



SAICA

THE SOUTH AFRICAN INSTITUTE
OF CHARTERED ACCOUNTANTS

Examiners Comments Assessment of Professional Competence November 2014

OBJECTIVES OF THIS REPORT

This report has been compiled from the analysis of examiners on candidates' performance in the Assessment of Professional Competence (APC) Part II of the Qualifying Examination, which was written in November 2014. 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 Competence 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 will be assessed within the context of a certain base-line of technical competence (as developed through the academic programme and as assessed in both the academic programme and the ITC). The case study will also be assessed within the context of any 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 November 2014
- 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 NOVEMBER 2014

The Examinations Committee (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

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 will decide on the industry, scenario and topics to be examined and will also commission 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 commission an appropriate case study and solution for the assessment.

The team will consist of academics and members of the profession in public practice and / or in commerce and industry. Case studies will be 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.

Academics, former academics and/or members of the profession in public practice and/or in commerce and industry will also be selected by Examco each year to assist in the external review of the case study. These external reviewers will be selected based on their experience and ability.

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 will be appointed for a period of at least three years as continuity is important.

The external reviewers will have the following tasks:

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

In addition, external examination sitters, the quality and appropriateness of the case study is also monitored by at least two external sitters attempting 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 Examinations Committee, setting team, reviewers and external examination sitters, is as follows:

Christo Landman
Eihorere Wesigye
Ferdinand Mokete
Francois Van Den Berg
Frans Prinsloo
Glynnis Carthy
Greg Beech
Gregory Plant
Jacques van Rooyen

Janine Claassens
Mandi Olivier
Marielienne Janeke
Nico van der Merwe
Osman Mollagee
Richard Warren-Tangney
Sydney Mhlarhi
Terry Moore
Zaheer Ahmed

COMMENTS ON APC NOVEMBER 2014

From a review of candidates' answers to the nine (9) sections/requireds for the November 2014 assessment the following was observed:

The communication and pervasive skills displayed by the majority of candidates in the November 2014 APC was a dramatic improvement on what has been seen in the ITC. This reflects the interaction between the training programme and the interventions of the professional programme providers. The ability to pre-research issues also played a part in the quality of candidates' responses to simulated tasks. The professional skills developed prior to the APC will provide a major boost to candidates' future career development. It is most pleasing to note the ability of most candidates to synthesize the pre-released information, perform real life tasks and apply professional judgment. It would appear that candidates have enhanced their ability to think, process information and understand the context of simulated tasks.

Set out below we have summarised candidates' general performance in each part of the case study. These should be read in conjunction with the published examples of actual candidates attempts, which the mark team deemed to be 'limited competence displayed' (LC), competent and highly competent (HC) attempts.

Part (a)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, Audit, SRM&G	12%	35.3%	52.2%

Assume you are an audit senior at Arthur Price Loitte & Young Inc. ('APLY')

(a)	<p><i>A meeting between Mr Emgee and the management of WBP has been scheduled for 24 November 2014. Mr Emgee has a very full work schedule, and therefore has requested your assistance in preparing for the meeting.</i></p> <p><i>Prepare a list of appropriate questions that Mr Emgee could ask during the proposed meeting to elicit additional information to be used to determine whether APLY should accept the audit engagement.</i></p>
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This task could be perceived as an opportunity to dump theory. This was not the intention in setting the case study. It was hoped that providing a list of pre-engagement questions to an audit partner would challenge candidates to synthesize theory and apply their knowledge of the scenario.

Candidates who performed well in this task were those that:

- Identified the context (audit partner required a list of key questions to be asked in in deciding whether to accept the audit engagement);
- Identified the majority of key issues to be covered in the planned question and answer session such as relevant questions to establish the integrity of a potential client, identify potential independence issues and potential engagement risks; and
- Showed some evidence of absorbing and applying pre-research by identifying pressing issues for WBP such as the potential investment in a particleboard plant and/or acquisition of Oikos, and asking for access to the risk register.

Candidates who did not perform well in this task generally:

- Asked too few questions;
- Dumped extracts from relevant auditing statements (audit partner needed specific questions not theory);
- Failed to list questions relating to many key issues such as the integrity of a potential client, potential independence issues and potential engagement risks;
- Listed some questions that would typically be asked once the audit was accepted rather than pre-engagement questions;
- Listed irrelevant questions such as why was WBP considering changing auditors (pre-release information made it very clear it was due to the potential Baywatch deal); and/or
- Listed potentially inappropriate questions such as whether WBP could afford their audit fees (valid concern but this information is probably better assessed by reviewing WBP's financial information than asking the CFO).

Part (b)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, Audit, Fin Acc, Tax	17%	37.1%	46.0%

Assume you are an audit senior at Fisher Goetsch & Hegarty Inc. ('FGH')

(b)	<i>Review workpaper W123 relating to the audit of the provision for rebates and prepare your review notes for the attention of A Junior, a trainee accountant who has recently started working for your firm after passing his CTA examinations.</i>
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This task required candidates to review a working paper relating to a provision for rebates and prepare review notes for the first year trainee accountant that had prepared them.

Trainees are expected to have a general knowledge of auditing and should have been able to perform the task. Common sense and basic auditing knowledge would have been sufficient.

The majority of candidates handled the task adequately. Competent candidates generally:

- Used the appropriate tone in review notes, providing some guidance and mentorship to a first year trainee;
- Asked key questions relating to materiality conclusions, risk assessment, whether the completeness assertion had been addressed and overall conclusions reached; and
- Identified the majority of potential deficiencies in the audit work performed.

Candidates who struggled to perform this task competently often failed to absorb and apply information evident from the working papers such as why certain long standing rebates had not yet been paid, that enquiry of management may be insufficient audit evidence and the need to further analyse errors identified. LC candidates also often failed to raise sufficient review notes.

Part (c)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, Fin Acc, Tax	2%	14.2%	83.6%

Assume you are the newly appointed financial accountant at WBP

(c)	<i>Draft an e-mail to Mr Alexander, as requested by Mr Hawkes in his e-mail dated 18 November 2014, in which you explain in layman's terms the reasons for the possible impairment and how this would be calculated in principle.</i>
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Part (c) through (i) required candidates to assume the role of the newly appointed financial accountant at WBP. In part (c), they were required to draft an email to the executive chairman explaining the reasons for a possible impairment and how this would be calculated in principle.

As mentioned in the general commentary on the APC 2014, we believe there was a strong trigger to research impairments. The task could be an excellent example of assessing professional versus technical competence. The skill required to complete the task competently was to explain accounting concepts and principles to a non-accountant. Candidates generally performed well in this section. Those who included too much detail and/or dumped IFRS statement extracts were deemed to be not competent for the purposes of this task. The mark grid also provided an example of the distinguishing features between the ITC and APC – the competency assessed was not primarily knowledge of IFRS but rather the application of pervasive skills.

Candidates performed very well in this task!

Candidates who achieved LC in this task either failed to adequately explain the concept of impairments and how impairments are determined, or they dumped too much from accounting statements.

Part (d)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, Fin Acc	17%	23.9%	59.2%

Assume you are the newly appointed financial accountant at WBP

(d)	Draft an e-mail to Mr Hawkes in response to his request for a review of his impairment workings per his e-mail dated 18 November 2014.
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This task required both technical ability and appropriate communication skills. Candidates were asked to critique their boss' impairment workings and hence, the tone of responses and manner of criticism required professional judgment. They generally performed well in this task – clearly their technical knowledge of impairments workings is generally good.

Candidates who performed well in this task were those that...

- Identified many of the issues in the impairment workings...
- Questioned the growth rates and assumptions used...

Candidates who did not perform well in this task generally...

- Lacked sufficient technical breadth in their responses...
- Demonstrated very poor communication skills to their boss...
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Part (e)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, Fin Man	32%	43.7%	24.3%

Assume you are the newly appointed financial accountant at WBP

(e)	<i>Draft a report on behalf of Mr Hawkes in which you critically comment on the Oikos valuation performed by The Edge Capital Advisors. This report is to be distributed as part of the Board agenda pack for its next meeting.</i>
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APC Examco believes there was strong trigger to refresh valuation knowledge. Granted the pre-released information suggested that WBP was to be valued on a NAV basis. However, there is always a possibility that WBP would consider other valuation methods. The potential acquisition of Oikos should also have alerted candidates to brush up on valuations.

Candidates could not have anticipated the exact nature of the task on the day of the assessment. We think it is appropriate to have some tasks, which cannot be anticipated. There may be some tasks that could be anticipated such as part (f).

Part (e) was a difficult task and we expected most candidates to struggle. They were required to review an Excel valuation model of Oikos and provide feedback to the board of directors in report format. The context was that WBP was exploring an acquisition of Oikos, who had appointed an independent adviser to perform a valuation of their business.

Trainees may not have been seen a practical valuation model in practice. However, with a strong technical base, they would have been able to display competence.

Candidates generally performed poorly in part (e). It would appear that most candidates' pre-preparation of valuations was not at the level to complete the task. Too many candidates dumped valuation theory and failed to identify basic errors in the valuation model.

Part (f)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, Fin Man, SRM&G	2%	10.7%	86.9%

Assume you are the newly appointed financial accountant at WBP

(f)	<i>Prepare a memorandum to Mr Hawkes in which you identify and discuss five key reasons why it may not be appropriate for WBP to pursue an investment in a particleboard plant.</i>
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This task required candidates to prepare a memorandum to their boss, the CFO, identifying and discussing 5 reasons why it would be inappropriate for WBP to invest in a particleboard plant. The CFO was pro investing and hence, responses should have been respectful and insightful.

There was a strong trigger for part (f) in the re-released information. Candidates are likely to have prepared a 'model' answer for this section. This was the easiest section in the 2014 APC.

Part (g)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, Fin Acc, Tax, Fin Man	12%	35.4%	53.0%

Assume you are the newly appointed financial accountant at WBP

(g)	<p><i>Draft notes to Mr Sutton on behalf of Mr Hawkes in which you explain, with reasons, the accounting effect WBP's implementation of the long-term share incentive scheme would have on its financial statements, including any taxation consequences.</i></p> <p><i>Illustrate the effect, for the financial year ended 31 October 2014 only, on each relevant line item of the statement of comprehensive income and the statement of financial position, assuming the scheme was implemented on 31 October 2014.</i></p>
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Part (g) required candidates to explain the accounting treatment of a proposed share incentive scheme including taxation consequences.

There was a strong trigger to research the proposed 'share incentive' scheme and to examine Tsogo Sun's accounting treatment for a similar scheme. Despite this, the accounting for the proposed scheme was technically complex. In fact, there were various potentially acceptable ways to account for the scheme. The assessment was not of deriving the 'right' answer but their ability to reason and argue logically. Candidates' performance in part (g) provided a strong indication whether they are able to cope with a real life challenge.

Candidates who attempted this task competently:

- Discussed how the R10.2m loan to employees should be recognized (three alternatives deemed acceptable); and
- Discussed the treatment of the R4.2m share option value (yet again three possible alternatives).

The candidates deemed highly competent either recognized that the substance of the scheme was an option or forward contract and debited equity with R10.2 million or argued that the R10.2 million was a financial asset and adequately explained how to treat the R4.2 million option valuation.

Candidates who performed poorly in part (g):

- Tended to dump extracts out of the IFRS statements, following a typical ITC approach;
- Wrote too much given the context (1 attempt was 18 pages long!);
- Providing conflicting advice on how the scheme should be treated, appearing to hedge their bets;
- Did not explain in understandable terms how the R10.2 million and R4.2 million should be treated (the context was a report to the CEO whose qualifications were not specified in the case study, hence language and tone was very important);
- Failed to illustrate the impact on the annual financial statements; and/or
- Displayed a fundamental lack of knowledge of accounting for share based payment schemes.

The pleasing part of this task was that candidates could make technical errors and still be deemed competent. The ability to reason and illustrate was tested and not deriving the correct answer(s).

Part (h)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, SRM&G, MDMC, Fin Man, Tax	22%	42.6%	35.4%

Assume you are the newly appointed financial accountant at WBP

(h)	<p><i>Ms Moonsamy, the Human Resources Manager of WBP, showed you the anonymous letter dated 18 November 2014 received from disgruntled employees and requested your impartial comments as a newly appointed staff member.</i></p> <p><i>Prepare a memorandum to Ms Moonsamy in which you comment on the issues raised in the letter. Assume that you have all the relevant information with regard to the proposed long-term incentive scheme.</i></p>
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The HR manager of WBP had received an anonymous letter from disgruntled employees who raised various concerns about being excluded from the proposed share incentive scheme.

There was no direct trigger for this task however, candidates could possibly have researched the reactions to the Tsogo Sun scheme. This was arguably the most integrated task requiring candidates to draw upon knowledge and experience in tax, strategy, risk management & governance, financial management and management decision-making and control. Candidates generally struggled with this task, evidenced by the limited breadth and depth of their responses.

Candidates who performed the task competently generally:

- Addressed each of the concerns raised and did not just focus on one or two aspects;
- Provided balanced arguments for and against concerns raised, displaying some empathy for disgruntled employees; and
- Recognised and discussed the financial implications of the scheme.

There were very few highly competent attempts at this task. Those that did, displayed higher level thinking by applying their mind to WBP's situation and absorbed the consequences of the scheme such as:

- There was effectively no lock in period for scheme beneficiaries;
- It would reduce the NAV of the company, which may be problematic given the pending Baywatch deal; and/or
- There was no explicit performance criterion for scheme beneficiaries.

It was pleasing to note that many candidates pointed out that including a non-executive director in the scheme was contrary to good corporate governance.

Part (i)

Competence area	APC 2014 Candidate Results		
	Fail	Borderline	Pass
Pervasive, SRM&G	11%	37.4%	51.2%

Assume you are the newly appointed financial accountant at WBP

(i)	<i>List, with reasons, six key initiatives you would expect WBP to begin implementing in order to enhance business sustainability. This list is for your personal use as a reference document in preparation for your attendance at the forthcoming strategic think tank of WBP regarding business sustainability.</i>
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This task attempted to integrate the entire case study. WBP were planning a strategic think tank to discuss their business sustainability. The concept of business sustainability was triggered in the pre-release information, which emphasized that sustainability extended beyond environmental issues. Candidates were asked to prepare a list of six initiatives, which could enhance WBP's business sustainability.

It was evident that most candidates did not consider 'sustainability' in a wider, more relevant context. Most candidates focused on generic issues in their attempts. Perhaps it is unfair to expect third year trainees to identify and discuss business improvement ideas. This task provided an opportunity for candidates to display higher-level thinking.

The context of the task was important from an assessment perspective. Merely mentioning the 'triple bottom line' concepts and focusing on social and environmental issues would not have impressed WBP executives.

The majority of candidates were able to display competence in part (i) but very few attained 'highly' competent.