obtain proof of registration from the relevant SETA confirming the Measured Entities registration.
 - 5.1.4 If the Measured Entity is an accredited Workplace skills provider, obtain relevant accreditation certificates issued by the applicable SETA.
 - 5.1.5 Inspect the last submitted 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 people.
 - 5.1.8 Obtain proof from the SETA or other institutions (where applicable) by way of an approval letter of a specific learnership programme.

- 5.1.9 The B-BBEE Verification Professional 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
- 5.1.9.3 The B-BBEE Verification Professional 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: A sample of Learnership, Internship and Apprenticeship agreements signed by the learner and the Measured Entity. A sample of attendance registers for internal training and relevant proof of attendance for external courses.
- 5.1.10 The B-BBEE Verification Professional shall determine whether costs such as accommodation, catering and travelling do not exceed more than 15% of the total value of Skill Development expenditure.
- 5.1.11 The following may serve as evidence:
- 5.1.11.1 A sample of the invoices or internal trainer's Payslip, since accommodation, catering and travel are limited to 15% of the total Skills Development Spend,
- 5.1.11.2 A sample of Identity documents for learners to prove gender, race and nationality'
- 5.1.11.3 Confirm that the black people absorbed into the industry after completion of their learnerships by way of a letter confirming such from the entity that has employed such person;
- 5.1.11.4 Agreeing the training events against the Learning Programme Matrix to determine under which category it falls- this is required to determine whether salaries or wages paid to an employee participating as a learner may be included in the total Skills Development Expenditure and that the Category F and G learning programmes do not exceed 15% of the Skills Development Spend.

- 5.1.11.5 Unemployed black people must participate in training programmes laid out in the matrix, Learnerships are just one of the forms training programmes may take in terms of the learning programme matrix. Entities may train Unemployed Learners or black people who remain unemployed with them for the duration of the programme and claim these people under paragraph 2.1.2.1 and 2.1.2.2. The cost of training unemployed black people can be claimed under paragraph 2.1.1.1. The bonus points available under 2.1.3 are specifically for black people given jobs after completion of the learnership programme.
- 5.1.11.6 Verification agencies should determine that all mandatory sectoral training is excluded from the claim;
- 5.1.11.7 Agreeing details of training outside the country to SAQA requirements for recognition, or proof of recognition or accreditation by similar bodies outside South Africa.
- 5.1.11.8 Confirmation that the sample of learners on Learnership were not employed by the employer before the start of the Learnership- this maybe in the form of a signed letter from HR confirming when the employee was first engaged with the Measured Entity, (for avoidance of doubt the definition of Unemployed Learner as per the Amended Codes means that the learner was not in the employment of the employer who was party to the Learnership agreement when the agreement was conducted.
- 5.1.11.9 A letter of appointment, employment contract or signed affidavit to prove employment of these unemployed learners to prove absorption at the end of the Learnership; or confirmation of continued studies (Learnership agreement)
- 5.1.11.10 The B-BBEE Verification Professional should inspect that the Skills Development Spend is in line with the training stated in the Measured Entity's Annual Financial Statements, where financial contribution were made.
- 5.1.11.11 A sample of learnership agreements and identification documents for employees of the Measured Entity which have learnerships in progress.
- 5.1.11.12 When determining the accuracy of the Skills Development scorecard the B-BBEE Verification Professional shall :
- 5.1.11.12.1 Recalculate the Skills Development expenditure for African, Coloured and Indian men and women as percentage of leviable amount of the Measured Entity. This may include the expenditure on black disabled employees.
- 5.1.11.12.2 Recalculate the Skills Development expenditure for black employees with

- disabilities as a percentage of the leviable amount of the Measured Entity.
- 5.1.11.12.3 Recalculate the number of African, Coloured and Indian men and women participating in Category B, C and D Learning Programmes as per the Learning Matrix as a percentage of total employees, as well as the number of Unemployed Learners who are African, Coloured and Indian men and women as a percentage of total employees,
- 5.1.11.12.4 Determine the Leviable amount and verify against the EMP201 submissions to SARS'
- 5.1.11.12.5 Recalculate the targets with respect to African, Coloured and Indian men and women with reference to the EAP statistic as described by gazette 38765 on 6 May 2015 for indicators: 2.1.1, 2.1.2.1 and 2.1.2.2 of the Skills Development Scorecard
- 5.1.11.12.6 Determine the correct EAP statistics to apply. The Measured Entity may elect to use either the National EAP statistics or the provincial EAP statistics. It may inly select a particular provincial EAP statistic if the majority of its employees are based in that province
- 5.1.11.12.7 Agree the compliance targets and weighting points used in the formulae to the Skills Development Expenditure and Learnership scorecard items; 2.1.1.1, 2.1.1.2, 2.1.2.1 and 2.1.2.2 as well as the bonus points under 2.1.3.
- 5.1.11.12.8 Ensure that a minimum of 8 points (not including the bonus points) was scored for the Skills Development element in order to meet the Priority Element requirement and avoid discounting of the Measured Entity's overall B-BBEE status level.

5.2 **Considerations Specific to Qualifying Small Enterprises**

- 5.2.1 The B-BBEE Verification Professional should comply with all the requirements applicable to the Generic Scorecard, however, noting the applicable weighting and targets required by QSE Scorecard, gazette 38766 and formulae applied to calculate the actual percentage achieved. The QSE score card does not utilize the EAP adjusted formulae.

5.3 **Skills Development Expenditure** (refer to the Codes)

- 5.3.1 When determining the accuracy of the scorecard the Verification Agency may:
- 5.3.1.1 Recalculate the percentage of Skills Development expenditure for black

- people as a percentage of the leviable amount per the measured entity's calculation.
- 5.3.1.2 Recalculate the percentage of Skills Development expenditure for black people with disabilities of the leviable amount as per the measured entity's calculation.
- 5.3.1.3 Recalculate the number of black people is category B, C and D using:
- 5.3.1.4 Learnership, internship or apprenticeship agreements signed by both the learner and the measured entity
- 5.3.1.5 Review the identity documents of the learners to prove the race and gender. The measured entity must have documents from the applicable SETA that prove that the learnership is registered with the SETA.
- 5.3.1.6 Inspect that the Skills Development Spend is in line with the training stated in the measured entity's Annual Financial Statements, where the measured entity has demonstrated that a financial contribution has been made
- 5.3.1.7 Confirm that the training is in line with the Annual Training Report.
- 5.3.1.8 Determine the leviable amount and verify against the Annual Financial Statements. Inspect that this amount excludes the Skills Development Levy.
- 5.3.1.9 Ensure correct application of the formula detailed in Annexure 300B to Code 300 to the amended codes to paragraphs 2.1.1.1 and 2.1.2
- 5.3.1.10 Agree the compliance targets and weighting points used in the formulae to the Skills Development Expenditure, Learnerships, number of black people absorbed, scorecard items 2.1.1.1; 2.1.1.2, 2.1.2.2 and 2.1.3 above
- 5.3.1.11 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 and 2.1.2.2
- B = the a percentage calculated in terms of the formula in Annexure 300(B) to the Amended codes of good practice.
- C = the compliance target per scorecard items 2.1.1.1; 2.1.1.2, 2.1.2.1 and 2.1.2.2
- D = the weighting points per scorecard items 2.1.1.1; 2.1.1.2, 2.1.2.1, and 2.1.2.2.

METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 400: ENTERPRISE AND SUPPLIER DEVELOPMENT

1. Scope of this section

- 1.1** This section deals with how the B-BBEE Verification Professional should carry out its responsibility in relation to the verification of a Measured Entity's Enterprise and Supplier Development element of the Amended Codes.
- 1.2 In order to allow for the complexity of this element, the section is broken down into the two main themes of Procurement followed by the Development commitments

2. Effective Date

- 2.1 This Methodology is effective for B-BBEE verification certificates issued on the amended Codes.

3. Objectives

- 3.1 The objectives of this methodology is to guide a B-BBEE Verification Professional on how to obtain sufficient and appropriate evidence on:
- 3.1.1 Whether the Measured Entity has complied, in all material respects, with the key measurement principles for calculating the Enterprise and Supplier Development element of the Amended Codes to beneficiaries of these contributions does not contain misstatements that materially Practice;
- 3.1.2 The assertions relating to Enterprise and Supplier Development contributions and scorecard.
- 3.1.3.** Whether the calculation for measuring the Enterprise and Supplier Development scorecard does not contain material misstatements.

PROCUREMENT

6. Requirements

The B-BBEE Verification Professional shall:

- 6.1 Establish whether the Measured Entity has B-BBEE Procurement Spend from B-BBEE suppliers that meet the criteria as set out in point 2.1 of the Amended Code Series 400; Statement 400; General Principles for Measuring Enterprise and

Supplier Development Element of B-BBEE;

- 6.2 Obtain sufficient and appropriate evidence to determine whether the calculation of Total Measured Procurement Spend (as per point 5 of Codes 400 of the Amended codes) is not materially misstated by the Measured Entity;
 - 6.2.10 Obtain sufficient and appropriate evidence to determine whether the calculation of Exclusions from Total Measured Procurement Spend (as per point 6 of Codes 400 of the Amended codes) is not misstated by the Measured Entity;
 - 6.2.11 Obtain sufficient and appropriate evidence to determine whether the multiplier can be applied to the B-BBEE Procurement Spend with supplier as provided for in 3.5.1, 3.5.2 and 3.5.3 of Statement 400;
 - 6.2.12 Ensure that the entity only relies on suitable evidence or documentation to report Preferential Procurement;
 - 6.2.13 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;
 - 6.2.14 Determine the accuracy and validity of the scorecard, including all of the indicators for Preferential Procurement subsection of the scorecard,
 - 6.2.15 Confirm that at least 40% of the total weighting points (i.e. at least 10 points of the 25 points excluding bonus points) was achieved, in order for the Measured Entity to avoid being discounted by one level.

7. **Application material**

- 7.1 When determining whether the entity calculated Total Measured Procurement Spend accurately, the B-BBEE Verification Professional may:
 - 7.1.10 Obtain Audited Financial Statements or a signed copy of management accounts and detailed income statements;
 - 7.1.11 Obtain confirmation from management on any additional information that may be necessary for the calculation of Total Measured Procurement Spend;
 - 7.1.12 Agree goods and services relating to Cost of Sales, Operational Expenditures and Capital Expenditure (finance cost should also be included) incurred during the reporting period to audited financial statements, or a set of management account signed off by management;

Conduct cut-off test by tracing to a sufficient sample of invoices to confirm that the claimed procurement occurred during the reporting period.

When doing so, (for deposits and undelivered goods/services) the B-BBEE Professional to be cognizant of the fact that some invoices may be raised by suppliers before the end of the measurement period for:

- i) deposits for goods and/or services to be delivered after the end of the measurement period
- ii) goods and/or services delivered only after the end of the measurement period

In both these cases, the value of the invoice is not be included for preferential procurement purposes under the Enterprise and Supplier Development element.”

7.1.13

7.2 When determining whether the inclusions have been correctly applied to calculate the Total Procurement Spend, the B-BBEE Verification Professional inspect whether the inclusions for the Measurement Period , accurately reflects the items that are listed as inclusions in paragraph 5 of Code 400 . These should include:

7.2.10 Procurement of goods and services from organs of state and public entities

7.2.11 Procurement from all monopolistic suppliers

7.2.12 Procurement on behalf of a third party, where such procurement is reflected as an expense in the financial records of the Measured Entity

7.2.13 Procurement from Labour Brokers

7.2.14 All imported goods and services

7.2.15 Intra-group procurement (unless the Measured Entity is conducting consolidated group verification in which case intra group procurement is excluded)

7.3 When determining whether the Measured Entity calculated exclusions accurately the B-BBEE Verification Professional shall select a sample of specific spend listed below to confirm that the exclusion is an allowable exclusions as per paragraph 6 of Code 400. These exclusions may include:

7.3.10 Taxes or levies imposed by an organ of state authorised to impose such a tax or levy, including rates imposed by a municipality or other local government;

7.3.11 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);

7.3.12 All Empowerment related investments or donations qualify for recognition under Code 400 or 500 of the Amended Codes;

7.3.13 All items comprised in salaries; wages, remuneration or emoluments, paid to an employee or director

7.3.14 For imported goods, obtain a list of imports excluded from the Total Measured Procurement Spend and determine that the reasons for importing the goods are

only the following:

- 7.3.14.1 There is no local production and the import is used to promote further value added production within South Africa (through a confirmation from management)
- 7.3.14.1.1 The import differs from the locally produced substitute in terms of brand or technical specifications, subject to the Measured Entity having developed and implemented an Enterprise and Supplier Development plan with clear objectives, priority interventions, key performance indicators and a concise implementation plan with clearly articulated milestones, (at least one Enterprise and Supplier Development plan is required to fulfil this requirement)
- 7.3.14.2 Obtain the Measured Entity's SARS Value-Added Tax declaration in respect of Imported goods / Service.
- 7.3.14.3 Obtain the Measured Entity's SARS Importer Registration Certificate or other confirmation from SARS confirming the import number of the Measured Entity
- 7.3.15 Any accounting adjustments that do not represent actual procurement of the Measured Entity such as Depreciation, Bad Debt Expense, loss on sale of Assets, Foreign exchange adjustments, etc., should be excluded.
- 7.3.16 When verifying the B-BBEE Recognition Spend calculated by the Measured Entity, the B-BBEE Verification Professional must ensure that the Measured Entity only uses B-BBEE status of suppliers that are evidenced by a valid B-BBEE certificate or where appropriate, sworn affidavit in the case of EME's and or black owned QSE, the B-BBEE Verification Professional shall sample sufficient number of suppliers to determine this. When verifying the B-BBEE Recognition Spend the B-BBEE Verification Professional shall;
- 7.3.16.1 Ensure that the BEE certificates issued on the Codes of Good Practice, gazette no, 29617 by Verification Agency or Registered Auditor or Accounting Officer (in the case of EMEs) based on a financial year end date prior to 1 May 2015, or based on the relevant Sector Codes are deemed to be valid and have automatic Empowering Supplier status; Ensure that B-BBEE verification Certificates issued based on financial years that end after 1 May 2015 must be issued in terms of the Amended B-BBEE Codes of Good Practice, gazette no. 36928, with the exception of Sector Codes
- 7.3.16.2 When accepting an Affidavit as proof of BEE compliance for an EME or 51% or 100% Black Owned QSE, the B-BBEE Verification Professional shall ensure

- with reference to the content of the affidavit that;
- 7.3.16.2.1 The wording of the Affidavit meets the guidelines provided for in the Annexure;
 - 7.3.16.2.2 The swearing process complies with the guidelines as provided for by the Commissioner of Oaths'
 - 7.3.17 Entities that qualify as EME or 51% or 100% Black Owned QSE that are exempted from being verified shall be required to confirm their Empowering Supplier status on the face of the Affidavit.
 - 7.3.17.1 Obtain a schedule of all B-BBEE suppliers included in B-BBEE Procurement Spend, detailing the total spend with the supplier and B-BBEE status;
 - 7.3.17.2 Agree a sample of suppliers to detailed ledgers and invoices to determine that the amount claimed in the schedule is accurate and exclusive of VAT;
 - 7.3.17.3 Agree a sufficient sample of suppliers to suitable evidence or documentation as proof of B-BBEE status applicable to the Measurement period for all Empowering Suppliers, Empowering QSE suppliers, EME suppliers, 51% Black Owned suppliers and 30% Black Women Owned suppliers;
 - 7.3.17.4 Determine whether the correct B-BBEE recognition level has been applied in the calculations of B-BBEE spend;
 - 7.3.17.5 Recalculate the total B-BBEE spends of the entity.
 - 7.3.18 To determine whether the procurement spend multipliers have been applied, the B-BBEE Verification Professional shall
 - 7.3.18.1 Obtain a schedule of suppliers that are beneficiaries of the supplier development programme
 - 7.3.18.2 Obtain evidence that a signed, valid and acceptable contract of a minimum of 3 years exists between the Measured Entity and the beneficiary;
 - 7.3.18.3 Obtain evidence that a first-time supplier has not supplied to the Measured Entity prior to the Measurement period;
 - 7.3.19 To determine whether the scorecard is complete, the B-BBEE Verification Professional shall:
 - 7.3.19.1 Recalculate the B-BBEE Procurement Spend as per indicator 2.1.1 of Statement 400, code 400 and express as a percentage of Total Procurement Spend ;
 - 7.3.19.2 Recalculate total B-BBEE spend with QSE and EME and its application in the scorecard; and
 - 7.3.19.3 Recalculate total B-BBEE spend with black-owned and black women owned

entities and the application in the scorecards.

7.3.20 **Empowering Supplier status**

7.3.21 The B-BBEE Verification Professional shall verify during the process of verification of Management Control element and the Skills Development elements whether the measured Entity complies with all the regulatory requirements with respect to the Employment Equity ACT, Skills Development Act and skills Development Levies Act. If it does then it meet the requirements of an Empowering Supplier Status.

7.3.22 The B-BBEE Verification Professional shall verify by way of sampling that a Generic Entity meets at least three or that a QSE meets one of the following criteria;

7.3.22.1 Assess that at least 25% of total cost of sales is procured from local producers or suppliers in South Africa;

7.3.22.2 Ensure that 50% of all jobs created by the Measured Entity are for Black South Africans ; and the number of Black South African employees with in the Measured Entity are maintained since the immediate prior verification;

7.3.22.3 At least 25% of raw material has been transformed /beneficiated by the Measured Entity in South Africa (this includes local manufacturing, production and/or assembly, and/or packaging;

7.3.22.4 Confirm that at least 12 days of productivity was spent to assist in increasing the operational and financial capacity of 51% Black Owned EMEs or QSEs (this can be in terms of the Measured Entity's Enterprise and Suppliers Development Contributions);

7.3.22.5 Confirm that, for service industry entities, at least 85% of the South African Labour cost is paid to South African Employees.

ENTERPRISE AND SUPPLIER DEVELOPMENT

8. Requirements

8.1 The distinction between Supplier Development and Enterprise Development is whether or not the beneficiary is an Empowering Supplier, and not whether it is a supplier to the Measured Entity. A Supplier Development beneficiary may be an Enterprise Development beneficiary, but an Enterprise Development beneficiary can never be a Supplier Development beneficiary unless it also has Empowering Supplier Status. In other word, an Enterprise Development beneficiary becomes a

Supplier Development beneficiary only if is an Empowering Supplier.

8.2 The Targets of 2% and 1% of NPAT for the Supplier Development and Enterprise Development indicators respectively are based on the Net Profit After Tax (NPAT) of the Measured Entity for the Measurement Period unless:

8.2.1.1 the Measured Entity did not make a profit during the Measurement Period; or

8.2.1.2 the net profit margin (NPAT/Revenue) of the Measured Entity for the Measurement Period, was less than a quarter of the industry norm during the Measurement Period.

8.2.2 Where either of the factors in 8.2.1.1 or 8.2.1.2 is present then the average NPAT of the Measured Entity over the last five years will be the basis for determining the Targets unless:

8.2.2.1 the Measured Entity did not make a profit on average over the last five years; or

8.2.2.2 the average net profit margin of the Measured Entity over the last five years was less than a quarter of the industry norm for the net profit margin during the Measurement Period.

8.2.3 Where either of the factors in 8.2.1.1 to 8.2.1.2 are present concurrently with either of the factors in 8.2.2.1 to 8.2.2.2 then the Indicative NPAT of the Measured Entity for the Measurement Period, will be the basis for determining the Targets.

8.2.3.1 the Indicative NPAT is the Revenue of the Measured Entity for the Measurement Period, multiplied by a quarter of the industry norm net profit margin for the Measurement Period.

8.2.3.2 the industry norm net profit margin must be determined with reference to the quarterly statistics supplied by Stats SA or such other verifiable data that might be available for the particular industry the Measured Entity operates within.

8.2.10 B-BBEE Verification Professional B-BBEE Verification Professional B-BBEE

Verification Professional

- 8.3 The B-BBEE Verification Professional shall obtain sufficient and appropriate evidence to determine whether contributions should be included in Enterprise and Supplier Development Contributions. If sufficient evidence cannot be obtained for a particular sampled contribution, the contribution should not be included under Enterprise and Supplier Development
- 8.4 The B-BBEE Verification Professional shall determine whether the entity is entitled to be allocated points for contributions to the Enterprise and Supplier Development element.
- 8.5 The B-BBEE Verification Professional shall ensure that the same contribution is not claimed under Enterprise Development and Supplier Development.
- 8.6 The B-BBEE Verification Professional confirm that the Enterprise and Supplier Development beneficiary qualifies in terms of the definition of a 51% Black-owned EME or QSE; by obtaining such evidence as required for such entity by Amended Codes. This evidence may be a valid affidavit/s or independent competent person's report confirming that the qualification of beneficiaries in terms of the requirements for Supplier and / or Enterprise Development beneficiaries.
- 8.7 The B-BBEE Verification Professional shall ensure that the Enterprise and Supplier Development contributions contribute to the specific objectives set out in Amended Codes.
- 8.8 Should the B-BBEE Verification Professional not be able to confirm that the proposed beneficiary entity qualifies as a beneficiary entity in terms of the above statements; the B-BBEE Verification Professional should not award points for contributions in favour of such beneficiaries.
- 8.9 For contributions, programmes and/or initiatives that span over multiple years, as allowed for in 4.11 of Statement 400, the B-BBEE Verification Professional shall ensure that the total contribution amount is divided by the number of years, and only recognise the average annual value for each Measurement Period. However, the B-BBEE Verification Professional will ensure that loans and equity investments are recognised at each Measurement Date against the outstanding loan or investment amount at that date, notwithstanding that it might have been outstanding for multiple years
- 8.10 To ensure that the contribution becomes payable during the Measurement Period the B-BBEE Verification Professional shall confirm that the obligation to contribute to the Supplier Development and or Enterprise Development beneficiary, or an

intermediary on their behalf, vested during the Measurement Period.

- 8.11 The B-BBEE Verification Professional shall ensure that the Measured Entity did not receive more than 15% of the 10 points available under Supplier Development for contributions in the form of shorter payment periods and that the invoices were paid within 15 days. This means that the maximum points that the Measured Entity can be achieved for shorter payment periods under Enterprise and Supplier Development is 1.5 points
- 8.12 The B-BBEE Verification Professional shall ensure that the Measured Entity did not achieve a higher number of points than the weighting points plus any bonus points that may apply.
- 8.13 The B-BBEE Verification Professional shall determine whether the subminimum of 40% of the total targets (excluding the bonus points) has been achieved, in order for the Measured Entity to avoid being discounted by one recognition level.

9. **Application material**

- 9.1 When determining a score for Enterprise and Supplier Development, the B-BBEE Verification Professional may:
- 9.1.10 Obtain audited financial statements signed Management Accounts to confirm the applicable targets
- 9.1.11 Obtain such evidence as required to confirm the B-BBEE Status of a sample of the beneficiary entities as defined by the B-BBEE Amended Codes, and that the beneficiaries qualify in terms of the definition of a beneficiary entity.
- 9.1.12 Where the B-BBEE status of beneficiary entities cannot be substantiated, contributions to such entities may not be included in Enterprise and Supplier Development Contributions.
- 9.1.13 Inspect all of the Enterprise and Supplier Development Agreements to ensure that they comply with the criteria as stated under Statement 600, Annexure 600 (A) as per agreement with the beneficiary(ies).
- 9.1.14 The B-BBEE Verification Professional shall inspect that there is evidence that the Enterprise and Supplier Development Contributions, have actually been paid, delivered or executed by the Measured Entity within the Measurement Period.
- 9.2 For contributions that span multiple years, the B-BBEE Verification Professional should agree the number of years the project spans to the Enterprise and Supplier Development agreement which stipulates the term of the contribution.
- 9.2.10 In order to achieve the bonus point of 2.4.1 the B-BBEE Verification

Professional must obtain evidence that such Enterprise Development beneficiary is now a Empowering Supplier, and was previously recognised as an Enterprise Development beneficiary of the Measured Entity (such as invoice for the supplier).

- 9.2.11 In order to achieve the bonus point of 2.4.2, a signed declaration/ affidavit is required to confirm that at least one job was indeed created by the Measured Entity as a result of the Enterprise and Supplier Development Contributions. If the job was created within the Measured Entity, the Measured Entity should attest to this fact, where as if the job was created within the beneficiary, the beneficiary should attest to this fact.
- 9.2.12 B-BBEE Verification Professional shall confirm that VAT is not included where Enterprise and Supplier Development Contributions are claimed
- 9.2.13 Reconcile claimed Enterprise and Supplier Development Contributions with Invoices or other sufficient and appropriate supporting evidence to determine accuracy.
- 9.2.14 For shorter payment periods, the B-BBEE Verification Professional shall ensure that the time between invoice and payment is less than 15 days, by way of sampling both the invoices and proof of payment documents, and recalculating the benefit in line with the Benefit Matrix contained under Annexure 400B of Statement 400 of the Amended Codes.
- 9.2.15 To determine whether the scorecard is complete, the B-BBEE Verification Professional shall recalculate the total Enterprise and Supplier Development Contributions and express this as a percentage of the targets and weightings contained in the scorecard.
- 9.2.16 The B-BBEE Verification Professional shall confirm that a minimum of 4 points for Supplier Development and 2 points for Enterprise Development (exclusive of bonus points) have been achieved, in order to meet the Priority Element requirement and avoid discounting of the Measured Entity's overall B-BBEE status level.

9.3 **Considerations Specific to Qualifying Small Enterprises**

- 9.3.10 The B-BBEE Verification Professional should comply with all the requirements detailed above, in line with QSE SCORECARD contained in Statement 604 of Code 600 of gazette no. 36766, with the exception on the targets and weighting points contained in the applicable scorecard.

METHODOLOGIES FOR VERIFICATION OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE) CODES OF GOOD PRACTICE 500: SOCIO-ECONOMIC DEVELOPMENT

1. Scope of this section

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

2. Effective Date

2.1 This Methodology is effective for from the date of publication.

3. Objective

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

3.1.10 The Measured Entity has complied, in all material respects, with the key measurement principles for calculating the Socio-Economic Development element of the Amended Codes;

3.1.11 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.

3.1.12 The calculation for measuring the Socio-Economic Development element of the Amended Codes does not contain misstatements that materially affect overall scorecard.

4. Requirements

4.1 The Verification Agency / Registered Auditor shall determine whether the Net Profit after Tax ("NPAT"), 5 year average NPAT or the indicative profit margin applies to the Socio Economic Development calculations.

4.1.1 The Target of 1% of NPAT for the SED scorecard is based on the Net Profit After Tax (NPAT) of the Measured Entity for the Measurement Period unless:

4.1.1.1 the Measured Entity did not make a profit during the Measurement Period; or

4.1.1.2 the net profit margin (NPAT/Revenue) of the Measured Entity for the Measurement Period, was less than a quarter of the industry norm during the Measurement Period.

4.1.2 Where either of the factors in 4.1.1.1 or 4.1.1.2 is present then the average NPAT of the Measured Entity over the last five years will be the basis for determining the Targets unless:

4.1.2.1 the Measured Entity did not make a profit on average over the last five years; or

4.1.2.2 the average net profit margin of the Measured Entity over the last five years was less than a quarter of the industry norm for the net profit margin during the Measurement Period.

4.1.3 Where either of the factors in 4.1.1.1 to 4.1.1.2 are present concurrently with either of the factors in 4.1.2.1 to 4.1.2.2 then the Indicative NPAT of the Measured Entity for the Measurement Period, will be the basis for determining the Targets.

4.1.3.1 the Indicative NPAT is the Revenue of the Measured Entity for the Measurement Period, multiplied by a quarter of the industry norm net profit margin for the Measurement Period.

4.1.3.2 the industry norm net profit margin must be determined with reference to the quarterly statistics supplied by Stats SA or such other verifiable data that might be available for the particular industry the Measured Entity operates within.

4.1.2 B-BBEE Verification Professional

4.2 The B-BBEE Verification Professional shall evaluate the quantified amounts calculated by the Measured Entity using a standard valuation method to determine the value of Socio-Economic Development Contribution that may be recognised.

4.3 The B-BBEE Verification Professional shall determine whether the annual recognition of Socio-Economic Development Contributions is accurate.

4.4 The B-BBEE Verification Professional 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 Amended Codes.

4.5 The B-BBEE Verification Professional 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.

4.6 The B-BBEE Verification Professional shall obtain sufficient and appropriate evidence that 75% of the value of the socio-economic development contributions accrues to Black People . If this is not the case, then the B-BBEE Verification Professional shall confirm that the value of the contributions is multiplied by the percentage of the contributions that benefit Black People, in accordance with Statement 500 of the

Amended Codes.

- 4.7 With reference to the above, the B-BBEE Verification Professional shall obtain sufficient evidence to be able to determine an approximate percentage of beneficiaries who are Black People.
- 4.8 The B-BBEE Verification Professional shall determine whether the Measured Entity is entitled to be allocated points for contributions to the Socio-Economic Development element of B-BBEE.
- 4.9 Should the B-BBEE Verification Professional not be able to confirm that the proposed beneficiaries qualify as beneficiaries in terms of the above statements; the B-BBEE Verification Professional should not confirm Socio-Economic Development contributions in favour of such entities.
- 4.10 The B-BBEE Verification Professional shall ensure that any skills-related spend recognised under the Skills Development element that has been recognised as Socio-Economic Development contributions has not been double counted under both elements.
- 4.11 The B-BBEE Verification Professional shall ensure that the obligation to pay and contribution to Socio-Economic Development are vested in the Measurement Period.
- 4.12 The B-BBEE Verification Professional shall determine that the Measured Entity did not achieve a higher number of points than the weighting points.

5. **Application material**

- 5.1 When determining a score for Socio-Economic Development, the B-BBEE Verification Professional may:
 - 5.1.10 Obtain the Measured Entity's audited financial statements or signed management accounts
 - 5.1.11 Obtain appropriate and sufficient evidence to support the claimed percentage of Black beneficiaries of Socio-Economic Development Contributions, which may be in the form of a sworn affidavit from an appropriate representative of the intermediary organization attesting to the percentage of Black People benefitting from the contribution to the organisation, or an independent competent Persons' report confirming the same.
 - 5.1.12 Confirm that VAT has not been included in amounts claimed for Socio-Economic Development Contributions.
 - 5.1.13 Inspect all of the Socio-Economic Development Agreements to ensure that they comply with the criteria as stated under Statement 500, Annexure 500 (A) as

per agreement with the beneficiary.

- 5.1.14 Reconcile claimed Socio-Economic Development Contributions with a sample of Invoices or other sufficient and appropriate supporting evidence to determine accuracy.
- 5.1.15 To determine whether the scorecard is complete, the B-BBEE Verification Professional shall:
 - 5.1.15.1 Recalculate the Socio-Economic Development contributions as per the Benefit Factor Matrix, under statement 500 of the Amended Codes;
 - 5.1.15.2 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**

- 5.2.10 The B-BBEE Verification Professional should comply with all the requirements detailed above, in line with the QSE Scorecard contained in Statement 605 of Code 600 contained in gazette no. 36766