

CGF

RESEARCH INSTITUTE
(PTY) LTD

Broad-Based Black Economic Empowerment Verification Manual

(This is an abridged version of the full report which is available for purchase. The 39 page report may be used throughout your company.)

“A lot of progress has been made as far as accreditation of verification agencies. The market is encouraged to interact with those verification agencies that are in the process of obtaining SANAS accreditation.”

L Mofokeng - Department of Trade and Industry



CGF Research Institute (Pty) Ltd
Reg. No. 2004/000744/07
+ 27 11 476 8264 / 1 / 0
+ 27 82 373 2249
www.cgf.co.za www.corporate-governance.co.za
gmeyer@cgf.co.za

INDEX

Section One

- Executive summary

Section Two

- Broad-Based Black Economic Empowerment Verification Manual
 - Accreditation & verification
 - Role of verification agencies
 - BEE verification
 - Role & objectives of ABVA
 - Role of SANAS: Accrediting Verification Agencies
 - ❖ Verification manual
 - ❖ Ethical conduct
 - ❖ Quality control
 - ❖ Verification process
- Further definitions, acronyms used within this presentation, references & additional reading



Executive summary -

Broad-Based Black Economic Empowerment Verification Manual

(This is an abridged version of the full report which is available for internal use within your company)

[The Verification Manual is] . . . expected to make a substantial contribution in changing the way the business of B-BBEE verification is done, and instilling a sense of accountability in respect of industry governed norms and standards.”

the dti

Broad-Based Black Economic Empowerment (B-BBEE) is designed to promote economic transformation of black people in the South African economy

B-BBEE compliance: Background

- The Broad-Based Black Economic Empowerment Act 53 of 2003 (“B-BBEE Act”) outlines the required targeted areas of development within the South African economy, namely:
 - greater broad-based & effective economic participation, the right to equality, increased employment, more equitable income distribution, economic unity of the nation, equal opportunity & access to services, and protection of the common market place
- In February 2007, the Codes of Good Practice on B-BBEE were gazetted & released. The B-BBEE Codes (“the Codes”):
 - provide a clear & comprehensive framework for the measurement of B-BBEE across all sectors of the economy
 - define 7 measurable scorecard elements:
 - ❖ Ownership, Management, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development & Socio-Economic Development
 - provide guidance on the implementation of B-BBEE in terms of key measurement principles, the attainment of which may be verified by an accredited BEE Verification Agency
 - attach specific targets to each element of B-BBEE

BEE verification agencies assess, verify & validate the information provided by companies to provide the company (the Measured Entity) a B-BBEE score & certification

The BEE Verification Manual

- Section 10 of the Codes provides for a 'Framework for Accreditation of BEE Verification Agencies'. In terms of the provisions of Section 10 of the Codes (Series 000 Statement 000), the dti ("Department of Trade & Industry") issued & gazetted, on 18 July 2008, a BEE Verification Manual
- The BEE Verification Manual:
 - is to be used by Verification Agencies when performing a B-BBEE verification
 - "provides comprehensive and easy-to-follow guidelines on the authentication and substantiation of B-BBEE reporting, and minimum norms and standards on the ethical conduct and procedures employed in ensuring the verification of B-BBEE Codes of Good Practice"*

Application of the BEE Verification Manual

- "The use of this Verification Manual is prescribed and shall be used by Verification Agencies when performing a B-BBEE verification. Any Verification Agent who issues a Verification Certificate without applying the Guidelines set out in the Verification Manual shall be guilty of unprofessional conduct and the "dti" may recommend that he lose his Accreditation with SANAS."**

* Extract from the Introduction to the Gazette

** Extract from the Verification Manual

The fundamental role of Verification Agencies is to *verify & enhance the value of B-BBEE information by assuring its accuracy & validity*

Accreditation & verification for B-BBEE compliance

- The role of B-BBEE Verification Agencies is to:
 - assess, verify & validate BEE information for decision-making
 - evaluate BEE transactions & scenarios
 - provide a company a B-BBEE Verification Certificate & Report that is valid for 12 months
- Verification of a company involves:
 - the process & activities conducted by a Verification Agency to assess, verify & validate that the score awarded is a result of individual scorecard elements supplied by the company (also known as the measured entity)
 - the evaluation of BEE transactions in order to provide an indicative B-BBEE Score & Certification, based upon the principles of the Codes
- A Verification Certificate is issued by the Verification Agency & reflects the overall B-BBEE status of a company & the score for each scorecard element
- A Verification Report is issued by the Verification Agency & provides detailed scores of each element reflected in the Verification Certificate & the B-BBEE status awarded to the company

The Verification Agency issues a *B-BBEE Verification Certificate & Report* at the end of the verification process that reflects the BEE status of the company

Accreditation & verification for B-BBEE compliance (Cont.)

- BEE verification is an independent audit process aimed at verifying & validating the B-BBEE status of a company
 - it is the most accurate, independent & cost-effective way for legal entities (companies) to establish & present their BEE status
 - a B-BBEE Verification Certificate & Report confirming the company's status is issued at the end of the verification process
- A company's effort & involvement is measured in all categories* of BEE, including:
 - direct empowerment
 - ❖ Ownership & Management Control
 - human resources development
 - ❖ Employment Equity & Skills development
 - indirect empowerment
 - ❖ Preferential procurement, Enterprise Development & Socio Economic Development
- Verifications are based on the dti's B-BBEE Scorecard contained in the Codes of Good Practice
 - in terms hereof, companies are scored out of a possible 100 points in the above categories*
- Companies can be verified according to:
 - the Generic Scorecard (annual turnover in excess of R35 million), or
 - the Qualifying Small Enterprises Scorecard (companies with an annual turnover between R5 million & R35 million), or
 - Exempt Micro Enterprises (companies with a turnover below R5 million) against their turnover figures

Verification Agencies are subject to stringent requirements & must be members of an industry body

Accreditation & verification for B-BBEE compliance: ABVA & SANAS

- Verification Agencies are required to be members of an industry body (e.g. ABVA)
 - membership of the Association of BEE Verification Agencies (ABVA) is the first step in the accreditation process, followed by application to the South African National Accreditation System (SANAS) to become an accredited BEE Verification Agency
 - SANAS is the accreditation body mandated by the dti (“Department of Trade & Industry”) to conduct accreditation of Verification Agencies
 - in order to perform BEE verification, a Verification Agency must be accredited by SANAS
- ABVA is the formal representative entity for verification practitioners. ABVA’s stated objectives are:
 - to promote the objectives of the B-BBEE Act & the Codes
 - to promote high levels of professionalism & competence
 - to regulate the proper conduct & practice of members
 - to represent the BEE verification sector in its dealings with the dti, SANAS, the public & other relevant stakeholders
 - to promote general public knowledge of the BEE verification requirements & processes
 - to facilitate participation by the dti, BUSA & other relevant role-players in ABVA’s activities
- ABVA has worked closely with the dti & SANAS in order to ensure consistency & credibility in the approved methodology for B-BBEE verification

Accreditation & Verification Process

ABVA

- Serves as the formal representative entity for Verification Agencies (“Agency”)
- Agencies must be members of ABVA in order to apply to SANAS for accreditation
- Objectives:
 - promote the objectives of the B-BBEE Act & the Codes
 - promote high levels of professionalism & competence
 - regulate the proper conduct & practice of members
 - represent the BEE verification sector in its dealings with the dti, SANAS, the public & other relevant stakeholders
 - promote general public knowledge of the BEE verification requirements & processes
 - facilitate participation by the dti, BUSA & other relevant role-players in ABVAs activities

1. Must be a member of ABVA

Verification Agency

- Accredited Agencies perform BEE verifications & report on the B-BBEE scorecard in respect of Measured Entities
- Verification criteria are contained within the Codes, SANAS R47-02 & the Verification Manual
- When conducting verifications, must ensure:
 - impartiality
 - competence
 - responsibility
 - openness
 - confidentiality
 - resolution of complaints
- Issues Verification Certificate that reflects the scores awarded to the individual Scorecard Elements & the overall rating/ B-BBEE status of the Measured Entity

2. Agency applies to SANAS for accreditation

SANAS

- Mandated by the dti to accredit Agencies in terms of criteria of the B-BBEE Codes
- Agencies will be accredited by SANAS if they comply with the criteria contained within SANAS R47-02 & the Verification Manual when conducting a verification
- The purpose of accreditation is to:
 - provide a conducive environment for B-BBEE implementation
 - facilitate development of a professional & sound verification industry
 - facilitate education & training for Agencies through ABVA & SANAS
 - ensure uniformity & transparency in the measurement & reporting of B-BBEE across the board
 - ensure that capacity & resources are available in the market for the verification process to take place
 - ensure a proper B-BBEE monitoring & evaluation system for implementation

3. SANAS accredits Agency

4. Verifies BEE status

Measured Entity (Company)

- Engages a Verification Agency to verify, validate & evaluate its BEE status
- A Verification Certificate is a business tool that enables a Measured Entity to be recognized for its B-BBEE status, confident that such status is accurate & verifiable

How to order this report

Report name: Broad-Based Black Economic Empowerment Verification Manual

Pages: 39

Reviewers: CGF Research Institute (Pty) Limited ("CGF") would like to express its appreciation for the peer review & editorial contribution to this presentation by Grace Kadzere (Association of BEE Verification Agencies (ABVA)), Irfaan Petersen (Nera: Marketing Manager) and Dr Robin Woolley (Transcend: Director)

Price: R 580.00 ex Vat

Price: R 661.00 incl Vat

Should you wish to order this report, please supply CGF Research Institute (Pty) Ltd the following information:

- 1) Your company's name (in full) to be invoiced;
- 2) Your company's registration number;
- 3) Your company's VAT registration number;
- 4) Your company's physical address;
- 5) Your company's postal address;
- 6) The person's name who will be taking delivery of the product; designation and email address.

Submit your information to: accounts@cgf.co.za

Our process from here:

- 1) On receipt of the above information;
- 2) An invoice will be issued with our terms and conditions ("t's&c's") attached;
- 3) On receipt of the signed t's&c's and proof of payment, we will send the report electronically to your designated email address.

Banking details:

Bank: First National Bank

Branch: Cresta Centre

Branch Code: 254-905

Account Number: 6-206-290-027-2

Account Holder: CGF Research Institute (Pty) Ltd

More information about CGF: www.cgf.co.za or www.corporate-governance.co.za