



SAICA

THE SOUTH AFRICAN INSTITUTE
OF CHARTERED ACCOUNTANTS

Examiners Comments Assessment of Professional Competence November 2015

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 2015. 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 2015
- 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 2015

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:

Aneesa Carrim
Christo Landman
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
Nomonde Holomisa
Richard Warren-Tangney
Sydney Mhlarhi
Terry Moore

COMMENTARY ON CANDIDATES PERFORMANCE IN APC 2015

The case study revolved around a fictitious company, Arubah, which was based in the healthcare industry.

Candidates' responses to the various tasks in the case study were generally of an appropriate standard. It was yet again pleasing to note the ability of candidates to perform real life tasks and display professional competence. Research of the issues contained in the pre-released information was evident..

We noticed two general areas of concern. Firstly, some candidates wrote far too much in response to certain tasks. For example, in part (e), it is not appropriate to copy or paraphrase accounting theory and waffle on for 8 pages in an email to your boss. Emails should be concise in practice and additional information can be provided in attachments. Recipients of emails will generally lose interest after reading 2 pages and ignore the remainder.

Secondly, we noticed certain candidates 'covering' all bases in responding to some tasks. For example, in part (a), some candidates listed relevant principles per the Code of Professional Conduct and/or the IRBA/SAICA Guidance document on the provision of non-audit services but then reached contradictory conclusions (or were unable to conclude on whether D Artz could perform the requested taxation services).

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

Part (a)

Competence area	APC 2015 Candidate Results		
	Not competent	Borderline	Competent
Pervasive & Audit	7.8%	28.8%	63.4%

Assume you are the audit senior at D Artz & Co. on the audit of Arubah

(a)	<i>Draft a letter to Mr Malcolm, the Chief Executive Officer of Arubah, for review and signature by the audit engagement partner, in which you indicate, with reasons, whether your firm will be able to render the taxation services for Arubah and its directors as described in the extract from the draft minutes of the board meeting held on 17 November 2015 (see attachment L for details of the request). In addition, include any matters that need to be addressed or clarified before any agreed services can be performed.</i>
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The key issue in this task is consideration of the independence requirements for auditors. It is important to note that there were two parts to the task namely; whether D Artz could accept the engagement (encompassing three distinct taxation services) and any other matters that needed to be addressed or clarified prior to performing the taxation services.

Task (a) is a good example of instances that arise in practice whereby there is more than one interpretation. For example, some candidates may have applied the requirements of the Companies Act and concluded that D Artz & Co may not compute the tax liability. Other candidates may have applied the Companies Act and concluded that D Artz & Co may compute the tax liability while a further group of candidates may not have considered the Companies Act but applied the Code of Professional Conduct. This is representative of real life, which is the intention of the APC exam.

Candidates who performed well in this task were those that:

- Identified the context - audit senior to draft a letter to the client (CEO) for review by the audit partner;
- Identified that there were three tax services that were requested in attachment L;
- Responded to all three requests (i.e. computing the tax liability of Arubah, completing and submitting the tax return for Arubah and completing and submitting the tax returns for the directors of Arubah);
- Supplied reasons for accepting / not accepting each tax service;
- Identified that the letter is to the CEO of the client and therefore used a professional letter format including appropriate tone and language; and
- Identified matters that needed to be addressed prior to accepting the engagement for example, engagement letters and agreeing on the fees for the additional services.

Candidates who did not perform well in this task generally:

- Failed to use a professional letter format (for example, wrote an e-mail when asked to draft a letter);
- Dumped extracts from the Code of Professional Conduct;
- Used language that was unprofessional or was insulting to Arubah and its directors;
- Missed the independence issues and self-review threat;
- Failed to respond to all three requests;
- Failed to supply reasons for accepting or not accepting each task; and/or
- Listed irrelevant information in the draft letter such as the impact of various issues on the audit engagement.

Part (b)

Competence area	APC 2015 Candidate Results		
	Not competent	Borderline	Competent
Pervasive & Fin Man	8.5%	34.0%	57.5%

Assume you are the financial accountant at Arubah

(b)	<i>Respond to Ms Needham's request per her email dated 17 November 2015 (attachment K) and attach an amended draft capital budget for the proposed Pretoria day clinic.</i>
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This task required candidates to update the day clinic capital budget to reflect the renting of property as opposed to purchasing such. There was a strong trigger in the pre-released information to research capital budgeting principles and critically review the draft budget.

The majority of candidates handled the task adequately. Candidates who did not display competency in this task:

- Did not perform any taxation calculations and excluded tax from the capital budget;
- Made basic technical errors such as including depreciation and finance charges in the forecasts; and/or
- Excluded a terminal value for the project.

Many candidates failed to recognise that the day clinic would be owned a by a separate company and hence, be subject to income tax in its own right. These candidates either ignored income tax completely or erroneously assumed that Arubah could absorb any assessed losses (showed positive tax cash flows).

Candidates who excelled in this task made few, if any, technical errors in preparing the capital budget, debated the discount rate to be used and had pre-researched wear and tear allowances for medical equipment.

Part (c)

Competence area	APC 2015 Candidate Results		
	Not competent	Borderline	Competent
Pervasive & Audit	11.7%	47.8%	40.5%

Assume you are the financial accountant at Arubah

(c)	<i>Prepare the internal report as requested in Ms Needham's email dated 16 November 2015 (attachment H).</i>
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Revenue systems and controls were strongly triggered in the pre-released information. Additional information was provided on the day regarding theatre revenue processing and controls (or absence thereof). Candidates were required to restrict discussions to the completeness and cut off risks relating to theatre revenue. Furthermore, Ms Needham's instructions were to provide feedback on inherent risks, existing controls in place to mitigate risks, additional procedures that could be performed and an overall risk assessment.

Candidates had to respond to all four instructions to be assessed as competent in this task. Candidates who did not reach competence in part (c):

- Made generic risk assessments with limited reference to Arubah;
- Addressed the completeness risk but ignored cut off; and/or
- Showed good insight into risks but paid little attention to existing controls and additional procedures; and/or
- Ignored other aspects of theatre revenue such as equipment usage, pharmaceuticals consumed and gases; and/or
- Failed to reach any overall conclusions.

Part (d)

Competence area	APC 2015 Candidate Results		
	Not competent	Borderline	Competent
Pervasive & Fin Acc	22.0%	53.0%	25.0%

Assume you are the financial accountant at Arubah

(d)	<i>Redraft the revenue accounting policy in response to Ms Needham's email dated 17 November 2015 (attachment J).</i>
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This task proved to be the most difficult in the 2015 APC. Candidates may not have previously drafted an accounting policy in practice and hence, were dealing with something new. Pre-research of certain listed healthcare groups may not have assisted in this task as their accounting policies could be deemed to be boilerplate.

Arubah's existing policy of recognising revenue only upon discharge of patients was not in accordance with IAS18 *Revenue*, further complicating issues. Candidates that excelled in this task identified the problematic recognition issue and suggested an appropriate alternative in the policy. Such candidates also identified the different revenue categories from the given statement of profit or loss and addressed the recognition and measurement of those categories in their accounting policy.

It was disappointing to note that many candidates "dumped" the recognition criteria from IAS 18 *Revenue* in their draft accounting policy. Some responses even mirrored ITC-like revenue recognition discussion responses with explanations of when and why each of the criteria had been satisfied. Such generic recognition policies provide limited usefulness to external parties reviewing financial statements. In addition, describing Arubah's revenue streams does not equate to an accounting policy but rather provides some background on how it generates revenue.

Candidates often failed to distinguish between the sale of goods versus services. Many ignored the different contractual arrangements (fixed fee for service, fee for service and capped fee for service) in formulating their accounting policies.

Many draft accounting policies were just too long – some were more than 6 handwritten pages. The accounting policy should have been concise and specific to Arubah.

Few candidates achieved HC in part (d). Those that did, addressed recognition and measurement criteria, and were specific in describing Arubah's policies.

Part (e)

Competence area	APC 2015 Candidate Results		
	Not competent	Borderline	Competent
Pervasive, SRM&G and Fin Acc	8.6%	53.6%	37.8%

Assume you are the financial accountant at Arubah

(e)	<p><i>Ms Needham forwarded a copy of Mr Scarbenga's legal opinion (attachment G) and the extract from the draft minutes of the board meeting held on 17 November 2015 (attachment L) to you. Draft an email to Ms Needham in which you –</i></p> <ul style="list-style-type: none"><i>• Outline the key financial reporting considerations with regard to the legal claim against Arubah; and</i><i>• List any concerns you may have with regard to the actions of and opinions expressed by the directors at the above board meeting.</i>
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Most candidates identified that the patient's death had occurred post the 2015 year-end and hence, it was a non-adjusting event for that financial year. Candidates who correctly identified the non-adjusting event and recommended some disclosure of the legal claim achieved competence in the financial reporting element; however those who only discussed whether the legal claim represented a present obligation in FY2016 could also achieve competence.

It was disturbing to note the approach of certain candidates in answering part (e). These candidates included copious extracts from IAS 37 and IAS 10 and then proceeded to apply it to the Arubah scenario. This ITC type approach of answering questions is inappropriate in a professional environment. Ms Needham can read accounting statements if she wishes – what she required was a concise summary of how Arubah should account for the legal claim with reasons.

The context of the task was to respond via email – 12 handwritten or 5 typed pages are too long for an email format.

The financial reporting aspect of part (e) was generally competently addressed. The governance part was however, generally poor. Many candidates failed to identify that it was inappropriate for Dr Connelly to be present during discussions at the board meeting relating to the legal claim. Dr Connelly should have recused himself or the chairman should have insisted on this.

There were numerous governance concerns that could have been discussed. The context of the task is critical in how candidates should have responded and what they could have included in an email. Ms Needham, who requested an email response, is a director of Arubah and therefore complicit in the actions or non-actions of the board. Some candidates suggested that Dr Connelly and/or Mr Malcolm should either be suspended or dismissed given their roles in the patient death and subsequent legal claim. This allegation and suggestion is inappropriate from a junior staff member to his/her boss based on incomplete information. Instead, it is appropriate to outline the key governance issues and tactfully allude to directors' responsibilities.

Part (f)

Competence area	APC 2015 Candidate Results		
	Not competent	Borderline	Competent
Pervasive & Tax	7.1%	27.2%	65.7%

Assume you are the financial accountant at Arubah

(f)	<i>Ms Needham forwarded the email she sent to Mr Malcolm dated 4 November 2015 to you (attachment B). Draft an email to Ms Needham in which you identify any taxation consequences for Arubah, its shareholders and the B-BBEE partners of entering into the B-BBEE deal in 2012.</i>
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Part (f) was a difficult task. Candidates may not have encountered B-BBEE deal structuring in practice and the specific structure in the case study was complex. The potential tax issues were strongly triggered in the pre-released information and hence, candidates had an opportunity to research relevant taxation issues.

Despite this, candidates generally performed well in part (f). The basic taxation issues associated with the B-BBEE deal such as deductibility of interest for income tax purposes, potential donations tax and dividend withholding tax were competently discussed. Certain candidates grasped the intricacies of the structuring and impressed by discussing the capital gains tax implications in terms of the potential value shifting arrangements and/or notional vendor financing issues.

The mark team noted numerous instances where candidates contradicted themselves. For example, some candidates concluded that interest paid would not be deductible for income tax purposes (loan raised to pay a dividend) but then later stated that Arubah could potentially claim the interest cost because the B-BBEE deal structure would result in the company enhancing its income generating capacity.

Unfortunately, the mark team discovered evidence again of “dumping” case law and extracts from the Income Tax Act. It is inappropriate to detail case law and/or extracts from tax legislation for over ± 5 pages dealing with the deductibility of interest - an email response should be more concise and summarise this issue within a paragraph.

Part (g)

Competence area	APC 2015 Candidate Results		
	Not competent	Borderline	Competent
Pervasive & MDM&C	21.1%	35.4%	43.5%

Assume you are the financial accountant at Arubah

(g)	<i>Estimate the breakeven occupancy of the existing Arubah hospitals to assist Ms Needham in responding to Dr Kennedy's email dated 17 November 2015 (attachment I). Forward your calculations to Ms Needham in an email, together with the additional information you would require to refine the breakeven occupancy estimate.</i>
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Candidates may have been surprised by the task to calculate breakeven occupancy for existing hospitals instead of for the new day clinic (as alluded to in the pre-released information). Nonetheless, candidates should have refreshed breakeven calculations and been able to calculate breakeven revenue. The difficulty with the task was to convert breakeven revenue into occupancy. The mark team identified 5 acceptable alternatives to do this.

Many candidates struggled with part (g). The classification of operating costs into fixed and variable elements was manageable given the information provided in the pre-release and on the day of assessment. It was interesting to note how many candidates regarded employee costs as variable expenses – in a hospital environment, these are likely to be fixed in nature.

Part (g) required calculations plus additional information to finalise estimates. Many candidates omitted to address the latter part of the task. Candidates who did list additional information required, often asked their boss to provide this information. This may not be appropriate – your boss would simply ask you to obtain the information in practice and complete the task. The purpose of listing the additional information was to highlight additional factors that could influence the breakeven occupancy calculation. The context was that the calculation was required urgently and it would then be refined later.

Electronic writing candidates often failed to display workings. It is recommended that despite using Excel to perform the task, workings should be clearly described to allow markers to follow logic and check outcomes. Markers were unable to see the formulae within Excel cells as they only had access to Excel spreadsheets in pdf format.

Candidates who achieved HC in part (g) grasped the underlying complexities of performing breakeven occupancy calculations in a hospital environment. The different revenue streams (theatre, pharmacy, ward and equipment) are interdependent and have different cost infrastructures.

Part (h)

Competence area	APC 2015 Candidate Results		
	Not competent	Borderline	Competent
Pervasive & SRM&G	4.0%	24.3%	71.7%

Assume you are the financial accountant at Arubah

(h)	<i>Mr Malcolm forwarded an email he received from Crackerjack & Co. dated 13 November 2015 to you (attachment F). Draft an email to Mr Malcolm in which you critically comment on the key issues raised by Crackerjack & Co. and identify any further key issues that Arubah needs to consider with regard to the selection and implementation of an ERP system.</i>
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Part (h) proved to be the easiest task in the case study. Candidates had clearly researched ERP system implementations and impressed with their insights into the challenges and issues faced in practice.

Yet again, certain candidates went overboard in this task – some wrote over 12 pages in responding via email. This is inappropriate in practice. Rather, candidates should have discussed the salient issues in the Crackerjack & Co. email and highlighted further issues for consideration.