

## **PROPOSED SASAE 3502 ASSURANCE ENGAGEMENTS ON B-BBEE VERIFICATION CERTIFICATES - PROPOSED CHANGES TO APPENDIX A5**

**Procedures performed to verify the completeness of Turnover / Income (less than or equal to R5 million / R2.5 million (Tourism Sector) / R1.5 million (Construction Sector)) as declared by the EME for the year. The procedures are to accompany the EME Certificate where this circumstance applies. (Note: The Registered Auditor must adapt the procedures to indicate actual procedures performed, or other procedures performed, due to the fact that revenue streams and processes are unique to enterprises and alternative procedures may be more appropriate)**

The measured entity's financial statements have not been audited or independently reviewed. As a result, for the purposes of determining that the revenue reflected in the financial statements is accurate and complete, we performed the procedures below. We do not express any assurance on the financial statements.

1. Obtained an understanding of the sales activities for the year through enquiry from management (such as new products introduced, significant customers or contracts concluded, seasonality and trends, the impact of the economic environment on sales).
2. Extracted a schedule of monthly revenue and performed an analytical review (the schedule should be divisionalised where appropriate e.g. product lines):
  - a. Compared the monthly revenue with the same periods in prior years and the budgeted revenue for the year.
  - b. Determined expectation of the monthly revenue based on the understanding of the sales activities for the year and compared these expectations to the actual amounts.
  - c. Calculated analytical ratios of revenue, such as gross profit percentages, and compared to expected ratios (based on prior year information, budgeted ratios and the understanding of the sales for the year).
  - d. Obtained explanations from management regarding anomalies identified from the procedures performed above.
3. Obtained an understanding of the revenue process, and where appropriate performed a walkthrough of the revenue process. Identified risks within the process that could affect the completeness and accuracy of revenue.
4. Determined a source from where to select sales\*. Determine that the source is complete. (For example when selecting delivery notes, test a sequence that all are there and no delivery notes are missing).
5. Selected a sample of sales transactions from the source and performed the following procedures on the items selected:
  - a. Compared the items per the source document to the invoice to ensure that quantity of items billed on the invoice is correct.
  - b. Compared the price charged per the invoice to the standard price list to ensure the correct price was charged (or were authorized by management).
  - c. Re-performed the calculations and additions on the invoices selected to determine their accuracy.
  - d. Traced the items selected through to the sales journal.
6. Selected a sample of credit notes from the general ledger and performed the following procedures on the credit notes to determine their validity, since credit notes reduce revenue:
  - a. Compared the credit note to the original invoice and verified that the prices and items are consistent.
  - b. Determined the reason for the credit note being processed, and considered if it appears reasonable.
  - c. Inspected authorisation from management for the credit note.
  - d. Where goods were returned or repaired, traced through to the stock records to determine that the good were recorded back into stock, or that the cost of repairs was recorded.
  - e. Where the credit note related to a re-invoice, tested that a new invoice was in fact raised.
  - f. Re-performed the calculations and additions on the credit notes selected to determine their accuracy.

7. Selected delivery notes, invoices and credit notes recorded before and after year end and confirmed that the revenue or credit note was accounted for in the correct accounting period.
8. Inspected the bank statement after year end for evidence of receipts from customers. Selected a sample of these receipts, traced through to the relative invoice and determine whether the invoice is recorded in the correct period.
9. Reviewed the sales journal for evidence of transactions with related parties, and performed further substantive testing of such transactions to determine that they were concluded on an arm's length basis, and that the prices were not deflated to reduce revenue, or invalid credit notes recorded.
10. Casted the sales journal and the revenue account in the general ledger. (In the case of cash sales, casted the cashbook and the revenue account in the general ledger).
11. Agreed the sales journal postings to the revenue account in the general ledger. (In the case of cash sales, agreed the cashbook postings for cash sales to the revenue account in the general ledger).
12. Agreed the revenue as reflected in the general ledger, to the revenue on the trial balance, to the revenue reflected in the financial statements.
13. Reviewed the general ledger and sub ledgers (including the cashbook) for indication of other transactions that are revenue which have not been recorded in the revenue account in the general ledger.
14. Designed appropriate procedures to respond to the identified risks from the revenue process [detail the procedures performed].
15. Compared the revenue declared on the VAT 201 returns for the year to the amount of revenue reflected in the financial statements, obtaining explanations for any reconciling items (such as credit notes, exempt supplies and zero rated supplies).
16. Compared the revenue reflected in the income tax return to that recorded in the financial statements.
17. Obtained management representation that revenue in the financial statements is accurate and complete.

\* The source determined is extremely important and should be a source which is known or has been tested to be complete in itself i.e. if there is a risk that the source is incomplete, there is not a complete population from which the selections are made, resulting in a lack of evidence to support the completeness assertion. The source should be something which tracks the goods (e.g. packing slips and delivery notes) or services (e.g. job card). Care should also be taken that the source selected is not the same as the general ledger i.e. often companies request customers to sign the invoice for the receipt of the goods therefore the invoice serves as the delivery note. However, in such cases the invoice is not an appropriate source since this is generated from the financial accounting system and is essentially the item being tested for completeness.

#### **Procedures to verify black ownership**

1. Inspected the securities register to determine the total number of shares issued and the respective owners of the shares.
2. Inspected the securities certificates and compared to the securities register.
3. Inspected the identity documents of the owners to establish whether or not the "Black Owners" meet the requirements for recognition - black, coloured, Indian and Chinese born in South Africa or naturalised before 1994, and whether male or female.
4. Where the securities are held by another juristic person, determined the securities held in that juristic person according to the procedures above, and inspected the identity documents as indicated in point 3 above.
5. Calculated the percentage interest held by such black persons or black women in the business.

**[If Black Ownership < 50%, then entity is Level 4 with 100% Recognition. If Black Ownership >50%, then entity is Level 3 with 110% Recognition]**

#### **Procedures to verify start up enterprises (Code 000 Par 6)**

1. In case of **start-up enterprises**, obtained the measured entity's registration documents and reviewed them to ascertain whether the entity has been in operation for less than 12 months.

Note: Where the entity is a start-up enterprise this EME Certificate is valid only for contracts with a single value of less than or equal to R 5 million. Should the contract value being tendered for be greater than R 5 million and less than R35 million, the EME will be required to submit a QSE Verification Certificate with any tender. For contracts over R35 million a B-BBEE Verification Certificate based on the Generic Codes must be submitted Generic Scorecard. The preparation of such scorecards must use annualized data. (Code 000 par 6.4)

**Procedures to evaluate whether the EME is a value-adding supplier**

1. Calculated the net profit plus labour cost to determine that it is greater than 25% of annual turnover and therefore is regarded as a value added supplier.

**[A value-added supplier multiplies the procurement spend of the customer by 1.25%]**