From: Graham Spalding [mailto:graham@ldsw.co.za]
Sent: 23 February 2012 08:54 AM
To: Sandy van Esch
Cc: jako@ldsw.co.za
Subject: Inputs on SASAE 3502

LDSW .INC
Chartered Accountants and Auditors

LDSW Incorporated is a level 2 B-BBEE contributor

Dear Sandy

Having recently completed the B-BBEE fast-track course and registered with IRBA to perform verifications, I would like to note the following with respect to the standard:

- The last paragraph on page 42 does not flow to page 43 relating to materiality;
- Having two levels of assurance (reasonable and limited) cannot be good for consistency purposes. I propose that only reasonable assurance reports can be expressed. The reasoning is that as BEE certificates now provide the basis of preferential points scoring on public sector tenders.
  Surely it is not fair for two companies to receive the same scoring for tender purposes where the one engagement was a reasonable assurance engagement while the other was a limited assurance engagement. If there is going to be a distinction, I would propose that it can only be applied to QSE's that fall within a certain revenue bracket (i.e. entities with revenue of between R5 million and R10 million have the option of a limited assurance engagement, all entities above this bracket must have reasonable assurance engagements performed).
  Even on this basis, I do not feel it promotes fairness and consistency.
- Would it be possible for IRBA to issue a guidance note on materiality percentages to be considered for quantitative materiality amounts and the associated industry best practice concerning sample sizes (potentially as a percentage of materiality) under the Explanatory material section
- As many of the verifiers in the market are not registered auditors, it may also be beneficial to elaborate on certain auditing terms used in the SASAE. An example is that risk assessment needs to be performed on assertion level, this is in the Explanatory Material section but the standard could possibly draw the users attention to the additional information.
- We entered into discussions with existing verifiers during our verification course that indicated that as firms we can set up a separate company to perform the verifications and that the shareholding in these companies does not necessarily need to consist entirely of registered auditors. Does this not create issues surrounding profit sharing with a non-auditor?
- Another issue I have is that there appears to be a practice in the market of paying referral fees. As per the IRBA code of conduct, there is some uncertainty surrounding referral fees as this creates an automatic self-interest threat to independence.

The reason that I raise these points in particular is that I am concerned that there is currently no standardisation in the industry. Although there are already issues such as materiality and sampling in the verification manual, I fear that these are probably not being adequately applied by existing agencies. My concern is that there is about to be massive growth in the industry following the Revised Preferential Procurement regulations becoming effective on 7 December 2011. With this increased demand, there is a high possibility that Agencies could be taking short-cuts in order to meet this client demand. An indication that this is a significant risk is seen in where I received a request for quotation the other day and when I indicated that based on the time required to perform an EME verification, I would expect the fee to be around R1,000 (the entity had not been audited and we would therefore need to perform additional revenue verification procedures). The member of this entity then indicated that he had been quoted R300 elsewhere and had been quoted R1,200 for a full verification based on the QSE criteria.

In this respect, I feel that the SASAE could place even greater emphasis on Quality Control procedures, costing of engagements that should be indicative of the scope and expertise required to perform the engagement and penalties and consequences for agencies who do not apply the SASAE and existing standards sufficiently.

Kind regards

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