

Commentary on: SASAE 3502 Assurance Engagements on B-BBEE Verification Certificates

Internal deadline for submission of comments: 17 February 2012

Matters of relative importance:

No.	Question	Comments
1	Page 16, paragraph (d)	<p>We do not agree with the objective of the B-BBEE approved registered auditor in the case of an EME, as it implies that part of the objective is to express a conclusion as to whether the financial statements have been audited or independently reviewed. The objective should rather state:</p> <p><i>The objective of a B-BBEE approved registered auditor in the case of an Exempt Micro-Enterprise (EME) is to report their conclusion on information provided by management, based on the audited or independently reviewed financial statements and / or other evidence obtained from certain procedures performed...</i></p>
2	Page 22, paragraph 25	Clarity is required in the standard regarding the measurement date. We note paragraph 25 and A23 but do not believe that it is clearly explained in the standard what the measurement date is – a matter of such importance should not be in the explanatory paragraphs.
3	Page 24, paragraph 36	<p>We believe that the understanding should also incorporate the following:</p> <ul style="list-style-type: none"> • An understanding of whether the entity has previously complied with the Codes and Sector Codes and other laws and regulations affecting their B-BBEE status, as such non-compliance could significantly increase the assessments of risk. • An understanding of the intended use of the certificate and therefore who is likely to place reliance on it. This is important for assessing materiality as well as risks. • The nature of the measured entity's activities should also include an understanding of the board of the directors and the structure of the board and management. • While paragraph 36 indicates that the understanding is obtained of the period and whether or not the entity has audited, reviewed or unaudited financial statements, it is important for the auditor to understand whether there were any modifications to the opinion on the financial statements and the nature of such modifications.
4	Page 26, paragraph 44	In light of the imminent revisions to ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, it should be considered whether enquiries of internal audit should be made to assist in identifying the risks of material misstatement due to fronting, fraud or error.
5	Page 30, paragraph 66L and 69R	<p>These two paragraphs discuss the obligations of the auditor to report reportable irregularities to the CIPC or to the IRBA. We do not agree with the inference that in a limited assurance engagement, the registered auditor performed an independent review, while in a reasonable assurance engagement the registered auditor performed an audit engagement. There may be circumstances where the registered auditor performed an audit of the financial statements, but is only performing a limited assurance engagement and vice versa. As a result, we believe that this discussion should not make specific reference to the limited assurance and reasonable assurance engagements and be incorporated as one paragraph applicable to both engagements.</p> <p>We further note that the B-BBEE approved registered auditor may have additional reporting responsibilities in terms of the Broad Based Black Economic Empowerment Amendment Bill 2011, section 20(2). An appendix to the standard may be appropriate which clearly explains and provides guidance to the B-BBEE approved registered auditor in terms of their responsibilities regarding reporting. These responsibilities should also be communicated in the engagement letter.</p>
6	Page 32	The discussion of representations by the responsible party does not require the auditor to obtain representations regarding the responsible party's acknowledgement of their

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		responsibility for the underlying subject matter.
7	Page 33	Where written representations requested are not provided or are not reliable, it is important that the auditor determine the reason for the request not being fulfilled or the unreliability of the representation. This reason may indicate a responsibility for the registered auditor to report the matter. Furthermore, the auditor should consider whether they should withdraw from the engagement.
8	Page 34, paragraph 89	The paragraph discusses the conclusion to be formed by the auditor. We do not agree with the conclusion, as we believe that this should be consistent with the objective in paragraph 11(a). This paragraph should read as follows: <i>The B-BBEE approved registered auditor shall form a conclusion about whether the scores for individual Scorecard elements, and the resultant B-BBEE status of the measured entity has been determined in accordance with the relevant Codes of Good practice or Sector Codes and are free from material misstatement, whether due to fraud or error. In forming that conclusion, the B-BBEE approved registered auditor shall consider...</i>
9	Page 36, paragraph 99, Illustrative verification certificates and illustrative assurance reports	The illustrative verification certificates and illustrative assurance reports include a restriction on liability. Although we support restricting our liability wherever possible, we are concerned that this restriction may have no "legal backing" due to the following: <ol style="list-style-type: none"> 1. Paragraph 99 indicates that the assurance report and detailed scores for each scorecard element accompanying the certificate are not publically available documents. However, the verification certificates are publically available documents. Therefore, there may be a basis for restricting the auditor's liability on the assurance report and detailed scores, however we do not understand how this could be restricted in respect of the verification certificate. 2. The Broad Based Black Economic Empowerment Amendment Bill 2011 section 20(1)(c) indicates that a person is guilty of an offence if that person knowingly provides false information or misrepresents information relevant to assessing the B-BBEE status of an enterprise, to any organ of state or public entity. This imposes a liability on the B-BBEE approved registered auditor to any organ of state or public entity and therefore the restriction on liability contained in the certificate, assurance report and detailed scores for each scorecard element are inconsistent with the proposed B-BEE Amendment Bill.
10	Page 38, paragraph A2	We do not understand this paragraph and believe that it should read as follows: <i>The B-BBEE approved registered auditor may employ multidisciplinary teams with expertise in gathering sufficient appropriate assurance evidence of detailed aspects affecting the determination of scores for individual scorecard elements. In these circumstances, such employees may be employed in a services firm, entity owned by the registered audit firm or entity owned by the registered auditors of the audit firm, including the sole B-BBEE approved registered auditor, the engagement teams, partners or members of the audit firm. In such circumstances, the B-BBEE approved registered must ensure that the requirements of ISQC 1 are applied by the multi-disciplinary engagement team in the conduct of B-BBEE assurance engagements.</i>
11	N/a	The proposed revised ISAE 3000 addresses the considerations for objectivity in a direct engagement. As B-BBEE engagements are direct engagements, we believe that it may be important to include this discussion, suitably tailored, in the proposed SASE 3502 under the explanatory material. We propose the following: <i>A B-BBEE assurance engagement is generally a direct engagement since the B-BBEE approved registered auditor measures the scores for the individual Scorecard elements and the resultant B-BBEE status and obtains sufficient appropriate evidence about the individual Scorecard elements and the resultant B-BBEE status. Engagement level quality control policies and procedures are particularly important in a direct engagement because of the threats to objectivity that these multiple roles can pose. The B-BBEE approved registered auditor should consider whether it is necessary to implement actions to eliminate such threats or reduce them to an acceptable level by applying safeguards, which may include:</i> <ul style="list-style-type: none"> • Having separate assurance personnel undertake each role. • Increasing the level of direction, supervision and review, particularly of

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		<p><i>the assurance personnel.</i></p> <ul style="list-style-type: none"> • <i>Undertaking an engagement quality control review.</i>
12	Page 43, paragraph A27	This paragraph explains that it may be appropriate to determine a quantity less than materiality for determining the nature, timing and extent of procedures. This concept is identical to that of performance materiality under the ISA's. We believe that this should be a requirement in the proposed SASAE 3502, since this "performance materiality" should be calculated for all B-BBEE assurance engagements and therefore should not fall under the explanatory paragraphs.
13	Page 44, paragraph A31	We believe it is important to highlight that the B-BBEE approved registered auditor should consider information obtained during the audit or independent review of the financial statements when obtaining an understanding the entity and its environment. Such discussion could perhaps incorporate the considerations for a B-BBEE approved registered auditor of an audit firm who was not involved in the audit or independent review engagement, but another registered auditor of the audit firm was involved, and the matters that should be discussed with the audit or independent review engagement partner.
14	Appendix A5, point 3	When performing audit procedures or procedures similar to audit procedures, it is important to identify the risks. The most significant risk on this type of engagement would be the completeness of revenue, due to the fact that entities may want to understate the turnover in order that they qualify for the EME Certificate, instead of the more onerous B-BBEE scorecards. The procedures that have been indicated are focused on a wide range of assertions, but we believe that some of these procedures are irrelevant and ambiguous and do not achieve the objective of the engagement. Furthermore, the procedures to address the completeness of turnover, representing the most significant risk, are minimal and in most cases would not result in sufficient appropriate evidence to support the assertion. Due to our extensive recommended revisions to all of these procedures, we have included them in the attachment.
15	Appendix C	We have numerous comments on the illustrative engagement letter. We have included a "track changes version" of the engagement letter, which contains our recommended changes, as well as comments explaining our changes and other considerations. This is attached.

Matters of a housekeeping nature:

No.	Reference	Comments
1	Various	Throughout the standard there are several references made to the "subject matter", in particular areas where extracts have been made from ISAE 3000. It is more understandable to the reader if reference is made to the subject matter specifically i.e. the scorecard elements.
2	Page 5 and other various references	Reference is made to "SANAS R47-02". It is not clear when reading the proposed standard what this document is, therefore a footnote explaining the document would be beneficial.
3	Page 21 Paragraph 21 (c)	The paragraph makes reference to information extracted from the audited or unaudited financial statements. It should also include a reference to the independently reviewed financial statements.
4	Page 21 paragraph 21 (f)	The responsibility of management to facilitate access to external third parties should include internal parties as well.
5	Page 22, paragraph 24	This paragraph discusses that the scores for individual scorecard elements are based on the audited or independently reviewed financial statements. This is only applicable to certain and not all scorecard elements and therefore this should be corrected.
6	Page 24, paragraph 35 (b)	Quantitative materiality would also apply to the determination of income or turnover in respect of Exempt Micro Enterprises. This should be included.
7	Page 24, paragraph 36(b)(iii)	This should also make reference to the unaudited financial statements.
8	Page 25, paragraph 40(a) and 42	The inquiries of those within the entity in order to determine the risk of material misstatement due to fraud or error should include inquiries to determine the risk of material misstatement due to fronting. The discussions amongst the engagement team should also include discussions regarding the risk of fronting.

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9	Page 44, paragraph A30	The paragraph discusses the consideration to revise materiality. It should also incorporate a consideration as to whether to revise “performance materiality”, which is not currently indicated.
10	Page 47, paragraph A44	The example provided to explain observation is not relevant to a B-BBEE assurance engagement (observation of monitoring devices being calibrated). A more appropriate example may be the B-BBEE approved registered auditor observing the black manager’s involvement and interaction at management meetings.
11	Page 48, paragraph A50	It is important to include close corporations in the discussion regarding the Companies Act requirement for certain companies to have their financial statements audited or independently reviewed, since such provisions also apply to close corporations. Furthermore, for the purposes of consistency, the full name of the Close Corporations Act should be provided, similar to that given for the Companies Act.
12	Appendix A5	We believe it is important to add a footnote to the certificate highlighting the fact that the engagement does not need to be performed by a B-BBEE approved registered auditor. Although this is indicated in the standard, it may be useful to highlight it again under the illustrative certificate.

Formatting related items:

No.	Reference	Comments
1	Page 16, footnote 6	Remove the word “as”: “...person who qualifies as for appointment...”
2	Page 18, Engagement partner definition	Remove the word “and”: “..who is responsible for the engagement, and the B-BBEE Verification Certificate...”
3	Page 19, paragraph 14 (c)	Insert “have” at the beginning: “Have a working knowledge...”
4	Page 20, paragraph 16 (c) (i)	Insert the word “that”: “Establishing that the preconditions...”
5	Page 22, paragraph 26, 27 and 32	Reference to “entity” is incorrect and should be “entity’s”.
6	Page 22, paragraph 28	Insert the word “made”: “...documents or representations made by the...”
7	Page 23, paragraph 32 (e)	This should rather refer to: “...less than 12 months and qualify as EMEs...”
8	Page 26, paragraph 45L(b) and 46R(b)	The paragraph “as the basis for designing and performing procedures whose nature, timing and extent” is incorrectly placed directly after paragraph (b).
9	Page 26, paragraph 47	The references are incorrect since they should refer to paragraphs 45L and 46R.
10	Page 27, paragraph 50L and 51R	There is an incorrect capitalisation with respect to “Respond” which should reflect as “respond”.
11	Page 27, paragraph 50L	The end of the paragraph before the sub-points should include the phrase “and shall involve the following”.
12	Page 31, paragraph 75	The reference to the approved registered auditor is missing “B-BBEE”.
13	Page 32, paragraph 78	The reference to the approved auditor should instead be “the B-BBEE approved registered auditor”.
14	Page 33, paragraph 84	This paragraph should not be paragraph 84 and instead should be paragraph (c).
15	Page 35, paragraph 93(a)	The word “and” needs to be removed from the end of the sentence.
16	Page 40, paragraph A12	The word “and” needs to be inserted: “...relationships between the responsible party and the measured entity’s staff...”
17	Page 42, paragraph A25	The word “and” needs to be inserted: “...elements of the scorecard and may include such things as...”
18	Page 43,	The word “and” needs to be removed:

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	paragraph A26	<i>"...Socio Economic Development, and relate to the magnitude..."</i>
19	Page 44, paragraph A29	The final bullet should be a paragraph on its own and not a sub-paragraph of A29.
20	Page 46, paragraph A39	The word "of" needs to be removed: <i>"...understand of the complexities..."</i> Reword the sentence under the last bullet point which does not make sense in its context: <i>"are familiar with the preferential procurement, enterprise development and socio-economic development elements."</i>
21	Page 47, paragraph A41	The word "that" needs to be removed: <i>"...he or she may accept that the expert's findings..."</i>
22	Page 47, paragraph A45	The comma needs to be removed in the 2 nd bullet point.
23	Page 48, paragraph A47	The word "the" needs to be inserted: <i>"...performing procedures at the measured entity's head office..."</i>
24	Page 54, paragraph A68	Under the last bullet point the word "refer" must be replaced with "referred to in": <i>"...that conclusion referred to in paragraph 70."</i>
25	All illustrative assurance reports in the Appendices	<ul style="list-style-type: none"> • B-BBEE Approved registered auditor's responsibility - the second paragraph refers to the relevant Codes. We believe this reference should instead be Codes of Good Practice. • Conclusion – we believe this should be amended as follows (as these items deleted below have already been defined in the assurance report in the introductory paragraph and under the directors' responsibility): <i>"In our opinion, the B-BBEE Status reflected in the Certificate has been determined, in all material respects, in accordance with the Codes of Good Practice on Black Economic Empowerment ("the Codes of Good Practice")⁻²³, gazetted on 9 February 2007 in terms of the Broad-Based Black Economic Empowerment Act of South Africa ("the B-BBEE Act").</i> • Restriction on liability – this uses the word "might" which implies an element of uncertainty as to whether the auditor is able to report in terms of the engagement. The phrase "are able to" may be more appropriate.
26	Appendix A2 – Summary of work performed	The word "and" needs to be inserted and "us" removed: <i>"Obtaining an understanding of the entity and its environment and the underlying records sufficient to identify areas in the Scorecard where material misstatements are likely to arise, and to be able us to design procedures to address those areas;"</i>
27	Appendix A3 – Introductory paragraph	The word "such information" needs to be inserted: <i>"We clarify that our engagement is on the basis of information provided by management and such information may not be complete in all respects"</i>
28	Appendix D	<p>Correction of the second paragraph as follows: <i>"Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement."</i></p> <p>Correction on the last bullet point on page 85 as follows: <i>"...material effect on the Scorecard, a score of zero will be awarded even although we may have given you representation of such matter below."</i></p> <p>Correction of the first paragraph on page 87 as follows: <i>"...that contain clauses which convey giving the right to..."</i></p>