

Date: 24 February 2012

Ms Sandy van Esch
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PROPOSED SOUTH AFRICAN STANDARD ON ASSURANCE ENGAGEMENTS (SASAE) 3502

Dear Ms van Esch

Thank you for the opportunity to submit comment on (SASAE) 3502. Our comment is based on our experience in providing B-BBEE advisory services and interacting with various SANAS accredited verification agencies.

1. Do respondents believe proposed SASAE 3502 achieves an appropriate balance between improving the consistency and quality of B-BBEE assurance engagements and the potential cost of such engagements as a result of work effort required by the standard?

Response: *SASAE 3502 will standardize consistency and quality but the costs to client will increase dramatically when comparing it to how SANAS approved rating agencies are conducting ratings in terms of SANAS R47-02.*

B-BBEE approved registered auditors will have to comply with SASAE 3502 and SANAS R47-02 which will give SANAS accredited agencies a competitive advantage.

2. Do respondents agree with the factors to be considered by management when choosing whether to have a reasonable or limited assurance engagement? If not, what other factors should management consider?

Response: *Management is mainly driven by obtaining a B-BBEE scorecard at the lowest fee possible to stay in business.*

Those who enter the market rely on rating agencies to guide them in taking decisions. If the proposed SASAE 3502 is approved in its current format then the DTI/IRBA will have to invest significant resources to teach the market. This will enable management to select either reasonable or limited assurance levels.

3. Do respondents agree with the general approach taken in the proposed SASAE 3502 to limited assurance engagements on B-BBEE Verification Certificates, as outlined above? In particular:

3.1. Do respondents agree that for such engagements a risk assessment is necessary in order to obtain a meaningful level of assurance; and

Response: *We agree that risk assessment is needed for planning. However, the risk assessment approach as proposed SASAE 3502 will result in an additional cost to the market bearing in mind that market is mainly interested in price. As mentioned above, SANAS accredited rating agencies will use price to compete against auditors. Additionally, it will take time to teach the market the value relating from the risk assessments from a B-BBEE compliance perspective.*

3.2. In responding to the assessed risks, do respondents agree that the standard should direct the practitioner to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks having regard to the level of assurance?

Response: *We agree. However, fees are based on time and more time means higher fees.*

4. If the general approach to limited assurance engagements on B-BBEE Verification Certificates is adopted in the final SASAE, do respondents agree with the specific differences between limited assurance and reasonable assurance engagements on B-BBEE Verification Certificates noted in the proposed SASAE?

Response: *There are very few differences between preparing and performing the verification audit for the two levels. The cost to client will remain the same. The proposed SASAE is written as if the market understands the differences between the two levels.*

5. Do respondents agree with the use of the columnar format with the letter – L (limited assurance) or – R (reasonable assurance) after the paragraph number to differentiate requirements that apply to only one or the other type of engagement?

Response: *Applying these letter – L (limited assurance) or – R (reasonable assurance) is in order but if the market doesn't understand the meaning/value thereof. Extensive market education will have to be conducted.*

6. Do respondents believe more guidance needs to be included in the proposed SASAE to assist readers in understanding the differences between limited assurance and reasonable assurance engagements on B-BBEE Verification Certificates and, if so, what should be included in that guidance?

Response: *Currently, the market is used to standardized fees based/quotations based on annual turnover, staff, location and level of complexity and not levels as in the proposed SASAE. B-BBEE compliance as with most other statutory compliance is viewed from a cost perspective. It is reiterated that significant market education will have to be done and the market will select either L or R.*

7. Do respondents agree with the requirements and guidance in the proposed SASAE for a limited assurance engagement regarding the summary of procedures in the B-BBEE approved registered auditor's limited assurance report? In particular, will the proposed SASAE lead to reporting procedures with an appropriate amount of detail to effectively convey to users the level of assurance obtained by the B-BBEE approved registered auditor?

Response: *We agree in principle but we are concerned about the fact that the B-BBEE approved registered auditor will now have to report on non-compliance with related legislation. "Related legislation" is a very broad concept.*

8. Do respondents agree with the requirements and guidance in the proposed SASAE for a limited assurance engagement describing the point at which additional procedures are required?

Response: *The B-BBEE assurance is not an independent financial audit. The final SASAE must consider guidance from that perspective.*

9. Do respondents agree with the related requirements concerning the B-BBEE approved registered auditor's response when there are matters that cause the B-BBEE approved registered auditor to believe the scores determined for individual scorecard elements may be materially misstated?

Response: *These related requirements such as "consider other laws and regulation" are too broad. The BBEE codes are specific in this regard such as compliance with the Employment Equity Act, Skills Development Act etc. The final SASAE should follow a similar approach.*

10. Do respondents agree with the form and content of the illustrative assurance reports included in Appendix A to the proposed SASAE?

In particular:

10.1. Do respondents agree that a full *reasonable assurance* or *limited assurance report* is provided to the measured entity, together with the signed B-BBEE Verification Certificate and detailed *Analysis of scores determined for the individual scorecard elements*?

Response: *We agree.*

10.2. Do respondents agree that the full report may be inspected at the offices of the measured entity on request?

Response: *Who will “inspect” the office of the measured entity?*

10.3. Do respondents agree with the *Summary of work performed* included in the illustrative limited assurance report?

Response: *We agree. Again the market will have to be educated as it is not used to such certificates.*

10.4. Do respondents agree that a summary of the B-BBEE approved registered auditor’s conclusion shall be included on the face of the B-BBEE verification Certificate?

Response: *We agree. Again the market will have to be educated as it is not used to such certificates.*

10.5. Do respondents agree with the “*Restriction on liability*” paragraph included in the assurance report?

Response: *We agree.*

The CFAS is also seeking comments on the matters set out below:

11. *Preparers, Users, Government Departments and Assurance Providers:*

Recognising that *Small and Medium-Sized Practices* who are *B-BBEE approved registered auditors* may be asked to provide B-BBEE Verification Certificates to *Large measured entities, Qualifying Small Enterprises and Exempt Micro Enterprises*, the CFAS invites comments on the scalability of the requirements and the form and content of the illustrative assurance reports.

Response: *The proposed SASAE 3502 allows for B-BBEE approved registered auditor to work with experts and other advisors. This will enable them to issue B-BBEE to large audience.*

The definitions “Preparers, Users, Government Departments and Assurance Providers” help to understand the roles of various entities/individuals in the market and in our opinion is mainly of educational value.

12. Transitional provisions:

Recognising that the DTI’s Statement 005 requires *B-BBEE approved registered auditors* to comply with guidance or notices issued and or prescribed by the dti and the IRBA in the performance of B-BBEE assurance engagements the IRBA welcomes comments on any difficulties anticipated in applying the transitional arrangements, requiring PROPOSED SASAE 3502: ASSURANCE ENGAGEMENTS ON B-BBEE VERIFICATION CERTIFICATES

Response: *There can be no doubt that the transitional arrangements are costly. It is recommended that a working group be established to interpret DTI notices/guidance and incorporate these as amendments to SASAE 3502 as and when issued.*

In the final analysis, we have two types of role-players in the same game. SANAS accredited rating agencies will enjoy competitive advantage over the B-BBEE approved registered auditor from a compliance, cost and market awareness perspective.

Yours sincerely

Clayton Jonkers

Partner