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Annexure 5: Black economic empowerment criteria

Black economic empowerment

Introduction

The AG's strategic direction is to facilitate and contribute to black economic empowerment (BEE) and capacity building in the financial management of the public sector. In its contribution to BEE and capacity building the office will allocate work on the basis of points obtained for meeting the appropriate criteria in the categories listed below.

Category A: Ownership and control

This relates to the ratio of black and gender representation in ownership and control in the firm on a national basis. Because of the various forms of legal entities under which firms operate, firms are required to submit a written profile that clearly reflects the "substance" of the ownership and control relationship that exists in that firm. The submission has to be updated on an annual basis or whenever a material change has occurred. In preparing this profile, the following definitions need to be taken into consideration:

- ✓ A black firm: is 50,1% owned and managed by black people
- ✓ An empowered firm: is at least 25,1% owned and managed by black people
- ✓ A black influenced firm: is 5 - 25% owned and managed by black people
- ✓ An engendered firm: is at least 30% owned and managed by women

The level of representation among designated group partners in the executive decision-making authority of the firm should also be included in the profile.

Category B: Employment equity

This relates to the extent to which the firm is supporting and promoting the principles and objectives of employment equity. In this regard, the following criteria will be considered:

- ✓ The number of trainee accountants from the designated groups
- ✓ The number of CAs from the designated groups
- ✓ The overall staff representation from the designated groups
- ✓ The firm's demonstrated conversion rate for designated group trainees to CAs



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Whether the firm has a clear employment equity policy which should be in line with the guidelines set by the Department of Labour, and be supported by an implementation plan aimed at the economic improvement of designated groups.

Category C: Capacity building

This reflects the extent to which the firm is involved in both internal and external capacity-building initiatives in the following areas:

- The ratio of discretionary procurement awarded to black companies
- The ratio of bursaries and study support given to black trainees
- The ratio of bursaries and study support given to other black staff
- The ratio, against turnover, of financial support to corporate social responsibility programmes

Classification of firms

Firms are divided into four groups based on their size. Subject to the discretion of the AG, the apportionment of the total contract rand value is as follows. Non-BEE firms are encouraged to accelerate transformation within themselves and within the profession as a whole – BEE criteria therefore have a 70% weighting.

The firms will be classified according to the following criteria:

Firm category	Number of partners	Number of TAs	Number of CAs	Maximum work allocation per annum
Big (4) firms	70+	400+	120+	45%
Large firms	51-70	80 - 400	25-120	
Medium firms	11-50	20-80	7-25	55%
Small firms	1-10	4-20	1-7	

The above classification and allocation criteria will be reviewed annually by the Contract Work Committee.

Criteria for awarding contracts to audit firms

- Extent of work contracted out is based on capacity shortfall ($\pm 20\%$).



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- ✓ Contract work is awarded to audit firms using preset criteria defined in the contract work guideline. The guideline was developed in consultation with the audit firms, SAICA and the BEE Commission in 2001.
- ✓ The criteria consist of two major areas:
 - ⇒ Black economic empowerment – 70% weighting
 - ⇒ Quality control – 30% weighting
- ✓ In order to be considered, the following minimum score must be achieved:
 - ⇒ Gauteng and KwaZulu-Natal – 50 points
 - ⇒ North West and Limpopo – 33 points
 - ⇒ All other provinces – 40 points
- ✓ Work is not allocated to firms who do not achieve minimum score.
- ✓ Work is not contracted out:
- ✓ Conflict of interest (independency issues)
- ✓ For certain key auditees, e.g. SARS, Treasury

Capacity building

Small firms may be assisted with capacity-building initiatives to enable them to compete successfully and grow their practices. Preference will be given to firms that obtain the highest scores in respect of the criteria listed above. The following capacity-building and support initiatives are available:

- ✓ The awarding of guaranteed medium-term contract work for a minimum of three years and a maximum of five years per term. (this guarantee is subject to meeting the required quality standards)
- ✓ Access to AG quality control checklists
- ✓ Access to AG audit software
- ✓ Access to AG training programmes and facilities
- ✓ An orientation workshop for partners or firms that are new to the AG environment
- ✓ An annual updating session for small and medium firms on various issues relating to public sector auditing



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The AG will also establish an appropriate process whereby quality control deviations can be properly reviewed and assessed, enabling the firm to take timeous corrective action.