

Examiners Comments Assessment of Professional Competence December 2020

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Assessment of Professional Competence (APC), which is Part II of the Qualifying Examination and which was written in December 2020. Its objectives are to –

- assist unsuccessful candidates in identifying those areas in which they need to improve their knowledge and/or presentation; and
- assist future exam candidates, by providing a commentary for them to use when working through this paper.

To accomplish these objectives, the report provides specific comments on each section of the case study required.

The APC consists of a single integrated case study which is based on a comprehensive real-life scenario and is multi-disciplinary in nature, in that it covers multiple competency areas.

The case study is assessed within the context of a certain baseline of technical competence (as developed through the academic programme and as assessed in both the academic programme and the ITC). The case study is also assessed within the context of an industry, including those that are specifically excluded from ITC.

The remainder of this report is discussed under the following headings:

- Background and acknowledgement on the setting of APC December 2020
- Statistics and detailed comments by section/required

More detailed statistics can be found on the SAICA website at www.saica.co.za.

BACKGROUND AND ACKNOWLEDGEMENT ON THE SETTING OF APC DECEMBER 2020

The APC Examinations Committee (APC Examco) constantly strives to improve its ability to determine whether candidates demonstrate a level of professional competence at entry into the CA(SA) profession. This is done by means of an ongoing process of evaluation and improvement of the way in which it commissions an appropriate case study for the assessment and decides on the evaluation of competence.

Source of the questions

APC Examco is a sub-committee of the SAICA Initial Professional Development Committee (IPD Committee), and takes overall responsibility for the setting of the case study.

The APC Examco decides on the industry, scenario and topics to be examined and also commissions a separate setting team, who are specialists in their respective competency area(s) and who have a good understanding of the other competency areas, to draft an appropriate case study and solution for the assessment.

The team consists of academics and members of the profession in public practice and/or in commerce and industry. Case studies are commissioned from any person the APC Examco deems to have the relevant experience and competence to do so.

In this regard, the following applies:

- Members in practice who are requested to set case studies by the APC Examco may NOT BE INVOLVED in any way in preparing candidates for the APC (this includes formal courses and lectures and training programmes and support programmes put in place to prepare students for the APC, but excludes members who perform the normal role of a supervisor, manager or partner on a client); and
- Individuals who are in any way involved in preparing students for the professional programme (this includes formal courses and lectures and training programmes and support programmes put in place to prepare students for the APC, but excludes members who perform the normal role of a supervisor, manager or partner on a client) are PROHIBITED from preparing or reviewing any aspect of the case study.

Every year academics, former academics and/or members of the profession in public practice and/or in commerce and industry are also selected by APC Examco to assist in the external review of the case study. These external reviewers are selected based on their experience and capabilities. Anyone involved in the professional programmes may not be engaged by SAICA to perform the role of external reviewer.

The involvement of such individuals as external reviewers in the assessment setting and review process is crucial for achieving the quality objective of the assessment.

Where appropriate and where possible, external reviewers are appointed for a period of at least three years as continuity is important.

The external reviewers have the following tasks:

- Review of the case study for conceptual problems and consistency in the use of terminology;
- Indicate whether the relevant case study is set at an appropriate level;
- Comment on whether the level of competence in accounting and external reporting (underpinned by the pervasive skills) is set at an appropriate level;
- Comment on whether the level of competence in the remaining five specific technical competence areas and communication skills is set at an appropriate level;
- Comment on the provisional mark grid;
- Comment on whether the time limit is appropriate (assessment can reasonably be completed within a six-hour period, including reading time); and
- Comment as to whether the principles of assessment have been met.

In addition, the quality and appropriateness of the case study are monitored by at least two external sitters, who attempt each APC case study. These external sitters are required to provide the APC Examco with a formal, independent report in which they comment on the overall case study and suggested solution.

SAICA would like to acknowledge and thank all the people involved in the setting process.

An alphabetical list of all the people involved in various roles, including members of the APC Examco, setting team, reviewers and external examination sitters, is as follows:

Andrew van den Burgh	Marielienne Janeke
Anri Smit	Nico van der Merwe
Christo Landman	Nomonde Mdingi
Eihorere Wesigye	Nompumelelo Monageng
Erica Derbyshire	Paolo Giuricich
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COMMENTARY ON CANDIDATES' PERFORMANCE IN THE APC 2020

The 2020 case study was based on a hypothetical company, within the agricultural industry, called Botala Khauta (Pty) Ltd ('BK'). BK is described in the case study as a dynamic and evolving business that has grown from two employees 20 years ago, to one of South Africa's largest exporters of avocados. The APC 2020 candidate plays the role of a newly appointed Financial Analyst at BK's finance department. The overall impression received by SAICA, including the opinion of the Professional Programme Providers (PPPs), was that the 2020 APC was a fair and effective assessment of professional competence.

The 2020 APC tested candidates' competence in a wide variety of competency areas by means of eight tasks. Although all tasks were strongly triggered beforehand in the pre-release information, with some changes and additions to tasks on the day, most candidates struggled to display the required level of competence for the tasks.

What was evident in the 2020 APC was that there was a significant reliance on pre-prepared research, without really understanding its relevance and applicability to BK and the industry as a whole. The latter was also clear in the more technical tasks (tasks (a), (b), (e)), where candidates used the correct technical principles, or dumped these principles, but a clear lack of understanding and application was present. Candidates struggled to determine the relevance from their pre-research, in order to only provide what was applicable to the task and case study on the day. Candidates attempted to "make their pre-research fit" to the task without it being relevant to the task(s) at hand and without considering the information on the day. The consideration of the information on the day, is a critical element of being assessed as competent in a specific task, as this is indicative of individual professional competence. Candidates' responses cannot be graded as competent in a task without having either applied their knowledge to the information on the day or incorporated potentially changes on the day to the information triggered, and addressing what was asked.

These shortcomings resulted in most candidates' attempts being assessed as borderline competent (BC) and limited competent (LC) at a task level. What is important to highlight is that being assessed as borderline competent (BC) in a task reflects that a candidate may have attempted the task but not quite at the level expected of an entry level CA(SA). Hence BC in a task is neither competent (C) nor LC and is indicative of a candidate falling short of the requirements of being assessed as competent in a task.

Concerning to examiners, were the candidates' performance in the Financial Reporting (tasks (a) and (b)) and Auditing tasks (tasks (c) and (d)). Not being assessed as competent in these tasks would potentially have resulted in an overall

assessment of limited competence. Candidates who performed well in task (d) and (g), which required more on the day application and critical thinking, also tended to perform well overall.

In conclusion, the 2020 APC provided candidates with ample opportunity to showcase competence in several competency areas. The section below contains a summary of candidates' general performance for each part of the case study. These should be read in conjunction with the published specimen examples.

Task (a)

Competence area	APC 2020 candidate results		
	Not competent	Borderline	Competent
Accounting	23.1%	38.4%	38.5%

Pre-released information: Document 1 and 2

Information on the day: Document A

Task: Respond to Charles Lancome's email regarding the accounting for 'bearer plants' and 'bearer plant produce'.

Task (a) of the 2020 APC set the scene for the specific industry (agriculture) from a financial reporting perspective. The task was considered to have been strongly triggered within the pre-released information which guided candidates in the direction of costs/expenditure related to bearer plant, bearer plant produces and avocado inventory. This is evidenced by the following:

- Page 7 of the background information in the pre-released information provides salient financial and other information relating to bearer plants, bearer plant produces and other items.
- Page 8 of the pre-released information further elaborates on the applicable accounting policies for the bearer plants and bearer plants produce.
- Document 2 on page 10 of the pre-released information contains an email in which Charles Lancome indicates that he would need assistance regarding a request made by the new external auditors to prepare a schedule of bearer plant, bearer plant produce and avocado inventory journal entries for the upcoming audit.

Based on the latter, candidates were expected to research the accounting implications of expenditure related to these three aspects in their preparation for the 2020 APC which would include, but are not limited to IAS 16 *Property, Plant and Equipment*, IAS 41 *Agriculture* and IAS 2 *Inventories*.

On the day of the assessment, candidates were given general ledger accounts for bearer plants and bearer plant produce and were required to review the accounts for any potential errors and other aspects that needed further clarification. Candidates were required to include brief explanatory reasons for the suggestions. The information presented that various expenditure items were capitalised to the bearer plant and bearer plant produce general ledger accounts. Candidates needed to refer back to the principles of IAS 16 and IAS 41 relating to what would comprise a cost element for an item of property, plant and equipment (PPE) (i.e. bearer plants) and for biological assets and inventories (bearer plant produce).

The basic technical aspects were strongly triggered and it was expected from candidates to apply those in answering this task, including the following:

- IAS 16:16 explicitly stating that the cost of a PPE item should comprise the following:
 - (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.
- IAS 41 states that biological assets should be measured at fair value unless the fair value is clearly determined to be unreliable. In that case the biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

To be assessed as competent in task (a), it was expected of candidates to assess the appropriateness of the expenditure capitalised in the general ledger and identify, with sufficient explanations, various errors and areas of concern. 'Sufficient explanation' meant candidates had to provide insight in their response to Charles rather than merely stating that an expense was not directly attributable in terms of IAS 16.

The more basic and obvious errors and/or areas of concern that candidates could have picked up and included in their response to this task included the following:

- Recognising the need for more information on certain items (e.g. 5% contingency / professional fees).
- Considering potential asset classification issues (e.g. new borehole / water pump / pegging and fencing could be separate items of PPE).
- Considering the allocation of electricity costs and whether it was a general overhead cost.
- Identifying that the cash discount received was recorded in the wrong direction / should not be capitalised.
- Identifying that the deferred credit purchases may need to be discounted to present value.
- Identifying that the 5% contingency costs is unlikely to be capitalised (not incurred yet).
- Considering the correct application of IAS 23 *Borrowing Costs* principles in respect of the capitalisation of borrowing costs.
- Identifying that abnormally wasted water / wages paid during strike should not be capitalised because it is not directly attributable / specifically excluded / abnormal.
- Identifying that the training costs should not be capitalised because not directly attributable / specifically excluded.
- Identifying that depreciation on plant and equipment was recorded in the wrong direction.
- Identifying that head office costs / salary of cost accountant are admin costs / general overhead costs and unlikely to be capitalisable.
- Identifying that the professional fees are unlikely to be capitalised to bearer plant produce / should rather be capitalised to bearer plants.
- Mentioning that further orchard development costs cannot be capitalised to bearer plant produce (biological assets) and/or considered whether it should rather be capitalised to the bearer plants.
- Questioning whether the depreciation on delivery vehicles / the road transportation costs are not rather distribution costs / should be capitalised to inventories (IAS 2).
- Identifying that bearer plant produce should not be depreciated.
- Questioning whether impairment testing has been done.
- Considering the IAS 41.30 – rebuttal presumption that the fair value of bearer plant produce can be measured reliably.

Other, more insightful, errors and/or areas of concern that candidates should have picked up and included in their response to this task included the following:

- Questioning why borrowing costs was not capitalised in the growth phase.
- Questioning whether wages paid during the 3-week strike can be capitalised (legal / organised / casual wages).
- Considering whether the capitalisation of borrowing costs should have been suspended during the 3-week strike.
- Identifying that the harvested amount (R3m) may be understated / costs netted off.
- Questioning the allocated amounts (actual vs budgeted costs / allocation basis used).
- Considering the completeness of costs capitalised (e.g. electricity / borrowing costs not included in produce).
- Considering whether there may be a prior period error in opening balances which will have implication in terms of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- Considering whether the depreciation on the bearer plants should not be capitalised to the cost of the bearer plant produce.
- Questioning whether impairment of the bearer plants / bearer plant produce has been considered (e.g. volatility in price) in accordance with IAS 36 *Impairment of Assets*.
- Considers the impact of IFRS16 *Leases* on the cost capitalisation (i.e. right-of-use asset depreciation).

Unfortunately, irrespective of the several possible errors and/or areas of concern that candidates could have picked up elaborated on above, many candidates had limited issues or assessed the general ledger accounts by mainly providing “*not directly attributable*” as a reason for the conclusion reached on the majority of the expenditures presented on the day of the assessment. In doing so candidates did not demonstrate the pervasive and critical evaluation skills required for demonstrating professional competence in this task.

Furthermore, many candidates fell short of the requirements of competence, which resulted in candidates being assessed as either BC or LC in this task as a result of the following:

- Failing to achieve sufficient coverage of valid issues and not displaying the necessary level of technical knowledge, mainly because they included/dumped unnecessary theory.
- Candidates often went beyond the scope of what was required in performing the task. Explanations/reasons were provided for expenditure which had been correctly capitalised, while the task only required them to identify errors and other areas that would need to be checked again. The examiners somewhat tolerated this behaviour.
- Providing theory on each expenditure which resulted in the responses being lengthy, verbose and inappropriate for an email format.

Task (b)

Competence area	APC 2020 candidate results		
	Not competent	Borderline	Competent
Accounting	34.8%	28.8%	36.4%

Pre-released information: Document 2

Information on the day: Document B

Task: Respond to Charles Lancome’s email regarding the accounting considerations related to the proposed sales agreement with Supreme Brands.

In Document 2 of the pre-released information, candidates were provided with a detailed proposed forward sales agreement with Supreme Brands, one of BK’s biggest European customers. The CFO, Charles Lancome, indicated that BK decided not to enter into the proposed forward sales agreement with Supreme Brands, but that other buyers were likely to come with similar requests in the near future and that there would probably be “some interesting accounting implications (particularly around the 5-step revenue recognition model) to consider”, if BK were to enter into a forward sales agreement with Supreme Brands, or any other party, in the future.

Based on the pre-released information, candidates were expected to consider the proposed forward sales agreement with Supreme Brands in terms of the 5-step revenue recognition model of IFRS 15 *Revenue from Contracts with Customers*, and to come up with a model answer of what the revenue recognition for such a transaction would look like. Since the proposed forward sales agreement was denominated in a foreign currency, candidates were also expected to consider the effects of IAS 21 *The Effects of Changes in Foreign Exchange Rates* as well as IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, in accounting for the proposed transaction. The pre-released information furthermore stated on page 4 that BK’s normal shipping terms for exports were “Cost, insurance and freight (CIF)”, and included an explanation of the shipping terms. Document 2 of the pre-released information also clearly stated that the proposed sales agreement would be subject to BK’s “normal shipping terms” (being CIF). Candidates were therefore also expected to consider the effect of the shipping terms on revenue recognition.

In Document B of the information on the day, Charles indicated that Supreme Brands again offered to enter into a forward sales agreement with BK for the 2021 season. Candidates were provided with a forward sales agreement similar to the pre-released information (nothing changed on the day except for dates and amounts), as well as Charles’ high-level notes on his thoughts on what the revenue recognition for the agreement should look like. Candidates were then required to work through Charles’ notes and to note, with brief explanations, any aspects with which they disagreed with or any other accounting aspects which in their opinion should be considered. Charles also indicated that it was not necessary to come up with “the exact, detailed technical answer for now” and that he only wanted to know whether he was on the right track.

The level of difficulty of this task was assessed as moderate due to the inherent nature of the transaction, as well as candidates having to demonstrate the pervasive skill of being able to evaluate information (i.e. being able to work through Charles’ notes in a systematic, analytical and critical manner) and to then respond in an appropriate and professional manner to the CFO’s request. Candidates could, however, rely quite heavily on their pre-researched knowledge around the accounting implications of the transaction to assist in the review of the CFO’s notes and to identify any potential issues.

Competent candidate was expected to demonstrate their ability to apply pre-researched information to the case study on the day (i.e. to not just dump a pre-prepared response) and to identify the following core issues in Charles’ notes, supported by valid and technically accurate explanations within the 5-step revenue recognition model of IFRS 15:

- *Step 2:* The promised avocados are not a series of distinct goods (i.e. not one performance obligation), based on application of the requirements of IFRS15.23 & .35 / the shipping terms could result in an additional separate performance obligation;

- *Step 3:* The transaction price is not variable simply because it is denominated in a foreign currency / the practical expedient in terms of IFRS15 can be applied in respect of the significant financing component (i.e. no discounting necessary); and
- *Step 5:* Supreme Brands will obtain control of the avocados at the point of loading in terms of the CIF shipping terms, and not only when the goods are delivered at the European port.

Note: For step 2 and step 3 above, candidates were not expected to address both core issues for each of those steps to be considered competent. Where candidates correctly addressed both issues, the second issue for that step was considered as a valid additional aspect (see below).

In addition, a competent candidate was expected to address at least some of the following additional aspects:

- In identifying the contract with the customer (step 1), Supreme Brands' ability and intention to pay the amount of consideration when it was due (i.e. probability of collection);
- Principal vs agent considerations regarding the potential separate performance obligation for shipping services;
- Since there was potentially more than one performance obligation in the contract, the transaction price would have to be allocated to each performance obligation based on a relative stand-alone selling price basis (step 4);
- The performance obligation to transfer the avocados would not be satisfied over time, but rather at a point in time (IFRS15.35);
- Whether the performance obligation for shipping would be satisfied over time / at a point in time (step 5);
- The contract liability would not be re-measured for changes in the forex rate after initial recognition;
- The foreign debtor needed to be re-measured to spot rate at year end in terms of IAS 21 / considered for impairment in terms of IFRS 9 *Financial Instruments*; and
- The contract may be onerous in terms of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Other insightful aspects included the following:

- Considering the portfolio approach in accounting for the avocados as a single performance obligation;
- The necessity of estimating stand-alone selling prices since the avocado export market is volatile and prices are uncertain;
- The possibility of a discount inherent in the contract as well as principles around the allocation thereof to the different performance obligations;
- Principles around the recognition of a contract asset vs. a contract debtor;
- Questioning whether there were any contract costs that needed to be capitalised; and
- Considering whether the sales agreement may fall within the scope of another standard (i.e. IFRS 9 / IFRS 16).

Overall, it was disappointing to see a that a concerning number of candidates failed to show the necessary application on the day, by choosing to dump / force pre-prepared responses, without sufficiently addressing the information presented to them on the day. This often resulted in a senseless dumping of information that did not add value in the context of what was required. The mark team also noted a concerning number of responses riddled with technical inaccuracies / contradictions, despite the task being so strongly triggered. It was evident from responses that many candidates were in possession of pre-research that they just did not understand and/or failed to internalise before the day of the assessment.

Note: Candidates were not penalised for considering the 5-step revenue recognition model in a different order or numbering the respective steps differently.

Task (c)

Competence area	APC 2020 candidate results		
	Not competent	Borderline	Competent
Audit and Accounting	34.0%	30.9%	35.1%

Pre-released information: Document 2

Information on the day: Document C

Task: Provide Charles Lancome with the requested input.

The competence area addressed in this task related to audit. Document 2 of the pre-released information (page 10) was an email from the CFO to the Financial Analyst indicating that there are a few matters with which he required assistance.

The first matter noted that the company recently appointed new external auditors. The new engagement partner asked that in preparation of the audit, a schedule of general journal entries that were processed during the FY2020 be prepared. Charles' also noted that it sounded as if the focus will be on the expenditure relating to bearer plants, bearer plant produce and avocado inventory.

It is therefore clear that this task was clearly triggered in the pre-released information and it was expected of candidates to research the following during the preparation period:

- IAS 2, IAS 41 and IAS 16, but with specific focus on the principles relating to the capitalisation of expenses pertaining to bearer plants and bear plant produce; and
- Audit work that could be performed by the external auditors relating to the capitalisation of expenses of the above-mentioned three standards.

In documents C of the information on the day (pages 8 and 9), candidates were provided with four journal entries and their input was requested relating to the following:

- The documentation of any concerns about the journal entries and if so, these concerns have to be documented.
- The listing of the specific source documents, records and reports that they believe that the company should have available for the external auditors to account for what has been journalised.

A competent candidate in this task presented the following in his/her response of the task:

- Addressing all four journal entries.
- Identifying valid concerns relating to the majority of the journals. Note that the candidate did not have to identify valid concerns for all the journal entries to have been deemed competent.
- Provision of documents that would result in sufficient and appropriate audit evidence.

It is important to note that due to the nature of the task – there were a number of valid concerns for each journal entry – a candidate could be deemed to be competent just by identifying the “easier” issues in the journal entries, such as the dates, nature of accounts and amounts.

Some of the concerns evident within each of these journal entries, and valid documents that could have been provided, include the following:

GJ 027: Capitalisation of avocado storage and ripening costs:

Possible concerns:

- Questioning the nature of the costs: IAS2 does not permit capitalisation of storage costs unless necessary in the production process (i.e. necessary for ripening?).

- Questioning why it is recorded as only one journal entry: No expenses from 1 March to 30 September?
- Questioning why 'accounts payable' is used within the journal entry: BK has its own ripening rooms. Amount payable to third parties would include expenses like water and electricity. They should have questioned whether the amounts should not have been expensed first and then reallocated?

Possible documents:

- The listing of 3rd party invoices making up the amount.
- Each invoice in the listing.
- Workings to support total amount capitalised (e.g. allocations) (with supporting docs).
- The rental agreement for warehouse.

GJ 059: Recognise abnormal wastage of labour as an expense:

Possible concerns:

- Questioning whether it should be operating expense and not recognised as part of cost of sales.
- Questioning why this is considered 'abnormal'.
- Questioning why the journal entry is recorded on a Sunday and the round amount.

Possible documents:

- The production / payroll records to substantiate why it is considered 'abnormal'.
- The bank statement to determine when and to who it was paid.
- The payment voucher, other supporting documentation and to determine whether the payment was authorised.

GJ 074: Reverse suspense account and reduce expenses: allocation of previously unallocated transport refund received from logistics company:

Possible concerns:

- Questioning why a suspense account was used and not the accounts payable ledger.
- Questioning why it was only recorded during October 2020 if the transaction date was during December 2019 (10 months earlier).
- Questioning whether the suspense account was cleared in a timely manner and noting that it could result in post year-end manipulation of the financial statements.

Possible documents:

- A printout of suspense account (breakdown).
- Credit note from logistics company (correspondence).
- Bank statement for proof of refund.
- Creditor's recon / creditor's statement which will indicate the refund.

GJ 078: Write-down of inventory to net realisable value

Possible concerns:

- Questioning the large amount and nature thereof in relation to the inventory balance of R9 million Material amount (vs inventory balance of R9 mil).
- Questioning whether the NRV was determined in line with IAS 2.
- Questioning why the journal entry is posted so long after year-end.

Possible documents:

- NRV calculation.
- Inventory report per item at year-end (cost, quantity, NRV).
- Stock count records.
- Other supporting documents such as sales contracts, forex rates at year-end, sales reports post year-end, invoices logistics company.

Other issues that candidates could have mentioned which were deemed as being insightful and include, but are not limited to:

- An overall understanding of the journal entries and being able to identify several valid concerns and provide comprehensive explanations for the majority of the journal entries.
- The concerns about the broader accounting / financial reporting processes because of indications of serious weaknesses in the controls over the accounting system.
- The potential impact of some of the concerns identified on the external audit / internal control process.
- Raising any relevant concerns regarding possible tax transactions of the journal entries.

The level of difficulty of this task was assessed as moderate because a level of application was required in order to identify the valid concerns within the journal entries. In addition, for the supporting documentation, the emphasis was on providing “sufficient and appropriate” audit evidence for the transactions. Therefore, candidates had to achieve a balance between quality and quantity in the documents they listed.

Most candidates were able to address all four journal entries. Most were also able to pick up on some of the other obvious issues such as the dates and nature of the accounts used (specifically linked to GJ059 and GJ074).

The application of the supporting documents and explanations of some of the concerns (GJ027 and GJ078) were poor. As a result, only a limited number of candidates displayed competence in this task and majority of them were either assessed as being LC or BC.

Task (d)

Competence area	APC 2020 candidate results		
	Not competent	Borderline	Competent
Audit	64.9%	27.1%	8.0%

Pre-released information: Document 3

Information on the day: Document D

Task: Prepare an internal control questionnaire to evaluate the adequacy of the salaries and wages system to prevent or detect and correct the situations alleged by the AAWU.

Document 3 of the pre-released information (page 12) is an email from the CFO to the Financial Analyst indicating that Botala Khauta’s salaries and wages system requires improvement, both from an internal control perspective and with regard to the need to embrace new technologies.

This was further emphasised and narrowed down, by the comment in the email by Charles to state that: “... this could validate the union’s concerns that amounts are being deducted incorrectly from our employees’ salaries and wages.”

This very strongly triggered that the salaries and wages system needed to be reviewed, specifically in view of the following allegations made by a trade union, which in the pre-release information indicated:

- That illegal immigrants were being used as casual labourers on the farm, thus depriving the local community of employment opportunities; and
- That amounts were being incorrectly deducted from the meagre wages of the labourers.

It was further clear from the pre-release information (same page) that candidates should have researched garnishee orders regarding salaries and wages and to gain knowledge on what was permitted in the light of recent legislative changes.

In summary, all of the aforementioned information in the pre-release information, should have given the candidates a clear trigger to research and understand salaries and wages, as well as garnishee orders, in the context of an organisation such as Botala Khauta.

In the information on the day, the candidates were given further information on the trade unions allegations. Document D stated that the trade union backed down on their allegations that illegal immigrants were being employed as casual labourers (it accepted that this was not the case). However, the trade union made a new allegation regarding a number of its members (who were full-time employees of Botala Khauta), namely that they worked overtime but that this was not reflected on their payslips (i.e. understatement of the overtime expense). Further clarity was given regarding the allegation of incorrect deductions as relating to amounts being deducted from employees’ remuneration for third-party debts –

- without valid ‘garnishee orders’ (more correctly referred to as ‘emoluments attachment orders’ (EAOs)) having been served on Botala Khauta; or
- which do not correspond to the instalments payable in terms of the EAOs.

This information narrowed it down for the candidates on the potential weaknesses in the salaries and wages system. Further information was provided about the systems description for salaries and wages for full-time employees specifically in relation to those areas on which the union made allegations. This description was compiled by Sandy Oliphant, the payroll administrator. While the description was broad, there was enough information to get an idea of the type of system in place, the persons responsible for various functions within the HR function and certain tasks that were performed by such personnel, but more importantly giving candidates insight, based on the potential weaknesses, what controls are not mentioned or in place.

The document further states that the CFO would like an internal control questionnaire containing a list of 'best practice' procedures that would prevent, or detect and correct, the situations alleged by the trade union to be prepared. It is important to note that the CFO specifically stated that "from the findings obtained from the administration of this questionnaire, it should be easy for us to determine appropriate remedial action (i.e. those 'best practice' procedures that are not in place, can then be implemented as a matter of urgency)."

It was therefore expected that candidates needed to use the current system description in their responses and not build a "theoretical, new" system, for it needed to be implemented as a matter of urgency. Hence, best practice examples accepted as part of the responses needed to be those that they could be implement immediately.

The CFO also clearly stated that the response had to focus on the allegations, which scopes out the previous allegation that Botala Khauta employs illegal immigrants as casual labourers.

As noted, additional information was given on the day of the assessment and candidates had to consider the system description. The description might have been considered vague and quite broad, but there was sufficient information to use in the response. There was no specific discussion on whether those controls were manual and / or IT controls within the system description and therefore the response should have included both manual and programmed controls. No "questionnaire" format was prescribed for the response and therefore in terms of the structure, a response could be given as statements with YES/NO answers or questions. However, it was important that the statements or the questions be given as 'best practice' procedures that would prevent, or detect and correct, the situations alleged by the trade union. The response could have been based on preventative, detective or corrective controls, control objectives or assertions.

In terms of what was required to be addressed in a response, the procedures had to address the allegations that were made by the union. This includes procedures that:

- Demonstrated an understanding of the laws applicable to EAOs;
- Described appropriate controls to prevent and detect invalid EAOs from being recorded;
- Described appropriate controls to ensure accuracy of the deductions for EAOs; and
- Described appropriate controls for the accuracy and completeness of time worked.

Additionally, a good response would have included general controls within which the described application control would operate.

This task was assessed as difficult because candidates had to demonstrate the ability to adapt to changes on the day and deal with an additional allegation that they did not research, as well as having to demonstrate an understanding of a system description that they had to compare to what they prepared as a theoretical system for salaries and wages during the pre-release period. Moreover, an allegation that they would have spent time researching (illegal immigrants) was scoped out of the response.

A competent candidate in this task presented the following in his/her response to the task:

- Inclusion of a discussion on the general control procedures within which the application controls for the EAOs and the overtime application controls should operate;
- Demonstration of an understanding of legislation on EAOs and how it applied to Botala Khauta;
- Demonstration of an understanding of the controls that Botala Khauta would need to implement in order to be in compliance with legislation for the EAOs (validity of the EAOs and application of research);
- Description of appropriate controls to ensure accuracy of the deductions for EAOs; and
- Description of appropriate controls for the accuracy and completeness of time worked.

Most candidates were unable to competently deal with all aspects of the task. Candidates showed evidence of research of EAOs in their responses, but the application of the research was poor. Many candidates listed the legislative issues surrounding EAOs and did not consider what was applicable to Botala Khauta, regarding what it, as an employer, had to adhere to and also what would be appropriate control procedures to ensure that the legislative issues are appropriately dealt with. Additionally, many candidates did not address the overtime allegation appropriately

as the control procedures described addressed the overstatement of overtime (overtime paid, but not worked) instead of the allegation, which was the understatement of overtime (overtime worked, but not paid). Many candidates also did not make use of the system description in their responses. As a result, the majority of candidates did not display competence in this task and were either assessed as being LC or BC.

Task (e)

Competence area	APC 2020 candidate results		
	Not competent	Borderline	Competent
Taxation	36,2%	33,8%	30,0%

Pre-released information: Document 3

Information on the day: Document E

Task: Respond to Charles Lancome's email regarding the PAYE concerns and possible other tax implications related to these transactions.

In task (e) candidates were provided with a document detailing five employee-related transactions. Candidates were required to provide a view to Charles Lancome on –

- whether Botala Khauta was correctly treating the PAYE on the transactions; and
- commenting on other tax implications related to these transactions.

The information provided in the pre-released information (Document 3, paragraph 4) indicated that Charles Lancome was concerned about whether Botala Khauta was correctly treating the PAYE on some employee-related fringe benefits. The pre-released information specifically identified that Charles Lancome was concerned about PAYE on –

- independent contractors; and
- contributions to the Solidarity Fund, made by Charles Lancome and Katletho Mokoena.

The pre-released information also indicated that Charles would draft an email to them outlining other employee-related financial assistance and fringe benefits on which he would need clarity (Document 3, paragraph 4).

Therefore, a clear trigger was provided for candidates to research PAYE in terms of the Fourth Schedule to the Income Tax Act. This trigger directed candidates to research the definition of remuneration and the determination of the balance of remuneration in terms of par. 2(a) for the purposes of calculating PAYE.

This trigger specifically required research on the following:

- Independent contractors in the definition of remuneration.
- Contributions to public benefit organisations and the determination of the balance of remuneration and s18A deductions available.
- Taxable fringe benefits in terms of the Seventh Schedule to the Income Tax Act. In particular, the employee-related financial assistance taxable fringe benefits being low-interest and subsidies. Taxable fringe benefits are included in the definition of remuneration.

On the day, candidates were then provided with background information on the following five employee-related transactions:

1. Loans to the CEO and CFO;
2. An arrangement with a financial institution;
3. Tax consulting services;
4. Directors' emoluments; and
5. Solidarity Fund contributions.

In answering this task, candidates were required to provide the PAYE consequences on each of these transactions as well as other possible tax implications. With regard to the PAYE consequences, candidates were expected to identify whether the transactions would be included in remuneration or deducted from the balance of remuneration. The inclusion in remuneration required candidates to also discuss whether the transaction was a taxable fringe benefit.

This task was considered to be easy to moderate as candidates could have pre-researched PAYE and taxable fringe benefits for their answers. Four of the five transactions were specifically triggered. While the tax consulting services and the other taxes were additional components, these still related to the concepts that were triggered. The level of difficulty was however increased as candidates had to demonstrate the pervasive skill of being able to evaluate information and to then respond in an appropriate and professional manner.

For the purposes of answering the PAYE consequences, candidates were expected to address the following in their solutions:

1. Loans to CEO and CFO

- A debate on whether the loans were granted to the CEO and CFO as employees or as shareholders.
- If the loan was granted to them as employees, candidates were expected to consider whether the rate of interest on the loan, which was not given, was less than the official rate of interest or higher. If the rate of interest was lower than the official rate of interest, a taxable fringe benefit would arise and would be subject to PAYE.

2. Arrangement with a financial institution

- Evaluation of whether the arrangement with the financial institution resulted in a low-interest or subsidy taxable fringe benefit.
- This evaluation required candidates to compare the aggregate rate of employee (3,75%) and employer (3%) interest rates to the official rate of interest. As result of the changes in the SARB repo rate during 2020, the official rate of interest did not remain consistent in 2020.
- Therefore, the arrangement would have resulted in a low-interest taxable fringe benefit for a portion of the year, where the aggregate of the 3,75% and 3% was less than the official rate of interest. The taxable fringe benefit value was then the capital loan balance multiplied by difference between the official rate of interest and 3,75%; or
- Where during the year of assessment the aggregate of the 3,75% and 3% was greater than the official rate of interest, a subsidy taxable fringe benefit would have arisen. The taxable fringe benefit value of the subsidy would have been the capital loan balance multiplied by 3%, being the shortfall paid by the employer.

3. Tax consulting services

- The payment of the tax consulting service incurred on behalf of employees results in a free or cheap service taxable fringe benefit as it was used by the employee for his/her private or domestic purposes.
- The no value provisions in terms of par 10(2)(c) of the Seventh schedule was not applicable in this case, as the service did neither relate to the employee's work performance nor was it for recreational purposes.
- In addition, a candidate could have also debated whether the tax consultants were independent contractors, as the service was provided at the offices of BK, and whether the amounts paid to them were subject to PAYE.

4. Directors' emoluments

- Non-executive directors are considered independent contractors, in terms of the control and supervision test or SARS Binding General Ruling 40 and 41.
- Therefore, amounts incurred on payments made to them would not be included in remuneration. They would therefore not be employees and not be subject to PAYE.

5. Solidarity Fund contributions

- A debate on whether the donations were deducted from the balance of remuneration or not.
- If a candidate was of the opinion that the donation was deducted from the balance of remuneration, Charles Lancome and Katletho Mokoena would have been entitled to a deduction. The deduction for three months would have been their donation amount limited to 33,3% of the balance of remuneration or a deduction for six months, of the donation amount limited to 16,67% of the balance of remuneration. For the purposes of income tax, the two would also have been entitled to a s18A deduction of their donation amount, limited to 20% of the taxable income before the 18A deduction.
- If a candidate was of the opinion that the donations were not deducted from the balance of remuneration, there would be no PAYE consequences. But Charles Lancome and Katletho Mokoena would still then have been

entitled to a s18A deduction of their donation amount, limited to 20% of the taxable income before the 18A deduction.

For the purposes of other taxes, candidates could have included the following to be assessed as competent:

- Income tax for Botata Khauta on the five employee-related transactions.
- If the loan was granted to the CEO and CFO as shareholders, candidates could have considered whether the rate of interest on the loan was less than the market-related interest and then possible dividends withholding taxes implications.
- VAT for Botata Khauta on the five employee-related transactions, including that financial assistance is an exempt supply in terms of s12(a); output tax on taxable fringe benefits and input tax consequences on the tax consultant services and non-executive directors' payments.
- Possible VAT consequences for the non-executive directors of Botata Khauta, including the charging of output tax.
- Donations to the Solidarity Fund would be exempt from donations tax.

Insightful comments that candidates could have made in answering this task included the following:

- Identifying that there would be no PAYE on the arrangement with the financial institution, where employees' balance of remuneration was less than the tax threshold.
- Identifying that the 2019 Supreme Court of Appeal judgment in BMW South Africa (Pty) Ltd v SARS as it relates to the taxable fringe benefit on the tax consulting services was applicable.
- Identifying that the tax residency of the non-executive directors would impact their PAYE. Non-resident non-executive directors would be subject to PAYE.

Most candidates displayed limited competence in task €. Despite this task being strongly triggered, candidates often displayed very limited technical competence and understanding of tax legislation. Often candidates' responses were incoherent, with legislation being interpreted and applied incorrectly. Solutions were contradictory in nature. At times candidates also presented various options without being clear on which option would apply to the given transaction. It was clear to the marking team that many candidates had relied heavily on researched information received from members in their groups, but that they did not spend a sufficient or appropriate time on understanding the research to enable them to apply it to the information on the day.

Task (f)

Competence area	APC 2020 candidate results		
	Not competent	Borderline	Competent
MAF	17,0%	51,2%	31,8%

Pre-released information: Document 2

Information on the day: Document F

Task: Respond to Charles Lancome's email, which is contained in document F, regarding the new sales agreement with Supreme Brands.

In Document 2 of the pre-released information, candidates were provided with a detailed proposed forward sales agreement with Supreme Brands, one of BK's biggest European customers. The CFO, Charles Lancome, indicated that BK decided not to enter into the proposed forward sales agreement with Supreme Brands, but that other buyers were likely to come with similar requests in the near future.

On the day, candidates were provided with basically the same forward sales agreement, (the same agreement as in task (b)) and candidates were required to discuss the following for the proposed forward sales agreement:

1. The positives and the downsides of entering into the arrangement.

- This aspect was heavily triggered in the pre-release as candidates were explicitly told that BK would need to consider forward sale agreements going forward.
- Candidates were thus given ample opportunity to research forward sales agreements in the agriculture industry and to consider their merits and flaws.

2. To conclude on whether BK should hedge its euro currency exposure.

- The forward sale agreement provided in the pre-release information was nearly identical to the agreement provided in the information on the day. One of the similarities was that the agreement was denominated in euros, which exposed to BK to foreign currency risk.
- As a result, candidates would have been expected to note this as one of the possible risks to be aware of in such an agreement.
- The considerations to hedge the exposure was thus a natural question to ask, given the foreign currency risk. This aspect of the task required students to answer the question of whether to hedge or not.
- The emphasis in the assessment was not whether candidates came to a conclusion of whether to hedge or not, but rather whether they were able to provide some in-depth and applicable considerations that led to their conclusion.

3. To provide other relevant factors that BK should consider before entering into this commitment.

- These considerations related to some of the uncertainties that BK might have to deal with if it did enter into the agreement. These are the kinds of considerations that management would appreciate, as they are always interested in the big picture.
- This aspect of the task could have included the positives and downsides of the response.
- It is important to note that candidates could have considered many of these considerations as part of the research done on forward sale agreements.

Overall, this task was not demanding and good research and logical thinking on the day would have set candidates up for success.

Candidates displayed some problematic traits in this task, which all provided evidence of a lack of competence:

- Not answering all the components of the task. This was especially observed regarding the hedging decision, which often was completely ignored or a clear lack of understanding of hedging was evident.

- Being too brief in their responses and thus not showing application in the answer. This was surprising given the nature of the trigger in the pre-release information. The brevity in answers took the form of brief bullet points or half sentences that did not allow for application to BK and the industry or insufficient 'breadth' in the answers because only a handful of considerations were discussed, thus lacking the necessary coverage for the end user, Charles.

Candidates who performed well in this task were those who:

- used the research period to consider the nature of a forward sale agreement;
- used their research understanding to document the salient points for Charles and BK to consider by linking the specific terms of the agreement to the context of BK, Supreme Brands and the avocado industry;
- provided logical and applicable considerations in the decision of whether BK should hedge, given the nature of the agreement and other specific factors in BK's context; and
- considered some of the important uncertainties that BK should consider before accepting the agreement.

Many candidates were able to perform well based on the nature of the trigger provided in the pre-release information.

Task (g)

Competence area	APC 2020 candidate results		
	Not competent	Borderline	Competent
MAF	50,2%	38,5%	11,3%

Pre-released information: Document 4

Information on the day: Document G

Task: Respond to Charles Lancome's email with regard to the guacamole initiative.

In Document 4 of the pre-release information, it was evident that BK wanted to diversify its operations by adding a new product to its product range and hence adding an additional revenue stream in the process. Two alternative courses of action, which the steering committee would be evaluating, were identified. Both alternatives entailed manufacturing guacamole using the pack-outs (treated by BK as a by-product) arising from the joint process (being the growing of avocado fruit in the BK orchards). The first alternative being considered entailed BK selling off said waste to a third-party guacamole producer through an off-take agreement, while the second alternative entailed making a significant investment into a manufacturing plant and manufacturing the guacamole in-house.

Document 4 should have triggered the following response from candidates during the pre-release period:

- Revisiting relevant costing principles given that the steering committee would be evaluating the different alternatives on the table. The viability of the respective alternatives, using relevant costing principles, would require an appraisal of the relevant cash flows relating to the two alternatives.
- As both alternatives would entail activities stretching over multiple years (i.e. extending beyond a single year), the time value of money implications needed to be considered. Hence a capital budgeting approach would need to be adopted, using the net present value (NPV) or internal rate of return (IRR) as decision-making criteria.
- As capital budgeting entails a quantitative appraisal of each alternative, while an investment decision is in fact a form of semi-structured decision-making, qualitative considerations relating to each of the two alternatives needed to be considered as part of the investment appraisal process.
- Revisiting joint costing principles given that the waste used to produce guacamole arises from the process of producing avocados.

The information on the day presented candidates with an email with an attachment from Charles. The attachment included NPV calculations prepared by Charles relating to both options. In this email, candidates were required to provide thoughts on the two NPV calculations provided by Charles, namely:

- The NPV calculation relating to the off-take agreement whereby BK would sell waste to a guacamole producer and;
- The NPV calculation relating to BK implementing an organic growth strategy in terms of which BK would establish its own guacamole plant.

In addition, candidates had to provide qualitative factors relating to each option namely the off-take agreement and BK's investment in its own guacamole plant. Finally, Charles in his email, also hinted to the possibility of excel errors which candidates had to identify.

The candidates needed to apply themselves and interrogate the calculations provided on the day. While candidates could have pre-prepared the qualitative factors (alternatively put the additional factors to consider in addition to the financial feasibility of each of the alternatives), the interrogation of Charles' calculations required candidates to think on their feet. There were little to no further twists on the day beyond the calculations provided and Charles' indication that he is not an Excel wizard.

Candidates needed to interrogate the cash flows provided on the day, including checking Charles' calculation of the respective net present values (NPVs). From an assessment perspective, the task was designed to assess the candidate's ability to think critically and analytically.

As such, a key feature in determining candidate competence on the task, was that candidates displayed said critical and analytical thinking skills. A competent candidate would therefore have considered some of the following:

1. Probed the quantity of waste on which Charles based his cash flows. This would entail amongst others identifying that BK had been expanding the number of hectares under plantation, annually. Hence one would have expected the quantity of pack-outs to increase year-on-year. However, the use of fertigation systems and better farming methods should have positively impacted on the both gross and net yields, resulting in a decrease in pack-outs. A competent candidate should therefore have questioned whether the increasing trend in pack-out quantity made sense.

A competent candidate would have also identified the dependency of the avocado yields on weather conditions. One could question what weather patterns are forecasted by meteorologists for the medium-term.

2. A competent candidate would have questioned where the selling price used in the off-take arrangement forecasts come from, i.e. do these figures tie up with the off-take agreement. Why is there such a big difference between the price per kilogram of waste sold in terms of the off-take agreement and the sales revenue from guacamole sales (seven times less)? A candidate could also have compared the price per kilogram of waste (as included in Charles' calculations) with that of "good" avocados produced. Candidates might also have questioned whether a constant increase of 4.5% in the sales price for both alternatives can be justified. In light of the fact that avocados are seasonal, this factor would likely have resulted in the price of avocados fluctuating. There should have been a focus on supply and demand in the market, supply being driven by weather conditions.
3. A competent candidate would have questioned where the discount rate came from and why it did not differ between the two alternatives being appraised. Inherent in a NPV calculation is that most cash flows will take place in future, the time value of money implications as well as risk differences between the two alternatives would influence the discount rate being used. As a starting point a competent candidate would have identified that the weighted average cost of capital (or possibly weighted marginal cost of capital) should be calculated. This rate would have needed to be adjusted for the fact that the two alternatives differ significantly in respect of the business risks which they would expose BK to. A competent candidate should have concluded that the discount rate applied should therefore have differed between the alternatives.
4. In responding to the trigger of a likely investment appraisal featuring, candidates should have appropriately pre-researched the technical inputs into a capital budget (one of them being the discount rate to be used when calculating an NPV). Other inputs, which candidates could have considered on the day, included:
5.
 - Completeness of the cash flows: have any cash flows been omitted from the calculations? One example of this is that the off-take agreement seemed to exclude transport costs.
 - The fact that working capital was missing in both NPVs. It is likely that credit terms would be extended to customers in both alternatives 1 and 2; given the selling price of guacamole, the latter would have resulted in a larger investment into trade receivables than the off-take agreement would. Alternative 2 would also have likely resulted in an investment in inventories of work-in-progress and finished goods (guacamole produced on hand). Trade payables would also have differed. Hence, the investment in working capital and reversal at the end of the planning horizon, would be relevant.
 - The s11e tax allowance was incorrect for option 2. Given that producing guacamole is regarded as being a process of manufacture, the s12C tax allowance is more appropriate (and not s12B as identified by some candidates).
 - A NPV typically includes proceeds on the sale of the capex item invested upfront, which was not included in Charles' NPV calculation for option 2. One needed to carefully consider whether a terminal value would be relevant? The off-take agreement would likely have a finite term.
 - In addition, it is likely that the owned plant investment would likely cover a longer period than the five years on which Charles based his calculation. As a result, the time horizon used by Charles might have been too short.

- Finally, an investment in these projects or options may come at the expense of other projects / opportunities foregone. Identifying opportunity costs is relevant. Candidates suggesting that the returns from the off-take agreement are an opportunity cost for the own plant investment are sadly mistaken. Charles did not adopt an incremental approach in evaluating the two alternatives. He evaluated each separately. It would therefore have been incorrect making such a suggestion.

In his email Charles also clearly hinted to the possibility that his NPV calculations contain errors, and therefore candidates could have picked up the relevant errors by re-performing the NPV calculations in excel. Both alternatives in fact included incorrectly calculated NPVs.

The final element of the task was to provide qualitative considerations for each of the options. As discussed above this was triggered and thus could have been largely pre-prepared. It was important that qualitative factors focused on strategic issues as well as risks relating to the two respective alternatives.

Based on the above, competent candidate in this task presented the following in his/her response to the task:

- Provided thoughts relating to both NPV calculations.
- Good probing of the sales quantity and sales price relating to the off-take agreement and the own plant.
- Good coverage of the multiple technical issues relating to each of the NPV calculations.
- Provided sufficient qualitative considerations covering both options. A balanced approach would have been a good route to follow here.

Other issues that candidates could have mentioned and deemed as being insightful (in other words evidence of higher-level competence) included, but are not limited to:

- Debating the reasonability of the difference in selling prices (off-take waste vs guacamole produce in-house).
- Identifying that avocado production is seasonal hence questioning whether BK could “mothball” its plant during “out of season” periods to reduce operating costs.
- Questioning how the owned plant would be financed given the significant investment required. Given the current capital structure it can be conclude that debt funding should be sought.
- Offering insightful commentary on the inclusion or exclusion of working capital e.g. the off-take agreement alternative requiring a smaller investment in working capital than the in-house manufacturing alternative would require.
- The task did not require a comparison between the options, but the steering committee and ultimately the board needed to decide between the two alternatives. Candidates providing meaningful comparisons between the two alternatives displayed a higher level of competence.

Most candidates were able to get good coverage on the qualitative considerations for both options. This may have largely been due to the fact that this could have been pre-prepared. This aspect of the task was on the whole addressed satisfactorily. While a large proportion of the candidate population was able to identify technical issues around the NPV calculations, the overwhelming majority of candidates fell short on probing the reasonability of the forecasted figures, of which the sales figures. This was key in assessing competence and is probably the main reason for the fact that the majority of candidates were found to be not competent on this task. While many candidates did not identify the errors made by Charles in using Excel, the latter did not impact significantly on the view of the candidate competency on task (g).

Task (h)

Competence area	APC 2020 candidate results		
	Not competent	Borderline	Competent
Strategy, Risk Management & Governance	17,6%	35,4%	47,0%
<p>Pre-released information: Document 5 Information on the day: Document H Task: Respond to Charles Lancome’s requests for assistance ahead of the scheduled Zoom meeting.</p>			
<p>In this task, the candidates were asked to identify aspects that Botala Khauta (BK) was doing correctly as a corporate citizen, potential threats to its corporate image and reputation, including selecting UN Sustainable Development Goals (SDGs) where BK could make a meaningful difference based on the nature of its business.</p> <p>The UN SDGs and being a good corporate citizen were strongly triggered in Document 5 of the pre-released information and candidates had the opportunity to research and prepare those key aspects of the task.</p> <p>Document H of the information on the day presented candidates with an email from Charles Lancome in which an ethical issue of sourcing avocados from the neighboring farm and labelling that as BK’s produce was noted. This document further required candidates to address:</p> <ul style="list-style-type: none"> • What were the three things that BK was getting right as a responsible corporate citizen? • What were the three potential areas or things that could seriously dent its reputation as a responsible corporate citizen? • If the board of directors had to select three of the 17 commonly identified SDGs on which to focus, which three should be selected and why? Thus, candidates had to select and explain three SDGs where BK could really make a difference to sustainability. <p>To answer this task successfully, candidates needed to undertake a comprehensive assessment of the information provided during the pre-release and include the information on the day. The candidates also needed to have undertaken research around what SDGs that might have been applicable to BK as an organisation and why.</p> <p>The following comments and responses on the three areas of the task would typically be considered appropriate (although not limited to these):</p> <p>Aspects BK was getting right:</p> <ul style="list-style-type: none"> • BK embracing inclusivity with communities by providing housing for employees, schooling facilities for their children and developing the skills of its seasonal pickers. These showed its commitment to uplifting the surrounding community. • Embracing employees as key stakeholders by means of a 20% shareholding and facilitating the creation of wealth amongst employees. • Focusing on sustainable farming practices by minimising the use of pesticides, by using fourth industrial revolution (4IR) techniques to improve farming practices and using ‘fertigation’ techniques. <p>Potential areas or things that seriously dent BK’s reputation as a responsible corporate citizen:</p> <ul style="list-style-type: none"> • The issues surrounding employment of illegal immigrants and paying them very low wages, incorrect employee deductions and overtime not being paid. These influenced the payment of fair remuneration to employees and could impact BK’s reputation and corporate image. • Labelling BK’s avocados as free of pesticides whilst it used synthetic fertilisers and pesticides (albeit a limited application) and implemented drainage systems to minimise soil erosion was false and misleading marketing of the avocados and could impact the reputation and corporate image of BK. 			

- Sourcing avocados from a neighbouring farm and then representing this as BK produce ‘grown to perfection’, despite the fact that BK has no control over the neighbour’s farming practices (which may be unethical and environmental unfriendly) would negatively impact its reputation.
- If avocados became contaminated somewhere in the supply chain between picking and finding its way onto retailers’ shelves, it could result in major costs and reputational damage.

With regard to the three of the 17 commonly identified SDGs on which the board of directors should focus, the choice should be on those where BK could really make a difference to sustainability. The following would be indicative of competence:

- Zero hunger, where BK could ensure sustainable food production systems and implement resilient agricultural practices that increased productivity.
- Promotion of a sustainable farming model that promotes the efficient use of water, limited application of synthetic fertilisers and pesticides and implementation of drainage systems to minimise soil erosion.
- Continuing to embrace 4IR and using data analytics to monitor crop health and to improve production yields while maintaining strict quality control to ensure consistently high standards of fruit production.
- Decent working conditions and economic growth, where BK should actively seek ways in which to first: preserve jobs, and second: expand operations to create employment opportunities.
- Sustainable consumption and production, where BK should actively ensure sustainable consumption and production patterns through a sustainable farming model that promotes the efficient use of water, deals at wastage and uses data analytics to monitor crop health and improve production yields.
- Avocado farming is notoriously water intensive, and BK should actively seek ways to reduce its use of irrigation or recycle or apply other means and techniques to minimise water consumption and ensure clean waste water. BK needed to focus on more sustainable means of water usage and seek to limit the use of irrigation.

Most candidates were able to competently deal with all aspects of the task by addressing things that BK was doing well as a corporate citizen, potential threats to its corporate image and reputation, including selecting SDGs where BK could make a meaningful difference based on the nature of its business.

Candidates who displayed borderline competence in this task mainly were not able to address the labelling concern – that BK’s avocados were pesticides free despite it using synthetic fertilisers and pesticides – and the issue of sourcing avocados from a neighbouring farm and then representing this as BK’s produce. Apart from the misrepresentation, BK also did not have a control over the neighbour’s farming practices, which may be unethical and environmental unfriendly.

It was also clear that most candidates did not understand the actual SDGs, the UN definitions and explanations, but more so how BK could contribute to the achievement of these. An example is that a number of candidates selected “No poverty” as one of the 3 SDG’s that BK can immediately action and make the biggest impact. Candidates justified this by the fact that BK is paying employees’ salaries and wages, which contributes to achieving this SDG. The latter is however not relevant and appropriate for the SDG. The SDG, when looking at the definition, requires more macro change to government policies etc. to alleviate all poverty. Candidates therefore in most instances interpreted the “name” of the SDG literally, without really understanding what the UN’s meaning or its purpose and possible impact is.